NorthStar
CREDIT UNION
Focused on your future.

3 s. 555 Winfield Road
Warrenville, Illinois 60555
(630) 393-7201
Fax (630) 393-7188

February 17, 2012

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

Re: Proposed Rules on Loan Participations…12 CFR Parts 701 and 741

Dear Ms. Rupp,

I am writing on behalf of NorthStar Credit Union, Warrenville, Illinois in response to the recently proposed regulations under 12 CFR parts 701 and 741. We believe the majority of the proposal is well founded and appropriate for the current economic environment, however, we are particularly concerned with the provision limiting purchases from a single originator to 25% of net worth. We feel this requirement will have material and problematic unintended consequences and could well create the opposite scenario to what the underlying intent of the proposal is. It is our belief and experience that the buying and selling of loan participations holds the same degree of risk and responsibility as any lending activity, whether purchased or originated in-house. A lending decision is a lending decision, and should always be made based the proposed borrower's ability and intent to repay. This proposal, as written, assumes that all credit unions will purchase any participation offered to them without review or due diligence. We believe that originator risk is very manageable as long as all purchases are understood by the purchaser, re-underwritten by the purchaser, and the purchaser knows its originating partner(s), their financial position, and overall risk philosophy.

Our credit union has successfully utilized loan participations to improve earnings and diversify risk for many years. ***Through participation lending (both purchases and sales) we have been able to diversify and manage risk by loan type, industry, geographic location, and most importantly, by individual loan amount (purchased or retained) to a very conservative percentage of our net worth.*** It is our strong belief that placing such a limit on purchases by originator will in fact create more risk, as many credit unions will be forced to find additional originating entities in an effort to maintain yield and diversification. This will create more effort in originator due diligence and likely cause credit unions to purchase loan participations from originators who are less familiar and trusted to them. Each credit union should be able to develop its own set of criteria to manage its risk profile based upon the needs of their members and their overall market position and not by an arbitrarily created percentage.

In our case as an owner/member of a commonly owned member business lending CUSO, most credit decisions are made collectively and unanimously on every MBL credit amongst the credit union owners and/or loan participants. 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 effectively eliminating the seller's ability to manage concentration exposure. As referred to above, each of the CUSO members are 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 the member owners.

This proposed regulation, as written, will disrupt those relationships, by forcing us to:

1. Seek new originators (and/or participants)
   and/or
2. Maintain higher individual loan balances (risk) on our balance sheets if we are to continue to serve our collective members borrowing needs.

In summary, we are strongly opposed to the proposed 25% of net worth limitation 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 biased to suggest that a sourcing mechanism is a source of material risk. Risk should be managed and monitored by the individual institutions through their processes. Institutions buying and selling loan participations that maintain strong credit underwriting, documentation, and monitoring skills will 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.

Because this proposed regulation will have such a significant impact on the credit union industry, we respectfully suggest that the most effective course of action in managing asset quality is not to hamper or eliminate the source of originations, but rather, for the agency to utilize the examination process to ensure that sellers and buyers possess the necessary policies, practices, and skills that result in sound lending practices at the field examination level with each individual credit union and not through the use of a blanket regulation.

We thank you for allowing us to comment on this very important area, and sincerely hope you will reconsider this provision of the proposed rule.

Respectfully,

Lloyd M. Fredendall
President/CEO