



OXFORD BANK

Gerard S. Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
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Mr. Poliquin:

NCUA's proposal to expand credit unions' business lending cap 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. I speak with experience on this issue as I started in financial services as a savings and loan examiner. The results of that S&L regulators loosening of amount of commercial loans allowable was a direct factor in the destruction of the S&L industry and its insurance fund. I think that would be a shame, given the support small credit unions provide many people on the consumer loan side.

The issue in the S&L industry was that insured institutions didn't recognize the difference in risk and return between business loans and residential mortgage loans (their specialty). Many S&Ls followed the same parameters in setting interest rates and underwriting to business loans that they did with an extremely safe and secure residential mortgage loan because that is what they knew. As an example, the S&L industry was happy to earn a slight premium of say 25 bps on a business loan over what they earned on a safe residential mortgage although experts knew that the actual premium should have been 100 or 200 bps. Failing to price for risk will always catch up with a creditor over time and you can expect that the credit unions will price say specialty equipment loans very similar to car loans. The difference in liquidation of business equipment without a deep market and consumer autos could not be wider or ultimately more expensive for those credit unions. The banking industry is not immune to not properly pricing risk but have very substantial investments in control systems and an insurance fund that understands business lending risk quite well.

I also believe that the 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.

Sincerely,

David P. Lamb
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