AUG04'15 PM 2:04 BOARD

July 28, 2015

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

Dear Mr. Poliquin:

Introduction

First of all I appreciate having the ability to comment to you and, hopefully others, within the National Credit Union Administration (NCUA for short) regarding the proposed expansion of credit union business lending powers. Next, a little background about myself; I've been president and CEO of a community bank in South Texas since the late 1990's, consequently I've personally experienced several business cycles over the last fifteen plus years. Additionally, during that time I've seen the incredible expansion of regulatory oversight of all banks; regardless of their size. And as a result banks have spent huge sums adding compliance staffs and products. At this point in time the majority of community banks are well versed in the origination, analysis, underwriting, documentation and ongoing support of business (commercial) loans. Frankly that is our business and overall banks have done this---and other types of lending---well for many years. However, I seriously question whether most credit unions have either the management expertise or loan support staff knowledge necessary to delve heavily into business lending.

Our Service to Small Business

To further flesh out some of the concerns expressed immediately above. We here at my bank have a business lending group with numerous years of experience. Additionally, this group is not simply comprised of loan officers, there are back office support functions along with the origination of business loans such as credit analysts and note department. Moreover, we must also perform loan and compliance review on our business credits periodically. Furthermore, we are closely scrutinized for safety and soundness in our lending practices by both the FDIC as well as the State of Texas bank regulators annually; and their examinations are quite comprehensive. Could the average credit union survive such a thorough analysis of its lending practices? Likely not; as mentioned previously the business lending acumen is simply not present in most credit unions.

Expanding Credit Union Lending to Non Members is an Overreach

Increasing credit union lending to non-members past the statutory cap would clearly be contrary to the will of Congress as expressed in 1998. Credit unions were originally created based upon the concept of bringing together individuals with a common bond to pool their savings and provide small loans to one another. And Congress's 1998 intention was clear that credit unions mainly focus on consumer not commercial lending. Consumer lending is specifically where credit union expertise lies. When the current 12.25% business lending limits were enacted then **Senator John Kerry** stated that credit unions ***"were never intended to be simply alternative, tax-exempt commercial banks."*** Essentially the U.S. Congress never envisioned that credit unions become banks by another name. And history has shown that when credit unions get heavily involved with commercial lending that bad things happen.

Furthermore, as mentioned earlier it is questionable as to whether the NCUA has the compliance staff to monitor and correct the inevitable credit issues which would arise from increasing the non-member business loan cap. The NCUA is the overseer/referee of all credit unions, and as an overseer they have a duty and responsibility to make credit unions adhere to their original mission(s). A good analogy would be that of a teenager being taught to drive. A young person just learning driving skills (credit union's originating business loans) should not be behind the wheel of a high powered sports car; that would be a recipe for disaster. And the NCUA should not be an enabler to such behavior; however, I believe should the wished for cap increase related to non-member business loans be approved, that is exactly what the NCUA would become; an enabler.

What about Safety and Soundness?

Another quote from a Senate Report in 1998, when the current business lending cap was agreed upon ***"The committee action will prevent significant amounts of credit union resources from being allocated in the future to large commercial loans that may present additional safety and soundness concerns for credit unions."***

So, will raising the lending cap "prevent significant amounts of credit union resources from being allocated in the future to large commercial loans that may present additional safety and soundness concerns for credit unions"? Past history says no to this question. Between the years 2006 and 2010 the percentage of delinquent member business loans alarmingly climbed from 0.53% to 4.29%. That was in comparison to credit union's overall delinquency level of 1.74% in 2010. Therefore, past due business loans were 2.55% higher than the average delinquent credit union loan. And that statistic was related to credit union member's commercial loans; what happens should the lending cap be raised to allow non-member businesses to borrow? History shows it may not end well.

To give you a local example from our area; there is a large credit union which covers a sizeable portion of South Texas. In fiscal year 2014 this particular institution's loan charge-offs **DOUBLED** from the previous year (2013). That's right, a 100% increase, and as a total dollar figure not exactly small change. Additionally, their delinquency rates on real estate lending (including commercial real estate) shot from 34% as of 12/31/2010 to 59% as of 12/31/2014. Furthermore, their indirect lending past due loans (which carries a higher level of risk than most any other loan category) hit 1.27% as of year-end 2014 compared to only 0.54% at the same point in 2010. Bank indirect lending programs are now highly scrutinized by federal regulators. Do the indirect lending operations of credit unions undergo similar microscopic examinations? I certainly hope that's the case. Perhaps most striking of all regarding these statistics is that the negative trends highlighted above ***occurred during a period of strong economic growth in Texas***. What happens when there is a substantial downturn on the economy locally and statewide? Furthermore, what happens if the business lending cap is increased along with a slowdown in the economy? That prospect should alarm all officials at the NCUA.

Also what about the interest rate risk aspect of credit union's delving even more deeply into business lending? Generally speaking commercial loans are for longer terms at fixed interest rates. What happens to the value of those many currently low interest commercial loans should interest rates rise rapidly? This is another area bank examiners focus on, i.e., interest rate and market risk. Here at our institution we must run quarterly asset/liability analyses to determine vulnerability to interest rate changes; and banks have been doing this for a number of years. I truly have a difficult time believing that many credit unions really understand interest rate risk and what potentially may happen to their balance sheets when (not if, but when) interest rates begin to rise. Again, as a local, a credit union was advertising very low fixed rate loans for 10 years plus. That is recipe for potential disaster. Add business lending to non-member customers to the mix and the combination of charged off loans and balance sheet meltdowns by a number of loan credit unions may make the Savings and Loan debacle of the late 1980's and early 1990's a pleasant memory.

In Conclusion

Mr. Poliquin, I do not write this letter out of spite toward credit unions. Most all bankers that I know agree that credit unions have their place. However, that place is not in the commercial lending area. Originally, the idea behind credit unions was sound; but their original task has suffered from "mission creep". As mentioned earlier, business lending requires a considerable amount of knowledge/skill which I simply do not believe that the vast majority of credit unions possess.

William Shakespeare wrote a number of tragedies; one of which "The Tempest" contained the famous quote "What's Past is Prologue". Please don't make the future of credit unions an American tragedy. That wouldn't serve the employees of those institutions well and it would certainly not be in the best interest of the American taxpayer who would be stuck with footing the bill for a potential massive bailout of the NCUA insurance fund. Nationwide, since 2012 forty six credit unions have failed; again during an economic recovery. What happens to the insurance fund if that number is multiplied by 2, 3 or 4? Say it can't happen? The S&L debacle wasn't anticipated either. The NCUA should ensure that credit unions operate within their originally structured mandates and also protect the U.S. citizens from having to inject ever increasing amounts of taxes into the credit union insurance system. By raising the business lending cap, neither of those two tasks would be accomplished. Mr. Poliquin I beg you and others at the NCUA to reconsider advocating the raising the non-member business lending cap above the current level. Thank you for your time.

Sincerely,

W. Wesley Hoskins
President & CEO

cc: Senator John Cornyn
Senator Ted Cruz
Congressman Blake Farenthold