

August 12, 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:

While not opposed to the oversight by NCUA of CUSOs in general, I am concerned about putting regulations in place that could have some unintended consequences. Given that the NCUA currently has authority to inspect the financial statements of CUSOs in which federally insured credit unions (FICUs) have invested or to whom they have made loans, there doesn't appear to be any additional value to be gained by new regulations. In fact, I can find no additional information requests in the proposed rule that are not currently ascertainable under the current rules requiring full access to books and records of CUSOs. Rather, the cost of regulation would increase not only from the perspective of the CUSO but also from the perspective of the NCUA, leading eventually to increased costs to credit unions. For our CUSO, the cost of an annual audit is estimated to be approximately \$25,000. Especially in the current economic environment, it seems prudent to look at a **cost-benefit analysis** of the proposed changes.

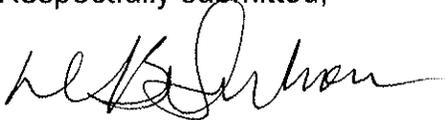
Secondly, I am concerned about the potential negative impact on CUSOs who may be thinly capitalized because of the 1% limitations that are currently in place per §712.2. It appears unfair on the face to limit investments and loans and then add regulatory burdens that increase the hurdles to maintain sustainability. If the NCUA is intent on continuing this regulatory path, I propose that they also consider increasing the current cap on loans and investments – perhaps to 5%. Because this is an aggregate investment and loan limit, the existing cap is easily reached, thus **constraining growth** for the CUSOs – forcing them to look outside the industry for funding and potentially increasing risk.

Additionally, these proposed regulatory hurdles on top of the investment and loan limits would **hinder collaboration** among credit unions and CUSOs, which has been a hallmark of our industry and is no small part of our cooperative roots. CUSOs have been innovative in making products and services available to credit unions that either could not have provided the product or service otherwise or would have had to incur substantial cost to do so.

It appears that the basis of these proposed rules is to address potential systemic risk. I submit that the credit unions themselves are better able to manage the risks of these CUSOs without direct intervention by NCUA. CUSOs are more akin to small businesses and as such have different goals and challenges depending on the products/ services they offer. Since the complete elimination of risk is not achievable, managing any associated risks seems best left to those who understand the specific businesses – that is, the CUSO and its owners. It doesn't make sense that NCUA would now need to develop expertise in regulating every type of small business. In fact, this seems a risky position for NCUA. Even with member business lending, there was a steep learning curve for regulators to be able to adequately examine this aspect of credit unions. Certainly, NCUA has responsibility for making sure credit unions are managing their financial institutions safely and soundly, which requires they have a view into any subsidiary activity. However, the management of these small businesses (CUSOs) and the associated risks needs specific expertise. Further, I suggest that the proposed rules are major for the purposes of the Small Business Regulatory Enforcement Fairness Act and as such should be submitted for congressional review.

In summary, it is my opinion that NCUA has all the tools necessary to understand the impact that any CUSO investment has on a credit union. In fact, NCUA currently has access to all the due diligence performed by any credit union and can, therefore, find out any relevant information through the existing process. To go beyond the current regulations and attempt direct regulation of CUSOs will be a financial burden to all parties with no real benefit to the credit union system. Further, because CUSOs are more like small businesses, it doesn't seem plausible for NCUA to develop sufficient expertise in all these different types of business to be able to regulate effectively. In fact, the added burden would likely result in credit unions avoiding CUSOs and serve to limit collaboration and innovation in the industry they are created to serve. In addition to growth and innovation, CUSOs provide income opportunities beyond traditional interest income to credit unions as well as contribute to the broader economy through job creation. The overall impact to the credit union industry would be negative if CUSOs were to be strangled by regulation.

Respectfully submitted,



Deborah Isenhour
President

CC: Maurice Smith, LGFCU President and LGFCU Financial Partners Board Chairman
John Radebaugh, NCCUL President
Bill Cheney, CUNA President
Jack Antonini, NACUSO President
Fred Becker, NAFCU President