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Filed via regcomments@ncua.gov

September 26, 2011

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

Re: Comments on NCUA's Notice of Proposed Rulemaking (CUSO), 12 C.F.R. Parts 712 and 741; 76 Federal Register 44866, July 27, 2011

Dear Ms. Rupp:

This comment letter represents the views of the Georgia Credit Union League (GCUL) regarding NCUA's proposal to amend its credit union service organization (CUSO) regulation. Our letter was developed with contributions from the GCUL Regulatory Response Committee, which has been appointed by the League Board to provide input into proposed regulations such as this.

As a matter of background, GCUL is the state trade association and one member of the network of state leagues that make up the Credit Union National Association (CUNA). GCUL serves approximately 150 credit unions that have nearly 1.9 million members. GCUL has concerns about the proposal as issued for comments, and we would respectfully ask that the Board withdraw it or revise it substantially.

GCUL and Georgia credit unions are strong supporters of CUSOs and the ability of credit unions to utilize them to improve their product offerings to their members. In Georgia, we have partnered with our credit unions in CUSOs that have helped all size credit unions enhance their product offering...for example, Credit Union Service Corporation (CUSC), Cooperative Services Incorporated (CSI) and even Credit Union Loan Source (CULS). CUSOs are one of the few outlets that credit unions have to develop innovative mechanisms to help support their operations and enhance their ability to provide the kinds of financial services their members need and want.

It is our belief that CUSOs as a whole do not pose a systemic risk to the credit union system or overall concerns to the National Credit Union Share Insurance Fund (NCUSIF). We are concerned that the agency has provided no data or analysis regarding current problems that could be used to substantiate the need for the proposal. That does not mean that we think that certain CUSOs have not had some issues.

Georgia credit unions understandably oppose blanket regulations that are not targeted to specific concerns and that stymie innovation due in part to their overly broad application. It would seem that NCUA could strengthen its proposal and reduce unnecessary regulatory burden by targeting the proposal to demonstrated problem areas. Credit unions in Georgia are not opposed to reasonable supervision or the agency's ability to address specific concerns with CUSO's appropriately. We acknowledge that safeguards should be in place to limit the likelihood of credit union losses. Therefore, the expansion of existing capital rules for federally chartered credit unions to state-chartered credit unions seem reasonable.

Currently, state chartered credit unions could lose their National Credit Union Share Insurance Fund coverage if they do not comply with requirements in the CUSO rule relative to providing access to their CUSO's books and records to regulators and requirements to maintain separate corporate identities from their CUSO. The proposal would expand that to make the requirements to provide financial statements and financial audits prepared under GAAP or GAAS as additional conditions that must be met for credit unions lending in or investing to CUSOs or they risk losing NCUSIF coverage. Other proposed requirements such as those regarding CUSO subsidiaries addressed below would also become conditions of NCUSIF coverage. The proposal would make these requirements conditions of NCUSIF coverage for federal as well as state chartered credit unions.

Georgia credit unions are all federally insured and can only obtain insurance by a company authorized to do business in our state...since the state's private insurance company is no longer in business, NCUSIF is our only choice. Removing federal deposit insurance through NCUA as a result of non-compliance with the regulation could have a far-reaching impact to Georgia credit unions as well as those in other states. If deposit insurance is revoked for just one credit union, then the safety and soundness of an entire state credit union system could be jeopardized. We believe that NCUA has other enforcement options at hand that allow it to ensure compliance without potentially destabilizing the credit unions in an entire city or state. We urge the agency to delete the reference to NCUSIF coverage and to refrain from invoking the extraordinary step of loss of NCUSIF coverage for future regulatory requirements.

In addition, federally insured credit unions are already required to comply with due diligence responsibilities. These include performing an adequate review before becoming involved with a CUSO. It also includes undertaking ongoing reviews on a periodic basis thereafter to ensure the CUSO is providing intended services and does not present an undue risk that threatens its performance or poses a threat to the operations of its credit unions. Rather than issuing new requirements, the agency should focus on targeting problem areas and implementing existing requirements, such as due diligence.

Of particular concern are provisions concerning the agency's access to the books and records of CUSOs and the new reporting requirements for CUSOs that would result in their providing financial data directly to NCUA. We have heard from many organizations who state it is unclear if NCUA has sufficient authority to examine the books and records of federal credit union CUSOs (which authority would not be changed by the proposal).

We are also concerned that there are agency budget implications associated with this proposal. If NCUA is more involved with CUSO regulation and examination, we can foresee that additional agency staff resources would be provided to perform those tasks – costs that credit unions will have to bear.

Conclusion

We urge the agency not to proceed with the proposal as issued for comment without making adjustments. Credit unions must already engage in reasonable due diligence regarding their CUSOs and examiners should check to make certain they do so and that they are receiving the information and accountability from their CUSOs that they need to make sure there are no material problems.

Under the existing proposal, no under-capitalized federally insured credit unions would be able to make new investments in CUSOs without prior approval from their regional director. This is a very significant supervisory tool for NCUA that should allow the agency to address virtually all issues that would jeopardize the credit union or the NCUSIF.

Thank you for your consideration of our concerns. If you have questions or would like further information about our letter, please feel free to contact me at 404-476-9625.

Sincerely,

A handwritten signature in black ink that reads "Cindy Connelly". The signature is written in a cursive style with a distinct underline for the last name.

Cindy Connelly
Senior VP/Government Influence