May 28, 2014

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

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

Dear Mr. Poliquin:

As the nation's leading credit union service organization (CUSO), PSCU is pleased to comment on the Risk-Based Capital Rule. For context, we are owned by nearly 700 member credit unions nationwide. PSCU delivers service, technology, product and pricing advantages they cannot achieve individually, and we deliver a return on equity to our members of 26%.

For us and our members, we believe the CUSO model works, and that's why we feel strongly that regulation that impedes the CUSO investment is dangerous to our industry and our members.

In its current form, the proposed Risk-Based Capital Rule stands to damage the health of credit unions rather than protect them. In fact, we believe it will ultimately discourage investment in CUSOs. We're counting on NCUA to prevent that from happening. As the governing body that regulates and protects the interests of credit unions, please consider the following recommendations to the proposed rule:

- **CUSO Investment Risk Rating:** The weighting of 250% will discourage CUSO investment and therefore undermine a strong underpinning of credit union health. **PSCU recommends that NCUA remove risk weighting above 100% for CUSO investments and loans.**
- **Examiner Discretion:** Section 702.105 allows an examiner to impose individual minimum capital requirements. This type of rule leaves credit unions in a constant state of uncertainty. **PSCU recommends eliminating the subjective standards for the examiners in Section 702.105.**
- **Implementation Date:** Once the rule is revised, credit unions will have to devote attention and resources to become compliant. **PSCU recommends the implementation time period should be extended to three years from passage.**

The true risk to the credit union industry is not the investments or loans to CUSOs; in fact, it's actually the opposite. The risk is not investing in CUSOs to share risk, reduce costs and increase income. PSCU is providing strength in numbers, and with these adjustments to the proposed rule, we can continue to do so for years to come.

Respectfully yours,

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Cc: Deborah Matz, Chairman
Michael Fryzel, Board Member
Richard Metsger, Board Member
PSCU Board of Directors

ATTACHMENT

CUSO Investment Risk Rating

For background, since their creation, CUSOs have been used effectively by credit unions to reduce expenses and generate income. Moreover, as stated previously, CUSOs such as PSCU foster collaboration and innovation. For example, PSCU has created a mobile wallet by investing millions of dollars to enable credit unions to extend their reach and deliver a unique mobile experience to their members – not something that could have been accomplished by any credit union alone. The proposed CUSO risk weighting of 250% will have a chilling effect on credit union industry investment in cooperative entities that are revitalizing them. Investments in innovation, such as PSCU's continuing investments in mobile, would be jeopardized.

We understand that the CUSO investment risk rating was calculated from an attempt to incorporate an approach similar to how BASEL III risk rates bank equity investments. If that is the case, this approach is flawed in its basic assumptions because banks have the power to make investments in a number of types of organizations and the value to the bank is measured in the ability to receive income through dividends or upon an equity sale. These bank investments are not made in companies like CUSOs that are serving as collaborative cost sharing platforms. CUSO investments, on the other hand, are often based on cost sharing alone, and many credit unions benefit greatly by CUSOs that never make any distributions. Unlike the banking investment powers, the CUSO risk exposure is limited to an immaterial level. The 22 basis points of credit union assets invested in CUSOs industry-wide is also less than the annual 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. What would be material is the elimination of the cost sharing and innovation that so many credit unions enjoy. NCUA would be making a huge mistake by not recognizing the adverse policy implications of applying the BASEL bank investment risk ratings to CUSO investments.

We particularly disagree with the premise that the 250% CUSO investment weighting was established accurately as a Category 9 risk, since in its Letter to Credit Unions No. 13-CU-13 NCUA states that the new CUSO rule is necessary because NCUA does not have "accurate information" on CUSOs. Risk weighting an asset at greater than 100% should only be based on data that such asset has an objectively higher level of risk and, since NCUA does not have accurate information about CUSOs, CUSOs should only be risk rated at 100%.

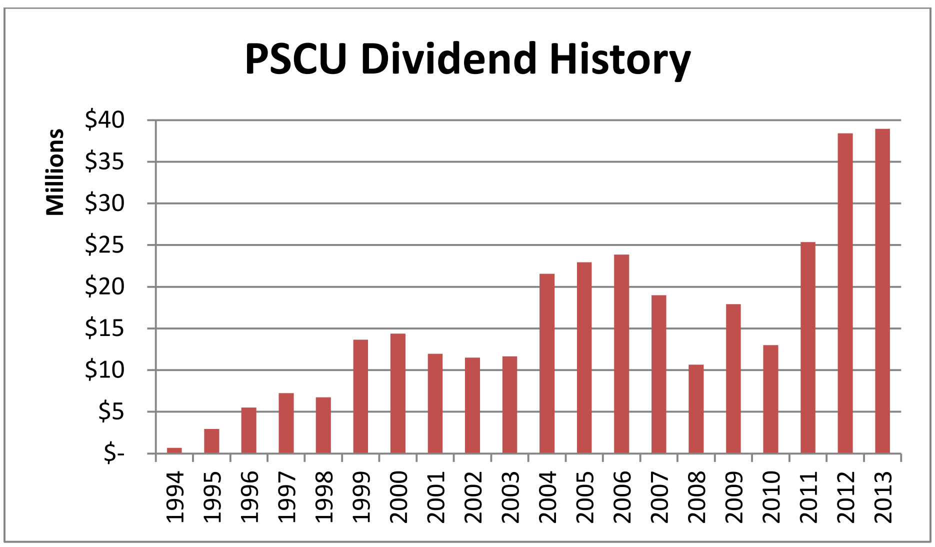
Additionally, we object to the CUSO investment risk rating being disproportional when compared to other risk ratings. For example, delinquent consumer debt over sixty days is risk rated at 150% and delinquent first lien mortgage debt is risk rated at 100%. Yet investments in CUSOs that have added millions to the bottom line in the form of both earnings and savings to credit unions over the past decades are somehow deemed riskier, with a 250% risk rating. Given the significant credit union losses on consumer debt and mortgages in the recent financial crises, it is untenable to weight CUSO investments with a substantially higher risk. We have not seen any evidence to support NCUA's position that CUSO investments are almost twice as risky as delinquent consumer debt and more than twice as risky as delinquent first lien mortgage debt. Without hard evidence, these percentages are arbitrary and unsupported.

Another concern is the one-size-fits-all nature of the 250% risk weighting. All CUSOs are not alike. CUSOs like PSCU serve hundreds of credit unions and generate millions of dollars a year of net income for those credit unions, while other CUSOs are much smaller and may solely be used for operational services. The CUSO investment risk analysis does not factor in: (a) the materiality and timing of the amount(s) invested, (b) whether dollars are actually invested or the investment amount is solely based on profits, (c) whether the investment represents operational costs that would be otherwise incurred by the credit union, (d) whether the investment amount has been fully recovered by the credit union through cost savings or additional income, (e) whether the CUSO has a history of profitability, or (f) the types of services that are being provided.

CUSO investments and loans are already strictly controlled, due to the already established CUSO investment and loan regulatory limits in place. We respectfully suggest instead that the credit union supervisory process is the appropriate mechanism for addressing any credit unions where the NCUA believes that the CUSO investment of the credit union creates excessive risk to the credit union.

Our industry loses 3% of our credit unions every year due to factors such as competitive pressures, the need for increased technology investments, and regulatory burden; that rate could increase significantly if the full impact of the new regulatory compliance onslaught overwhelms credit unions. At the very time that CUSOs are needed to help sustain credit unions, we are greatly concerned that NCUA is creating a regulation that will be a disincentive for investments in CUSOs.

We understand that NCUA intends to apply the CUSO capital risk rating to both the investment made by the credit union and the appreciated value in the CUSO. PSCU has been fortunate that we have been able to pay millions in dividends to our member owners, while at the same time enabling them to build millions in allocated equity in PSCU. Below is a chart showing the annual dividends issued by PSCU over the last 20 years.



Applying the CUSO capital risk rating to both the investment made by the credit union and the appreciated value in the CUSO would have the net effect of NCUA penalizing the success of a CUSO by requiring the credit union to reach into its pocket and set aside additional capital on the profits earned by the CUSO.

Change of Risk Ratings by Examiner Discretion

We are highly concerned about proposed Section 702.105 given that the new Rule allows an NCUA examiner to change the requirements at any time.

Unlike the existing statutory net worth rules, known as Prompt Corrective Action (PCA) regulations, credit unions will no longer have clear rules by which to run their credit union to avoid corrective action by their regulatory agency.

This proposed section also invites inconsistent and potentially arbitrary applications of rules. To provide the clarity of capital and net worth expectation that a credit union board and management team must have in order to make strategic business and fiduciary decisions, subjective standards should be eliminated.

Moreover, Section 702.105 undermines the entire purpose of the regulation. On one hand, the NCUA is saying that the risk weights are designed specifically to factor in a number of risks including concentration risk, interest rate risk, market risk, operational risk, credit risk, and liquidity risk. On the other hand, if the NCUA decides that their risk-based capital ratios do not work as they are designed, then the NCUA examiner can change the rules for an individual credit union. Also, the arbitrary and subjective judgment of the examiner can differ from credit union to credit union and examiner to examiner. With a constantly moving set of rules, credit unions would not be able to simply look at their balance sheet and adhere to the standards laid out in the risk based capital regulation. Section 702.105 should be deleted in its entirety.

Implementation Date

As we have said above, we believe that the Risk Based Capital Rule needs to be substantially rewritten. Once that is done, the proposed implementation date of eighteen months after final passages is an unreasonably 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 an implementation period of no less than three years from final passage. That time period is much more consistent with the time frames extended to the banking industry as their regulators have implemented the BASEL III capital standards and given the impact of this change, it is a more reasonable time frame.