

## BOARD ACTION MEMORANDUM

**TO:** NCUA Board

**DATE:** June 18, 2015

**FROM:** Office of General Counsel  
Office of Examination and Insurance

**SUBJ:** Proposed Rule:  
Member Business Loans (Part 723)

**ACTION REQUESTED:** NCUA Board approval to publish the attached proposed rule in the *Federal Register* with a 60-day public comment period.

**DATE ACTION REQUESTED:** June 18, 2015

**OTHER OFFICES CONSULTED:** Regional Offices, Office of National Examinations and Supervision

**VIEWS OF OTHER OFFICES CONSULTED:** Regional and ONES offices expressed concerns about the risks associated with the requisite transition necessary for the agency to safely implement a principles-based regulation. They emphasized the need for enhanced guidance, specialized examiners and additional specialized training.

**BUDGET IMPACT, IF ANY:** If the proposed rule is finalized, the estimated total one-time incremental cost would be \$813,280 in 2016 for staff training. There would be an additional one-time opportunity cost of approximately \$1,112,480 for additional training associated with this rule, which would be incorporated into the customary training time allocated to field staff in 2016 and 2017 and therefore not incrementally increase the budget. The total cost would be approximately \$1.93 million for specialized training for field staff to transition to the new rule. This estimate represents the sum of the average hourly cost per field employee times the total projected hours necessary to train relevant staff. This training would be a one-time transitional expense for implementation of the final rule.

Introductory training on any final MBL rule and related guidance would be provided to all field staff. Field staff customarily assigned to be in charge of examinations of credit unions engaged in business lending, and their supervisors, would receive some additional training to reinforce how business lending properly fits into a credit union's business model. Specialized technical training would be provided to regional lending specialists and lending subject matter examiners to ensure the depth of technical expertise necessary to examine business lending with respect to the greater flexibility incorporated into the proposal.

In recognition of the growing need for specialized staff in the lending risk area, NCUA already increased the approved number of regional lending specialists in 2014 to a total of 26. These specialized examiners have varied experience sets including the granting and/or oversight of business lending activities.

The proposal would involve changes to supervisory guidance, examination procedures, and training. Consistent with standard practice, NCUA would utilize existing staff resources to implement such changes in the normal course of business. The changes to guidance and exam procedures are incidental to most new regulations and would occur during the period of time prior to a final rule's effective date. The Office of Examination and Insurance is currently working to enhance existing credit training curriculums as part of the normal maintenance and evolution of training. Plans include augmenting existing core classes and adding externally provided courses and conferences.

**SUBMITTED TO INSPECTOR GENERAL FOR REVIEW:** Yes

**RESPONSIBLE STAFF MEMBERS:** Larry Fazio, Director Office of Examination and Insurance; Owen Cole, Director, Division of Capital and Credit Market; Vincent Vieten, Member Business Loan Program Officer; Lin Li, Credit Risk Program Officer; Office of Examination and Insurance; and Pamela Yu, Senior Staff Attorney, Office of General Counsel.

**SUMMARY:**

Consistent with NCUA's Regulatory Modernization Initiative, staff recommends the Board propose to amend its member business loans (MBL) rule to provide federally insured credit unions with greater flexibility and individual autonomy in safely and soundly providing commercial and business loans to serve their members. The proposed amendments would modernize the regulatory requirements that govern credit union commercial lending activities by replacing the current rule's prescriptive requirements and limitations—such as collateral and security requirements, equity requirements, and loan limits—with a broad principles-based regulatory approach. As such, the proposed amendments also eliminate the current MBL waiver process, which is unnecessary under a principles-based rule. Staff notes that the proposed rule represents a change in regulatory approach and supervisory expectations for safe and sound lending would change accordingly. With adoption of a final rule, NCUA would publish updated supervisory guidance to examiners, which would be shared with credit unions, to provide more extensive discussion of expectations in relation to the revised rule.

**RECOMMENDED ACTION:** NCUA Board issue the attached proposed rule for public comment for a period of 60 days.

**ATTACHMENT:**

- 1) Summary of Key Proposed Changes to NCUA's Member Business Loan Rule
- 2) Proposed rule