

Chairman of the Board

January 26, 2012

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

Re: Comments on NCUA-2011-0074-0001 RIN: 3133-AE00
Proposed Rule - Loan Participations; Purchase, Sale and Pledge of Eligible Obligations;
Purchase of Assets and Assumption of Liabilities;

Dear Ms. Rupp:

On behalf of Chartway Federal Credit Union ("Chartway"), and its over 200,000 members, I am responding to NCUA's request for public comment on its proposal to amend its loan participation regulations, in §701.22, and relevant provisions in the eligible obligations rule and the rule governing the purchase of assets and assumption of liabilities, in §701.23 and §741.8. The proposed rule changes are intended to address what the NCUA believes to be systemic risk to the share insurance fund (NCUSIF) that loan participations create due to the resulting interconnection between participants.

Chartway's Experience with Loan Participations

Chartway has a proven and successful track record of purchasing and holding loan participations among its assets, as a part of its overall loan portfolio strategy. Chartway utilizes loan participations as a way to diversify its loan portfolio, while using excess liquidity to improve earnings. As of December 31, 2011, Chartway has total assets of \$1.9 billion, of which loan participations amounted to about \$157 million, comprising 15% of Chartway's total loans, 8% of total assets, and 126% of its regulatory capital. The income that loan participations generated in calendar year 2011 for Chartway amounted to \$4.3 million, comprising 7% of total loan interest income, and 5% of total operating income. Up to this point, Chartway has experienced no delinquency and no chargeoffs in its holdings of loan participations.

Comments on Proposed Rule Changes

As we studied each of the sections of impacted regulations in §701.22, §701.23 and §741.8, we found that we were in agreement and supportive of most of the rule changes proposed by NCUA's board. In fact, many of the proposed changes are already included as elements of Chartway's current policies and procedures related to the purchase of loan participations. Below we have outlined some of the major elements of Chartway's loan participation policies and procedures:

- Chartway has established board-approved loan concentration limits for each loan asset category, including loan participations, measured as a percent of Net Worth. Actual loan balances are measured against these limits and reported to Chartway's Board, with specific actions to be taken whenever actual balances get within an unacceptable range of the limits;

160 Newtown Road, Virginia Beach, Virginia 23462-2415
(757) 552-1000 • (800) 678-8765 • www.chartway.com

- We only purchase loan participations comprised of loans we already are empowered to grant under regulation and our board-approved policies;
- We only purchase loan participations from federally insured financial institutions, whose underwriting and collections standards are at a minimum as stringent as our own, and which have a strong capital position and have a proven track record of excellent management of their own balance sheet risks;
- We conduct extensive due diligence prior to any purchase of a loan participation, utilizing not only our own experienced staff and management, but also the services of experienced and licensed 3rd party credit risk management companies;
- We conduct interest rate shock testing on each portfolio of loans included in a loan participation to determine the overall impact to our Net Interest Income and Net Economic Value prior to the purchase of any loan participation, utilizing the services of experienced 3rd party financial advisors;
- We enter into loan participation arrangements using a written agreement between Chartway and the selling institution that clearly identifies each participated loan, and enumerates servicing responsibilities, including notice and disclosure requirements regarding the ongoing financial condition of the loan, the borrower, and the servicer;
- We require the originating lender to maintain at least a 10% interest in the pool of participated loans;
- We do not purchase any loans included in a loan participation pool that have any history of delinquency;

In spite of our agreement with most of the proposed changes, there is however, one section that we strongly oppose which is found in proposed §701.22(b)(5)(ii), which reads "...*The purchase complies with the credit union's written loan participation policy, which, among its provisions, must...(ii) Establish a limit on the aggregate amount of loan participations that may be purchased from any one originating lender, not to exceed 25 percent of the credit union's net worth;...*"

In NCUA's Supervisory Letter to Credit Unions No. 10-CU-03, "Concentration Risk" it is stated that "*Credit union officials and management have a fiduciary responsibility to identify, measure, monitor, and control concentration risk. Concentration risk must be managed in conjunction with credit, interest rate and liquidity risks; as a negative event in any category may have significant consequences on the other areas, as well as strategic and reputation risks.*"

<http://www.ncua.gov/Resources/Documents/LCU2010-03Encl.pdf>.

Through the NCUA's proposed mandate of a specific limitation on the amount of loan participations to be purchased from any one originator, we believe that the NCUA is inserting its will into the management of federally insured credit unions and is essentially relieving a credit union's officials and management from its fiduciary responsibilities.

Although NCUA considers loan participations as a separate asset class, we would suggest, that loan participations, in of themselves are truly not a separate asset class, but merely a vehicle for purchasing a pool of underlying loans, such as automobile or first mortgage loans. Typically the loan participations that Chartway has purchased are loan pools comprised of hundreds, and in some cases, thousands of individual loans. Therefore any risk within these loan participations is spread over a large diversified pool of loans.

The risk is not in the quantity of originators or in the amount of loan participations purchased from each originator, but any potential real risk lies in the quality of the underlying loans in any participation agreement. And we strongly believe that a properly executed loan participation agreement, along with high level of professionally performed due diligence, is an absolute necessity whenever a credit union

enters into any loan participation, which are truly the risk mitigating factors, more so than some arbitrary concentration limit imposed by the NCUA.

Even though Chartway has purchased large pools of loans in the form of loan participations from just a few originators, this strategy has in fact diversified and mitigated our loan portfolio risk, and has also been a significant source of income. If the proposed 25% net worth limitation rule were in place, Chartway would suffer a reduction in its interest income of approximately \$14 million over the next 5 years. In all the time that Chartway has held loan participations on its balance sheet, it has never suffered any loss. This track record is the result of the high level of due diligence we perform prior to acquiring a loan participation, the high credit quality of loans we acquire, the financial strength of the selling entity, and the strength of the participation agreement we enter into with these selling entities.

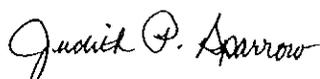
It appears to us that the industry data which shows an increased use of loan participations is driven by the fact that the industry as a whole is managing excess liquidity and loan participations is one useful vehicle in which to invest. Chartway also notes that the Board has gone to great lengths to highlight the increased delinquency and chargeoff activity within Federally Insured State Chartered Credit Unions (FISCU). Chartway has suffered no such increase in delinquency or chargeoff as it relates to its investment in loan participations. If the NCUA believes there is systemic risk created by loan participations isolated within FISCU's, then any additional restrictions should be applied specifically to those participants. However, impacting the entire federally insured credit union industry does not make sense and in fact appears to be NCUA crossing the boundary of regulator into manager of credit unions. We have to wonder where NCUA-mandated loan concentration limits will then be expanded to by its board if this loan concentration limit is put into place.

Conclusion

We suggest that it would be a more prudent and more effective way to manage the risk to the NCUSIF by placing restrictions upon individual credit unions whose activity in loan participations has had material negative impact to their capital position. We do not support the NCUA placing the arbitrary 25% loan concentration limit on loan participations purchased from any one originator – this is a burdensome requirement that will have real and significant negative impact to the earnings and capital positions of credit unions that have safely and effectively used loan participations as a part of their asset/liability management.

We appreciate your consideration of our comments and respectfully request that §701.22(b) (5) (ii) of the proposed regulations be eliminated and not included in the final regulations pertaining to loan participations.

Sincerely,



Judith P. Sparrow
Chairman of the Board
Chartway Federal Credit Union

Cc: Ronald L. Burniske, President & CEO, Chartway Federal Credit Union
William M. Wright II, CFO, Chartway Federal Credit Union