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1 September 2011

Mary Rupp, Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexander, VA 22314-3428
Email: regcomments@ncua.gov

Re: Comments to the Proposed
Amendments to the NCUA Regulations re:
CUSOs 12 CFR Parts 712 and 741

Dear Ms. Rupp:

On behalf of the United Nations Federal Credit Union and its wholly owned CUSO, UNFCU Financial Services LLC, (UNFCUFS) we would like to thank the National Credit Union Administration (NCUA) Board for inviting comments on the above referenced item. Recognizing the need for enhanced risk management and mitigation to safeguard the National Credit Union Share Insurance Fund (NCUSIF), we believe the proposed amendment is well intended but fails to reduce any perceived risk to the NCUSIF and undermines the benefits that credit unions derive from credit union service organizations (CUSOs).

Set forth below are the specific elements of the proposed revisions as pertaining to federal credit unions. (Certain other amendments are only pertaining to federally insured state credit unions which UNFCU will not comment on.)

1. The NCUA Board (Board) proposes to expand the requirements of the CUSO regulation requiring CUSO's to file GAAP compliant financial reports directly with the NCUA and prohibiting federal credit unions from investing in a CUSO unless that CUSO's subsidiaries also comply with all the requirements of the CUSO rule and/or laws by expanding the definition of a CUSO to include subsidiary CUSOs.
2. The NCUA Board is proposing a new subsection that states that an FCU's written agreement with its CUSO further require the CUSO to submit annual financial reports directly to NCUA.

UNFCU considers its CUSO a strategic asset which provides international financial solutions to its global membership. Investments made by UNFCU into UNFCUFS are made in order to provide seed capital for UNFCUFS to innovate and develop products to meet the needs of UNFCU's field of membership—the global United Nations community. While UNFCUFS remains unprofitable as a standalone entity, its services to

UNFCU have proven to increase member retention through increased services per household and increased wallet share among client members who have higher average share deposits and loan balances than members who are not clients of UNFCUFS. For example, leveraging its' expertise and industry knowledge, UNFCUFS has partnered with international insurance and investment advisory firms in order to deliver insurance and investment programmes previously unavailable to its members within and outside the United States.

The NCUA Board is proposing to add specific language prohibiting a credit union from investing in a CUSO unless all subsidiaries of the CUSO also follow all the applicable laws and regulations. The Board has indicated that "there is an inherent risk that a subsidiary CUSO could negatively impact the investing credit union and ultimately the NCUSIF." UNFCU supports limiting the risk to the credit union system posed by undercapitalized credit unions however; there is one aspect that will prove problematic for credit unions with international members and the CUSOs trying to serve those members.

Existing credit union regulations require that a CUSO be established and maintained under relevant federal or state law. Although not specifically defined, presumably, that means one of the 50 states within the United States. However, in order for a CUSO to provide the typical CUSO services to credit union members outside the United States, which many credit unions have, certain countries may require that the entity operating in their country or serving residents of their country be organized under the laws of that particular country. UNFCU believes that all established methods to ensure limited liability to the parent-CUSO and the credit union should be strictly followed. Such methods should include organizing in a country where there are established limited liability legal entities and also obtaining written legal advise from local counsel in that country evidencing that the entity is established in a manner that will limit potential exposure to the parent-CUSO and/or the credit union to no more than the amount of funds invested in, or loaned to the CUSO or CUSO subsidiary.

In order for CUSOs to properly serve the international members of the credit union community and be competitive in the globalization of financial services, UNFCU believes it is essential that a CUSO subsidiary be permitted to be organized outside of the United States. This of course would be subject to the ability to limit liability as described above.

UNFCUFS today prepares its financial statements in accordance with GAAP as a best practice. This information is incorporated into UNFCU's financial statements which are also GAAP compliant and audited annually and incorporated into the NCUA call report. As the NCUA's primary concern is systemic risk to the NCUSIF there is no benefit derived from increased reporting from a CUSO rather the supervisory emphasis should be focused on under-capitalized credit unions and not CUSO's.

There has-been no empirical data presented to date which proves that CUSOs as a whole are inefficient, performing poorly or threatening the safety and soundness of the credit union industry. Each credit union's CUSO investment risk and lending risk is less than 2% of its assets. This is a *de minimus* amount. The loss from such a small investment would, in the overwhelming majority of instances, not be material to the financial health of any well capitalized credit union; however, these limits –already in place without the need for the current proposal to be laid atop them - permit credit unions the freedom to experiment and find new solutions without overly burdensome regulatory encumbrances.

The combined investment that UNFCU has made into its CUSO over the past 14 years totals $7.05M, or an average of $503K per year. This is immaterial and inconsequential in terms of risk to UNFCU. Based on UNFCU's consistently strong capital position, the monies invested pose no risk whatsoever to the NCUSIF. Further, by requiring UNFCU to submit annually audited financial reports to NCUA it creates unnecessary costs that would yield little value in terms of risk mitigation to the NCUSIF. For the aforementioned reasons UNFCU does not support this proposal.

Additionally UNFCU's CUSO provides insurance, investment, real estate brokerage and other financial products and services to numerous small credit unions and their members. Most of UNFCUFS's credit union clients have small asset and membership bases and without its support, these smaller credit unions could not offer members access to the variety of sophisticated financial services that UNFCUFS provides.

Many credit unions are struggling to survive due to the numerous ongoing financial challenges they face including a very weak economy, NCUA assessments and the costs of complying with new regulations. Many CUSOs already undergo considerable scrutiny from other regulatory bodies such as the SEC, state insurance commissions, real estate commissions etc. In addition, NCUA already has the ability to examine the books and records of CUSOs and exercise full leverage over the credit union proper to resolve any safety and soundness issues. Given this, any additional regulation will only add unnecessary costs and ultimately serve to stifle innovation and the appetite to share this innovation with smaller credit unions.

NCUA's position that CUSOs pose systemic risk to credit unions is not supported by the facts. There is no evidence that CUSOs pose a systematic risk to credit unions that requires regulatory change. It is inconceivable that investments in CUSOs can be a true systemic risk to credit unions when the aggregate amount invested in and loaned to CUSOs is only 22 bps of total industry assets. NCUA cites substantial loan losses realized in a certain business lending CUSO. Even if CUSOs that make business loans pose a risk that need addressing, NCUA's attempt to apply a regulatory cure for a business lending CUSO to all CUSOs is misguided when business lending CUSOs constitute less than 1% of total CUSOs.

Another consideration is that the additional costs of the proposed CUSO rule in the staffing and operational budget of NCUA is an unnecessary expense the industry will have to bear. If NCUA expects to hire experts in every type of business CUSOs engage in, the costs will be substantial.

For the reasons stated in this letter, UNFCU and UNFCUFS do not think that NCUA has demonstrated that CUSOs are a systemic risk to credit unions or that the direct regulation of CUSO's by NCUA is needed or constructive. Therefore, UNFCU asks that NCUA withdraw the proposed Amendment. Alternatively, the Board should consider exempting well capitalized credit unions from any additional reporting or auditing requirements.

Thank you for your consideration of UNFCU's position on this proposed regulation.

Very truly yours,

Pamela K. Agnone
Senior Vice President
United Nations Federal Credit Union

Stephen J. Ryerson
Chief Operating Officer
UNFCU Financial Services

cc. The Honorable Debbie Matz, Chairman, NCUA
The Honorable Michael Fryzel, Board Member, NCUA
The Honorable Gigi Hyland, Board Member, NCUA
Michael J. Connery, Jr., President & CEO, UNFCU