September 19, 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,

NCUA's CUSO proposal risks reverse effects.

NCUA regulates credit unions. Credit unions own CUSOs. CUSOs serve at the pleasure and direction of their credit unions. A one size fits all regulation over the very diverse CUSO industry will discourage CUSO formation and subject the system to increase risks and costs.

I don't necessarily disagree with NCUA's contention that CUSOs ideally should be held to the same regulatory rules as their owners. After all, it's logical to question why a credit union should be able to conduct business through a virtual subsidiary that they would not be allowed to do within the credit union itself. To do so, however, exposes the same question relative to bank holding companies. The primary difference between the two, and the reason why the CUSO model promotes enhanced safety and soundness for the system, is that the CUSO structure generally distributes risks and costs across many different entities. Because I lead a CUSO whose activities are 100% compliant with NCUA permissible activity rules for credit unions, I am personally not concerned with this aspect of the proposal except to the extent that anything that discourages CUSO formation will threaten the opportunity for innovation and enhanced safety and soundness for the system as a whole.

Regulators like to think of CUSOs simply as independent "third party service providers". Third party aggregator relationships create cost effective expertise and are crucial to businesses in all industries. It is clearly a benefit to credit unions, however, to be able to rely on third parties that they own and direct. Owner credit unions have fiduciary management responsibility for the CUSOs, and authority to control their activities. If CUSOs are misbehaving, look to the credit unions that own them. To do otherwise throws the baby out with the bath water. If everyone is doing their jobs, NCUA included, there is more than enough authority and oversight currently to manage the risk. Adoption of the current proposal could cause fewer CUSOs to be formed and promote greater reliance on independent and self motivated third party providers who see credit unions and their members as nothing more than a source of profit. This will increase costs to credit unions, reduce benefits to credit union members, create more barriers to effective oversight and increase systemic risk to credit unions.

It is important to note that most CUSOs operate within the rules established by NCUA for their owners. The mission of these CUSOs is not to independently promote business outside of the rules, but rather to help their credit unions compete and serve on a more efficient and effective basis than individual credit unions can do on their own. The current proposal creates the potential for burdensome and expensive compliance requirements that could threaten the value proposition of engaging services from a CUSO. This will add cost, and financial and reputational risk, to credit unions that then feel compelled to justify an in-house solution or contract with a profit oriented private service provider.

As is obvious, I don't believe the direction of the current proposal to be without some merit. But it's impact on credit unions can be negative if taken too far. I urge the NCUA to be more detailed and transparent with it's intentions and deliberate with the concerns it is targeting. The use of anecdotal examples and promotion of mismanaged rogue situations as evidence of threats to the system does not provide an adequate foundation for meaningful dialogue on how to improve the strength of the system as a whole. In fact, many lending CUSOs have strong relationships with their field examination teams and work voluntarily and collaboratively with them to address mutual concerns. Examiners have limited opportunity to do the same with non CUSO contractors.

We all want a safe, sound and vibrant financial services industry. Credit unions create value for the industry and benefits to members in forming and engaging CUSOs and great caution should be exercised by NCUA in creating requirements that conflict with the benefits of owning or contracting with a CUSO. The proposal as written is too vague and leaves too much to individual discretion and interpretation and has the potential to cause reverse consequences if adopted.

Sincerely,

William P. Beardsley
President
Michigan Business Connection, LC