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February 16, 2012

Ms. Mary Rupp, Board Secretary
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314

Dear Ms. Rupp,

The purpose of this letter is to comment on the National Credit Union Administration's (NCUA) proposed changes to part 701.22 of its regulations governing loan participations. Specifically, we believe two sections of the proposal should be withdrawn:

- The maximum 25% of net worth acquired from a single originator concentration limit
- Expansion of the rule to apply to federally insured state chartered credit unions

The limit on loans purchased from a single originator should be removed for several reasons:

- It does not take into account the various forms of individual participation loan transactions or the financial strength of the originator. Every arrangement is different and they come in a variety of formats that provide the purchaser with either no recourse, partial recourse or full recourse. For example, if a $50 million credit union with 8.0% ($4 million) net worth and a 50% loan to share ratio had an opportunity to buy $5 million in full or even partial recourse automobile loans from a well managed, well capitalized $3 billion credit union at an attractive yield, it would almost certainly be in their interests to do so because it would enable them to safely increase their bottom line with virtually no credit risk and very little interest rate risk. In fact, in many if not most cases it would be safer and probably much more cost effective than if they were to acquire the same $5 million through an indirect automobile lending program. In this scenario the smaller credit union would be forced to try and find four additional partners, both difficult and unlikely, to accomplish the same end result. Also, in all probability the $1 million transaction permitted under the proposed regulation would not be worth bothering with for either the originator or buyer.

- Severely and unnecessarily restricts a valuable balance sheet management tool by:
  - ✓ Hindering access to an important source of liquidity for credit unions that produce excess loan volume
  - ✓ Hindering access to an important source of earning assets for credit unions that are unable to produce sufficient loan volume

- It takes a significant amount of time and resources to establish mutually beneficial lending partnerships; this regulation would needlessly destroy much of the value of such existing relationships.

- Since more originators/buyers will have to be utilized in order to conduct meaningful transactions, this is one more proposal that will drive up the cost of doing business, adding to a long string of other regulatory mandates that have had the same effect.

- No data or analysis was made available to justify the need for this proposed limit; hence, it appears to be designed to solve a problem that probably doesn't exist or, if it does, is one that should be addressed via more diligent oversight, not increased regulation.

- If there are legitimate safety and soundness issues that need to be addressed, this restriction doesn't do it. The management and financial strength of the originator; the structure of specific deals; rigorous due diligence; and sound underwriting should be the criteria used to determine the aggregate amount that a credit union may acquire from any individual originator, not arbitrary regulation.

Application of the rule to federally insured state chartered credit unions should be retracted because it preempts and usurps the rights of individual states to regulate their credit unions as they see fit without any compelling justification for doing so.

If the NCUA believes it essential that a single originator concentration limit be implemented despite input to the contrary, any such limit should be left to the discretion of individual credit unions. If the NCUA opts to establish a regulatory limit it should be at least 100% of net worth and credit unions should be afforded the opportunity to exceed this limit via the waiver process.

In summary, the proposed single originator concentration restriction will penalize and handcuff the vast majority of credit unions that successfully utilize existing participation lending powers in an attempt to protect the insurance fund from those few that have not. In addition, the inclusion of federally insured state chartered credit unions in this proposal is unwarranted because there does not appear to be any data that supports a need to override and infringe on the rights of individual states to regulate this practice as they deem appropriate. Therefore, we respectfully request that these two portions of the proposal be rescinded.

Thank you for the opportunity to provide feedback on this proposal; please do not hesitate to contact me with any questions.

Sincerely,

Ron Barrick

Ron Barrick
President/CEO