

Filed via regcomments@ncua.gov

February 15, 2012

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

RE: Northern FCU's comments n NCUA's Notice of Proposed Rulemaking
Re: CUSO and Loan Participations. Part 701 and Part 741
Federal Register Vol. 76, No. 246 Thursday, December 22, 2011

Dear Ms. Rupp:

Northern Federal Credit Union does not support the proposal as issued for comments and urges the Board to withdraw it or revise it substantially.

Our general argument is that the Rules as proposed would actually weaken the process of Loan Participations and introduce substantially increased risks and costs for Credit Unions and their CUSOs. It will essentially make it cost prohibitive and inefficient to utilize Loan Participations to improve Net Worth, grow and diversify loan portfolios, and serve our members..

CUSOs help provide the diversity of loan opportunities that allow Credit Unions to effectively compete with Stockholder Owned Banks and other competitive financial service providers. Additionally, Loan Participations afford Credit Unions with a valuable tool for effectively managing risk and liquidity. However, if implemented as proposed, the NCUA's rules would summarily curtail that very benefit by arbitrarily setting limits to the relationship between a CUSO and the various Natural Person Credit Unions (NPCUs) that purchase and fund their supply of loans.

Specifically, we raise objections to the specific proposed Sections as follows:

Part 701.22 a – Definitions.

There will need to be clarification as to who the "Originating Lender" is in the circumstance that a CUSO originates a Consumer Installment contract loan and concurrently "sells" or transfers 100% of the loan and all obligations pursuant to the contract to a NPCU. This will have impact as to the requirement of the Original Lender to hold a 10% interest in the loan. We would argue that this requirement should pass to the NPCU who takes 100% of the originated contract substantially concurrent with the Originations and funding of the contract.

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Part 701.22 b. 5.ii. re Loan Participation Policy.

We object to the establishment of a 25% of Net Worth limit on the aggregate amount of loan participations that we may purchase from any one "Originating Lender". The fact that the NCUA cites that the purpose of this limitation is to reduce systemic risk is actually the argument to eliminate this provision. One can foresee that the effect of the promulgation of this arbitrary limit will lead to reduced opportunities for NPCUs.

The proposed limitation of Loan Participation purchases to no more than 25% of Net Worth from any one Originator would limit the availability of opportunities and increase the cost to find and establish new opportunities. By forcing NPCUs to seek out additional relationships with a higher quantity of Loan Participation providers, you immediately increase the cost of purchasing loans by increasing the Operating Expenses associated with search, contract negotiations, Due Diligence work, establishment of procedures, increased ongoing monitoring costs, accounting related costs, etc. In addition, purchasing NPCUs would incur increased risk because through its efforts to diversify sources of Loan Participations, they will inevitably be forced to partner with multiple "unknown" LP Originators. While the quality of the LP would not be necessarily reduced, efficiencies gained through a long standing relationship will be limited, causing increased costs to establish and manage additional new relationships.

Additionally, with respect specifically to Auto Loan Participations, an economy of scale means competitive advantage. For Indirect Auto Loans, which typically make up the bulk of Auto Loan Participations, larger Originators can effectively compete with large Regional and Money Center Banks to "win" deals from the various auto Dealers. CUSOs already have a competitive disadvantage given that they can only sell loans to participating NPCUs in which the borrower meets Field of Membership (FOM) requirements. These CUSOs must continually expand their participating CUs in order to be able to compete effectively in earning deals versus Big Banks that do not have such FOM limitations. By limiting a CUSOs ability to sell loans to NPCUs through this arbitrary cap, the Auto LP CUSOs will not be able to "guarantee" the flow of loans for the Dealers and thus the Auto Dealers will migrate their business to the big Money Center banks. Effectively, the NCUA will take away the Core lending relationship that has sustained and helped to grow the Credit Union industry.

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Furthermore, objection to this clause also centers on the use of Concentration Limits to manage Balance Sheet risk in general. The use of Concentration Limits essentially moves the Credit Union industry backwards to a "Static" type method for managing risks. If a loan is underwritten to acceptable standards, and if the Credit Union can demonstrate that the various risks associated with lending, (effective hedging inherent in the full balance sheet including supported Non Maturity Deposit measurement), then the use of dynamic NEV and IRR measurement and management should be the guiding principle that "limits" any Balance Sheet. The whole idea of a NPCU being limited as to Field of Membership means that there is inherent Concentration Risk. Unless a NPCU can diversify across state lines, into multiple communities, regions, sectors of the economy etc., there will always be Concentration Risk. Does the NCUA propose to consolidate the Credit Union industry into the hands of a small number of "Money Center CUs" able to take deposits and lend to the entire United States or perhaps even globally? At what price do we propose to "diversify away" Concentration Risk?

If a NPCU has performed required due diligence and ongoing relationship management, why would you need to establish an arbitrary limit to any one category of loans and/or from any one Originator of those LPs? This proposal by the NCUA indicates a step backward away from rational management of risks. NEV and IRR analysis more accurately and dynamically measures the risk in a balance sheet.

We believe if implemented as proposed, the NCUA will be effectively increasing the amount of risk associated with Loan Participations, increasing the cost to the Credit Union industry to participate in Loan Participations, and limiting all NPCUs ability to grow and improve their Net Worth. How can the NCUA say that they are complying with President Obama's requirement to reduce and streamline regulations so that we can grow our economy with this proposal?

Additionally, we expressly acknowledge the other arguments from our trade associations (CUNA, NACUSO, CUANY, etc.) and are in full support of their conclusions and recommendations. The argument that there is "Systemic Risk" to the Credit Union industry is not supported by the facts. We respectfully request that the NCUA rethink this whole proposal and most specifically the arbitrary 25% of Net Worth limit per Originator.

Sincerely yours;



Daniel St. Hilaire - CEO
Northern Federal Credit Union