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January 16, 2014

Mr. Gerard Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314-3428

VIA ELECTRONIC DELIVERY: regcomments@ncua.gov

RE: Proposed Rule Regarding Home-Based Credit Unions

Dear Mr. Poliquin:

The Minnesota Credit Union Network (MnCUN) appreciates the opportunity to comment on the National Credit Union Administration's (NCUA's) proposed rule regarding home-based credit unions. By way of background, MnCUN represents the interests of Minnesota's 134 credit unions and their 1.6 million members.

MnCUN generally is not opposed to regulation designed to ensure the safety of examiners, which appears to be NCUA's primary consideration for the proposed rule. However, MnCUN also wants to ensure credit unions have the autonomy to run their credit unions in the way they determine is most beneficial for providing services to their members and communities. MnCUN finds that much of the proposed rule hampers a credit union's ability to operate independently, as well as the negative financial impact it could have upon such credit unions, and therefore cannot support much of the rule as proposed.

In addition to consideration of the comments below, MnCUN specifically urges the Board to reconsider the portion of the proposed rule prohibiting space maintained in a home or on the premises of a residential address as a permissible office location, and respectfully offers the following.

Section 701.40, Examinations and Communication Requirements

701.40 (a), Office Location

MnCUN generally does not object to the portion of the proposed rule requiring examinations to be held in a federal credit union's offices or at an alternative public location. It also seems reasonable to expect that an FCU must have at least one office accessible to its members during normal business hours.

However, MnCUN cannot support the requirement that an FCU's offices exclude an office maintained in a home or on the premises of a residential address, both in the current proposed rule to become effective immediately as well as the requirement contained in the rule to become effective in twenty four months.

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In terms of acquiring commercial space, the Office of Small Credit Union Initiative's (OSCUI) continued grants and financial assistance to move a home-based federal credit union to commercial space, should the credit union desire such assistance, should continue. However, there is some assumption that, particularly in rural areas, there is acceptable commercial space available. Many small communities simply may not have commercial areas, and they likewise may not always differentiate commercial and residential zoning. It seems a more viable alternative, that would permit a home-based federal credit union to retain its autonomy, would be for OSCUI to continue to work with such credit union on its efforts to maintain and run an appropriate business from its residence or a residential location. The expectations regarding what would be required in terms of accessibility to the public, record security, and distinction from the residential space could be accomplished without the need for additional regulation completely prohibiting not just a residence, but a location with a residential address.

According to the Small Business Administration, more than half of all U.S. businesses are based out of an owner's home.¹ There continue to be successful professionals running law firms, accounting practices, massage therapy, and other service-based industries out of homes. In addition, in this technological time, a home-based credit union could potentially be best situated to compete in the financial market. Many financial institutions are operating very successfully as online-only institutions, and prohibiting home-based credit unions completely could potentially hamper competition of credit unions in an already challenging and competitive marketplace.

701.40(b) Alternative Public Location & Records

MnCUN generally does not object to the portion of the proposed rule defining an "alternative public location" as a place open and available to the general public that is generally accessible during normal business hours. However, the requirement that such location is permitted to be solely designated by NCUA staff appears one-sided and uncooperative. An alternative suggestion would be to include a provision indicating that NCUA staff will make best efforts to determine a mutually agreed upon location.

The final portion of this section also indicates that the meeting location must allow for "necessary safeguards" of private information. In the same way that NCUA provides examples of what may constitute a public location, further defining and expanding the term "necessary safeguards" may be appropriate to illuminate NCUA's expectations in this regard.

701.40(c) Required Communication Services

MnCUN generally does not object to the portion of the proposed rule requiring maintenance of either an electronic mail address or telephone service, or both. It generally seems appropriate that a federal credit union maintain adequate communication channels for both the NCUA staff and its members. The portion of the rule requiring that authorized credit union officials must monitor the communications "regularly", perhaps could use some clarification. Further definition and expansion concerning the NCUA's expectations may be appropriate.

Overall Proposed Rule

In the commentary concerning "Why is the NCUA Proposing This Rule?", the Board indicates that for a home-based credit union, the "lack of a business office impedes the ability of FCUs to

¹ <http://www.sba.gov/content/home-based-businesses>.

thrive". This observation seem to be philosophical and speculative in nature. The Board's commentary also mentioned that there are operational risks of an FCU operating out of a private residence, including if an FCU official dies or becomes disabled. While this seems like a rare occurrence, an alternative could require that if a home-based FCU has a single employee, to require appointment of a credit union "surrogate" to continue the credit union operation in such an event. Many credit unions, especially small credit unions, often partner and have ongoing business relationships with other credit unions who would be in a position to take on such responsibility.

The additional concerns mentioned that meeting in an alternative public location is not an ideal long term solution, and that transferring of records to such a place also creates privacy risks could both be alleviated if the approach was made for OSCUI to continue working with home-based federal credit unions on either relocation or appropriately running a home-based business.

Potential Negative Impact on Credit Unions

In addition to the above concerns, MnCUN is also concerned with the potential negative impact the proposal will have upon home-based federal credit unions' ability to continue to operate.

The cost of implementing the commercial space requirement could be significant, especially for smaller credit unions, even with relocation assistance from OSCUI. The increase in cost due to this proposal could ultimately result in credit union closure, affecting those credit unions' members, as well as the marketplace as a whole by reducing consumer options for competitive products and services.

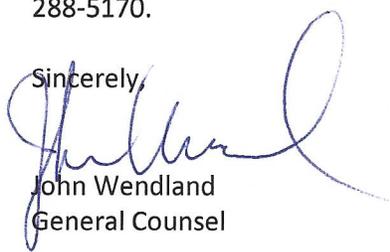
MnCUN appreciates NCUA's concern regarding its examiners' safety; however, due to the challenges of compliance, especially with the commercial space acquisition requirements, and the potential negative impact the proposal would have upon affected credit unions, MnCUN cannot support this proposed rule.

In the alternative, should some form of this proposed rule move forward, MnCUN would urge the NCUA to consider the language changes, additional definitions, and suggested alternatives already referred to above.

The "Request for Comments" section specifically requests commentary on whether the portion of the rule requiring home-based federal credit unions to meet NCUA staff at an alternative public location should also apply to state-chartered, federally insured credit unions. For the same reasons stated above, MnCUN does not support extending the public location portion of the rule to state-chartered, federally insured credit unions.

If you have any questions about our comments, please do not hesitate to contact me at (651) 288-5170.

Sincerely,


John Wendland
General Counsel