

From: [Dunn, Steven M](#)
To: [Regulatory Comments](#)
Cc: [Evan Wilson](#); [Bob Corwin](#)
Subject: NCUA_Comment Ltr_2011_98_13.doc
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September 13, 2011

Mary Rupp, Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, 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:

Please be advised that Meritrust Credit Union opposes the above referenced Amendment to the NCUA Regulations regarding CUSOs for the following reasons.

NCUA's information disclosure and regulation of CUSOs will stifle the ability of CUSOs to innovate and provide collaborative solutions that will sustain credit unions as regulatory considerations will often replace value factors in the decision to invest in a CUSO and not provide any recognizable regulatory value beyond what already exists, especially for CUSOs that are regulated by other financial services regulators (e.g., SEC and insurance regulators).

Meritrust owns a CUSO and uses many other CUSO's to provide significant financial services to our members. The additional delivery of services that CUSO's provide to our membership saves Meritrust thousands of dollars and makes additional services that our members enjoy and rely on possible.

NCUA's legal authority to approve the proposed regulatory changes is not clear. NCUA does not appear to have regulatory authority over CUSOs yet this proposal requires CUSOs to provide financial information directly to NCUA which NCUA will retain and evaluate. It is not clear the authority and direct regulation of CUSOs which has not been authorized by Congress.

By imposing regulatory burdens on them, CUSOs are put at a competitive disadvantage with non-CUSO competitors. NCUA wants CUSOs to submit their confidential business

plans, balance sheets, income statements and confidential customer lists. In gathering and holding this information, NCUA will place CUSOs in a competitive disadvantage by exposing private business plans to public dissemination through FOIA requests. CUSOs are the collaborative arm of credit unions trying to solve operational and financial issues for credit unions and credit unions should not have unnecessary hurdles placed in their path as they seek solutions to their sustainability.

CUSOs help credit unions earn and save millions of dollars under the current regulatory model. There is no evidence that CUSOs pose a systematic risk to credit unions that requires regulatory change. The aggregate amount invested in and loaned to CUSOs is only 22 bps of industry assets. It's inconceivable this amount truly can represent "systemic risk" to the industry, especially when the total aggregate investment in and loans to CUSOs is considerably less than the annual corporate stabilization assessments in any of the last three years. Each credit union's CUSO investment risk is less than 1% of its assets. NCUA already has the ability to examine the books and records of CUSOs and exercise full leverage over the credit union owners to resolve any safety and soundness issues. NCUA cannot make the case that CUSOs had anything to do with the financial difficulties in the credit union industry.

NCUA's two reasons for imposing regulatory authority over all CUSOs are inadequate to justify new regulation. NCUA desires parity with banks' regulatory authority over bank operating subsidiaries yet there is no evidence that the banks' regulatory authority over bank operating subsidiaries mitigated bank losses in the economic crisis. 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 are estimated to constitute less than 1% of total CUSOs.

The additional costs of the proposed CUSO rule in staffing and operational budget of NCUA is an unjustified and unnecessary expense the industry will have to bear, considering NCUA may have to retain subject matter experts in the various types of business in which CUSOs may be engaged.

There are terms in the proposal which are in need of significant clarification. What is meant by a subsidiary? Does a CUSO have to have controlling interest in a company or does a 1% ownership in a company make the company a subsidiary?

NCUA will curtail the power of credit unions with less than 6% capital to invest in CUSOs if the aggregate cash outlay to a CUSO exceeds the CUSO investment limitation on a cumulative basis. How retroactive does the cumulative calculation go? How will investments in other CUSOs figure in to the analysis?

What is the procedure to obtain NCUA approval to make additional investments? What are the standards of review that NCUA will use? Is there a time period in which NCUA must respond to a request or can the request go unanswered?

Many very successful CUSOs which contribute significant savings and income to credit unions do not have a sizable capital structure or generate income. Operational CUSOs are designed to save the credit union's operating costs and not to generate income. Financial service CUSOs are often formed solely for marketing or license purposes and income flows from a third party vendor directly to the credit unions. If NCUA is to review CUSOs based

solely on balance sheets and income statements, there are questions which must be addressed. Such issues as how does NCUA expect to see the value of CUSOs to credit unions or analyze risk solely through a balance sheet or income statement? What will be the NCUA's standards of review for CUSO success? Does NCUA intend to shut down a CUSO that does not have a large balance sheet or income statement regardless of the positive financial or service impact the CUSO has for its credit union owners?

We ask NCUA to withdraw the proposed Amendment.

Very truly yours,

Steven M. Dunn
CUSO Chairman

cc. The Honorable Debbie Matz, Chairman
The Honorable Michael Fryzel, Board Member
The Honorable Gigi Hyland, Board Member