

August 28, 2015

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

Re: Proposed Rule on Member Business Loans; Commercial Lending – RIN 3133-AE37

Dear Mr. Poliquin:

Bellco Credit Union (“Bellco”) is pleased to submit this comment letter in response to the proposed rule that would amend NCUA’s current regulations regarding member business loans (the “Member Business Loan Proposed Rule”)¹. By way of background information, Bellco Credit Union is a Colorado state-chartered credit union with over 250,000 members, more than \$2.8 billion in assets and 21 branches along the Denver metro area and the Western Slope.

Bellco has demonstrated a very positive history and experience lending to our members for Member Business Loans (“MBLs”). Bellco entered the MBL market in 2006 and steadily grew our MBL portfolio, initially via buying participation loans through our CUSO (i.e., Centennial Lending), while we developed the expertise to offer commercial real estate loans ourselves in 2012. Our loss history has been outstanding, demonstrating a commitment from Bellco’s senior executive team to providing MBL’s of extremely high quality. There have been no significant charge-offs in the 9+ years we have been offering MBL’s to our members. Strong loan growth, along with the high quality of our loan files, has offered Bellco the opportunity to sell MBL participations to 18 separate credit unions. Bellco currently services almost \$400MM in MBL balances, with a resultant net portfolio number on the balance sheet of just under \$250MM.

Bellco was fortunate to enter the market, initially, at a time when traditional commercial real estate lenders were no longer lending or no longer willing to fund business and commercial loans. Bellco was able to develop a solid reputation in the real estate community, by stepping in to provide financing to very high quality borrowers when other financial institutions in the market would not. Bellco was able to provide business lending opportunities to our members through a very difficult period in the economy.

Providing member business lending has also allowed Bellco to diversify our lending portfolio to mitigate risk and to create substantial interest income earnings for our membership. In just the past five years, Bellco has increased the percentage of MBL in our lending portfolio from just under 1.0% to just under 9.0% today. The diversification that MBL lending has afforded Bellco has helped to smooth out cycles in our other lending products for the good of our membership.

Based on Bellco’s active involvement in lending to our business members, Bellco welcomes the changes being proposed by the NCUA. Some of the current restrictions, such as requiring a personal guarantee from principals of the borrower in all cases, limits a credit union’s ability to

¹ See, 80 F.R. 37898 (July 1, 2015), National Credit Union Administration: “Member Business Loans; Commercial Lending; Proposed Rule”

compete in today's market with banks, even though credit unions can provide better service and rates to our members, while not materially increasing our risk. This proposed rule recognizes that, based on sound lending practices, there are times when a loan does not need the support of a personal guarantee.

The only comment Bellco has with regards to the proposed rule is that it does not clearly explain what some of the requirements are, which could lead to varied interpretations by credit unions and examiners alike. For example, the proposed changes to §723.3(b) sets out the requirements for expertise and experience. §723.3(b)(1) states the senior executive officers overseeing the commercial lending function must have a “comprehensive understanding of the role commercial lending in the federally insured credit union’s overall business model.” Moreover, §723.3(b)(2) states a federally insured credit union must employ “qualified staff with experience” in certain designated areas. These sections lend themselves to a subjective interpretation of what “comprehensive understanding” and “qualified staff” means. Other examples can be found throughout the proposed rule.² It is uncertain as to what happens when a federally insured credit union interprets these sections in a manner inconsistent with an examiner, even if the credit union’s interpretation is reasonable. Also, it is unclear what happens in different examination cycles when a different examiner comes to the credit union with their own interpretation of these sections. Bellco recommends that additional language or official interpretation accompany these types of sections so that the subjectivity is removed, or, at a minimum, reduced. Bellco understands that the NCUA’s examination manual and training for examiners will be crucial in the implementation and interpretation of these new rules, and recommends that the NCUA spend the necessary time and expense to ensure a common understanding between the various examiners and credit unions.

Another area of potential vagueness is the new definitions. Although the language is relatively clear on what an “associated borrower” means, what remains unclear is how a credit union can verify that it knows all of the associated borrowers of a borrowing entity. Since a company’s corporate structure and ownership are not common knowledge or readily ascertainable from public records, a credit union has to rely on what the borrowing entity discloses. Bellco proposes that additional language be added to the proposed rule so that a credit union can safely rely on what a borrowing entity discloses, unless the credit union has actual knowledge of a different corporate structure. This is similar to what FinCEN has proposed for its customer due diligence and beneficial ownership regulation.³ FinCEN has created a “Certificate of Beneficial Owner(s)” that financial institutions can rely on when determining who the beneficial owners of a company are. Bellco proposes that the NCUA implement a similar form that allows credit unions to rely on a borrowing entity’s self-identification of associated borrowers, unless the credit union has actual knowledge of the associated borrowers of the borrowing entity.

Finally, Bellco would like to comment on the proposed 18-month delayed implementation period. Bellco believes that a staggered implementation period is justified for a rule such as this one. There are certain aspects of this rule (e.g., board and management responsibilities, commercial loan policies and collateral and security requirements) that can be implemented quickly. Other areas, such as reporting on commercial loans and analyzing the impact of associated borrowers on a credit union’s portfolio, may take longer to implement. This second group would also include the training required for examiners, as well as changes to the NCUA’s examination manual. Based on

² E.g., §723.5(a) states that collateral “must be sufficient to ensure adequate loan balance protection...”

³ See, 79 F.R. 45151 (August 4, 2014), Financial Crimes Enforcement Network: “Customer Due Diligence Requirements for Financial Institutions; Notice of Proposed Rulemaking”

the nature of this proposed rule, Bellco recommends that the rule become effective one month after becoming final, but that credit unions have until 18-months from the effective date to be fully compliant. In the meantime, the NCUA's safety and soundness examination can review the credit union's progress towards achieving compliance with this proposed rule, as opposed to adhering to the current restrictive regulations and waiver process.

Thank you for the opportunity to comment on the Member Business Loan Proposed Rule. Please let us know if you have any questions or comments regarding this letter, or need addition information to clarify Bellco Credit Union's perspective on the Member Business Loan Proposed Rule.

Sincerely,



Dan Kampen
Executive Vice President/Chief Financial Officer