CO-OP FINANCIAL SERVICES

April 14, 2014

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

Dear Mr. Poliquin:

CO-OP Financial Services would like to provide the following comment letter regarding NCUA's proposed risk-based capital rule approved by the NCUA Board in January 2014. We appreciate the opportunity to provide our thoughts on this regulatory proposal, to express some of our concerns about the potential negative impact of the proposed rule on credit unions and to offer some suggested improvements in the rule for your consideration.

We believe that the CUSO investment risk metric as proposed is not justifiable based on any facts in the public domain regarding CUSO risk. No differentiation is made based on the business purpose of the CUSO, the ownership structure of the CUSO – single or multiple owner – or the corporate structure of the CUSO. CUSOs such as CO-OP Financial Services, in fact, promote collaboration and risk sharing. The proposed risk metric of 250 percent will have a chilling effect on collaborative investment and seems quite arbitrary.

For example, we are aware of a client, Open Technology Solutions, of Centennial, Colo., which is also a CUSO managing IT support for the three credit unions that own it. Each credit union invested approximately $2 million in the CUSO. The credit union owners estimate that the CUSO saves each credit union $4 million per year. The reduction in IT support staff is $2 million of the savings and the reduced vendor costs through greater bargaining power is the other $2 million in savings. The credit unions created the CUSO to not only save money but also improve service levels and provide a greater level of expertise that the credit unions would fund on their own.

The proposed regulation would suggest that unless the CUSO pays a cash dividend to the credit union owners, there has not been a return on the investment and the investment is at risk. The credit unions that are receiving annual returns of 100 to 200 percent on their investments through cost savings together with higher service levels see the CUSO investment risk and return quite differently than NCUA. Again, no distinction is made in the regulation based on the business purpose of the CUSO. Investments in operational services CUSOs are not always intended to provide a cash investment return; they are cost sharing models.

In addition, it is not clear from the proposed regulation whether the capital risk rating to be assigned to the CUSO investment will apply to the original investment only – or also to the current value of the CUSO. CO-OP has functioned as a true cooperative under the tax laws since 1996. Even though CO-OP has paid a cash dividend every year, our 1,200 member owners have built significant allocated equity beyond their original investment. We are concerned that, as proposed, the risk rating could also be applied to the increased value of the CUSO investment through profits earned by the CUSO, the positive results that NCUA should wish to see from any CUSO development. We hope credit unions will not be punished for success in their CUSO investments by assigning this unjustifiably higher capital risk rating to the appreciation in value of the credit union investment, as well as the initial CUSO investment itself.

Once again, the extraordinarily high risk rating for CUSO investments acts as a disincentive for CUSO investments. CO-OP Financial Services – as the nation's largest CUSO in terms of credit unions and members – itself serves as an example of the benefits of investing in a CUSO. We have 1,200 shareholding institutions among our 3,500 credit unions. For our most recently reported year (2013), CO-OP's Board of Directors approved a patronage distribution to shareholders of $30.5 million. This brings CO-OP's total patronage amount to $284.8 million since becoming a credit union-owned cooperative in 1996.

And, the high risk rating is actually quite arbitrary. For example, delinquent consumer debt over 60 days is risk rated at 150 percent and delinquent first lien mortgage debit is risk rated at 100 percent. Yet investments in CUSOs like CO-OP – that have added millions to the bottom line of credit unions – are deemed riskier, with a 250 percent risk rating. There is no consideration for what types of services are being provided; whether the investment represents necessary operational expenses that would be otherwise incurred; whether the amount invested is material; whether the CUSO has a history of profitability; or whether the investment amount has been fully recovered by the credit union through savings or income.

We therefore request that NCUA remove any risk weighting above 100 percent for CUSO investments and loans. A weighting above that percentage is inconsistent with the best interests of the credit union industry.

At the very time that CUSOs are needed to help sustain credit unions, we are greatly concerned that NCUA may be creating a regulation that will have a negative effect on investments in CUSOs. We thank you for the opportunity to comment on this proposed regulation and trust that upon reflection, NCUA will remove or significantly reduce the risk rating for CUSO investments.

Best regards,

Stanley C Hollen

Stanley C. Hollen
President/CEO
CO-OP Financial Services