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CENTRIX
FINANCIAL

Robert E. Sutton
Chairman & CEO

January 30, 2006

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

JAN31'06 PM12:58 BOARD

Dear Ms. Rupp:

As the largest third-party indirect non-standard lender serving credit unions today, Centrix is pleased to have the opportunity to comment on NCUA proposed rule CFR - Parts 701 and 741. Following the issuance of NCUA's Risk Alert in April 2005, the evaluative process leading to the issuance of this proposed rule has been a lengthy and deliberative one which has resulted in a proposal which, although restrictive in the volume of third-party, indirect subprime loans that a credit union may hold relative to its net worth without seeking a waiver from the appropriate regulatory authority, clearly recognizes that the overwhelming majority of participating credit unions have been effectively managing the risk in programs such as these and should be allowed to continue doing so. Centrix remains committed to being a dedicated partner to effective risk management, due diligence and assistance to those credit unions who participate in third-party, indirect, subprime lending.

Centrix continues it commitment and stands ready to work closely with credit unions, NCUA and state regulatory authorities within an effective framework that will encourage both appropriate due diligence in risk management as well as extend additional lending options to unserved and underserved existing and potential members. It has been our experience that the credit-impaired and those with modest means are often overlooked by many in the financial services community. The Centrix program is built on the belief that these people deserve financial services and that credit unions are uniquely positioned to serve them.

In order to provide our input based upon the experience of Centrix in the indirect, subprime lending market, we respectfully offer the following recommendations that we feel could greatly enhance the effectiveness of CFR – Parts 701 and 741, if enacted by the NCUA Board, in providing clear guidance to credit unions on the implementation of the rule for the benefit of their members who need these loans.

1. **Amend NCUA proposed rule Part 701.21(h)1(i) to allow the aggregate amount of vehicle loans serviced by a third-party servicer and its affiliates to exceed fifty percent (50%) but not to exceed seventy five (75%) of a credit union's net worth during the initial 18 months of its third-party servicing relationship provided that the credit union possesses a CAMEL rating 1 and that its regulatory exams related to its third-party, indirect lending program during that 18 month period were successful.**

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Amend NCUA proposed rule Part 701.21(h)1(ii) to read: One hundred percent of the credit union's net worth after the initial 18 months of that third-party servicing relationship.

Background: If the third-party vendor can provide extensive documentation of its third party sub-prime lending program, which allows the credit union and the examiner sufficient data upon which to evaluate the credit union's portfolio against long-term overall portfolio results, it is appropriate to reduce the length of the initial restricted period. In addition, 18 months of history combined with a successful history of regulatory exams provides sufficient evidence of quarterly and annual due diligence, reporting, and monitoring of the program and its results for the credit union. Eighteen months of data also provides significant data upon which to predict portfolio trends and evaluate performance against industry standards and Centrix-stated expectations.

2. **Amend NCUA proposed rule Part 701.21(h)(2) to allow Regional Directors to grant a waiver of the limits in paragraphs (h)1(i) and (h)1(ii)–as proposed by Centrix Financial above--to permit greater limits upon written application by a credit union.**

   Background: The waiver should be made available to all credit unions, regardless of the amount of time they have been in a relationship with the third-party vendor, as long as they can comply with the waiver requirements.

3. **Amend NCUA proposed rule Part 701.21(h)(2) to clarify:**
   - **how the waiver must be requested**
   - **how the waiver process will be conducted**
   - **what documentation the credit union must provide as part of their waiver request, and**
   - **that higher concentrations are allowed for programs that are insured by an A-rated insurance company that assumes the majority of the risk of losses on the program.**

   Background: In order to ensure consistency in application of the waiver and to make it as efficient as possible for credit unions to prepare their waiver requests, the rule should include a more detailed description of how the waiver process will be conducted, including a timeline for the evaluation and decision process by the Regional Directors and specific information on what documentation the credit union must submit along with the request for a waiver in order to demonstrate "the credit union's due diligence in monitoring and protecting against program risks" and, "other factors relevant to safety

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and soundness." In addition, the rule should define what program aspects, such as default insurance, justify higher concentration limits under the waiver.

4. **Amend NCUA proposed rule Part 701.21(h)(3)(iv) to specifically define that the calculation of percentage of net worth will be based on the active loan balance as a percent of net worth.**

   Background: Since the proposed rule defines the term "net worth," which is the denominator in the equation of calculating concentration level, it is appropriate to also define the numerator of the equation. There are accounting differences in what credit unions consider to be included in the numerator, so we encourage the NCUA to clarify this issue.

Thank you for the opportunity to provide input on the proposed rule. Centrix looks forward to continuing our strong partnership with credit unions to safely serve the credit-impaired. We remain committed to ensuring that the Centrix Portfolio Management Program enables credit unions to remain in compliance with all NCUA rules and guidance.

Sincerely,

Robert E. Sutton
Chairman & Chief Executive Officer