BOARD ACTION MEMORANDUM

TO: NCUA Board
FROM: Director, Office of Corporate Credit Unions
DATE: August 27, 2010
SUBJ: Office of Corporate Credit Unions

ACTION REQUESTED: The NCUA Board delegate to the Director, Office of Corporate Credit Unions authority to approve or disapprove applications to NCUA for corporate CUSOs to engage in categories of activities as described in paragraph 704.11(e)(1)(iii) of the NCUA Rules and Regulations. 12 C.F.R. §704.11(e)(1)(iii).

DATE ACTION REQUESTED: September 24, 2010.

OTHER OFFICES CONSULTED: Office of Examination and Insurance, Office of General Counsel

VIEWS OF OTHER OFFICES CONSULTED: Concur

BUDGET IMPACT, IF ANY: None

RESPONSIBLE STAFF MEMBERS: Deputy Director Dave Shetler and Associate General Counsel Paul Peterson

BACKGROUND:
As provided for in NCUA regulations, a corporate CUSO is an entity that:

- Is at least partly owned by a corporate credit union;
- Primarily serves credit unions;
- Restricts its services to those related to the normal course of business of credit unions; and
- Is structured as a corporation, limited liability company, or limited partnership under state law.

12 C.F.R. §704.11(a). In November, 2009, NCUA proposed that corporate CUSOs as described above further limit their activities to brokerage services, investment advisory services, and “[o]ther categories of activities as approved in writing by NCUA and published on NCUA’s website.” 12 C.F.R. §704.11(e)(1)(iii)(proposed). The Board provided the following justification in the preamble to the proposed rule:

A corporate CUSO may serve hundreds or even thousands of natural person credit unions, and so its activities can affect the entire credit union system. Additionally, as the corporate credit union system evolves in the coming years, some of the services that are currently accomplished in-
house at a corporate may migrate to a corporate CUSO. The movement of these activities could increase the systemic risk associated with corporate CUSOs, and NCUA wants to ensure it has some oversight and control of these activities.

74 Fed. Reg. 65210, 65250 (December 9, 2010). A final rule on this proposal will come before the Board on September 24, 2010. Assuming the Board adopts this proposal in final, NCUA staff expects that NCUA will begin receiving multiple requests for NCUA approval of corporate CUSO activities in the very near future. To streamline the approval process, NCUA staff seeks a limited delegation to the OCCU Director of the Board’s approval authority.

NCUA’s rules contain a list of preapproved categories of services for natural person federal credit union CUSOs. 12 C.F.R. §712.5. The §712.5 list includes checking and currency services; clerical, professional, and management services; business loan origination; consumer loan origination; electronic transaction services; financial counseling services; fixed asset services; insurance brokerage or agency; loan support services; record retention, security, and disaster recovery services; shared credit union branch operations; student loan origination; travel agency services; trust and trust-related services; real estate brokerage services; and CUSO investments in non-CUSO service providers. NCUA staff requests that the OCCU Director be delegated, for corporate CUSOs, the authority to approve, approve with limitations, or disapprove any category of activities similar to those §712.5 activities listed above.

Each exercise of this delegation by the OCCU Director would require the prior concurrences of the Director of the Office of Examination and Insurance and the General Counsel. The delegation would further authorize the OCCU Director to post approved activities to NCUA’s website, and to make nonmaterial amendments to the descriptions of existing approved activities as posted on NCUA’s website.

If the NCUA receives a request for approval of a corporate CUSO activity beyond the scope of the activities listed in §712.5, the OCCU Director will refer the request to the NCUA Board for decision.

RECOMMENDED ACTION:

That the NCUA Board delegate to the Director, Office of Corporate Credit Unions:

Authority, with the prior concurrences of the General Counsel and the Director of the Office of Examination and Insurance, to approve, disapprove, or to approve with limitations requests to the NCUA for approval of corporate CUSO activities that are similar to an activity authorized for natural person federal credit union CUSOs. 12 C.F.R. 704.11(e)(1)(iii); 12 C.F.R. 712.5. This delegation includes the authority to post approved activity categories to NCUA’s website and to make
nonmaterial amendments to the descriptions of existing approved activities as posted on NCUA’s website.