December 14, 2010

Mary Rupp, Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428
Email: regcomments@ncua.gov

Re: Comment to the Proposed Corporate Credit Union Rule

Dear Ms. Rupp:

On behalf of the credit unions and CUSOs comprising the membership of NACUSO, we wish to express our significant concern over some provisions of the proposed Corporate Credit Union Rule. As a precursor to our comments, we want to emphasize the importance of CUSOs to the credit union industry, especially at this point in time. In order to survive in today's economic and regulatory climate, credit unions need to find additional revenue streams and reduce operating expenses. CUSOs provide opportunities for credit unions to earn non-interest income. For example, the credit union industry has earned millions of dollars from networking arrangements with broker/dealers and insurance brokers while providing valuable financial products to members. One broker/dealer CUSO has also paid millions of dollars of ownership distributions to their credit union owners. Likewise the credit union industry has saved millions of dollars in operational costs by combining back office services. These savings often come with additional benefit of a higher level of expertise due to leveraging scale. If the credit union industry is to survive and thrive again, the role of collaboration and CUSOs must increase.

We are very concerned with the requirement, under proposed Part 704.21, that a CUSO using the services of a corporate credit union must pay a "voluntary" payment to the TCCUSF. CUSOs are not disinterested third party providers. CUSOs are the collaborative extensions of the credit union owners and users. Assessing CUSOs would be a double assessment against the federally insured credit union owners, which will deter credit unions from forming CUSOs or, if formed, would force CUSOs to look outside of the credit union industry for liquidity. While we understand that this payment is "voluntary," it is highly unlikely that any corporate credit union

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would not enforce the voluntary assessment by expelling CUSOs that do not pay, given the regulatory pressures all corporate credit unions now face.

We understand NCUA's interest in shortening the period required for the NCUSIF to repay the US Treasury for the corporate stabilization expenses and we share that interest. Likewise, we recognize that NCUA has long felt that the NCUSIF could potentially be compelled to bail out non-federally insured credit unions if they fail because this could pose a risk to the industry confidence. However, there is no expectation that NCUA would bail out a failing CUSO or that the failure would cause an industry confidence risk. Servicing the financial needs of CUSOs is not a systemic risk to the corporate credit unions. Thus, there is little, if any, compelling reason to include CUSOs in this "voluntary" assessment.

The ability of credit unions to invest in innovative new CUSOs is already being adversely impacted by ongoing corporate stabilization assessments which restrict available investment dollars at natural person credit unions. An indirect second assessment on the credit unions that have ownership interests in CUSOs would seem to go well beyond the "fair share" stated purpose of this provision and will undoubtedly result in some stifling of collaborative innovation. Every CUSO relationship that a credit union has will subject that credit union owner to an additional assessment if the CUSO uses the services of a corporate credit union. For that reason alone, we have great concerns over the unintended consequences of this proposal. When coupled with the fact that there is currently no statutory authority for the direct regulation of CUSOs by NCUA, we strongly feel that this provision goes well beyond the bounds of appropriate and authorized regulation – at least as it relates to CUSOs.

Therefore, we ask that either this "voluntary assessment" provision be removed in its entirety or that CUSOs be excluded from this provision.

We are also concerned about the restriction that credit unions may only be members of one corporate credit union as set forth in proposed Section 701.5. The reason given for this is that this will prevent "unhealthy competition" in "rate chasing." While irrational rate chasing no doubt caused significant problems in some corporate credit unions, we submit that your remedy will create more problems than it cures. Your proposal not only prevents unhealthy competition, it prevents *healthy* competition by which we meant to incent corporate credit unions to continue to improve their service offerings to win and retain business. The stifling of competition has rarely produced positive results for an industry.

Once a natural person credit union has made an equity investment as a member of a corporate credit union and integrated the corporate credit union's services into the natural person credit union's operations, it is highly unlikely that the natural person credit union will change its corporate credit union affiliation. The process and timing of withdrawing capital and disrupting services is too big a hurdle to overcome for many natural person credit unions. A credit union will be stuck with taking whatever their corporate credit union offers; good or bad.

NCUA's philosophy has been that competition among natural person credit unions will result in better services to members. We concur with that philosophy and submit that it is much

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healthier for the industry to also permit competition among the corporate credit unions. Natural person credit unions will gravitate to the best value offered if they are not locked in to one corporate credit union by regulation. If your unstated goal is for the marketplace to lower the number of corporate credit unions for the sake of the industry's economic viability, this provision will slow that process down considerably.

We submit that the better way to handle your concern is to limit the types of investments corporate credit unions can make to reduce the investment risk, which you have done. Your proposal does not take into consideration the fact that natural person credit unions, the examiners and corporate credit unions have learned a great deal from this crisis. There is increased due diligence, oversight and application of better investment practices that have not been considered as factors to prevent future irrational rate chasing.

We do not think it is wise to dilute the credit union industry's internal support system. Natural person credit union need options and this rule, if implemented, will reduce those options. If a corporate credit union's services become non-competitive, its natural person credit union members will be compelled to seek solutions outside of the credit union industry. The CUSOs that support credit unions will also be compelled to seek options outside the industry. Perhaps even more so if the NCUA's one corporate credit union rule is interpreted to mean that a CUSO cannot be served by a corporate credit union if the CUSO is not 100% owned by credit unions that are members of that corporate credit union.

Therefore, we ask that the one corporate credit union provision be removed.

In responding to a crisis, there is always a great danger in over responding and regulating to prevent a reoccurrence of the situation that caused the last crisis while unintentionally creating a new framework for the next crisis. We encourage NCUA to consider the following as guiding principles in crafting regulation:

1. Competition is a necessary component of a vibrant and growing industry that serves members well. If any regulation is needed to prevent an unsound business practice, it must impose the least restriction as possible on competition.

2. The only way out of this crisis is for credit unions to earn their way out and regulation that reduces opportunity for well run credit unions to grow, increase capital and pay assessments impedes the recovery of the industry.

3. Collaboration is essential for credit unions to earn greater net income, grow capital, lower their costs through economies of scale and operate with greater expertise than they can achieve on their own. Regulation should promote and encourage collaboration.

In summary, the double assessment of credit unions through CUSO relationships that use the services of corporate credit union is inequitable, unjustified and, in our view, lacking in statutory authorization as related to CUSOs. There are much better methods to avoid your concerns of irrational rate chasing than stifling all competition among corporate credit unions.

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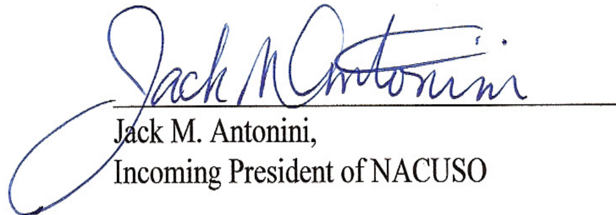
The "one size fits all" approach facilitates the application of regulations but it does not recognize the diverse needs of credit unions. We are very concerned that the unintended consequence of your proposed regulation will reduce the liquidity that is needed for well managed natural person credit unions to grow the industry out of the current crisis. No track team has won a race if every runner has to wear a leg brace regardless of whether the runner is injured.

We thank you for the opportunity to comment and respectfully ask that you reconsider and remove the obligation by a CUSO to make a "voluntary" payment to the TCCUSF and the one corporate credit union restriction.

Very truly yours,

Thomas C. Davis,
President of NACUSO



Jack M. Antonini,
Incoming President of NACUSO