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September 15, 2011

Mary Rupp, Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

SEP20'11 PM 3:32 BOARD

Re: Comments to the Proposed Amendments to the NCUA Regulations re: CUSOs 12
CFR Parts 712 and 714

Dear Ms. Rupp:

Please be advised that AAA 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 restrict CUSOs in innovating and providing collaborative solutions that will help sustain credit unions. Regulatory considerations will even more often replace value factors in the decision to invest in a CUSO. No significant regulatory value beyond what already exists; especially for CUSOs that are regulated by other financial services regulators (e.g., SEC and insurance regulators) will be gained.

Our credit union is an owner of and uses a CUSO that provides data processing, item processing, and ACH processing services for over 200 credit unions. The CUSO has saved the credit union owners and clients tens of thousands of dollars annually. Subsequently, our members have benefited.

We also are an owner and user of another CUSO that provides bookkeeping, auditing, mortgage servicing, call center, and marketing services to over 50 credit unions. Again, the CUSO provides these services at substantial savings to owners.

It appears that NCUA's legal authority to approve the proposed regulatory changes is suspect at best. The proposal requires CUSOs to provide financial information directly to NCUA which NCUA will retain and evaluate. This looks and feels like vendor authority and direct regulation of CUSOs, yet regulatory authority has not been authorized by Congress.

CUSOs will be put at a competitive disadvantage with non-CUSO competitors by the added regulatory burden. NCUA wants CUSOs to submit their confidential business plans, balance sheets, income statements and confidential customer lists. NCUA puts CUSOs in a poor competitive position by exposing private business information to public dissemination through FOIA requests. CUSOs are the collaborative arm of credit unions

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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 systemic risk to credit unions that requires regulatory change. The aggregate amount invested in and loaned to CUSOs is only 22 bps of industry assets. This total 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. 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 cannot make the case that CUSOs had anything to do with the financial difficulties in the credit union industry.

NCUA's two reasons for imposing regulatory authority over all CUSOs are inadequate to justify new regulation. NCUA desires parity with banks' regulatory authority over bank operating subsidiaries yet there is no evidence that the banks' regulatory authority over bank operating subsidiaries mitigated bank losses in the economic crisis. NCUA cites substantial loan losses realized in a certain business lending CUSO. Even if CUSOs that make business loans pose a risk that need addressing, NCUA's attempt to apply a regulatory cure for a business lending CUSO to all CUSOs is misguided when business lending CUSOs are estimated to constitute less than 1% of total CUSOs.

Can NCUA afford to hire experts in every type of business CUSOs engage in? This would be unjustified and unnecessary expense that the credit union industry should not have to bear.

Some things need clarification:

NCUA will curtail the power of credit unions with less than 6% capital to invest in CUSOs if the aggregate cash outlay to a CUSO exceeds the CUSO investment limitation on a cumulative basis. How far back does the cumulative calculation go? What if a credit union invested in a CUSO ten years ago, does that count? How do investments in other CUSOs figure in to the analysis?

What is the procedure to obtain NCUA approval to make additional investments? What are the standards of review that NCUA will use? Is there a time period in which NCUA must respond to a request or can the request go unanswered?

Many 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



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are often formed solely for marketing or license purposes and income flows from a third party vendor directly to the credit unions. 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?

We ask the NCUA to withdraw the proposed Amendment.

Sincerely,

Steve Searfoss
Manager of Member Services and Operations

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

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