



August 28, 2015

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

RE: Comments on Notice of Proposed Rulemaking for Part 723, Member Business Loans - RIN 3133-AE37

Dear Mr. Poliquin:

On behalf of the Dupaco Community Credit Union Board of Directors, I enthusiastically applaud the National Credit Union Administration's (NCUA) common-sense improvements to member business loan (MBL) rules. These changes will ensure small businesses in our communities have improved access to capital while allowing credit unions to more effectively manage risk.

Dupaco's business lending acumen began more than 33 years ago in response to member needs.

In 1982, Dupaco Employees Credit Union's primary employer group, the Dubuque Packing Company, closed its doors. The action threw 1,200 credit union members out of work and drove Dubuque's unemployment rate to more than 20%. The Dupaco board's decision to make business loans gave countless families a new, sustainable financial foundation. It helped to economically jumpstart a struggling community.

Today, those same principles drive Dupaco's mission and align with credit unions' Congressional mandate: To improve each member's financial position through the cultivation of thrift, encouragement to save regularly, granting of loans for provident purposes at a reasonable interest rate, and budget and consumer counseling.

We urge the NCUA to amend its current MBL regulations not mandated by the Federal Credit Union Act (FCUA), so Dupaco can fulfill its mission to financially strengthen our members, the cooperative, and our communities.

BACKGROUND

As a matter of perspective, Dupaco Community Credit Union was chartered in 1948 and:

- Serves residents in 42 counties throughout eastern Iowa, northwest Illinois and southwest Wisconsin;
- Membership totals more than 87,000;
- Assets exceed \$1.3 billion;
- Current regulatory capital to asset ratio is 14.28%;
- Earned a 204 basis point Return on Assets (ROA) in 2014;



- Has offered member business loans since 1982;
- Established a full service mortgage lending department in 1989;
- Introduced financial planning services in 1985 and subsequently incorporated a financial services CUSO in 1997;
- Offers a full line of trust products and services through a strategic alliance with First Community Trust, N.A. established in 2000;
- Has offered full service personal and business insurance services through the CUSO, starting in 2006.

Having more than 33 years of business lending expertise, Dupaco currently has more than \$250 million in outstanding commercial loans. Most of these loans are small compared to commercial bank loans.

For example, Dupaco originated 755 business loans or lines of credit in 2014. Of these, nearly 90% were for less than \$250,000. And more than 57% were for \$50,000 or less, with a median loan amount of \$40,000. (These amounts do not include business credit cards.)

Because of the credit union's long-standing member business loan success with minimal losses, Dupaco was granted a waiver from the 12.25% of assets cap imposed on credit union member business lending as part of the Credit Union Membership Access Act (H.R. 1151), which was signed into law in 1998.

DUPACO'S MEMBER BUSINESS LENDING EXPERIENCE

Having been involved in business lending at Dupaco since 1982, Dupaco has developed a robust commercial lending department with experienced management and sound lending practices.

Dupaco's growing reputation as a dependable community source for capital is the direct result of the credit union's diligent practice of making safe and sound member business loans, beginning in 1982. This positive standing in the community commands the attention of budding entrepreneurs, growing small business owners and seasoned business leaders. This demand is a benefit to Dupaco because it offers a much broader and diversified pool of potential loan opportunities. Subsequently, it allows the credit union to leverage its established lending proficiency to better manage risk.

Dupaco continues to maintain heightened financial performance, well above peers, with a strong capital ratio of 14.44% and return of average assets of 2.04% (year-end 2014). Dupaco's strong financial performance is well known in our marketplace which has enabled Dupaco to compete with local community banks on sound commercial loan opportunities. These opportunities will continue to lead to strong financial performance and increasing market awareness for Dupaco and the credit union movement.

Business Loan Loss History – Dupaco has a strong historical trend of minimal charge-offs and low delinquency ratios. For a history of charge-offs please see the table below.



	Charge-offs	Total Business Loans	%
12-31-07	\$7,367	\$121,127,315	0.01%
12-31-08	\$347,250	\$132,467,174	0.26%
12-31-09	\$396,106	\$133,467,174	0.30%
12-31-10	\$361,633	\$144,031,026	0.25%
12-31-11	\$415,260	\$152,698,689	0.27%
12-31-12	\$174,909	\$194,336,383	0.09%
12-31-13	\$655,971	\$198,253,932	0.33%
12-31-14	\$580,680	\$230,883,375	0.25%

EMPLOYEE FINANCIAL EDUCATION AND COUNSELING

As part of its mission, Dupaco’s education outreach team to provide one-on-one financial education and budget counseling to employees in more than 800 businesses throughout our 42-county charter area. Through this process of serving many of these businesses, and specifically their employees, Dupaco has earned the respect of many of these business owners. In turn, these business owners look to Dupaco to identify and find new ways to serve them as members. By serving their employees in the workplace, these business owners develop an understanding and an appreciation for the credit union difference.

Our long-standing education outreach program naturally piques the interest of high net worth business owners and creates opportunities to serve their loan needs. These opportunities can help grow and develop the credit union, though it sometimes puts Dupaco in direct and immediate competition with commercial banks.

PERSPECTIVE ON NCUA PROPOSED MBL RULE

The proposed MBL rule calls for significant changes and would completely overhaul NCUA’s MBL regulation. It entails removing or modifying much of the restrictive requirements relating to MBL’s such as the following:

- The requirement for a personal guarantee;
- The 80% limit on loan-to-value ratios;
- The limit on unsecured MBL’s;
- The requirement that staff have two years of direct experience;
- Detailed limits on construction and development loans; and
- The definition of “associated borrower.”



These changes begin the necessary steps to support small businesses in their search for capital and liquidity, and most importantly an alternative to banks that have not supported their growing and ongoing needs.

Dupaco has been fortunate to work with many small businesses in our charter area that have received a cold shoulder from the banks due to their modest loan needs or lack of volume for profitability purposes. In 2014, Dupaco's median loan and line of credit size was \$40,000. This does not include business credit cards.

These necessary changes will allow Dupaco to safely and soundly support the needs of our small businesses and achieve our goal of being our member's lifetime financial home.

Outside of the specific changes in the proposed MBL rule, there is a philosophical change that would occur, going from a prescriptive rule to a principle-based rule.

We do believe that this switch will provide Dupaco with more flexibility to serve member business needs, however, it does require significant changes to the way that credit unions write and establish their loan policies.

Due to the removal of the restrictive requirements from the proposed MBL rule, we understand the need for Dupaco to continue to review our risk tolerances, both at the relationship level and portfolio level, so that the risks that are undertaken are aligned with the strategic vision of Dupaco and our Board of Directors.

Given this significant change, we would challenge the NCUA to provide guidance and expectations regarding the setting of limits and best risk management practices to ensure that credit unions are acting in the spirit of the proposed MBL rule, rather than modifying their MBL program unsafely and unsound.

Dupaco considers the uncertainty related to supervisory guidance, the lack of detailed requirements that are acceptable for establishing a safe and sound member business lending program, increased responsibility of a Board of Directors (without being defined), and our inability to comment on the companion guidance as our four primary concerns.

A section that remains virtually unchanged in the proposed NCUA MBL rule is prohibited activities, more importantly as it relates to loans to officers or management in the organization.

We completely understand that this must be watched and monitored to ensure that there is no special treatment for these individuals. However, if an employee qualifies from an underwriting viewpoint, why should they be prohibited from obtaining a commercial loan? We allow all employees of the credit union to receive mortgages, auto loans and other consumer loans, why should member business loans be any different?

We absolutely agree that within lending policies that there are safeguards and conflict of interest provisions in place to protect the abuse of the insider relationship. With an institution of our size (\$1.3

billion in assets and 350 employees), the very restrictive nature of the current regulation limits the loans that we can do to support the small businesses in our community strictly because they are an employee or spouse of an employee of the credit union.

We understand that with significant change in the way that the NCUA views MBLs, there will also be an associated cost before the implementation of the rule for the training and development of its staff. This training will be imperative as the examiners will need to be able to effectively change to a principle-based rule examination. We encourage the NCUA through its exam process to be transparent with the credit unions and provide support and guidance in the early phases of the proposed MBL rule.

As for Dupaco, we have been in the business lending arena for more than 33 years and have a strong, performing portfolio that diversifies and strengthens our balance sheet and profitability to support our members and the cooperative. Due to our experience in commercial lending, we already have a robust risk rating model and have been engaged in safe and sound lending practices.

DIRECT IMPACT

The NCUA proposed MBL rule will allow us to safely and soundly lend to new or existing borrowers that we were not able to work with in the past. The current waiver process can be time consuming and burdensome, and often leads to Dupaco being uncompetitive with our financial institutions that do not have these restrictions. In addition, the uncertainty when applying for a waiver on high quality member business loans requests has sent a message to borrowers that their credit union is unable to serve their needs. In additions, the current LTV restrictions have created a “one size fits all” view that can be problematic and has undesired consequences. These are a few examples of member business loan requests we were unable to approve due to the current rules:

LTV/ COLLATERAL REQUIREMENTS:

- Dupaco currently serves a small business member who owns several franchised restaurants. The owner has been very successful from a financial and reputation standpoint. The challenge with a credit union supporting this member is that many of his costs relates to leasehold improvements and equipment upgrades. We can obviously support the purchase of equipment but have challenges with lending on leasehold improvements given that they are fixtures with the building and he does not own. The proposed rule would allow us more options to serve the needs of the business member as he continues to grow.

GUARANTEES AND WAIVER PROCESS:

- Dupaco had an opportunity to lend to a highly-profitable and financially-strong company that was owned by an employee stock ownership plan (ESOP). The loan opportunity was well collateralized and met all underwriting standards (by significant margin), but our challenge was personal guarantees from the majority of owners and control. The previous owner of the company, currently the CEO, has been trying to get Dupaco involved in its lending needs given the relationship that we have in the community. Although the waiver process existed, given the

timing of the transaction it was not feasible for the borrower to wait until the approval (or denial) of that waiver was received. Under the NCUA proposed NCUA rule, Dupaco would be able to safely and soundly lend money to this company based on taking on the guarantees of high net worth individuals that would support the loan outstanding, regardless of ownership.

- A very reputable law firm in our charter area was renting space and wanted to purchase a building to move their practice. The firm partners also wanted to purchase the building as an added incentive for the younger partners. All underwriting requirements were well met, with the exception of unlimited personal guarantees. The firm allowed all financial institutions to bid the building purchase proposal and was allotted 30 days to respond with their proposal. Dupaco's proposal was submitted with the caveat that a waiver with the NCUA had to be submitted for approval on the guarantee structure that was being requested. The other financial institutions did not have that caveat and issued proposals for pro-rated guarantees or not guarantees based on the loan-to-value and the success and financial strength of the law firm.

These are just several examples of member business loan opportunities over the past year that Dupaco was unable serve due to the restrictive requirements of the current MBL regulations.

CLOSING

Notwithstanding some of the challenges we have raised, Dupaco Community Credit Union, its Board of Directors and membership applaud the NCUA efforts to make necessary and relevant revisions to MBL regulations. We believe the enhancements will support small businesses and the cooperative without assuming additional risk.

Furthermore, these proposed changes come at a time when small businesses encounter challenges with obtaining capital and liquidity from the other financial institutions. These improvements will help credit unions fulfill their public purpose, including providing access to credit markets for families, individuals and businesses to which commercial banks do not.

Thank you for the opportunity to express our views. If you have any questions about our comments, please do not hesitate to contact me at 563-557-7600, ext. 2223.

Sincerely,



Joe Hearn
President and CEO
Dupaco Community Credit Union

Cc: Senator Charles Grassley
Senator Joni Ernst



S A V E ▶ B O R R O W ▶ I N V E S T ▶ I N S U R E ▶ T R U S T

Congressman Rod Blum
Congressman Dave Loebsack
Congressman David Young
Congressman Steve King