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Anheuser-Busch Employees' CREDIT UNION™

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December 22, 2011

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

Re: Comments on Proposal regarding Loan Participations; Purchase, Sale and Pledge of Eligible Obligations; Purchase of Assets and Assumption of Liabilities - 12 CFR Parts 701 and 741

Dear Ms. Rupp:

Please accept this response as input to the above noted proposal relating to loan participations as solicited by the National Credit Union Administration (NCUA). As a credit union that has benefited from loan participation relationships for over five years, we do understand the importance of having sound controls in place to monitor and manage the associated risks. We have complied with the federal credit union requirements related to participation loans knowing that the federal requirements were more stringent compared to the state requirements (Anheuser-Busch Employees' Credit Union is a state chartered credit union). In addition, we have set concentration limits associated with overall participation lending and with single originators. However, with that being said, we do believe that adding additional requirements and restrictions related to loan participations will weaken the credit union industry as more risks will be taken to achieve a reasonable return and that "one size fits all regulation" does not work for all credit unions.

The participation loan arena is a viable option to investments in periods of low member loan demand, if done properly. The performance of our loan participation relationships is exceeding other investment options in relation to yield and is experiencing better results for delinquencies and charge offs compared to our own internal loan portfolio. We currently have relationships with approximately five banks and one credit union involving consumer vehicle loan and commercial business loan participations.

The following is why it is believed that the credit union industry will be weakened as it relates to additional risks brought on by this proposed regulation:

1. Limiting involvement with a single originator by establishing a cap (that has an arbitrary basis), restricts future benefits that would be derived from a long-time, well performing relationship (**strategic risk**). We have a relationship with a financial institution that has existed for over five year to which exceptional results have been achieved. The current relationship exceeds the proposed cap (again, that has an arbitrary basis).
2. Limiting involvement with a single originator by establishing a cap requires credit unions to look for additional sources that might not be as advantages or incurs additional risks. This could encourage credit unions to hold onto fixed rate mortgage loans to obtain a better yield which incurs significantly more **interest rate risk**. This could lead a credit union to begin their own internal indirect loan origination program to obtain a better yield which incurs significantly more **credit risk**, if they do not have the expertise. This could lead a credit union

to continue to make loans of similar characteristics and in similar geographical areas which incurs significantly more **concentration risk**.

3. The yields that are being obtained from our participation relationships are approximately twice as much as the yields that are being obtained from our investment portfolio. The additional return allows the Credit Union to continue to expand by offering additional products and services and giving more back to the membership via higher interest on deposit/share accounts. If interest on deposits/share accounts is to be lowered as a result of lower asset returns, **reputation risk** could be encountered.
4. The cap for one originator at 25% of equity is far more restrictive and could lead to significantly less risk compared to cap of 15% of one borrower. For example, a pool of car loans that has 100's of borrowers with 100's of different cash flow sources carries significantly less risk than the one loan to the same borrower that is relying on a single source of cash flow (**credit risk**). In addition, as proposed, waivers can be obtained to exceed the 15% proposed cap; however, no waivers to be issued to exceed the 25% cap. Not all participation relationships are the same and the varying types and circumstances need to be considered. In addition, if waivers are to be allowed for certain relationships, waivers should be allowed for all relationships. This will lead to additional **regulatory risk** and **strategic risk** not knowing how the NCUA will apply these waivers.
5. It appears that the proposal would restrict loan participations relationships to other credit unions, credit union organizations, and financial organizations. If restrictions would apply to non-federally insured institutions, the regulation would eliminate viable credit union options.
6. Limits are proposed that would restrict a credit union from participating in a loan to which polices are silent (only authorized loans as stated in loan policy can be made). Certain credit union's sole purposes are to service certain industries (ie. taxi medallion financing, fire truck financing, church construction). This new proposed regulation would impact those credit unions from finding the necessary funding sources which could lead to additional **liquidity risk, reputation risk**, and **risks from competition**.
7. We all have experienced issues related to the NCUA in regards to obtaining a decision, waiver, or advice. Their response time is very, very slow and would put the credit union industry at a competitive disadvantage (**strategic risk**) with competition knowing that the financial world moves very quickly. If waivers are to be required, we would recommend that approval be allowed in advance of any specific participation purchase.
8. One comment made by the NCUA board in proposing greater limitation was due to the agency (NCUA) encountering confusion. It is believed that the NCUA would be better off training their staff to overcome this confusion than creating significantly additional restrictive regulatory burden on credit union (**regulatory risk**).

As one can conclude from the above comments, we are not in favor of this new proposed participation lending regulation. It should be the responsibility of each individual credit union's management and Board to determine the level (including concentration limits) and types of participation lending based on that credit union's financial position, including capital position, and expertise. Regulations, as proposed, will lead to a competitive disadvantage. The NCUA should manage participation via supervision versus regulation. Our only recommendation would be for the NCUA to require all credit unions, state chartered or federal, to adhere to the same federal regulations that already exist to mitigate the NCUA's confusion.

Respectively submitted,

Ronald Kampwerth

Ronald Kampwerth, CFO
Anheuser-Busch Employees' Credit Union