Gary A. Grinnell, President and Chief Executive Officer

February 15, 2012

Ms. Mary Rupp
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

Dear Ms. Rupp:

On behalf of the Board and management of Corning Federal Credit Union, I would like to take this opportunity to comment on the NCUA's Proposed Amendments to 12 CFR Parts 701 and 741, which seeks to amend the current loan participation regulation. We disagree with certain aspects of the proposed regulation, and we explain our reasoning below.

By way of background, Corning Federal Credit Union is an $898 million asset institution, serving over 80,000 members. We have offered MBLs since 2006 and have been involved in participations with other financial institutions since 2008. We have experienced much success in this area with minimal delinquency and charge offs in our $94 million MBL portfolio. Overall delinquency for our institution is currently at 0.22%, and net charge offs are at 0.12%.

Loan participations are very important to credit unions such as Corning as they generate liquidity, assist in the management of loan concentration issues, provide favorable returns for credit unions that do not have a significant lending demand, diversify lending risk by asset class and geographic concentration, and are a tool to manage the aggregate business lending cap. Credit unions have a history of success in many different types of lending. For credit unions seeking yield, there is a much higher likelihood that credit unions will understand the risks in buying loan participations than investment products. Loan participations move capital from cash rich credit unions to loan rich credit unions to enable the system to put credit union capital to work for members. Loan participation interests purchased by banks add liquidity from outside of the credit union system.

We applaud the NCUA for proposing changes to the existing loan participation regulation as it is in need of revision. However, when considering the benefits and risks of loan participations, we ask the NCUA to focus on the larger picture and to not cripple the benefits of loan participations to the vast majority of credit unions to address the failures of a few.

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

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 requirement and currently maintain the same underwriting standards for our participation loan purchases that we have for the MBLs we originate.

3. *The originating credit union must retain at least a ten percent interest in the loan throughout the life of the loan*. The proposal requires the originator to hold on to 10% of the face value of the loan for the life of the loan; to have "skin in the game." We understand and do not quarrel with this requirement as a general principle. We understand that NCUA wants the originator to have an economic interest in the performance of the loan so that the originator is incented to originate performing loans. Some credit unions use the sale of loan participations to manage their aggregate business lending cap. If the retention requirement was (a) 5%, or (b) 10% for at least a five year period without a default or (c) at least 1% with a contractual duty to share in 10% of any losses, credit unions would have more ability to manage the aggregate business lending cap. Even at 5% of the loan balance there is an economic incentive to underwrite good loans. Any flexibility on this retention requirement would be very helpful to credit unions and flexibility can be achieved without adversely affecting the underlying principle of enlightened self-interest.

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 strongly disagree with this aspect of the proposal. The 25% limitation is intended to act as a preventive against systematic failure, keeping the ills of one originator's loans from spreading to a small group of credit union participants. This is an easy rule to apply but there are many unintended adverse consequences.

The undeniable fact is that good loan participations are built on good due diligence. It is equally undeniable that good due diligence starts with a foundation of a good relationship between the originating lender and the participants. Currently there are many participation relationships where credit unions regularly sell and buy from each other. In most of these relationships, the credit unions have done extensive due diligence on each other, know each other well and have a high confidence level in the quality of the loan products they buy from each other. That is why many credit unions limit their loan participation partners. Some of these relationships are centered around a commonly owned CUSO where the CUSO provides uniform origination, underwriting and servicing. For every story of a bad loan participation relationship, there are dozens upon dozens of good ones. The yield from good quality loans are shared among trusted partners.

This proposal will disrupt those relationships. Credit unions will not stop searching for yield. Loan participation interests will always be a source of yield. Credit unions will search for other loan participation partners, and they will be forced to deal with credit unions they do not know. A credit union is expected to perform and monitor due diligence on all loan participations. If due diligence is done correctly, this proposal will cause the cost of due diligence to rise significantly as new partners are vetted; and if done incorrectly, shortcuts will be taken and lending risks will increase.

For example, the number of credit unions that are very effective in business lending is a small subset of all credit unions making business loans. Forcing credit unions to walk away from a known and trusted lending partner to find an equally effective partner is not easy in practice. This will likely bring more loan brokers into the marketplace attempting to fill the void. As credit unions need to turn away from trusted sellers and look for other sellers, loan brokers will see an opportunity to push loan participation interests in substandard loans on less experienced credit unions.

To share Corning's experience as an example, over the past several years we have developed active participation relationships with five credit unions that have done full due diligence on Corning and agreed to participate in loans originated by us. We are currently undergoing this same due diligence and relationship-building process with a handful of others. If the 25% stipulation were in effect today, this would effectively end the relationships we have established with at least two credit unions and would severely limit the opportunity that several of the new relationships would have to participate with us before those relationships even began. This is solely due to their asset size and relative net worth and has little to do with the inherent risk of purchasing loans from Corning. For example, a credit union with $50 million in assets that is well-capitalized at eight percent net worth, under the proposed rule would have just $1 million in maximum capacity to participate with Corning. This can be rapidly depleted in just a few loan participations, and for larger credit unions like Corning, make the process not worth the effort to partner up with credit unions smaller than them. Making matters worse for smaller credit unions, the participation market is the only logical and financially viable option for getting into member business lending on a cost effective basis. For a credit union of $100 million in assets or less, it does not make sense to hire an experienced commercial loan officer, let alone credit underwriters and support staff, at the current 12.25% MBL cap restriction. Our feeling is that this aspect of the proposed rule will effectively exclude most if not all small credit unions from member business lending and the participation market.

For larger credit unions like Corning, the 25% rule will make it much harder to develop long-term participation relationships with other credit unions. This means that we will be forced to establish additional relationships with many other credit unions that we do not know as well, and that do not know us, and go through the necessary and prudent but lengthy and resource-intensive due diligence process with each of them. This will have a direct and negative impact on our ability to serve our members and meet their borrowing needs. For instance, if we are approached today with a loan request from our member that is greater than our internal relationship size guidelines or that presents an undue concentration risk, we will typically seek to participate the loan with one of our established credit union participation partners based on what we know about their individual appetite and comfort level for this type of loan. Going forward if the new rule is adopted, it is likely that this loan may push that credit union's participation exposure with Corning above 25% of their net worth forcing us to look elsewhere. If we do not have another likely candidate among our existing network of credit unions, we will be forced to establish new relationships, a process than can take months, dramatically impacting the member's ability to close their loan in a timely manner.

There are issues with the application of this rule to credit unions involved in lending CUSOs. There are mortgage and business lending CUSOs that close loans in the CUSO's name and sell the loans in whole or in part to credit unions. Their model is to aggregate the expertise to make the loans and then share loan yields among each other. The credit unions' owners have done extensive due diligence in setting up the CUSO lending model, and the vast majority of these CUSOs have enabled credit unions to be effective and safe lenders. This proposal will cripple those operations. Many credit unions involved in lending CUSOs will be out of compliance on day one of the enactment of the proposal and for no good reason. It makes no sense that the CUSO could sell whole loans to a credit union as eligible obligations without these concentration limitations but be limited on the number of loan participation interests the CUSO can sell to the same credit union. Other questions are raised as well. If a credit union buys loan participation interests both from a CUSO and a credit union owner, does that mean that the buying credit union has a 25% net worth limitation from the CUSO and another 25% net worth limitation from the credit union owner or is it combined?

We suggest an alternative approach to achieve the same end. Our recommendation is to require purchasing credit unions to adopt a loan participation policy with a limit on participations from a single originator, without NCUA establishing what that limit should be. This would enable credit unions' Boards and management to establish a prudent limit that is appropriate for that credit union's particular size and financial situation. Those credit unions that have greater net worth and a track record of prudent lending can afford to adopt a higher single originator limit than those in a more precarious situation. This is similar to the approach the NCUA utilized in the recently finalized Interest Rate Rule, to which Chairman Matz commented: "our standard for interest rate risk policies is not one-size-fits-all. We realize that exposed credit unions have different risk profiles. So while we are providing a *template policy*, we are also *providing flexibility for credit union managers and board members to develop their own policy*" (italics added).

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.* We support this provision. In fact, Corning maintains stricter internal policy guidelines with respect to single and aggregate borrower exposure.

6. *Clarification of comments regarding pools of loans.* The proposed Section 701.22 states that the loan participations do "not include the purchase of an investment interest in a pool of loans." In the comments to Part 701.22(c), it states, "This provision clarifies the existing prohibition against an FCU purchasing a participation certificate in a pool of loans." As we understand it, loan participations are permitted if a group of loans is purchased as long as loan participation interests are conveyed for each loan and not a single loan participation interest in the aggregate group or pool. We recommend clarifying this as it will cause confusion.

7. *Recommended new term: Regarding the ability of credit unions to sell loan participations in loan purchased under the eligible obligation rule.* It is noted that when a credit union buys an eligible obligation, the credit union can never sell a loan participation in that loan as the originator of the loan would not be a participant. There is liquidity risk in a credit union being locked into that position. We recommend that a credit union that buys an eligible obligation be considered an originator for purposes of the 10% originator retention requirement. Clearly the selling credit union would have "skin in the game," and the fact that the selling credit union did not originate the loan is not a reason to prohibit the sale of a loan that is seasoned. It was not a reason to prevent the purchasing of the whole loan by the credit union. The fact that the loan is seasoned gives a buyer the opportunity to see if the loan is performing.

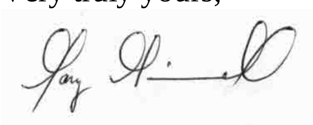
8. *Recommended new term: Regarding the ability of a purchaser of a loan participation interest in buying a loan where the originator obtained a regulatory waiver.* Another liquidity risk occurs when a credit union obtains a waiver, such as a waiver from the personal guarantee requirement. Currently, a credit union that buys a loan participation interest in such a loan must also obtain a waiver. That renders the loan participation interest unsalable from a practical standpoint. No buyer wants to go through the waiver process. We recommend that if the originator obtains a waiver for a loan, a credit union that buys a loan participation interest in that loan does not also have to obtain a waiver.

9. *Recommended new term: Regarding organizations eligible to buy a loan participation interest.* We do not understand any safety and soundness reason to prohibit the sale of a participation interest to a non-financial institution such as an insurance company. If a credit union could sell to institutional investors, there would be an opportunity to bring in more liquidity from outside the credit union marketplace to serve members.

In summary, we support various aspects of the proposed rule and strenuously disagree with some others. Most significantly, we urge the NCUA to consider changing the proposed 25% of net worth single originator rule because it will have a negative and material impact on seasoned MBL credit unions' ability to maintain their existing participation relationships within the industry and on their ability to develop new ones. During a time of limited capital available to help small businesses expand and grow, this can have a devastating impact on job growth and the fragile economy as a whole. We strongly recommend that the NCUA consider alternative approaches that would allow each individual credit union's Board and management to determine their own appropriate portfolio risk levels based on the strength, soundness and expertise of the institution.

We thank you for the opportunity to comment on this important proposal.

Very truly yours,



Gary Grinnell
President and Chief Executive Officer

cc: The Honorable Deborah Matz, Chairman
The Honorable Michael Fryzel, Board Member
The Honorable Gigi Hyland, Board Member