North Carolina Credit Union League
Committed to helping credit unions succeed

September 26, 2011

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

Dear Ms. Rupp:

On behalf of the North Carolina Credit Union League (NCCUL), I am writing in response to the NCUA's recently issued proposed amendments to the regulations governing Credit Union Service Organizations. The NCCUL understands and appreciates the role of the NCUA in ensuring the safety and soundness of credit unions and protecting the value of the NCUSIF. We also recognize the importance of the NCUA in identifying systemic risk as a necessity to carry out this function.

In the proposal, NCUA maintains that the rules are needed in order for the Agency to have the data necessary to identify emerging systemic risk at CUSOs. We maintain that taking such a broad brush approach to CUSO regulation as proposed is overstating the risk in CUSOs and will only stifle further growth and innovation within the CUSO system. In what follows, the NCCUL has provided (1) an overview of the benefits CUSOs provide to the credit union industry and members, (2) an outline of our concerns related to the overreaching and burdensome nature of this regulation and (3) an alternative approach to thinking about CUSO oversight.

The Value of CUSOs

By way of background, the NCCUL supports 91 North Carolina credit unions which provide financial services to nearly 3.2 million members. Credit unions in our state have invested in CUSOs in various lines of business including auto buying, real estate brokerage, financial consulting and investment services, credit card and business loan origination, trust related services, electronic transaction services and insurance brokerage to site the most widely used.

Since their inception CUSOs have existed in two basic forms; first, as a wholly-owned subsidiary of a credit union that serves to manage services outside of a credit union's traditional operational structure; and secondly, as a multi-owned organization to provide shared value. This unique business model enables collaboration and cooperation so credit unions can achieve economies of scale, increase efficiencies, provide better service to members and mitigate risk. CUSOs are also potential sources of non-interest income for credit unions, a particularly important point as non-interest income continues to be threatened.

More Regulation is Not the Answer

We agree with many of the commenters that there is not compelling evidence that CUSOs as a whole are a systemic risk to credit unions and the NCUSIF nor that there is a "lack of information" for the NCUA to monitor CUSO activity. This proposal is heavy-handed in an effort to contend with only a handful of isolated cases related to the mismanagement of CUSOs. Measuring CUSOs against one another when analyzing the systemic risk of unique and varying businesses is not a practical solution.

Credit unions already have the statutory authority to invest in CUSOs and the NCUA currently has the ability to review CUSOs for issues of safety and soundness. Furthermore, the NCUA has made clear that credit unions must do reasonable due diligence prior to the investment or loan and then actively review and monitor the performance of the CUSO.

The vast majority of CUSOs are viable and growth can be sustainable long term. The CUSO model can continue encouraging the development of financial solutions to fulfill the changing needs and wants of credit union members. Further regulation within the credit union system could drain that innovative spirit, especially when regulation already exists by those agencies well-versed in particular lines of business (i.e., insurance and real estate).

Stepping Back

We recognize that the NCUA's concern with safety and soundness is reasonable; as such, the NCCUL finds value may be added to this discussion in outlining two distinct ways of mitigating potential risk while allowing CUSOs to flourish.

With regards to the first approach, could amendments to the Call Reports be a more workable option as opposed to issuing new comprehensive requirements? Building on what is known from examiners in the field, the NCUA could evaluate business segments that credit unions invest in or loan money to and the risk associated with each. If compelling evidence is found, further oversight could then be limited to certain lines of business to fix identified problems without the burden or costs associated with overregulation.

Secondly, while it may seem counterintuitive on its face, we think that increasing the investment authority of credit unions could provide some of the additional stability in CUSOs that the NCUA is seeking. As member demand continues to evolve and CUSOs expand, further investments will be needed. Credit unions and CUSOs could in fact be better served if that capital came from within the credit union system instead of from outside investors that demand a higher rate of return and perhaps control. Specifically, we think the increase from 1% to 5% would represent meaningful reform in this area.

In Closing

North Carolina's member credit unions, both large and small, understand the responsibility to guarantee the stability within the credit union system. Nonetheless, the viability of CUSOs is critical to the ability of credit unions to continue to provide products and services to members. It is our hope that the final regulation will strike a suitable balance between the development of improved risk management practices and a sustainable and cooperative business model for the CUSO system.

Thank you for your consideration.

Respectfully Submitted,

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