



January 10, 2012

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

Re: Proposed Amendments to 12 CFR Parts 701 and 741

Dear Ms. Rupp:

On behalf of the management and Board of Quorum Federal Credit Union, I would like to take this opportunity to comment on the proposed amendments and new rules to 12 CFR Parts 701 and 741 regarding loan participations and relevant provisions in the eligible obligations rule and the rule governing the purchase of assets and assumptions of liabilities.

Quorum Federal Credit Union has been involved in a number of loan participations over the years that have helped it achieve loan growth and diversification. In addition, the ability to purchase and sell loan participations has enabled the credit union to more effectively manage the balance sheet and comply with applicable regulatory requirements.

While we certainly understand and appreciate the agency's interest in limiting risk to the NCUSIF we believe that reactive and additional layers of restrictive regulation produce a number of unintended consequences that actually result in more, not less, risk to the share insurance fund and stifle a vibrant and dynamic financial services industry. Therefore, we urge the Board to seek a longer term outlook in its regulatory approach that would not only appropriately address systemic risk, but would also preserve the ability for credit unions to utilize loan participations in a competitive manner that would result in greater member service and diversification.

Given our strong support for the ability of credit unions to purchase and sell loan participations and the many benefits they provide, we sincerely appreciate that NCUA has given us the opportunity to express our

thoughts and viewpoints on these proposed amendments and new rules. To that end, we would like to offer the following comments for the Board's consideration.

Originating Lender Must Retain Ten Percent Interest

It has long been the rule and practice that the originating credit union lender in a loan participation must retain at least ten percent interest for the duration of the loan. The proposed rule would extend that requirement to all originating lenders and not just credit union originators. While we believe this requirement may have some limiting impact on the ability of credit unions to purchase loan participations with non-credit union financial institutions, we generally support a requirement that an originating lender should have some degree of a continuing participation interest throughout the duration of the loan as an incentive to write performing loans.

However, we are not convinced that a blanket ten percent retention requirement provides any more of an economic incentive to write good loans than perhaps a five percent or eight percent requirement would be. In some instances, a ten percent retention interest may very well be appropriate for the type of loan(s) involved. In other cases, depending on the nature of the participation and the level of risk, a lesser retention requirement may be more appropriate.

Purchasers of loan participations can likewise ensure that originators have a vested interest in the performance of the loan by including various contractual requirements in the participation agreement that could allow the retention of a lesser interest in the loan, but would include a requirement that the originator must share in a greater percentage of any losses that may arise. In such a scenario the originator still has an incentive to write quality loans because of the contractual requirement to share in potential losses, but the flexibility afforded by a lesser retention interest could make the loan participation more attractive and beneficial.

It should also be noted that many credit unions utilize the sale of loan participations to manage compliance with the statutory business lending cap and a greater amount of flexibility in the retention requirement could prove very helpful to credit unions and could result in greater member service.

Again, while we do not object to a requirement that an originator in a loan participation retain some interest in the life of the loan, we believe that more flexibility in this requirement can be accomplished without sacrificing the principles of safety and soundness. As such, we

encourage the Board to incorporate as much flexibility as possible in the retention requirement and to consider revising the absolute ten percent minimum accordingly.

Concentration Limits on Loan Participations

While we can appreciate the Board's concerns about concentration risk on loan participations, we believe the proposed amendments to limit loan participation purchases involving a single originator to a maximum of 25 percent of a federally insured credit union's net worth are overly prohibitive and may produce unintended adverse consequences.

The basis for this provision seems to be the premise that having appropriate concentration limits in place will somehow prevent loan failures from becoming a systemic event. While there may be some limited degree of merit to that argument, we are concerned that the imposition of a blanket concentration limit of 25 percent without the right to seek a waiver is regulatory overkill and fails to properly take into account the nature of many longstanding participation relationships that have been built upon a history of proven performance and extensive due diligence.

Quorum believes it is important for credit unions to know their loan participation partners. Over the years Quorum has developed solid relationships with a number of loan participation partners that have produced excellent results for the credit union. Without question, these relationships have been enhanced through effective due diligence as well as the quality and performance of the loan products that have been purchased and sold.

However, we believe that the imposition of the 25% concentration limitation blanket approach will diminish some buying opportunities that are currently working very well between established parties. This proposal will unnecessarily curtail some of those established relationships and buying opportunities that have worked very well for a number of years for many credit unions, including Quorum.

In our opinion, the mere fact that loan participations are being bought from a single credit union does not mean that the purchasing credit union is at any more risk than if they bought the same amount of loan participations from multiple credit unions. In fact, it is possible that the purchasing credit unions might actually be at more risk buying from multiple credit unions as they may not know all the selling credit unions as well as they might know the one they have done business with for years.

While there are undoubtedly examples of credit unions who failed to conduct proper due diligence that resulted in a bad loan participation relationship, we do not believe it is reasonable to impose a one-size-fits-all regulation with no ability to seek a waiver on all credit unions because of the failure of a few. To do so inhibits the ability of well managed successful credit unions to grow and diversify in a dynamic financial marketplace. A better approach, in our view, would be to handle exceptions on case-by-case basis rather than impose the limitation on credit unions unilaterally across the board regardless of their individual performance. Therefore, for the reasons cited above we would strongly encourage the Board to remove the 25% concentration limit from the proposal.

Alternatively, in the event the Board is not persuaded to remove the limitation, we would request that at a minimum, a waiver provision be included in the regulation that would provide an opportunity for a well managed safe and sound credit unions to show cause why they should be exempted from the concentration limitation requirement.

We note that the proposal also seeks to impose a limitation on loan participation purchases involving one borrower or a group of associated borrowers to 15% of a federal insured credit union's net worth, unless a waiver is granted by the regional director. We have no objections to this aspect of the proposal, provided that the waiver process is conducted and administered in a timely manner.

In closing, we strongly urge the board to reconsider this proposal. In our view, all of the issues seeking to be addressed in this proposed regulation could be dealt with, not in a blanket approach, but through the individual credit union examination and supervisory process where the specific instances of loan participation risk are not being managed effectively.

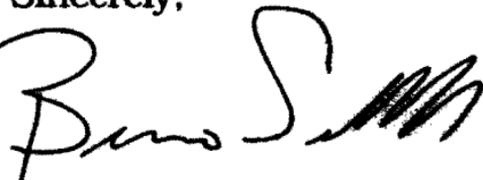
While we certainly respect and recognize your role as a safety and soundness regulator and believe your efforts are obviously well-intentioned in these challenging times, we are convinced that various aspects of this proposal will actually result in more, not less, safety and soundness concerns for the agency long term because it will stifle innovation and significantly limit the ability of credit unions to diversify their loan portfolios, improve their earnings and share their risks through relationships with long established and proven loan participation partners.

We very much appreciate the opportunity to comment on this proposal on behalf of Quorum Federal Credit Union and recognize the difficult challenges you face as the safety and soundness regulator for federal

credit unions and the insurer of the overwhelming majority of all credit unions in this nation. As you face these challenges, please know that you have our sincerest respect for the role you perform in overseeing our nation's credit union movement. Hopefully, our comments will be beneficial to you as you continue through this rulemaking process.

Please do not hesitate to contact us if we can be a source of additional information about the matters discussed in this comment letter.

Sincerely,

A handwritten signature in black ink, appearing to read 'Bruno Sementilli', with a stylized flourish at the end.

Bruno Sementilli
President and CEO

cc: Chairman Debbie Matz
Board Member Michael Fyzel
Board Member Gigi Hyland
President/CEO-CUANY William Mellin