



February 19, 2012

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

Submitted via e-mail to: regcomments@ncua.gov

Re: **Comments on NCUA Notice of Proposed Rulemaking (Loan Participations), Parts 701 and 741**

Dear Ms. Rupp:

This comment letter represents the views of the Virginia Credit Union League regarding the NCUA's proposal to amend its credit union loan participation rules. The Virginia Credit Union League is the state association for the Commonwealth's more than 180 member-owned financial cooperatives which serve more than 7 million members. Cumulative assets for Virginia based credit union approach \$80 billion with more than \$60 billion in outstanding loans. During the preceding twelve months, at least 17 credit unions in this state have engaged in loan participation activity. We strongly oppose the NCUA proposal that will serve to unnecessarily restrict loan participations. We join the Credit Union National Association (CUNA) in urging the Board of NCUA to **withdraw** the proposal.

Loan participation programs are an increasingly important asset-liability management (ALM) strategy to assist both purchasers and sellers in managing liquidity, loan demand, and earnings. Recent changes in the credit union market as a result of corporate credit union restructuring have served to restrict liquidity options for credit unions that have high loan to share ratios while those with low loan to share ratios need additional investment options. Concentration risks are better managed with a sound internal ALM policy at the organizational level than by regulatory limitation whereby the same standards are applied uniformly without analysis of the specific risks to the purchaser or seller of a particular participation.

We are particularly concerned that the single originator limit of 25% of the purchasing credit union's net worth (with no waivers) will negatively impact small credit unions that may only want to purchase from a single issuer or a limited number of issuers. Likewise, large issuers may be reluctant to sell participations in the smaller restricted amounts due to added costs in

administration. While we are concerned with the limitation effectively eliminating participation activity for smaller institutions, we also know it is of great concern to larger credit unions as well. Chartway FCU states in its comments about the proposed regulation:

“Chartway has purchased large pools of loans in the form of loan participations from just a few originators, this strategy has in fact diversified and mitigated our loan portfolio risk, and has also been a significant source of income. If the proposed 25% net worth limitation rule were in place, Chartway would suffer a reduction in its interest income of approximately \$14 million over the next 5 years.”

We want to specifically comment on the provision in the proposal that would remove the current language that allows an FCU to purchase a loan participation loan participation that was originated with different underwriting standards than its own. In our view, the issue here should be can the purchasing credit union monitor the performance of the loans **not** whether the credit union can make the loans. PortAlliance writes:

“Underwriting is not about the same size fits all, it’s all about how the portfolio is performing or will perform. Our goal is to make sure we understand their underwriting guidelines, and that they meet or exceed our expectations.”

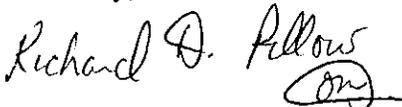
Finally, we understand that the NCUA is concerned about the risks of participation loans (particularly those involving large commercial projects) to purchasing credit unions. Parkview FCU comments:

“The origin of the systemic risk is not in the loan participation regulation, but rather in the underlying loan.”

We urge NCUA to manage the risks of loan participation activity through supervision rather than regulation by issuing guidance such as the 2008 Supervisory Letter (LCU 08-CU-26). Credit unions have, for the most part, effectively managed loan participation programs that have served to spread risks, increase lending and earnings, and serve members. Further regulatory restriction that will serve to limit sound participation programs is not needed at this time.

Thank you for the opportunity to comment. Please contact me at 434-237-9600 if you have any questions about this letter.

Sincerely,



Richard D. Pillow
President

CC: League Regulatory Response Committee
CUNA

