

August 26, 2015

Gerard Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA, 22314-3428
Email: regcomments@ncua.gov

RE: Proposed Amendments to NCUA's MBL Rule Part 723

Dear Mr. Poliquin:

STCU appreciates the opportunity to comment on NCUA's Notice of Proposed Rulemaking for 12 CR Part 723, as published in the Federal Register on July 1, 2015.

We would like to thank NCUA Chairwoman Debbie Matz for leading the MBL reform effort, along with Vice Chairman Metsger and Board Member McWatters for insights that have significantly enhanced the draft proposal. While we have specific thoughts for improving the proposed rule changes, we nevertheless believe that these amendments will help credit unions better serve business members and communities.

We have familiarized ourselves with the provisions of the rule and its implications to STCU membership and the communities we serve, as well as other Washington state chartered credit unions. Our commercial/business service staff has over 150 years of combined commercial lending and underwriting experience, and is well qualified to provide constructive feedback to the NCUA. Our comments are limited to those certain sections of the proposed rule change that we feel may result in unintended adverse consequences, or could benefit from further clarity:

- Transitional Provisions (section 723.9, ii State Regulation of Business lending). As a state chartered credit union, we strongly support retaining the authority of the Washington State Department of Financial Institutions, Division of Credit Unions (WDFI). Our state regulator is a leader, modeling the behaviors and attributes that the NCUA now defines as a "principals- based" approach to regulation. That includes proactively taking action to update charters and regulatory framework annually, exercising appropriate responses to protect the financial integrity of Washington's credit unions when unsafe and unsound practices have been identified, and working with credit unions to promote best practices and sound lending behaviors. We ask that Option C be strengthened, clarifying that state supervisory authorities can interpret their own previously adopted MBL rules and update or submit new state rules to the NCUA Board for approval. We request that the NCUA not make any changes or take any action that would adversely affect part 741.
- Construction & Development Loans (section 723.6). We support the valuation method that uses the lesser of cost or market value. Our concern is the potential for differences in interpretation, specifically when new multi-family construction properties reach stabilization and move from a construction loan to a perm loan. It is our position that during the construction phase, the loan amount should not exceed the lesser of cost or market value, but the loan amount "at stabilization" should be permitted to be increased to market value (assuming market value is greater than cost). The "at stabilized" value, now supported by net rental income, may justify a larger loan amount exceeding the initial lesser of cost component. By not having this ability the rule would restrict loan retention as bank competition will refinance at the 'at stabilized' value. Interpreting the rule to always be the lesser of cost or market value will limit our ability to assist

- communities with affordable housing, and help those business members whose livelihoods are derived from rental income property. We encourage the NCUA to consider adding additional clarity or specific guidance to the perm portion of a multi-family construction loan.
- Collateral and Security Collateral (section 723.5). It is unclear whether the intent is to eliminate the arbitrary \$100,000 unsecured lending cap. We agree that absent a well-defined and monitored unsecured lending policy any financial institution can substantially increase the risk within its portfolio through unsecured lending. However, the arbitrary cap fails to recognize those businesses with responsible leadership and sound practices, who can manage credit facilities without harm. We ask the NCUA to make clear that the rule change is intended to abolish the \$100,000 unsecured cap in lieu of a well-defined unsecured loan policy established by the credit union.
- Prohibited Activities (section 723.7). The proposed change seeks to clarify what it means to be "independent from the transaction." It states that third parties providing advice or support to the credit union in connection with its commercial lending program may not receive compensation. Based on our examination experience, we have grave concerns over the potential for different interpretations and applications of this rule, and request that NCUA clarify the rule language. The credit union should not be criticized for contractually using a third party for underwriting review and advice nor should it be criticized if the borrower contractually utilizes the services of a loan broker/financial advisor to secure the financing package.

We ask the NCUA to recognize that state supervisory authorities continue to play a vital role in the overall regulatory culture and environment. They were the supervisory pioneers during the formation of our industry, and their work provided NCUA with a framework of rules to build upon. We request that the NCUA finalize an MBL rule that grandfathers existing state rules and allows those rules to be updated, without taking away rights that were previously granted. We ask that the preamble make clear that states retain the ability to interpret their rules with respect to the Federal Credit Union Act. We strongly encourage the NCUA to consult with industry and state supervisory authorities on guidance, which should be released concurrent with the final rule.

In closing, we are encouraged by the NCUA's progressive position, and the care that went into drafting these proposed changes to MBL regulations. We applaud you for recognizing the need to move toward a principal-based approach in validating the safety and soundness of our industry.

Finally, we wish to express our appreciation for the vision brought to the NCUA by Chair Matz, Vice Chair Metsger, and Board Member McWatters. We applaud the spirit of the proposed rule changes, and the board's willingness to address the concerns of credit unions.

Feel free to contact me if you have any questions.

Sincerely,



Tom Johnson, President/CEO

Cc: Linda Jekel, Director of Credit Unions, WDFI
Troy Stang, President, NWCUA