February 21, 2006

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

Sent via email

Re: Comments on Third-Party Servicing of Indirect Vehicle Loans
Notice of Proposed Rulemaking

Dear Ms. Rupp:

The Pennsylvania Credit Union Association (PCUA) appreciates this opportunity to provide comments on the proposed rule related to purchases by federally insured credit unions of indirect vehicle loans serviced by third parties.

The PCUA is a statewide trade association that represents over eighty-five percent (85%) of the approximately six-hundred-forty-four (644) credit unions located within the Commonwealth of Pennsylvania. To respond to this request for comments, the PCUA consulted with its Regulatory Review Committee and State Advisory Committee (the Committee(s)). These Committees consists of twenty-one (21) credit union CEOs who lead the management teams of Pennsylvania federal and state-chartered credit unions. Members of the Committee also represent credit unions of all asset sizes. The comments contained in this letter reflect the comments of the Committee and the PCUA staff.

Service to Persons of Modest Means:

When the NCUA Board released the current proposal for comment, Board Member Rodney Hood remarked that, in many cases, the first financial service that an underserved individual might receive is a vehicle loan extended on an indirect basis.

Credit unions have a charge to serve members of modest means. Indirect vehicle lending, by and through a third-party servicing agent, is one means for a credit union to conduct outreach to individuals of modest means. Therefore, as NCUA seeks to finalize this regulation. We urge the agency to weigh its safety and soundness concerns against the opportunities that third-party indirect vehicle lending programs (programs) afford to credit unions to reach members of modest means.

Accordingly, our group suggests that NCUA look at some of these programs in the reverse. For example, some Pennsylvania credit unions participate in indirect vehicle lending by investing in securitized pools of vehicle loans, which are serviced by third parties. These types of investments allow credit unions to diversify their risk when serving impoverished or underserved areas. Otherwise, the alternative is that credit unions make direct vehicle loans at higher rates to absorb losses. Credit union losses can be minimized when investing in securitized pools of vehicle loans due to the diversity of the portfolio. In addition, it has been the experience of our members that the insurance coverage provided on these loans greatly minimizes the risk of losses with regard to these programs.

We encourage NCUA to recognize that some available programs are safe and sound and represent a good investment opportunity for credit unions because they can reduce the extensive administrative costs associated with offering vehicle loans in impoverished or underserved areas. Excessive regulatory requirements could eliminate the benefits associated with these relationships and undermine the ability of credit unions (especially smaller ones) to offer a broad range of vehicle loan products to their membership and to serve the underserved and impoverished areas within their field of membership.

Concentration Limit:

Some Committee members expressed concern with NCUA's general use of net worth as a factor in setting concentration limits and other types of restrictions. By tying limits and restrictions to net worth, NCUA may be creating an incentive for credit unions to carry excess retained earnings to the detriment of their members. Our group is sensitive to this perception as critics of the movement often use the retention of excess earnings by the credit unions as a reason why their taxation status should be reviewed and changed. Instead, some of our members suggested that NCUA use paid-in and unimpaired capital and surplus in calculating limitations and/or restrictions. Our group is concerned that the use of net worth in this proposal sets bad precedent.

While the proposed concentration limits are presently not problematic for the larger Pennsylvania credit unions that are participating in these programs, some of our Committee members indicated that the limitation could overly constraint smaller credit unions from being able to meaningfully participate in the programs.

Clarification Request:

Our Committee members request that NCUA confirm/clarify that credit union service organizations (CUSO), whether owned by the credit union engaged in this activity or by other credit unions, which act as third-party servicers for indirect vehicle loans, are exempt from the proposed concentration restrictions under the exemption for servicers that are federally-insured financial institutions and their wholly-owned subsidiaries.

General Comments:

Some committee members stated that NCUA's concerns regarding the risks associated with third-party indirect vehicle lending programs are overstated as some programs impose strict requirements and underwriting standards on participating credit unions. Some third party providers are adamant that credit unions understand the parameters of their programs and do not allow credit unions to participate until the risks are identified and addressed by the parties. While a credit union's initial independent analysis can be onerous, models are available to assist in monitoring and evaluating the credit union's investment.

Thank you again for this opportunity to comment on behalf of Pennsylvania credit unions. Please feel free to contact me or any of the PCUA staff at 1-800-932-0611 if you have any questions or if you would like to discuss our comments.

Sincerely,

Laurie S. Kennedy

Laurie S. Kennedy
Associate Counsel

LSK:llb

cc: Association Board
Regulatory Review Committee
State Advisory Committee
J. McCormack
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