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September 15, 2011

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

Dear Ms. Rupp:

ProDraft Services, Inc. (ProDraft) appreciates the opportunity to comment on the National Credit Union Administration (NCUA) proposed regulation for credit union service organizations (CUSOs).

ProDraft was formed in April 2009 by Midwest Corporate FCU and is now owned by 35 credit unions in North Dakota and one credit union in South Dakota. Midwest Corporate FCU no longer has any ownership interest in ProDraft. ProDraft provides service to credit unions throughout the continental United States.

Prior to incorporating in 2009, ProDraft provided item processing services to credit unions since 1987, first as a service of the North Dakota Credit Union League, and then beginning in March 2008 as a service of Midwest Corporate FCU.

ProDraft primarily provides item processing solutions to credit unions. However, in 2010, in response to credit unions seeking an alternative service provider to corporate credit unions, ProDraft began offering a correspondent banking service solution to credit unions with Fifth Third Bank (Cincinnati, OH) providing these services under pricing from ProDraft.

ProDraft generally opposes the adoption of the proposed amendments to 12 CFR Part 712 (NCUA's Rules and Regulations regarding natural-person CUSOs).

Overall, ProDraft encourages the NCUA to withdraw the proposed amendments to 12 CFR Part 712 (NCUA's Rules and Regulations regarding natural-person CUSOs). We offer the following summary of our reasons for this position:

1. Investments in, and loans to, CUSOs by credit unions altogether only represent 22 basis points of those credit unions assets. Given this fact, CUSOs do not financially pose any systemic risk to the credit union system that would justify more regulatory burdens.
2. NCUA does not have the authority to regulate vendors of credit unions and should not attempt to circumvent this lack of authority through the relationship of a CUSO with its credit union owners or lenders.
3. The reporting requirements will disadvantage CUSOs in the marketplace by increasing operating costs of reporting and making public information about customer relationships and services it provides that non-CUSO competitors do not have to disclose.
4. The proposed new reporting requirements will not help in the true determination of system risk, if there were any, since the NCUA cannot make any assessment of non-CUSO entities providing the same services and that would in theory create a similar risk to credit unions.
5. The proposed new reporting requirements will not give the NCUA a better overall risk assessment of the credit union system since the investments in and loans to CUSOs represent such a small part of any credit union's balance sheet.
6. NCUA's current regulations for natural-person credit unions already require credit unions that are "...less than adequately capitalized ..." to seek NCUA approval prior to making additional investments in or loans to a CUSO, thereby, mitigating risks to the system.

The current limitations on credit unions to invest in, or lend to, a CUSO already provide sufficient safeguards to limit any "systemic risk" from any one or more CUSO failures. Federal credit unions are limited in aggregate to one percent of its paid-in and unimpaired capital and surplus, and another one percent of its paid-in and unimpaired capital and surplus. Then to further mitigate risks, when a federal credit union's aggregate loans or investments in CUSOs exceeds one percent of its paid-in and unimpaired capital and surplus, NCUA approval is needed. By any measure, this limitation should be sufficient to address safety and soundness concerns related to investing in, or lending to, a CUSO.

With regard risks posed by Federally Insured State Credit Unions (FISCUs), it is ProDraft's belief that most, if not all, states that issue credit union charters either have regulations more restrictive than the NCUA or they defer to NCUA's requirements. Given this, there appears to be no need to make material changes in the current regulations as it relates to FISCUs.

CUSOs often provide services not permitted by law or regulation for a credit union to provide directly; or for services to be provided more economically; or to protect the investing entities from a legal standpoint. NCUA's current ability to determine the appropriateness of certain activities and services a CUSO can engage in further leads to less systemic risk.

The new reporting requirements as stated in the proposed 12 CFR Part 712 § 712.3(d)(4) will increase costs to both CUSOs and the NCUA without a significant benefit in analyzing risks to the credit union system. Therefore, ProDraft opposes it and encourages the NCUA to strike this from any final regulation amendment. However, should the NCUA decide to implement this section of the proposed amendment, ProDraft encourages the NCUA to omit the requirement for "a customer list", or at least to exclude non-credit union customers. We understand the desire for a regulator to be aware of credit unions under its jurisdiction utilizing a particular CUSO, however, service to non-credit union entities, or real people, seems to be unnecessary under any circumstance. In addition, if a list of services is to be provided, we are concerned as to the detailed nature of such a

list and the interpretation of the category of services. If a list of services remains in any final regulation adopted, we encourage the NCUA to specifically limit the listing to those services/categories listed in 12 CFR Part 712 § 712.5, with any NCUA individually approved service or activity being noted separately. We would also encourage a clarification in any listing provided as to which services are actually provided directly by the CUSO and which are provided through the CUSO by another vendor. This last point is important since the risk to a credit union for providing such a service is not necessarily dependent on the reporting CUSO, but rather, the entity actually providing the service.

Thank you again for this opportunity to comment on the proposed regulation. We again urge the NCUA to withdraw this proposed regulation. However, if the NCUA does adopt amendments to the regulation, we urge the NCUA to take the time necessary to insure that the proposed regulation in its final form will only require the minimum reporting necessary by CUSOs and that it will in fact have value in assuring the safety and soundness of the credit union system. We also caution the NCUA to not create authority not intended by Congress to be given to the NCUA.

If you have any questions about our comments or recommendations, please contact me at (701) 250-3978 or via e-mail at [doug@prodraftservices.org](mailto:doug@prodraftservices.org).

Sincerely,

A handwritten signature in black ink that reads "Douglas C. Wolf". The signature is written in a cursive style with a large, sweeping initial "D".

Douglas C. Wolf  
Vice President

Copy: ProDraft Services, Inc. Board of Directors  
Chad Bartosh, President, ProDraft Services, Inc.