

**From:** [Randy Beck](#)  
**To:** [Regulatory Comments](#)  
**Subject:** FW: Comment on NCUA Proposal on Loan Participations  
**Date:** Monday, January 16, 2012 12:41:05 PM

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## RE: Comment on Loan Participations

To Whom it May Concern;

I am writing on behalf of Royal Credit Union (RCU), a 1.3 billion dollar state chartered credit union in Eau Claire, Wisconsin. We have been making business loans and participating loans for 30 years. Our business loan portfolio is \$482 million in 1500 loans. The economy has brought to the forefront the issues that are apparent when buying and selling loan participations but we are a bit concerned that we will address the issue with a blanket proposal rather than guidelines that could be followed dependent upon the experience level of the individual credit unions. State chartered credit unions in Wisconsin already have guidelines for participation loans that are somewhat similar but not as extensive as the proposal.

This proposal appears to be an attempt by the NCUA to over-legislate. We believe the NCUA would be better served, as would the Credit Unions it regulates, to establish Policy Statements that outline prudent participation lending standards, and their expectations for credit unions that are involved in the purchase and sale of participation loans. The NCUA could incorporate much of what they have outlined here without establishing a one-size fits all regulation. The NCUA needs to look at how the banking regulators approach business lending and follow their lead more consistently. That means using Policy Statements to clarify and outline safety and soundness considerations, not simple regulations.

The remainder of our comment letter will be responses to the questions the NCUA has posed:

1.) Is there a need for a new rule on loan participations?

No there is not. Expanding regulatory guidance and outlining prudent standards would be appropriate. One-size fits all regulation does not work in today's complex banking markets. Participation loans have an important role in lending. Problems in participation loans have been first a product of the types of loans that have been participated, not on the fact that they are participations. When problems develop, participation loans can be more problematic to collect.

2.) Has the NCUA provided sufficient justification for the proposal?

No. The NCUA has simply said that they can pose risk that crosses multiple financial institutions. Their justification is overly simplistic. The risk-management tenets that the NCUA outline have merit, but more appropriately would be part of a policy statement to provide industry guidance and consistency. Examiners could evaluate the credit union's policies and procedures relative to the size, complexity and types of participation lending a credit union is involved in at their examinations. Look at what the banking regulators have established for banks.

3.) Should the proposal apply to state chartered credit unions?

This would not be an issue if the NCUA would establish a Policy Statement outlining prudent

standards for participation loans that were not codified in a one-size fits all regulation. Justifying the need by simply stating that it is needed for safety and soundness over simplifies and is an inadequate argument for federal control.

4.) Do you agree with 25% of NW for any one originator?

Participation loans should be governed by legal lending limits for loans to related borrowers. Creating a regulation to limit loans from one originator is not necessary. Again, outline prudent standards and require more involved policies, procedures, and oversight as exposure to one originator grows. Tell Boards that they should limit and monitor loans from a single originator and outline what the credit unions should consider doing as exposure rises. How will CUSO's be treated? Often one CU from a multi-CU CUSO serves as lead originator. If there are five CU's in the CUSO, could a CU purchase 25% of its capital from each, thus have 125% from that CUSO? Use prudent policy statements to manage risk, not regulations.

5.) Should there be any limit on loans from one originator?

That is a question that should be answered by individual Boards of Directors.

6.) Let the Boards of CU's determine this. Policy Statements should expect that higher exposure should be met with more sophisticated policies, procedures, management and possibly higher capital.

7.) Should waivers be allowed?

Yes. Every situation is different and times can change. There needs to be flexibility built in. This is another reason why the NCUA needs to move away from the model of making rules and granting waivers. Make rules where necessary, but create Policy Statements that examiners review against when they examine CUs.

8.) Limit on Loans to one borrower?

These should follow the same legal lending limit rules in place for non-participation loans.

Other:

Limits by loan type should be governed by the institution's overall limits internally. Prudent standards would direct a CU to establish appropriate diversification standards in their business loan portfolio and the overall CU loan portfolio. Participations should maintain a CU's diversification overall. There would certainly be cases where they would be used to diversify an otherwise overly concentrated CU loan portfolio, thus might not be as diverse within the participation portfolio, but serves to diversify the portfolio of the CU overall.

Prudent Policy Statement guidelines would state that underwriting standards should generally follow those of the CU purchasing the participation (including documentation, etc.). Exceptions to policy should be approved and reported to the Credit Union Board for monitoring.

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