



NORTH CAROLINA CREDIT UNION LEAGUE

Committed to helping credit unions succeed

February 21, 2012

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

Dear Ms. Rupp:

On behalf of the North Carolina Credit Union League (NCCUL), I am writing in response to the NCUA's recently issued proposal on loan participations. By way of background, the NCCUL supports 94 North Carolina credit unions which provide financial services to nearly 3.2 million members. This comment letter serves as an outline of the concerns related to the NCCUL's unwillingness to support the proposal in its current form.

Loosely Defining "Systemic Risk"

First and foremost, the NCCUL respects the role of the NCUA in ensuring the safety and soundness of credit unions and protecting the value of the NCUSIF. We also recognize the demanding, yet instrumental function of the NCUA in identifying systemic risk as a necessity to carry out this function. From knowledge gained from past experiences, we can certainly agree that the systemic risk in the financial sector is difficult to measure. Regulators and policy makers alike are challenged in their ability to address it effectively. However, it seems that the NCUA is using the term "systemic risk" rather loosely to validate the necessity of its recent regulations.

Just as with the CUSO proposal issued in late 2011, NCUA has asserted that the new rules are necessary to mitigate risk, yet little evidence is provided to suggest such rules are warranted or would be effective. As cited in the California Nevada League's comment letter, call report data clearly shows nominal risk exposure. Further articulated in the Credit Union National Association's (CUNA) comments, "credit union participation loans account for only 2.3% of total credit union loans (0.2% of depository institution loans) and just 1.3% of total credit union assets (0.08% of depository institution assets)."

Without the ability of the NCUA to demonstrate that the risk measures accurately substantiate systemic risk, the NCCUL cannot support a proposal that unnecessarily strains the credit union industry.

Arbitrary Limitations

Moving further into the proposed requirements, new limits will be placed on loan participation purchases involving: a single originator to a maximum of 25 percent of a federally insured credit union's net worth with no waivers proposed; and one borrower or a group of associated borrowers

to a maximum of 15 percent of net worth with the ability of a regional director to grant a waiver. Yet, similar to the discussion above, no data is provided to corroborate such limitations or support evidence to rationalize these arbitrary 25 percent and 15 percent levels. The NCCUL suggests that numerical limitations should not be imposed by regulation but instead should be a policy decision made by the board of each credit union. CUNA further elaborates on this “much less intrusive” approach in its comments urging the NCUA to address concerns through supervisory guidance and examiner review.

In a detailed letter, North Carolina community development credit union Self-Help presses the NCUA to provide for waiver authority from any single originator cap, whether that cap is 25 percent or a higher, more reasonable figure. We strongly echo that recommendation. Hindering the ability of credit unions to sell and purchase loan participations and share in both risk and return is not a practical solution.

Compromising the Value in the Dual Chartering System

The NCUA’s overreaching approach to regulation has been felt most notably by state-charters. Serious concerns are being raised by those in the industry, including those poignantly made by the National Association of State Credit Union Supervisors, on the further erosion of the dual chartering system. The loan participation regulations as proposed would unnecessarily preempt a state’s authority by excluding state regulators from the regulatory process and thereby federalizes the powers of state-chartered credit unions, contrary to any expressed Congressional intent. The NCCUL encourages the NCUA to work with state regulators on improvements to oversight and supervisory actions. Forcing credit unions to reconsider the value of the credit union charter only stifles the ability of the industry to mature and grow.

As this letter began, NCCUL is respectful of the role of NCUA to protect the safety and soundness of credit unions and shares in the concerns around limiting potential risks. Yet, we feel that without sufficient demonstration of the need for such extensive requirements, proceeding with this proposal will only threaten the viability of loan participations in the future. The course of a loan participation program should be dictated by a credit union’s management and board, under well-thought out guidance from supervisory agencies.

On behalf of North Carolina’s credit unions, we encourage you to reconsider the approach to regulating loan participations that have unquestionably benefited the credit union system as a whole. Thank you for your consideration.

Respectfully Submitted,



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