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To: [Regulatory Comments](#)
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Subject: Proposed Rule on Loan Participations
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Ladies and Gentlemen,

Thank you for the opportunity to comment on the proposed changes to the loan participations rule, Section 701.22 of the NCUA Rules and Regulations. Overall, we believe that the basis for the proposal is sound and that there is a need to strengthen key aspects of the loan participation process, including the loan participation policy, the loan participation agreement, and ongoing monitoring of loan participations. It is equally important that all FICUs should follow the same standards when engaging in loan participation to avoid potential regulatory conflicts and/or safety and soundness issues.

Concentration limits for a single originator and one borrower or group of associated borrowers are justified given the potential for systemic risk in loan participations. However, the aggregate originator limit could prove harmful if it compels FICUs to seek out other, less known partners in order to comply with the rule. The multiplication of partners, combined with the decrease in familiarity of each partner, could result in increased risk to purchasing institutions, a consequence not intended by the proposed rule. NCUA could increase the maximum originator limit, require each FICU to establish its own maximum limit, subject to review during the examination process, or at least give additional consideration to granting waivers upon a showing by the applicant that a higher limit would not impair the safety and soundness of the institution.

There would appear to be at least one area of the rule that may need further clarification. Specifically, Section 701.22(b)(5)(i) suggests that a FICU would be prevented from participating in any type of loan that it does not originate to its own members. For example, if a FICU does not originate long-term mortgage loans to its own members, the language of Section 701.22(b)(5)(i) would seem to prevent it from participating in long-term mortgage loans to other credit union members. This has not been NCUA's position in the past to the best of our knowledge. In the past, a Federal Credit Union has been permitted to participate in loans to other credit union members even if the loans were of a type it did not originate to its own members, provided the credit union had underwriting standards in place for the loans at the time the participations were purchased.

We look forward to NCUA's analysis of our comments in the final rule.

Please contact us if you have any questions.

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