



September 26, 2011

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

Dear Ms. Rupp:

Re: Comments to the Proposed Amendments to the NCUA Regulations re: CUSOs 12 CFR Parts 712 and 741

On behalf of Wescom Central Credit Union, I wanted to express our concern over NCUA's proposed revisions to the CUSO Regulation (12 CFR Parts 712 and 741). We certainly understand and support the NCUA's goal to ensure credit unions are being run in a safe and sound manner. However, we do not agree that the proposed revisions help the NCUA to meet that goal.

Wescom has owned one or more CUSO's for nearly 30 years and currently owns four operating CUSOs and a holding company CUSO. The operating CUSO's include the following:

- Wescom Resources Group, LLC (WRG) is a technology CUSO that provides a wide range of products and services to credit unions including online banking, online bill payment, ATM deposit processing, remote deposit services, service bureau, CRM solutions and mobile banking services.
- Wescom Financial Services, LLC (WFS) is a licensed broker dealer established to provide value added financial services that compliment traditional deposit and loan products available to members of Wescom and other credit unions. WFS provides financial planning, mutual funds, annuities, IRA's, managed accounts, trust services and life insurance.
- Wescom Insurance Services, LLC (WIS) is a full service regional insurance agency of operation in Southern California but licensed in 9 other states throughout the nation focused primarily on personal lines of property and casualty insurance.
- CUSO Mortgage, Inc. (CMI) is a full-service mortgage banking company that serves credit unions throughout the United States with comprehensive mortgage outsourcing solutions. CMI is an approved FNMA lender and servicer as well as an FHA lender.

Collectively, these CUSOs serve Wescom members as well as the members of 295 other credit unions throughout the country. Our CUSO's generate \$25 million in annual revenue for the credit union, which is 1.0% of credit union assets. These CUSO's not only provide a critical source of capital but also provide valuable services to Wescom, while enabling Wescom and our credit union partners to enjoy economies of scale that would not otherwise be available.

Without CUSO's, Wescom and its credit union clients would have to compete at a significant disadvantage with banks and other financial institutions. The costs for delivering and supporting services would increase and the breadth of products and services available would decrease.

CUSO's have been particularly important in recent years. Wescom, like many credit unions, experienced significant losses due to the recession and market conditions. As a result, Wescom's capital ratio fell below the 6.0% threshold in 2009. Our losses were not attributable to CUSO activities. In fact, with help from the capital generated from our CUSO's, Wescom is on track to return to a capital ratio of over 6.0% this year. As Wescom has continued a deleveraging strategy to boost the capital ratio, off-balance sheet income from our CUSO's has been a key contributor to our turnaround. With lower loan balances and lower interest rate spreads, the non-interest income generated through the CUSO's has been a major factor.

Wescom's CUSO's are subject to a growing set of regulations and the ongoing oversight of other agencies. The proposed revisions in many cases duplicate existing requirements. WFS, for example, is regulated by the SEC and FINRA. CMI is an approved FNMA mortgage originator and servicer and an FHA lender subject to examinations by FNMA and HUD. WIS is regulated by the California Department of Insurance. Both WFS and CMI undergo annual audits by an independent certified accounting firm. The audited financial statements and other CUSO financial reports are already available to the NCUA and our state regulator the California DFI.

Our CUSO's are under an enormous amount of regulatory scrutiny. The increase in regulatory requirements for WFS and CMI has been daunting. The focus on consumer protection and disclosure has hit these CUSO's particularly hard at both the federal and state levels. Additional reporting requirements and regulatory oversight will add more costs, without improving safety and soundness.

We understand the tremendous risk that can be associated with certain types of CUSO's, particularly those involved with commercial and/or business lending. Wescom does not offer commercial or business loans through the credit union or any CUSO's. A "one size fits all" set of reporting requirements does not make sense. Any additional requirements for CUSO's should be aligned with their businesses and risks, taking into consideration the existing oversight of other regulatory agencies to avoid costly redundancies and potential conflicts.

Another important consideration is the added costs that will be necessary for the NCUA to bring on the required expertise. The breadth of knowledge and experience needed to properly examine the wide range of CUSO businesses would require significant increases in people and resources. In many cases, other regulatory entities that oversee our CUSO's already have this expertise and experience. The additional costs of the proposed CUSO rule in staffing and

operational budget of NCUA is an unjustified and unnecessary expense the industry will have to bear.

Financial reports do not provide the information necessary to accurately evaluate the risks or contributions of CUSO's. It can be extremely difficult to separate high performing CUSO's from those detracting from credit union performance. Apples-to-apples comparisons between CUSO's are extremely difficult to make. Common metrics such as revenue, growth, profit margins, and return on investment can be deceiving because CUSO's have significantly different business models. For example, revenue reported for some insurance CUSO's can include AD&D insurance, forced placed (CPI) insurance, GAP, MBI and commercial lines of property and casualty insurance. Revenue reported for Wescom's insurance CUSO, WIS, does not include these product lines. Furthermore, some credit unions allocate a portion of overhead to CUSO's such as facilities, systems, administrative support and other expenses, while others do not. CUSO's can be supported by leased employees, incurring a fraction of their compensation expense, while others have dedicated full time employees. Some CUSO's are structured to add value by saving money for their credit union owners rather than generate revenue and profit. The wide range of structures makes it extremely difficult to assess the true economic value provided by CUSO's through a review of financial statements.

The proposal would also restrict some credit unions from investing in CUSOs. The proposed limitation would depend on the aggregate cash outlay to a CUSO. It is unclear what is meant by "aggregate". Wescom has operated WFS for many years, and has received millions in capital from WFS through member distributions (the equivalent of dividends for corporations). Would distributions paid by WFS offset investments in other CUSO's? It is also unclear how far back in history the "aggregate" calculation would go. WFS and its predecessor CUSO's have operated since the 1980's. Both WFS and CMI must maintain minimum capital requirements. Restrictions on investments from the credit union could force these CUSO's to cease operations. Limitations on investments in CUSO's will potentially require CUSO's to seek more expensive alternatives for capital and financing outside of the credit union movement.

CUSOs have helped Wescom 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. The 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. We do not agree that the proposed changes to CUSO regulations are justified or appropriate and ask the NCUA to withdraw the proposed Amendment.

Sincerely,



Keith Pipes
Executive Vice President

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