PSCU FINANCIAL SERVICES®

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September 23, 2011

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

Re: Comments to the Proposed Amendments to the NCUA Regulations
12 CFR parts 712 & 741

Dear Ms. Rupp:

PSCU Financial Services, Inc. ("PSCU"), is a CUSO that services over 1,000 credit unions by offering them industry-leading credit, debit/ATM, and prepaid card servicing, electronic commerce solutions, contact center services, risk management services and consulting services. PSCU submits the following comments on Proposed Amendments to Part 712, CUSO Reporting, on behalf of credit unions who are our members.

We believe it is critical the NCUA considers the broader importance of CUSOs to the credit union industry, particularly during these troubled financial times. PSCU is dedicated to the credit union industry and one of our core goals is providing back office financial services at a scale and cost many credit unions could not otherwise afford. As a result of these economies of scale, PSCU has returned tens of millions of dollars of ownership distributions to our credit union members. We believe our 33 year tenure in the industry makes the case for CUSOs as a valuable means for credit unions to innovate and meet their members' financial needs, and do so in a shared ownership/shared risk approach.

PSCU is very concerned about the requirement under the proposed regulations that CUSOs would be required to disclose specific financial information, such as balance sheet and income statement details, to the NCUA and would be subject to greater oversight by the NCUA. The NCUA has stated that reporting requirements are necessary to better gauge the potential "systemic risk" to participating credit unions.

We do not believe the proposed expansion of NCUA authority, which goes well beyond any authority the agency has ever proposed, is needed. The NCUA already has the ability to examine the books and records of CUSOs and to exercise full leverage over the credit union owners to resolve any potential safety and soundness issues. The agency already requires an extensive due diligence process for a credit union entering into a contract for services with a CUSO or investing in a CUSO, including requiring a legal opinion in an effort to limit the credit union's risk. The NCUA has also provided credit unions with an extensive checklist for third party vendor compliance due diligence, which PSCU and other vendors routinely provide to credit unions as requested. We prepare, and provide, quarterly balance sheets and annual reports for our credit unions. The agency already has the ability to review these materials when it reviews a particular credit union's vendor due diligence documentation. We cannot see how providing this information to the NCUA directly gives any greater insight than it would glean from the credit unions records. But we clearly do see that the proposed reporting requirements greatly overlap with the data already available to the NCUA.

We suspect that the failure of Texans Credit Union, and its investment in a business lending CUSO, has led the NCUA to conclude that all CUSOs need some form of regulatory oversight. First, as CUSOs represent 22 basis points of the total industry assets, we do not think 22 basis points represents a "systemic risk" to the industry. A write off of all CUSO investment and loans would decrease the industry capital by only 22 bps from the current 10.14% to 9.92%. How can a 2% change represent a "systemic risk"? How can it be a "systemic risk" if the total amount of 22 bps is less than the annual corporate stabilization assessments in the last three years? Of course, a complete wipeout of all 700+ CUSOs is far fetched so a realistic worse-case risk may be more like 5-10 bps, which is an even less "systemic risk." Second, we cannot make a connection between the activities of and failure of one or two credit unions with CUSO investments with the NCUA's purported "remedy" to avoiding future failures of imposing unprecedented and burdensome reporting by CUSOs to the NCUA . We have not seen empirical data that proves CUSOs are performing poorly, are inefficient, or are threatening the safety and soundness of the credit union industry as a whole. The NCUA is painting with an overly broad brush, and a brush that will be costly to the industry.

Conversely, we do not need to wait for empirical data to believe that NCUA regulation of CUSOs will hinder innovation, collaboration and the willingness of credit unions to invest in CUSOs. Regulatory considerations, which have a direct impact on CUSO resources, will certainly replace (or at least substantially influence) value factors in the credit union's decision to invest in the CUSO.

PSCU believes there are numerous items in the proposed regulations that are overly burdensome to implement, vague and/or not adequately defined. For example, what is meant by a "subsidiary" in part 712.11? It appears to provide that any investment by a CUSO will make the entity a "subsidiary." Is it necessary for a CUSO to have a controlling interest in a company or will a 1% ownership make the company a subsidiary? If 1% ownership is the test, inadvertent consequences will result. For example, VISA Inc. will be considered a subsidiary for any CUSO who owns stock in VISA by virtue of VISA's IPO. But CUSOs will not have enough influence over Visa or other minority-owned investments to cause them to comply with the CUSO regulations. We agree with the informal rule that creating a subsidiary of a CUSO to simply evade the CUSO rule is not permissible. There may be compelling and competitive reasons for a CUSO to invest in a company that is not a CUSO, such as access to services and innovative solutions, and we request the informal rule continue.

We have other questions on the proposed rule such as: How does the NCUA define "aggregate cash outlay on a cumulative basis"? Would credit union dividends received from a CUSO investment reduce the aggregate cash outlay? How would cumulative calculation be carried forward from year to year? Credit unions may have investments dating back ten years ago that have been written off, should that get counted? Should a credit union's investments in other CUSOs be represented in this calculation?

What criteria would the NCUA use to measure a successful CUSO? Would that criteria cause the liquidation of a CUSO that does not have a robust balance sheet or income statement, even though its credit union owners have gained financial or service channels they sought? CUSOs would be considered undercapitalized if they were measured against credit union financial standards, but by design, they are not credit unions, meaning that they are not a balance-sheet based business serving consumers. The foregoing questions allude to the complexity of regulating CUSO businesses, many of which are based on business-to-business models and very different than credit unions which are primarily business-to-consumer oriented.

That business complexity leads us to question the NCUA's ability and speed to acquire and retain the appropriate level of expertise to assess and monitor CUSOs. The NCUA staffing and operational budgets needed to support the proposal are not cost justified and add another financial burden to the credit union industry during an already fiscally challenged era. Hiring and staffing costs would be daunting for the NCUA to have experts in every type of CUSO business, as well as experts that understand the nuances of startup companies. And clearly they would not be worth the cost given the roughly 2% of assets that are represented by CUSOs.

By imposing regulatory and reporting burdens on CUSOs, the NCUA would be putting them at a competitive disadvantage with respect to non-CUSO competitors. The CUSOs would incur a regulatory burden and cost that their competitors would not. In addition, by gathering and retaining business plans, balance sheets, income statements and confidential customer lists from CUSOs, the NCUA puts CUSOs at a competitive disadvantage as those trade secrets and competitive information may be exposed when the NCUA responds to FOIA requests – no one can know whether a court in the future might reject a CUSO's claim of confidentiality for information disclosed to the NCUA.

Appropriate regulation balances a mix of the disparate elements of risk and innovation. Businesses need innovation to stay competitive and must manage risk by baking it into the innovation recipe. Regulators often interpret the best risk avoidance tool to be risk elimination. The proposed regulation would have immediate and detrimental consequences to credit unions that look to CUSOs to provide the modern financial tools that credit unions need to retain and grow membership. Today we offer our credit unions this value that they cannot themselves capitalize on, because in a shared risk/shared rewards environment, PSCU and other CUSOs can "incubate" the credit union services with scale that enables and encourages growth.

PSCU-FS, from its roots 33 years ago, has been and continues to be philosophically committed to innovation, collaboration and return on credit union investment through the CUSO model. We would welcome the opportunity to work with NCUA and other CUSOs to dialogue, offer our perspective and foster a balanced understanding of CUSO activities. PSCU-FS would object to regulatory and other efforts that will sever the roots we have cultivated of collective CUSO and credit union collaboration, thereby cutting off vital innovation in this current challenging marketplace. CUSOs like PSCU-FS have become what they were intended to be when they were authorized and shepherded by previous NCUA Boards with bi-partisan leadership – an innovative and collaborative force within the credit union industry.

For the reasons outlined above, we strongly encourage the Board to withdraw this proposal in its entirety.

We thank you for the opportunity to comment.

Sincerely,

Steve Salzer
Executive Vice President

Cc: Mike Kelly, CEO
Debbie Matz, NCUA Chairman
Gigi Hyland, NCUA Board Member
Michael E. Fryzel, NCUA Board Member