



# Department of Banking and Finance

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Sonny Perdue  
Governor

Robert M. Braswell  
Commissioner

FEB 13 2006 2:15

February 8, 2006

Mary Rupp, Secretary  
NCUA Board of Directors  
National Credit Union Administration  
1775 Duke Street  
Alexandria, Virginia 22314-3428

RE: The National Credit Union Administration's (NCUA) proposed regulation on third party servicing of indirect vehicle loans

Dear Members of the Board:

The Department of Banking and Finance appreciates the opportunity to comment on NCUA's proposed regulation on third party servicing of indirect vehicle loans.

Let me say at the outset that the Department shares the concern of the NCUA regarding the risk of indirect lending in general and more specifically, the risks related to the use of third party servicing arrangements for indirect vehicle lending. The Department has reviewed a number of these programs and has expressed concerns regarding some of the structural weaknesses of these programs and the fact that the real returns on these programs don't reflect the risks of these programs when credit losses and collection costs are included.

I did want to note that we have had an alternative entity structure here in the State of Georgia that perhaps deserves some special consideration under your proposed regulatory requirements. The Department has approved a CUSO named the Credit Union Loan Source LLC (CULS), a limited liability corporation owned by three large Georgia credit unions and the Georgia Credit Union Services Corporation (the League Service Corp.), to offer opportunities to credit unions to purchase indirect vehicle loans through a third party servicing arrangement.

The risk of this program is mitigated by the following:

1. This CUSO is subject to regular examination by the Department of Banking and Finance and we would also invite participation by the NCUA in these examinations.


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- 2. The Department placed specific credit requirements on this CUSO related to the BEACON or FICO score of the borrowers. While these loans are less than prime, loans that are below required thresholds are not permitted
- 3. We require specific disclosures to be provided to credit unions, requiring credit unions to utilize their own underwriting procedures on these purchases and to not defer to underwriting performed by a third party servicer or another credit union.
- 4. Business Plan restrictions were placed to require regulatory approval for significant changes to the business plan.
- 5. Requirements for satisfactory management information systems, review procedures for past-due and non-performing loans, analysis of these loans by pools and by dealership and other management reports to control program risk.

We believe in particular that our regular examination of the CUSO provides some risk mitigation that should be recognized in the proposed regulation. We would respectfully recommend that the terminology in Section 701.21(h)(3) "a wholly-owned subsidiary of a federally insured depository institution" be replaced with the following language: "an entity having a majority of its voting shares owned by federally-insured depository institutions..." Additional language could be added to make reference to this entity being subject to regulatory examination authority, if the Board considered this to be appropriate.

We appreciate the close working relationship that we have with the NCUA in maintaining the safety and soundness of state chartered credit unions. Thank you for the opportunity to comment and if we can provide any further information in this regard, please don't hesitate to contact my office at (770) 986-1621.

Sincerely,



Robert M. Braswell, CEM