



May 28, 2014

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

Re: NCUA Risk Based Capital (RBC) Rule

Via email

Dear Secretary Poliquin,

Community Business Lenders Service Company, LLC (CBLSC) is a member business lending CUSO located in Des Moines, Iowa. We began operating in 2005 with current ownership of 39 credit unions in place since November 1, 2012. We provide underwriting, documenting, and servicing of member business loans. Earnings are allocated based on ownership, origination, and servicing fees paid by each owner to the CUSO. In 2013, our earnings resulted in a return on equity in excess of 30% and a dividend of approximately 35% of earnings was paid to our shareholders.

As noted in NACUSO's comment letter, it is not just earnings that provide value to credit unions that own CUSOs, the benefits are many: access to products or services that the credit union would not otherwise be able to provide to their membership, in the case of MBL CUSOs a diverse portfolio of earning assets, and the opportunity to grow its membership base with these MBL products and services.

Since our inception, we've generated more than \$48 million of interest income for our collaborating credit unions. Rates have consistently exceeded the 5 US Treasury yield by more than 200 basis points.

Our CUSO is a member of NACUSO and the Regional CUSO Alliance (RCA), a group of 16 MBL CUSOs that provides expertise locally, generally originating and servicing loans on behalf of its owner credit unions and their members. In the aggregate, RCA MBL CUSOs serve 508 credit unions, employ 225 professionals, and service a portfolio of \$3 billion of loans. We believe this local origination and servicing is noteworthy as it relates to Risk Based Capital proposed rules and other recent rules promulgated by the NCUA related to participations. While several MBL CUSOs participating loans nationally have been in the regulatory spotlight, risk associated with a national model is different than the models of the member CUSOs in the RCA.

Data from the NCUA presented at the NACUSO conference indicates that less than two dozen credit unions would be undercapitalized based on the proposed RBC regulation raising some question as to the need for additional regulation.

With this background, we offer the following comments on the proposed RBC regulation:

Weightings

Requiring 250% times an investment in a CUSO is without basis. Our Operating Agreement indicates that we cannot make a capital call on any of our owners. NCUA requires that CUSOs represent and warrant that a corporate veil exists between CUSOs and its owners to ensure that the owner's capital could not be attacked in the event of losses at the CUSO level. Risk weighting CUSOs at 250% of investment or 67% higher than consumer loans in default is arbitrary and not supported by any data that I'm aware of, or that NCUA has compiled.

We request NCUA reduce the weighting for CUSOs to 100% of the credit union's investment.

Further, it is our understanding, subject to Generally Accepted Accounting Principles, that NCUA would require the same risk weighting on the earnings of the CUSO as well as the original investment. This is counterintuitive and seemingly punitive to the owners of a successful CUSO. We request NCUA limit the 100% risk weighting to the original investment in the CUSO.

Absent a reduction from the proposed 250% weighting, CUSO formation will decrease and products and services generated from this collaborative model will decline, adversely impacting the strength and vitality of credit union owners. CUSOs have been a hallmark of creativity in the credit union space resulting in the reduction of credit union expense, improving credit union safety and soundness through increased revenue and profitability, and increasing market share or member retention.

Examiner discretion

Section 702.105C of the proposed rule allows for subjective changes by examiners on a credit union by credit union basis. This creates an environment of uncertainty that credit union staff and boards will not be able to manage to.

We request that the NCUA eliminate this section of the proposed rule and rely on consistently applied rules related to capital. This is seemingly consistent with NCUA's objective of implementing capital standards similar to other financial institution regulations.

Business Loan Risk Ratings

With most credit unions member business loans capped at 12.25% of total assets, increasing the risk weightings based on the amount or percentage of MBL assets is punitive and not needed. Examiners currently can evaluate concentration risk through the current examination and supervisory process.

We request that NCUA amend this section by eliminating the increased capital requirements based on the MBL portfolio as a percentage of total assets.

Implementation date

With less than 24 credit unions identified as undercapitalized, an 18 month implementation requirement does not allow for sufficient time for credit unions to plan for this change.

We request that NCUA amend the implementation timeframe to three years from the date the regulation is effective. With limited tools to raise capital, such a timeframe is needed by credit unions to effectively plan and implement changes to comply with the new law.

We appreciate the opportunity to provide comment regarding this proposed regulation.

Yours truly,

A handwritten signature in black ink, appearing to read "Mark G. Kilian". The signature is fluid and cursive, with a large initial "M" and "K".

Mark G. Kilian
CEO