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COASTAL
federal credit union

February 15, 2012

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

RE: Proposed Amendments to 12 CFR Parts 701 & 741

Dear Ms Rupp:

Please accept this letter as Coastal Federal Credit Union's (Coastal) comments on the proposed changes to Member Business Loan (MBL) Participation regulations.

Loan Participations are an extremely important component of Coastal's service to its Members. As such, we have developed a Business Lending department with a cadre of experienced Business Loan Officers that produces high quality MBLs. Our reputation has allowed Coastal to originate and service $360 million of MBLs, but due to the 12.25% "cap", we have had to sell $140 million of Participations to other credit unions in order to continue to serve our Member demand. Coastal has been fortunate to locate and develop relationships over the past decade with 20+ credit unions nationwide, who have bought those Participations from us. Their confidence and trust in Coastal Participations has allowed them to diversify their portfolios with geographically dispersed loans and increase their net incomes through higher yielding products. From our perspective, it has allowed Coastal to share the risk inherent in lending and to offer capital intensive credit unions an alternative investment opportunity.

Coastal understands the need for appropriate regulation that insures proper diversification, soundness, and underwriting criteria; however, there can be unintended consequences from some of NCUA's currently proposed regulation changes, such as:

1. Limiting a credit union's MBL participation purchases from any single source to 25% of its net worth may seem prudent; however, it will force many buyers to consider loans from other untested sources that may not have the same expertise as their current sellers. <u>We feel the 25% level is a reasonable base, but believe a waiver option to 50% of net worth should be allowed</u> for sophisticated buying credit unions that might prefer to rely on trusted and tested seller sources.

2. The 15% of net worth limit on the purchase of loan participations to a single borrower or group of affiliated borrowers is reasonable, with the option to obtain a waiver. <u>We support this provision</u>. This limitation should include the balance of any loans to the same borrower made directly to the borrower by the purchasing credit union.

3. The requirement that underwriting standards in purchasing a loan participation must not be less stringent than underwriting standards in originating the same loan is one that <u>we support</u>.

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4. The requirement that the originating credit union hold at least a 10% interest in the loan throughout the life of the loan is one that we support in principle for sales of loan participations to other credit unions. In the absence of any legislative relief on the MBL cap, we would urge the NCUA to consider a lower retention percentage, such as 5%. We do not feel this provision should be applicable to loans or loan participations sold to non-credit investors such as pension funds, insurance companies or securitization vehicles.

5. There are significant opportunities for credit unions to originate high quality, non-recourse commercial real estate loans on properties that are occupied by government entities or companies with investment grade credit ratings. Coastal has been active in this market for many years with great success. Due to their size, these loans are often participated among multiple credit unions. The removal of the non-recourse authority for Reg Flex credit unions has greatly hindered our ability to compete for this business, as a waiver is required for each loan. And the waiver does not carry through to the buyers of loan participations. The new regulations should permit non-recourse commercial real estate lending in the following circumstances:

    a. The property is at least 80% leased to a government entity or investment grade company with lease terms that extend at least to the end of the loan term.
    b. Rent payments from the government entity or investment grade company are deposited directly with the lender (direct assignment of rents)
    c. Other credit unions that purchase participations in such loans could rely on this authority for those purchases without the need to obtain a separate waiver

6. Credit unions should be permitted to invest in a special purpose legal entity (mutual fund, etc.) that can invest in pools of MBLs originated by credit unions. Such a program would further reduce risk by allowing for centralized and highly specialized risk management. Concentration risk limits would apply and would need to be set by individual credit unions.

Thank you for allowing Coastal Federal Credit union to comment on these important matters.

Sincerely,

Chuck Purvis

Chuck Purvis
Executive Vice President/Chief Operating Officer