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Mary Rupp, Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexander, 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:

NCUA has made it clear that it has already concluded that CUSOs pose a systematic risk to credit unions and desires to seek Congressional approval for vendor authority leading to the direct regulation of CUSOs. NCUA wants CUSOs to send balance sheets and income statements that NCUA will use to bolster its argument for regulatory authority.

Before we walk down that path, I urge NCUA to pause and reconsider. Under the current regulatory framework, CUSOs have enabled credit unions to bring scale and additional expertise to operational services and tap into fertile sources of non-interest income. The savings and additional income have added millions of dollars to the credit union industry's bottom line and have kept many credit unions solvent. Credit unions have been able to experiment with new and innovative solutions to old problems. For every CUSO that has been involved with a material loss, there are scores and scores of CUSOs that are making a positive difference. CUSOs have been a smashing success because they have the freedom to innovate. The freedom to develop solutions in a non-regulated environment is an advantage that credit unions have over banks and not a problem to be corrected.

What do credit unions risk by having this regulation free innovation zone...only 22 basis points of investment industry wide and up to 2% of assets per credit union. There is not a lot of systemic risk in those numbers.

NCUA references the business lending CUSOs as a cause of a couple of credit union failures. The referenced CUSOs were controlled by and the lending decisions were driven by the controlling credit unions, not the CUSOs. However if lending CUSOs somehow pose a special risk, then let us deal with that issue. Perhaps credit unions would have to report on their CUSO's business lending activity and give notice to NCUA when the credit union makes investments in or loans to the CUSO. That would give NCUA the early warning signs it is looking for without trying to cure a problem that does not exist in the rest of the CUSO world. I estimate that CUSOs that make business loans constitute less than 1% of all CUSOs.

By design, most CUSOs do not have impressive balance sheets or income statements. Operational CUSOs are near breakeven operations as credit unions realize value through reduction of their internal costs. Some financial services CUSOs have agreements with third party financial service providers that pay the non-interest income directly to the credit unions. So if NCUA is measuring the viability and value of CUSOs based on balance sheets and income statements, NCUA is missing the point. It is like deciding who should make the track team based solely on an athlete's height and weight.

It is the mission of NCUA to insure that credit unions are financially stable. I know that the regulatory mindset is to obtain as much authority as possible so the regulator can control any situation that arises. I submit that sometimes a regulatory body must exercise restraint in order to fulfill its mission. This is such a time. Credit unions need more net income to survive. If NCUA reduces the ability of credit unions to increase their net income through CUSOs, credit unions will be compelled to chase higher yields through riskier loans which is the very behavior that NCUA is trying to discourage.

The benefits that CUSOs bring to the industry will not prosper under regulation. Regulation will stifle innovation and discourage credit unions from forming CUSOs. Efforts to create a business model that is adaptable to change will be discouraged or forbidden by a fully regulated environment, especially if the regulatory mindset is rooted in a business model that worked in the last century and not this one. If NCUA does not tolerate and even encourage credit unions to work in a more collaborative model, credit unions face an uncertain future. Just as credit unions must change their strategy to adapt to the times, so must the regulator.

I am all for NCUA learning more about CUSOs, provided the information is designed to accurately inform NCUA about both the benefits and risks of CUSOs and the information is not for the pre-determined purpose of regulating CUSOs. If NCUA was objective in its fact finding, I have no doubt that the conclusion will be that the systemic risk is not too many CUSOs but too few CUSOs.

Very truly yours,

Guy A. Messick

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