

January 26, 2011

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

Via Email: regcomments@ncua.gov

Subject: NCUA Proposal to Amend Part 704–Corporate Credit Unions

Dear Ms. Rupp:

The Western States Corporate Realignment Task Force appreciates the opportunity to comment on NCUA’s proposal to amend its corporate credit union rule, contained in Part 704 of NCUA’s Rules and Regulations. These amendments are being proposed in follow-up to the Agency’s corporate credit union rule finalized in September of 2010. By way of background, the Task Force represents natural person credit unions in the eight Western States of Arizona, California, Hawaii, Idaho, Nevada, Oregon, Utah, and Washington.

This letter provides commentary and recommendations on the three provisions that cause us the greatest concern:

(1) §701.5: Prohibition of NPCU Membership in More than One Corporate

According to NCUA, the proposed membership limitation is intended to prevent the unhealthy competition between corporates which previously led to excessive risk-taking as a result of natural person credit union “rate shopping” among corporates.

We do not support this proposed provision as we believe that risk-taking has already been sufficiently addressed by investment, capital, and other rules previously added to Part 704. Indeed, by holding natural person credit unions captive to a single corporate credit union, such a restriction may have the unintended effect of encouraging complacency and discouraging the “best of breed” innovation necessary if a corporate credit union is to be properly prepared for the changing landscape of the payments sector. Perversely, this proposed restriction could motivate some corporate credit unions to “over promise” in their capital call only to “under deliver” when a credit union no longer has the option to choose another corporate.

While the Task Force is aware that participation by a retail bank in the Federal Reserve system is restricted to a single regional Fed entity, the Task Force strongly encourages NCUA to bear in mind the differences between the Federal Reserve Bank system and the corporate credit union system. Whereas The Fed’s regional banks are effectively branches of the same entity, corporate credit unions are independent entities operating in a single system. Natural person credit unions necessarily rely on the corporate credit union system for a broader array of products and services. While there are parallel offerings to retail banks from different regional Fed banks, this is not true of corporate credit unions. What works for the Federal Reserve Bank system does not necessarily transfer to the corporate credit union system.

Whether natural person credit unions are or are not allowed membership in more than one corporate credit union, a mechanism for transferring membership capital from one corporate to another must be available. In the event that natural person credit unions are *not* allowed to belong to more than one corporate and choose to change their current membership, a mechanism is required for transferring any existing membership capital including former paid-in-capital and member capital accounts (or PIC and MCA under Part 704, previously) to a different corporate credit union. In the alternative event that natural person credit unions *are* allowed membership in more than one corporate credit union, it is possible that natural person credit unions will opt to invest non-perpetual capital in more than one corporate that may be withdrawn or transferred to another corporate at some future time. In any case, a mechanism for transferring membership capital from one corporate to another must be available.

Recommendation: Withdraw this proposed amendment. Given the other safeguards that are in place under Part 704 to curb corporates' risk-taking activity, NPCUs must be allowed to shop for the best products and services offered by the corporate community so that corporates have the incentive to maximize operational efficiency, service levels, and selective innovation. If NCUA goes forward with this proposed amendment, the corporate system will be disadvantaged by NCUA's market interference, as natural person credit unions with limited options under a corporate membership restriction will have no choice but to turn to providers outside of the corporate credit union system, driving critical business volume away from corporates.

(2) §704.23: Permissibility of Charging One-Time or Periodic Membership Fees

The permissibility of membership fees is intended to provide corporates with more options to grow retained earnings. That is reasonable. However, it is not reasonable to specifically dictate that membership fees have to be proportional to the member's asset size. This would create a clear disincentive for larger credit unions that may wish to capitalize a corporate credit union without using all of its products and services. The regulation should simply state that membership fees are allowed. Corporate credit union boards of directors and management should determine what membership fee model best suits their objectives. For example, membership fees might be better based on members' business volume with a corporate.

As proposed, the amendment would require corporate credit unions to give members at least six months' notice of any new fees or any material change to an existing fee. Six months or 180-days' notice would seem to take away a corporate credit union's ability to make nimble business decisions. 45-60 days' notice would be more practical.

Lastly, a concern expressed by small credit unions over the permissibility of periodic fees is that a corporate credit union may initially assure a natural person credit union, "Yes—we can support you with the services you require," only to later impose mandatory fees to comply with Part 704 earnings targets. We simply alert NCUA to the need to be aware of potential "back door" use of periodic membership fees that may be charged to make up for strategic or operational deficiencies.

Recommendations: (a) Adopt the amendment to permit corporates to charge one-time or periodic membership fees, but do not require that such fees be proportional to members' asset size.

(b) Reduce the proposed six months' notice of fee changes to a more practical and business-driven notice period of 45-60 days.

(3) §704.21: Voluntary Payment of Corporate Stabilization Expenses by Non-FICUs

This proposed amendment, effectively, would subject privately insured credit unions and other entities such as state leagues, CUSOs, and various credit union system affiliates to make “voluntary” payments when NCUA assesses a Stabilization Fund premium on FICUs.

NCUA’s legal jurisdiction over non-federally insured credit unions and other entities is questionable and this proposed provision is ill-conceived. Such a provision will have the undesirable consequence of driving credit union system business volume away from the corporate credit union system. Those non-FICU credit unions and other credit union system players that are large enough will likely take their business from corporate accounts to the Fed. Those non-FICUs that are not large enough to go with the Fed will likely go to third party providers perhaps in the banking sector, which has a history of disrupting credit union payments by cutting off services on a moment’s notice. In any case, this amendment will only serve to diminish the scale and business volume corporate credit unions need to achieve greater efficiencies.

Recommendation: Withdraw the proposed requirement for voluntary payment by non-FICUs. If NCUA goes forward with this amendment despite the fact that NCUA lacks the legal authority to do so, NCUA will be responsible for driving critical business volume away from corporate credit unions and further fragmenting the credit union system.

Respectfully submitted,

The Western States Corporate Realignment Task Force

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