

September 26, 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 the State Employees Credit Union of Maryland (SECU) respectively opposes the NCUA proposal to amend the regulations for credit union service organizations (CUSOs), 12 CFR Parts 712 and 741.

SECU is a \$2.2 billion state chartered credit union based in Maryland and part owner of five CUSOs. The CUSOs provide technology, loan support, electronic transaction, business lending and investment services. These CUSOs allow SECU to collaborate with other credit unions, to gain efficiencies of scale, to share intellectual capital and to more effectively serve members. SECU's participation in CUSO's saves our members millions of dollars on an annual basis and allows us to give back more effectively to our membership.

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

By imposing additional 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 puts CUSO's in a competitive disadvantage by exposing private business secrets to public dissemination through FOIA requests. CUSO's are the collaborative arm of credit unions trying to solve operational and financial issues. If passed, this proposal would narrow the gap between credit unions and banks and greatly reduce the credit union industry's major competitive advantage. This business model should be preserved and not subject to examiner and regulatory scrutiny.

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. After all, the aggregate amount invested in and loaned to CUSOs is only 22 bps of industry assets, less than what is being assessed to credit unions this year for the Temporary Corporate Credit Union Stabilization Fund. This does not appear to be “systemic risk” to the industry. In addition, each credit union’s CUSO investment risk is less than 1% of total 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’s information disclosure and regulation of CUSOs will stifle the ability of CUSOs to innovate and provide collaborative solutions. Regulatory considerations will replace business value factors in the decision to invest in CUSOs. The disclosures will not provide any recognizable value beyond what already exists. Many successful CUSOs that drive significant savings and income to credit unions do not have a sizable capital structure or generate income. Operational CUSOs are designed to save on the credit union’s operating costs, not to make money. Financial CUSOs are often formed for marketing or licensing purposes and income flows from a third party vendor directly to the credit union.

How does the NCUA expect to see the value of CUSOs to credit unions or analyze risk solely through a balance sheet or income statement? If the NCUA is to review CUSOs solely on balance sheet and income statements, does the NCUA intend to shut down CUSOs that do not have large balance sheets and income statements regardless of the positive financial or service impact the CUSO has for its credit union owners?

This proposal will have a detrimental impact on CUSOs and credit unions that invest in them. Will all due respect, we ask the NCUA to withdraw the proposed Amendment in its entirety. On behalf of our 225,000 members who will be adversely affected by this proposal, thank you for allowing me to respond.

Very truly yours,

Steven L. Arbaugh
CFO, SECU Maryland

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