CAROLINA BANK

August 5, 2015

AUG10'15 PM 2:35 BOARD

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

Re: Expansion of Credit Union Business Lending

Dear Mr. Poliquin:

In regard to the above topic of the NCUA's proposal to expand credit unions' authorities for Member Business Loans and Commercial Lending, I am writing to express my concern and the impact I believe this decision will have on America's hometown banks.

The NCUA's proposal poses serious safety and soundness concerns. 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% in 2006 to 4.29% in 2010; compared to a total loan delinquency of 1.74%, this is a clear indication that credit unions, and 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 their history and encouraging credit unions to divert funds from consumer lending to commercial lending. Consider expanding 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 could cause bad loans to be syndicated broadly.

NCUA is overstepping its regulatory reach by expanding business lending loopholes. 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.

By continuing to push Congress to expand your lending authority, you are losing your focus on providing financial services to "persons of modest means", as in the original act that granted your industry operating authority. Without the ability to raise equity capital, as banks can, you further put to risk the operations of those credit unions that choose to follow this path. Community banks have been required to raise their capital levels, just like the National Banks to insure another downturn in the economy does not decimate our industry as before. What has the NCUA done to prevent a repeat of this scenario?

It appears to me more thought is necessary by your Board in understanding the full impact this could have on your industry.

Yours Very Truly,

Robert T. Braswell
President & CEO

Cc: Congressman Mark Walker
809 Green Valley Road, Suite 104
Greensboro, NC 27408

Senator Richard Burr
217 Russell Senate Office Building
Washington, DC 20510

Senator Thom Tillis
185 Dirksen Senate Office Building
Washington, DC 20510

Brittany Dengler, ABA
1120 Connecticut Avenue, NW
Washington, DC 20036