

FROM

(THU) FEB 25 2010 11:58/ST. 11:58/No. 750000079 P 2



February 25, 2010

NCUA Board

Chairman Debbie Matz
Member Michael Fryzel
Member Gigi Hyland

1775 Duke Street
Alexandria, VA 22314-3428

RE: Proposed Corporate Credit Union Regulation

Dear Chairman Matz, Board Member Fryzel, and Board Member Hyland:

I am the President and Chief Executive Officer of Members Credit Union which is located in Cleburne Texas, a small town of about 30,000 people that is located just south of the Dallas / Fort Worth area. Members Credit Union is the only Credit Union in town, and we have a staff of (20) employees who serve a membership of about 6,800 members. We have been in existence since 1954, and during that time have experienced the volatility of different economic factors impacting our Credit Union; from our primary sponsor (Santa Fe Railroad) pulling out of town, the DOT.COM bust of the 1980's, the S&L bailout of the 1990's, the Barnett Shale Gas boom experienced since 2004, and the most unprecedented financial crisis since the Great Depression – the financial market meltdown of 2008 & 2009. However, looming even larger than these singular catastrophic economic events, is the Proposed Regulation by NCUA for Corporate Credit Unions which poses a threat to our continued viability from which we may not be able to withstand if this Regulation is passed in its present form.

I attended the NCUA Town Hall meeting held in Dallas, TX on January 22, 2010, and heard your requests for comments on how to improve the Pending Regulation. I understand that you as a Board will be meeting in the near future to review comment letters on the Proposed Regulation relating to the structure, profitability, and continued viability of Corporate Credit Unions as we know them today.

In 2009, Members Credit Union was notified of an assessment to the NCUSIF fund of 1.00% of insured shares. On March 25, 2009, I wrote a Comment Letter to the NCUA Board urging you to reconsider replenishing the NCUSIF fund over at least a (5) year period. NCUA listened to my comments as well as a number of other comment letters, and modified the replenishment of the NCUSIF fund over an extended period of time, and as such, Federally Insured Credit Unions were relieved of the burden of booking an assessment amount all at one time.

NCUA Board
February 25, 2010
Page 2 of 4

However, the actions taken by NCUA to place (US Central) and (WesCorp) into Conservatorship due to deteriorating values experienced within "their investment" portfolios, have ultimately made "their investment" losses, trickle down and materially impact "Members Credit Union" bottom line through our Membership Capital Account held at (SWCorp). Based on communications from NCUA, (SWCorp) and discussions with our audit firm, the Board and Management of MCU determined that our MCA account was fully at-risk. Therefore, in the last quarter of 2009, MCU took a voluntarily write-down of our entire MCA account balance held at (SWCorp) in the amount of \$335,167. Considering these accounting losses as non-operational in nature, MCU reported a Net Income of \$33,178 for the entire year of 2009, after all assessments and impairments were factored into our bottom line. Prior to those assessments being deducted from the income statement, MCU would have reported a Return on Assets of more than 1.00% for the year-end 2009.

After incurring these write-downs from (SWCorp) for depletion of the MCA account, the Board of Directors of MCU is not interested in recapitalizing (SW Corporate) or any other Corporate Credit Union in the future. Based on tremendous Asset growth experienced during 2009, MCU assets are now approaching the \$50 Million dollar mark. Another recapitalization of (SW Corp) would require MCU to expense \$500,000 through our income statement, which is not something we are prepared to do again. This action would take away both Capital and Services which should be available to our membership, and not to be absorbed as investment losses held at

NCUA Board
February 25, 2010
Page 2 of 4

However, the actions taken by NCUA to place (US Central) and (WesCorp) into Conservatorship due to deteriorating values experienced within "their investment" portfolios, have ultimately made "their investment" losses, trickle down and materially impact "Members Credit Union" bottom line through our Membership Capital Account held at (SWCorp). Based on communications from NCUA, (SWCorp) and discussions with our audit firm, the Board and Management of MCU determined that our MCA account was fully at-risk. Therefore, in the last quarter of 2009, MCU took a voluntarily write-down of our entire MCA account balance held at (SWCorp) in the amount of \$335,167. Considering these accounting losses as non-operational in nature, MCU reported a Net Income of \$33,178 for the entire year of 2009, after all assessments and impairments were factored into our bottom line. Prior to those assessments being deducted from the income statement, MCU would have reported a Return on Assets of more than 1.00% for the year-end 2009.

After incurring these write-downs from (SWCorp) for depletion of the MCA account, the Board of Directors of MCU is not interested in recapitalizing (SW Corporate) or any other Corporate Credit Union in the future. Based on tremendous Asset growth experienced during 2009, MCU assets are now approaching the \$50 Million dollar mark. Another recapitalization of (SW Corp) would require MCU to expense \$500,000 through our income statement, which is not something we are prepared to do again. This action would take away both Capital and Services which should be available to our membership, and not to be absorbed as investment losses held at Corporate Credit Unions located across the United States.

I think it is imperative the NCUA seek ways to modify the proposed Corporate Credit Union Regulation. While I do not admit to knowing the specific details of the Proposed Regulation, I suggest the following issues be addressed:

SEGREGATION OF "LEGACY OR PROBLEM" ASSETS:

If NCUA anticipates that natural person credit unions will recapitalize their Corporate Credit Union MCA account, without segregating out the "legacy or problem investments", then NCUA is sorely mistaken about the financial impact this action will have on natural person credit unions across the country. MCU has already had \$335,000+/- "depleted" once, and we are not going to allow this to happen a 2nd time. If NCUA does not separate out these "Other Than Temporary Investments" and their associated losses, then the Corporate Credit Union system will fail! That will be your "LEGACY" for the time you spent on the NCUA Board.

NCUA Board
February 25, 2010
Page 3 of 4

CAPITAL & LIQUIDITY REQUIREMENT OF CORPORATE CU'S:

Whatever capital requirements are placed on CCU's will need to be revised, due to consideration of 1) unrealistic capital goals or benchmarks given the operating climate the CCU's will be facing over the next several years, 2) Natural Person Credit Unions who do not elect to recapitalize and leave the CCU system, will move their business to outside vendors, 3) liquidity that is withdrawn out of accounts held by NPCU's that elect to move their business elsewhere, would thereby reduce the assets held in CCU's having the opposite effect intended by NCUA, 4) safety and soundness concerns of CCU's when NPCU's drain liquidity from the CCU system.

EXTENSION OF TIME FOR PRODUCT REPRICING BY CORPORATE CU'S:

If NCUA will allow CCU's sufficient time to recapitalize through monthly operating income streams, rather than through a one-time recapitalization expense, then CCU's could feasibly re-price their products to better reflect market rates for payment services, wire services, investment advisory services, etc. NPCU's could more easily afford and would possibly absorb higher operating costs for products provided by CCU's in exchange for extended time limits given to CCU's for capitalization purposes. In the specific instance of MCU, the amount of monthly operating expense from (SWCorp) for 2009 was \$13,000+/- . Even if the "re-priced" expense was tripled or quadrupled, to approximately \$50,000 / year in MCU's case, the annual revenue that (SWCorp) would be able to generate would be far greater, than if MCU and a majority of other NPCU's elected not to recapitalize, give notice, close their accounts, and move elsewhere for services. Most NPCU's could absorb the increased operating fee on a monthly basis, rather than the one-time recapitalization expense for their MCA accounts.

REQUIREMENTS FOR CCU BOARD OF DIRECTORS:

It could be anticipated that due to losses already incurred by, and the projected losses in the future at CCU's, very few, if any, NPCU Executive Officers will volunteer to serve on a CCU Board. The proposed Regulation limits the terms, specifies requirements for the office holders, and places other governance limits on NPCU's Executive Officers can hold a position on a CCU Board of Directors. Based on the lawsuits which have already been filed against the Board of Directors of (WesCorp), and the potential of other lawsuits that may be filed against other CCU Boards of Directors, why would any "new or potential" candidate want to serve, or subject himself / herself or their respective Credit Union, to the liability of serving on any Corporate Credit Union Board of Directors? The limits within the proposed Regulation will not afford any changes in leadership at CCU's which are not profitable or fail to meet the capital guidelines set forth under the proposed Regulation.

NCUA Board
February 25, 2010
Page 4 of 4

SUMMARY & RECOMMENDATION:

I would encourage you as Board Members of the National Credit Union Administration, to instruct the Executive Director and other NCUA staff to revise the Proposed Regulation that will allow for consideration of the following issues:

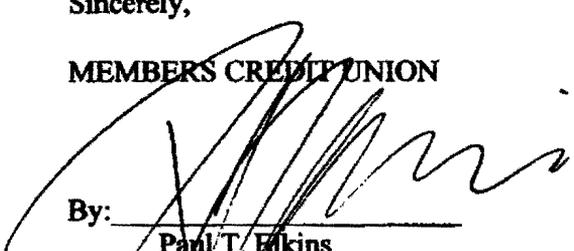
- 1) Segregation of the problem assets,
- 2) Allow sufficient or extended time for Corporate Credit Unions to meet Net Worth requirements,
- 3) Consider monthly Net Income streams for capitalization purposes rather than one-time recapitalization efforts,
- 4) Consider eliminating governance limits for potential members of Corporate Credit Union Board of Directors,
- 5) Consider the negative consequences of continued assessments of Corporate Credit Unions losses onto Natural Person Credit Unions that will jeopardize our industry and movement during the most critical time in our country's financial and economic lifetime.

I trust you will act in a very responsible manner, keeping the interests of the almost 90 million Americans who hold deposits in Credit Unions, 6,800 members of which belong to Members Credit Union, and who rely on their Credit Union as their primary provider of financial services. The future of our industry depends upon how you respond to this critical piece of Regulation that impacts both Corporate Credit Unions and Natural Person Credit Unions around the country.

Thank you for your service to our movement,

Sincerely,

MEMBERS CREDIT UNION

By: 

Paul T. Elkins
President and
Chief Executive Officer

654