CAP COM Federal Credit Union
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4 Winners Circle | Albany, NY 12205
(518) 458-2195 | (800) 468-5500 | Fax (518) 458-2261
www.capcomfcu.org

August 24, 2015

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

Via Email to: regcomment@ncua.gov

Re: Proposed changes to Member Business Loan (MBL) Rule

Dear Mr. Poliquin,

On behalf of Capital Communications Federal Credit Union (CAP COM or Credit Union), I would like to thank the National Credit Union Administration (NCUA) for providing CAP COM the opportunity to comment on changes to the above-referenced Member Business Loan Rule.

Background
CAP COM is headquartered in Albany, New York with assets of $1.2 Billion as of June 30, 2015 serving over 119,000 members. We are considered well-capitalized by current standards established by the NCUA with a net worth ratio of 11.15%. The composition of CAP COM's member business loan portfolio follows:

Loan Classification	No. of Loans	Outstanding Balance	% of Total Loans	% of Total Assets
Commercial Real Estate	89	$46,676,747	4.5%	3.9%
Term	22	$ 1,184,637	0.1%	0.1%
Vehicles	38	$ 709,435	0.1%	0.1%
Taxi Medallion	66	$25,281,500	2.5%	2.1%
Lines of Credit - Unsecure	105	$ 339,757	0.0%	0.0%
Lines of Credit - Secure	15	$ 997,374	0.1%	0.1%
Warehouse Lines of Credit	2	$ 6,753,005	0.7%	0.6%
Other Member Business Loans	13	$ 4,609	0.0%	0.0%
Total	350	$81,957,066	8.0%	6.8%

As shown in the table above, CAP COM's commercial portfolio, at 6.8% of total assets, is slightly more than half of the NCUA's regulatory limits currently in place. CAP COM has historically maintained a very high loan to share ratio (currently at 99%) but has placed less emphasis on the member business loan portfolio as a means of overall growth. CAP COM has taken a conservative approach to expanding the MBL portfolio and will continue to maintain conservative and prudent credit decisions. CAP COM is expected to focus greater attention on member business lending as part of its growth strategies and thus has a keen interest in the NCUA's proposed MBL Rule changes.

Proposed Rule Changes

In theory, we agree substantially with the NCUA's proposed changes to shift its focus from a prescriptive regulation to a principles-based approach. The NCUA's overall purpose to these regulation changes is to require credit unions to establish and adopt a policy and program that supports safe and sound commercial lending practices. Many of the proposed changes have already been adopted and implemented into CPA COM's policy and program. There are significant elements of the proposal that are currently incorporated into CAP COM's current member business lending practices and considered to be fundamental and essential lending practices especially to member businesses.

CAP COM is in agreement with the following proposed significant changes to the MBL Rules:

- Elimination of Personal Guarantees – This proposed change allows credit unions to be competitive with banks when attempting to meet the needs of their member businesses. CAP COM will continue to require personal guarantees on its member business loans whenever possible. The Credit Union recognizes the impact this rule change has on its ability to structure deals that are beneficial to both the member as well as the Credit Union.
- Elimination of the Minimum Experience Requirement for Underwriting MBLs – Underwriting business loans requires various levels of expertise and experience. The current rule prohibits the opportunity for career pathing and cross training for junior underwriters/analysts. CAP COM currently employs two experienced underwriters and values their years of experience and expertise.
- Elimination of Waiver Requirements – Current waiver requirements prohibit credit unions from acting quickly on behalf of it member businesses credit requests. Although the elimination of the waiver process allows for quick reaction by credit unions, it should not be construed as an elimination of prudent credit decisions.

We believe there are aspects of the proposed changes that require attention and further consideration by the NCUA.

- Interpretation of new terminology under principles-based approach – The introduction of new terminology and modification of existing definitions will require the NCUA to provide clear and concise definitions of all aspects of the Rule prior to implementation. Modifications to systems and internal practices will be required by most credit unions. Some examples of where clear definition and guidance is required are as follows:
  - Distinguishing between Commercial loans and MBLs;
  - Exceeding limits for loans to one borrower;
  - Parameters surrounding non-member participation loans;
  - Clarification of revised loan-to-value ratio especially on construction loans; and
  - Impact of changes to the yet to be finalized Risk Based Capital rules and the impact on the MBL rules.

The changes proposed presents increased opportunity for misinterpretation by both credit union practitioners and regulators. Substantial efforts should be taken by the NCUA to ensure a uniform understanding and implementation of the new rules for both the practitioners and the NCUA examiners.

- Prepayment penalties – Although not specifically addressed in the proposed rule, CAP COM believes that the NCUA should strongly consider regulatory changes as it relates to the ability for federally chartered credit unions to charge prepayment penalties. As a standard practice, banks incorporate prepayment penalties into their commercial loans. The arguments to support this recommendation are as follows:
    - Inability of credit unions to mitigate interest rate risk through match funding strategies – CAP COM has the ability to advance on an expanded line of credit with the Federal Home Loan Bank of New York. By implementing a strategy of matching terms of the MBL or Commercial loan with that of the funding source would lock in an interest rate spread. The lack of a prepayment penalty lessens the effectiveness this strategy has in mitigating interest rate exposure.
    - Cost to Originate – MBLs require a substantial amount of time and effort by both the borrower and credit union staff to structure and underwrite. The lack of a prepayment penalty exposes the credit union to refinance risk. If the borrower refinances early in the loan term, the credit union does not have sufficient time to earn interest and recover the cost of origination.

Implementation Period

It should be noted that the implementation of these proposed changes will require changes to the Credit Union's Member Business Lending Policy and Program as well as system modifications necessary to track and monitor the differences between commercial loans and MBLs. CAP COM acknowledges that there are aspects of the proposal that could be implemented easily and without significant hardship to credit union operations that would benefit the industry as a whole. It is our belief that planning is necessary for successful implementation and as such an eighteen (18) month implementation timeframe is considered appropriate.

Conclusion

CAP COM supports the NCUA's effort to modify the MBL Rules as proposed and believe that the aforementioned areas of concern warrant further consideration.

We appreciate the opportunity to provide comments and for your consideration of CAP COM's position on this proposed rule.

Very truly yours,

David J. Jurczynski
Executive Vice President & CFO
CAP COM Federal Credit Union #8658
Albany, NY