

Bruce Cramer

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June 28, 2007

Joanne Conrad
Project Manager/Specialist Consultant
Department of Financial Institutions
Division of Credit Unions
PO Box 41200
Olympia, WA 98504-1200

RE: Credit Union Alternative Share Insurance Programs

Dear Ms. Conrad:

I have attended the four public hearings on this subject and would like to add my observations and comments to the record. Please accept these comments as a private citizen and credit union member, not as an employee of a Washington State Chartered credit union.

The majority of the comments have come from one source: the bank trade association. While they may have an interest in protecting the savings of Washington citizens, I suspect their interest is more along the lines of restricting a potential competitive advantage. Please keep in mind that credit unions hold a miniscule amount of consumer deposits. In fact, most of the savings, pension funds, and 401(k) funds are held in non-insured deposits such as stocks, bonds, mutual funds, and annuities. The majority of the saving public has declared deposit insurance irrelevant.

There have been lengthy comments and discussion about the need for a private insurer to have a broad geographic distribution of risk and that there must be adequate testing to ensure this. Please bear in mind that the risk distribution will change on an almost daily basis as credit union members move funds in and out of credit unions. Attempting to quantify this risk will amount to an almost impossible task. For example, what would happen if an insurer were approved, based on the distribution of risk on a date in the recent past, and then there were to be a large shift in deposit from one region to another? What action would the DFI take if the insurer then failed the distribution risk test?

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A second area of comment and discussion surrounds the circumstances of the private deposit failure in Rhode Island and the failure of Emerald City Credit Union in Washington State. If you look closely at these two situations, you will see that the problems were internal fraud that the regulatory examiners failed to uncover during routine examinations. In the case of Emerald City, the DFI had examined them on a regular schedule, but it was the insurer's auditor who uncovered the fraud. The system worked, the members of Emerald City were made whole by the insurance fund and no tax payer funds were at risk. I believe that if the Washington State Legislature had not passed legislation to eliminate the private insurance option, that private deposit insurance would still be an option in Washington State. My point is that effective examination and auditing of credit unions is crucial to the success of private share insurance. The proposed WAC does not speak to this process.

A third area of comment surrounds the meaning and legislative intent of private insurance being "equivalent" to federal insurance. The federal government owns the printing press and has the exclusive rights to print money. If you use that standard, there is no equivalency. Given adequate disclosures, the American public will make informed decisions on the risk-reward ratio of an investment and select investments that suit their needs and risk tolerance. Setting the bar so high that no private insurer can reach it does the public no good.

Sincerely,

A handwritten signature in black ink, appearing to read 'Bruce Cramer', with a long horizontal flourish extending to the right.

Bruce Cramer