Centennial Lending

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February 14, 2012

Ms. Mary Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

RE: Proposed Amendments to CFR Parts 701 and 741

Dear Ms. Rupp,

I currently serve as President of Centennial Lending, LLC, a credit union service organization (CUSO) located in Longmont, Colorado primarily serving the states of Colorado, Wyoming and Nebraska. Centennial was founded eleven years ago and over this period has developed a strong track record of providing outstanding commercial and mortgage lending services to credit unions while effectively mitigating risk, minimizing actual loss to negligible levels and developing a solid relationship with NCUA and State regulators even to the point of assisting troubled credit unions at times at the request of these agencies. It is in this capacity that I am writing to you on behalf of the CUSO to provide a summary of our position on the proposed amendments to 12 CFR Parts 701 and 741.

Loan participations are at the heart of Centennial Lending's commercial loan program. The vast majority of our commercial loans of any size are participated among three or more credit unions. As a result, any revision of the loan participation rule is of high interest and importance to us and to our owner and partner credit unions. We always welcome an examination and discussion of current regulations as it is essential to the health of the industry as a whole to ensure that the framework within which we all operate is structured sufficiently to foster an environment in which credit unions and CUSOs can thrive and be successful in a focused manner. We believe that there are some very positive ideas put for the in these revisions, but also that some will excessively hinder credit unions from generating the returns needed to be financially sound institutions. It is our hope that the Agency will consider our position, which we believe is shared with a majority of the industry, and modify this amendment in such a way as to strengthen the regulation without restricting credit unions and CUSOs from being able to take full advantage of the benefits of loan participations.

1. *Part 701.22 now applies to state chartered federally insured credit unions ("FISCU's") in addition to federally chartered credit unions ("FCUs"), collectively "FICUs".* We are in support of this proposition.

2. *The underwriting standards in purchasing a loan participation interest may not be less stringent than the underwriting standards in originating the same loan.* We are also in support of this requirement.

3. *The originating credit union must retain at least a ten percent interest in the loan throughout the life of the loan.* We believe that there is value in this requirement that the originator maintain "skin in the game" for the life of the loan and support this requirement.

4. *A credit union may not buy loan participation interests from a single originator that in the aggregate exceeds 25% of the purchasing credit unions net worth. There is no ability to seek a waiver from this restriction.* The logic behind this rule is clear in that it attempts to prevent one originator from creating concentration risk within a group that will subsequently result in an adverse impact to all. While the goal here is understandable, we believe the rule itself is overly restrictive in that it prevents credit unions with good risk management policies from fully utilizing the relationships it has with CUSOs and/or other credit unions to maximize yield while creating a diversified portfolio and effectively managing cost.

As a lending CUSO, we bring credit unions together to participate in commercial loans, primarily real estate secured commercial loans, over a broad spectrum of property and borrower types. Through this model, our owner and partner credit unions can achieve a size and diversity within their commercial portfolios that is integral not only to their profitability, but also to their risk management goals. However, as would be anticipated, our larger credit union owners/partners originate the majority of the commercial loan requests that are processed through Centennial. As a result, the opportunity for other partner credit unions to have a concentration of participations through a given credit union as originator is high. **To restrict credit unions, particularly smaller credit unions, to 25% of their net worth from any originator negatively impacts these credit unions in multiple ways.** First, this would prevent some of our partner credit unions from participating in certain loans regardless of how they fit within their overall portfolio risk management policies. Arbitrarily restricting their ability to participate in loans due to the entity acting as originator puts credit unions in the position of either underutilizing their balance sheet and accepting reduced yields or searching out other sources for participations. By moving credit unions away from long-term partners who have been proven sources of sound participations, this rule will increase the risks incurred by these credit unions as they begin having to take participations from untested sources as well as increase their overall costs as they need to put resources into increased due diligence for every new source of participations. Additionally, ongoing expenses will increase as the credit union has to monitor their participations from all of these sources, each of which will provide information in a different format and scope.

Presently, Centennial is servicing loans participated among 38 credit union partners. Of these relationships, five credit unions currently have participations from one originator that would place them beyond the 25% of net worth threshold. Although this is a relatively small number of credit unions, it constitutes approximately 13% of our active participants and all five have less than $57,000,000 in total assets. While smaller credit unions reach concentrations of risk more quickly than larger credit unions, these are the entities that also benefit most from having solid, reliable, well established relationships in place to provide sound participation opportunities as they often lack the adequate resources to complete the needed due diligence on multiple sources of loan participations.

We believe that the CUSO model as we have developed it addresses the concerns over concentration risk that this proposal is meant to resolve while allowing credit unions to efficiently and effectively take loan participations from various originators, even in excess of 25% of their net worth from any one originator. All of our commercial loans are underwritten and serviced at the CUSO level. However, each loan originated requires approval of a majority of our Loan Committee which consists of individuals from seven of our owner credit unions with experience in commercial lending. Any loan originated will also require the approval of the originating credit union. Finally, any participating credit union will complete their own due diligence and make the decision then to participate or not participate in the specific loan. As a result, regardless of what credit union is the originating credit union, any loan participation through Centennial has been exposed to review by multiple sources. This process allows credit unions to participate in loans from a source that has historically demonstrated a loan loss ratio of less than 2/10ths of one percent over the lifetime of the CUSO and facilitates the diversification of their portfolio in a higher yielding, typically adjustable rate asset from a proven partner.

While the proposed limitation of 25% of a credit union's net worth to be placed in participations with any given originator can reduce risk to some degree, we see this as a static rule that limits the ability of credit unions to actively manage their overall portfolio risk. While we would be in favor of removing this provision from the proposed amendments, at a minimum we see no reason that this should be exempted from the waiver process. When credit unions can demonstrate on merit that they are effectively managing their overall risk through existing CUSO and/or credit union partner relationships, appropriate waivers should be available and granted to allow for these relationships to continue for the benefit of all involved.

5. *A credit union may not buy loan participation interests in loans to a single borrower or group of associated borrowers where the aggregate amount exceeds 15% of the purchasing credit union's net worth. This provision can be waived.* We are in agreement with this revision as typically a concentration in excess of this amount would not be prudent and the waiver process is applicable in an instance where it is warranted.

6. ***Recommended new term: Regarding the ability of credit unions to sell loan participation in loans** purchased under the eligible obligation rule.* We are relatively neutral on this recommendation. While this limits to some degree the flexibility of a participant in a given loan from ever altering their participation level, we believe that this can functionally go back through the originator to re-participate on behalf of the existing participant.

7. *Recommended new term: Regarding the ability of a purchaser of a loan participation interest in buying a loan where the originator obtained a regulatory waiver.* In an instance where an originator has obtained a waiver for an item in relation to a loan, any participant in said loan should not have to also apply for the same waiver. Functionally, once such a matter has been presented and approved the waiver should transfer as part of the participation as it makes little sense to spend the resources of the participants and the Agency in presenting/hearing the same waiver request repeatedly and a credit union will rarely, if ever, undertake the endeavor of obtaining a waiver for a loan in which they might participate.

8. *Recommended new term: Regarding organizations eligible to buy a loan participation interest.* It seems reasonable to not limit the ability of an originator to sell a participation interest to a non-financial institution such as an insurance company. Allowing for this will merely serve to increase liquidity, lower risk to the NCUA and the insurance fund and further avoid any potential concentration of risk.

We appreciate the Agency's continued efforts to revise and refine these regulations and for allowing us the opportunity to have input into this process to ensure that the result allows credit unions and CUSOs to adequately and appropriately manage risk in the context of effectively thriving in the current environment.

Sincerely,

Mark Bostock

Mark Bostock
President

CC: Mr. Michael E. Fryzel, Ms. Debbie Matz, Ms. Christiane Gigi Hyland, NCUA Desk Officer