

August 22, 2011

Mary Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314
Email: regcomments@ncua.gov

Subject: Proposed Amendments to NCUA Rules and Regulations Parts 712 and 741 for Credit Union Service Organizations (CUSOs)

Dear Ms. Rupp:

In response to the Agency's call for comments pertaining to the proposed amendments to the NCUA Regulations, San Mateo Credit Union (SMCU) respectfully submits the following comments. As background information, SMCU is a state chartered community based credit union in San Mateo County, California. As of July 31, 2011, SMCU had approximately \$633 million in assets serving over 68,000 members. We also utilize the following the products and services of the following CUSOs:

- CO-OP for ATM Processing,
- Credit Union Direct Lending (CUDL) for indirect lending,
- PSCU Financial Services for credit card processing,
- Financial Service Center (FSCC) for sharing branching, and
- CUSO Financial Services (CFS) for alternative investments.

In order to compete in the marketplace, we have to offer a wide array of products and services to our membership, including credit cards, surcharge-free ATMs and investment services. With a staff size of 165, we do not have the in-house capability to offer these products and services without the assistance of CUSOs. These products and services offered by the CUSOs provide cost savings to the credit union and are vital sources of non-interest income. We believe the proposed disclosure requirements and regulation of CUSOs will hinder the ability of CUSOs to provide these innovative and cost-effective solutions to credit unions like SMCU.

These regulatory burdens will also put CUSOs at a competitive disadvantage in the marketplace. The proposed regulations will require CUSOs to submit their confidential business plans, balance sheets, income statements and confidential member lists. This requirement may

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expose the private business secrets of the CUSOs to the public through Freedom of Information Act requests and dissemination.

Given the economic pressures facing credit unions today, we question the Agency's rationale for proposing the additional regulatory burdens on CUSOs. There is no evidence that CUSOs pose a systematic risk to credit unions, thereby, justifying the additional regulatory requirements. In fact, credit unions industry-wide have invested only 22 basis points in CUSOs. Each credit union's CUSO investment risk is less than 1% of its assets, and NCUA already has the ability to examine the books and records of CUSOs. NCUA's existing authority over CUSOs provides an adequate means to regulate the investment risk on behalf of the credit union owners.

In short, SMCU understands the Agency's concerns about ensuring prudent safety and soundness standards. However, CUSOs did not contribute to the financial difficulties facing the credit union industry. Therefore, we urge NCUA to re-evaluate the Amendment to the NCUA Regulations regarding CUSOs. Should you have any questions, please feel to contact me at kniederkohl@smcu.org or 650.363.1795.

Sincerely,



Karen Niederkohl
Director, Compliance & Legal Affairs
San Mateo Credit Union

cc: Mary Dunn, CUNA
Dian Dykstra, CCUL
Tony Boutelle, CU Direct Lending