360 Federal Credit Union

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February 17, 2012

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

Dear Secretary Rupp:

Thank you for giving me the opportunity to comment on the proposed regulation changes which would have a direct negative impact on 360 Federal Credit Union. My comments are limited to those provisions which would pertain to us.

1. *Part 701.22 now applies to state chartered federally insured credit unions ("FISCUs") in addition to federally chartered credit unions ("FCUs"), collectively "FICUs".* We do not have any issue with this requirement. In fact we believe that any credit union who has the benefit of federal insurance coverage should be subject to the same rules.

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 do not have any issue with this requirement.

3. *The originating credit union must retain at least a ten percent interest in the loan throughout the life of the loan.* The proposal requires the originator to hold on to 10% of the face value of the loan for the life of the loan; to have an economic interest in the loan.

We understand that NCUA wants the originator to have an economic interest in the performance of the loan so that the originator is incented to originate performing loans. Some credit unions use the sale of loan participations to manage their aggregate business lending cap. If the retention requirement was (a) 5%, or (b) 10% for at least a five year period without a default or (c) at least 1% with a contractual duty to share in 10% of any losses, credit unions would have more ability to manage the aggregate business lending cap. Even at 5% of the loan balance there is an economic incentive to write good loans. Any flexibility on this retention requirement would be very helpful to credit unions and could be achieved without adversely affecting the underlying principal of enlightened self-interest.

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.* The idea is that these concentration limits will prevent loan failures from becoming systemic. We believe there are serious unintended adverse consequences.

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Good loan participations are built on good due diligence. Good due diligence starts with a foundation of a good relationship between the originating lender and the participants. Participants perform extensive due diligence on originating credit unions and through experience, gain a high confidence level in the quality of the loan products. This proposal will disrupt those relationships.

In certain industries there are only a few tier one originating credit unions with the experience, financial stability and client base. That is why many credit unions limit their loan participation partners. To force purchasing credit unions to seek business with non-tier one originators lacking the experience, financial stability and quality loans will inherently increase risk to the purchasing credit union and ultimately the Share Insurance Fund. For example, the number of credit unions that are very effective in business lending is a small subset of all credit unions making business loans. Forcing credit unions to walk away from a known and trusted lending partner to find an equally effective partner is not easy in practice. This will likely bring more loan brokers into the market place attempting to fill the void. As credit unions will be compelled to turn away from trusted sellers and look for other sellers, brokers will see an opportunity to push loan participation interests on some of the less experienced credit unions.

Credit unions will not stop searching for yield. Loan participation interests will always be a source of yield and supplement periodic declining loan volumes and diversification strategies. Credit unions will search for other loan participation partners and they will be forced to deal with credit unions they do not know. A credit union is expected to perform and monitor due diligence on all loan participations. If due diligence is done correctly this proposal will cause the cost of due diligence to rise significantly as new partners are vetted which will dilute yields; and if done incorrectly shortcuts will be taken and lending risks will increase.

We suggest consideration of a couple of modifications: 1) All credit unions are not the same, if an originator had a Camel rating of 1 or 2 permit a higher concentration limit and; 2) if the loan to value is under 75% permit a higher limit.

5. *A credit union may not buy loan participations 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 do not object to this under the circumstances but note that commercial lenders analyze loans based on whether the cash flow for a particular loan is sufficient in amount and segregated from other cash flows of the borrower and associated borrowers. We would hope that this would be a factor in a waiver application.

6. *Recommended new term: Regarding the ability of credit unions to sell loan participations in loan purchased under the eligible obligation rule.* We note that when a credit union buys an eligible obligation, the credit union can never sell a loan participation in that loan as the originator of the loan would not be a participant. There is liquidity risk in a credit union being locked into that position. We recommend that a credit union that buys an eligible obligation be considered an originator for purposes of the 10% originator retention requirement. Clearly

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originate the loan is not a reason to prohibit the sale of a loan that is seasoned. The fact that the loan is seasoned gives a buyer the opportunity to see if the loan is performing.

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.* Another liquidity risk occurs when a credit union obtains a waiver, such as a waiver from the personal guarantee requirement. Currently, a credit union that buys a loan participation interest in such a loan must also obtain a waiver. That renders the loan participation interest unsalable from a practical standpoint. No buyer wants to go through the waiver process. We recommend that if the originator obtains a waiver for a loan, a credit union that buys a loan participation interest in that loan does not also have to obtain a waiver.

In times such as these, it is imperative for credit unions to safely maximize net income in order to continue to build capital. That is the best scenario for protecting our Insurance Fund. Overly restrictive regulation with such adverse consequences removes the opportunity for us to utilize appropriate risk management strategies which ultimately lead to a continuous strengthening of capital and, thus, protection for the Share Insurance Fund. Thank you again for the opportunity to comment on this important proposal.

Very truly yours,

Robert L. Aresti
President/CEO

Karen Q. Bauer
Vice President of Lending

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