CITIZENS STATE BANK

August 6, 2015

AUG10'15 PM 2:35 BOARD

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

Dear Mr. Poliquin:

I appreciate the opportunity to comment on the National Credit Union Administration's (NCUA) proposal to expand its member business lending authority. I have been in the banking industry for forty-one (41) years, as a bank CEO, Bank Examiner, Lender and Compliance Officer. During that time I have seen many up and down business cycles and I have seen the damage that inadequate lending practices and policies can have on a financial institution and the lending industry as a whole. The key to weathering these business cycles is strong commercial underwriting practices and an experienced commercial lending staff. The temptation to concentrate on lending to the commercial sector of the economy has been the downfall of many financials in the past forty years.

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 5 credit unions due to inadequate oversite of their business loan programs. I am aware of a $1.6 billion asset Texans Credit Union in Richardson, Texas which was placed under conservatorship by your agency. 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 occurred even though there was a 12.25% business lending cap in place at that time. By eliminating this cap under the current proposal allowing unlimited purchases of participations from non-members, would significantly increase the risk exposure to the insurance fund. It would put tax payers, like myself, at risk of funding the deficiency of the insurance fund that could be created by losses created by this increased exposure.

Your proposal calls for eliminating regulatory oversight of concentrations on this new sector of loans, allowing credit unions to load their loan portfolios with unhealthy concentrations of commercial loans. This could and most likely will lead to the devastation of the credit union industry during a down economic cycle which will happen again. Strong risk management practices are critical for a well-run commercial lending venture, and the proposal to eliminate concentration risk management is simply dangerous to your industry and the tax payer.

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Your agency also proposes eliminating the requirement for personal guarantees, normal loan to value limitations and normal collateral requirements. These are necessary basic commercial lending criteria, and I am shocked that your agency would even consider removing basic commercial underwriting requirements at the same time you would be proposing to increase the amount of commercial lending allowed for credit unions.

Based on prior history of credit unions participating in the commercial lending realm, it is apparent that regulatory oversight is not sufficient even under to current limitations, to avoid massive losses to the insurance fund. From 2006 to 2010, delinquent credit union business loans increased from .53% to 4.29%. This is evidence that credit unions and their regulatory agency are not prepared for this expansion of lending authority. This only goes to illustrate that the removal of basic underwriting guidelines and a basic lack of understanding of commercial loans, will only increase the frequency and amount of loss exposure posed by business lending.

Overstep of Regulatory Reach

In 1998, Congress made it very clear that a credit unions purpose was to concentrate on serving consumer borrowers. Congress placed limitations on business lending on purpose to assure credit unions met their original purpose of meeting the credit needs of consumers. This current proposal indicates a basic lack of regard for Congressional intent, as it places American tax payers at risk.

As I stated in the beginning of this letter, I have been a commercial banker and bank regulator for over forty years and I have experienced the banking crisis in Texas during the 1980's and early 90's and then again in 2008 through 2010. I have experienced what happened to the financial institution industry during these downturns, even to those that had strong commercial underwriting criteria. As a tax payer, I simply do not wish to see what happened in the past to reoccur and devastate the credit union industry due to taking on inordinate risk through increased commercial lending.

I strongly urge you to reconsider your agencies proposal to place your industry, your insurance fund, your customers, and the American taxpayers at risk.

Sincerely,

James L. Bohls
Senior Vice President

JLB/diy

CC: Senator John Cornyn
Senator Ted Cruz
Congressman Bill Flores
Congressman Jeb Hensarling
Congressman John Carter