

NCUA LETTER TO CREDIT UNIONS

NATIONAL CREDIT UNION ADMINISTRATION
1775 Duke Street, Alexandria, VA 22314

DATE: September 2013 **LETTER NO:** 13-CU-07
TO: Federally Insured Credit Unions
SUBJ: Loan Participation Waivers
ENCL: Supervisory Guidance on Loan Participation Waivers

Dear Board of Directors and Chief Executive Officer:

The NCUA Board continues with its commitment to modernize and streamline regulations to create a more transparent and flexible regulatory framework to help federally insured credit unions remain competitive.

Loan Participations Rule Effective September 23

On September 23, the NCUA Board's recently approved changes to Part 701 and Part 741 will take effect to facilitate a more transparent and streamlined loan participation regulation for federally insured credit unions.

Loan participations strengthen the credit union industry by providing a useful way for credit unions to diversify their loan portfolios, improve earnings, distribute liquidity across the industry, and balance loan demand. However, as with any loans generated by third parties that are not federally guaranteed, loan participations come with risks.

NCUA's regulation is designed to protect the buyers of loan participations. *If your credit union buys participation interests in loans made by a third party, this rule applies to you.*

Final Rule Improved from Proposed Rule

The NCUA Board made significant changes to the final rule, consistent with many of the comments we received.

We heard loud and clear that the proposed concentration limit of 25% of net worth from a single originator was too low. So the final rule provides a higher threshold based on the greater of two different concentration limits:

- For mid-sized and larger credit unions, the new concentration limit is 100% of net worth;

- For small credit unions, up to \$5 million of participations can be purchased from a single originator, regardless of net worth.

If your credit union currently exceeds these concentration levels, the rule includes a grandfather provision that allows you to adjust to the new limits over time.

And if your credit union meets certain qualifications, *you may be able to obtain a waiver from these limits.*

Other key improvements in the final rule include:

- Permitting differing underwriting standards for originators of loan participations than those used by buyers;
- Reducing originators' risk retention requirement from 10% to 5% on loans purchased by federally insured state-chartered credit unions¹;
- Allowing buyers to apply for waivers on loan participations made to any one borrower (or group of associated borrowers) that exceed 15% of the buyer's net worth;
- Clarifying that buyers do not need to apply for waivers on certain loan participations if the lead lender has already obtained waivers on those loans.

Guidance for Examiners Shared with Credit Unions

This week, NCUA examiners received supervisory guidance on the revised rule – including the process by which credit unions may obtain waivers. I encourage you to review the attached Supervisory Letter. It provides details on how to apply for a one-time waiver or a blanket waiver, and how NCUA examiners will be evaluating overall compliance during examinations.

If you have any questions related to this letter or the Supervisory Letter, please contact NCUA's Office of Examination and Insurance at 703-518-6360 or EIMail@ncua.gov.

Sincerely,

/s/

Debbie Matz
Chairman

Enclosure

¹ In some states the applicable State Supervisor may require a higher amount.