Boulder Municipal Employees Federal Credit Union
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February 16, 2012

Re: Proposed Amendments to the NCUA Loan Participation Rules
(12 CFR Parts 701 and 741)

Dear Ms. Rupp:

Boulder Municipal Employees Federal Credit Union serves the needs of 6,800 members consisting of City and County employees in the Boulder Colorado area. We appreciate the opportunity to comment on NCUA's proposal to amend its loan participation rules. NCUA's proposal raises several significant concerns for our credit union.

Loan participations provide some distinct advantages to our credit union but most importantly, loan participations provide the credit union with geographic and loan type diversification, and often results in a favorable loan yield that is higher than other forms of credit union investments. Worth noting is the 2008 Letter to Credit Unions. In that letter NCUA acknowledged the beneficial nature of loan participations, citing participations as a method to manage interest rate, liquidity, and credit risks, a method to achieve balance sheet diversity, and a method to increase a credit union's ability to serve its member-owners. (NCUA Letter to Credit Unions, 08-CU-26, November 2008). It is in the best interests of the credit union industry to retain the ability to purchase loan participations and retain a system of reasonable regulation that does not inhibit the ability of credit unions to take part in the process. We believe that some of the proposed revisions would adversely affect the volume of loan participations and unduly punish credit unions that are successfully purchasing loan participations due to the failures of a few in the industry.

NCUA seeks to establish two separate concentration limits: twenty-five percent (25%) of net worth for single originator loans and fifteen percent (15%) of net worth for one borrower or a group of associated borrowers. Although the latter limit seems consistent with established limitations on making member business loans to one member or a group of associated members, the twenty-five percent (25%) concentration limit seems arbitrary and unduly restrictive. If NCUA's rule is enacted as proposed, our ability to develop and maintain close, trusted relationships with our members would be greatly impacted. This could potentially result in increased risk, which often times is mitigated due to established relationships and “knowing our member”. As a credit union that has developed trustworthy and profitable relationships with financially sound members, this could potentially force us to seek less sound relationships with members that we do not know as well.

In lieu of concentration limits, we feel it is prudent to consider allowing credit union management to exert control, exercise due diligence, and set reasonable concentration limits based upon the individual needs and financial standing of their credit union. Concentration limits will negatively impact the operation of existing CUSO(s) and hinder CUSO formation in the future. This only serves to undermine the collaborative spirit of credit unions and forces credit unions to seek relationships with partners outside of the credit union industry.

Clearly, it is in the best interests of the credit union industry to have a clear agreement that outlines the responsibilities and duties of the selling and purchasing parties, the location and custodian of the loan documents, and other relevant provisions. However, a provision that requires the originating lender to retain at least a ten percent (10%) interest in the loan during the entire life of the loan could be burdensome to us and other credit unions. It also potentially limits a credit unions flexibility to move loans off of their books and could lead to future liquidity concerns. An alternate and less onerous option would be to create a less stringent standard. Credit unions could be required to retain an interest for a lesser period of time, perhaps the first five to seven (5-7) years of a loan.

A theme that resonates throughout the credit union industry, no matter the size, is the adverse impact that increased regulation has had on the overall operation and well-being of the credit union industry. We encourage NCUA to strike a balance between safety and soundness and the benefits of loan participations to the credit union industry.

Once again, I appreciate the opportunity to comment.

Sincerely,
Ann Babiak
President & CEO
Boulder Municipal Employees Federal Credit Union