August 31, 2015

Mr. Gerard Poliquin
Secretary to the NCUA Board
1775 Duke St.
Alexandria, VA 22314

Re: Comment Letter on the Proposed Amendments to NCUA's MBL Rule Part 723

Dear Mr. Poliquin,

Smart Financial Credit Union (SFCU) is appreciative of the opportunity to submit comments regarding the National Credit Union Administration (NCUA) Board's proposed changes to its member business lending (MBL) rule. We commend the Board for seeking input from the credit unions they serve in matters pertaining to the regulations credit unions operate under.

Smart Financial Credit Union is a Texas State chartered, federally insured credit union which has been in operation for over 80 years. SFCU has been in the origination, participation and administration of MBLs for over ten years. SFCU has a dedicated staff for the purpose of making and monitoring MBLs to our core member in our trade market. Our staff has a wide range of banking and commercial lending experience which we believe has prepared us to provide feedback on the proposed changes to the MBL regulation.

Our comment letter is segmented into five sections as follows:

- SFCU support for the change from Prescriptive regulation to Principles based regulation
- SFCU support For State Supervisory Authorities
- SFCU support for commercial loan definition change regarding 1 – to 4 family residential property
- SFCU support for excluding non-member participation loans from the MBL cap
- SFCU disagreement with required underwriting standards pertaining to financial statement quality

Shift in regulatory approach

SFCU supports the proposed change from Prescriptive regulation to Principles based regulation. We believe the shift to a principles based regulation will provide each credit union with the flexibility to tailor their MBL program to best accommodate its membership and member needs. SFCU supports this approach because it simplifies the regulation and removes many tedious restrictions in the current rule which are not mandated by the Federal Credit Union Act (FCUA). Removing the Prescriptive requirements that currently require waivers, including the personal guarantee requirement and elimination of unnecessary and arbitrary limits on construction and development loans will allow credit unions to better serve their communities and members.

Modification of State MBL Laws

SFCU supports grandfathering the seven states which currently have NCUA approved member business lending rules in place. It is our belief that the states should have the ability to continue to use the approved regulations if they choose. We also believe the states should be allowed to submit modified MBL rules to become more closely aligned with the proposed NEW member business lending statutes. While there may be slight variations in the regulation of business lending, the variations have not proven to be an issue under the current law.

Modification of the Commercial Loan Definition to exclude 1 to 4 unit residential property

SFCU supports the change clarifying that loans secured by a 1 – to 4 unit family residential property are not commercial loans for the purpose of the MBL rule. We believe credit unions should be allowed to individually impose a limit on residential property in their own MBL portfolio. In many markets there are barriers to entry for members obtaining loans to purchase income producing commercial properties. It is our belief that credit unions help serve the underserved by providing loans for the purchase of income producing residential properties. While the purpose of the loan may be commercial, the purpose of the property should supersede the use of loan funds.

Excluding non-member participation loans from the MBL cap

SFCU supports the exclusion of non-member participation loans from the calculation of the MBL cap. Credit unions should be allowed to set their own portfolio limits on non-ember participation loans based on individual trade areas and balance sheet management strategy. The removal of non-member participation loans will provide credit unions an opportunity to add geographic and asset class diversification to their MBL portfolio. Additionally, exclusion of non-member participation loans will provide a healthy strategy to credit unions for balance sheet and ROA management.

Disagreement with required underwriting standards pertaining to financial statement quality

SFCU does not agree with the impending change regarding financial statement quality. We believe each experienced credit union should be able to determine financial statement quality based on the complexity of the transaction, borrowers, guarantors and cash flows. At the core, many credit unions receive MBL requests from "mom and pop" businesses. Smaller operations like these often do not possess the savvy or resources to undergo tax returns and financial statements CPA auditing. Imposing a set standard for financial statement quality will limit the scope of whom credit unions may serve.

Conclusion

Smart Financial Credit Union believes many of the proposed rule changes will ultimately provide credit unions with a regulatory platform to originate and administer efficient, member focused and safe and sound commercial lending solutions to members. While the new rule does not address all of the issues and concerns in the current rule, the new approach removes several of the arduous and stifling provisions which hamper credit union MBL programs today. Again, we applaud the NCUA Board for working with credit unions to improve the member business lending regulations and environment going forward.

Thank you for the opportunity to provide input on NCUA's proposed rulemaking amending the Members Business Loan regulations.

Sincerely,

Gary Tuma
President/CEO

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