



OSU Federal  
Your Community Credit Union<sup>®</sup>

February 21, 2012

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

**Re: *Comments on NCUA Proposed Rulemaking of Parts 701 and 741 Loan Participations Proposal***

Dear Ms. Rupp:

OSU Federal appreciates this opportunity to provide comments to the National Credit Union Administration (NCUA) regarding its proposal to amend its loan participation regulation.

For over a decade, OSU Federal has periodically engaged in purchasing loan participations from a variety of originators. In total, we have purchased interest in 16 loans of over \$17 million. At this time, OSU Federal has participation shares outstanding in four loans for a total of \$4.1 million.

OSU Federal's loan participation program has been a tool for our credit union to diversify concentrations, increase earnings and has served as an alternative investment source. Within the credit union industry, participation loans have been good alternative lending sources for members when turned down by commercial banks.

OSU Federal has grown its member business lending program in a very conservative manner. Participation lending was a key component in facilitating our prudent and moderate focus to help our members with a need that was not being met by the banking industry.

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OSU Federal now has a portfolio of over 200 small business loans totaling over \$60 million in outstanding loans to local small business owners within our community. We now have five dedicated employees in-house to underwrite, review, and manage our portfolio. We've also made significant investments in infrastructure to ensure our program is managed in an efficient and effective manner. At this time, we are not actively purchasing participation loans, as our own member demand is sufficient. In fact, as part of our strategy to navigate various MBL caps, we will most likely need to launch an outbound participation loan program sometime in 2012. In addition, while liquidity is not currently a challenge, we see future outbound participations as a way to mitigate liquidity challenges that may arise with potential changes in the economic landscape.

NCUA is requesting comments regarding imposing greater restrictions on loan participation purchases to protect against systemic risk. NCUA has requested feedback on proposed revisions to the participation regulation and other related regulations.

We believe that it is important to make adjustments in regulation that provide more clarity around various elements of regulation, for example, adjustments to the introductory text helping to further distinguish a participation loan from an eligible obligation. We also believe that providing additional clarification of definitions is helpful. The call to improve loan participation policies, agreements, underwriting, and ongoing monitoring are foundation pieces of any prudent program and we agree with these proposed enhancements.

However, we are very concerned about the limit on loans purchased from a single originator. This is not appropriate for mitigating risk, in fact we believe it will drive systemic risk to higher levels. It is important to vet and monitor each originator closely and to establish strong relationships. These relationships require significant due diligence. The likely impact of mandating limits of this nature would be an increased number of originators that participant credit unions would need to utilize. This would increase risk by adding more relationships to manage, and increase regulatory tracking and reporting burdens, which becomes very challenging for smaller organizations with limited resources. We believe this is something that should be managed; however, limits should be determined uniquely by each credit union's Board of Directors, not through regulatory mandates.

NCUA is also looking for comments related to obtaining waivers. The waiver process can be more effective and member friendly and we suggest that waivers be made available to credit unions in advance. In the comment letter recently submitted by Evangelical Christian Credit Union (ECCU), they suggest and we endorse the following approach:

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*"We suggest that waivers be made available to credit union in advance by providing the regional director the underwriting and other guidelines under which an exception would be granted by the requesting credit union. If the regional director grants the exception guidelines, the credit union would have the ability to complete transactions in accordance with those guidelines. After completion of any transaction under the exception guidelines, the credit union would then inform the regional director in writing. Examiners could review compliance with the exception guidelines at the next scheduled examination. This proposed process would give the NCUA the opportunity to review guidelines in advance, and provide the credit union the ability to respond quickly to a member's needs."*

Thank you for this opportunity to comment on the proposed rulemaking. In our continued efforts to provide small business owners with financial solutions, participation lending is a critical component. To ensure safety and soundness, participation lending should not be overregulated by arbitrary caps and restrictions. These programs, if well managed, are an exceptional tool to promote safety and soundness throughout the system. By providing additional clarity within the regulation and providing guidance for a prudent loan participation program framework, NCUA has an opportunity to strengthen the system without restricting its healthy growth. Increased regulatory burden and unfair restrictions compared to our banking peers would not be an improvement but instead would be taking a step backward.

In a time when small business owners need access to credit more than ever, credit unions could be assisting in a greater capacity if we did not have the existing MBL caps set by law. We are working to expand our capacity to lend by seeking changes to the law that would increase current limits. It would be an unfortunate irony that instead of expanding our ability serve our nation's small business credit needs, that NCUA would now impose additional arbitrary limits. In addition, we do not believe that placing these additional restrictions would necessary lead to greater safety and soundness, in fact it appears the proposed revisions may actually increase risk by limiting the marketplace.

In addition to comments related to the proposed participation rule, we would like to take this opportunity to provide comment on other MBL issues that NCUA should consider.

- (a) Call report: The reporting requirements relating to the Risk Based Net Worth (RBNW) calculation are cumbersome. It is our understanding that once a MBL drops below \$50,000, it is removed from the 12.25% MBL limit calculation. However, the loan must still be tracked as a MBL under the Risk Based Net Worth calculation. We recommend that reporting be standardized and loans that drop below \$50,000 be removed from the RBNW calculation.

It is also our understanding that year-to-date funded loans must include all advances on a line of credit. For example a line of credit is established for \$60,000. The borrower advances \$60,000, repays \$60,000, and then later advances \$50,000. Under this example, the year-to-date funded loans would be reported as \$110,000. We recommend that the commitment amount upon funding would be the reportable figure for year-to-date funded loans.

Currently the calculation of the Net Long Term Asset Ratio used by many examiners as a measure of risk includes all member business loans as long-term assets regardless of the final maturity. Even the credit cards, lines of credit and equipment loans which typically have quite short lives are considered long term assets. We suggest that NCUA review the definition of long term assets to better reflect the lower risk associated with these short term member business loans. It might be appropriate for NCUA to handle member business loans in the same manner as consumer mortgage loans for this ratio, with only maturities of longer than five years being considered as long-term assets.

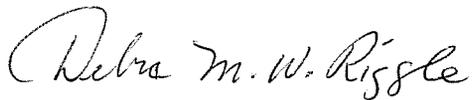
(b) Although the following items are contained in the Federal Credit Union Act and therefore are statutory in nature, we strongly encourage NCUA to support credit union efforts to ease restrictions which are unique to credit unions as follows:

- Allow credit unions to charge prepayment penalties on member business loans. Imposing prepayment penalties is a standard practice in business lending given the increased overhead expense associated with the analysis and underwriting of such loans. By not having a prepayment penalty it places credit unions at an extreme disadvantage in construction to permanent loan to banks that come in and undercut the permanent loan after the credit union has done all the work to get the construction funded and complete.
- Increase aggregate limit on member business loans from 12.25% to at least 25% of assets.
- Exclude Fannie Mae/Freddie Mac compliant non-owner occupied 1-to-4 family dwellings from MBL definition. These loans do not fit the true model of a business loan. Often the borrower is an individual purchasing property as a passive residential investment.

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Please feel free to contact me at (541) 714-4204 if you have questions or would like to discuss our comments further.

Sincerely,

A handwritten signature in cursive script that reads "Debra M.W. Riggle".

Debra M.W. Riggle  
Vice President Financial Services

cc: Credit Union National Association