NORTHWEST CHRISTIAN
CREDIT UNION

February 16, 2012

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

Re: Comments on NCUA Proposed Rulemaking for Parts 701 and 741
Loan Participations Proposal

Dear Ms. Rupp:

This letter represents the official view of the board of directors and management of Northwest Christian Credit Union (NWCCU) regarding the NCUA Board's proposal to further restrict credit union loan participation programs. Northwest Christian Credit Union is a privately insured credit union that has been originating participation loans for a number of years. To date, the participation program has had no delinquencies, and no losses.

The proposal would introduce several new limitations and further NCUA dictation to credit unions as to how their business should be run. The NCUA will be dictating to credit union boards through the following:

- A ceiling of 25% of net worth on loan participations from one originator, with no possibility of a waiver;
- A limit of 15% of net worth on loan participations from one borrower;
- A requirement that state CUs that are selling loan participations must retain a 10% interest in the loan originated (FCUs already must meet this requirement);
- A requirement that loan participations would have to conform to the same underwriting standards that a federal credit union employs when originating a loan; and
- A requirement that loan participations be purchased from an eligible organization.

With all due respect, NWCCU urges withdrawal of the proposed rules.

Credit unions are currently heavily regulated and the proposed rules for participation programs would impose additional unnecessary regulatory restraint well beyond the scope of NCUA's perceived problem. It is feared that this proposal would, rather than reducing concentration risk, have the reverse affect by limiting a credit union's ability to diversify its loan portfolio.

As with many regulations and laws, imposing these rules would result in unintended consequences. The credit union believes that one unintended consequence would be limiting a credit union's ability to generate revenue through participation loans while its own loan demand may be weak. Another unintended consequence would be that credit unions would have their hands tied to mitigate risk inherent in loan portfolios by limiting the ability to diversify into different loan types and not allowing them to purchase participation loans primarily from high quality originators.

The NCUA has yet to demonstrate the so called "systemic risk" to which these rules are pointed. Simply put, these regulations threaten, not enhance, the strength of well managed credit unions.

Northwest Christian Credit Union has a couple of critical concerns regarding the proposed changes. The first concern regards the proposal to limit a federally insured credit union's purchases to loan participations from "an eligible organization," which is defined as a "credit union, credit union organization or financial organization." It is understood that this would prevent a federally insured credit union from purchasing loan participations from state-chartered privately-insured credit union. Each purchasing credit union is currently required to perform its own due diligence on any loan under consideration for purchase. If the credit union has performed its due diligence, why should it matter what type of entity originated the loan?

The second high priority concern for NWCCU is the concentration limits imposed on participations purchased from a single originator. This is not a limit that should be forced on the credit union movement in a one-size fits all approach. In our opinion, it would be more effective to have this limit added as a feature within an MBL policy established by a credit union's board. It is vital that the board of each credit union is able set policy limits that are appropriate for its level of operations, complexity and capacity to manage a loan participation program. We consider this a better approach because it prompts the board to address the issue but allows the board the needed flexibility to manage and mitigate the issue.

Another concern the credit union has with the proposal is limiting a credit union's loan participation purchases to those involving loans the purchasing credit union is authorized to originate. This seems completely contrary to the intention of reducing concentration risk. Imposing this restriction would exacerbate the pooling of one type of loan in a small number of credit unions. Additionally, it prevents the entire credit union movement from benefiting from expertise developed by an originating credit union. The credit union movement is a cooperative movement and is strongest when cooperation is allowed to flourish.

Northwest Christian Credit Union understands the need for greater attention to participation loans and MBLs. As credit union loan participation programs grow and reach higher concentrations there will be the need for credit unions to develop an on-going due diligence process. We feel it is critical that the greater attention given to participation programs is done so in a manner that makes the programs stronger, rather than creating greater risks for the credit union movement.

NWCCU works hard for its members, serving their needs, and fulfilling the mission they have established for their credit union. The obligation the credit union has to its members and to those credit unions that have purchased participation interests in its loans, is taken very seriously. NWCCU is proud to be assisting other credit unions to generate needed income through a participation program, enabling those credit unions to serve their members in a safe and sound manner. It is our fear that this proposed rule will make the work of credit unions more complex and restricted during this challenging economic cycle.

Northwest Christian Credit Union urges the NCUA to withdraw this proposal. It is hoped that the NCUA will closely review the comment letter submitted by Credit Union National Association for additional suggestions as to how the intent of the regulation can be implemented in a far more effective manner.

Sincerely,

Brad Swartzentruber
Pres/CEO