August 24, 2015

Mr. Gerald Poliquin
Secretary to the NCUA Board
1775 Duke Street
Alexandria, VA 22314

Re: Comment Letter on the Proposed Amendments to NCUA's MBL Rule

Dear Mr. Poliquin:

As the Department Manager for Member Business Lending for North Island Credit Union I am grateful for the opportunity to comment on the NCUA's Notice of Proposed Rulemaking for 12 CFR Part 723 regarding the potential changes to the Member Business Loan regulations. As a general comment I believe the Board has done a very fine job of revamping their methodology for defining safe boundaries for delivering commercial loans for our membership. We embrace the challenge of defining new policies and procedures that incorporates the new flexibility, while maintaining our historically strong MBL portfolio. Thank you for acknowledging in the Preamble that "generally, credit unions have conducted business lending safely and served their business members' needs well". I could not agree more.

We introduced business lending in 1997. We currently have a staff of 14 that assist our membership with commercial real estate, commercial and industrial loans and a full line of cash management products. We both originate and purchase loan participations. The gross balance under management is $286MM and we have an excellent reputation with auditors, regulators and other credit unions.

Personal Guaranties: We agree that obtaining personal guaranties is always prudent. For a limited period of time Reg Flex allowed us to offer loans without guaranties and during this period we were unable to identify any loans where waiving the personal guarantees could be justified. I believe our experience is not unique and I trust that other credit union lenders will continue to use sound judgement with the new proposed flexibility. However, we still sincerely appreciate that in the future we can apply logic versus hard and fast rules in acquiring guaranties. Two examples come to mind. The first is with Limited Liability Companies (LLC) where the capital percentages among various owners differ from the profit distribution percentages. More often than not the members with controlling interest enjoy heavier profit percentages. With this new rule we can easily focus on the controlling parties that may have only minority capital interests and consider not requiring guarantees from passive investors. The second example is for professional partnerships, such as for medical or legal practices. Often these groups have numerous partners and requiring full personal guarantees from 51% of the owners is unrealistically burdensome.

Loan to Value: We believe that the new rules, along with well written policies and procedures, support putting the emphasis on cash flow versus collateral, as it should be in sound business lending. Again speaking from experience I am confident that the new flexibility will not be abused, but rather prudently deployed. Looking at our commercial real estate portfolio, a mix of well-seasoned and newer loans, I see that our average LTV is 52%. This new rule will not drastically change our practices. But again it will allow us to help members with renewals where collateral value has slipped, but other credit factors remains strong. A recent example that comes to mind was a loan we extended to a nonprofit that provided housing for disabled adults. The organization has a rich history with excellent cash flow, but unfortunately the collateral value had slipped.

Unsecured Lending: This is another example of where we do not anticipate a huge impact. With prudent business lending, which was addressed in the Preamble as proven with most credit unions, unsecured lending is used judiciously. The NCUA granted North Island $500,000 unsecured limits from March of 2006 to November of 2009. At the end of this period we had $300,000 in aggregate balances from lines of credit with limits in excess of $100,000 and aggregate unsecured term balance was $322,000. The largest limit approved was $300,000. Other than our overdraft lines of credit, which have limits from $500 to $5000 we have had zero losses from unsecured lending in 18 years of offering Business Loans to our membership. Although we do not anticipate that unsecured lending will be the major source in growing our portfolio, it is a profitable product and it will allow us to better serve and support small businesses. As the only credit union in our market area that offers a full line of business products and services, we think it is critically important to service the business members that have chosen North Island. Often a service business will enjoy excellent cash flow, although their balance sheet has limited lendable assets. With the current restraints we find ourselves limited in our ability to help these members. Businesses with cash accounting also present challenges for securing a borrowing base. The proposed new rules will put us on an even playing field with competing lenders.

Comments and Suggestions:

- We question the reason for including §723.1 (c)(2). This point had been addressed in Opinion Letter dated May 20, 2004, where the NCUA has allowed higher LTV limits for SBA approved 7a loans. We appreciate that with the new proposal you have expanded the flexibility to State guarantees, since this is the program that we generally use. Regardless, with the elimination of the prescriptive limits this provision seems to be unnecessary and individual credit union lending policies could address.
- In a positive example where NCUA has incorporated a prior Opinion Letter is with §723.2 Definitions, under Loan-to-value ratio the 12 month rule for appraisals is clarified. This is an excellent point and one that comes up often in real world lending situations.
- We appreciate that with less prescriptive details in the regulations that individual credit unions will now need more robust policies to maintain control; however, it appears to us that §723.4 (f)(1-6) includes procedural details that should be addressed by individual credit unions.
- We applaud your move to replace the two years of experience with a more realistic expectation. Our policy has always required five years, which is on the low side. We hope that you take a page

from your own book with regards to your examiners. Although, we appreciate that you intend to provide them with extensive training, there is no substitute for actual hands on experience. NCUA is encouraged to hire seasoned business lenders to monitor our policies and performance and not rely on auditors that have been simply cross trained in business lending.

- The details will come in the Supervisory Guidance. We hope that the Board will consider giving us the opportunity to review and opine on the draft versions of the proposed regulatory guidance. We also ask that you work closely with the various state examiners, so that scrutiny and oversight is consistent across all regulatory authorities.

Conclusion:

We would like to repeat and make it clear that we fully support the proposed changes. We have also made the case that the proposed changes will considerably improve the flexibility for serving our membership and will not, in our opinion, alter the currently strong risk profile of our commercial loan portfolio.

We truly appreciate that the Board has taken on this project and thank you for the opportunity to comment.

Sincerely,

Robert Reck
First Vice President
Business Services
North Island Credit Union.