



Port Huron

Marysville

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March 25, 2009

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

Re: Response to Advance Notice of Proposed Rulemaking (ANPR) for Corporate Credit Unions

Dear Ms. Rupp:

E&A Credit Union thanks the NCUA Board for the opportunity to comment on the ANPR for Corporate Credit Unions. As a background, E&A Credit Union is a \$200 million institution that serves approximately 31,000 members mostly based in Michigan about 60 miles north of Detroit. The credit union is a member of Central Corporate Credit Union (CenCorp), who is one of the 26 Corporates that, along with US Central Federal Credit Union, make up the corporate system.

From a member perspective CenCorp is a well run, conservative institution. They have grown over the years in both size and product offering to meet our needs as their member. I feel that by using CenCorp we have enjoyed efficiencies and financial returns that we would not have been able to achieve on our own. CenCorp has created this member value by harnessing the collective strength of the all their credit union members.

The following key points summarize our viewpoint in regards to the ANPR:

1. Overall, we do not feel that the Corporate System is broken. We do not feel that there is a need for significant restructuring of the charter, field of membership, investment authority, powers, capital requirements, risk management and governance. However, we do feel that there is room for improvement in some areas in which we feel there was failure. Such areas are highlighted below.



2. We feel there was failure in the aspect of executive management, board governance and regulatory oversight. While we feel that actions taken at US Central Corporate were within the prescribed regulatory guidelines, we don't feel that there was sufficient oversight on the part of the Board nor the regulator. It appears as if management did not take into account concentration risk when making investment decisions. We also feel that due to competitive pressures, that they may have stretched the guidelines in order to enhance the returns.

The Role of Corporates in the Credit Union System

Payment Systems

It is E&A Credit Union's understanding that the core purpose of the Corporates is to provide a convenient way for credit unions to centralize their short-term funds management activities (overnight/short term deposits or loans). The settlement and funds transfer activities, one aspect of the payment systems, are integrated in these core offerings. It would be difficult and cost prohibitive to separate these functions without damaging the value the Corporates provide.

The other type of payment system is the payment processing activities. While this area is not as integrated with the short-term funds management activities, the income earned in this area helps to cover other costs, such as overhead. Elimination of this additional income may negatively impact the overall earnings of the Corporates.

In summary, we do not feel that the payment system should be, or could be, separated from the funds management system.

Liquidity and Liquidity Management

E&A Credit Union feels that liquidity and liquidity management is key component of the Corporate. However, we do not feel that we have adequate knowledge in regards to the inner workings and sophistication of their monitoring systems to comment appropriately.

Field of Membership (FOM) Issues



We do not feel that there should be restrictions placed on the field of membership. Having national FOM did not cause this issue to happen. The competitive nature of the Corporates competing with each other could cause an institution to take more risk in order to enhance perceived member value; however, this should be kept in check by appropriate regulatory oversight.

Expanded Investment Authority

E&A Credit Union believes that the expanded investment authority is appropriate with the caveat that regulations and the examination process as a whole should determine if investment authority and practices are appropriate for each corporate.

Structure: Two-tiered System

It seems that this type of structure allowed US Central to take advantage of the economies of scales, which benefits all Corporate and therefore all Natural Person Credit Unions (NPCU). This is same premise that other corporate use in regards to NPCUs. However, it also seems that there was a great deal of risk at US Central. Maybe there is a way to still gain the economies of scales by having an institution like US Central, but maybe spread out the risk of the transactions, specifically in the way of investments, to the other member Corporates.

Corporate Capital

Core Capital, Membership Capital, and Risk-based Capital and Contributed Capital Requirements

NCUA should look to apply some form of risk-based capital standards to the U.S. Central and the other corporate credit unions that would require higher levels of capital associated with riskier investment portfolios. Those Corporates who invest more prudently should be allowed to operate with lower capital requirements.

In regards to the question of requiring a corporate to limit its service only to members maintaining contributed core capital with the corporate, we see this as a possible deterrent,



which could actually lead to higher prices for existing members for the services provided. If we are looking at a corporate for a specific service and not only do we have to look at the price of the specific service, we would now also have to consider the opportunity and interest cost of the amount of capital that we are required to invest, therefore, increasing the overall cost of that service. With this added layer of complexity, it reduces the pool of available consumers, which may in turn require the corporate to raise its price to cover costs. It also could reduce the amount of available options for such services, so therefore, reducing supply and driving up prices.

Permissible Investments and Credit Risk Management

E&A Credit Union does not have experience with the specific investments examples cited in the ANPR, so it is difficult to say if these should be prohibited or limited. We do feel that any changes need to be carefully considered and not just a reaction to the poor economic conditions of today. There has to be enough flexibility, balanced with proper oversight, to allow a corporate to continue

to make a reasonable investment spread. Otherwise, they will have to raise other service prices in order to remain viable.

However if it is deemed that investment powers are appropriate in their current form, from a regulatory oversight perspective, we feel that it is the NCUA's role to assure that these institutions are adequately managing their concentration risk by sector or investment type. The heavy exposure to stress in the housing market, which has contributed to US Central's financial woes, may have been mitigated by a simple requirement that these investments be spread among other investment classes.

Asset Liability Management

It seems as if there could be some benefit in requiring more robust ALM modeling techniques. However, these additional techniques will only be successful if there is adequate understanding of them on the part of management, the Board and the regulators.



Corporate Governance

E&A Credit Union feels that the serious stress on the corporate credit union system is in large part due to poor management, lack of appropriate governance on the part of the Board, and inadequate regulatory oversight, especially in those instances where concentration risk associated with mortgage-backed securities was a major contributor to losses. It is also understood that significant economic circumstances (i.e., the meltdown of the housing market), created significant challenges for both effective management and regulatory oversight. Nonetheless, all failed in their respective duties.

1. **Improved Regulatory Oversight** – The NCUA failed to provide adequate oversight for the corporate credit union system, especially related to concentration risk issues noted above.

The NCUA should move quickly to hire or retain specialized expertise for examining and regulating corporate credit unions that operate with complex investment authority. Existing specialized examiners should be evaluated and be either replaced or upgraded with additional skills. The NCUA should also consider using a permanent outside consultant for periodic examination of corporate credit union investment portfolios. The “after-the-fact” hiring of PIMCO is not a good example of appropriate regulation and supervision. Proactive, ongoing expertise is needed in order to avoid future capital impairments.

Whatever approach is chosen, it should be implemented as a permanent solution in order to ensure adequate oversight in the future.

2. **Governance Reforms** – The structure of boards of directors should be left to the respective memberships of each corporate credit union as covered in their bylaws. However, all directors should be required to have significant expertise directly related to the operations of the corporate, or at a minimum, be well-versed in the fundamental purpose, business model and risk factors associated with the operation. All corporate credit unions should be required to have bylaw provisions that address these governance needs.



In the case of U.S. Central, the board of directors should be comprised of executives from both natural person credit unions and corporate credit unions exclusively. Elections should not be dictated by asset –size class or geographic region. Expertise should trump “representation” issues given the risks to the deposit insurance fund and the credit union community. All directors should be elected “at-large”. Outside board members could be considered as long as they are qualified.

The membership should elect highly-qualified representatives who understand the U.S. Central’s business, especially investment dynamics. All directors should be required to have significant expertise directly related to the operations of U.S. Central, or at a minimum, be well-versed in the fundamental purpose, business model and risk factors associated with the operation. This should be required to have bylaw provisions that address these governance needs.

The NCUA should consider imposing additional transparency requirements on at least the U.S. Central Board that would pertain to financial statement transparency, risk composition of investments, director qualifications, management of directors’ conflicts of interest, and certification of financial statements and investment portfolio.

Conclusion

Changes to the corporate system are being considered during a time of tremendous uncertainty in the financial marketplace. This needs to be taken into account when planning for what the future holds. Business needs to be conducted in a safe and sound manner; however, Corporates need to have the authority to generate value on behalf of the members. If this is not achieved, it will be difficult for the corporate business model, and quite possibly the credit union model as a whole, to survive and thrive in the future.

Thanks again for the opportunity to comment. If you have any questions regarding the above comments, please feel free to contact me at 810-966-4600, ext 4127 or mmyrick@eacu.org.

Sincerely,

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Michele L. Myrick, CPA
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