



February 21, 2012

Mary Rupp, Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428
Email: regcomments@ncua.gov

Re: Comment to the Proposed Rule on Loan Participations

Dear Ms. Rupp:

I appreciate the opportunity to comment on the National Credit Union Administration's (NCUA) proposed changes to Regulations 701 and 741 regarding loan participations. I serve as President and CEO of Community Business Lenders (CBL). CBL is a member business lending CUSO located in Des Moines, Iowa. At present, CBL services more than 60 credit unions with \$127 million in loans and commitments outstanding. CBL has significant concern with some of the provisions of the proposed loan participation rule, as set out in more detail below.

CBL is owned by the Iowa Credit Union League (ICUL), Community Choice Credit Union (CCCU) and Members1st Community Credit Union (MCCU). The vast majority of credit unions served by CBL have total assets less than \$100 million. The CUSO's formation 7 years ago was intended to, among other benefits, provide access to member business lending for all ICUL members in a collaborative fashion with the investment in human resources, technology, software, regulatory compliance, and marketing centralized.

I. Application of Part 701.22 to all federally insured credit unions

Iowa is a unique state within the credit union industry. Of the approximately 130 credit unions in the state, only one is federally chartered. The rest are all federally insured, Iowa state-chartered credit unions that are subject to primary regulation by the Iowa Credit Union Division. Thus, the current NCUA Part 701.22 does not apply to these credit unions. Iowa has its own statutory scheme relating to loan participations which would be superseded if Part 701.22 is applied to state charters. CBL is in agreement with Credit Union National Association's comments on this matter relating to the importance of the dual chartering system and the fact that implementation of this rule would undermine the dual chartering system.



Of particular concern to CBL regarding the applicability of Part 701.22 to all federally insured credit unions is the requirement that an originating lender retain 10% of the loan. CBL's model is such that CBL, as the CUSO, is the originator of record. However, CBL does not fund any portion of the transactions it originates on its books. Rather, each transaction has one credit union that holds the member relationship with the borrower, and one credit union keeps at least 10% of the loan balance on its books. While not required to, in this manner CBL complies with 701.22.

We have found this approach to provide consistency with respect to how we do business and it makes loan servicing much more efficient overall. CBL's originating and servicing of the portfolio provides a single source of reporting to participants, facilitates the flow of information to regulators, ensures appropriate and consistent documenting of each loan, and provides guidance to participants regarding quarterly reporting of their MBL portfolio. Loans are underwritten using risk rating matrices that have been reviewed by both the Iowa Division of Credit Unions and NCUA regulators.

Credit union participants are, in effect, doing business with an entity that they have an ownership interest in by way of the ICUL's majority ownership interest in CBL.

While we recognize that the rule itself would not apply to CBL as a CUSO, section 701.22(b) of the proposal states in relevant part:

“(b) A credit union may purchase a loan participation from an eligible organization only if the loan is one the credit union is empowered to grant and the following conditions are satisfied:

(3) The originating lender retains at least a 10 percent interest in the outstanding balance of the loan through the life of the loan...”

The effect of this provision would be to cause Iowa credit unions to no longer be able to participate in the CBL business model unless it was changed to allow for a participating credit union to originate the loans. For the reasons set forth below, we believe that this would be onerous, cumbersome, and not necessary due to the current structure we have developed with our participants. We ask that NCUA reconsider its proposal regarding applicability of the 10% originator rule to all federally insured credit unions. Alternatively, we ask that the NCUA exclude from the scope of this rule any originator in which the participating credit union has a direct or indirect ownership interest.



II. Ceiling of 25% of the purchasing credit union's net worth on loan participations from one originator, with no possibility of a waiver

CBL also has significant concern with the proposal's provision that a credit union can only participate with any given originator in an amount up to 25% of that credit union's net worth. If the rule change is implemented, 29 Iowa credit unions would be out of compliance requiring the credit union to systematically reduce its earning asset base. Such action would have an immediate and continuing adverse impact on the participating credit unions earning asset base in a time when credit union profitability is challenged by increased regulation, modest loan demand in other sectors, and historically low interest rates substantially reducing returns on investment portfolios. As a member of the Regional CUSO Alliance (RCA), we share the belief of RCA that local knowledge of the market by a loan originator aides in the development of appropriate underwriting parameters, loan conditions, and other requirements.

This concentration limit would cause the cost of due diligence to rise significantly, as new originators must be evaluated. Member business lending is not the only type of lending participation from which Iowa credit unions benefit. Iowa credit unions also participate in consumer loans, consumer construction and development loans, and real estate loans that will all be affected by this regulation. Risk can be managed more appropriately and efficiently by long-term, sound partnerships such as our own rather than limiting concentrations with a single originator. We realize that there is a grandfathering clause, but obviously as these loans paid down credit unions would not have the ability to replenish them in the amounts they had previously determined to fund.

Since the CUSO's formation, CBL generated in excess of \$30 million of interest income for its participants and originated more than \$300,000,000 of transactions. The model affords access to the growing MBL market to smaller credit unions, a key objective of the ICUL in its formation of CBL in 2005.

In closing, CBL would like to echo CUNA's comments about NCUA's lack of statistical evidence as to how participations in their current form pose a systemic risk to the credit union industry, as well as the comments made on the issue of unintended consequences.

For the reasons set forth above, CBL asks that the proposal be withdrawn in its entirety.

Thank you for the opportunity to comment. I can be reached at (515) 221-6111 should you have any questions.

Very truly yours,

Mark Kilian