



February 8, 2012

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

Re: Charles Bruen Comments on Proposed Rule on Loan Participations

Dear Ms. Rupp:

I appreciate the opportunity to provide comments and observations to the National Credit Union Administration Board about the proposed rule concerning loan participations. First Entertainment Credit Union is a \$900 million in assets, 61,000-member federally insured California-chartered credit union located in Hollywood, California. My comments focus on two specific aspects of the proposed rule.

- I believe that placing an arbitrary 25% of net worth concentration limit on loan participations from any one originator is impractically low and could have the unintended consequence of actually increasing a credit union's risk profile.
- I also believe that sound judgment and prudent Asset/Liability Management analysis should be dictating how a federally insured credit union manages their loan participations, not a restricting NCUA Board rule.

The arbitrary 25% of net worth concentration limit with any one originator does not make sufficient business sense to merit its inclusion in a NCUA Board rule. It is not the concentration per se, but the extent of the due diligence on the originator that really matters. Working with a single originator in which a credit union has conducted extensive due diligence is a good business practice. The best assurance that a purchasing credit union is taking appropriate risks is when it has achieved a significant comfort level about how the chosen originator underwrites participation loans.

Forcing a purchasing credit union to arbitrarily use multiple originators does not necessarily mitigate systemic risk. The potential for concentration risk should be scrutinized in the context of the purchasing credit union's entire loan and investment portfolio, not just the subset of participation loans. Should the NCUA Board include this restriction in the rule and not allow any waivers as is proposed, the stated safety and soundness objectives of the rule could instead be undermined. The loan to share ratio, the earnings dynamic, and liquidity management could all be negatively affected.

I'm sure that the NCUA Board members felt as uncomfortable as I did when reading the NCUA Inspector General's Material Loss Review reports on Norlarco Credit Union and Huron River Area Federal Credit Union. The unfortunate role that mismanaged loan participation programs played in those losses was evident. However, in those problem situations it was not the absence of rules that led to the losses. In both cases, management "ignored sound risk management principles," and the regulators, including NCUA, failed to recognize the "credit, liquidity, compliance, and strategic risks" of nonstandard practices in which the two credit unions were participating. However, the NCUA Board does a disservice if it over-reacts and promulgates rules that limit the many well-managed credit unions to the same restrictive level as those few credit unions whose management strategies and operational practices fell short of expectations.

Burbank

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Miracle Mile

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Rather than promulgate these potentially costly and burdensome rules on all federally insured credit unions, the NCUA and state regulators should address loan participation policies and practices during the regular examination of each credit union and any problems corrected on a one-on-one basis. A well-managed credit union should be allowed to determine its own liquidity and income needs based upon its ALM analysis, risk mitigation policies, and exercise of appropriate due diligence.

I would again remind the NCUA Board that the piling on of new rules is no substitute for responsible regulatory supervision and thorough agency examinations of credit unions. If the NCUA Board continues, as it has in the past few years, to build its wall of risk-adverse rules around credit unions, I fear the net result will be a wall so high that credit unions cannot climb over it to effectively serve members. Additionally, driving out all risk from the credit union balance sheet also drives out significant income, and that is a major risk in itself.

Regardless of how well-intended, the NCUA Board should thoroughly reconsider the perceived need for the proposed loan participation rule when improvements to examination and supervision would better address the identified concerns. As proposed, this rule will have a negative impact on earnings and capital at a time when neither of these is a desired result. The rule should not be finalized in its current form.

Thank you for the opportunity to comment.

Sincerely,

A handwritten signature in cursive script, appearing to read "Charles Bruen".

Charles Bruen
President & CEO
First Entertainment Credit Union