Keystone
BUSINESS LENDING SOLUTIONS, LLC℠

April 24, 2014

MAY07'14 PM 1:28 BOARD

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

Dear Mr. Poliquin:

Keystone Business Lending Solutions, LLC is a multi-credit union owned Member Business Lending CUSO. We essentially provide commercial loan services including but not limited to loan analysis and risk rating, documentation and servicing. The following comments regarding the proposed risk-based capital rules are on behalf of Keystone BLS and based on 40+ years of experience in the financial industry.

Setting the CUSO investment risk metric at 250% is uncategorically unreasonable when compared with other metrics proposed. How can a CUSO investment be set at 250%, yet delinquent consumer debt over 60 days and delinquent unsecured credit card debt be set at 150%?

CUSOs provide a wide range of services. The one-size-fits-all CUSO risk rating does not take into consideration (a) what types of services are being provided, (b) whether the investment represents necessary operational expenses that would be otherwise incurred, (c) whether the amount invested is material, (d) whether the CUSO has a history of profitability, or (e) whether the investment amount has been fully recovered by the credit union through savings or income. Even if there is a risk assessment for the initial CUSO investment, there is no reason to continue to have a risk assessment if the amount of the investment has been fully offset by net income or cost savings for the credit union that was generated by the CUSO.

While there are some CUSOs that are designed to return a profit through dividends, many CUSOs provide a return to the credit union owners by the reduction of operating costs or fees paid directly to the credit unions in the form of networking fees and not dividends. NCUA's choice of equating a CUSO to a bank investing in an illiquid small business, misses the true risk and return factors. For example, when a credit union is deciding whether to pay the expenses for running an operational service through the credit union or its CUSO, money has to be expended by the credit union either way. If multiple credit unions pool their funds in a CUSO to provide an operational service, the money pooled is not an investment in the classic sense and should not be risk rated as such. If the credit unions choose a CUSO to provide an operational service, it is because each credit union will save money, and often receives greater expertise than they could afford on their own. Why must risk capital be reserved by the credit unions in order to save money and generate net income?

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Keystone BLS is a perfect example of this. Our fee structure for services performed was intentionally low for the first few years and that resulted in losses and a negative net worth. However, if we compare total capital investments plus all fees paid to earnings on the commercial loan portfolio, we find that the credit unions' investment has been repaid several times over.

Our owner credit unions were able to offer their members business related financial products and services by pooling their resources and paying for the expertise and technical support once as opposed to 7 times. Given that investment was returned via income as stated above, how can we be equated to a Bank investing in an illiquid small business?

I personally believe that offering member business services is critical to the survival of credit unions. The key is to do it right and that means securing the appropriate expertise and infrastructure. That is obviously expensive and my smaller credit union owners would not have been financially able to do this independently.

Is it not counterproductive to now arbitrarily assign such a high risk matrix?

The failure of a few large CUSOs always seems to be brought up at this point. Addressing MBL CUSOs only, I would suggest that those models bear little or no resemblance to Keystone BLS and other similar CUSOs. Keystone BLS is a regional MBL CUSO helping its owners serve members in their own markets While we certainly entertain participations, we avoid multi-million dollar loans brought to us by National CUSOs in markets far removed from our own. As a result, our delinquency and charge offs are consistently low. I would challenge you to look at our group's historical and current charge off and delinquency ratios and explain how the 250% can be justified.

Unlike the banking investment powers, the CUSO risk exposure is limited to an immaterial level. There are only 22 basis points of credit union assets invested in CUSOs industry-wide; less than the aggregate corporate assessments. Each federal credit union may only invest less than 1% of assets in CUSOs. Credit unions could lose all their CUSO investments and the loss would not be material yet the upside potential could be very significant. NCUA would be making a big mistake by not recognizing the adverse policy implications of applying the inconsistent BASEL bank investment risk rating to CUSO investments.

I also find section 702.105(c) very troubling and feel it should be deleted. Clear, concise and consistent rules are necessary to run a business, be it CUSO or credit union. Arbitrary rules that can be changed at the whim of the regulator from credit union to credit union are simply counterproductive and should be eliminated.

While I certainly understand the importance and necessity of the risk based capital regulation, I implore you to revisit your proposals regarding CUSOs.

Sincerely,

Wayne A. Grinnik, CEO