

Maine Credit Union League

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February 17, 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; 76 Fed. Reg. 79,548, proposed Dec. 22, 2011

Dear Ms. Rupp:

I write on behalf of the Maine Credit Union League (the "League") which is a trade association representing Maine's 63 credit unions, regarding the National Credit Union Administration Board's proposal to place further restrictions on the use of loan participations, particularly by purchasing credit unions.

The League opposes the proposal and is asking the Board to withdraw the proposal as issued.

The proposal will add to the regulatory burden of credit unions in a manner that clearly dwarfs the risks associated with participation loans. Couched as a measure to address concentration risks and other issues the NCUA has identified concerning participation loan programs, it would do so at a devastating cost to credible, stable and critically valuable programs that serve the often unmet needs of local business communities, credit unions and credit union members. These changes will cripple lending programs and credit union earnings. As with other commentators, the League urges that through the proposed application of concentration and underwriting limitations, contrary to the NCUA's asserted focus on risk management will actually and significantly diminish the ability of credit unions to mitigate risk through diversifying sources and types of loan participations.

The League expresses its hope that the NCUA will reason that these results are unacceptable after all, given the frankly low real risk associated with participation loan programs and the uncertainty among credit unions that the proposal will actually mitigate risks from these critically important programs.



At the very time when the economy, communities, small businesses, and consumers could benefit from sound lending programs, and credit unions could benefit from providing them, this proposal would limit the ability of credit unions to sell and purchase loan participations, historically an important mechanism that has facilitated loan production.

Among other things, the proposal would introduce several new limitations. These restrictions for all federally insured credit unions would include:

- A ceiling of 25% of the purchasing credit union's net worth on loan participations from one originator, with no possibility of a waiver;
- A limit of 15% of the purchasing credit union's net worth on loan participations from one borrower;
- A requirement that federally insured credit unions 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.

The League and its member credit unions vehemently oppose the proposal. As drafted, it will materially impact credit union lending efforts and/or earnings, all without measurable offsetting safety and soundness benefits!

The concentration limits regarding participations purchased from a single originator seem to be unique within the financial services industry. The proposed limitation would arbitrarily disadvantage credit union loan participation programs.

Maine credit unions are particularly concerned that the 25% of net worth limit on loan participations from one originator may disrupt if not dismantle what are viable loan participation programs today. These credit unions simply do not have the resources to initiate and conduct ongoing monitoring of a number of loan originators. The operational reality in Maine today is that most credit unions focus on purchasing loans from a single originator.

Those few large northern New England credit unions that sell loans and loan participations to smaller credit unions will be unjustly penalized. That is because in a number of cases, larger credit unions may be reluctant to sell participations to smaller credit unions if the amount they can sell to each is limited to 25% of the purchasing credit union's net worth. The proposal if adopted could mean that fewer loans would be originated if selling credit unions are concerned about having to find a number of additional credit unions to which they can sell participation interests.

Maine credit unions are also concerned about the proposed limitations on loan participations involving loans to one borrower or group of borrowers.

The League also has concerns with the risk retention requirements that would apply to all federally insured credit unions, even though current regulations require that originating or lead participant credit unions retain a 10% interest in participation loans. With the current regulatory requirement for federal credit unions, NCUA could use its incidental powers to provide for waivers from this limitation for credit unions selling loan participations.

Our credit unions are opposed to the provision in the proposal that would restrict loan participation purchases to loans that the purchasing credit union is authorized to originate. This provision would unfairly and unreasonably limit loan participation programs and unfairly limit the ability of purchasing credit unions to diversify loan participations and it would shrink the pool of credit unions to which originating credit unions could sell participation interests. From a safety and soundness standpoint, we urge that this provision would be counterproductive.

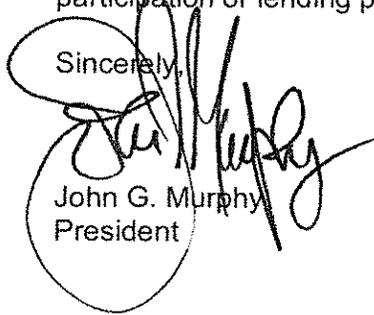
NCUA has provided no data or other information to substantiate any of the limitations the agency is seeking to impose on loan participations under the proposal, including information as to why, for example, the proposed 25% limitation is preferable to a 20% or 30% limitation. In fact, there is absolutely no analysis or commentary reflecting the rationale deployed by the NCUA in choosing the specific concentration limits included in the proposal.

NCUA states repeatedly in the Supplementary Information that it appreciates that loan participations can help mitigate credit unions' risks but it fails to address the extent to which risk mitigation will be impacted by the limitations on loan participations that the proposal will impose. NCUA does not offer any explanation as to how its concerns will be addressed without undermining the use of loan participations throughout the credit union system.

If credit unions are subjected to a new rule on loan participations that contains concentration limits and the requirement that loan participations conform to underwriting standards, the NCUA must necessarily allow credit unions to obtain waivers from these provisions. It should be noted that waivers have been "hard in coming" across the industry for a variety of often inexplicable reasons.

The Maine Credit Union League requests that the NCUA withdraw this proposal in its current form, and to consider the alternatives recommended by credit union industry commentators to address safety and soundness issues adequately but without unduly disrupting loan participation or lending programs.

Sincerely,



John G. Murphy
President