PSCU FINANCIAL SERVICES®

SHARED VISION. SHARED VALUES.℠

June 18, 2008

Mary Rupp
Secretary to the Board
National Credit Union Association
1775 Duke Street
Alexandria, VA 22314-3428

Re: Comment on Proposed Rule 712, CUSO Amendments

Dear Ms. Rupp:

PSCU Financial Services, Inc. ("PSCU-FS") submits the following comments on Proposed Rule 712, CUSO Amendments.

PSCU-FS supports the proposed changes to allow CUSOs to originate and hold credit card on their own behalf or on the behalf of credit unions. The reasons for this support are listed below:

- There are "industry solutions" within the marketplace, however, they play a very small role in the overall acquisition and origination market for credit union's credit card portfolios, for example:

  Town North Bank uses a bank charter to facilitate purchasing portfolios;
  Wescom, via their state charter; and
  The Members Group is a participant due to its unique charter structure.

  While each is an attempt at an "industry solution", all are limited on who can participate in the ownership. <u>By using the CUSO structure, multiple credit unions and other CUSOs would be able to invest, therefore facilitating a true "industry solution".</u> It would also give CUs that were selling the assets to the CUSO the ability to participate in the ownership by becoming a member of the CUSO. By structuring as a CUSO with CU ownership, the CUSO goals, the credit union industry's goals and the individual credit union's goals would be much more closely aligned.

- The CUs' sale of their credit card portfolios has remained steady over the past half decade. Virtually all of these sales have been to banks of significant size: MBNA (now BofA), Elan (USBank), Chase (and it predecessors FirstUSA & BankOne), Fifth/Third, First National Bank of Omaha, etc. The following information from Brookwood Capital recaps the historical sales of CUs selling portfolio's greater than $1mm. In the last 6 years, over $2 billion of assets have left the credit union system:

Year	Credit Union Portfolios Sold	Total Outstandings	Average Size
2002	41	$285 million	$7.0 million
2003	59	$419 million	$7.1 million
2004	67	$459 million	$6.9 million
2005	65	$481 million	$7.4 million
2006	69	$466 million	$6.7 million
2007	61	$377 million	$6.2 million

Because of the NCUA regulations, credit unions have been unable to create a marketplace for buyers and sellers with the credit union industry. This barrier has forced CUs to sell not only the tangible asset – credit cards, but the intangible asset – member information and member relationships - to their significantly larger and commercial competitors.

In the best case this creates friction between the selling stakeholders (a credit union's members) and the purchasing stakeholders (bank investors) who have a fundamental difference in their core mission (returning value to the member vs. maximizing return to the shareholder).

In the worst case scenario, the sale can lead to increased pricing and decreased level of support to the credit union member. In addition, cases of cross selling bank services to credit union members may be occurring, especially if the agent contract between credit union and bank has expired and not been renewed.

- As stated above, a very limited market exists with in the CU industry to buy and sell credit card assets. By allowing the formation of CUSOs that can originate, buy, hold & sell credit card portfolios, the credit unions will be able to have a viable alternative to selling the credit card portfolios and their member information to their biggest rivals. PSCU believes that by allowing CUSOs to enter the market, credit unions will be able to make better, and more well informed decisions about credit card programs and portfolios on behalf of their members.

- The credit card industry has evolved to a very few issuers controlling the vast majority of the accounts in the market. By accumulating a vast number of accounts these issuers have been able to invest heavily in a number of significant areas that credit unions are unable to amass the scale to perform. These areas are:

    - Risk Management
        - *Credit Risk* – risk management professionals and the associated tools that would allow for serving the broadest possible spectrum

membership at the appropriate pricing for the associated risk profile. It would also facilitate the ongoing monitoring of risk within the portfolio to allow the appropriate adjustments in underwriting, collections, etc.

    - *Fraud Risk* – while processors such as PSCU-FS have made significant investments in the tools available to the credit unions, the CUs are still challenged with the time, tools, technology and talent to devote to reviewing and making appropriate business decisions to ensure their members are minimally impacted by cardholder fraud.
    - *Market Risk* – CUs are challenged by accessing the risk in their markets (often geographic) and do not have the time or necessarily the talent to devote to identifying the market risk specific to unsecured revolving credit.
    - *Interest Rate Risk* – while all credit unions have Asset Liability Management ("ALM"), its sophistication varies significantly by financial institution. It the vast majority of cases, the ALM process does not have access to the tools available to the larger issuers for managing their interest rate risk.
    - *Operational Risk* – the challenge for CUs is often trying to "fit" credit card operations into operational areas that have competing products and demands for their time and attention. Often credit card gets short changed and does not have the oversight or controls needed.
    - *Reputational Risk* – due to the lack of credit card specific knowledge, CUs are very vulnerable to reputation risk regardless if they issue the card or they are in an agent relationship with the card issuer.

- <u>Advertising & Marketing</u> – CUs often lack the scale to devote full time resources to successfully run direct mail campaigns, to deploy appropriate telemarketing resources or have web systems to advertise or fulfill member requests for new or additional credit card services.

- <u>Underwriting</u> (see *Credit Risk* above) – CUs often lack the most up to date tools available to make good underwriting decisions. In addition, CUs often are unfamiliar with regulations specific to credit card lending. Furthermore, most CUs do not properly assess the risk of an account once the initial underwriting is complete. This extends to understanding and managing the risk profile of the entire portfolio.

- <u>Collections</u> – CUs usually lack the scale to build collection units specific to collecting unsecured revolving debt (often small balances, etc.) and the resources that they do have available are challenged collecting secured debt. The CUs often don't have the financial ability to invest in the tools to collect (predictive dialers, etc.) or the resources to collect (e.g., staffing for evenings and weekends).

- Professional portfolio managers - most credit unions do not have the scale to devote resources to a "full time" credit card portfolio manager. Those that do make this commitment often do not hire seasoned credit card professionals to perform this function due to the cost.

- Financial Acumen – credit unions are challenged on a number of fronts – this includes pricing the product, understanding the profit and loss for the product, valuing the credit card asset, or buying and selling the asset.

PSCU-FS believes that CUSOs with a specific purpose charter and staffed by credit card professionals could address the aforementioned areas – either by investing in the talent to perform these functions or by making informed decisions regarding the outsourcing of these functions based on their experience.

We do have concerns with some of the proposed regulatory language. The proposed regulation references two regulations which may cause a CUSO to face challenges in establishing itself and its ongoing viability.

- *Not allowing the CUSO to accept deposits* – at a minimum this will cause the CUSO to lose the easiest and lowest-cost funding source. The CUSO will be forced to borrow funds at a higher rate of interest than they may have by raising deposits. We believe that commercial (i.e., non-consumer) deposits are appropriate for a CUSO.

  In addition to the loss of a funding source, the inability to accept deposits may cause an unanticipated barrier with Visa and MasterCard. It is our understanding that another barrier in issuing cards was the associations' requirement that the issuing entity be an insured depository institution.

- *NCUA's loan participation rule* – would prevent the new CUSO from using a balance sheet management tool available to banks. The large credit card issuers have access to the securitization market that the CUSO would not have due to scale. By allowing the sale of loan participations to credit unions, the CUSO would benefit from funding and loan loss provision prospective. The CU would benefit from buying a high yielding asset that was managed by credit card professionals at the CUSO. We note the comment that the NCUA loan participation rule would not support the sale to federal credit unions of participation interests in a credit card portfolio, which consists of open-end, revolving credit. We respectfully request that the loan participation rule be reviewed, as the rule is outdated, and not just as to open-end revolving credit.

Currently the CUSO Regulation is reviewed every three years. The concern of PSCU-FS is that the financial marketplace moves at such a fast pace that the ability of credit unions to respond to the market is greatly impeded if a credit union could not get a request before the Board sooner than once every three years. It is now more likely than ever that viable opportunities are not explored or tested because the CUSO or CU believes the time barriers to market are too great to make the pursuit worthwhile. True, competitive innovation in our industry may be discouraged or lost. We do not want to lose the ability to get a proposed service on the agenda of NCUA on a relatively expedited basis if warranted.

Thank you for the opportunity to provide comments to these proposed amendments.

Sincerely,

Steve Salzer

Steve Salzer
General Counsel