



August 26, 2015

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

Via Email

Re: Comment on Proposed Rulemaking for Part 723 ("Proposed Rule")

Dear Mr. Poliquin:

Numerica Credit Union (Numerica) would like to thank the National Credit Union Administration (NCUA) Board and staff for its thoughtful work on amending the regulations pertaining to member business loans (MBL).

As background, Numerica is a \$1.5 billion Washington State chartered credit union based in Spokane Valley, Washington and serves over 115,000 members in the State of Washington and Northern Idaho. Our in Washington membership base primarily rests in Central and Eastern Washington.

The Washington State Division of Credit Unions (DCU), with the permission of the NCUA, has adopted state specific rules related to MBL for Washington chartered credit unions. Although the Washington Administrative Code (WAC) limits a credit union's outstanding MBLs (including any unfunded commitments) to the lesser of 1.75 times the credit union's net worth or 12.25% of the credit union's total assets, the Director of the DCU may permit, under certain conditions, exceptions to that limitation up to the greater of three times the credit union's net worth or 12.25% of the credit union's total assets¹. In June 2011, the Director of the DCU approved

¹ WAC 208-460-140

Are there any exceptions to the aggregate MBL limit?

(1) Credit unions that meet any one of the following four criteria qualify for an exception from the aggregate member business loan limit in WAC 208-460-130:

- (a) Credit unions that have a low-income designation;
- (b) Credit unions that participate in the Community Development Financial Institutions program;
- (c) Credit unions that are chartered for the purpose of making member business loans, as supported by documentary evidence, such as the credit union's charter, bylaws, business plan, field of membership, board minutes and loan portfolio; and
- (d) Credit unions that have a recent history of primarily making member business loans, established by the fact that the outstanding balance of member business loans comprises:
 - (i) At least twenty-five percent of the outstanding balance of the credit union's loans; or
 - (ii) The largest portion of the outstanding balance of the credit union's loans.

Numerica's request to increase its aggregate MBL limit to 2.375 times its net worth. At June 30, 2015, Numerica had \$262 million of MBL on its books, representing 1.585 times its net worth.

After reviewing the revised Proposed Rule we did have the following comments:

State Regulation of Business Lending and Proposed Section 741.203

The NCUA requested input on the future of state regulation of business lending. Numerica strongly advocates for Option C as described on page 64 of the Proposed Rule, allowing states to adopt state specific rulemaking. We also favor allowing state regulators to interpret their own regulations, even if the language in state regulation is substantially similar to that of the NCUA's regulations. State regulation allows for innovation in regulation on a small scale. State regulation understands the needs of its communities and can assist credit unions in meeting those needs. For example, in the State of Washington, Washington chartered credit unions outnumber Washington community banks. The Division of Credit Unions in Washington saw a need for prudent member business lending and developed regulations, approved by the NCUA Board, to meet that need.

Of note, of the 49 credit unions that have failed since 2012, not one is from the State of Washington.² Numerica believes that good state supervision can mitigate any perceived risk associated with not pre-empting state laws.

As a result, we respectfully request that 12 CFR 723.20 not be amended and that 12 CFR 741.203(a) not be amended as set forth in the Proposed Rule.

Definition of Associated Borrower

The definition of Associated Borrower is a bit confusing. The first sentence, as written, would include any person with any interest in an entity, no matter how small, as an Associated Borrower. It states that "any person . . . with a shared ownership, investment or other pecuniary interest" is an Associated Borrower. Thus under this definition, if I hold 100 shares in Microsoft I would be an Associated Borrower. That broad statement seems then to be limited by the second statement which seems to indicate that a person is an Associated Borrower only if they are the borrower under the loan, engage in a direct benefit in the loan or engage in a common enterprise with the borrower. Perhaps this definition can be rewritten to make this clearer.

Such facts must be evidenced in an NCUA call report or any equivalent documentation, such as financial statements, for a period within two years before the date of application. For example, a credit union qualifies for the exception under (d)(ii) of this subsection if, based on the outstanding balance of a credit union's loans, the credit union's loan portfolio is comprised of twenty-three percent member business loans, twenty-two percent first mortgage loans, twenty-two percent new automobile loans, twenty percent credit card loans, and thirteen percent total other real estate loans.

(2) Unless the director gives his or her prior consent, a credit union granted an exception from the aggregate MBL limit may not make MBL in excess of the greater of:

- (a) Twelve and one quarter percent of the credit union's total assets; or
- (b) Three times the credit union's net worth.

² <http://www.bankrate.com/finance/credit-unions/2012-list-of-failed-credit-unions.aspx>

In conclusion, we and hope that the NCUA carefully considers these comments and thoughtfully revises the Proposed Rule.

Sincerely,

A handwritten signature in black ink, appearing to read "Lynn Ciani". The signature is fluid and cursive, with the first name "Lynn" and last name "Ciani" clearly distinguishable.

Lynn Ciani
EVP – General Counsel
Numerica Credit Union