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February 21, 2006

Ms. Mary Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3426

Dear Ms. Rupp:

The National Credit Union Administration (“NCUA”) has issued a proposed rule amending parts 701 and 741 of its Rules and Regulations to address third-party servicing of indirect vehicle loans. CenterOne Financial Services LLC (“CenterOne”) is pleased to provide the following comments on the proposed rule.

The preamble to NCUA’s proposed rule addresses the risks involved with “indirect, outsourced programs,” which NCUA defines as “programs in which the vendor manages the credit union’s relationship with the automobile dealer and, through loan servicing conducted by the vendor or a related business entity, the credit union’s relationship with the member.” The preamble states that, as a result of NCUA’s concerns regarding the increased risk exposure to credit unions resulting from these programs, the NCUA Board has determined that regulatory concentration limits on indirect, outsourced programs are appropriate.

The section of the proposed rule that addresses the Paperwork Reduction Act also focuses on indirect, outsourced programs. NCUA in performing its Paperwork Reduction Act review states that it is aware of approximately twenty credit unions that have in excess of 100 percent of net worth invested in indirect, outsourced vehicle loans and estimates that no more than fifteen credit unions (ten of the credit unions currently exceeding the 100 percent concentration limit plus five additional credit unions that are approaching the concentration limit) will request a waiver from NCUA.

According to the discussion in the preamble and the Paperwork Reduction Act review, it appears that NCUA intends for the proposed rule to apply only to credit unions that engage in indirect, outsourced programs. However, while the preamble and Paperwork Reduction Act review clearly focus on indirect, outsourced programs, the proposed rule itself is much broader in that it places concentration limits on all indirect vehicle loans serviced by third parties, whether or not such servicing is conducted as part of an indirect, outsourced program.

Based on NCUA's discussion in the preamble, its Paperwork Reduction Act review and the information provided below, CenterOne believes the proposed rule should be revised to clarify that the concentration limits apply only to indirect, outsourced programs and not to other types of third-party servicing arrangements.

Difference Between Indirect, Outsourced Programs and Other Servicing Programs

CenterOne provides loan and lease servicing for both prime and sub-prime consumer loans and leases to financial institutions for their titled assets, including automobiles, boats, power sports, motorcycles and recreational vehicles. From the time a loan is funded by CenterOne's client to the time the loan is either paid off or the vehicle repossessed and remarketed, CenterOne can manage either the entire back-end servicing process or certain discrete functions of the process. Services may include processing a loan application, boarding the loan on the servicing platform, customer service, collections, insurance tracking, title tracking, accounting, invoicing, payment processing, repossession management, and vehicle remarketing.

The type of loan servicing that CenterOne provides can be described as a "stand-alone servicing program" ("SASP"). In a SASP, the credit union, and not the servicer, maintains control over the entire indirect lending program. This means that the credit union controls its relationships and agreements with the auto dealers in its dealer network; establishes all credit programs; sets loan rates and terms; develops and approves all loan underwriting, origination and indirect purchasing criteria and guidelines; defines all member qualification criteria; and manages all back-end loan servicing through contractual service level agreements with the servicer. Importantly, the credit union is able to monitor and oversee the SASP servicer's activities and terminate the servicer if it fails to perform its duties and obligations as required by the servicing agreement.

A SASP is very different from an indirect, outsourced program ("IOP"). In an IOP, the credit union often essentially gives up all or most of the control over its indirect lending program. Nearly all major decisions and transactions are managed and controlled by the IOP originator/servicer, including the relationship with the auto dealer, credit programs, rates and terms, all loan underwriting, origination and purchasing criteria and guidelines, member qualification criteria, and in most cases back-end loan servicing.

Risk Associated with Third-Party Servicing Programs

The preamble to the proposed rule addresses the types of risks associated with IOPs, including: credit risk, liquidity risk, transaction risk, compliance risk and reputation risk. These risks may be exacerbated by the fact that the credit union often grants almost total control of its indirect lending program to the IOP vendor. In contrast, a credit union that

retains a SASP third party servicer to service its indirect auto loans does not increase its risk, so long as it conducts an appropriate due diligence investigation of the servicer and maintains adequate control and oversight of the servicer as current NCUA guidelines require. In fact, given the proper level of due diligence and oversight, CenterOne feels that a credit union can actually reduce its overall risk by engaging a qualified SASP third-party servicer to service its indirect vehicle loans.

NCUA has promulgated very useful and effective guidelines applicable to indirect lending and third-party arrangements. In 2001, NCUA issued Letter to Credit Unions 01-CU-20, which addresses a credit union's due diligence requirements for third party service providers and specifies procedures a credit union should follow to conduct a due diligence review prior to entering into any arrangement with a third party, as well as important controls a credit union should establish once it has entered into such an arrangement. In September 2004, NCUA issued Letter to Credit Unions 04-CU-13, which provides the examiner questionnaires used to evaluate a credit union's subprime lending, indirect lending and outsourced lending relationships and provides significant information on the criteria credit unions should have in place to address all potential risks connected with these activities. Finally, in June 2005 NCUA issued Risk Alert 05-RISK-01, which addresses the controls and monitoring that credit unions must conduct in connection with outsourced, indirect subprime automobile lending. CenterOne fully supports these guidelines and believes they adequately protect credit unions from any risks that may be associated with the use of SASPs.

No Meaningful Distinction Between Asset Types

CenterOne notes that there are other types of lending activities for which credit unions rely on third-party service providers, including mortgages, credit cards and direct auto loans. However, there are no concentration limitations similar to those contained in the proposed rule placed on mortgage, credit card or direct auto loans serviced by third-party service providers. As detailed above, any risks associated with the use of third-party service providers in connection with these lending activities are addressed through existing NCUA guidance and examiner oversight.

Furthermore, there is no additional risk to a credit union that utilizes a third party servicer for indirect auto loans versus a credit union that uses a third party servicer to service its direct auto loans. The contractual standards, rules and regulations involved with the back-end servicing of direct and indirect loans are essentially the same. The manner in which the loans are originated (either directly or indirectly) has no bearing on how they are serviced after origination. CenterOne services both direct and indirect auto loans for financial institutions, and there is no fundamental difference between the two with respect to the services provided. As a servicer, CenterOne's duties and responsibilities are the same.

Definition of “Affiliate”

The definition of “affiliate” contained in the proposed rule is potentially confusing, since it contains not only the standard “control” definition of affiliate, but also a much broader definition that includes any entity that has a contract with the third-party servicer. This may create ambiguity in the application of the rule, since any entity (such as a repossession company, an auto auction or a collection agency) that has a contract with the third-party servicer will be included. NCUA should consider deleting the second part of the definition.

Sales of Pools of Loans

Financial institutions, including credit unions, often purchase and sell pools of direct and indirect vehicle loans. These pools of loans are sometimes serviced by the seller, and are sometimes serviced by a third-party servicer. The purchase and sale of these loans is permitted by NCUA regulations, and credit unions that are eligible for the Regulatory Flexibility Program are able to purchase such loans without limitation (other than the statutory restriction on purchasing eligible obligations from liquidating credit unions). Therefore, the proposed rule as currently drafted may, due to the concentration limits, inadvertently create a barrier to loan purchase and sale transactions within the credit union industry. The proposed rule could also make it more difficult for credit unions to sell pools made up of both direct and indirect vehicle loans, since those two loan types are treated differently by the proposed rule. This could have a negative impact on the ability of a credit union to liquidate all or a portion of its portfolio of vehicle loans.

As discussed above, once a vehicle loan (whether direct or indirect) is originated, the fact that the loan is serviced by a third party should have little or no negative impact (and may have a great positive impact) on the amount of risk to the credit union, so long as the credit union maintains adequate control and oversight of the servicer as current NCUA guidelines require. Since NCUA already regulates the purchase and sale of indirect vehicle loans, NCUA should consider excluding the purchase of previously-originated indirect vehicle loans from the concentration limits contained in the proposed rule.

Exceptions

The proposed rule provides an automatic exception from the concentration limits for credit unions using a third-party service provider that is “a federally-insured depository institution or a wholly-owned subsidiary of a federally-insured depository institution.” CenterOne suggests that the rule be revised to also provide an automatic exception from the concentration limits for credit unions using a third-party service provider that, within the preceding 36 months, (a) has received a positive rating by a Nationally Recognized

Statistical Rating Organization (“NRSRO”), (b) has been approved in a waiver granted by a Regional Director or (c) has been successfully reviewed by NCUA. CenterOne believes that there will be minimal risk to a credit union utilizing a third-party service provider that meets one or more of these criteria.

Waiver Provision

Pursuant to the proposed rule, a Regional Director may grant a waiver to a credit union from the concentration limits upon written application by the credit union. The Regional Director will consider: the credit union’s understanding of the third party servicer’s organization, business model, financial health and related program risks; the credit union’s due diligence in monitoring and protecting against risks; and whether contracts between the credit union and third-party servicer give the credit union sufficient control over the servicer’s actions and provide for replacement of an inadequate servicer.

CenterOne suggests that NCUA include in the waiver provision an option for the credit union to appeal a Regional Director’s denial of a waiver application to the NCUA board. The revised language should specify that the appeal would be in writing and would include an explanation of why the credit union disagrees with the Regional Director’s decision. Such an appeal process will reduce the potential for inconsistent treatment among regions.

Summary

Credit unions and their members derive great benefits from using a reputable third-party servicing company for their vehicle lending. A SASP such as CenterOne’s that manages billions of dollars of titled assets has the scale to invest and maintain the best technology, systems, and people. Credit Unions will often experience improved performance and financial returns to their member-borrower as they will be able to leverage the servicer’s infrastructure. In addition, because of CenterOne’s expertise in servicing auto assets and its knowledge of sub-prime markets, credit unions utilizing the CenterOne SASP are able to improve their member service.

NCUA has noted in its preamble to the proposed rule that credit unions should have maximum flexibility to make loans to members within the bounds of safety and soundness. NCUA has also noted that the most important activity affecting loan performance is the quality of the servicing. CenterOne could not agree more. We hope that NCUA will recognize the value to credit unions of the use of third-party servicers in SASPs and exclude these programs from the proposed rule’s concentration limits.

Ms. Mary Rupp
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Thank you for this opportunity to comment on the proposed changes to parts 701 and 741. Please contact me at (954-596-3976) if you have any questions or require additional information.

Sincerely,

A handwritten signature in black ink, appearing to read "Edward J. Brown". The signature is fluid and cursive, with a large, stylized initial "E" and "B".

Edward J. Brown
Vice President
CenterOne Financial Services LLC