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February 20, 2012

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

RE: Comments on Proposed Amendments to 12 CFR Parts 701 and 741 Pertaining to Loan Participations

Dear Ms. Rupp:

North Island Credit Union is pleased to respond to the NCUA's Request for Comment to the above noted proposal relating to loan participations.



North Island is a \$1.5 billion credit union based in San Diego, CA, which has been originating Member Business Loans since 1997 and both buying and selling MBL loan participations since the passage of HR 1551 in 1998.

At the outset, we do want to support the provisions of the proposed rule that would level the playing field between Federal Credit Unions and Federal Insured State Chartered Credit Unions—most specifically the requirement in § 701.22(c) that every originating lender retain ten percent of the loan amount for its own portfolio. This requirement serves the obvious purpose of insuring that the Lead Lender has a sufficient stake in the success of the borrower. However, the requirement that the originating lender retain this minimum interest during the entire life of the loan is counter productive in that liquidity concerns or the lead lender's potential future inability to service the loan should be considered as permissible reasons for them to divest themselves of their share of the loan to a willing buyer/servicer (substitute lead lender).

Our concerns with the proposed rule center around the unintended consequences that will attach to two of the suggested concentration limits:

- The limitation on participation purchases from the same originator to 25% of the purchasing credit union's net worth. Rather than creating an arbitrary limit that will diminish the ability of a smaller credit union to work with a trusted and capable partner, emphasis should be placed on each Lead Lender's ability to properly underwrite and service the loans they offer for participation and each participant's ability to perform the proper due diligence on offered participations. This analysis should be a routine part of any credit union's scheduled exam and should be performed by a group of knowledgeable MBL specialists, so that the criteria will be applied consistently nationwide. Additionally, the Lead Lender's ability to renew performing existing loans that have a balloon payment (established to protect against interest rate risk) will be curtailed—as the grandfathering provisions of the proposed rule do not address the renewal process. This will cause existing participants to refuse to maintain their interests in a maturing loan when provided with this regulatory driven opening to reduce their concentration. As a consequence, performing loans will be put in jeopardy, if new partners cannot be found to take their place, which is likely if the property's Loan To Value ratio is in excess of 80% due to the current economic conditions.

- The passage of HR 1551 created a whole new business model that is based around loan participations, as credit unions active in Member Business Lending sought ways to continue to serve their members in the face of the newly imposed and artificial MBL Cap. Prior to the advent of the Cap, as pointed out in the Background section of the proposed rule, participations were used to diversify the credit union's portfolio and generate liquidity. However, the true primary reason for any lender, credit union or bank, to utilize the participation vehicle for business loans is to be able to serve the borrowing needs of their members (or customers) who need a loan amount that is larger than the institution is permitted to make under its own Loan to One Borrower Limit. Obviously, the proposed rule, by applying the LTOB Limit to the sold portion of the loan as well, destroys this perfectly valid reason to participate out a loan and the lender's ability to serve some of their most valuable members.

Please feel free to contact me if you have any questions on the above, and thank you for the opportunity to comment on this proposed rule. We truly hope that the appropriate modifications will be made to the final rule.

Sincerely,

A handwritten signature in black ink, appearing to read 'Jeffrey A. Stone', with a stylized, cursive script.

Jeffrey A. Stone
Executive Vice President & Chief Credit Officer
619.656.7291