Northland
Area Federal Credit Union

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

Support for goals of the NCUA

We appreciate the NCUA's support for the diversification of MBL loan portfolios, the chance to manage our balance sheet with investments and loan opportunities, and most importantly, their support for the credit needs of our markets. We also appreciate the concern for systemic risk that is inherent in the deterioration of large credits and the resulting impact on the capital of credit unions. The intent to clarify the terms and conditions of loan participations is also a favorable step towards less litigation and better partnership communication.

Support for common sense components

Our country has learned an important lesson about absentee stakeholders from the banking industry meltdown. It is important for the clear definition of the "originating member" to include the caveat of an originating entity that "remains a stakeholder throughout the life of the loan" and maintains a minimum 10% position.

The reality of the proposed regulation (i.e., negatives)

The limitation of an arbitrary cap based on a credit union's capital does not achieve the stated goal of "mitigating risk without discouraging growth." The NCUA's proposal results in an unfair burden to be borne by smaller credit unions and non-urban credit unions because of the resulting inability to diversify concentration risks in their balance sheet. In addition, the proposed changes would effectively reduce all credit unions' earning ability and would severely limit their participation in loans or other exposures that could be utilized to reduce concentration risk and to further diversify their asset mix and loan portfolios.

To reduce credit risk, credit unions may seek out a highly qualified CUSO that may possess superior underwriting capabilities. A CUSO may also be selected because of their knowledge and experience in the geographic region they represent. Restricting the use of a highly qualified CUSO to a percentage of net worth is counterproductive. As a result of this imposition, credit unions may be compelled to use a second or third less capable service provider or to make additional participation loans, possibly in unfamiliar areas. Credit unions that possess excessive concentration risks may also be limited in their ability to liquidate and diversify these risks.

Through these difficult economic times, credit unions have witnessed substantial capital erosion. Tools such as the use of CUSOs and participation loans have the potential to help many credit unions reduce their overall concentration and/or credit risk and may improve a credit union's ability to build long term capital.

In summary, the proposed restrictions do not provide meaningful solutions to assist in capital accumulation, risk mitigation, and product diversification strategies.

Suggested alternatives for achieving stated goals of regulation

1. Originations should improve in credit quality when the originating entity retains a higher specified level of ownership throughout the life of the loan. The 10% minimum retention seems to reward a mentality of "Originate to Distribute" (OTD) as compared to remaining a viable stakeholder for the long term. The NCUA could regulate the volume and quality of originations by adjusting the "retention" factor based on the loan quality history of the originator, on a case by case basis.
2. It would appear to make more sense for credit unions to individually monitor and restrict their level of investment in loan participations. The risk of loss for all partners would be reduced accordingly, based on an individual credit union's ability to manage that risk. An industry-wide standard does not appear to have applicability in order to effectively provide services to the vastly different fields of membership and the corresponding varying abilities of credit union management.
3. It would appear to better serve all partners if risk based structures were in place for managing concentrations of "higher risk" credits. In addition, credit unions should be expected to demonstrate a level of expertise that mirrors their involvement in the services being provided. In the absence of this expertise, individual restrictions should apply to those credit unions who do not exhibit the ability to manage such risks.

Respectfully submitted,

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