April 27, 2015

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

Re: Comment to the Second Proposed Risk-Based Capital Regulation

Dear Mr. Poliquin:

Callahan Credit Union Financial Services LLLP (CUFSLP) appreciates the opportunity to submit comments regarding the second proposed risk based capital rule (RBC2).

By way of background, CUFSLP has provided innovative credit union-focused investment options and member solutions throughout its 27-year history as a Partnership. Examples of these innovations include the Trust for Credit Unions, the first and largest family of credit union mutual funds (launched in 1988); Credit Union Online Organizational Link, launched in 1995 to help credit unions establish a leading presence in the internet delivery channel; Procura, launched in 2005 to provide a credit union-owned purchasing card program to the industry; and Credit Union Student Choice, launched in 2008 with a goal of positioning credit unions as value leaders in college education financing.

Our 37 credit union Limited Partners are leaders in pursuing collaborative solutions to deliver member value. Their ability to contribute to and draw on shared intellectual, operational, and financial resources is a core reason for their participation in our Partnership. This provides the opportunity for them to realize significant benefits for their organization and members while making a relatively small investment of time and resources.

We are pleased to see the obvious effort NCUA has put into this revised rule. We see significant progress in the areas of greatest concern to us as a Partnership, but not nearly enough to make the CUSO-related provisions reasonable, equitable, and constructive. Later in this letter, we expand on our specific concerns and offer some recommendations for a risk-weighting scheme that would properly reflect both the risks and the benefits that the unique concept of the CUSO represents for the credit union movement.

First though, we would be remiss as a Partnership of credit unions if we did not share at least a couple of our concerns about this proposed rule generally. Simply put, we continue to believe that this rule is unnecessary and ill-considered: a poor solution for a problem that does not exist.

On foundational grounds, we believe that this rule (1) will not make the movement stronger or protect the NCUSIF; and (2) lacks the requisite legal clarity.

RBC2 will not make the movement stronger or protect the NCUSIF

Insufficient capital does not cause the failure of natural person credit unions; criminality and human error do. Any rule that would shift regulator and management attention from those risks not only increases overhead with no concomitant benefits, it increases underlying risk as well. Therefore, if implemented, we believe this rule will not make the movement stronger nor the NCUSIF safer and may actually increase the risk for both.

RBC2 lacks the requisite legal clarity

We also have great concern about the potential risk associated with the lack of legal clarity surrounding this proposal. Regulatory uncertainty is an even greater "tax" on regulated institutions than regulation itself. The long path to full implementation, while not without its own problems, is on balance a major improvement in this proposal versus the first version; however, that long timeline exacerbates the risks and costs associated with the legal ambiguity.

Specific revisions regarding CUSOs

NCUA should withdraw the rule based on the foundational arguments made above. Failing that, as a Partnership and therefore a CUSO, we ask specifically (but not exclusively) for revisions to the proposed rule and that a risk weight of no more than 100 percent be assigned to CUSO investments. Credit union equity investments in CUSOs are (1) "non-significant," and as such should receive a risk-weighting commensurate with FDIC's weighting of 100 percent; and 2) an important means to raise the very capital that serves as such a valuable cushion to the credit union system as a whole.

CUSOs are Non-Significant Equity Exposures, requiring a weight that is commensurate with FDIC's risk weight of 100 percent

In the comments to the RBC2 proposal, NCUA recognizes its proposed risk weights are derived from a review of FDIC's capital treatment of bank service organizations (80 FR 4340, at 4401). The comments note, "FDIC's rule looks across all equity exposures. If the total is 'non-significant' the entire amount receives a risk weight of 100 percent." (80 FR 4340, at 4401, citing Section 3.152 of FDIC regulations). FDIC defines "non-significant" equity investments as investments of less than 10 percent of the institution's total capital.

NCUA already prohibits an FCU's total, aggregate, investment in CUSOs to exceed 1% of its paid-in and unimpaired capital and surplus. This is a maximum exposure to this set of risks that is one-tenth the exposure considered by the FDIC as "non-significant." By any reasonable definition, therefore, credit union investments in CUSOs must be considered and treated as "non-significant."

Since NCUA has acknowledged basing RBC2 weights on FDIC weights and regulations, there is no reason why NCUA should weigh "non-significant" CUSO investments at a higher weight than the FDIC otherwise would, particularly when the maximum exposure possible is only 10% of what the

FDIC finds reasonable. We urge NCUA reduce the weight of credit unions' equity investments in CUSOs to a level that is no more severe than FDIC's 100 percent for "non-significant" investments.

CUSOs provide economies of scale and an important means of raising capital

As NCUA acknowledges in its proposed rule, credit unions are limited in the means and ways they raise capital, which is mainly through retained earnings. In today's economic environment, retaining earnings is becoming more difficult due to low interest rates and higher operational costs, including for regulatory compliance. These combine to produce smaller margins. CUSOs provide a way for credit unions to combat narrowing margins in ways that should be encouraged.

Many credit unions invest in CUSOs to share the fixed cost of operations that would otherwise be redundant if replicated at each institution. For example, CUFSLP allows its 37 Partner credit unions to collaborate on research projects and initiatives rather than have 37 individual projects focusing on the same research.

Additionally, many CUSOs generate additional income for their credit union investors, which can then be retained as capital and help the credit union protect against potential losses, which is in line with the stated goal of NCUA's proposed rule. This income can often greatly exceed the amount of capital invested in the CUSO in the first place. For example, though a majority of CUFSLP's investors have invested less than $150,000 each, the CUFSLP Partner credit unions have earned over $11 million in direct dividends from the CUSO Partnership over its history.

Potential losses are limited and clearly identifiable

Many CUSOs have limited liability agreements with their credit union owners which limit their loss to outstanding equity capital. For example, CUFSLP's Partnership Agreement limits the liabilities of its Limited Partners solely to the amount of their capital contributions. If a need for more capital arises, a majority of the credit union Partners must approve an infusion, and even then, each credit union Partner has the *option* not to contribute. There is no requirement to keep providing capital. Each Partner can invest to a level they are comfortable with.

Conclusion in regards to CUSO weighting

For all of these and other reasons, NCUA should encourage investment in CUSOs by lowering the proposed risk weight of CUSOs, and accommodating investments in CUSOs that reduce costs, increase retainable income, support strong capital levels, and in many other ways are in the interest of credit unions, their member-owners, and the credit union system.

CALLAHAN CREDIT UNION FINANCIAL SERVICES LIMITED PARTNERSHIP

General conclusion

With these and other concerns in mind, we strongly urge the Board to withdraw this rule, not for further revision, but for more study of the actual need and of the legality of this approach, and also for consideration of using the core provisions as the basis of guidelines for examiners – as a tool instead of a rule.

Sincerely,

Jay Johnson

Jay Johnson
President
Callahan Financial Services, Inc.,
CUFSLP General Partner

cc. Deborah Matz, Chairman
J. Mark McWatters, Board Member
Richard Metsger, Board Member