March 4, 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 Patelco 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. By way of background, Patelco is headquartered in San Francisco, California, and is one of the 20 largest credit unions in the nation with $3.7 billion in assets and just under three hundred thousand members.

Patelco appreciates NCUA for its deliberative approach in this critically important rulemaking. However, the continued challenges within the corporate network, coupled with the projected regulatory changes from the NCUA to Regulation 704 bring into question the ongoing viability and value of the corporate network to natural person credit unions (NPCUs) without considerable consolidation (in our opinion, 5 or fewer corporates). Clearly, the current number of corporate credit unions is unsustainable.

Continued deterioration of the corporate credit union network has brought to light significant issues related to corporates' ongoing ability to provide many of the functions that credit unions rely on them to provide, namely settlement, payment, investment and liquidity services in an effective and efficient manner.

NCUA board members have stated that the future of the corporates are to be determined by natural person credit unions. Still, the regulator is encouraged to move quickly to place into conservatorship those corporates unable to achieve adequate risk-based capital ratios. Doing so, along with easing corporate merger requirements, will speed the process of consolidation thereby reducing inefficient redundancies and building the economies of scale necessary to operate under a drastically different revenue model (fee based vs. operational subsidies from investment yields).

As we understand it, the proposed regulations are to be read with the assumption that legacy assets have been removed from corporate balance sheets. However, we found no reference to such notion in the proposed rule. Patelco, having seen 100% of its MCS & PIC eliminated due to Wescorp investment losses, will not entertain any new capital infusion into the corporate network prior to "toxic" assets having been removed from the corporate's books.

The proposal, made public on November 19, 2009, places significant restrictions on the corporate credit union charter, including revisions that would:

- establish new capital requirements, including risk-based capital requirements;
- impose new prompt corrective action requirements;
- place various new limits on corporate investments;
- impose new asset-liability management controls;
- amend some corporate governance provisions; and
- limit a corporate CUSO to categories of services preapproved by NCUA.

Without addressing each area of the proposed regulation, we suggest the following guidelines be used in shaping the future of the corporate network:

- First and foremost, establish a means to leverage credit union buying power and transaction volumes. As of June 2009, the top 4.6% of credit unions accounted for 60% of credit union assets and almost 50% of credit union members.
- Identify ways to provide some level of service to smaller credit unions.
- Don't duplicate the old system. Rather, create a new value proposition – one that is more efficient and delivers greater value and that minimizes the amount of capital outlay required of credit unions.
- Aggregate volume and manufacture only when necessary.
- Focus on core product requirements:
    - Settlement and cash management (overnight investments and liquidity)
    - Short and medium term liquidity
    - Payments
    - Securities safekeeping
- Establish a conservative risk profile.
- Restrict use of high credit risk investments.
- Business plans must prove financially self-supportive and deliver strong credit union value.
- Business plans should be politically neutral, cooperatively principled and focus solely on business and product viability.

The following represent those items believed to solidify and validate the need for continued efforts regarding alternatives to today's corporate credit union system:

- The opportunity to aggregate and leverage credit union volumes for best pricing will be lost forever if credit unions fail to act collectively now.
- The NCUA needs to assist in identifying alternative aggregation models, other than those present through the existing corporate framework.
- A detailed analysis of NPCU needs indicate a strong likelihood of significant savings in the processing of checks through a new operating model being offered by the Fed. This pricing model

- only applies to an entity aggregating the volume of multiple credit unions (and as such, would require a correspondent/respondent relationship). Initial analysis based upon current and estimated pricing indicates significant annual savings in check processing fees alone. It is expected that other significant savings opportunities will surface. NCUA should work to ensure the ability of NPCUs to gain access to these aggregated services.

- There is an inability in today's market to provide liquidity alternatives other than emergency processes as set forth by the Fed through the discount window. A closed-end money market fund may have merit in providing liquidity to NPCUs. NCUA needs to be involved in identifying these options.

Thank you for this opportunity to provide our input into this very important rulemaking. I urge the Board to seek a viable, relevant and risk-reduced model that prevents a repeat of past corporate failures and allows NPCUs to receive the investment, settlement, payment and liquidity services necessary to serving their members.

Sincerely,

Ken Burns
President/CEO
Patelco Credit Union