

RE: Proposal regarding Loan Participations; Purchase, Sale and Pledge of Eligible Obligations, Purchase of Assets and Assumption of Liabilities.

I would like to thank you for the opportunity to comment on your proposed regulation regarding loan participations. Community Financial Credit Union is a state-chartered community credit union in Colorado. We currently purchase and sell loan participations through our MBL and Mortgage Lending CUSO – Centennial Lending.

After reviewing your proposed changes to the loan participation rule, it appears evident that NCUA is trying to minimize any risk to the insurance fund as opposed to monitoring the risk management practices of credit unions. You go to great lengths to explain how FISCU's are your primary focus and the data provided makes a good case to extend the loan participation rules to state-chartered credit unions. I do not have any concerns or issues regarding this change.

You go on to state in your proposed rule "The Board (NCUA) also recognizes the need for FICU's to identify and manage various concentrations on their balance sheet. Key among these are concentrations involving the same originator, one borrower or a group of associated borrowers, and types of loans, for example, by industry or loan product." In the next sentence you (NCUA) propose to limit participation purchase from a single originator to a maximum of 25% of a FICU's net worth. Which do you truly believe? Should credit union management identify and manage the concentrations on their balance sheet **or** should NCUA?

The reasoning for this rule change appears to be that it will limit systemic risk due to the interconnection between participants. This interconnection with loan participations can actually be an effective risk mitigation tool for credit unions (especially smaller ones). Just because participations come from one originator does not increase the risk for that credit union any more than purchasing participations from multiple credit unions might. This can especially be the situation in a CUSO where credit unions agree to participate loans regardless of the originator in part to help minimize their own concentration risks.

There have clearly been times where credit unions have failed due to loan participations that did not have effective oversight from both management and regulators. Unfortunately, implementing this rule will likely have negative consequences for those credit unions that do provide appropriate risk management of loan participations, regardless of originator. I believe you should remove this concentration limit from the proposal and instead allow credit unions to exercise judgment in the risk management of their institution.

If you do not decide to remove (or change) the concentration limit of 25%, I would urge you to allow for a waiver process. An arbitrary limit to minimize risk vs. appropriate oversight eliminates the need for judgment by credit union managers and examiners alike. I do not believe this is the route our industry should be taking.

Once again, I appreciate the opportunity to comment on the proposed rule.

Greg Hill
President/CEO
Community Financial Credit Union