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August 18, 2015

AUG25'15 PM 1:36 BOARD

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

Dear Secretary Poliquin:

I write you today regarding the NCUA's proposed changes to its commercial lending rules for federally insured credit unions.

Under your proposal, credit unions would see significant easing, "flexibility" as you describe it, in the area of member business loans and commercial lending in general. While it greatly expanded the "common bond" test in 1998 thus greatly enhancing credit unions' ability to grow their membership, Congress also mandated at that time that credit unions should focus their lending initiatives on consumers and not on businesses. 12CFR §723.16(a) explicitly states that "the aggregate limit on a credit union's net member business loan balances is the lesser of 1.75 times the credit union's net worth or 12.25% of the credit union's total assets." It further states in §723.16(b) that non-member loans and participation interests in non-member loans that would otherwise be a member loan if made by the credit union shall be counted in the aggregate limit. The definition of non-member loans is also quite specific and limited.

Your proposal effectively serves to double the aggregate limits currently in place and does so without requiring Congressional approval. Furthermore, you propose to ease fundamental business lending principles such as allowing credit unions to waive the requirement for personal guarantees, something that almost no community bank, including mine, would consider in the normal course of business. If a business owner is unwilling to provide a personal guarantee, does that not suggest there is a greater risk that the business owner would simply walk away from the business if things became difficult? Aren't such loans better left to the banks whose business it is to take on that kind of risk?

Your proposal also eliminates explicit loan-to-value limits, something that is very clearly delineated within Appendix A to Subpart A of 12 CFR §365 and which applies to FDIC regulated banks. Even with some flexibility to those rules for banks, the limits are explicit; why therefore is it prudent to eliminate explicit loan-to-value limits for credit unions?

Lastly, what is the constituency of credit unions, is it consumers or is it businesses? These proposed rules changes seem to move the credit union industry closer and closer—if that is possible—to being no different from banks. The NCUA's own website homepage says, "Protecting credit unions and the consumers who own them through effective regulations." Doesn't that very statement suggest that a credit union is consumer driven and not business driven?

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National Credit Union Administration

Credit unions serve a valuable role in the financial services industry, and meeting the credit needs of so many consumers that might not otherwise find credit is one of those areas in which your industry excels. Community banks do a similarly excellent job in meeting the credit needs of our local businesses and I believe that these proposed rules changes will only encourage credit unions that have no business making business/commercial loans (however you attempt to define them) to pursue risky ventures in search of better margins but which could ultimately cause more harm than good.

Thank you for your time.

Very truly yours,

Daniel C. Yates
President & CEO