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AUG04'15 PM 2:03 BOARD

Gaynell Lawson, President & CEO

July 28, 2015

Gerard S. Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314-3428

RE: Comments on Proposed Rulemaking for Part 723 (RIN 3133-AE37)

Dear Mr. Poliquin:

I am a community banker dedicated to serving my customers and community. My tax dollars support schools, police and fire departments, and other vital services at the local, state, and federal level. I write today to express my objection to the NCUA's unprecedented proposal to comprehensively rewrite the rule governing credit union member business lending.

My objections to the NCUA proposal include:

1. The statutory cap on member business loans - The Federal Credit Union Act's statutory calculation clearly sets the member business lending (MBL) cap at 12.25 percent of assets. However, the NCUA MBL proposal, together with their proposal to apply risk based capital standards under Basel III to credit unions, could be used to circumvent the 12.25 percent MBL cap, raising it to 17.5 percent of assets or even higher for certain credit unions. This proposal simply does not follow the plan language of the Act. According to the legislative history, the current MBL cap reflects the will of Congress that credit unions serve persons of modest means "through an emphasis on consumer rather than business loans." The legislative history also states that the MBL cap is intended to limit the risk of taxpayer losses as a result of "large commercial loans" by credit unions.

2. Taking "member" out of member business loans - Under the current rule, the borrower- a credit union member – must personally guarantee a member business loan. This is what makes a loan a member business loan. Nevertheless, the proposal would remove the member guarantee requirement. A member business loan would become an ordinary business loan – a radical departure from the credit union lending model clearly not intended by the Federal Credit Union Act.

3. Undermining the MBL cap - The current MBL cap already contains a number of exceptions that undermine its purpose and integrity. For example, whole loans and loan participations purchased from other credit unions do not count toward the cap. The NCUA proposal would greatly expand this loophole by removing the requirement that credit unions seek a waiver for

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such lending. This would allow large credit unions to engage in hundreds of millions and possibly billions of dollars of business loans outside of the MBL cap.

4. No analysis showing economic need - The NCUA has failed to show economic need exists to justify its sweeping proposal. A recent survey published by the National Federation of Independent Businesses found that only four percent of small business owners reported not having all of their credit needs met, a historically low percentage. In addition, only two percent of small businesses reported that obtaining credit was their main problem. Under these credit conditions, the NCUA proposal is unlikely to result in net new loans. Rather, it would allow tax exempt credit unions to siphon business loans from taxpaying community banks. This in turn would reduce tax revenues at the federal, state, and local levels.

5. Weakening of protections - The NCUA proposal would discard or significantly weaken a series of restriction on member business lending such as loan-to-value caps on collateral used to secure loans and loan-to-a-single-borrower limits, as well as the borrower guarantee requirement noted above. As discussed below, this weakening of lending standards is completely unwarranted by credit unions' dismal record of failed member business loans.

In the background to the proposal, the NCUA itself concedes that "Poorly managed business lending activities were a contributing factor in the failure of at least five credit unions since 2010. They account for roughly $141 million, or 25 percent of total share insurance fund losses over the last five years." Elsewhere, the NCUA has stated that MBLs are delinquent at 2.5 times the rate of all loans, and imprudent business lending has led to the weakening or failure of hundreds of credit unions.

I urge the NCUA to review why, given the frank lack of confidence in credit union business lending, it proposes to weaken critical safeguards. Reckless business lending has already jeopardized the credit union system. Credit unions lack the experience and the expertise to safely conduct business lending, and the NCUA lacks experience in supervising business lending.

Thank you for your consideration,

Kathy Bowers

Kathy Bowers
Senior Vice President, CFO

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