GATEWAY
servicesgroup

May 27, 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:

Gateway Services Group, LLC ("GSG") is an operational services CUSO which provides a variety of services to its credit union clients including outsourced program management for loan related insurance programs, outsourced program management for member investment services and trust programs, and assistance with loan participations. The foundation for all of the services provided by GSG are that GSG can employ the required specialized personnel and systems within the CUSO and then collaboratively share those specialized resources across a number of credit union clients, thereby delivering the highest quality solution at a cost effective price.

On behalf of GSG, I would like to provide the following official comment letter regarding the NCUA's recently proposed risk-based capital rule. We believe that there are many problems with the proposed risk based capital rule that will negatively affect our clients, GSG and other CUSOs, and the credit union industry. In addition, we believe that there will be unintended consequences if this rule is enacted in its current form which can cause further harm.

As a CUSO, the first concern we have with this proposed rule is that the risk weighting proposed for a credit union's investment in a CUSO at 250% is unwarranted and excessive. This relative risk weighting would imply that a credit union's investment in a CUSO, regardless of the business of the CUSO, is the riskiest type of investment a credit union can make. NCUA has even risk weighted delinquent unsecured loans at lesser levels than an investment in a CUSO. This makes no sense.

We want to provide you some context for why this type of risk weighting does not make sense and why we believe this risk weighting will prove harmful for credit unions and CUSOs. We believe the risk weighting level for a CUSO should be limited

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to the amount of its initial equity investment in that CUSO net of reductions from dividends or other return of capital.

When a CUSO is formed, the CUSO is required to be structured by its governing documents such that its credit union owners' liability, with regard to its investment in the CUSO, is limited to no more than its initial equity investment. CUSOs are required to obtain a legal opinion that validates that in fact the CUSO has been properly structured so that the credit unions' liability truly has been limited to that amount. Therefore, it seems inappropriate that NCUA would then risk weight the investment in conflict with this other requirement. .

This risk weighting could have the adverse affect of dissuading further investment in CUSOs or in the formation of new CUSOs. These adverse affects could be even more punitive for smaller credit unions or those with lowered capital positions, who would benefit even more from the additional revenue and cost savings which can be provided by collaboration and innovation offered by CUSOs.

CUSOs have added millions of dollars of value to credit unions' bottom lines via cost savings and delivering new sources of revenue. Much of the innovation that is occurring within the industry is happening within CUSOs, and the proposed rule could have the unintended consequence of hampering those very beneficial activities.

When CUSOs are formed, there is always a discussion on how much initial capital is required for the new business. It is very important that any new business including a CUSO have proper initial capitalization to carry out its mission and provide the services and returns to its owners. An unintended consequence of this new rule may be that CUSOs will be less than adequately capitalized leading to greater risk for credit unions.

Similarly, if credit unions see the new rule as too punitive in the risk weighting of CUSO investments they may hesitate to consider formation of a new CUSO or investing in an existing CUSO. This could mean potentially foregoing important sources of cost savings and new revenue.

There are many more credit unions that use the services of CUSOs and benefit from their business model, than those who were the initial founding equity owners. All of these credit unions are also benefitting from the CUSO collaborative model and are realizing cost savings or new sources of income. If you create barriers, through the proposed rule, you are also negatively impacting all of the other credit unions who are able to use these services from CUSOs. CUSOs are operated for the benefit of their credit union owners. The CUSO business model is constructed without the for-profit return requirements common in non-CUSO vendors. The application of this rule, when combined with the new CUSO rule enacted, has a chilling affect on the future for CUSOs.

The one-size-fits-all CUSO risk weighting standard does not take into consideration (a) what types of services are being provided, (b) whether the investment represents operational expenses that would be otherwise incurred at higher cost levels, (c) whether the amount invested is even material to the credit union, (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 weighting greater than 0% for the initial CUSO investment, there is no reason to continue to risk weight the amount if the initial investment has been fully recovered and/or offset by net income, dividends and/or cost savings generated by the CUSO.

In the case of GSG, our CUSO has been in business since 2003. Over our history, in addition to the cost savings we have provided to our credit union owners from the services we provide, we also assist them in increasing sources of non-interest income that they otherwise would not have realized. Lastly, our CUSO has paid cash dividends to our credit union owners providing a direct return on their investment. The company has never needed to ask for a capital call from our owners to support operational needs.

While some CUSOs, like GSG, return profits to their owners through dividends, many CUSOs, like GSG also provide a return to the credit union owners from the reduction in the operating costs or fees that they would have otherwise had to pay directly. For example, if our credit unions utilize GSG's specialized investment or insurance program management staff instead of hiring their own staff they do not have to pay salary or benefits for those staff but simply pay a flat fee to GSG for the services provided. This model is especially beneficial for smaller credit unions that do not require 100% of a FTE for their program. By using GSG, they can utilize a portion of our staff time, rather than having to incur all of the costs of putting an employee on their staff and maintaining their licensing, training, benefits, and management, etc.

By allowing credit unions to have access to the highest quality professional and technical resources within a CUSO, we have also seen that the credit union is able to have superior results and better coverage for their lines of business. A smaller credit union may only have the budget to hire one person in a specialty area like investments or insurance. GSG has multiple staff members on our team available to provide support to the credit union. This means that instead of having to deal with work delays and stoppages when one employee is sick or on vacation, GSG can provide full coverage to the credit union from a whole team of people at the CUSO.

Because GSG is able to hire very qualified and experienced staff and then share those resources across a number of credit unions, we have proven the ability to bring improved bottom line results to the credit union. For example, in our investment program management division, in a number of cases we have been able to successfully turn around ailing investment programs and bring the program from an expense item to a solid contributor of non-interest income to the credit union.

These types of returns, cost savings and contributions to income are a common outcome for many CUSOs.

We understand that the genesis of the 250% risk weighting level, was from NCUA's review of bank risk based capital rules and equating CUSO with bank options to invest in a broad array of unrelated and potentially risky businesses. Presumably, banks are making these investments to try and gain above average returns for their shareholders. This bears no resemblance to the reasons that credit unions form and use CUSOs. CUSOs typically are directly linked to an area of service it provides to its members, a way to say costs, or a way to leverage collaboration to better serve its members. Therefore, utilizing the bank risk based capital ranking for CUSO investments represents flawed logic.

We have been advised that NCUA intends to apply the CUSO capital risk weighting to both the initial cash investment made by the credit union *and upon the appreciated value in the CUSO.* This makes no sense. Why would you penalize the credit union for investing in a CUSO which has been successful and has grown the investment account for its owners? The increase in the capital account was not funded in any way by the credit union but by the success built in the CUSO. It is inappropriate for the risk weighting to apply to anything but the initial capital investment after reductions from cash dividends and cost savings.

In addition to the above referenced concerns about the risk weighting of CUSO investments, we are equally troubled by proposed Section 702.105(c). Suggesting that any regulatory agency, via its examination staff, can make a decision about a credit union's risk on a purely subjective basis is very dangerous. This provides no framework under which a credit union can manage and run its business. This proposed section invites inconsistent and potentially arbitrary applications of rules. It is critical to provide clarity around the capital and net worth expectations, so that a credit union board and management team can make the necessary strategic, business and fiduciary decisions. Section 702.105(c) must be deleted in its entirety.

Every day our focus at GSG is to assist our credit unions in generating non-interest income, expense savings and assisting them to thrive in today's economic climate. With interest rates at record low levels and with operational costs, personnel costs, costs of maintaining compliance and technology increasing exponentially, we believe CUSOs have helped credit unions generate net income and the very capital that NCUA seeks. We recommend that the risk weighting for CUSO investments is limited to the initial cash equity investment, net of any returns received from cash dividends received, and cost savings or new income generated by the CUSO.

The true risk, we believe is not the investment in a CUSO, but rather it is *not* investing in a CUSO to take advantage of the ability to share risk, reduce costs and increase income. We respectfully request that NCUA reconsider this proposed rule and implement regulations that will encourage the use of CUSOs 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,

R. Scott Jentz
CEO and Founder
Gateway Services Group, LLC

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