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July 24, 2015

JUL 27'15 PM 2:29 BOARD

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

Dear Mr. Poliquin,

Thank you for the opportunity to comment on the National Credit Union Administration's (NCUA) proposal to expand its member business lending powers. Having been in the commercial banking business for over 36 years, I have seen many up and down credit cycles. I have seen the damage that inadequate lending practices can wreak on an organization and on the lending industry as a whole. Strong commercial underwriting practices and experienced commercial lending staff are critical to the safety and soundness of an individual institution and to the industry. In addition, management of concentrations within the commercial portfolio is critical to avoiding significant losses during weak economic cycles.

Safety and Soundness Concerns

I understand that since 2010, a quarter of all losses sustained by the NCUSIF were the result of the failure of approximately 5 credit unions due to poorly run business loan programs. As a case in point, I am aware of the $1.6 billion in assets Texans Credit Union in Richardson, Texas which was taken over by your agency in 2011 and placed under conservatorship. The cause of its failure was directly attributable to a dramatic increase in business loans without proper policies and procedures in place and without adequate regulatory oversight.

These losses came under the current 12.25% business lending cap. Effectively eliminating this cap under your current proposal by allowing unlimited purchases of participations from non-members would greatly expand the risk to the insurance fund and put taxpayers at risk of funding the shortfall that could be created in the fund.

Your proposal calls for eliminating regulatory oversight of concentrations on this new tranche of loans allowing credit unions to fill their portfolios with unhealthy concentrations which could and most likely would be devastating during a down economic cycle. Strong risk management practices are critical in a well-run business loan program and the proposal to eliminate concentration risk management is ludicrous.

You also propose eliminating the requirement for personal guarantees, normal loan to value limitations and normal collateral requirements. These are basic commercial loan underwriting musts. I am astounded you would consider removing basic commercial underwriting requirements at the same time you would propose increasing the amount of commercial loans a credit union is allowed to make.

Based on prior history of credit unions participating in the commercial lending business, it is apparent that regulatory oversight is not sufficient even under the current rules to avoid massive hits to the insurance fund. From 2006 to 2010, delinquent credit union business loans increased from .53% to 4.29%. This shows that credit unions and their regulatory oversight are ill-prepared for this expansion of lending authority. The removal of basic underwriting guidelines mentioned above illustrates there is also a complete lack of understanding of the risks posed by business loans.

Overstep of Regulatory Reach

In 1998, Congress made it very clear that credit unions purpose was to focus on consumer lending. Congress placed limitations on business lending deliberately to assure credit unions met their original purpose of meeting the credit and savings needs of consumers. This proposal shows a blatant disregard of congressional intent and it places America's taxpayers at risk.

As mentioned at the beginning of this letter, I have been a commercial banker for over 36 years. I experienced the banking crisis in Texas in the 1980's and early 1990's and then again in 2007 through 2010. I have seen what happens during an economic downturn even with strong underwriting practices. Our primary regulator, the Office of the Comptroller of the Currency requires we and other national banks maintain strong safety and soundness policies and practices and this has helped the banks I have worked for and many others in our industry walk through some of the mine fields we have encountered.

I strongly encourage you to reconsider your proposal to place your industry, your insurance fund, your customers and the American taxpayer in jeopardy.

Sincerely,

Ken L. Burgess, Jr.
Chairman

cc: Senator John Cornyn
Senator Ted Cruz
Congressman K. Michael Conaway
Congressman Randy Neugebauer
Congressman Mac Thornberry