April 6, 2009

The Honorable Michael E. Fryzel
Chairman, National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

The Honorable Rodney E. Hood
Vice Chairman, National Credit Union Administration

The Honorable Gigi Hyland
Board Member, National Credit Union Administration

Re: Comments on Advanced Notice of Proposed Rulemaking for Part 704
Sent via email to regcomments@ncua.gov

Dear Cheirman Fryzel, Vice Chairman, Board Member Hyland:

Enclosed are my comments to the ANPR for part 704.

Sincerely,

David Erickson
Vice President Finance, Fitzsimons Federal Credit Union.
14305 E Alameda Ave Ste B10
Aurora, CO 80012

Attachment

Payment System Proposals

1. Should payment system services be isolated from other services to separate the risks?
   a) If so, what is the best structure for isolating these services from other business risks?

   No. Risks need to be managed. Separating risks in order to lessen them may reduce operational efficiencies and increase overhead costs to the point that they out way the benefits of the service. Applying risk-based capital requirements may help mitigate risk.

2. Should there be a charter that strictly limits corporates to operating a payment system only?

   No. See above.

3. Is there sufficient earnings potential in offering payment systems to support a limited business model that is restricted to payment systems services only?

   Possibly. However, separating services may increase overhead and increase costs and inefficiency.

Liquidity and liquidity management proposals

1. What steps should be taken, and by whom, to preserve and strengthen corporates' ability to offer liquidity services?

   The corporates should enhance cash flow measurement and reporting if their current processes are deemed inadequate. The CLF should be available to be a direct source for corporate for both borrowing and deposits.

2. Should the NCUA consider limiting a corporate's ability to offer other specific types of products and services in order to preserve and defend the liquidity function?
   a) What specific types of products and services should corporates be authorized to provide?

   No. NCUA should determine the policy framework to control and mitigate risks and apply risk-based capital requirements.

3. Should the NCUA add aggregate cash flow duration limitations to Part 704?
   a) If so, describe how this requirement should be structured, and also identify how such limitations would benefit liquidity management.

      Yes, but they would need to be flexible and not be too restrictive.

   b) What cash flow duration limits would be appropriate for corporates particularly in an evolving interest rate market with previously unseen credit risk spreads?

Field of Membership Issues

1. Should the agency return to defined FOMs to address what they perceive as risk associated to expanding FOM?

   No. Limited FOM does not necessarily reduce risk. NPCU should be able to choose which corporate or corporates they use but should also be required to capitalize them as well.

Expanded Investment Authority

Currently, Part 704 provides an option by which corporates meeting certain criteria can qualify for expanded investment authority.

1. Does the need for expanded authorities continue to exist?
   a) If so, should NCUA modify the procedures and qualifications by which corporates currently qualify for expanded authorities?
   Yes, to increase diversification. The corporate should align capital requirements with risk.

   b) If so, what should the new standards be?
   The new standards should be based on a risk-based capital model.

2. Should NCUA reduce the expanded authorities available?
   a) If so, which ones?
   No, corporates need diversification to counter over-reliance on mortgage based securities.

3. Alternatively, should any of the limits in existing expanded authorities be reduced or increased?
   a) If so, which ones?
   Limits should be determined on a risk-based capital model.

4. Once granted, should NCUA require periodic requalification for expanded authorities?
   a) If so, what should be the timeframe?
   The exam review process should be adequate to determine if all expanded authority standards are being maintained. Requalification should only be required if there are major changes to management or the business model.

Structure: two-tiered system

The corporate system is made up of two-tiers: a retail network of corporates that provide products and services to NPCUs, and a single, wholesale corporate (U.S. Central) that exclusively services the retail corporates.

1. Does the two-tier corporate system in its current form meet the needs of credit unions?
   Yes, but allow the corporates to explore the proposed alternatives that they have already recommended to the NCUA.

2. Is there a continuing need for a wholesale corporate credit union?
   a) If so, what should be its primary role?
   Yes, see above.

3. Should there be a differentiation in powers and authorities between retail and wholesale corporates?
   Possibly. See above.

4. Does the current configuration result in the inappropriate transfer of risk from the retail corporates to the wholesale corporate?
   No, however there appears to be a need to better match increased risk with capital requirements.

5. Should capital requirements and risk measurement criteria (e.g., NEV volatility), be different from those requirements that apply to a retail corporate credit union?
This should depend on the business model. Greater risk should require greater capital.

Corporate Capital

NCUA is considering revising various definitions and standards for determining appropriate capital requirements for corporates. These changes would bring the corporate capital requirements more into line with standards applied by other federal financial regulators.

Another issue under consideration is whether to require a certain level of contributed capital from any natural person credit union seeking either membership or services from a corporate.

Core Capital

Under the current rule, core capital is defined as retained earnings plus paid-in capital.

1. Should the NCUA establish a new capital ratio that corporates must meet consisting only of core capital, and if so, what would be the appropriate level to require.
The corporates should switch to risk-based capital requirements and redefine core capital to include paid-in capital.

2. What actions are necessary to enable corporates to attain a sufficient core capital ratio?
Corporates should be able to obtain outside capital and consider PIC and core capital.

3. What would be an appropriate time frame for corporates to attain sufficient capital?
Sufficient time must be allowed for corporates to increase capital so as to not put NPCUs at a disadvantage.

4. What is the appropriate method to measure core capital given the significant fluctuation in corporate assets that occur?
Risk based capital to allow flexibility with balance sheet growth.

5. What is the correct degree of emphasis that should be placed on generating core capital through undivided earnings?
As all capital is at risk, it should be considered together, not just undivided earnings. Other methods for generating core capital should be available.

6. Should there be a requirement that a corporate limit its services only to members maintaining contributed core capital with the corporate?
Yes, a NPCU should contribute capital to any corporate with which it does business.

7. Offer any other suggestions or comments related to core capital for corporates.

Membership Capital

1. Should the NCUA continue to allow membership capital in its current configuration, or should the agency eliminate or modify certain features, such as the adjustment feature, so that membership capital meets the traditionally accepted definition of tier two capital?
   Yes, this allows corporates flexibility to manage the balance sheet.

2. Should adjusted balance requirements be tied only to assets?
   Yes, and applied consistently to all corporates.

3. Should the NCUA impose limits on the frequency of adjustments?
   No, the business model should determine the frequency of adjustments.

4. Should the agency require that any attempted reduction in membership capital based on downward adjustment automatically result in the account being placed on notice, within the meaning §704.3(b)(3), so that only a delayed payout after the three-year notice expires is permissible?
   No, the business model should determine the amount of capital.

5. Should there be a requirement that any withdrawal of membership capital be conditioned on the corporate's ability to meet all applicable capital requirements following withdrawal?
   Yes.

Risk-based capital and contributed capital requirements

1. Should NCUA consider risk-based capital for corporates consistent with that currently required of other federally regulated financial institutions?
   Yes, but must be appropriate for the corporate business model so as not to put corporates at a competitive disadvantage.

2. What regulatory and statutory changes, if any, would be required to effectuate such a change?
   See above.

3. Should a natural person credit union be required to maintain a contributed capital account with its corporate as a prerequisite to obtaining services from the corporate?
   Yes.

4. Should contributed capital be calculated as a function of share balances maintained with the corporate? What about using asset size?
   Various approaches may need to be considered. Minimum standards may need to be set.

Permissible Investments

NCUA is considering whether the corporate investment authorities should be constrained or restricted. Presently, corporates have the authority to purchase and hold investments that would not be permissible for natural person FCU members under Part 703 (or, in some cases, outside of what is authorized for a state chartered credit union).

1. Should the NCUA limit corporates' investment authorities to those allowed for NPCUs?
   No.

2. Should the NCUA prohibit certain categories of, or specific, investments?

Yes, however, some authorities should be expanded to promote risk diversification and mitigation.

Credit Risk Management

1. Should the NCUA limit the extent to which a corporate may rely on credit ratings provided by Nationally Recognized Statistical Rating Organizations (NRSROs)?
   No. NRSRO's should be improved and be held accountable for their services.

2. Should the NCUA require more than one rating for an investment, or require that the lowest rating meet the minimum rating requirements of Part 704?
   Multiple ratings should be required.

3. Should the NCUA require additional stress modeling tools in the regulation to enhance credit risk management?
   Yes.

4. Should Part 704 be revised to lessen the reliance on NRSRO ratings?
   No. NRSROs should be more regulated.

5. Identify any other changes that may be prudent to help assure adequate management of credit risk. Considerations should include whether Part 704 should be revised to provide specific concentration limits, including sector and obligor limits.
   Arbitrary concentration limits should be avoided. A well managed portfolio should have risk diversification and limits should be flexible.

6. What specific limits would be appropriate for corporates?
   ?

7. Should corporates be required to obtain independent evaluations of credit risk in their investment portfolios?
   a. If so, what would be appropriate standards for these contractors?
   Yes, but to reduce costs this should be done on a system-wide scale to be used by all corporates.

8. Should corporates be required to test sensitivities to credit spread widening, and if so, what standards should apply to that effort?
   Yes.

Asset Liability Management

Under past rules, the NCUA required corporates to perform net interest income modeling and stress testing. The agency is considering re-instating that requirement in light of the current market. Alternatively, the agency may consider some form of mandatory modeling and testing of credit spread increases.

1. Should the NCUA require corporates to use monitoring tools to identify these types of trends, including specifically comments about tangible benefits, if any, which would flow from these types of modeling requirements?
   Yes.

Corporate Governance

1. Should the NCUA require that a director possess an appropriate level of experience and independence?
   No, but regulations should require a corporate to have an active policy on experience levels and training and be held to it.

2. Should the agency set term limits, allow compensation for corporate directors, and requiring greater transparency for executive compensation?
   No, the corporates and their members should make those decisions.

3. Is the current structure of retail and wholesale corporate credit union boards appropriate given the corporate business model?
   Changes should be made to attract the best talent rather than have restrictions to seek the best representation of the membership.

4. Should NCUA establish more stringent minimum qualifications and training requirements for individuals serving as corporate credit union directors?
   a. If so, what should the minimum qualifications be?
   Only if compensation of directors would be included.

5. Should the NCUA establish a category of "outside director," (persons who are not officers of that corporate), officers of member natural person credit unions, and/or individuals from entirely outside the credit union industry?
   a. Should the NCUA require that corporates select some minimum number of outside directors for their boards?
      Outside directors should be allowed but the number should not be determined by the NCUA.

6. Should US Central be required to have some directors from NPCUs?
   Should be an option but not a requirement.

7. Comment is also sought on whether corporate directors should be compensated, and, if so, whether such compensation should be limited to outside directors only.
   Compensation should be tied to qualification and training levels and should not be limited only to outside directors.