WISCONSIN BANKERS ASSOCIATION

June 30, 2008

VIA EMAIL at *regcomments@ncua.gov*

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

Re: Proposed Rule 712 and 741 related to Credit Union Service Organizations, RIN 3133-AD20.

Dear Sirs and Madams:

The Wisconsin Bankers Association (WBA) is the largest financial trade association in Wisconsin, representing approximately 300 state and nationally chartered banks, savings and loan associations, and savings banks located in communities throughout the state. WBA appreciates the opportunity to comment on the proposed amendments to the National Credit Union Administration's (NCUA) rule on credit union service organizations (CUSOs).

While credit unions in the state of Wisconsin are almost exclusively state-chartered, WBA is very interested in the outcome of this proposed rule as Wisconsin's credit union regulator often requests changes to state law to coincide with changes in federal credit union law. Wisconsin financial institutions compete with credit unions every day and have a vested interest in ensuring that such competition occurs at a fair and balanced level, in a manner that is safe for the industry, and promotes the public's faith in the integrity of the financial system as a whole.

WBA believes that the amendments as proposed will have the opposite effect of NCUA's stated, desired goal of enhancing CUSO operations and addressing safety and soundness concerns. For the reasons set forth below, WBA is strongly opposed to the proposed rule and urges NCUA to withdraw it.

The Proposal Expands Customers Eligible for Services from a CUSO Without Substantive Justification.

The proposed rule would expand the customer base for CUSOs offering checking and currency services and electronic transaction services to persons who are simply *eligible* for membership in a credit union, regardless of whether they are, in fact, a member. The justification for this proposed change is premised on the Financial Services Regulatory Relief Act of 2006 (FSRRA), which amended the law for federal credit unions (FCU) to permit FCUs to provide certain financial services to persons within their fields of membership, regardless of their membership status. More specifically, the FSRRA authorizes FCUs to sell, to

4721 South Biltmore Lane
Madison, WI 53718

P. O. Box 8880
Madison, WI 53708-8880

608-441-1200
Fax 608-661-9381

www.wisbank.com

persons in the field of membership, negotiable checks (including travelers checks), money orders, and other similar money transfer instruments (including international and domestic electronic fund transfers); and to cash checks and money orders, and receive international and domestic electronic fund transfers for persons in the field of membership for a fee.

NCUA concludes that since FCUs received this expansion from Congress, a parallel expansion in the customer base definition of a CUSO is warranted. WBA strongly disagrees with this conclusion. In current law, the customer base requirement restricts a CUSO to primarily serve credit unions that invest in or contract with a CUSO, and their membership. If Congress intended for the FSRRA provision expanding those persons eligible for certain FCU services to also apply to CUSOs, then Congress would have enacted the law to expressly permit this. However, Congress did not, and the proposed rule does not articulate any substantive justification why NCUA reasonably believes a CUSO would need to be treated in the same manner as a FCU, other than a CUSO provides services on behalf of a credit union.

Moreover, if NCUA believes an expansion in a CUSO's customer base is necessary because of the provisions in FSRRA, then NCUA should limit a CUSO to *only* those services enumerated in FSRRA. Instead, NCUA's proposal goes well beyond those listed in FSRRA and would make all products and services identified under current 12 CFR 712.5(a) and 712.5(e) available to the new "customer base" definition for CUSOs.

Lacking substantive justification for this change, and the additional risks the change poses given the absence of regulatory oversight by NCUA of CUSOs, as discussed below, WBA strongly suggests the change not be made at all. However, if NCUA were to permit such an expansion, WBA strongly believes it should be limited to only those services Congress permitted for FCUs rather than the more expansive list.

The Two Proposed Services NCUA Would Permit CUSOs to Engage In Pose Greater Risk to FCUs and Take the Focus Away from Serving People of Low and Modest Means.

The proposed rule would add two new categories of permissible CUSO activities: credit card loan origination and payroll processing services. With regard to credit cards, the proposed rule would permit a CUSO to originate and hold credit card loans either as a principal on its own behalf or on behalf of credit unions. This change significantly increases risk to FCUs that invest or contract with a CUSO providing such credit card originations. Allowing an unlimited expansion of credit card lending by a CUSO - a very risky form of consumer lending - without proper supervision and enforcement powers poses an enormous risk to a FCU.

Additionally, permitting a CUSO to directly offer payroll processing services to credit union members is nothing more than an expansion of credit union services

to business customers. NCUA has long-held the position that clerical and managerial services authorized for CUSOs may only be performed on behalf of a FCU. Permitting a CUSO to offer this service directly is inconsistent with the statutory requirement that the business relates to the daily operation of the credit union or services associated with the routine operation of the credit union. If NCUA continues to broaden the services that CUSOs may engage in, and continues to permit the CUSO to provide those services directly to credit union members rather than "behind the scenes" on behalf of a credit union, then soon there will be no need for substantive activity performed at the credit union itself. In effect, the credit union becomes nothing more than a shell entity. This is disturbing for many reasons, not the least of which is the fact that CUSOs are unregulated.

As Unregulated Entities, CUSOs Pose Unique Safety and Soundness Risks That Are Further Heightened With This Proposed Rule.

Allowing credit unions to invest in and contract with CUSOs that have expanded activities and customer bases effectively increases risks borne by credit unions. Unlike banking regulators, NCUA has no authority over CUSOs or any other third-party vendor, so NCUA is incapable of ensuring the safety and soundness of the credit unions who invest in or contract with such CUSOs.

The only provision in the proposed rule WBA would support is the one allowing NCUA access to books and records of federally insured, state chartered credit unions that invest in a CUSO. WBA believes this provision does not go far enough, and would suggest NCUA broaden its ability to engage in appropriate supervisory activities over CUSOs in order to adequately ensure the safety and soundness of all insured credit unions. Only when this is achieved will NCUA be able to effectively protect the investing or participating credit unions.

The fact that NCUA, as the insurer for state and federally chartered credit unions, believes it needs a rule permitting it to have access to books and records of a CUSO suggests that it is concerned about CUSO activity and the effect it is having or could have on participating credit unions. While WBA believes this type of concern is very appropriate, WBA believes the provisions in the rest of the rule are absolutely contrary to this belief and only increase the level of concern a regulator should have with the existence of this type of CUSO.

Conclusion.

The complete lack of oversight authority by NCUA over CUSOs, coupled with the expansions proposed in this rule, will limit NCUA's effectiveness in ensuring the safety and soundness of credit unions. CUSOs present unique risks and as credit unions increasingly rely on them, those risks are transferred to and will be borne by the participating credit unions. The powers expansions proposed in this rule are of concern and constitute yet another example of mission creep for FCUs.

At minimum, NCUA should not finalize these proposed amendments without statutory authority to truly regulate CUSOs and other third party vendors, similar to other banking regulators. Since NCUA does not currently have any such authority, WBA strongly urges NCUA to withdraw the proposed rule.

WBA again appreciates the opportunity to provide comments on this important rule.

Sincerely,

Kurt R. Bauer
President/CEO