Keystone BUSINESS LENDING SOLUTIONS, LLC

January 24, 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:

This is a comment letter to the proposed changes in the loan participation regulation. Loan participations are very important to credit unions as they generate liquidity, assist in the management of loan concentration issues, provide favorable returns for credit unions that do not have a significant lending demand, diversify lending risk by asset class and geographic concentration, and are a tool to manage the aggregate business lending cap. Credit unions understand loans. For credit unions seeking yield, there is a much higher likelihood that credit unions will understand the risks in buying loan participations than investment products. Loan participations move capital from cash rich credit unions to loan rich credit unions to enable the system to put credit union capital to work for members. Loan participation interests purchased by banks add liquidity from outside of the credit union system.

I welcome the review of the loan participation regulation as it is in need of revision. When considering the benefits and risks of loan participations, I ask the Agency to focus on the larger picture and do not cripple the benefits of loan participations to the vast majority of credit unions to address the failures of a few.

1. *Part 701.22 now applies to state chartered federally insured credit unions ("FISCUs") in addition to federally chartered credit unions ("FCUs"), collectively "FICUs".* I do not have a comment on the proposition that would apply uniform rules to all FICUs.

2. *The underwriting standards in purchasing a loan participation interest may not be less stringent than the underwriting standards in originating the same loan.* I support this requirement.

3. *The originating credit union must retain at least a ten percent interest in the loan throughout the life of the loan.* The proposal requires the originator to hold on to 10% of the face value of the loan for the life of the loan; to have "skin in the game". I support this requirement.

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4. *A credit union may not buy loan participation interests from a single originator that in the aggregate exceeds 25% of the purchasing credit union's net worth. There is no ability to seek a waiver from this restriction.* The proposal is intended to act as a firebreak keeping the ills of one originator's loans from spreading to a small group of credit union participants. The concept is that these concentration limits will prevent loan failures from becoming systemic. This is an easy rule to apply but there are many unintended adverse consequences.

The undeniable fact is that good loan participations are built on good due diligence. It is equally undeniable that good due diligence starts with a foundation of a good relationship between the originating lender and the participants. Currently there are many participation relationships where credit unions regularly sell and buy from each other. In most of these relationships, the credit unions have done extensive due diligence on each other, know each other well and have a high confidence level in the quality of the loan products they buy from each other. That is why many credit unions limit their loan participation partners. Some of these relationships are centered around a commonly owned CUSO where the CUSO provides uniform origination, underwriting and servicing. For every story of a bad loan participation relationship, there are dozens upon dozens of good ones. The yield from good quality loans are shared among trusted partners.

This proposal will disrupt those relationships. Credit unions will not stop searching for yield. Loan participation interests will always be a source of yield. Credit unions will search for other loan participation partners and they will be forced to deal with credit unions they do not know. A credit union is expected to perform and monitor due diligence on all loan participations. If due diligence is done correctly this proposal will cause the cost of due diligence to rise significantly as new partners are vetted; and if done incorrectly shortcuts will be taken and lending risks will increase.

For example, the number of credit unions that are very effective in business lending is a small subset of all credit unions making business loans. Forcing credit unions to walk away from a known and trusted lending partner to find an equally effective partner is not easy in practice. This will likely bring more loan brokers into the marketplace attempting to fill the void. As credit unions need to turn away from trusted sellers and look for other sellers, loan brokers will see an opportunity to push loan participation interests in substandard loans on less experienced credit unions.

There are issues with the application of this rule to credit unions involved in lending CUSOs. There are mortgage and business lending CUSOs that close loans in the CUSO's name and sell the loans in whole or in part to credit unions. Their model is to aggregate the expertise to make the loans and then share loan yields among each other. The credit unions owners have done extensive due diligence in setting up the CUSO lending model and the vast majority of these CUSOs have enabled credit unions to be effective and safe lenders. This proposal will cripple those operations. Many credit unions involved in lending CUSOs will be out of compliance on day one of the enactment of the proposal and for no good reason. It makes no sense that the CUSO could sell whole loans to a credit union as eligible obligations without these concentration limitations but be limited on the number of loan participation interests the CUSO can sell to the same credit union. Other questions are raised as well. If a credit union buys loan participation interests both from a CUSO and a credit union owner does that mean that the buying credit union has a 25% net worth limitation from the CUSO and another 25% net worth limitation from the credit union owner or is it combined?

I understand the concern of NCUA but I recommend a different approach to the problem; an approach that does not break-up loan participation relationships that have proven over time to be successful. The industry cannot mature and grow if our regulations do not respect credit unions that are well managed and opportunity is taken from them due to the sins of others. This regulatory approach forces credit unions to reconsider the value of the credit union charter and hinders the ability of credit unions to rebuild capital. There is no reason why any concentration provision is not subject to waiver for good cause shown.

5. *A credit union may not buy loan participations interests in loans to a single borrower or group of associated borrowers where the aggregate amount exceeds 15% of the purchasing credit union's net worth. This provision can be waived.* I do not object to this revision.

6. *Clarification of comments regarding pools of loans.* I have no comment.

7. *Recommended new term: Regarding the ability of credit unions to sell loan participations in loan purchased under the eligible obligation rule.* I note that when a credit union buys an eligible obligation, the credit union can never sell a loan participation in that loan as the originator of the loan would not be a participant. There is liquidity risk in a credit union being locked into that position. I recommend that a credit that buys an eligible obligation be considered an originator for purposes of the 10% originator retention requirement. Clearly the selling credit union would have "skin in the game" and the fact that the selling credit union did not originate the loan is not a reason to prohibit the sale of a loan that is seasoned. It was not a reason to prevent the purchasing of the whole loan by the credit union. The fact that the loan is seasoned gives a buyer the opportunity to see if the loan is performing.

8. *Recommended new term: Regarding the ability of a purchaser of a loan participation interest in buying a loan where the originator obtained a regulatory waiver.* Another liquidity risk occurs when a credit union obtains a waiver, such as a waiver from the personal guarantee requirement. Currently, a credit union that buys a loan participation interest in such a loan must also obtain a waiver. That renders the loan participation interest unsalable from a practical standpoint. No buyer wants to go through the waiver process. I recommend that if the originator obtains a waiver for a loan, a credit union that buys a loan participation interest in that loan does not also have to obtain a waiver.

9. *Recommended new term: Regarding organizations eligible to buy a loan participation interest.* Is there a safety and soundness reason to prohibit the sale of a participation interest to a non-financial institution such as an insurance company? If a credit union could sell to institutional investors, there would be an opportunity to bring in more liquidity from outside the credit union marketplace to serve members.

I thank you for the opportunity to comment on this important proposal.

Very truly yours,

Wayne A. Grinnik, CEO