February 13, 2012

Dear Mary Rupp
Secretary of the Board
National Credit Union Administration

Regarding Loan Participation proposals

Here at USECU in Texas we have participated in loan participation which we originated in past years that were ABS. It is important to distinguish from an accounting GAAP perspective what is participation versus loan sale. A participation represents selling a part of a loan pool and may be with recourse or without recourse while a loan sale means title will pass on a 100% of a loan pool or a single loan. This is an important distinction. You need to make it clear in your proposal.

A participation with recourse can limit the exposure of the purchasing credit union, for example if a car loan goes bad the seller is responsible for the loss, conversely the recourse can also affect the price to be paid for the pool. A number of offerings allow the purchaser to select the loans in the pool by reviewing the credit scores of the individual loans, the rates as well, and there is often a fee for servicing the loans.

Typically, we sold pools while retaining the 10% while sharing in any loss while allowing the partner to select the individual loans. This was important because where the participation pays out you need at some point to repurchase the remainder as the remnant is not economically feasible to support. Additionally to do this remnant buyout you need to retain a portion of the pool.

Having a written agreement makes since for both parties, however it is clear that the proposed rule omits to much material and will be more confusing where you are trying to bring clarity. I believe NCUA should of course retain its rights as a regulator, but would suggest that they begin forming a committee of individuals who have some experience with the issue to review before releasing. It would certainly improve inputs over the present method.

Greg Storch
USE Credit Union
Texas .