



MASSACHUSETTS CREDIT UNION LEAGUE, INC.

September 26, 2011

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

**MA, NH, RI Comments on Proposed Credit Union Service Organization Rule  
12 C.F.R. Parts 712 and 741**

**BY EMAIL ONLY**

Dear Secretary Rupp:

On behalf of the member credit unions of the Massachusetts Credit Union League, Inc., the New Hampshire Credit Union League and the Credit Union Association of Rhode Island (“Leagues”), please accept this letter of comment to amend the National Credit Union Administration’s (“NCUA”) rules relative to credit union service organizations (“CUSOs”). Collectively, the Leagues are the state trade associations, serving over 200 credit unions who further serve approximately 2.6 million consumer members, and operating as part of the Credit Union National Association.

The Leagues appreciate the opportunity to provide input on such an important topic. It is without question that CUSOs are a vital part of the credit union system and critical to the future of the industry. Without the existence of CUSOs at the federal level, state chartered credit unions in Massachusetts, New Hampshire and Rhode Island would not have similar authorities at the local level. 209 C.M.R. 50.07(Massachusetts); R.I.G.L. 19-5-15(2)(vi)(Rhode Island); N.H.R.S.A. 394-B:52-a(New Hampshire). In our marketplace, such alternative corporate structures, offering business lending, student loans, mortgage loans, shared branches, indirect consumer loans, automated teller machines, insurance and investments and other operationally efficient products and services, reflect the cooperative innovation and partnerships of credit unions and permit the delivery of diverse financial services while limiting liability to a credit union.

The Leagues continue to support NCUA’s ongoing review of existing rules, support prudent safety and soundness regulatory standards, and support attempts to clarify rules but not to increase the regulatory burden. The requirement in the proposed rule to mandate advance regulatory approval for undercapitalized, federally-insured credit unions to make new investments in CUSOs is an example

and is supported. In addition, requirements that relate to changing the term “federal credit union” to “federally-insured credit union” are also supported as they are already applicable.

Overall, however, the Leagues remain challenged by the scope, focus and details of the proposed CUSO rule and therefore oppose it in its current form. As a result, the Leagues offer the following comments on the proposed CUSO rule:

### **Scope and Focus of the Proposed Rule**

The Leagues acknowledge that the NCUA has proposed the CUSO rule based upon regulatory concerns. However, the Leagues do not agree that the problems of specific credit unions justify undermining CUSOs for all credit unions who use utilize them prudently. Rather than promulgating broad provisions as the proposal seeks to do, the Leagues urge the NCUA to address case-by case problems through a more targeted approach. By employing a much more narrowly focused plan designed to address any problem areas quickly, well-managed credit unions and CUSOs could continue operating without interruption providing important benefits to members. Finally, the provisions appear to be drafted without recognizing the distinction between wholly-owned and majority-owned CUSOs.

### **Requirements for Share Insurance**

The value of federal share insurance is well settled in Massachusetts, New Hampshire and Rhode Island. However, tying CUSO rule compliance to conditions for National Credit Union Share Insurance Fund coverage of members’ accounts is strongly opposed. The Leagues believe that such regulatory action is severe and extraordinary and may be triggered for simple failure to provide a report. Compliance by credit unions can be achieved using alternative, less punitive, supervisory methods.

### **Additional Documentary Requirements**

The proposed rule seeks to require that CUSOs submit their business plans, balance sheets, income statements and customer lists to NCUA making them a public record. The Leagues suggest that not only does this requirement subject credit union CUSOs to provisions that place them at a competitive disadvantage as compared to non-CUSO counterparts, but may also compromise intellectual property and business strategies which could allow the public to exploit them if they are not classified within certain public disclosure exemptions. Furthermore, due to the not-for-profit cooperative structure of credit unions and their unique relationship with CUSOs who are charged with maximizing value to credit unions, CUSO balance sheets and income statements often reflect this relationship. The Leagues question regulatory standards that may result in a misleading understanding of the financial stability of a CUSO.

**Regulatory Burden**

The Leagues remain concerned that the regulatory burden analysis, such as “one time, one hour levels,” is underestimated. The Leagues question whether it was potentially modeled upon the impact exclusively to wholly-owned CUSOs. The Leagues suggest that proposed rule requirements entail much more than changing a few documents. For existing CUSOs, amendments to seasoned agreements will require, at a minimum, clarification by a credit union of the authority to make the required changes, hours of documentary review, accessing information from third parties, internal Board of Directors and staff discussion, and a legal review. In some instances, an entirely new legal opinion relative to limiting a credit union’s potential exposure of its loan to or investment in a CUSO to an amount not greater than the amount invested may be necessary. Such additional costs may adversely impact current savings experienced by sound credit union and CUSO relationships.

The Leagues also encourage NCUA to consider additional costs to CUSOs resulting from the impact of the proposed rule:

- Costs related to an annual audit;
- Costs to prepare periodic reports;
- Costs related to software that may need to be developed or purchased for reporting purposes;
- Costs related to appropriate resources for regulatory exams;
- Costs, perhaps per diem, of examinations; and
- Costs to create systems in place to accumulate, manage and retain required information.

Finally, the Leagues suggest that many of the tools currently available to NCUA can be used to address issues underlying the proposed rule. Amongst these existing tools are rigorous due diligence requirements imposed on credit unions. Another option may be the consideration of requirements that CUSOs report to credit unions certain data which could in turn be accessible by and provide more information to regulators.

Thank you for your consideration of these views. The Leagues remain available to address any questions or concerns at your convenience.

Sincerely,



Daniel F. Egan, Jr.  
President

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