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February 13, 2012

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

Ms. Rupp:

I am writing to comment on the National Credit Union Administration (NCUA) proposed amendments to 12 CFR Parts 701 and 741 pertaining to loan participations. In today's economic and regulatory environment, participation loans provide great benefit to credit unions that are close to the regulatory cap as well as those that are struggling to maintain loan growth. I encourage NCUA to thoughtfully consider the implications of the proposed changes.

The amending of the regulation to apply to all federally insured credit unions is supported with caution. NCUA should only apply this amendment if state regulation does not address participation loans. Efforts to increase regulatory authority may be interpreted as a move to override safe and sound state regulations therefore, the dual chartering system.

Section 702.22 b contains some items that can be supported while others cause concern. NCUA is encouraged to reconsider the following items within the section. The items not addressed are supported with the exception of the above referenced application to state chartered federally insured credit unions.

701.22 b (5) (ii) limits the aggregate amount of participations that may be purchased from one originator to 25% of net worth. This amendment seems unnecessary. Section 701.22 b (5) (i) proposes that "loans be underwritten to meet the minimum standards the credit union uses when it originates a loan." This is sound lending practice and should be sufficient to cover the risks inherent in granting any loan regardless of originator. Whether a credit union originates or purchases a loan, the requirement of full and consistent underwriting should ensure that the purchasing credit union has used consistent criteria in evaluating risk. In addition, the current concentration risk guidance requires credit unions establish a limit for participation loans. Credit unions should be allowed to manage the risk to their balance sheets without a prescribed limit.

Further, the 25% of net worth seems arbitrary. It was confirmed by Chair Matz in a recent presentation that the agency is open to considering a different percentage. While the above mentioned consideration of underwriting and concentration limits should be enough, if the agency is insistent on a percentage it should be no less than 75% of net worth.

Section 701.22 b (5) (iii) is unnecessary. Credit unions are required to address an overall concentration limit for participations and specified loan types. The requirement of further and more definitive requirements restricts the ability of a credit union to respond to shifts in the balance sheet and appropriately manage a balanced portfolio. In addition, the regulatory cap already limits exposure for member business loans. Additionally, Section 701.22 b (5) (iv) is unnecessary. Current regulation already provides a limit of loans to one borrower.

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The requirements of 701.22 c regarding the agreement seem appropriate with the exception of (4) (ii), the retention of 10%. Acknowledging that this rule currently applies to federally chartered credit union, NCUA should not apply this ruling to state chartered credit unions in states that do not have parity with 10% retention requirement. The change for those credit unions would be a preemption of state law.

Section 701.23 proposes to require that the borrower be a member of the purchasing credit union. This change will potentially eliminate the purchase of participation loan by many credit unions. Field of membership limitations will prevent many credit unions from qualifying borrowers for membership. The current regulation is appropriate as it requires the originating credit union to qualify the borrower for membership. NCUA should eliminate this change.

NCUA's proposed change to 741.225 is unnecessary.

Thank you for your consideration. It is imperative that NCUA balance their desire to prevent any losses to the insurance fund with the reality of the risk all credits unions must take to serve their membership. If all risk is eliminated, credit unions will no longer be a viable consumer choice for financial services.

Sincerely,

Carlyn J Roy
CEO

CC: Jaycee Winn, NWCUA