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Submitted electronically: Federal eRulemaking Portal
Re: RIN. 3133-AE37

August 26, 2015

Dear Mr. Poliquin:

On behalf of the credit unions in the State of Iowa, I appreciate the opportunity to comment on the National Credit Union Administration's (NCUA) proposal concerning member business loans and commercial lending. The Iowa Credit Union League (ICUL) is the non-profit trade association that represents the interests of Iowa credit unions and their over one million members. Iowa credit unions are dedicated to meeting the needs of their members, from personal accounts; to ensuring the dreams of business ownership in their communities are a possibility.

ICUL agrees with NCUA Chairman Matz statement that "now is the time to transition away from prescriptive regulatory limits toward general principles that will provide credit unions with greater flexibility to serve business owners." ICUL is encouraged by the NCUA Member Business Loans and Commercial Lending proposal as it is a step in the right direction to start this transition. This proposal represents much needed regulatory relief, while also protecting the safety and soundness of credit unions.

ICUL appreciates many aspects of NCUA's proposed adjustments to member business loan (MBL) requirements such as the removal of prescriptive regulatory restrictions as well as the clarification of what is defined as a MBL and a commercial loan. However, ICUL is concerned about certain aspects of the proposal, including: the issuance of supervisory guidance; the MBL aggregate loan limit; the qualified credit union exemption; and training of NCUA examiners.

Removing Prescriptive Restrictions

ICUL strongly supports the elimination of current regulatory requirements to obtain personal guarantees, meet specific loan-to-value limitations, collateral requirements, and other requirements, which have previously forced Iowa credit unions to obtain waivers from NCUA. Removing NCUA from the process will, within the statutory restrictions, give Iowa credit unions greater latitude in determining the conditions in which they are able lend to their members. The elimination of the waiver process will also allow Iowa credit unions to be more responsive to the needs of their members and their communities and help streamline the regulatory process.

The removal of the regulatory restrictions and waiver requirements will also help credit unions make a more accurate estimation of risk based on the individual loan and credit union portfolio. For example, the proposed rule will allow Iowa credit unions to determine when it may be prudent to allow for different guarantee structures based on the specific business borrower. Iowa credit unions and the community will also benefit from being able to determine on a per loan basis what is needed in order for the loan to be appropriately collateralized. ICUL believes that Iowa credit unions are in the best position to determine what collateral is needed and how to evaluate it, in order to sufficiently protect the credit union against potential risk.

Defining MBLs

ICUL appreciates NCUA defining commercial loans, and clarifying that some would not be considered MBLs. The creation of this category will decrease confusion and allow credit unions to more fully meet the lending needs of their community. ICUL strongly supports the clarification that non-member business loan participations are not MBLs. Currently, over 30 Iowa credit unions work with a credit union service organization (CUSO) to participate in business lending.

ICUL appreciates NCUA's efforts to more clearly align with the Credit Union Membership Access Act (CUMAA) by proposing to exclude non-member loan participations from the definition of a MBL. This proposed change is beneficial to small and mid-sized credit unions that may not be able to offer such products in-house. Iowa credit unions will be able to better engage in loan participations, through a CUSO or otherwise, to diversify their portfolios and ensure they are able to adequately meet the needs of their membership.

Under the proposal a credit union may use a risk rating methodology developed by a third party, and the credit union must perform appropriate due diligence to determine if the methodology meets the credit union's needs for properly categorizing risk. While the overall intent of the proposed change is helpful to support the credit union industry, ICUL requests that NCUA provide clarification regarding how this requirement interacts with a credit union utilizing a CUSO relationship to engage in MBL and commercial lending.

Supervisory Guidance

ICUL supports the issuance of supervisory guidance to address the areas which previously required waivers, but ICUL is concerned that such guidance may create examination problems and inconsistent examiner discretion. ICUL is further concerned that the supervisory guidance will be cited by examiners as the equivalent to the regulation. ICUL requests the ability to review and comment on the supervisory guidance before it is implemented to ensure it provides guidelines for examiners and credit unions to identify safe and sound practices that may be outside of the previous regulatory restrictions.

A comment period for the supervisory guidance will allow credit unions to share how the application of the guidance will impact the credit union and its ability to serve members. ICUL is concerned that the switch from a prescriptive rule to a principal based rule could lead to examination inconsistencies if the guidance does not provide a comment opportunity and feedback regarding its practical application. ICUL believes that supervisory guidance that incorporates feedback from credit unions will create both safe and sound practices as well as a more efficient structure better understood by all parties.

Clarification on the Aggregate Loan Limit and Additional Policy Exemption

ICUL supports the proposed elimination of the 12.25 percent calculation and application as it directly aligns with the Congressional intent of the CUMAA. Although ICUL is supportive of this regulatory change, ICUL requests that the NCUA address how the expected risk-based capital final rule may affect the MBL aggregate limit calculation.

ICUL also supports the NCUA proposal to provide an exemption from the commercial loan policy and additional management requirements for credit unions offering commercial loans that have assets less than \$250 million and total commercial loans less than 15 percent of the credit unions net worth. This exemption will assist qualifying credit unions focus their resources in the appropriate areas. It will also ensure the board of directors' management responsibilities and training are focused on areas of the credit union that need more strategic guidance based on the credit union's concentration and possible risk.

However, the ambiguity of the requirement that the credit union is “not regularly originating and selling or participating out commercial loans” in order to be classified as a “qualifying credit union” is concerning. ICUL requests that NCUA more clearly define the requirements to be eligible for the exemption. Providing clarification will protect potentially exempt Iowa credit unions from varying examiner interpretations and will provide examiners with direction to determine a credit union’s exempt status. ICUL also asks that NCUA consider removing the assets size threshold in order to utilize this exemption.

Examiner Training

ICUL is encouraged that the NCUA is dedicated to providing sufficient training for examiners to ensure the proposed MBL and commercial lending regulations are adequately understood. However, ICUL is concerned about the method of funding the additional training and how it will relate to state-chartered examiners. Iowa credit unions are 99 percent state-chartered and are primarily examined by state examiners. ICUL requests the NCUA provide clarification on how NCUA will coordinate with state examiners and whether the additional training will also support state examiner efforts. ICUL also asks that NCUA evaluate its current training structure and incorporate MBL training into existing trainings to reduce the overall cost to credit unions.

Conclusion

ICUL appreciates the NCUA’s efforts to provide credit unions with more operational flexibility when lending to community businesses and recognizing that this can be done while maintaining sufficient safety and soundness guidelines. However, ICUL asks that the requests contained in this letter be addressed in the final rule in order to provide Iowa credit unions with more clarity and examination certainty.

Credit unions have a long history of engaging in safe and sound business lending. The move away from prescriptive member business lending and commercial lending by credit unions will serve to help increase the safety and soundness of credit union lending as they evaluate their individual needs and circumstances to design policies and procedures. The proposed rule’s alignment with the CUMAA will potentially allow for an increase in the MBL lending for many Iowa credit unions as well as stream-lined member service. Iowa credit unions serve an important role lending to small businesses in their communities. The adjustments made in the proposed rule will assist Iowa credit unions build stronger programs and help local communities grow.

Sincerely,



Patrick S. Jury
CEO/President
Iowa Credit Union League

CC: Senator Charles Grassley
Senator Joni Ernst
Congressman Rod Blum
Congressman Dave Loebsack
Congressman David Young
Congressman Steve King