The Credit Union
Loan Source, LLC

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February 15, 2012

Ms Mary Rupp
Secretary to the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314-3428

Re: NCUA Proposed Rulemaking for parts 701 and 741 Loan Participation Proposal

Dear Ms Rupp:

On behalf of The Credit Union Loan Source, LLC I respectfully submit these comments to the proposed loan participation rules issued by NCUA on December 22, 2011.

The Credit Union Loan Source was organized and chartered by the Georgia Secretary of State on Sept 2, 2004 as a Georgia Limited Liability Company. The original and current owners / members of the company are three Georgia state chartered credit unions and the wholly owned subsidiary of the Georgia Credit Union League.

The primary initial purpose of the company was providing indirect auto loans to the three credit union owners in a shared company and pooled loan portfolios. Long term the company is envisioned as a source of point of purchase loans to other credit unions (now six additional) as well as any other investor as liquidity requires.

We fully support the idea of transparency of program and operation. We also fully encourage best practices that include policy, agreement, underwriting, servicing and monitoring. We don't believe it is necessary to craft regulation to do this. Safety and soundness should encourage the sharing of best practices. CULS is always open to real and valid recommendations that can improve performance and we have implemented many such recommendations from various sources.

The attached document A includes a brief background on CULS history. Importantly, it also shares the several different ways the CULS model uniquely mitigates risk in the point of purchase auto loan market. CULS provides Internet access to a substantial array of reports for monitoring the loans. Custom reports are available as individual credit unions request them.

The proposal suggests that a limit of 15% to one borrower be in place, and that is flexible with waiver by the RD. Then it proposes to limit the purchases to 25% of capital from a single provider with no waiver proviso. Those appear to be disconnected. As a point of reference – all credit unions that participate in the CULS program are required to get approvals to participate

from both the Georgia Department of Banking and Finance and The National Credit Union Administration. Those approvals in recent years have been more restrictive for first time participants. Over time those limits have increased – as the credit union has requested those increases, and as they have shown that they are correctly monitoring the program on an ongoing basis. We encourage continued review by participating credit unions. Almost all credit unions in the CULS program have approval letters from NCUA granting (after careful review) limits greater than 25% of capital.

One of the important reasons for developing a Credit Union Service Organization is hiring specialized expertise that the CU might not do on its own. Cost sharing makes the program more effective and more valuable. It also makes it possible to create some of the value adds that CULS brings – web access to reports, detailed third party analysis, etc. It also means that credit unions can participate in programs and services that they could not do on their own, and as such, they might not have the same or better policies.

Purchasing credit unions need to know the product they are buying, they need to know the key metrics for success so that they can monitor, but they may not need to be expert at it, or have policies that completely match it. If so – why build a CUSO to do it?

When CULS originates a loan it retains 1%. To retain 10% would require the owner credit unions to invest significantly more in the CUSO. That shouldn't increase or reduce their exposure – they are the owners. For other investing credit unions (non-owners) the story wouldn't be any different. CULS has nine CU's that are participating in its program. To date, only the owners have over 10% of any loan. Whatever additional percentage that the CUSO would retain wouldn't change the percentage that the other CU's have individually. The reason CULS retains 1% is ease of recordkeeping. As the originator the loan starts in our name and it stays there. Titles, legal work, payment, collections (we are collecting for our own account) – all can be done with 0% interest, but are easier to explain with a 'real' ownership interest – even a small one. In other loan types – where a CU purchases 90% of a commercial real estate loan, the purchasing credit union may want greater ability to manage the account – where 100% ownership would be preferred.

CULS has policies and procedures that meet the following NCUA rules on CUSO's – regulator access, monthly financial statements, annual certified audits, even an SSAE 16 (formerly SAS 70) audit. Best practices – we agree. We work to build those where none existed before us. Credit unions should do their due-diligence, then step cautiously and monitor closely. Over time they should be able to grow their participations where it works best for them and their service to members. Regulators should make sure they are doing that, not limiting all credit unions to one-size-fits-all where the 'all' is the least fit, and the practice is to automatically allow the regulated amount to all.

Credit Union Boards should have the flexibility to permit their management – with demonstrated performance, between both parties – to participate at a much higher level than new relationships. NCUA staff has been heard to say "we don't like indirect lending, but we would much rather CU's purchase through CULS than try to get into the business on their own."

CULS is the originator of record for the loans it grants, and the owners of the CUSO have significant say in the operation, practices and policies. CULS services the loans it originates with agreements with the purchasing credit unions. We understand that the role of the servicer is more critical to the ongoing performance of a loan than the origination of that loan. It is important that origination be done right, but it happens once on the loan, servicing continues throughout the life of the loan.

A final note: CULS loan portfolio grew by $75 million in the first 9 months of 2011. That was more than 25% of the total loan growth of all Georgia credit unions in that same period. The triple net yield on those loans is projected to be higher than the yield on alternative investment vehicles available at the same time. Restricting the opportunity to participate would have a negative impact on earnings for those credit unions that purchased CULS obligations.

Our suggestions are as follows:

- Require that the credit union board of directors establish a reasonable plan for purchasing participations from a single originator. That plan would probably begin with lower amounts the first year and grow over time as experience shows the program is working as expected and continues to serve a need at the credit union.
- Require that a credit union do careful due-diligence on the participation and careful monitoring, and not restrict to only loans the credit union is empowered to grant with same or better underwriting standards.
- Withdraw the 10% ownership requirement.
- NCUA should develop a process for analyzing credit union participation programs on a case-by-case basis, requiring policy, agreement, underwriting, servicing and monitoring standards based on program, on asset class and risks within that asset class.

Thank you for the opportunity to comment. We understand the issues and concerns, but believe that NCUA can do what it needs to do without the burden of this proposed regulation.

Sincerely,

Ralph L. Jones
President

The Credit Union Loan Source, LLC

The Credit Union Loan Source was organized and chartered by the Georgia Secretary of State on Sept 2, 2004 as a Georgia Limited Liability Company. The original and current owners / members of the company are Delta Community Credit Union, Atlanta Postal Credit Union, Georgia's Own Credit Union and The Georgia Credit Union Services, Inc. These are three Georgia state chartered credit unions and the wholly owned subsidiary of the Georgia Credit Union League.

The primary initial purpose of the company was providing indirect auto loans to the three credit union owners in a shared company and pooled loan portfolios. Long term the company is envisioned as a source of indirect loans (not just auto loans) to other credit unions as well as any other investor as liquidity requires.

Significant competitive advantages that CULS has over traditional credit union indirect auto loan programs are:

- CULS does not create channel conflict internal to the credit union between direct and indirect lending – The participating credit unions do not have an indirect channel – they are purchasing an interest in eligible auto loans.

- CULS provides experienced indirect auto loan staff. There are meaningful differences between indirect and direct loan approval processes. In a direct world the credit union is dealing with established members with known histories and proven records. In the indirect world the consumer is buying from a dealer and their F&I person where they will most likely have no further relationship. CULS' staff work only in the indirect world and their expertise is shared among the purchasing investors.

- Investors that purchase an interest in these auto loans are sharing in the risks and rewards. They are not purchasing whole single loans where the risks and rewards fall completely on a single credit union. If an individual loan fails to perform, then each purchasing investor takes their proportionate share of the loss. Likewise if a loan performs well each investor shares in that loan's performance. This helps mitigate against adverse dealer selection or assignment of loans. It also mitigates against investor A receiving a $20,000 loan at 4.5% and A+ credit quality, and investor B receiving a $40,000 loan at 8.0% and C + credit quality. Instead each investor receives a proportionate share of each loan.

- CULS currently purchases loans in several different states and several different markets within those states. The economy in each market may vary

according to different factors – this provides diversification of marketplace risk. This also provides management flexibility – pricing, terms and appetite can be managed in one market and not adversely impact buying in another market.

- Credit unions have seasonal liquidity requirements. CULS has the ability to redirect volume to buyers according to their capacity, without creating adverse dealer reaction.

- CULS auto loans offer a much shorter duration exposure than mortgages or other longer term portfolio items.

- CULS auto loans are a product that credit unions have experience with, and comfort evaluating.

- Credit Union accounting is simplified – purchases and repayments are each booked once a month. Detailed reports are available online.

- CULS program provides investors access to credit guidelines, rates sheets, loan documentation, and performance analytics – online, most updated weekly. Investors are provided with the necessary tools and resources to perform thorough due-diligence.

- CULS uses outside firms to perform third party review of performance, yield, and anticipated performance.

- CULS Operating and Member Agreements specifically provide both The Georgia Department of Banking and Finance, and The National Credit Union Administration access to records and books of the company. CULS appreciates competent and thorough oversight from its investors, and credit union regulators.

- The CULS program is not intended to replace loans to members, in fact it is designed to supplement credit union direct programs, and encourage credit unions to grow those programs by not creating internal channel conflict.

- CULS acts as the investor's indirect auto loan department; while the investor has outsourced the origination and servicing of the loans, its obligations and risks begin when the loan is purchased from the dealer. It is important that the investor thoroughly review the program and its operations and decide if the program fits within its liquidity and risk parameters. If so, then the program can work well for the investor. If not, then the investor should find other solutions.

- The CULS program is intended to offer an alternative source of familiar auto loans, in a mitigated, diversified, and specialized process.

HISTORY

After incorporation the first item of business was to hire a person to run the day-to-day operation. Terry Meek was hired to perform this role. Terry has 25+ years in the auto finance business – half in the automobile dealer's operation as a finance manager, and half in the financial services business running the day-to-day operation of two different auto finance businesses. The first loan application received was on March 31, 2005. CULS originated 71,000 loans for over $1.7 Billion by December 31, 2011. Current loan portfolio (as of December 31, 2011) stands at almost 40,000 loans and just over $665 million in balances.

ORGANIZATION

Board of Managers
The Board of Managers consists of the CEO's of the four owner companies. The Board of Managers has the final approval of all actions of the company.

Operations Committee
Each owner company has appointed a person to the CULS Operations Committee. This committee has responsibility for the general oversight of the company, and meets regularly to discuss issues as they arise, and review expansion and operational enhancement plans.

Finance Committee
Rates are established by CULS management after careful review of the market – including rate surveys in each market. CULS finance committee has oversight of the rate setting process and receives reports from management regarding rates, yields and performance. The CULS Finance Committee is composed of the Senior Finance person from each of the owner companies.

Credit Committee
All loans are underwritten according to guidelines established by the CULS Credit Committee. The CULS Credit Committee is composed of a senior loan official from each of the three owner credit unions. The Committee meets to determine any changes to credit underwriting policy. The committee also meets at least semi-annually to review loans that have been denied to see if opportunities exist to expand the portfolio into a higher yield position. All loans are priced according to score, and term.

The Credit Committee also has responsibility for assuring that random loans are reviewed for compliance with policy. All loan documents are scanned into an image archive that is available for viewing through secure Internet connection. Each CU reviews a random sampling of loans according to an agreed schedule. Their reviews are available for each other, and for examiners to review. Any exceptions are recorded and reported to the management.

Rate sheets and Credit Guidelines are available for review and are stored on the secured portion of the CULS website.

REGULATOR ACCESS

Both The Georgia department of Banking and Finance and the National Credit Union Administration are provided access to any and all CULS records, documents, staff and processes.

PARTNER

National Cooperative Bank, FSB (NCB) – Hillsboro, Ohio has been providing CULS with temporary funding for pool development. NCB has been an excellent partner. They provide same day funding to CULS by purchasing a 99% participation interest in each loan that is purchased each day. Once a month the credit union investors purchase the loans from NCB that have been originated that month. This provides the credit unions with a simplified accounting process – they keep track of their share of the pool of loans – rather than each individual loan. However, the credit unions do have the details on each loan as they require.

PROCESSES

As automobile dealers present loans to CULS for consideration, loans may be automatically approved by the system or may be placed in queue for CULS analysts to review. As loans appear in queue, the analysts are notified and they pull up the loans for review. If they have questions or concerns they contact the dealer and/or the customer to ask questions or to make counter offer. Once approved, the dealer completes the necessary paperwork and forwards it for payment. Quality control processes exist to confirm file documentation is complete. CULS maintains an account at NCB that is used to fund the deals. Automatic settlement generates the necessary funds to the dealers.

NCB purchases a 99% ownership interest in each loan at the same time that they fund the deals, and deposits the purchase price into CULS' account prior to CULS generating the settlement wires to the dealers. Once a month each of the investor's purchases a percentage of the NCB owned loans according to their predetermined liquidity plan. The percentage ownership of each pool will vary, as each investor's available liquidity changes over time.

<u>It is important for each investor to understand they do not have the ability to select individual loans they want a portion of. Each investor will be supplied for their review the credit guidelines under which the loans are approved and funded by CULS prior to indicating their commitment to participate in the program. Funding commitments are made in advance of the loan origination process. Investors may make recommendations for modifications to the credit committee. The credit committee has final say on the guidelines. Once they have pre-determined how much they wish to invest in a pool of loans for the month, the investor is committed to their proportional share of all of the loans in that pool up to that limit. It is critical that investors understand their commitment and their obligation to review the underwriting guidelines, and either choose to participate, or not, as they feel appropriate, prior to entering the program and making</u>

purchasing commitments. The investor's notice to CULS of their intent to participate in a pool will also constitute their acceptance of all loans originated within that pool.

Investors will be required to establish predetermined limits for purchases six months prior to the start of each pool. Each investor purchases a percentage of every loan in the pool with a maximum dollar cap – they are not purchasing specific whole loans. Just as the effective yield is the same for each investor, the share of the fees to the dealers and to CULS are proportional to each investor's percentage of ownership, as are any losses and recoveries which may occur. This process provides significant risk mitigation to each investor.

Each pool is closed and funded by the investors several days before month-end (about the 28th). New pools begin the following day. Investors are informed of the amount for funding on the afternoon of the pool closing and initiate a funding wire to NCB by 10:00 am the following morning. The investors provide CULS with a 6 month volume commitment and a 12 month inclination for purchase appetite.

Each month-end, CULS produces reports which are used to notify the investors of their share (by percentage and dollar) of the receipts (principal and interest), servicing fees, charge backs due to early payoffs (in the first 90 days), and losses/recoveries incurred during the month. The reports include a suggested amortization of dealer fees and origination fees paid to CULS. CULS also provides a loan loss allowance calculation. Each credit union is charged with determining their own calculation for amortization of origination fees, dealer participations and Loan Loss Provision. CULS provides a calculation simply for its own purpose (it holds 1% of the loans in portfolio) and as a tracking tool.

Delinquency reports are produced monthly at month-end, and are provided by pool (New and Used) and by age of delinquency.

CULS uses two national repossession and remarking firms – CenterOne and GE Financial Services and has contracted with a national legal recovery company – FMS to pursue outstanding charged off deficiency balance accounts for recovery of these losses, where possible. FMS also provides early delinquency collection assistance.

These accounting reports are sent to the credit unions about the 5th business day of the month. Settlement of funds is then made on the 10th day of the month, by credit to the purchasers' accounts.

REPORTS

All reports to investors are maintained on CULS' website. The reports are accessible with established username and passwords. CULS also provides the investors with access to images of all loan documents through secure and controlled internet access. Sample reports are available upon request.

SYSTEMS

The CULS data processing system for accounting for each loan is on the Daybreak software provided by Oracle Financial Services Software, Inc., and hosted by VeriCenter. CULS' loan document images are hosted by Cooperative Services Inc (CSI) and FIS. SAS70 reports on both VeriCenter, FIS and CSI are on file and can be provided if required. CULS has had a SSAE 16 type 2 audit performed by Orth, Chackler & Murname. As copy of that Audit is also available.

CULS uses Sail Software from CRIF (formerly Teres) for front end interface with Dealer Track and Route One dealer systems. The SAIL software is hosted in an ASP environment. CULS has received a copy of the SAS 70 audit on the CRIF ASP service.

EXTERNAL EVALUATION PROCESSES

CULS hires ALM First and Monetrics to perform evaluations of the outstanding pools on a quarterly or annual basis. Each quarter the ALM First evaluations are performed. On December 31 the Monetrics evaluations are performed. The ALM First evaluations are designed to review and project anticipated yields – net of fees, servicing and real and anticipated losses. It includes predicted prepayments and losses based on national and CULS actual experience. Monetrics re-evaluates the total portfolio by pulling new credit bureau scores and also looking at collateral, market, and actual loan performance. Both the Monetrics and ALM First reports are maintained on the CULS website and are available for review at any time by investors.

LOAN SERVICING AGREEMENT

Each credit union participating in the CULS program must sign a servicing agreement with CULS, as CULS does the servicing on all loans. A copy of the CULS Servicing Agreement is available upon request.

ORGANIZING DOCUMENTS AND FINANCIAL STATEMENTS

Interested investors may obtain a copy of the Operating Agreement (LLC Bylaws) upon request. Financial Statements for CULS are prepared monthly according to GAAP and are audited annually. Copies are available upon request and are available on the website.

CONSUMER LOAN FORMS

CULS allows auto dealers to use either Bankers System or Reynolds and Reynolds (LAW) contracts only. Images of each consumer contract and supporting documents are available for review via secured internet access.

CULS

Board of Managers

Rick Foley, President CEO Delta Community CU
Don DeCinque, President CEO Atlanta Postal CU
David Preter, President CEO Georgia's Own CU
Michael Mercer, President CEO Georgia Credit Union Services, Inc.

President

Ralph Jones
(678) 542-3431

Senior Vice President and Chief Operating Officer

Terry Meek
(404) 669-5389

Legal Address

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Operations

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1669 Phoenix Parkway, Suite 110 (effective March 3, 2012)
College Park, Georgia 30349

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