



February 17, 2012

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

VIA E-MAIL: regcomments@ncua.gov

RE: Proposed Rule Regarding Loan Participations

Dear Ms. Rupp:

On behalf of Wakota Federal Credit Union (WFCU), we appreciate the opportunity to comment on the National Credit Union Administration's (NCUA's) proposed rule regarding loan participations. WFCU represents close to 3500 members and \$19 million in assets. WFCU urges the Board to withdraw the proposed rule on loan participations and respectfully offers the following comments in support of our position.

As stated in the proposed rule, loan participations strengthen the credit union industry by allowing credit unions to diversify their loan portfolios, improve earnings and help create loan growth. In addition, loan participations create excess liquidity through the sale of participations, which allows originating credit unions to use the excess liquidity to lend to additional individual and business members. However, the proposed rule will create the opposite effect upon credit unions.

Limiting credit unions' ability to purchase loan participations from one originator to 25% of the purchasing credit union's net worth is arbitrarily set and would negatively affect both large and small credit unions. Many small credit unions have limited, or simply do not have, loan underwriting departments within their credit union. Often times these credit unions rely upon a single loan originator for building their loan portfolios. These single loan originators are chosen after significant due diligence is conducted. Under the proposed rule, these credit unions would need to use multiple originators in order to build their loan portfolios and serve their members as they have in the past. Unfortunately many of these credit unions do not have the resources to manage multiple loan originators. The proposed rule would inhibit many small credit unions from creating loan growth and improving earnings.

Large credit unions will also be negatively affected by the proposed credit union limitation to purchase loan participations from one originator to 25% of a credit union's net worth. Many large credit unions sell participation loans to smaller credit unions. Under the proposed limitation, the total capital pool from those smaller credit unions would decrease due to many credit unions being unable to manage multiple loan originators. As a result, large credit unions would produce smaller amounts of participation loans due to the decrease in the purchasing pool and the risk that some of the originated loans would not be participated out. Large credit unions' ability to improve loan growth, earnings and liquidity would be negatively affected by the proposed rule.



WFCU is not opposed to regulation designed to ensure the safety and soundness of credit unions and to protect the National Credit Union Share Insurance Fund (NCUSIF). However, there is no justification provided for the rule as proposed. The single originator limitation of 25% is not justified by any concrete support or data. In addition, the proposed rule inappropriately uses a “one-size-fits-all” approach to address loan participations and concentration risk. Unfortunately a “one-size-fits-all” approach will severely limit many participation programs that credit unions and credit union members rely upon. In order to best serve each credit union, loan participation limitations should be set by each credit union’s management team and board of directors depending on the risk tolerance and due diligence conducted.

The proposed rule also undermines and threatens the dual chartering system. The proposed rule undermines the authority of state regulators to address safety and soundness concerns on its own, especially when it may differ from NCUA requirements. In addition, the flexibility provided to individual states regarding loan participations would be eliminated. In order to protect the dual chartering system it is important to allow states and state regulators to set their own standards regarding safety and soundness for state-chartered credit unions and not allow NCUA to unilaterally make changes undermining each state’s authority.

WFCU purchased 90% of a \$1 million dollar state chartered, direct auto loan portfolio in 2010 to boost yield and avoid a possible merger. As a small credit union, our due diligence took well over 6 months and each loan was personally underwritten by our lending and management team. This investment helped during a very difficult financial period and saved this credit union. We have not sustained any losses to date and the portfolio has been paid down by over 50%.

We urge you to allow credit unions to continue with participations under the current NCUA Rules and Regulations § 701.22 and if anything, allow FCU’s to participate 100% of loan balance. This is very restrictive when seeking to purchase or sell a portfolio.

Again, WFCU appreciates NCUA’s efforts in protecting the NCUSIF. However, this proposed rule will not only hinder loan growth and credit union earnings, but will undermine the dual chartering system that is unique to credit unions. Therefore, WFCU urges the Board to withdraw the proposed rule. If you have any questions about our comments and suggestions, please do not hesitate to contact me at (651) 451-6713.

Sincerely,

Mary Matheson
Wakota FCU-President