SchoolsFirst™
FEDERAL CREDIT UNION

February 21, 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, Parts 701 and 741

Dear Ms. Rupp:

I am writing on behalf of SchoolsFirst Federal Credit Union, which serves school employees in Southern California. We have more than 500,000 Members and over $8.9 billion in assets. SchoolsFirst FCU appreciates the opportunity to comment on the NCUA Board's proposed rule relating to loan participations.

SchoolsFirst FCU generally supports the proposed requirements and offers the following comments.

Shared Interest

The proposed rule would require originating lenders to retain a 10% interest in in the outstanding balance of the loan throughout the life of the loan. We agree with applying a minimum of 10% interest in a participation for all originators as it provides some level of shared interests by all parties for the total loan participation commitment. It has been our experience that when a lesser amount of a participation is retained by the originator (particularly only a 1% interest), oftentimes during periods of loan stress the originator has what appears to be a conflict of interest between their "member" and the performance of the loan participation. Having a minimum of 10% interest ought to avoid any a conflicts of interest in this regard (either real or perceived).

Requiring all originators to retain a 10% stake in the risk will promote better underwriting, risk management, and mitigation processes. When the originating lender shares the risk they will be more inclined to work on behalf of all the participants for a better credit outcome versus preserving the depository relationship.

Concentration Limits

The proposed rule seeks to establish various concentration limits. These proposed concentration limits include:

- Limit loan participation purchases involving a single originator to a maximum of 25% of a FCU's net worth, with no waiver provision; and
- Limit loan participation purchases involving one borrower or a group of associated borrowers to a maximum of 15% of a FCU's net worth, unless a waiver is obtained.

In general we agree these concentration limits are prudent. However, we believe waivers should be permissible on the limits for a single originator. Such waivers should be granted on a case-by-case basis.

We are concerned that the definition of associated borrowers includes guarantors. While we agree with the limit to one borrower, we believe including associated borrowers will pose a challenge in monitoring cross guarantors. For example, where a borrower is a limited liability corporation, the guarantors may be guarantors across multiple loans.

Miscellaneous

With regard to the waiver process, we recommend that the process be streamlined and expedited based on the credit union's current capital levels and CAMEL rating.

The proposed rule establishes specific provisions that must be included in a credit union's loan participation policy, including limits by loan type (701.22(b)(5)(iii)). It is unclear in the proposal if "loan type" means loans collateral type or loan terms. We recommend that NCUA clarify "loan type" means "collateral type".

We recommend that the rule be clarified as to its applicability to mergers. With regard to underwriting standards, a waiver should automatically apply to the continuing credit union as they had no control over the underwriting standards used at the time the loan was originated. In addition, any waivers obtained by the merging credit union should continue to apply to the continuing credit union with respect to existing loan participations transferring to the continuing credit union.

In summary, SchoolsFirst FCU generally supports this proposed rule, as it will help protect the safety and soundness of the NCUSIF if all federally insured credit unions adhere to the same minimum standards for engaging in loan participations, including retaining a 10% interest through the life of the loan.

Thank you for the opportunity to comment on this proposed rule and for considering our perspective.

Sincerely,

John Barton

John Barton
Senior Vice President, Lending
SchoolsFirst Federal Credit Union

cc: Credit Union National Association (CUNA)
California/Nevada Credit Union League (CCUL)