July 3, 2015

National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

RE: Proposed changes to NCUA's Member Business Loan rules

Dear Sir or Madam,

We are pleased to read about the various proposed MBL rule changes and welcome this opportunity to comment on them. Charter Oak Federal Credit Union (Charter Oak) has made significant investments over the past five years in both staff and systems in an effort to prudently expand our business lending activities. As of 5/31/15 our assets were $876 million, our loan portfolio totaled $683 million and business loans amounted to $87 million or 13% of this total. We have not incurred any losses on a business loan in the past five years.

In addition to the 20 years of business lending experience that I have, our three Vice Presidents of business lending have 31, 22 and 11 years of experience respectively. We gained our experience locally, primarily in mid-size and community banks before being hired at Charter Oak. Charter Oak now competes on a daily basis with those same mid-size and community banks but our efforts are greatly hampered by the current member business rules.

The following is a short list of the primary impediments that Charter Oak, and all credit unions by extension, faces with the current rules.

- The unsecured lending limit of $100,000 is arbitrary, far too low for an active business lender. Charter Oak was granted a waiver of this rule which raised our unsecured lending limit to $250,000 in January 2012. However this limit has proven to be still too low to effectively compete. We recently requested another increase to this limit. The unsecured lending limit should be eliminated and each business loan should be underwritten on its own merit. If there are factors that mitigate the lack of collateral, then a lender should be able to make the loan.
- The 15 year term limit on business loans greatly hinders credit unions. The negative impact of this rule is evident with commercial mortgage lending, where banks will offer more attractive terms of 20, 25 and even 30 years. The 15 year term limit on business loans places credit unions at a distinct competitive disadvantage with banks, serves no meaningful risk management purpose and therefore should be eliminated.
- Non-owner occupied 1-4 family residential properties are currently classified as member business loans and thus unnecessarily consume a portion of a credit union's MBL cap. All 1-4 residential properties are underwritten as residential loans, are closed using consumer loan documents, serviced using residential mortgage platforms and collected in accordance with consumer law. The banks classify mortgages on 1-4 families as residential loans, and we should do the same.
- The current rules which limit C&D mortgage lending are unnecessarily burdensome, difficult to understand and unduly restrictive. Since they put credit unions at a competitive disadvantage with the banks and don't create any corresponding benefit to the credit unions, the existing C&D rules should be eliminated.

- The current rules which require joint and several guarantees from those holding a majority interest in the business are archaic, too restrictive and serve no useful purpose. While we always require personal guarantees on business loans, Charter Oak would like to see the rules changed to allow the credit union the ability to negotiate limited guarantees with owners if circumstances warrant.

A "leeway provision" or "leeway bucket" should be created for credit union's CAMEL rated 1 or 2 in order to provide them with extra lending flexibility. The banks we compete against already have such a provision. For example such a credit union could be allowed to originate member business loans which don't satisfy all the regulatory parameters (e.g. LTV limits) but only up to 10% of the credit union's net worth. Such loans would have to be approved by, and reported to, the board of directors.

There were two proposed changes to the member business lending rules which I think are imprudent.

- The size of a credit union should not impact the applicability of member business lending rules. All should manage their business lending program within the same regulatory framework. Exempting smaller credit unions from some rules is too risky as they probably have fewer resources and expertise available to effectively manage a business lending program.
- A participation interest in a non-member business loan should count as a business loan for the purchasing credit union because it is, by definition, a business loan. Unlike consumer loans, a business loan must be effectively managed throughout its life and this holds true for participation interests in business loans.

I recommend these changes while bearing in mind safety and soundness considerations. Credit unions can diversify their loan portfolios, mitigate interest rate risk and better serve their members by operating a well devised business loan program. Rather than prescribe a detailed set of rules for member business lending, regulations should provide a basic framework within which credit unions must operate. It is the responsibility of management and the board of directors to effectively operate a member business loan program, and they should be granted the flexibility to do so.

Sincerely,

John J. Dolan
SVP - CLO
Charter Oak Federal Credit Union

CHARTER OAK
CREDIT UNION

a 1055 Hartford Turnpike, Waterford, CT 06385
t 860-446-8085 • 800-962-3237
w CharterOak.org