Cooperative Business Services, LLC
"Your Business Lending Partner"

February 17, 2012

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

RE: Proposed Rule on Loan Participations (CFR Parts 701 and 741)

Dear Ms. Rupp:

I am President and CEO of Cooperative Business Services, LLC, a credit union service organization (CUSO) located in Cincinnati, Ohio. Our CUSO was formed in August 2003 to provide member business lending services for our credit union owners which include the following:

- Wright-Patt Credit Union, Inc. (Fairborn, Ohio)
- River Valley Credit Union (Miamisburg, Ohio)
- KEMBA Financial Credit Union (Gahanna, Ohio)
- CODE Credit Union (Dayton, Ohio)
- Day Air Credit Union (Kettering, Ohio)
- MidUSA Credit Union (Middletown, Ohio)
- AurGroup Financial Credit Union (Fairfield, Ohio)
- Chaco Credit Union (Hamilton, Ohio)

The CUSO has since expanded its services to include over fifty-five client credit unions in the states of Ohio, Kentucky, Tennessee, Indiana, West Virginia, and New Jersey. The purpose of our CUSO is to allow credit unions the opportunity to offer business loans to their membership while sharing a common set of underwriting and documentation standards. Our CUSO and credit union owners have been successful in developing a collective expertise which benefits each of our affiliated credit unions in building a solid, well balanced and profitable MBL portfolio.

Cooperative Business Services, LLC is supportive of the NCUA Board's efforts to improve industry standards while ensuring credit unions are able to diversify their investments, generate acceptable returns, and offer an array of competitive lending products. The proposed amendments on loan participations being considered by the NCUA Board are of great interest to us as they directly impact our MBL operations. ***It should be noted that our entire $300 million MBL portfolio is comprised of "in-house" loans originated, closed, and serviced by CBS and its affiliated credit unions in and from our credit union market foot print.***

With regard to the proposed changes being considered by the Board, we offer the following commentary:

1. *Part 701.22 to apply to state chartered and federally insured credit unions in addition to federally chartered and federally insured credit unions.*

We are supportive of this proposition as it will allow for a more consistent approach to assessing and mitigating risk in purchasing loan participations.

2. *Require that underwriting standards in purchasing a loan participation interest not be less than the underwriting standards in originating the same loan.*

We are in support of this proposition.

3. *An originating credit union must retain at least a ten percent interest in the participation loan throughout the life of the loan.*

Cooperative Business Services, LLC supports this requirement as it induces the originating credit union or CUSO to be more diligent in soliciting and financing acceptable loan opportunities. While we acknowledge the challenge this requirement presents to originating credit unions that may be reaching the 12.25% cap on member business lending, we feel it is more prudent to raise the 12.25% cap than to lower the 10% participation interest requirement.

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.*

It is our firm position that this proposition will unnecessarily have a negative impact on our CUSO operations as well as the credit unions we serve. The concern raised by the NCUA Board in proposing to limit purchases from a single originator is tied to the "interconnection between participants" and its potential to create more systemic risk to the share insurance fund. The proposal states that "large volumes of participated loans in the system tied to a single originator, borrower, or industry or serviced by a single entity have the potential to impact multiple credit unions if a problem arises". It has been our observation that the negative impact being recognized across the credit union industry as it relates to purchases from one originator is not wholly attributable to the single nature of the originating CUSO or CU but, instead, is more indicative of the lending strategy of those CUSOs or CUs which serve as originators as well as the inherent industry risks associated with the participants being sold. We feel it's more prudent to focus on the diversification of risk in a participation portfolio rather than limiting purchases from a single originator.

In building an MBL portfolio, it is imperative that a credit union follow a lending strategy which takes into account the following risks:

Market Risk – defined as risks related to the overall macro-economic situations which are generally not within the control of the borrower. Such risks may be national, regional, or local in scope and will also impact similar businesses or industries with the same intensity. These risks can be classified more specifically as macro-economic risk, industry risk, and geographic risk.

Credit Risk – defined as risks directly related to the business which may reflect weaknesses in its business plan, a limited or speculative financial track record, a non-demonstrated or unproven operating model, inexperienced management or unknown project desirability. Credit risk has its most direct impact upon cash flow of the business.

Valuation Risk – defined as the risks associated with property ascertaining the value of the collateral being perfected and determining its marketability in the event of foreclosure or repossession.

Construction Risk – the probability of loss associated with the physical construction phase of a construction project due to non-completion, insufficient construction monitoring, fraud, or contractor mismanagement.

Legal Risk – the probability that a defect in loan documentation, insufficient closing due diligence, or a change in law will affect the ability of the lender to get repaid or perfect its claim on collateral.

Whether a new loan origination or participation offering emanates from the CUSO or the credit union, it is underwritten to common underwriting standards and policies shared by all credit unions affiliated with Cooperative Business Services, LLC and is, therefore, within the expertise and scope of our existing MBL capabilities. To impose this NCUA proposition and limit purchases from one credit union to another within our own CUSO would unfairly impair our ability to continue building a well-balanced and diversified MBL portfolio across all types of borrowers. To limit purchases from any one originator for all CUs or CUSOs will also unfairly impact those which are prudent in their portfolio strategies. We would recommend that the focus be placed upon evaluating the diversity of the loan participation portfolio as well as ensuring the proper level of expertise within each credit union rather than limiting from any one originator.

5. *A credit union may not buy loan participation 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.*

This revision is prudent and, by allowing for a waiver, allows for consistency with NCUA regulation 723 for member business lending when a credit union originates the loan on its own.

6. *Regarding the ability of a purchaser of a loan participation interest when buying a loan where the originator obtained a regulatory waiver.*

Cooperative Business Services, LLC would strongly recommend that the process for obtaining regulatory waivers on loan participations be amended to allow for the originating credit union to seek any necessary waivers and that such waivers cover ALL participants without the need for each participant to duplicate such requests. It is the opinion of Cooperative Business Services, LLC that the existing process of requiring each credit union participant to seek a waiver from its own NCUA Regional Office has created an excessive burden for both the credit unions as well as the NCUA Regional Staff. It is necessary to prepare separate packages for each participant and to have many individuals spend time considering the same waiver request. When the waiver requests are limited to the same NCUA Region, each lead examiner for the participating credit unions needs to become fully acquainted with the request and, in the end, may decision the request differently than another examiner resulting in irreconcilable challenges (especially in the renewal of existing loan participations). The process can also become inconsistent when more than one NCUA regional office is involved. Overall, there is a lack of understanding how waiver requests are evaluated and how the originating credit union or CUSO can easily respond to any concerns or issues which arise during the evaluation. It would be most helpful if each regional office had a similar process in place which could be communicated to the credit unions and the CUSO. This would allow for direct contact, when necessary, between those evaluating the waiver requests and the originating CU staff.

We are most appreciative of the Board's continuing support and its emphasis on prudent lending practices. The challenges of the current lending environment require flexibility to ensure each credit union and CUSO can effectively manage portfolio risk while generating an acceptable investment return. We hope that our comments are helpful in providing a greater perspective of the variety of lending strategies and operating models within the credit union industry.

Respectfully,

Keith D. Reed
President and CEO