investors Bank

August 28, 2015

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

Dear Mr. Poliquin:

As the CEO of an independent, full-service community bank serving customers and communities in New Jersey and New York, I must raise my voice on behalf of Investors Bank, in opposition to the NCUA's proposal to amend the credit union Member Business Loan (MBL) rule.

My primary concern is for the customer – the individuals, families and businesses of all sizes served by banks nationwide that will be impacted directly and indirectly by this rule change. As then Senator John Kerry said during the last debate over MBL lending limits, "Credit unions were never intended to be simply alternative, tax-exempt commercial banks."

Expanding business lending limits for credit unions flies in the face of their original purpose of making credit available to people of limited means; it likely will impact the availability of consumer loans, as credit unions divert funds to the more lucrative commercial markets. This is in direct opposition to the 1998 Congressional mandate to credit unions, where Congress said, "to ensure credit unions continue to fulfill their specific mission of meeting the credit and savings needs of consumers, especially persons of modest means, through an emphasis on consumer rather than business loans." The NCUA's proposed rule is in blatant disregard to Congress' intent.

In the 1930s, when credit unions were developed to assist low- and moderate-income families with modest loans, they were provided with a tax exemption for encouragement. At the time, this made sense, but today, when businesses use tax-exempt credit unions for loans, it reduces overall tax revenues and increases the deficit for the federal government and, importantly, for state and local government budgets as well.

The Tax Foundation, an independent, non-partisan organization, values the tax subsidy for credit unions in excess of $30 billion over a ten-year federal budget window, in a study published in 2005. The Obama Administration's 2014 budget estimated the tax subsidy for credit unions at $9.5 billion over four years – a significant cost to taxpayers. Again, my concern is for the customer.

Increased business lending capability could encourage credit unions to accept riskier loans – this becomes a high "safety and soundness" concern. In 2010, the NCUA's own Office of the Inspector General summarized the ten costliest credit union failures; in seven of those ten, a major contributor to those failures was business lending.

A key element of the proposed NCUA rule is the removal of significant safety and soundness checks and balances – borrowers would no longer be required to personally guarantee loans. It puts an 80 percent loan-to-value limitation on collateral used in securing a loan, increases the amount of loans permitted for a sole borrower, and it raises the cap on aggregate construction and development lending. This will encourage credit unions to finance large commercial loans and, unfortunately, to do so without regulations that would provide a safety net for the consumer.

The proposed rule truly takes the M(ember) out of MBL.

There are additional risks and responsibilities inherent in expanding business lending capabilities for credit unions that they truly are not equipped to take on. According to that Inspector General's report, member business loans accounted for the supervisory concern for nearly half of the credit unions with CAMEL ratings of 3, 4 or 5. Between 2006 and 2010, delinquency levels for business member loans rose dramatically from 0.53 percent to 4.29 percent, as compared to a total loan delinquency rate of 1.74 percent.

Of course, all of this contributes significantly to losses by the industry's insurance fund. The change to the rule could multiply these losses exponentially. Ultimately, this negatively impacts the taxpayer and, therefore, the customer.

Credit unions do not have the robust infrastructure necessary for implementing the appropriate credit approvals and monitoring necessary for expanded business lending. Nor, do they have the adequately trained and, most important, experienced staff, necessary. These are critical elements in commercial lending enterprises. For example, without proper underwriting, the slightest downturn in the economy could create a financial disaster. Importantly, business lending requires ancillary services, such as business cash management and sophisticated deposit services, and it is unlikely credit unions, especially those that are smaller, would have the appropriate resources to adequately support expanded lending. And once again, this negatively impacts the customer.

Expanding the lending capabilities for credit unions not only puts them at-risk, but it jeopardizes the ongoing expansion of the economy – something taxpayers, businesses and customers have been battling to improve and expand for several years.

Credit unions were created with the specific purpose of providing credit to people of modest means. The NCUA's proposed rule change runs counter to the mission and purpose of credit unions. Additionally, it puts at greatest risk, its customers, likely cutting off the consumer credit it was intended to provide.

For the benefit of the customers and communities served by community and commercial banks nationwide, I urge the NCUA to retract the proposed rule.

Sincerely,

Kevin Cummings

Kevin Cummings
President and CEO