



September 26, 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 Public Service 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 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, especially for CUSOs that are regulated by other financial services regulators (e.g., SEC and insurance regulators).

Our credit union has ownership in eleven CUSOs that provide a variety of services to our credit union and our members. These CUSOs vary substantially in size, purpose and governance. Some are structured to generate revenue for the owners while others are structured to aggregate volumes and reduce operating expenses. The balance sheets and capital positions of these CUSOs vary based on the type of business. We believe each of these businesses is sufficiently overseen by other regulatory agencies.

NCUA's legal authority to approve the proposed regulatory changes is unnecessary and overly burdensome. NCUA does not have regulatory authority over CUSOs yet this 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 which has not been authorized by Congress.

By imposing regulatory burdens on them, CUSOs 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.

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 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 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. 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.

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.

There are terms in the proposal that are in need of significant clarification. What is meant by a subsidiary? Does a CUSO have to have controlling interest in a company or does a 1% ownership in a company make the company a subsidiary? Many other issues are unclear and could delay or reduce CUSO investments and reduce opportunities for collaboration. The long term impact of this regulation is likely to result in decreased efficiency within the industry; resulting in more risk to the insurance fund, not less risk.

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. NCUA already has the ability to examine the financial statements and records of CUSOs as well as the ability to

influence the decisions made by the credit union owners. Again, we do not believe additional regulation is necessary.

We ask the NCUA to withdraw the proposed Amendment.

Very truly yours,

Cyndi G. Koan  
Executive Vice President

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