



September 7, 2011

Mary Rupp, Secretary of the Board  
National Credit Union Administration  
1775 Duke Street  
Alexandria, VA 22314-3428  
Email: [regcomments@ncua.gov](mailto: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 First New England Federal Credit Union opposes the above referenced Amendment to the NCUA Regulations regarding CUSOs for the following reasons.

NCUA's information disclosure and regulation of CUSOs will stifle the ability of CUSOs like ours to innovate and provide collaborative solutions that will sustain credit unions, as regulatory considerations will often dominate the decision to invest in a CUSO and not provide any recognizable regulatory value beyond what already exists. If it were in place, our credit union would not have been able to start our wholly-owned mortgage CUSO which has turned into a successful core part of our ongoing strategic plans.

First New England FCU owns Mortgage Markets CUSO LLC, has 20 other credit union partners, and uses the mortgage services of this and other CUSOs that provide multiple services to members. We estimate that our credit union has earned over \$1,000,000 from the CUSO's services. We estimate that the CUSO has saved our credit union over \$500,000 in operational costs and provided a better level of service.

CUSOs help credit unions and there is no evidence that CUSOs pose a systematic risk to credit unions that requires regulatory change. The aggregate amount invested in and loaned to CUSOs is only 22 bps of industry assets. It's inconceivable that this truly can represent "systemic risk" to the industry, especially when the total aggregate investment in CUSOs and loans to CUSOs is considerably less than the annual corporate stabilization assessments in any of the last three years. Each credit union's CUSO investment risk is less than 1% of its assets.

In fact 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 recent actions suggest that the rather than new regulatory authority over all CUSOs, NCUA really needs better management, training, and supervision in the risk management function. If NCUA had properly assessed the risk in large business lending operations at the credit union level, they would have had legitimate safety and soundness concerns and the authority needed to inspect CUSO operations that have since caused losses to the insurance fund. The new authority appears to be sought to cover poor examination performance in these high profile cases covered in recent trade articles.

616 Burnside Avenue  
P.O. Box 280167  
East Hartford, Ct 06128-0167

NCUA's legal authority to approve the proposed regulatory changes is suspect. NCUA does not have nor should it have regulatory authority over CUSOs yet this proposal requires CUSOs to provide financial information directly to NCUA which NCUA will retain and evaluate. This is a level of vendor authority over our operations that would put a chilling effect on our operations. If it had been in place at our CUSOs formation, it would likely have caused us to not undertake the risks involved in opening an innovative new business entity overseen by a regulator that did not have a detailed understanding of the business.

By imposing regulatory burdens on CUSOs, they 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 CUSOs in a competitive disadvantage by exposing private business secrets to public dissemination through FOIA requests. CUSOs are the collaborative arm of credit unions trying to solve operational and financial issues for credit unions and credit unions should not have unnecessary hurdles placed in their path as they seek solutions to their sustainability.

If NCUA is to review CUSOs based solely on balance sheets and income statements, there are questions that must be answered. How does NCUA expect to see the value of CUSOs to credit unions or analyze risk solely through a balance sheet or income statement? What will be the NCUA's standards of review for CUSO success? Does NCUA intend to shut down a CUSO that does not have a large balance sheet or income statement regardless of the positive financial or service impact the CUSO has for its credit union owners?

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. If NCUA expects to hire experts in every type of business CUSOs engage in, the costs will be staggering.

Many very 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 the credit union's operating costs and not to make money. Financial service CUSOs are often formed solely for marketing or license purposes and income flows from a third party vendor directly to the credit unions.

In conclusion, we ask the NCUA to withdraw the proposed Amendment.

Very truly yours,



Michael Palladino  
President, First New England FCU /  
Chairman, Mortgage Markets CUSO LLC

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