FARMERS & MERCHANTS STATE BANK

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AUG31'15 PM 2:05 BOARD

August 27, 2015

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

Re: Member Business Loans; Commercial Lending Proposal; RIN 3133-AE37

Dear Mr. Poliquin,

Farmers & Merchants State Bank is a $170 Million community institution in Waterloo, Wisconsin. I appreciate the opportunity to comment on the National Credit Union Administration's (NCUA's) proposal to amend its member business loan (MBL) rules which govern credit union commercial lending activities.

As a community banker with Farmers & Merchants State Bank, I am gravely concerned over NCUA's use of its rulemaking authority to propose new definitions and other exemptions in an attempt to create loopholes many large federal credit unions (FCUs) will use to make commercial loans beyond the current 12.25% MBL limit established by Congress as part of the Credit Union Membership Access Act of 1998 (CUMAA), which amended the Federal Credit Union Act. I strongly opposes NCUA's attempt to expand commercial business lending by FCUs beyond that permitted by Congress in this fashion. Indeed, Congress is the proper venue for the type of significant change in MBL policy sought in this rulemaking.

As the principal regulator of FCUs, NCUA is charged with the responsibility to supervise, examine and regulate FCUs to insure compliance with the laws enacted by Congress, which includes adherence to the limit on commercial business lending. I believe NCUA must act as an independent, objective regulator to restrict or prohibit FCU activity which may have a potentially harmful impact on consumers and to protect such consumers from loss in the event of a FCU failure. As part of its responsibility in promulgating rules, I believe NCUA must continue its role as regulator of, and not as a cheerleader for, those it regulates. This proposal creating a loophole for FCUs on the MBL limit exhibits the latter behavior.

I support efforts by all regulators to create flexible rules which allow an institution to customize policies and procedures to fit an institution's asset size, market place, and sophistication of the products and services it offers. Furthermore, I support rules which foster safe and sound lending policies including provisions for thorough oversight and management supervision of lending activities and products. This is especially important for commercial business lending given the complexity of such transactions.

That said, I challenge NCUA's authority to create a rule that will be used by many large FCUs to engage in commercial business lending beyond the 12.25% MBL limit established by Congress. NCUA's own staff has previously testified in congressional hearings that the current MBL limit is the limit for commercial business loans offered by FCUs. There should be no circumvention of this limit. Cleverly crafted definitions and exemptions by NCUA which attempt to distinguish a new "category" of unrestricted commercial business loans from MBLs is merely a façade created to allow large aggressive FCUs a means to exploit a bypass around the MBL limit. I do not believe NCUA has the

authority to broaden the Congressionally-set limit through rulemaking. Commercial lending is still commercial lending.
Additionally, I strongly oppose NUCA's proposed elimination of certain safety and soundness standards, specifically the elimination of the requirement for personal guaranties, LTV limitations and collateral requirements. As is well known by NCUA, commercial lending is one of the most complex and riskiest forms of lending any financial institution can engage in. And, as is also well known by NCUA, with this risk unfortunately has come loss. In a report released just five years ago, NCUA's own Office of the Inspector General reported that of the ten most costly credit union failures, business lending was a major contributor in the failure of seven of those ten credit union failures.

Unsafe practices related to commercial business lending by credit unions has also had an impact in Wisconsin. Over the same five year period, the number of state-chartered credit unions has decreased from 223 to 160 due to a series of mergers and acquisitions (M&A). For the majority of this M&A activity, I believe the principal reason for the activity was to avert credit union failure. In many cases, the principal reason why a credit union was struggling was due to unsafe commercial business lending practices by the credit union. While NCUA's proposal will not directly impact Wisconsin's many state-chartered credit unions, I anticipate that if NCUA finalizes a rule with the elimination of safety and soundness practices as proposed, similar "regulatory relief" changes will be seen on the state level. This is of great concern since most state-chartered credit unions do not have adequate commercial lending knowledge for management of complex or sophisticated commercial loan portfolios. In addition, there is limited credit union regulatory expertise for examination purposes in the State.

I am very concerned that the impact of NCUA's proposal will potentially cause consumer harm with the removal of important safety and soundness safeguards. I gravely fear there will be an event in the future were M&A activity will not be an option and will result in consumer loss. To protect against such possible loss, NCUA must not eliminate the requirement for personal guaranties, nor reduce LTV limitations and collateral requirements.

Conclusion

I strongly oppose NCUA's use of rulemaking to circumvent the plain language of the Federal Credit Union Act, as amended by CUMAA, to expand commercial business lending by FCUs beyond that permitted by Congress. I believe Congress is the proper venue for the type of significant change in MBL policy sought in this proposal.

I also believe the proposal is not the type of rulemaking an independent, supervisory agency such as NCUA should engage in, as it flies in the face of its duties to: (1) examine FCU practices against the rules established by Congress—including the established limit on commercial business lending; and (2) protect consumers against possible loss due to overzealous actions related to commercial business lending activity. For these reasons, NCUA must withdraw its proposal.

I appreciate the opportunity to comment on NCUA's proposal.

Sincerely,

William T Hogan

William T Hogan
EVP & CFO