February 21, 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:

On behalf of the 101 Federally-chartered Maryland credit unions, 48 District of Columbia Federal credit unions, and 9 Maryland-chartered credit unions, the Maryland and District of Columbia Credit Union Association (MDDCCUA) submits the following comments regarding NCUA's Proposed Loan Participations Rulemaking.

MDDCCUA is opposed to the proposed rulemaking, in its current form, and respectfully requests that the NCUA Board of Directors withdraw the proposal. If the Board does not withdraw the proposal, MDDCCUA requests that certain changes be made to the proposal so that it will not cause undue burdens on credit unions.

The proposed rulemaking will hinder growth at smaller credit unions and stands in stark contrast to the Agency's renewed efforts to support small credit unions and help them thrive in today's economic environment.

MDDCCUA is particularly concerned with the proposed rulemaking's requirement that a credit union limit its loan participations with a single originator to 25% of the credit union's net worth. This limitation would put an unnecessary strain on the operations of smaller credit unions. While larger credit unions have the staff and financial resources to invest in the creation of robust in-house loan origination programs, smaller credit unions rely heavily on loan participations to bring in the much-needed investment income to continually grow their operations. Furthermore, smaller credit unions often do not have the resources to engage in ongoing monitoring of multiple loan originators. Therefore, when these credit unions find a group of safe and sound originators that they can rely upon, they focus on making investments with this smaller pool of reliable originators. The proposed 25% limitation would force smaller credit unions to curtail long-standing relationships with originators that have yielded safe investments, and require these credit unions to spend more human and financial capital on developing and monitoring relationships with new originators. This will eat into the profitability of loan participations for smaller credit unions and hinder their growth.

The Agency's Office of Small Credit Union Initiatives has developed many resources to help

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small credit unions grow and better serve their communities. Furthermore, the Agency recently announced an initiative to ease the examination burden on CAMEL Code 1, 2, and 3 credit unions with less than $50 million by stating that exams at these credit unions are not to exceed 40 hours. MDDCCUA strongly supports these Agency initiatives and resources, as they enable small credit unions to better focus their resources on growing their operations and improving service to their membership. Unfortunately, the hindrance to smaller credit unions created by the proposed 25% limitation runs contrary to these efforts and will place an undue regulatory burden on small credit unions. MDDCCUA believes that, in keeping with the Agency's goals to ensure that small credit unions continue to have a place in the credit union system, the NCUA Board should discard the proposed requirement that a credit union limit its loan participations with a single originator to 25% of the credit union's net worth.

The proposed rulemaking imposes across-the-board directives that do not take into account the different approaches that credit unions take in managing their loan portfolios, thereby removing the ability for credit unions to tailor their strategies to best fit the needs of their membership.

The Agency, in its proposed rulemaking, has taken a one-size-fits-all approach to addressing loan participations. The standardized application of concentration and underwriting directives inhibits the ability of credit unions to effectively diversify their loan portfolios. This is especially evident in the proposal's provision that credit unions limit their loan participation purchases to those involving loans that the credit union is authorized to originate. Although an individual credit union may only originate loans that are tailored to meet the needs of their membership, that does not mean that the credit union lacks the resources or sophistication to monitor the performance of other types of loans. Therefore, by imposing this requirement, the Agency is undermining the ability of credit unions to effectively diversify their loan portfolios across different asset categories. MDDCCUA believes that this lack of diversification could lead to a situation where credit unions have too many of their assets tied to certain types of investments. This would lead to an outcome contrary to what the Agency is seeking to obtain through the proposed rulemaking, which poses a risk to the credit union's health and ability to grow.

Not only does the proposed rulemaking pose concerns for credit unions seeking to purchase loan participations, it also poses concerns for those credit unions seeking to sell participations. If this rulemaking is adopted as proposed, credit unions that, in the past, have sought to mitigate their risk through the selling of loan participations, will find it increasingly difficult to find purchasers for loan participations. This is because the concentration limits and underwriting directives will decrease the pool of credit unions that will be able to purchase the participations. When these potential sellers are unable to find suitable purchasers for loan participations, they will be unable to best mitigate the risk associated with their loans, thereby posing a risk to the potential sellers' safety and soundness.

Loan participations have been an historically important avenue for credit union loan growth and risk mitigation. Furthermore, at a time when the credit union system and the communities it serves need safe, robust lending programs, this proposal would have the negative effect of curtailing lending programs and decreasing credit unions' effectiveness in mitigating the risks inherent in the financial marketplace. Therefore, MDDCCUA believes that the proposal should be withdrawn.

Should the NCUA Board decide not to withdraw this proposed rulemaking, MDDCCUA requests that certain changes be made to the proposal so that it will not cause undue burdens on credit unions.

Credit union boards should have the ability to determine the appropriate concentration limits and underwriting principles for their individual credit unions. MDDCCUA believes that any proposed rulemaking should allow for credit unions to create and institute policies regarding loan participations that address both concentration limits and underwriting principles, subject to review as part of the routine examination process. This would permit credit unions to adopt policies tailored to their individual investment strategies, while also allowing the NCUA to monitor the policies to ensure the health of the credit union.

If the Agency decides not to allow credit unions to develop their own policies regarding loan participations, then the Agency should substantially raise the concentration limits and allow for more flexibility in the waiver process. This would give credit unions that have higher levels of net worth (and, thus, have the ability to take on greater levels of risk without harming the health of the credit union) the ability to seek a greater level of flexibility in their loan participation programs from the NCUA.

In conclusion, MDDCCUA is opposed to the proposed rulemaking, in its current form, and respectfully requests that the NCUA Board of Directors withdraw the proposal. If the Board does not withdraw the proposal, MDDCCUA requests that the foregoing changes be made to the proposal so that it will not cause undue burdens on credit unions.

Sincerely,

Ricardo Javier Pineres
Vice President of Advocacy – Legislative Affairs
Maryland & District of Columbia Credit Union Association