

**From:** Paul A. Trylko [ptrylko@goamplify.com]  
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**Sensitivity:** Confidential

**Via email to [regcomments@ncua.gov](mailto:regcomments@ncua.gov)**

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 the Advanced Notice of Proposed Rulemaking for Part 704

Chairman Fryzel, Vice-Chairman Hood, and Board Member Hyland:

Amplify Federal Credit Union (Amplify) appreciates the opportunity to participate in the process and make this response to the NCUA's Advanced Notice of Proposed Rulemaking (ANPR) for Corporate Credit Unions. Our insights are shared below by ANPR category.

1. Role of Corporates in the Credit Union System

- a. Payment Systems – Corporate Credit Unions (CCUs) have long provided payment services for natural person credit unions (CUs). This has proved to be a viable and lower cost option over the years. CCUs should continue to provide payment services as a separate and distinct business unit of the Corporate. Appropriate risk management and asset liability management (ALM) should be applied to the minimize risk on the balance sheet as a whole to insure the continued operation of payment systems.
- b. Liquidity and Liquidity Management – the primary role of CCUs is and should continue to be providing for the liquidity needs of CUs. CCUs should be held to the standard of preserving and protecting that liquidity function by the regulator. That said, this is best accomplished by sound internal ALM guidelines and not regulatory limitation of products and offerings. Every balance sheet mix is different. A regulatory risk profile could be established in conjunction with CCUs and CUs to set the standard for protection of the liquidity function. Each CCU could then manage their individual operation and balance sheet to insure the proper risk profile is achieved. The exposure to investments at the root

of our current challenges could have been minimized with stronger ALM caps based on capital at risk.

- c. Field of Membership Issues – A reduced number of regional CCUs would best serve the entire Credit Union movement. Overlapping memberships and the resultant competition and duplicated infrastructures lead to the opportunity for CCUs to compromise their primary role of providing liquidity to CUs. A strong, properly regulated, regional CCU system would take the movement back to our roots and foster collaboration among CCUs.
- d. Expanded Investment Authority – Expanded investment authority gives CCUs greater flexibility in serving the needs of CUs and should not be rescinded. However, as already stated, CCUs should have strong ALM policies that preserve capital and the liquidity function of the CCU in adherence to the aforementioned CCU risk profile. CCUs should be required to re-qualify for eligibility for expanded investment authority on, at least, an annual basis. Examiners should review quarterly Call Reports to monitor changes in CCU position in this regard.
- e. Structure; Two-Tier System – CCUs should operate on a single tier; maintaining regional, retail CCUs and eliminating the 2<sup>nd</sup> tier wholesale Corporate. The regional CCUs would have reasonable scale and buying power and have access to a variety of wholesale providers in the financial services sector. This would also create a better line-of-sight to CUs capital exposure in CCUs that they are members of.

## 2. Corporate Capital

CCUs should be capitalized with similar minimum levels as CUs.

- a. Core Capital – CCUs, like CUs, should be required to maintain a minimum level of core capital. Core capital consists of 1) capital generated through the P&L and residing in undivided earnings and 2) paid-in capital.
  - i. Undivided Earnings – a minimum percentage of capital from undivided earnings should be established. Like CUs, a certain percentage of capital should be generated organically from the efficient operation of the CCU.
  - ii. Paid-in capital would be the 2<sup>nd</sup> level of capital and be separate from undivided earnings. Paid-in capital indicates an investment and ownership decision on the part of a CU in the CCU. Again, minimum capital percentage requirements should be established for this category as well as total core capital.
- b. Membership Capital – membership capital should continue and be relied on only after core capital (as defined above) requirements are met. Membership capital is more of a membership decision than an investment decision and should therefore be protected. The 3-year notice of CU withdrawal should be discontinued and membership capital should be covered by federal insurance. Currently, CUs performing sound due diligence tracking of their CCU business partners have no way to minimize exposure with the 3-year window.
- c. Risk-based capital and contributed capital requirements – NCUA should consider risk-based capital consistent with other federally regulated financial institutions. CUs could be required to maintain a membership account, not contributed capital account, at a CCU as a prerequisite to obtaining services. This would provide CCUs with a low-cost source of funds to support liquidity services.

### 3. Permissible Investments

Expanded investment authority gives CCUs greater flexibility in serving the needs of CUs and should not be rescinded. We all know the current impact of investment in sub-prime and Alt-A asset-backed securities. However, these new products were not seasoned and ultimately did not perform as traditional, seasoned mortgages had. CCUs should have strong ALM policies that focus on preserving capital and the liquidity function of the CCU in adherence to the aforementioned CCU risk profile. Permissible investment products would not be changed; but concentration limits, seasoning requirements and capital exposure limits in the ALM policy would increase diversification and minimize risk. CCUs should be required to re-qualify for eligibility for expanded investment authority on, at least, an annual basis. Examiners should review quarterly Call Reports to monitor changes in CCU position in this regard.

### 4. Credit Risk Management

The practice of utilizing Nationally Recognized Statistical Rating Organizations (NRSROs) should continue. However, sole reliance on these ratings is not prudent due diligence prior to investment. CCUs should model the proposed investment to insure it meets ALM thresholds for credit, interest rate and liquidity risk. This modeling could be done with CCU resources or hire of an independent firm.

### 5. Asset Liability Management

NCUA should reinstate the requirement for CCUs to perform net interest income modeling and stress testing in any possible interest rate scenario. CCUs should be held to the standard of preserving and protecting the liquidity function by the regulator. That said, this is best accomplished by sound internal ALM guidelines. Every balance sheet mix is different. A regulatory risk profile could be established in conjunction with CCUs and CUs to set the standard for protection of the liquidity function. Each CCU could then manage their individual operation and balance sheet to insure the proper risk profile is achieved. The exposure to investments at the root of our current challenges could have been minimized with stronger ALM caps based on capital at risk.

### 6. Corporate Governance

The charter and operation of a CCU is very different than that of a natural person Credit Union. As such, CCU directors should possess appropriate knowledge and experience and there should be minimum requirements for serving. We believe that it would also make sense to require that some directors have financial backgrounds, such as required for public companies. While CUs should be able to provide qualified directors for CCUs, a board made up of only CU and CU association executives would be one-dimensional and may not cover the breadth of skills needed to fulfill the fiduciary responsibility of the board. True to the Credit Union spirit, a simple majority of CCU board seats should be filled by volunteer directors from CUs that meet the established criteria. The remaining seats should be filled at-large by other industry or business professionals that meet the established criteria. The at-large seats would still be elected by the membership and could receive a minimal stipend to serve as such. Further, it would make sense to mandate certain key board sub-committees such as Audit, ALM, and Investment management, among others.

An issue that was not raised in the ANPR, but we believe to be pertinent is that of share insurance for Corporate Credit Unions. We now know the impact of CCUs on the share insurance fund. Given the knowledge gained from the current situation, CCUs should contribute to the NCUSIF at higher levels more proportionate to the overall insurance risk they comprise. A separate CCU NCUSIF calculation should be established to insure that the credit union movement shares equally in protecting our collective members' deposits and earned capital in their respective natural person Credit Unions'.

These are crucial times for the Credit Union movement. Decisions made today will shape the future of our industry. Thank you for your consideration of our responses and for allowing us the opportunity to participate in the process.

Regards,

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