



August 28, 2015

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

Comments on Proposed Rulemaking for Part 723 – Member Business Loans

Dear Mr. Poliquin:

I am writing on behalf of Lake Trust Credit Union, which serves 35 counties in Michigan, and has 167,000 Members and \$1.6 billion in assets. Lake Trust Credit Union appreciates the opportunity to provide comments to the National Credit Union Administration (NCUA) on its proposed rulemaking for Part 723 – Member Business Loans (MBL).

We support the proposed changes to NCUA's member business loan rule and believe that for credit unions with appropriate commercial experience and MBL policies, these proposed rule changes will allow credit unions to be more competitive in meeting members' business borrowing needs and eliminate the cumbersome process of requesting waivers for certain exceptions to the rules (especially the LTV and personal guarantee requirements).

Lake Trust has over ten years of experience in member business lending and a current MBL portfolio of over \$140 million. Our MBL program began in 2004, with the formation of Michigan Business Connection (MBC), a credit union service organization (CUSO) formed in 2004 by five credit unions, including the two credit unions that merged to become Lake Trust. MBC was established to originate, underwrite and service member business loans for Michigan credit unions (over 20 credit unions today) and MBC has significant commercial lending experience.

Since the formation of MBC, Lake Trust has also hired staff with significant commercial experience to manage our MBL program and work with potential commercial borrowers and created a Commercial Credit Committee to decision proposed loans and provide oversight in managing our MBL portfolio. We believe our current policies and practices already address most of the items outlined in the proposed rules and will require relatively minor changes.

Comments on Certain Proposed Changes

We agree with NCUA's focus on the effectiveness of the risk management process and aggregate risk portfolio as opposed to compliance with the current rule's prescriptive measurements, both requirements and limitations. We also appreciate the proposed rules intension to accomplish broad objectives: to establish and adopt policies and program responsibilities that implement a safe and sound lending program and also allow smaller credit

unions with limited commercial loan exposures more flexibility in complying with the regulations. NCUA might want to consider adding a maximum loan size perhaps as a percent of net worth when exempting smaller credit unions (defined as those with both assets less than \$250 million and total commercial loans less than 15 percent of net worth) from the proposed rules. For instance, if a \$100 million credit union had 10% net worth (or \$10,000,000 of net worth), a single commercial loan totaling \$1,500,000 could be allowed under the proposed rules. This size of loan requires some expertise to underwrite and manage and if the loan was not well underwritten or managed and eventually became non-collectible, this could be a large reduction to the net worth of the smaller credit union. This risk could be mitigated by having a well-run CUSO involved in the process.

We agree with the proposed new definition of associated borrowers since it provides more consistency with the combination rules applicable to other banking institutions. We also appreciate the change in the loan-to-value ratios to exclude outstanding exposures from other lenders that are subordinated to the credit union's lien position, although we may choose to take a more conservative approach and continue to consider these liens in the LTV calculation unless there are other significant overriding factors.

We agree with the elimination of the two-year experience requirement and replacing it with a broader, more flexible approach that evaluates the overall experience of the staff involved in a credit union's commercial loan program. However, we do believe that there is considerable benefit to some commercial staff having a certain amount of commercial experience (like the previous two-year requirement).

We generally agree with the proposed detail to be included in the credit union's commercial loan policy and believe that at a minimum, our practices follow the intent of the proposed changes. There is one item we believe should be less prescriptive related to underwriting standards requiring audited or reviewed financial statements for more complex and larger borrowing relationships. There can be larger relationships where the loan and collateral is not complex and obtaining either audited or reviewed financial statements does not provide any major support to the loan and only causes the borrower to incur additional annual expense. This requirement could cause the borrower to seek another lender who does not require this type of annual audit or review. Where appropriate, we agree that the issuance of audited or reviewed financial statements may make sense and have occasionally required this of certain borrowers. However, we do not believe putting this requirement with specific detail into the commercial loan policy is needed.

With respect to the elimination of waivers related to LTV, personal guarantees, construction and development loans, unsecured loans and the maximum aggregate net MBL to one member or group of associated members, we are in total support of the elimination of the need for waivers and giving responsibility for decisions related to these items back to credit unions. We have applied for waivers, especially in the area of LTV and personal guarantees, and all waivers have been approved based on the excellent support or rationale related to each of the loans. The waiver process is time consuming for both NCUA and the credit union and usually a step without any substantive benefit.

We also agree with the elimination from the MBL statutory cap of non-member business loans and participations in non-member business loans made by another lender. We believe participations help spread the risk of larger loans amongst more parties and are good for the credit union system. Although we are a low income designated credit union and can request the elimination of the MBL cap, we still support this modification. Also loan participations already have certain limitations under Section 701.22, Loan Participations.

Final Thoughts

We support the various changes proposed by NCUA related to the MBL regulations, especially those related to eliminating prescriptive lending measures and the requirements for certain waivers. We agree that credit unions should have greater flexibility and more autonomy in making business loans and that the rules should be less prescriptive and more principle-based as proposed by NCUA. For credit unions with larger MBL portfolios such as ours, its unlikely most of these changes will require much modification to their commercial lending policies or practices but will eliminate the need for waivers related to LTV and personal guarantees. One concern we do have is related to the potential requirement for audited or reviewed financial statements for more complex and larger borrowing relationships. This requirement should be less prescriptive and left to the decision of each credit union.

Lake Trust thanks you for the opportunity to comment on this proposed rule and for considering our views on member business lending.



David A. Snodgrass

President & CEO