Mary Rupp, Esquire

Secretary of the Board

National Credit Union Administration

1775 Duke Street

Alexandria, VA 22314-3428

RE: Comments on the proposed changes to NCUA Regulations Parts 701 and 741

As a Vice President at Paragon Financial Group LLC, our CUSO has been instrumental in introducing loan participations as a viable strategic tool to hundreds of credit unions over the past 16 years.

While it was not all ALM and strategic fit in the beginning, it certainly has evolved into that over the past few years. The credit unions that I work with have used sound financial decisions to make the determination of whether a sale or a purchase is right for them while adhering to the NCUA's rules and regulations. PFG LLC has promoted and stressed due diligence on selling credit unions since day one, in fact, many of the items that we have insisted on from a selling credit union have become part of the current framework for the due diligence process that the NCUA requires when purchasing a loan participation.

PFG has promoted sound decision making when considering a participation purchase and a majority of the new regulations that you are proposing are items that credit unions that work with PFG already have embedded in their decision process.

In regards to the new regulations, I have addressed them below.

1. The proposal to for the regulations to apply to all federally insured Credit union whether they are state chartered or federally charter. Since we treat all credit unions the same I have no comment on this proposal.

2. That underwriting standards for purchasing a loan participation interest must be on par with internal guidelines for the same type of loan. Again this is an idea that we promote to all our clients and believe this is sound idea. However, it should be noted that a credit unions can use exceptions as they would with their own member loans.

3. The originating credit union must retain a minimum of 10% throughout the life of the loan. At PFG we stress and encourage all of our sellers to maintain, at a minimum, 10%.

4. A credit union's participation purchase(s) with a single originator will be limited to 25% of the purchasing credit union net worth.

I find that this 'one size fits all' regulation could be very detrimental to the entire philosophy of loan participations.

While this new regulation may be directed at a narrow field of loans, the hidden side of this could make it a very regressive regulation rather than a progressive regulation. This regulation could very well close the door on small to medium size credit unions to take advantage of another credit union's successful underwriting.

For example, I have worked with a credit union over the past 12 years that has created pools of loans from their successful 1st mortgage program and has sold participation interests in increments as little as 3% of the outstanding pool. On the surface this does not appear to be a large number, however if that pool is large enough and that the 3% represents $1,000,000 or more, this could shut out a credit union who has less than $4mm in capital, and that is probably nearly 80% of the credit unions under $50mm in assets. Part of the reason this has been a successful program is that it does give small to medium size credit unions the opportunity that usually is only available to larger credit unions. With purchases starting at $1mm it opens the door for nearly every credit union that is insured by the NCUA to be involved. Many of the credit unions that have purchased participations through this program are in fact under $30mm, this program has provided them with valuable income at time when most credit unions are under pressure to find more income.

Every one of the credit unions has performed due diligence on both the loans and the selling credit union. Over the years the relationship and trust that has been built between seller and buyer has created the situation that nearly 100% of the credit unions, have come back to purchase a 2nd and for some even a 3rd time.

I would like to understand why the board believes this type of participation ownership, in a well diversified portfolio of consumer loans (mortgages and autos), could be an issue. Is the intend to squeeze credit unions out of the participation market all together?

I firmly believe that a credit union should rely on their internal views on whether or not a loan participation is right for them. Each credit union has board directives to operate under; ALM goals and guidelines that establish their own risk tolerance. Board governance and executive management should be using those tools to make decisions on purchasing or selling an loan participation, not an arbitrary 'one size fits all' regulation from the NCUA on how much a credit union should be invested in loan participations with a single credit union.

If this regulation stands as is, the unintended consequences could not only reach down and hurt small credit unions, but also reach up and stagnate loan growth at larger credit unions as well. Strong due diligence and trust are two of the moist important items when considering a participation partner, putting arbitrary limits through regulation on how much a credit union can purchase from a single originator, may limit the partners for a large credit unions as well.

If a credit union is successful with a particular loan product they should not have to 'shut it down' simply because their participation partners have no room on their balance sheet to purchase more. Once again this comes down to allowing a credit union to govern itself through ALM analysis and risk tolerance.

Finally I believe that loan participations help diversify, not concentrate, risk.

This regulation should be withdrawn.

5. Limiting the purchase of a participation interests in loans to a single borrower or a group of affiliated borrower to 15% of the purchasing credit union's net worth. Since this is a MBL regulation nearly all credit unions already comply with this.

In conclusion the NCUA could have probably have issued guidelines for participations rather than addressing the overall regulation. What they should be emphasizing to credit unions (and examiners) is that using sound judgment with the tools given to them by their board is what should determine a level of a credit union's purchase amount from a single originator.

Due diligence, ALM analysis, risk tolerance, and trust are the ways to minimize risk ensuring that all participants have an thorough understanding of those risks associated with the purchases they make.

Sincerely,

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