From: Dave Christenson
To: _Regulatory Comments
Subject: Comments on NCUA Proposal on Loan Participations: Proposed Amendments to 12 CFR 701 and 741
Date: Saturday, February 11, 2012 4:06:18 PM

To Whom It May Concern:

Connexus Credit Union respectfully offers comments on the NCUA Request for Comments on Loan Participations: Proposed Amendments to 12 CFR Parts 701 and 741. They are organized based on the following 4 key areas:

1) Connexus history with Participation Loans and why it is critical for Connexus and our credit union partners to have a viable, well run loan participation program
2) Concern for changes that could over reach and restrict credit unions like Connexus who manage their programs well.
3) Concern for state versus federal law.
4) Suggestions for improvements to the proposal

1) Connexus History: Connexus Credit Union is a $360M in asset credit union located in Wausau, Wisconsin.

   Connexus Credit Union has been an originator of participation loans since 1997. We currently have the following programs:

   a) Small Credit Union Program: Connexus has mortgage loan participation programs in place for 3 small credit unions ($30M and under) which cannot afford to provide the staffing or program expertise to offer these loans without assistance;

      1) Credit Union A is $20M in assets with 2,600 members. This participation program began in 1997. Credit Union A currently has 124 mortgage loans with an outstanding balance of $3,441,788. This is 112% of their capital and 17% of their assets. The loss ratio has been minimal.

      2) Credit Union B is $10M in assets with 2,000 members. This participation commenced in 2001. Credit Union B has 18 mortgage loans with an outstanding balance of $176,177. The loss ratio has been minimal.

      3) Credit Union C is under $28M in assets with 6,100 members. The participation began in 2004. Credit Union C has 2 mortgages with an outstanding balance of $47,356.

      This program is vital to Credit Union A and important to the other two credit unions as it gives them a product that their members desire from them and yet they can't create on their own. The loan participation program not only adds all our mortgage loan options to their product set but provides much needed

income; especially in today's low rate environment.

Additionally, Credit Union A would be substantially above the 25% of capital cap under the proposed regulation. This would cause undue harm to a small credit union that is using the current participation wisely.

Connexus desires to continue to offer this program which helps our industry and is willing to expand it as necessary to help small credit unions.

b) Mortgage Loan Participation Program: Connexus has a participation loan program with a credit union in Maryland. This program started in 2006 with 20 loans and a total loan amount of $2.7M. Today the loan participation pool has 7 loans in the amount of $566,532. Losses to date are 0%.

Connexus has plans to ramp up this program to other credit unions to help with new loan participation growth and to help mitigate interest rate and concentration risks.

c) Centrix: Connexus Credit Union originated $192M of sub-prime loans through Centrix between 2003 and 2005. Most of these loans were participated out to other credit unions. Connexus currently has 75 loans on the books and $144,000 of loan outstandings.

Connexus took losses with Centrix; however the process of working with and through the Centrix program allowed us to create new loan participation programs that have all been successful. Credit unions can learn from experience and that helps them create better programs in the future. Connexus has earned in profit from our loan participation programs more than **four** times the losses sustained through the Centrix program.

d) Gateway Lending: Connexus Credit Union has created 5,046 of prime and near prime auto loans since December 2009. Total loans originated to date are $$236M. Connexus has participated $202M of these loans. Thirteen other credit unions have successful participation loan programs with us through Gateway Lending. Gateway Lending sold its business to TCF Bank in late 2011.

Connexus continues to work with Gateway Lending/TCF Bank to aggregate loans and participate them to other credit unions. It is a strategy we strongly want to continue and expand.

Connexus continues to build relationships which enable us to meet our members demand for loans. Connexus currently is at 102% loan-to-share. Many credit unions are struggling to make loans and we would like to help them by using our participation loan strategies.

2) Concern for changes that could over reach and restrict credit unions like Connexus who manage their programs well.

Connexus strongly objects to creating any limits on the amount of loan participations from one originator:

a) Connexus programs allow for other credit unions to take part in several of our loan participation programs. By taking part in several, this could help a credit union diversify and help their concentration risk and other risk profiles.
b) NCUA strongly regulates credit unions based on safety and soundness. Many DORs are enforced without regulations in place regarding the specific resolutions required by the DORs. NCUA does not need a limit to control the amount of participations a credit union participates in. Through the regular exam cycle and 5300 monitoring, NCUA has plenty of information and ways to allow successful credit unions to flourish without a limit and restrict problematic credit unions to appropriate levels.
c) Connexus has a long and successful history (strong earnings/low losses) with loan participation programs. We have strong programs that have been helped greatly by our Regional Examiner Rich Klecun's team; especially Diane Pojedynski and Karen Orth and our State of Wisconsin, Department of Financial Institutions, Office of Credit Union under Ginger Larson's leadership and examiners like Lynn Keitel. We see dialogue with our examiners as an effective tool for having a successful participation program.

3) Concern for state versus federal law.

The credit union system is strong for many reasons. One of the key ones is the dual chartering system. Dual chartering and regulation allow for more innovation, reflect unique challenges and opportunities by state and just makes good business sense.

NCUA should study a matter very carefully before imposing regulations on federally insured state chartered credit unions.

With this proposed regulation change, Connexus strongly suggests that federally insured state chartered credit unions be left out of any regulation change.

4) Suggestions for improvements to the proposal.

a) Connexus believes the loan participation regulation is fine as it is and highly recommends that NCUA leaves the regulations alone.
b) If a decision to modify the loan participation occurs, these changes would make sense to consider:
    1) Federally insured state chartered credit unions should not be included in any change.
    2) Permanent grand-fathering of credit unions who have loan participation programs and any credit union who chooses to participate with the grand-fathered credit union.
    3) Consider a more modified regulation change. For example, consider MBL limits but not consumer loan limits.
    4) Create a waiver system that allows well run credit unions to exceed any new established limit.

5) Summary

Today's tough economic challenges require credit unions to find unique opportunities to
overcome low investment rates, lack of loans in many geographic areas, and high unemployment. A robust credit union loan participation makes sense. It is people helping people at its finest. The credit union movement coming together to help each other and everyone's members. This is a time where regulation should be favorable to credit unions and not punitive or restrictive.

Connexus feels an obligation to help smaller credit unions remain viable. Our industry continues to lose credit unions year over year. As an industry we need to be cheerleaders and encouragers of all credit unions. We need to collectively work together to meet and yes, exceed the needs of our members. We need to help them secure their financial dreams.

These additional changes do not help the credit union movement. We would strongly encourage NCUA to not make any changes to the regulations.

Respectfully submitted by:
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