February 15, 2012

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

Re: Proposed Amendments to 12 CFR Parts 701 and 741 Pertaining to Loan Participations

Dear Ms. Rupp:

This is a comment letter to the proposed changes in the loan participation regulation. While we appreciate the implied concern regarding loans purchased from financial institutions actively selling participations, as opposed to loans generated internally through Member relationships and referrals, we challenge the misconception that singles out this type of loan as inherently riskier than all other direct lending conducted by a credit union. The supposition belies the fundamental precept of all lending, that of diligent and proper underwriting to assess the ability of the Borrower to pay - any Borrower, from any source, including participations. In the absence of proper review, structure, and monitoring, any loan relationship will be inherently riskier. Conversely, thorough underwriting, review, strong structure, and diligent monitoring will reduce risk. We would suggest that the activity of buying and selling loan participations holds the same level of risk and responsibility as any loan activity, and that imposing additional restrictions on this activity will not mitigate the inherent and continuing risk of improper underwriting, poor review, inadequate monitoring, and faulty loan structures that were the ultimate cause of losses incurred with participations purchased, which are not unique to participations, but universally experienced throughout all loan types and sources.

It is also important to note that loan participations are a very important and healthy part of credit union lending activity.

- Participations reduce risk by improving loan portfolio diversification across industries, geographic markets, single Borrower exposure, interest rate exposure, and loan structure.
- Loan participations assist in strengthening capital positions of credit unions by providing a conduit for credit unions with high loan demand and tight funding sources to move loan volume to credit unions with strong capital and high liquidity, thereby improving operating performance for both.
- This vehicle provides a source of favorable returns for credit unions that do not have significant lending demand.
- Participations enhance the viability of smaller institutions by allowing them to bid on larger loan transactions and sell off portions needed to comply with capital requirements.
- Participations are a relied upon tool needed to assist with managing aggregate business lending caps.
- Participations offer a viable alternative to low yield investment returns.

With regard to the specific efforts to restrict loan participation activity, we have the following comments:

1. ***Part 701.22 now applies to state chartered federally insured credit unions ("FISCUs") in addition to federally chartered credit unions ("FCUs"), collectively "FICUs".***

Unless there is strong evidence that suggests that poor quality loan participations are more prevalent among state chartered credit unions than federal credit unions, it would appear unjustified to usurp the right of states to regulate their own credit unions.

2. ***The underwriting standards in purchasing a loan participation interest may not be less stringent than the underwriting standards in originating the same loan.***

We support this suggestion and advocate that it is a factual condition that should not require edification, and is in fact, enforced by all regulatory agencies.

3. ***The originating credit union must retain at least a ten percent interest in the loan throughout the life of the loan.***

We support the intention and were unaware that there are exceptions to this rule.

4. ***A credit union may not buy loan participation interests from a single originator that in the aggregate exceeds 25% of the purchasing credit union's net worth. There is no ability to seek a waiver from this restriction.***

We are strongly opposed to restrictions on the source of loan originations. Limiting the amount that can be purchased from a single originator appears to attempt to eliminate a perceived source of risk, rather than manage the risk. It is implicitly biased to suggest that a sourcing mechanism is faulty, when fault is more appropriately placed with individual institutions or their processes. Institutions buying and selling that have strong credit underwriting, documentation, and monitoring skills will necessarily be better sources of loans than those without. If the regulation limits the activity from a sound lending source, it opens opportunities for untested new sources to fill the gap.

Perhaps more limiting and deleterious, is the fact that a large number of loans are participated among small groups of credit unions well known to each other, often through a commonly owned CUSO. In our case, decisions are made collectively and unanimously on every MBL credit. To the extent that one of the member credit unions is successful in developing opportunities for the group, the proposed restriction would impact all member owners by eliminating the opportunity all together - either due to a cap limit, the limit on the exposure to a single member, or the seller's desire to internally manage concentration exposure. Bear in mind that the members have become intimately familiar with each other's practices, procedures, and financial condition through attendance of monthly board meetings over the last 7+ years. The success of this structure results in improved capital positions for all as the yield from good quality loans is shared among member owners. This proposal will disrupt those relationships.

Please also consider the notion that credit unions will continually have a need for improved yield on invested funds. Loan participation interests have been a relied upon source of yield. If limitations are imposed on known reliable sources of yield, credit unions will search for other loan participation partners and will instead deal with credit unions they do not know.

We respectfully suggest that the most effective course of action in managing asset quality is not to eliminate the source, but manage the process to assure sellers and buyers possess the necessary policies, practices, and skills that result in sound lending practices through the examination process with each financial institution.

5. ***A credit union may not buy loan participations interests in loans to a single borrower or group of associated borrowers where the aggregate amount exceeds 15% of the purchasing credit union's net worth. This provision can be waived.***
For Member Business Loans, this is already included in Reg 723 and does not pose any additional restriction for Member Business Loans. The effort to limit exposure to a single Borrower or related group appears sound, provided the interpretation of how the Borrowers are related does not become too narrowly defined in practice with examiners.

6. ***We would hope to have any proposed amendment include language that eliminates the need for all participants to request regulatory waiver when the Originating Lender has already obtained waiver approval for the loan in question.***
The added burden on the purchaser to obtain separate approval for the same waiver request is unnecessary and costly. When a requested waiver is granted under sound terms to the originating Lender, it should be the result of a condition unique to the Borrower, and not the originating Lender. For example, a waiver request to allow for a higher loan to value would presumably only be granted under the condition that the Borrower had other strengths that mitigate the need to adhere to standard advance rates (high operating performance, outside collateral, highly liquid collateral, etc.) rather than some condition unique to the originating Lender, such as strong operating performance, excellent asset quality, or well capitalization. Accordingly, the reasons to approve or deny the request should be immutably independent of where the request for the waiver originates.

Respectfully submitted,

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MBL CUSO servicing agent for Hawthorne Credit Union (Naperville, IL), Healthcare Associates Credit Union (Naperville, IL), Meadows Credit Union (Arlington Heights, IL), NorthStar Credit Union (Warrenville, IL), and Numark Credit Union (Joliet, IL)