TRAVIS
CREDIT UNION

April 6, 2009

Mary Rupp
Secretary of the Board
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Dear Mary,

We appreciate the opportunity to comment on the NCUA Board's recent actions designed to stabilize the corporate credit union system. The program, as initially outlined in *NCUA Letter to Credit Unions No. 09-CU-02*, included three primary objectives regarding the corporate system: 1) maintaining liquidity; 2) strengthening capital; and 3) evaluating the existing structure of the corporate system via an Advanced Notice of Proposed Rulemaking (ANPR). Our comments will address the actions the Board has taken towards accomplishing these objectives.

Maintaining Liquidity and Strengthening Capital

We agree with the Board's assessment that, given the unprecedented liquidity and capital strains faced by the corporate system, prompt action was necessary to avert potentially greater losses to the corporates. We understand that to not address this issue was to invite instability into the entire credit union system, and we appreciate the Board's efforts to address the issue in a manner that represented the lowest cost option to the industry. However, we have significant concerns that the Board's strategy, as crafted, overlooks potentially serious consequences to the credit union system (and, as a result, to consumers and credit union members). Further, we believe that the strategy is too narrowly-focused and inflexible in its approach in that it fails to take advantage of several other options and tools available to the Agency that could reduce the costs and impact of the program to credit unions. Our fear is that unless alternative methods and tools are adopted as part of the stabilization strategy, some credit unions may never fully recover from the impact of the financial blow delivered by the Board's actions. As a result, there is a risk is that public confidence in credit unions and in the NCUSIF may be negatively affected.

Impact on California and Nevada Credit Unions

As a result of the 51 percent NCUSIF write off and the accompanying premium assessment to return the NCUSIF capitalization ratio to 1.30 percent, the California and Nevada Credit Union Leagues (Leagues) estimate that 397 federally insured credit unions in California—representing 84 percent of all federally-insured credit unions in the state—will experience negative ROA for 2009. In Nevada, 17 federally-insured credit unions in Nevada, or 74 percent, will do the same.

Further, both states will see a doubling of the number of credit unions that will fall under Prompt Correction Action (PCA) requirements. In California, 40 credit unions will fall into the "adequately capitalized" category or below (up from 20), and Nevada will add two more credit unions to the two credit unions that are already in this classification.

Clearly, in states such as California and Nevada—where fallout from the housing crisis has already taken a toll on the financial health of some credit unions—such an unexpected jolt could have a debilitating, long-lasting, and systemic effect on credit unions, as well as the communities they serve. Ultimately, this will cause many credit unions to pull back from providing loans and other financial products and services to working families just when the national and states' economies need them the most. This has already started happening in some areas, as some credit unions have begun to assess the impact the Agency's actions will have on their operations. Some examples that have already been brought to the Leagues' attention: 1) branch closings; 2) fear of long-term interest rate risk keeping credit unions from committing to low loan rates now; and 3) credit unions critically close to 7% threshold turning away deposits in an effort to "manage capital" by not growing.

Finally, there is fear that—in spite of credit unions' healthy net worth levels—the combined effect of 1) a reduced credit union presence in the consumer financial services market, and 2) previously unheard-of levels of credit union negative earnings could have a potentially damaging effect on the well-earned confidence that members and the public have in the safety and soundness of credit unions. Such an undermining of confidence in the credit union system is unwelcome at any time, but it could be particularly detrimental during such turbulent economic times, and especially if other options are not utilized by the Agency to lessen these effects. Travis Credit Union's recommendations as to those options follow.

Immediate Actions NCUA Should Take

First, we urge NCUA to permit credit unions to charge the insurance costs of the stabilization plan directly to Regular Reserves rather than reflecting it on the Income Statement. We understand that NCUA has stated that Generally Accepted Accounting Principles (GAAP) dictates that credit unions following GAAP book the premium as an expense in the reporting period incurred, and that the Federal Credit Union Act (Act) requires credit unions to file their Call Reports in accordance with GAAP. However, we would like to point out that §202(a)(6)(C)(ii) of the Act further states:

Board determination.*—If the Board determines that the application of any generally accepted accounting principle to any insured credit union is* ***not appropriate****, the Board may prescribe an accounting principle for application to the credit union that is* ***no less stringent*** *than generally accepted accounting principles. (emphasis added for discussion)*

Clearly, the Act permits NCUA to substitute its own accounting principles for GAAP when necessary. As the Agency states—accurately—in *Letter to Credit Unions No. 09-CU-02:*

"Current financial market conditions…are like nothing experienced since the Great Depression." Given this stark truth and the effect such conditions will have on credit unions—as well as actions such as the call to temporarily suspend mark-to-market accounting—we submit to the Board that dire economic times require bold action. Indeed, while some at the Agency may view permitting the expense to be booked in this manner to be overly audacious, we are of the opinion that it falls soundly and reasonably within a fair reading of §202(a)(6)(C)(ii).

Namely, we believe that the application of GAAP in this situation would not be "appropriate," since such an application would lead to a variety of negative consequences (the impact of which was discussed above) that could ultimately involve risk to the Fund. Further, if the application of GAAP is deemed not appropriate, we believe that permitting the charging of these costs to Regular Reserves would be "no less stringent" than GAAP, as the ultimate effect on credit unions' balance sheets would be the same—namely, net worth would be reduced on the balance sheet by the same amount that it would have been had the charge been expensed through the income statement. In other words, the financial statements (certainly the balance sheet and footnotes) would still present accurately and fairly the overall financial condition of the credit union. Also, such a deviation from GAAP would not compromise the safety and soundness of the Fund. Therefore, we strongly urge NCUA to seriously consider this avenue, and challenge the Agency to provide its reasoning as to why this authority granted to it by the Act is being left unutilized during such a critical time.

Next, we believe that the NCUA should utilize its regulatory authority to redefine the definition of "total assets" under §702.2(g) of the Prompt Corrective Action rule to exclude guaranteed or low/no-risk assets from net worth ratio calculations. This action would provide immediate relief in the following ways:

It would allow credit unions to invest in no-risk assets and/or take certain assistance (e.g., loans from the CLF, asset purchase, guarantees, etc.), if necessary, without harming or diluting their net worth ratio.

It would give many credit unions time to manage the multitude of challenging issues they currently face due to this once-in-a-lifetime economic crisis—which now includes the costs of the stabilization plan—without running afoul of PCA requirements.

It would encourage additional credit union participation in the CU SIP program, therefore generating additional liquidity for the corporate system.

We applaud the NCUA for issuing guidance to examiners which includes instructions to recognize and allow for temporary reductions in ROA and net worth that result from credit union participation in the CU SIP program, and for recently taking action to amend its rule on the assessment of the federal credit union operating fee to exclude investments made under the CU

SIP and CU HARP programs from the calculation of total assets. However, we believe it would provide more uniformity and reliability to formally make this redefinition via an amendment to the PCA regulation. If NCUA does take this reasonable and much needed step, we concur with the Leagues' recommendation that the following assets be excluded from "total assets" for the calculation of net worth:

- Cash
- NCUSIF deposit
- Overnight investments in corporate credit unions
- CU SIP deposits in corporate
- Corporate CU CDs
- Guaranteed student loans
- Guaranteed portion of SBA loans
- Other government/recourse loans
- Assets held with options to sell to government
- Loans under Corporate CU Loan Guarantee Program
- GNMA/FNMA/FHLMC (GSE) securities/bonds
- U.S. Treasuries

The Leagues' sample analysis of 13 credit unions of various sizes indicates the following effect of excluding these assets:

	PCA Net Worth Ratio		
Credit Union	**Current**	**Adjusted**	**Effect**
CU1	7.92%	9.79%	1.87%
CU2	8.07%	11.85%	3.79%
CU3	10.11%	10.76%	0.65%
CU4	10.22%	13.03%	2.81%
CU5	9.70%	10.39%	0.69%
CU6	7.99%	8.92%	0.93%
CU7	8.22%	9.02%	0.80%
CU8	8.09%	8.48%	0.40%
CU9	9.75%	14.58%	4.82%
CU10	8.96%	11.40%	2.45%
CU11	8.13%	9.31%	1.17%
CU12	7.27%	8.11%	0.83%
CU13	8.05%	9.10%	1.05%

The results show that while the effect varies by credit union (depending primarily on the degree to which a credit union is lent out), a measure of relief is provided for all of them. We appeal to NCUA to make this fair, low-risk, and sensible change as soon as possible.

Tools Available to NCUA Through Congress

In addition to the immediate steps described above, the Leagues, CUNA, NAFCU, and other state leagues are continuing to work with Congress to obtain the following tools to help NCUA address current liquidity and capital issues:

Corporate access to the Central Liquidity Facility (CLF) - As recommended in the January 2009 report from PricewaterhouseCoopers LLC to the NCUA Board, the CLF should be used to infuse liquidity and capital into the corporates. A change to the Federal Credit Union Act would expand authority of the CLF beyond its current authority to make liquidity loans only to natural person credit unions to permit direct investment in corporates.

Replenishment of the NCUSIF over multiple years - FDIC is currently permitted five years to replenish their insurance fund. Section 2 of H.R. 786 (which makes permanent the $250,000 deposit insurance coverage for federally-insured financial institutions) would extend this period of time to eight years. In the interest of greater regulatory coordination within the financial services sector, we believe the replenishment period for credit unions should mirror that of banks, and are pursuing an amendment to this legislation to provide a similar restoration period for the NCUSIF.

TARP funds as a backstop to NCUSIF - Credit unions have been working with members of Congress to urge the Treasury to set aside $20 billion of TARP funds to be accessed should corporate losses covered by the NCUSIF exceed $500 million. By allowing NCUA to reduce the current cost to credit unions of the corporate stabilization plan, this action would greatly mitigate the negative impact on credit unions' ROA and net worth and would bolster both credit union system confidence and public confidence.

Risk-based net worth standards – Efforts to modernize the PCA system may also include urging Congress to consider the removal of all of the PCA stipulations from the statute and leave it to regulatory determination, similar to the system under which the banking industry operates. This would provide for greater flexibility and responsiveness, especially during times of crisis. Credit unions, which have proven to be less risky financial intermediaries than banks and thrifts, should be subject to a PCA framework that provides, at minimum, as much flexibility as the FDIC, the OTS, and the OCC utilize for bank PCA standards.

Credit union access to alternative capital – In order to effectively compete, to have a sufficient financial base to effectively serve their members, and to adjust to fluctuating economic conditions, credit unions must have the ability to build additional capital. Structured properly, giving credit unions this ability will provide an additional buffer to the NCUSIF, and make the fund stronger. We will support the Leagues' work with Congress as needed towards this end.

Travis Credit Union will work with the Leagues to actively support the ongoing efforts to secure these tools for NCUA.

Evaluating the Structure of the Corporate Credit Union System

NCUA's ANPR seeks input from all stakeholders in the credit union industry regarding reforms to the regulatory and functional structure of the corporate system. It is a sweeping reconsideration of the current role corporate credit unions play in the credit union system, including their charters, powers, investment authority, capital requirements, fields of membership, risk management and governance. In our view, the ANPR takes an unnecessarily broad approach in that it assumes the current corporate system is flawed in virtually every respect, and therefore requires a complete retooling. While we fully acknowledge the serious stress that has been placed on the corporate system due to a variety of factors—some foreseeable and possibly preventable, some not—we do not agree that the current situation warrants what would amount to a wholesale remaking of corporates as they are known and used today. Therefore, rather than addressing the multitude of detailed questions in the ANPR, we would prefer to provide our views on the role of corporates in the credit union system, including our opinion of some of the key issues presented in the proposal.

We believe that corporates serve a vital role for credit unions. By serving as a central point for credit union investment, payment system services and aggregation, and liquidity needs, they provide many services that typically would be economically available only to the largest financial institutions. Without corporates, credit unions would be largely dependent on banks and bank-affiliated institutions for these services. Therefore, we strongly disagree with any action which would substantially alter the basic structure of the corporate system.

This includes NCUA's contemplation to establish separate charters for payment system services and investments, as well as a return to defined fields of membership. We believe such a move would be anti-competitive and would hamstring the viability of the corporate system, likely leading to future problems requiring intervention by NCUA and/or natural person credit unions. Furthermore, not every corporate offers a full array of services (e.g., item-processing for imaged items). Restricting corporate usage to geographic fields of membership would unfairly and unsafely restrict credit unions from accessing critical corporate services. Along the same lines, we feel that a requirement that an "outside director" be from entirely outside the credit union industry would be potentially damaging, and could serve to weaken the unique nature and philosophy of credit unions (and, frankly, we believe that such a requirement would not have prevented current circumstances).

While we staunchly support the continuation of the corporate system, we feel there is room for greater efficiencies and more effective risk management in the system. Recent events suggest that corporates require a larger capital cushion, a greater diversification of investment to include more restrictions on concentration risk, and more risk management tools. In addition, we believe that a two-tiered system (i.e., no US Central) would be viable if the payment system functions of US Central are handled within the two-tier system. Finally, we are of the opinion that term limits for directors would be reasonable. If US Central is retained, we feel that at least one of its directors should be from a natural person credit union, although the majority of the Board should be representatives of owners of US Central.

To summarize: we believe that while the corporate system is in need of some adjustments, it is not broken. External factors are what caused the current crisis, not the corporate structure. The corporate system is working, as it was designed, to shield natural person credit unions and corporate credit unions from market and external risks.

In closing, Travis Credit Union would like to thank the Board for the opportunity to provide the views, concerns, and recommendations of natural person credit unions on the Agency's unprecedented action. We urge the Board to seriously and respectfully consider our opinions and requests, balancing the immediate needs of the corporate system with the long-term needs of the entire credit union industry. At this pivotal point in our industry's history, it is imperative that we take action that secures solutions not only for today's problems, but also tomorrow's prosperity. I am confident that credit unions can count on responsible, yet bold, leadership from the Board.

Sincerely,

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