



May 10<sup>th</sup>, 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:

CUProdigy LLC, is a CUSO that provides core processing software, support, and IT services only to credit unions. We have been providing services and value to our credit unions for over 23 years and therefore have been very involved with our credit unions in the industry. On behalf of CUProdigy, and our owners, I submit the following as our official comment regarding NCUA's proposed risk-based capital rule.

First of all, we would like to say that we generally understand the need for, and support the concept of risk-based capital. We understand that there are many concerns and interests relating to the safety and soundness of credit unions that could be addressed with Risk-Based Capital. We also understand, as I am sure you understand, that there are many issues that need to be balanced when creating such a rule.

However, there are several significant problems with the current proposed rule that need to be corrected. We appreciate the ability to comment on these items and trust NCUA to properly weigh and address these issues before issuing the final rule.

The first issue is that additional capital requirements will be very limiting to credit unions growth and expansion to serve their members as long as there is the limitation of only being able to increase capital through net income. Additional capital restraints will only compound the existing problem that puts credit unions at a disadvantage to any other business that can add capital through various means to meet their needs. We feel it is not fair to impose additional capital restrictions without giving credit unions some tool to manage capital creation.

The next issue is the arbitrary standards we see in Section 702-105(c). This arbitrary ability to raise the standard forces credit unions to insulate themselves with capital levels well above the minimum regulation stated standards. This significantly drives up the costs of this proposed rule to the industry, and limits business activities that would benefit the members. This is not in the best interest of credit union members, or the industry.

We also feel that the implementation time-frame needs to be significantly lengthened. As stated earlier, with the only method to increase capital being net earnings, it takes several years to significantly build capital levels without drastically reducing member services. Therefore, we suggest an implementation time frame of at least 3 years from the rule finalization.

Our final and greatest concern is the Risk weighting factors, particularly for CUSO investments. This weighting illustrates the agency's continued lack of understanding of the value that CUSO's

bring to the industry in both net earnings and in reduction of risk factors. We fear that a couple bad experiences from CUSO's have forever tainted CUSO's as high risk when in fact the vast majority of CUSO's operate soundly and have saved credit unions millions of dollars.

CUSO's, although obviously seen as a greater risk to credit unions, actually reduce the credit unions risk and exposure in 3<sup>rd</sup> party relationships. If this rule is allowed to pass with this weighting in place, then you are penalizing credit unions for doing business with a CUSO, and potentially vastly limiting a tool and benefit to credit unions.

If a credit union chooses a non-CUSO vendor for a 3<sup>rd</sup> party relationship, they have absolutely no control of the risks involved. That is exactly how our CUSO started. Our credit unions were doing business with a for-profit company as a core systems provider that filed for bankruptcy in 1991 and basically shut their doors overnight. Just months prior to that, the credit unions were assured by the CEO that this company was stable and secure. Luckily, the credit unions were able to form a CUSO and hire former employees of this company to provide them support for their core system, otherwise they would have had not ability to support their systems and been in a very high risk situation.

Credit unions certainly can and do choose to work with 3<sup>rd</sup> party providers outside of the industry. These providers, whether or not they are sympathetic to credit union philosophies, are generally motivated into this space by profits to be made from the credit unions. They may provide a good product or service to the credit unions, but they have limited accountability and control for the credit union customers and could shut-down or withdraw from the credit union space at will, and with no warning to the credit unions. This is a real-live systemic risk.

Alternatively, a CUSO solution provides a method to collaborate to provide products and services at a lower cost and in a business structure that provides better transparency and control to the owners and users. And now with the new CUSO regulations, credit unions are ensured greater transparency and warnings of any CUSO issues which might cause a risk to their investment.

NCUA needs to understand and remember the inherent benefit of CUSO's:

- Often providing better products and services that from non CUSO vendors
- Greater control and transparency of the business operations
- Lower costs for products and services
- Profits stay in the Credit Union Industry (returned to members)

These are all benefits that flow ultimately on to the members of the credit union. Lower costs, greater control, and better products. There is no rational basis for penalizing credit unions for choosing an option with these benefits.

Here is a real-life story to illustrate our point. In 2007, after 16 years of being in business, we knew that our core software was aging and needed to be re-designed using modern technologies. We talked openly with our CUSO Owners about the 2 paths we could take. Either helping our credit unions find other solutions and shutting down the CUSO, or we could ask for funding for the creation of a replacement product.

We saw a lot of support over many discussions. At one point, Jeff Shaw from Wasatch Peaks Credit Union (Ogden, UT) pointed out that his share of this investment, although very significant, was still less than what he would have to spend purchasing an alternative solution, and was not an expense, but rather an investment with low risk because of the credit union ownership of the



CUSO. He also points out that any profits going into a CUSO stay in the credit union industry, and can be tracked to make sure it is reinvested into the products and for future cost reductions, compared to profits going to 3<sup>rd</sup> parties interests where the credit union has no control.

We estimate that we have collectively invested about \$5,000,000 (with under \$2,000,000 of that in actual capital investments from our owners) to revamp our complete core software system which is probably 30%-35% of what some competitors has spent on similar projects. Working collaboratively as a CUSO has allowed us to do that.

We have been operating as a multi-owned CUSO for over 23 years. We continue to operate with the vision of the benefit of CUSO ownership to any user of our services and almost all users have taken advantage of that opportunity to become owners. We conservatively estimate that we save our credit unions owners 30% in on-going costs for the services we provide over non-CUSO vendors. Although we are very small, that still represents over \$200,000.00 per year on average – creating a total savings of over \$4,600,000 to the credit union industry over the lifetime of our CUSO - just on on-going support costs. That represents a return on investment of over 200% to our owners – or in other words, even if they had to write-off their whole investment, they have benefited twice that potential expense already.

This is the benefit CUSO's can bring. To penalize credit unions for utilizing CUSO's just does not make sense. This is not a situation that should be punished, but should be recognized for the value it brings and encouraged! The bigger risk to the industry is if we put CUSO's at such a disadvantage that we take away the choice to business with CUSO's.

Again, we understand the need for Risk-Based Capital in the role of safety and soundness for the industry, but we strongly urge the NCUA to carefully make adjustments to ensure this rule creates better safety and soundness for the credit unions, and not just restrictions to doing reasonable business.

Sincerely,

Charlie Fulks, CEO

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