September 15, 2011

Ms. Mary Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-33428

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

Dear Ms. Rupp:

As the President and Chief Executive Officer of Desert Schools Federal Credit Union, 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). Desert Schools is the parent company of a wholly owned subsidiary, Desert Schools Financial Services, L.L.C. located in Phoenix, Arizona. NCUA's proposed amendments to the current CUSO regulations raise significant concerns for our credit union. While I understand NCUA's commitment to safety and soundness, I generally oppose the proposed amendments as I do not believe they enhance these, while they will have a detrimental impact on credit unions and CUSOs.

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 a 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, our members have the opportunity to have their estate planning documents (Wills and Revocable Living Trusts) prepared under our Certified Legal Documentation Preparation (CLDP) program which has been certified by the Arizona Supreme Court (CLDP 81024). The CLDP program is an innovative program that was researched and launched by our CUSO and it will drive more than $1.2 million in income to our CUSO in 2011. Members also 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. In the second quarter we conducted a profitability study of our members and the income derived by each household. This study validates that the more CUSO services our member households utilize, the more profitable those households are to the credit union.

The income derived from our CUSO's activities is already reported on the consolidated 5300 report filed by Desert Schools each quarter using the equity method. During the first eight months of this year, not only has the CUSO paid all of its own operational expenses, Desert Schools received $232,400 in intercompany reimbursement as well as cash dividends in the amount of $401,149 (through 8/31/2011). Total intercompany reimbursements by the CUSO since its formation total more than $2.5 million. These cash reimbursements are not insignificant and further regulation will erode the cash amounts that our CUSO is able to contribute back to Desert Schools. The fact that our CUSO provides growing income streams at a time when fee and net interest income are under pressure enhances our safety and soundness.

Our existing CUSO is already regulated by other financial services regulators such as the Securities and Exchange Commission, the Arizona Department of Insurance, the Arizona Corporation Commission, and the Arizona Supreme Court. There is also oversight through our network agreement with LPL Financial by FINRA. Finally, NCUA already has access to the books and records of our CUSO and the ability to address any safety and soundness concerns with the credit union. There is nothing to be gained by an additional layer of regulation; it will only increase our regulatory burden and associated costs.

Perhaps even more basic is NCUA's questionable legal authority to approve the proposed regulatory changes. In its current form it appears that NCUA is attempting to directly regulate CUSOs, which has not been authorized by Congress. As mentioned above you already have the right to examine the books and records of our CUSO and to address any safety and soundness issues for the credit union. What is the purpose of requiring CUSOs to provide information directly to the NCUA?

Related to this is a concern regarding the resulting increased operational costs for the NCUA. It appears that increased staffing will be required to review documentation submitted by CUSOs. Considering the lack of systemic risks CUSOs pose to the insurance fund (industry statistics indicate that less than 22 bps of industry assets are invested in or loaned to CUSOs) the increased operational cost that will be passed on to credit unions through insurance premiums cannot be justified. I understand that there were a couple of instances where business lending CUSOs were identified as the cause of credit union failures; but believe this broad bush approach affecting all CUSOs is unwise. If the intent is to increase oversight of lending CUSOs specifically, the amendments should be narrowed to that focus.

Although Desert Schools doesn't currently invest in any other CUSOs at this time, I believe the need to reduce expense and/or offer innovative solutions to our members may best be accomplished through the CUSO model in the future. I am concerned that the proposed amendments will stifle the ability of CUSOs to innovate and provide efficient collaborative solutions that will help sustain the credit union movement. Regulatory considerations and the associated costs will certainly have a negative impact on a CUSO's value proposition. I believe this will discourage the formation of new CUSOs as well as inhibit credit unions from investing in existing CUSOs.

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 letter by the external audit firm.

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 as these proposed regulations would affect **all** CUSOs without any evidence that CUSOs as a whole have caused material losses to the credit union industry/insurance fund.

Respectfully submitted,

Susan C. Frank
President/CEO