



August 27, 2015

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

Sent via E-mail to: regcomments@ncua.gov

Re: Cornerstone Credit Union League Comments on Proposed Rulemaking for Part 723

Dear Mr. Poliquin:

This letter represents the views of the Cornerstone Credit Union League ["Cornerstone"] regarding the NCUA's proposed amendments to Part 723, Member Business Loans ["MBLs"]. Cornerstone is the official trade association serving 547 federal and state chartered credit unions in Arkansas, Oklahoma, and Texas combined, and more than 9.7 million credit union members. Cornerstone appreciates the opportunity to comment on this very important issue.

Cornerstone would like to express appreciation for NCUA's efforts to ease regulatory burdens. As you know, credit unions are struggling to properly serve their members due to burdensome unnecessary regulatory requirements. Modernizing regulatory requirements will permit credit unions to better serve members and the community.

Cornerstone supports NCUA's proposed shift from a prescriptive member business lending regulation to a principles-based regulation that provides additional flexibility to credit unions. Lending for business purposes is fully consistent with credit unions' mission to promote thrift and provide access to credit. Small businesses rely on credit unions for access to loans; credit unions are serving a segment of the community that banks have ignored. In fact, small business lending is the fastest growing segment for credit unions. Many aspects of the proposal would remove unnecessary barriers to credit union small business lending and enable credit unions to better meet the lending needs of their small business members.

MBL Cap

Cornerstone supports the proposed change to the MBL cap calculation. Please don't be misled by the bankers' comments erroneously claiming that the proposal increases the MBL cap from 12.25% to 17.5% in violation of the Federal Credit Union Act ["FCUA"]. As written, the proposal is fully consistent with the limitations specifically expressed in the FCUA. "12.25%" is not mentioned in the FCUA section concerning the limitation on MBLs. If NCUA adopts its proposed Risk Based Capital rule ["RBC"], the amount of capital required to be well capitalized will be the greater of 7% of total assets or 10% of risk assets. The proposed amendment to the rule specifying the MBL cap would have almost no effect on the aggregate cap. For the vast majority

of credit unions, under the RBC proposal risk assets would be less than 70% of total assets, so that the 7% of total assets requirement would exceed 10% of risk assets, and the cap would remain at 12.25% of assets. Of the 1,500 credit unions currently offering MBLs subject to the cap, only 111 have risk assets exceeding 70% of total assets. Presuming the RBC rule is adopted, the average MBL cap for these 111 credit unions would be 12.78% of assets, an increase of only one-half of a percent of assets. The remaining credit unions (approximately 1,400) would be subject to a cap of 12.25%.

Elimination of Waivers

Cornerstone strongly supports the elimination of all prescriptive requirements necessitating waivers. Such action would provide much needed relief from unnecessary regulatory burdens.

However, please note one related concern. The proposed rule retains the requirement regarding the limitation on the aggregate dollar amount of commercial loans to any one borrower or group of associated borrowers at 15% of net worth or \$100,000, whichever is greater. We recommend that NCUA eliminate this provision as yet another unnecessary prescriptive requirement. If NCUA retains the provision, the final rule should be amended to permit credit unions to apply for a waiver as they are currently permitted to do.

Small Credit Union Exemption

Cornerstone supports an exemption for credit unions that hold a de minimis number and amount of commercial loans. The proposal takes a step in the right direction by exempting a credit union from the risk management policy and infrastructure requirements if the credit union has both assets less than \$250 million and total commercial loans less than 15% of net worth. The proposal, as drafted, would provide regulatory relief to some small credit unions. However, we suggest making the exemption available to all credit unions through a de minimis commercial loan exemption. The asset threshold is not necessary, and such a change would provide regulatory relief to larger credit unions as well.

Definitions

Cornerstone generally supports the proposed new definitions, including the new definition of "commercial loan", which will help clarify which loans are subject to the MBL cap and which loans are commercial loans that invoke safety and soundness provisions.

Collateral and Security

Cornerstone supports eliminating the personal guarantee requirement. Under the proposed rule, a credit union would be able to make a loan without a personal guarantee when it is reasonably prudent. Guidance on factors to be considered here would assist credit unions in better understanding what an examiner may deem prudent.

Construction and Development Loans

Cornerstone supports the proposed amendments to the construction and development loan requirements.

State Chartered Credit Unions

Cornerstone strongly supports the dual chartering system and encourages NCUA to provide states with flexibility to adopt rules appropriate to their region. Therefore, we support "Option C" in the proposal which would grandfather existing state MBL rules and would permit other state supervisory authorities to submit their own state rules for consideration. Option C provides the most flexibility for these agencies. We encourage NCUA to maintain the existing provision that would permit a transition back to the NCUA rule in the event a state rescinds its existing rule.

Summary

In sum, Cornerstone generally supports NCUA's MBL proposal. We would ask, however, that NCUA release (after permitting credit union feedback) supervisory guidance prior to the issuance of the final rule so that credit unions can better understand examiner expectations.

Thank you for the opportunity to comment on this very important issue. Please feel free to contact me at (512) 853-8516 with any questions you may have.

Sincerely,



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