From:	Sorensen, John
To:	_Regulatory Comments
Subject:	John Sorensen --Comments on Proposed Rulemaking for Member Business Loans, Part 723"
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July 23, 2015

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

Dear Secretary Poliquin,

I am writing to record my strong opposition to your proposal to expand the credit union business lending cap. As you know, the cap was put in place in 1998 as part of the Credit Union Membership Access Act (CUMAA). This law nearly eliminated the traditional credit union common bond requirement, a key differentiator between credit unions and their taxable competitors. While doing so, Congress wished to maintain an emphasis on lending to consumers, especially those of limited means. Congress instituted restrictions on business lending deliberately: "to ensure that credit unions continue to fulfill their specified mission of meeting the credit and savings needs of consumers, especially persons of modest means, through an emphasis on consumer rather than business loans."

Since the passage of CUMAA, the NCUA has taken every opportunity to facilitate business lending and other powers for credit unions, often ignoring the intentions of Congress and the safety and soundness implications for the industry. Although not a part of this proposal, the NCUA has made a mockery of the Low Income Credit Union designation, by making it available to nearly half of all federal credit unions, with more likely to come. Congress created the low income designation to provide a targeted benefit in the form of additional powers to those credit unions that serve low-income communities. Interestingly enough, the authorities provided for low-income credit unions—an exemption from the member business loan cap, the ability to issue supplemental capital and the acceptance of non-member deposits from any source—are the very ones that the credit union industry has been advocating before Congress. It is difficult to understand the correlation between a designation to support low income consumers enabling unlimited commercial lending to companies of any size, located anywhere. At a minimum, the NCUA should hold credit unions accountable by requiring such lending be for small businesses in low income census tracts.

NCUA's latest proposal is available for all credit unions. It would:

- Widen loopholes to the member business lending cap by "clarifying" that non-member business loan participations do not count towards the statutory cap and by eliminating regulatory oversight of the concentrations of these loans. This will not only allow, but also encourage, credit unions to enter into more multimillion-dollar commercial lending deals.

- Make the statutory cap meaningless by allowing certain credit unions to exceed the member business loan statutory authority. If both the proposed business lending and pending capital rules are adopted as proposed, the statutory cap could nearly double without Congressional approval.

- Remove important safety-and-soundness checks and balances by eliminating the requirement for personal guarantees, loan-to-value limitations and collateral requirements. This encourages credit unions to divert resources to financing large commercial enterprises while relaxing the safety and soundness regulations associated with such loans.

NCUA has not established that it is prepared to supervise institutions with expanding business loan portfolios, and the credit union industry has proven ill-equipped to make such loans. At least five credit unions since 2010 have failed at the hands of poorly run business loan programs, accounting for a quarter of all losses to the insurance fund during that period. In 2010, member business loans were the primary or secondary contributing factor for the supervisory concern for nearly half of the credit unions with CAMEL ratings of 3, 4 or 5 that made business loans. The level of delinquent member business loans dramatically rose from 0.53 percent in 2006 to 4.29 percent in 2010; compared to a total loan delinquency of 1.74 percent, this is a clear indication that credit unions, and NCUA itself, were ill-prepared for the additional responsibilities and risks associated with commercial lending. Relaxing regulatory standards and encouraging non-member loan participations is contrary to NCUA's charge of protecting the industry's insurance fund, and effectively places the taxpayer at risk.

Finally, there is no public policy benefit to these changes. In Iowa, we have no less than 340 private lenders with a presence in our state, not to mention on-line lenders, community lending funds, micro-lenders, community development entities, SBA, and many others creating a very competitive business lending environment. Recent Federation of Independent Business surveys has lack of credit availability well down the list of challenges facing small business. A proposal that increases the risk profile of credit unions, while de-emphasizing their commitment to low-income consumers, seems at best ill-timed and at worst a poor use of a taxpayer subsidy.

Thank you for your consideration of these comments.

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