From: Mark Dean
To: _Regulatory Comments
Subject: Comments on Proposed Rulemaking for Member Business Loans, Part 723.
Date: Friday, August 28, 2015 4:57:17 PM

Gerard Poliquin
National Credit Union Administration
Alexandria DC 22314

Comments on Proposed Rulemaking for Member Business Loans, Part 723.

Dear Gerard Poliquin:

I am writing in response to the proposed changes that would greatly expand business lending within the credit union industry. I am concerned about the manner in which this proposal has been extended and about the potentially negative impact that it would have.

NCUA's proposal poses serious safety and soundness concerns. NCUA has not established that it is prepared to supervise institutions with expanding business loan portfolios, and the credit union industry has proven ill-equipped to make such loans. At least five credit unions since 2010 have failed at the hands of poorly run business loan programs, accounting for a quarter of all losses to the insurance fund during that period. In 2010, member business loans were the primary or secondary contributing factor for the supervisory concern for nearly half of the credit unions with CAMEL ratings of 3, 4 or 5 that made business loans. The level of delinquent member business loans dramatically rose from 0.53 percent in 2006 to 4.29 percent in 2010; compared to a total loan delinquency of 1.74 percent, this is a clear indication that credit unions, and NCUA itself, were ill-prepared for the additional responsibilities and risks associated with commercial lending. Losses could quickly multiply under this proposed rule.

Many credit unions lack the expertise to either competently originate business loans or thoroughly analyze commercial loans they are allowed to purchase from 3rd party credit union service organizations (CUSO's). It is contrary to safe and sound banking practices to allow any financial institution to lend or purchase an ownership interest in commercial loans that management cannot properly underwrite, understand, and analyze to determine if it is a bankable asset. The additional concept that commercial loan participations would not be included in the statutory cap calculation and regulatory oversight for this concentrated credit would be reduced is irresponsible and encourages credit unions to stray further from their intended mandate.

In addition, relaxing the regulatory standards is contrary to NCUA's charge of protecting the industry's insurance fund, and effectively places the taxpayer at risk. NCUA is willfully ignoring lessons from their history and encouraging credit unions to divert funds from consumer lending to commercial lending.

NCUA is overstepping its regulatory reach by expanding business lending loopholes. This proposal is contrary to congressional intent to limit business lending by credit unions. In 1998, Congress made it clear that credit unions should be focused on consumer lending, not commercial lending. Congress instituted restrictions on business lending deliberately: “to ensure that credit unions continue to fulfill their specified mission of meeting the credit and savings needs of consumers, especially persons of modest means, through an emphasis on consumer rather than business loans.” By proposing this rule, the NCUA Board has blatantly disregarded congressional intent. NCUA should not undermine specific limitations by Congress nor expand the taxpayer liability.

My bank has a longstanding proven track record demonstrating the ability to underwrite and administer commercial loans in a prudent and sound manner. We are proud of our ability to serve the banking needs of our business customers, and are concerned that these new rules could allow unsafe lending by financial entities that do not have the appropriate level of experience or controls to become involved with a higher level of commercial loans and syndications.

Sincerely,
Mark Dean
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