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

RE: Proposed Amendments to 12 CFR Parts 701 and 741 Pertaining to Loan Participations

Dear Ms. Rupp:

This is a comment letter to the proposed changes to the regulation regarding loan participations. While we appreciate and understand the motivation to review the appropriateness of the regulation given some of the unwelcome issues that have occurred at a few credit unions the past several years, we believe the changes are an overreaction and simply not necessary to continue to manage risk for both individual credit unions and system-wide. There are always unintended consequences with any new regulation that could be negative and there appear to be a number of concerns that this regulation could provide for such unintended outcomes.

Loan participations benefit both credit unions and its members. It allows for the liquidity credit unions must have to continue to meet the needs of its membership. It insulates credit unions from the reputation risk that we are "in the game" one day and "out of the game" the next. Our communities and members can rely on us because loan participations help us manage growth rates and liquidity. Additionally, loan participations allow credit unions (both sellers and buyers) to achieve asset diversification, assisting with management of credit, interest rate and concentration risks. As importantly, loan participations allow credit unions to remain competitive with banks and other financial institutions, ensuring financial strength and sustainability in the credit union system.

Again, we welcome the review of this regulation; however, we would like to point to serious concerns that we believe require further scrutiny by NCUA before moving forward. We will reference only the sections of which we have a concern. If a section is not mentioned, we have no comment or concern.

Sections of concern:

3. **The originating credit union must retain at least ten percent interest in the loan throughout the life of the loan.** We do not have a philosophical issue with this requirement, which creates "skin in the game" for the lead lender. However, it appears that 10% is a "one size fits all" number. It would be helpful if a "risk-based" approach could be applied so that credit unions have the flexibility to continue to generate good business loans for their communities, members and the credit union system when they are near or at the overall business lending cap. This could be achieved by reducing the percentage required for loans that have been on the credit union's books for 3 to 5 years, or it could be based on loan type and the value of the collateral relative to the loan amount. Anything that would provide flexibility would be appreciated.
4. **A credit union may not buy loan participation interests from a single originator that in the aggregate exceeds 25% of the purchasing credit union's net worth. There is no ability to seek a waiver from this restriction.** This section brings the negative unintended consequences that we mentioned in our opening comments. We believe that while almost anything that one can imagine, could occur, the reality is that the most extreme circumstances rarely occur. Attempting to use regulation to manage such things leads to a significant cost to the system and

a less identifiable harm (but a harm, nonetheless). Current regulations require that credit unions have a solid underwriting and loan monitoring program, which builds a foundation that minimizes credit risk. Additionally, many credit unions further limit the purchase of loan participations since these deals inherently "feel" riskier as there has been less opportunity to have direct contact with the borrowers. Credit unions originating loans, as mentioned in part 3, must have "skin in the game", leading to a further reduction in motivation to book a toxic loan. Clearly, there is already significant regulatory and common sense oversight in place to maintain risks at acceptable levels. This rule will add cost to the communities where credit unions will have to shut down lending when additional loan participants cannot be found.

One of the key foundations to safe and sound lending practices with loan participations is the development of trust among the participants. It appears counterintuitive to put in place a regulation that will force smaller credit unions to move away from solid, trusted relationships and seek unknown participation partners when the proposed restriction is reached.

We understand that "doing nothing" is probably not going to be comfortable for NCUA, although there is significant evidence to support this would be a good time not to react to isolated events. If restrictions must be put in place, we would encourage NCUA to provide for flexibility under Prompt Corrective Action for well-capitalized credit unions. We also ask that NCUA allows for credit unions to seek waivers if the credit union has a proven track record.

Last but not least, this rule again makes the credit union charter more restrictive and less desirable. This is a negative consequence that should be a huge concern to NCUA and weighed more seriously into the equation before implementing regulations that adversely impact the charter.

The challenge for credit unions is how we maintain our **relevance** in the financial services industry. Unnecessarily burdensome regulation will only be an additional impediment to maintaining our relevance.

We thank you for the opportunity to comment on this proposal.

Best Regards,

Gary Hinrichs, President / CEO
Jason Peach, Senior VP / CFO

West Community Credit Union