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July 25, 2015

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

RE: Comments on Proposed Rulemaking for Member Business Loans, Part 723

Mr. Poliquin,

The National Credit Union Administration (NCUA) proposal has me very concerned. I serve as Senior Vice President and Chief Financial Officer of the Bruning State Bank in Bruning, Nebraska.

I do not see the need for the credit union industry to get into business lending anymore that they already are. Commercial – business lending is a complex and risky business. From my experience dealing with trained and experienced Federal Deposit Insurance Corporation (FDIC) and the Nebraska Department of Banking and Finance (NDBF) examination staffs that have years of experience in each field office and a comprehensive training program already in place, the NCUA would not be able to achieve the institutional knowledge to ever perform the exams that need to be completed in commercial banking.

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 the NCUA itself, were ill-prepared for the additional responsibilities and risks associated with commercial lending. Losses could quickly multiply under this proposed rule.

In addition, relaxing the regulatory standards is contrary to NCUA's charge of protecting the industry's insurance fund, and effectively places the taxpayer at risk. NCUA is willfully ignoring lessons from its history and encouraging credit unions to divert funds from consumer lending to commercial lending. Consider expounding on the impact of allowing an ill-prepared lender into a new market and what could occur in an economic downturn if these loans are not properly underwritten, especially given the rule's liberal allowance of loan participations that could cause bad loans to be syndicated broadly.

This proposal is contrary to congressional intent to limit business lending by credit unions. In 1998, Congress made it clear that credit unions should be focused on consumer lending, not commercial lending. 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." By proposing this rule, the NCUA Board has blatantly disregarded congressional intent. NCUA should not undermine specific limitations by Congress nor expand the taxpayer liability.

Bruning State Bank is $325 million based in a community of 287 people. We make commercial and business loans at very competitive rates and terms. The only market share capture available to an inexperienced credit union is a low rate, buy the business. Taking the personal relationships out of the transaction and the value add that community banks bring in expertise, involvement and counseling would be detrimental the borrower, the NCUA has no experience in overseeing the fiduciary relationship bank officers have in keeping borrowers out of trouble. Lending money to a small business is so much different than consumer debt.

Please consider this my strongest opposition to the proposal.

Sincerely,

Jerry A. Catlett
Senior Vice President
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