Services Center Federal Credit Union "It's My Credit Union… It's Where You Belong!"

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April 29, 2014

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

Re: Comment to the Proposed Prompt Corrective Action – Risk-Based Capital Regulation

Dear Mr. Poliquin:

On behalf of Services Center Federal Credit Union, I would like to provide the following official comment letter regarding the NCUA's recently proposed risk-based capital rule.

We believe that the CUSO investment risk metric of 250% is excessive especially as compared to other risk ratings. The amount of risk actually realized by an investor in a CUSO is the amount of money that they have put into it (the original investment). Taking that amount of money that is invested and multiplying it by such a high percentage rate is (1) double accounting and (2) is an unfair assessment of risk toward the invested CU. Like a CU itself, not all CUSO's can be compared to one another nor CUSO's to bank subsidiaries. The NCUA 'one-size fits all' approach is unrealistic in the CU and CUSO markets.

CU's gather together and create CUSO's in order to save money and give back to serving their members. Creating CUSO's and sharing common costs has been the only way that many CU's have been able to survive over the years. The 'Ma and Pa' CU's already have a hard enough time competing with big banks in there geographical area and have found a way to combine their common interests to try to keep them in business. Now regulation, wants to make it even harder for us to compete and keep our non-profit organizations running.

If NCUA wants to work on their understanding of CUSO's and the risk that CU's take in investing in them, then provide more guidance and elaborate on the 5300 Call Report. Right now, the Call Report is in need of some serious reconstruction regarding CUSO's. Our CU currently has two CUSO's that we have to report. One is a wholly owned CUSO which we have combined books and the other is no longer a wholly owned CUSO but has combined financial statements according to GAAP. In our last federal exam, our examiners were perplexed with how anything needed to be classified or stated on the Call Report when consolidating with a CUSO. CUSO's are a thing of the future and we need to take more time to understand them before jumping into regulation that is going to hurt everyone in the long run.

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I do not disagree that CUSO's should be analyzed, but by whom is the right question. Each CUSO should be undergoing an annual CPA audit and if any findings occur in that audit, that information should then be passed along to NCUA. The discretion should not be left up to the federal examiner, for they specialize in CU regulation only.

The proposed implementation date is also unreasonable. Eighteen months after final passage is a short time period considering the long term and significant impact of this new rule on credit union strategic business decisions. Credit unions have very limited means to raise capital under present statute and regulation. It will necessarily take a considerable amount of time to make adjustments within the balance sheet when the rules are suddenly changed. We recommend that an implementation period of no less than three years from final passage is much more appropriate

This proposed rule has given out a negative perception toward CUSOs and sends the wrong message. To pass such a proposal and in such a short period of time, will influence future clients/customers of CUSOs and discourage CUs in collaborating with other CUs on the same business front.

The true risk is not the investment or loan to a CUSO, rather it is *not* investing in a CUSO to share risk, reduce costs and increase income. We encourage NCUA to implement regulations that encourage the use of CUSOs to generate net income and remove all regulatory impediments to CUSOs and collaboration. We recommend the removal of risk ratings for CUSO investments and loans as immaterial, inapplicable to CUSO investments and to encourage CUSO investment for policy reasons.

Thank you for the opportunity to comment.

Very truly yours,

Jessica Cameron, NCCO
Project Specialist

cc. Deborah Matz, Chairman
Michael Fryzel, Board Member
Richard Metsger, Board Member