From:	Steve Bowles
To:	_Regulatory Comments
Cc:	league@ccul.org; chrisc@ccul.org; ritaf@ccul.org; steve@srifcu.org
Subject:	Comments on Part 704 Corporate Credit Unions
Date:	Wednesday, March 03, 2010 10:45:43 PM

Date: 03/03/2010

Ms. Mary Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke St.
Alexandria, Virginia 22314-3428

Subject: Comments on Part 704 Corporate Credit Unions

Dear Ms. Rupp:

On behalf of SRI Federal Credit Union, I appreciate the opportunity to comment on NCUA's proposed amendments to Part 704, which would make major revisions regarding corporate credit union capital, investments, asset-liability management, governance, and credit union service organization (CUSO) activities.

March 3, 2010

Ms. Mary Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314-3428

Subject: Comments on Part 704 Corporate Credit Unions

Dear Ms. Rupp:
On behalf of SRI Federal Credit Union, I would like to comment on proposed amendments to Part 704. By way of background, SRI Federal Credit Union is a credit union in the heart of Silicon Valley (Menlo Park, California) and has 3,600 members (super smart members-SRI International was one of the first sites on the Internet, invented the mouse, MRIs, etc). SRI Federal Credit Union is a sole-sponsor credit union serving employees of Stanford Research Institute (SRI International). Like many smaller credit unions we rely on WesCorp Federal Credit Union for our borrowing needs and transactional services. WesCorp provides clearing services for our member's share drafts, our corporate checks, check imaging services, and investment needs.
We have researched other vendors for these services, including the Federal Reserve Bank, and believe that WesCorp provides the best value for our credit union. In particular, the Federal Reserve Bank does not provide the sort of customized services but instead requires the credit union to do much more work to handle exception items that occur in the clearing process. Cash orders through the Fed also are required to be in very large minimum dollar bundles which would be less efficient for us to handle and would require additional security concerns. In addition, WesCorp routes many check images through a private imaging network. This provides backup should the Federal Reserve System have problems.
Following are our concerns:

Capital:
Corporate credit unions have historically operated on very low levels of capital. They have had almost no losses from loans to other credit unions through their entire history. Recent losses have been related to the overall mortgage crisis and their underlying investments in those types of investments. With stronger regulations over the types of uninsured investments that Corporate Credit Unions invest in, there is no reason to increase required capital levels. Instead Capital requirements should take into account the level of risk within the investment portfolio. In addition, the need to require PCC is just a way of transferring risk from the Corporate Credit Unions to natural person Credit Unions-the little guys. There is no benefit to the overall credit union system to take funds from natural person credit union and make us "invest" in capital at the Corporate Credit Unions unless that capital is 100% federally insured.
Earnings:
There is no business-even for a not-for-profit business that can run under a business model that provides for no earnings. Financial institutions make money by loaning (or investing) at higher rates than they are paying their depositors. Moving out on the interest rate curve is the major way for a financial institution to create positive earnings. Placing overly strong restrictions on Corporate Credit Unions ALM management could have the effect of placing them into a business model, which prevents them from creating earnings (and thus capital).
Not only are there many different opinions about how to measure and manage interest-rate risks, but also this is an ongoing area of science that continues to develop. I am concerned that NCUA will put into place an iron-cast rule that prevents any new ALM science to be utilized. Please note that the current problems that WesCorp and the other Corporate Credit Unions have are not related to ALM management. Instead, it has to do with over-reliance on rating agencies for non-government insured investments.

You need to think of Corporate Credit Unions as large supermarkets-they operate on a very narrow spread and are able to do this successfully due to large volumes. Reduce their volumes and they will not be able to live on their interest rate spreads. This would kill Corporate Credit Unions and require natural person credit unions (the small guys) to spend more on the same or fewer services. This is sort of like saying we can't buy at Costco anymore but have to buy everything from the government (i.e. The Federal Reserve Bank).

NEV Testing:

The proposal requires a portfolio/asset limit of two years in average weighted life. In effect, this would prevent Corporate Credit Union from buying longer-term government securities such as 10-year T-bonds. In effect, foreign governments can buy our government's debt, but not credit unions. So, in effect, Corporate Credit Unions could buy short-term non-federally insured investments-such as private lapel Mortgage-Backed investments but could not buy United States Treasure Bonds longer than two years! This is an example of how ALM measures can conflict with actual risks. I would rather invest in the United States than sub-prime mortgages. Instead of pushing average-life testing that is SO LOW as to be unreasonable, perhaps we need to address the real risk of getting our money back from investments.

Also, with the low interest rate spread that Corporate Credit Unions already have, reducing the average weighted life to two years would probably put them out of business. I believe you would be better to remove government securities from the NEV test, lower the NEV volatility limit to a 20 percent decline and a 20 percent NEV volatility tolerance limit.

Old Investment Losses:

While we understand that the credit union system is a self-insurance pool, the NCUSIF has the means and ability to hold assets much longer than individual credit unions. As a result, I suggest that we transfer a portion of the sub-prime mortgage pools to the NCUSIF with the corporate receiving back a certificate of investment that allow the Corporate Credit Union to participate in future increases of value. The Corporate Credit Unions would then write down these investment certificates over the next thirty years. In any case, without public opinion, the NCUA would be exposing the credit union system to thoughts only from within one government agency.

Additional Capital:

A FHLB-type model where Corporate Credit Union could raise money from selling bonds with the full faith and credit of the Treasurer would really help reduce risk and would support the lower interest rate spread business model of the Corporate Credit Unions. If the government really wants to open up more credit for individuals and get this great country of ours working again-let's give Corporate Credit Unions a "full faith and credit" model!

Natural Person Contributed Capital:

It is unlikely that our credit union will contribute capital again to a Corporate Credit Union-at least not in non-Federally insured funds. We lost almost an entire year's worth of earnings when we were required to write-off WesCorp capital. We are a FEDERAL credit union and our government should stand behind all capital placed at WesCorp, not just some of it. The Federal Credit Union act makes Federal Credit Union instruments of the government-our Corporate Credit Unions should have all their capital Federally Insured!

Corporate Credit Union Services:

Corporate Credit Unions are limited in the types of services that they can provide natural person credit unions. However, with the pace of innovation increasing, any hard and fast rule could create a new risk-that Corporate Credit Unions would not be flexible enough to allow them to evolve as technology and business services evolve. The Corporate Credit Union system could have been PayPal, could be the next generation of smart cards, the next Home Loan Network System. Instead, the NCUA is pushing the Corporate Credit Unions to business pre-Internet. Instead of limiting Corporate Credit Union Service Organizations to certain permissible functions, how about just addressing the risk of new ventures? For example, require Corporate Credit Unions to raise separate capital for new ventures that they wish to establish.

Salary Disclosures:

The NCUA already has the right to audit Corporate Credit Unions-including review of pay rates and practices. Disclosure of pay would create additional risk for those individuals exposing them to potential crimes. In additional, their families may be exposed to additional risks. In any case, I doubt that disclosing the amount of compensation that a director, an executive, or an employee makes would reduce risk for the credit union system. Blackmail, robberies, negative publication, kidnapping, and other crimes would increase for those employees whose salaries are disclosed. This just doesn't seem right. Perhaps the NCUA could just come up with a rating system that indicates the average salary of a corporate credit union at a certain percentile of all Corporate Credit Unions.

Ultimately, 90 million (and voting) credit union members rely on the corporate system to provide trading, payments, clearing, and settlement services for their local credit unions. Given this systemically important role that the corporate credit union network plays in our nation's "financial plumbing," it would appear that preservation of a corporate credit union option is tantamount to preserving the credit union option, locally, for everyday consumers in our country.

Recommendation:

The NCUA should eliminate proposed regulations that prevent Corporate Credit Unions from buying longer-term America Bonds. The regulations should provide for Federal Insurance for all Corporate Credit Union Capital and should exclude guaranteed (such as US Government Bonds) from net worth risk ratios.

We urge the Board to allow congress and the natural person credit unions to work together on regulations that provide for safety, reasonable risk models, and flexibility to allow Corporate Credit Unions to participate in the future of our economy.

Sincerely,

Steve Bowles, CPA
CEO/CFO
SRI Federal Credit Union
333 Ravenswood Ave
Menlo Park, CA 94061

Thank your for your consideration to this critical matter.

Sincerely,

Steve Bowles