February 17, 2012

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

VIA Email
regcomments@ncua.gov

Re: Proposed Amendments to Loan Participations

Dear Ms. Rupp,

Thank you for the opportunity to provide commentary on the NCUA's proposed restrictions on participation lending, specifically as it relates to the amendment that limits participations between two credit unions to a maximum of 25% of the purchasing credit union's net worth. I concur with your concerns surrounding the potential risks associated with participation lending. I also support the need to ensure that all credits unions are well informed of the risks, so they may complete appropriate due diligence and help ensure protection against concentration risks that may result from loan participations.

I realize that some credit unions, notably smaller ones, may not always possess the resources to effectively assess the potential risk associated with loan participations. I assume that these credit unions, at least in part, are the ones for which this amendment is designed to protect. The proposed amendment is well-intended; however, since it doesn't allow for any waivers, the application will adversely impact the current business strategy of the credit unions that possess the expertise to effectively manage the inherent risk associated with participations and that are effectively doing so today.

We are one of the owners of a successful CUSO in southeast Michigan that was created in 2004 to originate, underwrite and service commercial loans, many of which are participated out to the other owner and subscriber credit unions. This provides for diversification of the commercial loan portfolio and enables effective balance sheet management, along with cost and risk sharing between the participating credit unions. It is important to note that we, along with other participating credit unions, review and approve the loans at the borrower level, based on our own business lending policies.

As a result of the success of our existing business lending model and the identified need within the communities that we serve, our credit union committed last year to further enhance our business relationship development opportunities by expanding our market reach for both deposit and loan products, including loans that we intend to participate out to other credit unions. This strategy will enable us to manage our portfolio/concentration risk and, at the same time, provide the purchasing credit union with similar benefits, all the while dealing with a trusted partner. To ensure success of the strategy, we increased our commercial lending expertise by hiring experienced commercial lenders and named a new Credit Administration Manager with more than 20 years of commercial lending experience. We also enhanced our Commercial Credit Committee process to ensure strong credit risk management for both new and existing commercial loans.

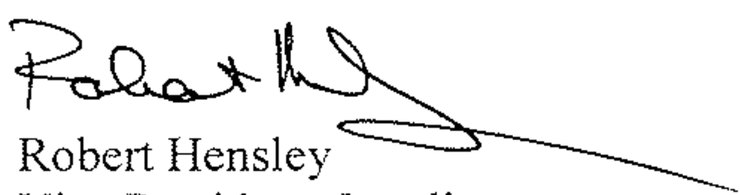
The owners and subscribers of the CUSO, along with the CUSO itself, have developed a strong partnership whereby we may participate in each other loans and effectively manage credit risk, concentration risk and share the costs of the underwriting, servicing and portfolio management. If the NCUA amendment is approved as it has been presented, this established partnership will, in effect, be eliminated because the 25% maximum will be exceeded by/for many of the trusted partners with which we currently participate.

Limiting a credit union's participation purchases from individual originators may have merit when the purchasing credit union does not possess the expertise to appropriately assess risk. However, credit unions that have made a substantial investment in developing safe and sound practices and processes for this function and that have established resources to effectively manage the risk should not be required to change their business lending strategy. Such a change could have unintended negative implications if, to comply with the proposed 25% cap, they are forced to rely less on participations or start looking for opportunities with other credit unions outside existing partnerships.

As stated earlier, I agree with your concern as it relates to the potential risk; however, establishing limits that do not provide exceptions for credit unions that have strong risk management processes in place, that adhere to safe and sound lending practices, that complete appropriate and thorough due diligence and that have shown historical success must be reconsidered. These credit unions should not be required to abandon a proven business model in order to comply with a regulation that will adversely hamper their ability to do business, which I do not believe is the Board's intention. I therefore encourage the Board to reconsider its position on this matter.

I welcome the opportunity to further discuss my recommendations.

Sincerely,



Robert Hensley
Vice President, Lending