



January 24, 2012

Ms. Mary Rupp
Secretary of the Board
National Credit Union Administration
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Re: Proposed amendments
12 CFR 701 and 741
RIN 3133-AE00
February 12, 2012

California Credit Union is pleased to submit our comments to the National Credit Union Administration's proposed changes to Section 701 and 741 proposed revisions to the Loan Participation regulations.

California Credit Union is a state chartered institution serving the education community in the Los Angeles metropolitan area since 1933. California Credit Union is approximately one billion dollars in assets and is serving seventy-nine thousand members. The credit union offers consumer loans, real property loans, member business loans, and a vast array of share accounts to serve our members.

The California Credit Union agrees with some of the changes in Section 701.22 but recommends changes listed below. California Credit Union does not agree with the proposed changes to section 741. The Credit Union recommends that the Board make some changes in the proposed amendments.

The Credit Union believes the requirement that the originating lender must throughout the life of the loan retain at least 10 percent should be removed. The current policy of the NCUA is to have an exit strategy for any line of business. Maintaining 10 percent of the loan participation throughout the life of the loan prohibits an exit strategy from this line of business. Maintaining 10 percent of the loan participation throughout the life of the loan is contrary to the best business practice to effectively manage the balance sheet of the credit union. This change prevents the originating credit union from selling the participation interest for liquidity purposes or from selling to the other participants if there is a disagreement about servicing the loan especially in default actions.

Section 701.22 b Loan Participations.

(b) (1): Requiring federally insured credit union's to comply with 701.21 would preempt state law. Recent legislation approved by Congress was designed to curtail preemption by federal regulating entities (OCC, FDIC, Federal Reserve and NCUA). This requirement should be removed but the regulation should still apply to Federal Credit Unions.

(b) (2): The Credit Union agrees that a written loan participation agreement be executed.

(b) (3): The credit Union suggests that the requirement to: "The originating lender retains at least 10 percent interest in the outstanding balance of the loan through the life of the loan." be removed. This change prevents a credit union from selling the participation interest for liquidity purposes or from selling to the other participants if there is a disagreement about servicing the loan especially in default actions. It also prohibits an exit strategy from this line of business. This change would also be seen as preemption of state law which recent legislation approved by Congress was trying to curtail preemption by federal regulating entities (OCC, FDIC, Federal Reserve and NCUA).

(b) (4): The Credit Union agrees that the borrower(s) be a member of the originating credit union before the loan is originated. Changing the requirement to allow the borrower to become a member prior to the purchase/sale of the participation would allow the originating credit union to create a non-member loan which would be contrary to the idea of lending to only members.

(b) (5) (ii) The Credit Union does not agree that the maximum purchases from any one originating lender may not exceed 25 percent of the credit union's net worth. Adding this restriction is undermining the due diligence that is required by the purchasing credit union and adding unnecessary burden. The purchasing credit union should be able to have the flexibility to manage the balance sheet according to the needs of the credit union and by the direction of the board of directors of the credit union. If there is to be a cap on this product California Credit Union suggests that it be at least 50 percent of the credit union's net worth.

(b) (5) (iii) The Credit Union does not agree that this requirement needs to be added to the regulation. The Member Business Loan regulations (Rule 723) already requires loan limits for products and limits the aggregate loans to any one member or a group of associated members. Adding this requirement to this regulation is redundant and unnecessary.

(c) The Credit Union agrees with the requirements in this section except for sect (c) (4) (ii) to require the originating lender throughout the life of the loan retain at least 10 percent unless the section is qualified to apply to only federal credit unions. This change prevents a state credit union from selling the participation interest for liquidity purposes or from selling to the other participants if there is a disagreement about servicing the loan especially in default actions. It also prohibits an exit strategy from this line of business. This change would also be seen as preemption of state law which recent legislation approved by Congress was trying to curtail preemption by federal regulating entities (OCC, FDIC, Federal Reserve and NCUA).

Section 701.23

Purchase, sale, and pledge of eligible obligations.

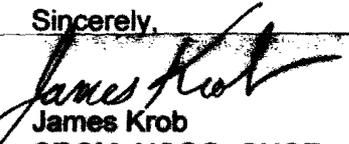
The credit union does not agree that the proposed language be added to this section. The current Member Business Loan regulations allow a federal credit union to purchase a loan from an originating credit union as long as the borrower was a member of the originating credit union. Adding this preamble would preclude purchasing any loan in whole or in part. This would effectively stop all participations which was never Congress' intent.

The Credit Union does not agree that the change to this section needs to be made at all. This change would be seen as preemption of state law which recent legislation approved (Dodd Frank) by Congress was trying to curtail preemption by federal regulating entities (OCC, FDIC, Federal Reserve and NCUA).

Conclusion

California Credit Union is committed to working with the National Credit Union Administration goal to promulgate clear, understandable regulation that impose minimal regulatory burden. We appreciate the opportunity to participate in the rule making process. California Credit Union is willing to assist in this initiative in any way we can.

Sincerely,



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