Financial Services
Advice for Life

P. O. Box 2945, Phoenix, AZ 85062-2945

September 16, 2011

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

Re: Proposed Amendments to the NCUA CUSO Regulations (12CFR Parts 712 and 741)

Dear Ms. Rupp:

As the Chief Executive Officer of Desert Schools Financial Services, L.L.C.; a wholly owned subsidiary of Desert Schools Federal Credit Union located in Phoenix, Arizona, I appreciate the opportunity to comment on the National Credit Union Administration's (NCUA's) proposal to expand regulatory requirements for credit union service organizations (CUSOs). NCUA's proposed amendments to the current CUSO regulations raise significant concerns for this CUSO, our credit union owner and the small credit union that we serve and we oppose the above mentioned amendments.

If the expectation of a credit union is to successfully compete with other financial institutions to be their members' primary financial institution, a credit union must provide a full array of financial products and services. By offering more products and services, the credit union – CUSO combination permits many opportunities to innovate, collaborate, compete, cross-sell and generate additional efficiencies and revenue in order to obtain more of the financial business of Desert Schools' members.

Through our CUSO, Desert Schools members have access to objective and independent investment advice through our third party network agreement with LPL Financial. Desert Schools members have invested more than 250 million dollars in a broad range of investment products. In addition, members have the opportunity to have their estate planning documents (Wills and Revocable Living Trusts) prepared under our Certified Legal Document Preparation (CLDP) program which has been certified by the Arizona Supreme Court (CLDP 81024). The CLDP program is an innovative approach that will drive more than $1.2 million in income to our CUSO in 2011. Members have access to a broad range of insurance products ranging from individual health, dental, Medicare coverage and Medicare supplemental insurance, long-term care insurance, life and disability insurance, auto, homeowners, renters and excess liability coverage. Group insurance products are available to small business owners. A recent profitability study of Desert Schools members validates that the more CUSO services a member household utilizes, the more income is realized directly by the credit union itself.

The income derived from these activities is reported on the consolidated 5300 report filed by Desert Schools each quarter using the equity method. I would like to highlight the fact that during the first eight months of this year, not only has the CUSO paid all of its own operational expenses we have paid Desert Schools $232,400 in intercompany reimbursement and declared cash dividends payable to Desert Schools in the amount of $401,149 (through 8/31/2011). These cash reimbursements are not insignificant and further regulation will erode the cash amounts that we are able to contribute back to Desert Schools.

It is my belief that NUCA's regulation of CUSOs will stifle the ability of CUSOs to innovate and provide efficient collaborative solutions that will help sustain the credit union movement. Regulatory considerations often replace the value proposition when a credit union makes the decision as to whether to invest in a CUSO without any recognizable regulatory value beyond what already exists especially for CUSOs. Our CUSO is already regulated by other financial services regulators such as the Securities and Exchange Commission, the Arizona Department of Insurance, the Arizona Corporate Commission, and the Arizona Supreme Court. There is also oversight through our network agreement with LPL Financial by FINRA. Our CUSO does not need any additional regulatory burden.

NCUA's legal authority to approve the proposed regulatory changes is questionable. The proposal would require our CUSO to provide financial information directly to the NCUA which the NCUA will retain and evaluate. This looks and feels like the direct regulation of our CUSO which has not been authorized by Congress. You already have the ability to examine the books and records of our CUSO and exercise full leverage over Desert Schools to resolve any safety and soundness issues.

Further NCUA is suggesting that our CUSO provide client lists. Our clients have the reasonable expectation that their financial information is protected under current privacy laws and the NCUA should not have a right to this information. We already have stringent regulatory requirements issued by Congress to safeguard and protect personal client information. The NCUA has proposed that CUSOs should submit their business plans, balance sheets, income statements and other corporate documentation directly to the NCUA. In gathering and holding this information, NCUA puts our CUSO at a competitive disadvantage by exposing private trade secrets that are protected under specific Arizona Trade Secret Laws to public dissemination through FOIA requests.

Our CUSO provides growing income streams at a time when fee income and net interest income are under pressure for our parent credit union. I serve as a director on the Board of Directors for the Product & Research Organization for Credit Unions (PROCU) a trade association and I am not aware of any evidence that our CUSO (or any other financial services CUSO) poses <u>any</u> form of systemic risk to the parent credit union. Industry statistics indicate that less that 22 bps of industry assets are invested in or loaned to CUSOs. It is disingenuous that this can be represented as "systemic risk" to the industry, especially when the total aggregate invested in or loaned to a CUSO is considerably less than the annual corporate stabilization assessments.

CUSOs have not been part of the financial difficulties in the credit union industry. The books and records of a wholly owned subsidiary CUSO such as ours are audited on an annual basis as part of the consolidated financial statement audit by an external independent accounting firm. Any financial issues would be addressed in the management letters by the external audit firm.

The additional costs of the proposed CUSO rule in staffing and the operational budget of NCUA is an unjustified and unnecessary expense the industry would have to bear. If NCUA expects to hire experts in every type of business CUSOs engage in, the costs will be staggering without providing any discernable benefit to CUSOs or their credit union owners.

I urge you to consider that the proposed revisions to the regulations will:

1. Impede the ability of CUSOs to innovate and provide collaborative solutions that will sustain credit unions;
2. Discourage the formation of new CUSOs and inhibit credit unions from investing in existing CUSOs;
3. Not provide any regulatory value beyond what is already in existence, especially for a CUSO such as ours that is already regulated by multiple federal and state bodies.

In closing, our CUSO does not need additional regulation and NCUA's reasons for regulatory authority over CUSOs does not make sound and prudent business sense. Although the NCUA cites substantial loan losses realized by a few CUSOs who engaged in certain business lending activities as the reason for additional regulatory authority; I urge you to reconsider that these regulations would affect <u>**all**</u> CUSOs without any evidence that CUSOs as a whole have caused losses to the credit union industry.

Respectfully submitted,

Becky Nilsen,
Chief Executive Officer