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August 31, 2015

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

Re: Proposed Rulemaking for Part 723 - Member Business Lending

Dear Mr. Poliquin:

Partners 1st Federal Credit Union is appreciative of the opportunity to submit comments on the potential changes to 12 CFR Part 723 regarding member business loans. We commend the Board for considering appropriate updates to the regulations that will allow credit unions like ours to better serve the members and their business borrowing needs.

Partners 1st FCU began preparing to offer member business loans in 2012 by committing to appropriately train the lender, executive staff and our volunteers in the nuances of this type of activity. We began with the understanding that member business lending was not an auto or mortgage loan. We were very deliberate in our approach knowing that the potential for both positive and negative financial results were very real. We believe that the Board's proposal comes from the same prudent understanding and accumulated experience as our own.

We fully support the Board's recognition that credit unions are in a position to adequately manage the risks associated with member business lending. The changes being proposed, in general, are appropriate and necessary steps to give credit unions, like Partners 1st, the flexibility to effectively and safely provide for the expanding business services requested by our evolving membership.

The proposed shift away from the current "prescriptive" approach to a "principles-based" approach recognizes that each business loan has the potential to be unique. Circumstances on the surface may appear to be similar to an inexperienced observer but, in fact, differ from business to business and industry to industry.

The Board's elimination of the two-year standard for experience speaks directly to the relative complexity of business lending when using the principles-based approach. Each institution must understand its individual ability to manage business loan risks and its appetite for those risks. The current two-year standard provides a false level of comfort to both senior management and volunteer boards in identifying the appropriate staffing needed to develop an MBL program.

Although the Board rightfully calls for senior executives to have an understanding of the risks associated with the member business lending program, it falls short by not including volunteers ultimately responsible for overseeing the organization. The importance of having a reserve of knowledge in the board room to read monthly reports, properly question the activity, adequately judge results and understand management explanations to minimize the opportunity of managers to manipulate results, before they become painfully obvious, is invaluable.

Although we understand the need to allow sufficient time for credit unions and examiners alike to digest some of the more complex changes, this is not true of all the proposed updates. We would urge the Board to accelerate the timeline for those changes that are either already in place or easily adjusted. These would include:

- Credit Risk Rating System – Most credit unions already have a credit risk rating system (CRRS) in place and may simply need to address the missing or weak components relative to the proposed rule changes. A more adequate CRRS can readily be addressed in the individual institution's MBL policy and practices in very short order.

- Unsecured Lending – The risks associated with this type of lending are well understood by any seasoned lender. Individual institutions can easily define their appetite for and can develop corresponding criteria for making such loans. Again, this is something that can be addressed through the MBL policy and institution practices quickly and without a significant lapse of time.

- Loans to One Borrower Limit – The proposed change is clearly delineated and a matter of simple math. Once again, the individual institution can add these definitions and calculations to an MBL policy and procedures immediately.

- Personal Guaranty – Partners 1st absolutely agrees with the Board that personal guaranties should be obtained whenever possible, and any waiver should be the exception and not the rule. Although commercial credits could be managed through complicated loan agreements and loan covenants, the best practice would still be to capture the personal guaranty(s). A qualified MBL policy stating the exact conditions under which a personal guaranty would be waived can be produced and reviewed by the credit union board in short order. Such policies could, and should, include the option of limited guaranties in lieu of the existing joint and several personal guaranties required by current regulation for quality credits. The proposal to give credit unions the flexibility to waive guaranties is, again, very straight forward and the delineated timeline of 18 months is excessive.

- MBL Cap Calculation – The elimination of the "less of" language and the 12.25% of assets limitation is another simple implementation. Credit unions are likely already calculating both the 12.25% of assets and the 175% of the organization's net worth. Eliminating the one is a matter of changing MBL policy and updating the spreadsheet being used by management removing one calculation.

The balance of the proposed changes are more complex and, in some instances, likely to need clarification over the course of the implementation period. However, there is one adjustment that was not considered by the Board and that was a regulatory change allowing federally chartered credit unions to charge a prepayment penalty. This, we believe, is a holdover from the consumer side and

wholly inappropriate in a commercial loan environment. Business lending origination can be significantly more costly than consumer lending given the necessary proactive and ongoing monitoring long after the loan closing, and those costs can be substantial both in terms of time and staffing needs.

The existing "cost recovery" clause, which is similar to a prepayment penalty, is rarely used due to the confusion caused to both the lender and the borrower. By permitting credit unions to utilize commercial loan standard "prepayment" language, borrowers would more readily be permitted to compare competing offers. Partners 1st respectfully requests that the NCUA eliminate this regulatory confusion and consider allowing the use of prepayment penalties by MBL lenders.

We sincerely appreciate the opportunity to add our voice to the discussion surrounding the proposed rulemaking changes to member business loans. Feel free to contact me at 260.471.8336 to discuss any of the comments included in this letter.

Sincerely,

Gregory L. Flowers
Senior Vice President, C.U.D.