

August 28, 2015

National Credit Union Administration  
1775 Duke St.  
Board Secretary  
Alexandria, VA 22314

RE: Comments on Proposed Rulemaking for Part 723; RIN 3133–AE37

Dear Gerard Poliquin,

I am writing on behalf of Redwood Credit Union (RCU), a \$2.7 billion state chartered credit union which serves 250,000 Members across eight counties in California's North Bay and San Francisco Bay Area. RCU appreciates the opportunity to provide comments to the National Credit Union Administration (NCUA) on its proposed amendments to the Member Business Lending (MBL) regulation. We support NCUA's efforts to modernize the MBL regulation, which would give credit unions much needed flexibility in running an MBL program.

We have a portfolio of business loans under management of \$318 million comprised of Small Business Administration (SBA) 7(a) and 504 loans and Commercial Real Estate (CRE) which make up 78% of the portfolio. Non-Owner Occupied 1-4 units (NOO), Commercial and Industrial (C&I), and Participations comprise the other 12%. Most of our business lending focus is on SBA lending in the North Bay where we are consistently one of the top lenders. There is significant demand in the North Bay and San Francisco for business loans, and we are able to generate low loan-to-value loans to high quality borrowers. NOO has purposefully been kept flat in recent years due to our desire to save room under our business lending cap for SBA, CRE, and C&I loans. Unfortunately, we have been holding back on meeting the full demand from our business Members due to the current business lending cap which limits business lending at most credit unions to 12.25% of assets.

We believe there is significant demand for credit from small businesses. In fact, during the economic crisis, credit unions experienced a 57% increase in business loans, and an 89% increase in SBA loans; at the same time, bank small business lending contracted by -14%. The credit unions that contributed to the vast majority of this growth are now becoming increasingly constrained by the statutory cap on credit union business lending. RCU is one of these credit unions; our MBLs as a percent of assets is 10.00% as of June 30, 2015. It would be higher had we not already curtailed our business lending and turned away loans. This leaves us with only \$59 million of lending capacity under the current statutory cap on business lending. We anticipate running out of cap room by the end of 2016 unless we further curtail our current business loan origination volumes. We believe such an action would have a detrimental impact on our business model and our ability to serve businesses in our communities.

Increasing the cap on credit union business lending would almost certainly lead to an increase in SBA guaranteed lending. This would mean more small businesses – both those who qualify for a conventional loan and those which require a government guarantee –

would have access to credit to start or grow their business, and create jobs. Approximately 2,000 credit unions engage in business lending. Of these, approximately 500 are close enough to the cap for it to be limiting their lending, and roughly 300 are SBA lenders. There is considerable potential for increased SBA lending if the credit unions managing the cap are given the ability to lend more.

We support the proposed adjustments in the MBL calculation. Unfortunately, the statutory lending cap remains in place, but we fully support NCUA removing the 12.25 percent shorthand calculation as it is not required by the Federal Credit Union Act (FCU Act) and only an added complication to the rule. The proposed calculation meets the FCU Act's requirements while removing an unnecessary provision.

In addition, the proposed rule would switch from a prescriptive to a principles based MBL regulation. This change modernizes the regulation by giving credit unions flexibility to develop MBL programs to best fit their Members' needs. A principles based regulation in some instances can complicate the running of an MBL program for credit unions, as management and boards of directors will bear a greater responsibility in developing and maintaining an MBL or commercial lending program that is safe and sound. However, we think this change is a fair trade off for the flexibility.

Furthermore, the current member business rule has many requirements that necessitate obtaining a waiver, even though they are not mandated by statute. This adds unnecessary burden to credit unions making commercial loans. The proposed rule would remove all of the requirements necessitating waivers and thus eliminate the need for waivers. This represents a major regulatory improvement that we fully support.

Again, we support the NCUA's efforts to modernize the MBL rule. Thank you for the opportunity to comment on this proposed rule and for considering our views.

Sincerely,

Brett Martinez  
President/CEO  
Redwood CU

cc: CUNA, CCUL