YOUNG, SHERON

From: _Regulatory Comments
Sent: Thursday, February 23, 2006 8:03 AM
To: YOUNG, SHERON
Subject: FW: 3rd Party Servicing on Indirect Loans Rule - Comments

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From: John Iglesias [mailto:JIglesias@wsecu.org]
Sent: Wednesday, February 22, 2006 6:36 PM
To: _Regulatory Comments
Cc: Kevin Foster-Keddie; Ann Flannigan; Scott Alton
Subject: 3rd Party Servicing on Indirect Loans Rule - Comments

Washington State Employees Credit Union (WSECU) has read NCUA's proposed ruling for Third-Party Servicing of Indirect Loans and we see value in setting limitations and providing guidance for these programs. We appreciate the opportunity to provide comment and input. When conducted properly, indirect lending provides exceptional convenience for existing members, new member growth and consumer lending volumes.

With an indirect lending program, due diligence is a necessary part of lending whether a loan decision is made internally or externally. Many of the concerns noted in the ruling (credit risk, liquidity risk, transaction risk, compliance risk, reputation risk) can be alleviated with proper due diligence and contract provisions at the onset of a vendor relationship.

Protecting credit unions' assets and members, addressing acceptable standards of member service and setting servicing expectations is an important step in establishing and maintaining a vendors' relationship. If a Third-Party Servicer is charging excessive fees, improperly disclosing loan terms and providing poor service to members, due diligence was not given proper attention in the credit union's evaluation process.

An area of concern addressed in the document that can't be overlooked is the ability to change the servicing provider. Many third party contracts are tied to specific servicers. If a contract is properly executed, it will provide an ability to terminate if servicing expectations are not met. This can be a very challenging issue and is something a credit union needs to monitor carefully.

WSECU agrees with the limitations on net worth and third party servicing. The third party indirect financing and recommended 50% and 100% net worth limits should not affect a credit union's ability to conduct business. Both limits are a reasonable amount to conduct business in a sound manner.

The proposal also provides a waiver provision, which is fair. Waivers enable a credit union to seek to exceed the recommend limits. The credit union would have high levels of due diligence and controls in place, thus having an intimate understanding of the risk in the their program.

In summary, the proposed recommendations on limits for federally insured credit unions in indirect vehicle loans serviced by third parties would assist in protecting credit unions and members. The credit union must execute proper due diligence to protect against the risks identified. If the credit union establishes a standard of care and parameters in their contract, this risk would be minimized and the benefits a robust indirect lending program can bring can be maximized.

Sincerely,

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