

MID-MINNESOTA FEDERAL CREDIT UNION

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August 28, 2015

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

RE: NCUA Proposed Rule Revisions to Member Business Loans and Commercial Lending

Dear Mr. Poliquin:

Mid Minnesota Federal Credit Union (MMFCU) appreciates the opportunity to comment on NCUA's proposed rule for Member Business Loans and Commercial Lending (MBL Rule). MMFCU, with assets exceeding \$270 million, is a full-service credit union serving more than 38,000 members in nine rural counties in Central Minnesota. Our services include first and second mortgage lending, as well as business services that includes business lending. MMFCU is a significant service provider in the communities that we serve.

MMFCU agrees with the NCUA regarding the need to update the MBL Rule and we are in general agreement with the proposed changes. MMFCU wishes to recognize the significant improvements to the MBL Rule that the NCUA Board has proposed. The proposal will help MMFCU and other credit unions serve our members and our communities' small businesses which include:

- Adding the definition of "commercial" loans to make a distinction from MBLs.
- Section 723.3 – addressing credit union Board and management responsibilities.
- Section 723.4 – addressing commercial loan policies.
- Easing requirements for personal guarantees on MBLs and commercial loans.
- Eliminating numerous unnecessary waiver requirements.

723.1 – Purpose and Scope

MMFCU has been providing MBLs and commercial loans to businesses in the communities we serve for a number of years. We recognize the complexity and knowledge that is required to underwrite and manage these types of complex loans. However, we also recognize that in order



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for some credit unions to serve their members properly, they occasionally need to provide their members with loans that would be classified as an MBL or commercial loan (i.e. a dump truck for a part-time landscaping business); therefore, MMFCU supports exempting from the rule credit unions that are not making significant MBL or commercial loans. It is MMFCU's position that the exemption based on percent of net worth (proposed to be 15% of net worth) is sufficient to protect the lending credit union's members and the NCUSIF from potential losses. MMFCU urges the NCUA Board to consider revising the proposed MBL Rule to eliminate the minimum asset size and use only percent of net worth as the factor to trigger compliance with the MBL Rule.

MMFCU also agrees with the other exemptions detailed in this section of the proposed rule and we specifically support the exclusion of loans fully secured by a lien on a 1- to 4-family residential property that is the borrower's primary residence.

723.3 & 723.4 – Board of Directors and Management Responsibilities / Commercial Loan Policy

MMFCU agrees with and supports the proposed MBL Rule change that places policy making and determination of underwriting standards with the credit union's Board of Directors. We also agree with the NCUA Board that MBL and commercial lending generally is more complex than consumer and real estate lending and, therefore, requires specific risks be addressed in both policy and underwriting standards. MMFCU's only concerns are that, without these limitations being mandated by rule, we do not know the guidelines that the NCUA will promulgate for its examiners and credit unions. Not having the opportunity to review and comment on the intended guidelines is a concern, since it has been common to see on-site examiners apply guidelines with the same weight as a rule; thereby, in effect, making the guidelines a rule-making document without public comment. MMFCU does recognize that this concern is not possible to resolve in this process; however, we ask that the NCUA Board issue its guidelines for public comment and instruct its field examiners to properly use reasonable judgement in applying any guidelines to the exam process.

723.5 – Collateral and Security

MMFCU agrees with and supports the proposed MBL Rule change that no longer requires personal guarantees and accepts that there can be sufficient mitigating factors/collateral to offset the risks in the loan. While personal guarantees will remain a prudent part of MBL and

commercial lending, this rule change will help with those loans that may not have a true principal to gain a guarantee from, or in cases where it is not truly necessary.

MMFCU agrees with and supports removing explicit loan-to-value limits and eliminating the need for a waiver process.

723.8 – Aggregate Member Business Loan Limit; Exclusions and Exceptions

MMFCU supports the proposed MBL Rule change that no longer uses a percent of assets as a limiting factor in MBLs and, instead, reverts to the statutory limit and wording. While this change has virtually no change in MMFCU's aggregate net MBL limit, we appreciate the distinction made with regard to MBLs and commercial loans, which, in concert with the new exclusion for 1- to 4-family residential property that is the borrower's primary residence, will have the effect of creating more room under our cap. While MMFCU also believes that the cap is artificially too low, we fully understand that raising or eliminating the cap is beyond NCUA's control and will require Congressional action.

We also support the proposed MBL Rule provision that does not count towards a credit union's MBL cap non-member commercial loans and non-member participation interests in a commercial loan. This provision will allow credit unions to use participation loans as a tool to mitigate concentration and other risks without jeopardizing its room under the MBL Cap.

Effective Date of Proposed MBL Rule

MMFCU appreciates the NCUA Board's intent to allow for an 18-month implementation period; however, we would ask the NCUA Board allow those credit unions ready to comply with the new rule the option to do so. This will enable a number of credit unions that already have adequate policies, procedures, and underwriting in place to take advantage of the new rule changes as soon as possible.

Conclusion

MMFCU again thanks the NCUA Board for the opportunity to comment on the proposed MBL Rule and appreciates that the NCUA Board has approached this area of regulation as a principle-based rule rather than the previous prescriptive rule approach.

We have reviewed many letters already submitted to the NCUA Board by the for-profit sector of the banking industry and we believe their objections to be weak and their facts either inaccurate or, at best, misleading. Allowing credit unions greater ability to better service their business members only improves options for small businesses. In addition, any comments implying the credit union movement is inexperienced in the MBL marketplace is simply not substantiated by the facts. Credit unions as a whole have been making MBLs for many decades and have experienced staff to underwrite the loans (many times credit union MBL staffs have, in fact, gained their experience from for-profit banks prior to working for credit unions). We urge the NCUA Board to give little weight to these commenters whose intent is purely to prevent competition.

MMFCU has had the opportunity to review the comments made by the Credit Union National Association (CUNA) and the Minnesota Credit Union Network regarding the MBL Rule and we are in full support of their comments and ask the NCUA Board to fully consider their comments as well.

We thank you for your consideration of our comments on this issue.

Sincerely,



Charles Albrecht
President/CEO

Copy: MMFCU Board
MMFCU Asset-Liability Committee
MMFCU Supervisory Committee
MMFCU Senior Management
Minnesota Credit Union Network
Credit Union National Association