OSU Federal
Your Community Credit Union®

September 21, 2011

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

Dear Ms. Rupp:

RE: Comments on Proposed Amendments to the NCUA Regulations: CUSOs 12 CFR Parts 712 and 741

The National Credit Union Administration (NCUA) Board has requested comments on a proposed rule to regulate Credit Union Service Organizations (CUSOs). As in the past, OSU Federal Credit Union appreciates the opportunity to review and comment on the proposed rule. As the rule stands, OSU Federal Credit Union opposes several of the provisions and urges NCUA to reconsider approving the proposed rule.

OSU Federal Credit Union has invested in several CUSOs for the last 20 years. These CUSOs have allowed the credit union to extend services to our members such as shared branching and retail investments. If we had not been able to provide these services at a reasonable value, our members would have looked to other financial services providers to meet their needs. In addition to access to products and services at reasonable prices, we have also added to our bottom line by being rewarded for our investment in the ownership of some of these CUSOs.

NCUA cites substantial loan losses realized in certain business lending CUSOs as one of the main reasons to proposed increased rules. As a regulator, it makes sense that NCUA needs to consider whether additional rules are required to address those problems. Any new rule should be firmly based in authority under the Federal Credit Union Act, and should not hinder the competitive or financial environment for the CUSO or credit unions.

Business lending CUSOs are estimated to make up only about 1% of credit union CUSOs. NCUA should be cautious about creating a rule to address this CUSO type when the rule will apply to and impact the financial success and future viability of all the other 99% of credit union CUSOs. In fact, the aggregate amount invested in and loaned to CUSOs is only around 22 basis points of industry assets. It's difficult to see how CUSOs can represent "systemic risk" to the industry. In fact, 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.

The overall risk to an investment in CUSOs by credit unions is already limited to 1% of assets. And, NCUA already has the ability to examine the books and records of CUSOs and exercise full leverage over the

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credit union owners to resolve any safety and soundness issues. It is difficult to understand why additional regulatory burden should be added to the credit union industry.

CUSOs serve as an important tool for credit unions by allowing a more competitive playing field with banks through diversification of products and services, access to income sources outside of the traditional lending process, and the ability to take advantage of economies of scale to improve costs. The ability for credit unions to jointly create a CUSO that provides better service and solutions to credit union members in a more focused and typically more efficient way is critical for this industry to compete in the financial services industry in the future. Any regulation that raises the barrier to creating and sustaining CUSOs hurts the industry.

Access to Information from the CUSO by Regulators

Currently, credit unions investing in or lending to CUSOs must agree to allow NCUA to examine the books and records of the CUSO. The proposal would expand this requirement to impose obligations directly on all CUSOs that credit unions lend to or invest in to prepare quarterly financial statements, to obtain an annual audit, and to provide an annual report to NCUA and state regulators, as appropriate, all in conformance with generally accepted accounting principles (GAAP) or generally accepted auditing standards (GAAS).

Position: OSU Federal Credit Union opposes the requirement that CUSOs provide financial statements directly to NCUA and state regulators on the grounds that this exceeds NCUA's authority. In addition, the imposition of regulatory burdens on CUSOs will create a competitive disadvantage with non-CUSO competitors. In fact, many of the CUSOs are already regulated under other regulators such as SEC or insurance regulators. NCUA's suggested regulation only adds burden and cost without a true need.

NCUA also wants CUSO to submit their business plans, balance sheets, income statements and customer lists. In gathering and holding this information, NCUA puts CUSOs in a competitive disadvantage by exposing private information to public dissemination through Freedom of Information Act 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.

In addition, there are many very successful CUSOs that drive significant savings and income to credit unions but are structured without much capital and do not generate much income. Many CUSOs are designed to allow credit unions the ability save costs either through access to products which can't be sold through the credit union directly, or by economies of scale. For these CUSOs, NCUA's review of the opinion audit or the financial statements may suggest a high level of risk even though there is tremendous value received from the CUSO by its owners.

Tying CUSO Rule Compliance to Conditions for NCUSIF Coverage

Currently, state chartered credit unions can lose their National Credit Union Share Insurance Fund (NCUSIF) coverage if they do not comply with requirements in the CUSO rule regarding providing access to their CUSO's books and records to regulators and requirements to maintain separate corporate identities from their CUSO. The proposal would expand this to make the requirements to provide financial statements and financial audits prepared under GAAP or GAAS also conditions that must be met for credit unions lending in or investing to CUSOs or they risk losing NCUSIF coverage. Other proposed requirements such as those regarding CUSO subsidiaries would also become conditions of NCUSIF coverage. The proposal would make these requirements conditions of NCUSIF coverage for federal as well as state chartered credit unions that lend to or invest in CUSOs.

Position: OSU Federal Credit Union opposes these proposed provisions as punitive and regulatory overkill. Moreover, NCUA does not need to adopt these sanctions in order to enforce regulatory provisions.

For many smaller CUSOs which are already required to be consolidated into the audited financial of the owner credit union, the cost to comply with the proposal would be sizable and would potentially discourage credit unions from seeking cost reductions through CUSOs opportunities.

Limits on Undercapitalized Credit Unions' Participation in CUSOs

Currently, federal credit unions that are less than adequately capitalized may not invest in a CUSO if the investment would require a total cash outlay of more than 1% of the credit union's paid-in and unimpaired capital and surplus, unless the credit union receives prior written approval from its NCUA regional director. The proposal would apply this general requirement to undercapitalized state chartered credit unions, which would have to obtain approval from their state regulator and notify NCUA of the request for approval. The limit on the amount of the investment would be determined by state law; if such limits do not exist under a state credit union's state laws, the 1% limit on undercapitalized federal credit unions would apply.

Position: Because federal credit unions are already subject to it, the credit union does not oppose this requirement.

The credit union would like to see NCUA reevaluate the proposed rule.

Sincerely,

Bonnie Humphrey-Anderson

Bonnie Humphrey-Anderson
Executive Vice President/Chief Financial Officer