TMG FINANCIAL SERVICES

June 25, 2008

Mary Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314-3428

Dear Secretary Rupp:

Please accept this communication as TMG Financial Services' comments on the NCUA's proposed revisions to the CUSO regulations, NCUA Rules and Regulations Part 712.

Adding Credit Card Loan Origination to CUSO Permissible Activities

As a CUSO formed by the Iowa Credit Union League and Iowa Corporate Central Credit Union in 2007 to provide a credit union-oriented solution to credit unions selling their credit card portfolios, we support the proposed changes to adding credit card loan origination as a permitted activity. We have seen a clear need in the marketplace to have a credit union-owned solution that can purchase portfolios and partner with credit unions in a different way of offering a robust credit card to their members. A CUSO can aggregate the credit card operations to obtain economies of scale that are critical in the credit card lending business, as evidenced by the fact that the top 10 bank issuers control 90 percent of the market share in the United States.

Loan Participations and Credit Card Portfolios

We support clarifying that a CUSO has the ability to buy and sell participation interests in loans they are authorized to make. We do not support, however, the comment that "the Board notes that NCUA's loan participation rule would not support the sale of FCUs of participation interests in a credit card portfolio, which consists of open-end revolving credit." This seems to make a distinction that we respectfully believe is not supported by existing regulation. The loan participation rules, in fact, are silent to participations with open-end credit. While the vast majority of loan participations to date have been made in regards to closed-end loans, we believe this restriction is detrimental to credit unions.

As credit unions sell their credit card portfolio, they are in need of replacing the yield associated with their credit card program. We continue to be interested in providing a loan participation vehicle for credit unions to participate in the credit card portfolio we are building. This keeps the yield in the credit union industry and allows credit unions who sell their portfolio to our organization to remain involved in the financial transaction regarding their members.

The alternative to a loan participation program for credit card loans is for CUSOs to fund receivables through investment or loans to the CUSO or via other non-credit union options. Because of the federal caps on CUSO investments and lending, this would restrict the ability for the credit unions participating in the CUSO to financially benefit from the success of the program through direct participation in the credit card portfolio. We believe that NCUA needs to examine the loan participation rule as the innovation in the credit union industry has outpaced the rule and it needs to catch up or risk not being an effective means to balance the business needs of the credit unions with effective safety and soundness practices.

We also support the ability to "pool" credit card loans for loan participation. This ability to pool loans creates risk diversification for credit union participants. For example, when a major event impacts a community (i.e. natural disaster, major employer layoffs), the impact on an issuer like Capital One is minimal because their portfolio is national in scope, while the impact on a local credit union could be devastating. The ability to create a pooled loan participation program allows credit unions in this environment to diversify their risk by geography and employer.

While NCUA has been vigilant in ensuring credit unions complete due diligence on every loan in a typical participation, credit card lending is significantly different than member business lending or mortgage lending. The credit quality of a credit card portfolio is determined by the characteristics of the overall portfolio. For nearly all statistical reporting, including that provided Federal Reserve Board, charge-offs and delinquency are measured for the overall portfolio. We believe the ability for credit unions to participate in a pool environment and diversify their risk enhances the safety and soundness of the program.

Amendment Requests, Part 712.7

On the topic of amendment requests, we would support amending Part 712.7 but not deleting it. Part 712.7 enables requests for additional permissible services to be considered on a timely basis, including one such as our request to add "credit card loan origination" services. Currently the CUSO regulation is reviewed every three years. With the fast pace of market innovation, the credit union industry could be disadvantaged if this rule is only reviewed once every three years. If NCUA has concerns on the timeframes that a request must be addressed, certainly we would support providing staff and the board with ample time to review and act on requests to support the safety and soundness of the industry.

CUSO Pilot Program

While not proposed in this CUSO rule revision, we would support an addition to the rule to allow for CUSO pilot projects, similar to the investment pilot rule. With the increasing pace of innovation in the financial services industry, as well as the expanded use of CUSOs to create economies of scale in the credit union industry, this seems a prudent way to balance safety and soundness concerns, while enabling innovation. A CUSO pilot rule would allow for CUSO management and NCUA to each accomplish their mission in a balanced manner. Setting concrete objectives and measurements for a pilot prior to authorizing a business activity would allow for NCUA to proactively monitor the risk of a new idea on the industry. Likewise, it would foster the ability for credit unions and CUSOs to build innovative ideas without creating an environment where the rules could be applied in an unintended way. We believe a CUSO pilot rule would greatly benefit our particular CUSO as we look for ways to help credit unions grow in the credit card industry.

We appreciate the opportunity to comment on the proposed rule. If you have any questions, feel free to contact me at 515-457-2000.

Sincerely,

Jeff Russell
Executive Vice President
TMG Financial Services