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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
Participation Proposal

Dear Ms. Rupp:

On behalf of Georgia's Own Credit Union (Georgia's Own), I respectfully submit these comments to the proposed loan participation rules issued by the NCUA on December 22, 2011.

Georgia's Own was founded in 1934 and is a Georgia state-chartered federally-insured Credit Union with approximately \$1.67 billion in total assets and over 180,000 members. The Credit Union also has twenty-five (25) branch locations within Georgia, primarily located in the Atlanta, Augusta, and Savannah metro areas.

Georgia's Own fully supports the idea of transparency of program and operation. The Credit Union also fully encourages best practices that include policy, agreement, underwriting, servicing and monitoring. Georgia's Own does not believe it is necessary to craft regulation to do this. Safety and soundness should encourage the sharing of best practices within the credit union movement. Georgia's Own is always open to real and valid recommendations that can improve transparency and safety and soundness of credit unions, but the Credit Union is of the opinion the proposed rulemaking is counter to allowing credit unions to operate in a safe and sound manner, because the proposed rulemaking actually limits the ability of credit unions to disburse its risk over a broad spectrum of lending/revenue generating options.

Georgia's Own is of the opinion that it is beneficial to review the recently stated standards for issuance of new regulations. President Obama's Executive Orders 13579 (July 11, 2011) and 13563 (January 18, 2011) set a high bar for issuance of new regulations, including:

- Careful analysis of the likely consequences of regulation, including consideration of its costs and benefits (both quantitative and qualitative);
- Promoting economic growth, innovation, competitiveness, and job creation;
- Using the best, most innovative, and least burdensome tools for achieving regulatory ends; and
- Seeking to improve the actual results of regulatory requirements.

In the fall of 2011, NCUA Chairman Matz affirmed her support of these Executive Orders and launched the Regulatory Modernization Initiative which represents NCUA's "commitment to effective, not excessive, regulation."

Instead of achieving these standards, the Credit Union strongly believes that certain aspects of the proposed loan participations regulation will suppress new loan originations and undermine the contribution of credit union members to economic growth and job creation, without effectively addressing the risks raised by the NCUA.

The NCUA appropriately acknowledges that "involvement in loan participations strengthens the credit union industry." As stated in the background to the proposed rules, credit unions, including Georgia's Own, benefit from loan participations in a number of ways, including:

- Earnings. Increased earnings through ownership of quality earning assets, which help offset historically low loan-to-share ratios;
- Diversification. The ability to diversify across geographies, product types, industries, which is especially important to credit unions with a community or sponsor-specific charter;
- Liquidity. For originating credit unions, the ability to convert loan assets into liquid assets; and
- Serving Member Needs. Gaining an important tool which helps originating credit unions serve members with financing needs not satisfied by banks. Of the \$12.8 billion in credit union participations, sixty-two percent (62%) funded small businesses and non-profit organizations which led to capital improvement projects, lower cost of borrowing, or other operational needs.

Despite these benefits, the NCUA proposes new loan participation rules because of a concern about "systemic risk to the share insurance fund (NCUSIF) due to the resulting interconnection between participants." While the NCUA provides additional descriptive narrative for this risk, no data is provided to quantify this "systemic risk".

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.

In addition and more importantly, the proposal would introduce several new limitations. These restrictions for all federally insured credit unions include:

- 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 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.

Based on the above, Georgia's Own fears the proposed rulemaking will substantially impact our lending efforts and our earnings, in a time when both are critical to the Credit Union. This impact will actually limit the Credit Union's ability to operate in a safe and sound manner.

Of perennial concern to Georgia's Own is the proposed requirement that would limit the Credit Union's loan participation purchases to those involving loans a purchasing credit union is authorized to originate. This provision would severely curtail the Credit Union's loan participation program, because it would prevent Georgia's Own from investing in participations that involve loans that the Credit Union does not make, even if the Credit Union has the resources to monitor the performance of the loans. This would undermine the ability of Georgia's Own to diversify its loan participations. This requirement would actually be counter to the NCUA's safety and soundness concerns.

The concentration limits regarding participations purchased from a single originator is also a primary concern of Georgia's Own. This approach of setting a regulatory limit on loan participations from one originator seems to be unique to credit unions. Since there does not seem to be a greater risk within the credit union system regarding loan participations than there is for banks, this proposed limitation would arbitrarily disadvantage credit union loan participation programs. Insufficient detail has been provided as to why the 25% level is appropriate and how this limitation will indeed address risks, except through reduced lending and fewer loan participations.

Georgia's Own is also concerned about the limitations on loan participations involving loans to one borrower or group of borrowers. Like the limits on loans from one originator, NCUA seeks to impose limits involving loans to one borrower that are not required by the statute or needed in the regulation in order to address substantiated safety and soundness concerns. Adequate underwriting and due diligence on the part of credit unions is a better vehicle for addressing credit risk, not unnecessary regulation or rulemaking. In addition, Georgia's Own is also of the opinion that the risk retention requirements that would apply to all federally insured credit unions are unnecessary for state-chartered federally-insured credit unions. For federally-insured state-chartered credit unions, this issue should be left to the credit union's primary state regulator.

The proposal would also confine purchases to loan participations from "an eligible organization," which is defined as a "credit union, credit union organization or financial organization." A financial organization is defined as "any federally chartered or federally insured financial institution and any state or federal government and its subdivisions." This definition would preclude federally insured credit unions from purchasing loan participations from state-chartered privately-insured credit unions, not to mention reputable non-federally insured or non-federally chartered financial institutions of other kinds. The Credit Union does not agree that this limitation is necessary for safety and soundness, or required by the Federal Credit Union Act.

As a state-chartered federally-insured credit union, Georgia's Own believes the proposed regulation currently undermines dual chartering of credit unions. Under a separate Executive Order, 13132, federal agencies are required to consider the impact of their actions on state and local interests; we believe this reasonably would encompass the effect on dual chartering within the credit union system. While the supplementary information does not discuss dual chartering

directly, language in the supplementary information does potentially impact the ability of a state-chartered federally insured credit union to operate within the regulatory authority of its primary state regulatory body. The proposed regulation appears to minimize, if not entirely eliminate, the legal ability of state regulators to address safety and soundness issues in any manner that differs from that of NCUA. The loan participation proposal would further damage the delicate balance between state and federal credit union regulation by requiring all federally insured credit unions to conform to the same limitations and underwriting standards that apply to loans originated by federal credit unions. Georgia's Own certainly does not question the authority of NCUA to administer and protect the NCUSIF, and the immense safety-blanket the NCUSIF provides to our membership, but the Credit Union believes it is important that the authority of the Credit Union's state regulator to set regulatory standards for their credit unions that are consistent with safety and soundness not be diminished in the process, as would be the case if the loan participation proposal is adopted.

The Credit Union is concerned that if federally insured 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, then NCUA should allow credit unions to obtain waivers from these provisions. Under the proposal, no credit union would be able to obtain a waiver from the 25% of net worth limitation on loan participations from one originator. While Georgia's Own strongly opposes the rule in its entirety, if NCUA proceeds with the rule, the Credit Union urges the agency to allow a reasonable waiver provision to this potentially restrictive limit. It is important to note that Georgia's Own, as well as many other credit unions, already has an approval letter and waiver of the 25% limitation from NCUA for participation in the Credit Union Loan Source program.

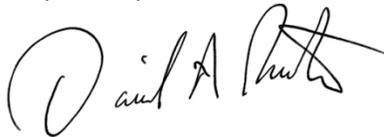
Georgia's Own is of the opinion, based on the above, that the proposed regulation is overly burdensome on credit unions, and that it is not the best solution to managing safety and soundness issues as they relate to loan participations. In fact, the Credit Union is of the opinion that the proposed regulation would actually increase the likelihood of safety and soundness issues by limiting the diversification of risk in a credit union's lending portfolio. The Credit Union believes that a more prudent approach to addressing safety and soundness issues related to loan participations is to strengthen the guidelines regarding the same, and allowing credit unions to manage such risk through industry-wide best practices. As such, Georgia's Own supports and recommends the following:

- NCUA should update its 2008 Supervisory Letter regarding loan participations and send it to all federally insured credit unions and examiners;
- The Letter should spell out what is expected of credit unions that sell and purchase loan participations in light of any recent agency concerns;
- The Letter should make it clear that credit unions purchasing loan participations must adopt board policies that address key issues flagged in the proposal. Such issues include limitations on participations from one originator and participations involving one borrower;
- However, the Letter should also be very clear that it is up to the board of each credit union to set such limits that are appropriate for its operations, resources and capacity to manage risks associated with loan participations, whether the credit union is selling or purchasing them;

- The Letter should reinforce that credit unions must perform initial and ongoing due diligence as it relates to loan participations.
- Further, the Letter should clarify that board policies should require that as credit unions reach progressively higher concentration levels regarding loan participations, the credit union must undertake additional monitoring and other due diligence steps;
- The Letter should reinforce the importance of loan participation agreements and elements that should be addressed in them;
- The Letter should clarify that purchasing credit unions are not limited to loan participations that conform to the credit union's loan origination standards;
- The Letter should also clarify that loans may be purchased from any financial organization, as long as the credit union has performed proper due diligence and the loan participation is otherwise in compliance with regulatory requirements;
- NCUA should provide additional training for examiners on loan participations and work with state regulators to ensure regulators are addressing problem areas promptly, but without undermining robust loan participation programs;
- NCUA should revise the 5300 Call Report to ensure information is captured that reflects charge-offs and delinquencies for loan participations that are purchased only (rather than combining information for both purchased and sold loan participations, which overstates loan participation charge-offs and delinquencies); and
- Using webinars and other communications, NCUA should focus credit unions' attention on their responsibilities in engaging in loan participations.

In sum and given the fact that loan participations are not a systemic risk to the credit union system, the Credit Union believe these steps, which provide a reasonable alternative to a new regulation, would sufficiently address concerns and facilitate the ability of credit union boards, management and examiners to fulfill their proper duties when it comes to loan participations. As such, Georgia's Own urges NCUA to withdraw this proposal, which cannot be justified, at least not based on the limited information that NCUA has provided in the Supplementary Information to the proposal. Rather than going forward with the proposal, which credit unions fear will needlessly limit sound loan participation programs, Georgia's Own urges the NCUA to consider an alternative approach, which adequately addresses safety and soundness issues without unduly disrupting loan participation or lending programs.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "David A. Preter". The signature is fluid and cursive, with a large initial "D" and a stylized "A".

David A. Preter
Georgia's Own Credit Union
President & CEO