BAFS
BUSINESS ALLIANCE
FINANCIAL SERVICES, LLC.

Mary Rupp, Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexander, VA 22314-3428
Email: regcomments@ncua.gov

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

Dear Ms. Rupp,

Please be advised that Business Alliance Financial Services, LLC opposes the above referenced Amendment to the NCUA Regulations regarding CUSOs for the following reasons. As an entity, we represent ten credit unions that came together to consolidate their efforts around business lending through one, best practices CUSO, Business Alliance Financial Services, LLC (BAFS). Through our united efforts, we have created a vibrant, professionally managed, financially strong organization that provides significant benefit to all investors – something that could not have been achieved independently.

NCUA's information disclosure and regulation of CUSOs will stifle the ability of BAFS to innovate and provide collaborative solutions that will sustain credit unions as regulatory considerations will often replace value factors in the decision to invest in a CUSO and not provide any recognizable regulatory value beyond what already exists.

The bad investment of some credit unions is no reason to burden our CUSO with mandatory regulation where the examiners will inevitably take a one size fits all approach. If a credit union invested in a bad bond or other traditional investment would it make sense to seek regulation of the traditional investment industry? A credit union investment in a CUSO should be examined, in accordance with the Federal Credit Union Act, like any other investment because the liability of the credit union is limited by such investment.

The reality is that the NCUA already has considerable authority over BAFS. In the State and/or Federal examination of each Credit Union investor, the examiners review the loans underwritten by the CUSO that are held by the Credit Union investor. Clearly, in business lending CUSOs, the biggest threat to insolvency is underwriting quality – something that is reviewed by examiners at every examination. At each Credit Union examination, BAFS is examined with an eye toward this higher underwriting standard.

A simple review of the performance of BAFS can only be described as a success story. Return on investment for Credit Union owners has ranged between 75% and 125% since inception while contributing some of the strongest performing assets in our investor's portfolios. To date, BAFS has not sustained a delinquency. We are not alone in these statistics – the vast majority of Business Lending CUSOs have quietly performed remarkably well through one of our country's most difficult economic times.

If there is a concern related to the performance of CUSOs, a more prudent direction to take would be to look at the risk imbedded in industries where CUSOs serve credit unions and to devise a way to mitigate this risk. If business lending CUSOs are the riskiest CUSOs, determine a protocol designed to assess key weaknesses and then work through its credit union owners to resolve those weaknesses. NCUA already has this power and has demonstrated repeatedly that when it wishes to have impact, it does so very successfully.

By imposing regulatory burdens on them, we are put at a competitive disadvantage with non-CUSO competitors. 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. CUSOs help credit unions 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 cumulative investment made by the owners of BAFS only represents 0.025% of their total assets. 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.

It is very unclear how this proposed rule will change the fact that credit unions must make good lending and investment decisions and NCUA has to do a better job of examining these decisions at the credit union level. You would find no concerns regarding the decision to invest in BAFS.

Thank you,

Richard W. Guillot, CFP®
President/CEO

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