Business Lending Group LLC

FINANCIAL SOLUTIONS FOR BUSINESS

2350 N Casaloma Drive,
Suite 100
Appleton, WI 54913-8284
800 - 941 - 0990
920 - 882 - 8400
Fax 920 - 882 - 8399
info@businesslendinggroup.com

A Credit Union Service Organization

Prospera Credit Union
CitizensFirst Credit Union
Fox Communities Credit Union
Pioneer Credit Union

April 2, 2014

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

Re: Comment to the Proposed Prompt Corrective Action – Risk-Based Capital Regulation

Dear Mr. Poliquin:

On behalf of Business Lending Group, LLC, I would like to provide the following official comment letter regarding the NCUA's recently proposed risk-based capital rule.

I believe that the CUSO investment risk metric of 250% is excessive especially as compared to other risk ratings. For example, delinquent consumer debt over sixty days as well as delinquent unsecured credit card debt is risk rated at 150% and delinquent first lien mortgage loans are risk rated at 100%. Yet the credit unions investments in their business lending CUSOs that have added millions of dollars in interest income annually to the bottom line of credit unions are arbitrarily deemed riskier. I do not understand this reasoning.

Business Lending Group, LLC is a member business lending CUSO that was strategically formed in 1999 by three owner credit unions for the purpose of sharing resources and diversifying risk as they entered into business lending. Over the past 15 years, Business Lending Group has successfully provided full service Member Business Lending services to our owner credit unions. The past three years operating results are:

	2013	2012	2011
Delinquent > 60 days	1.02%	0.78%	1.27%
ROA	2.19%	1.39%	0.66%
Operating Expense Ratio	1.01%	0.95%	0.88%

These results reflect the value that Business Lending Group brings to the owners of our CUSO.

CUSOs provide a wide range of services. The one-size-fits-all CUSO risk rating does not take into consideration (a) what types of services are being provided, (b) whether the investment represents necessary operational expenses that would be otherwise incurred, (c) whether the amount invested is material, (d) whether the CUSO has a history of profitability, or (e) whether the investment amount has been fully recovered by the credit union through savings or income. Even if there is a risk assessment for the initial CUSO investment, there is no reason to continue to have a risk assessment if the amount of the investment has been fully offset by net income or cost savings for the credit union that was generated by the CUSO.

While there are some CUSOs that are designed to return a profit through dividends, many CUSOs like Business Lending Group provides a return to the credit union owners by the reduction of operating expenses and increased interest income not dividends. NCUA's choice of equating a CUSO to a bank investing in an illiquid small business, misses the true risk and return factors. If our credit unions had decided to individually pay the expenses for running a member business lending program internally instead of through its CUSO, money would have been expended by the credit union either way. In our case, multiple credit unions pool their funds in a CUSO to provide member business lending services; the money pooled is not an investment in the classic sense and should not be risk rated as such. If the credit unions choose a CUSO to provide an operational service, it is because each credit union will save money, and often receives greater expertise than they could afford on their own. Why must risk capital be reserved by the credit unions in order to save money and generate net income?

Unlike the banking investment powers, the CUSO risk exposure is limited to an immaterial level. There are only 22 basis points of credit union assets invested in CUSOs industry-wide. Federal credit unions may only invest less than 1% of assets in CUSOs. Credit unions could lose all their CUSO investments and the loss would not be material yet the upside potential could be very significant. NCUA would be making a big mistake by not recognizing the adverse policy implications of applying the inconsistent BASEL bank investment risk ratings to CUSO investments.

In addition to the concerns above about the risk weighting of CUSO investments, I am very troubled by proposed Section 702.105(c). Under the existing statutory net worth rules known as Prompt Corrective Action (PCA) regulations, credit unions have clear rules by which to run their credit union to avoid prompt corrective action by their regulatory agency. This section invites inconsistent and potentially arbitrary applications of the rules. If this proposed rule is not removed, how can credit union boards and management make strategic business decisions if the NCUA can change the rules anytime they want?

To provide the clarity of capital and net worth expectation that a credit union board and management team must have in order to make strategic business and fiduciary decisions, subjective standards must be eliminated. Therefore, I believe, Section 702.105(c) should be deleted in its entirety.

Credit unions know first-hand of the struggle to generate net income in today's economic climate. Interest rates are at record low levels. The operational costs, especially in areas of personnel costs, compliance and technology, are increasing exponentially. Coupled with strong competition from other financial institutions, most credit unions are experiencing challenges in generating quality loan growth with interest margins that aren't very thin.

It has been our experience that our CUSO has been extremely successful in helping the owner credit unions generate net income through growth of their member business lending portfolios. This provides the very capital that NCUA seeks. I encourage the NCUA to revisit the risk weighting proposed for CUSO investments so that the NCUA does not bring unintended consequence.

The proposed implementation date is eighteen months after final passage. This is an unreasonably short time period considering the long-term and significant impact of this new rule on credit union strategic business decisions. Credit unions have very limited means to raise capital under present statute and regulation. It will necessarily take a considerable amount of time to make adjustments within the balance sheet when the rules are suddenly changed.

Thank you for the opportunity to comment.

Very truly yours,

BUSINESS LENDING GROUP, LLC

Linda Kennedy
President and CEO

cc. Deborah Matz, Chairman
Michael Fryzel, Board Member
Richard Metsger, Board Member