



August 24, 2015

AUG31'15 PM 2:04 BOARD

Mr. Gerard 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,

Thank you for the opportunity to provide commentary on NCUA's Notice of Proposed Rulemaking for 12 CFR Part 723 regarding potential changes to the Member Business Loan regulations. After reviewing the proposed modifications there are several areas where I recommend more clarification be provided to credit unions.

Calculation of the MBL Cap: My concern lies with the uncertainty regarding the future definition of a "well capitalized" credit union. Will the 7.0% definition of "well capitalized" (under §1790d(c)(1)(A)(i) of the Federal Credit Union Act remain in place, or will "well capitalized" be redefined at a higher level once the pending Risk Based Capital rules go into effect?

Non-Member Loan Participations: The Proposed Rule excludes these from the MBL Cap. The credit union determines its portfolio limit amounts for non-member participation loans that it can purchase. There are numerous loan portfolios for sale through investment companies and CUSOs. These portfolios house loans that are in all parts of the country. It seems contradictory that a credit can hold limitless amounts of non-member loan participations originating in any part of the country, yet the same credit union is constrained by the MBL Cap on member business loans within their own core market area. The non-member participation loans would seemingly be riskier with less overall control and in unfamiliar geographic locations where environmental conditions may be more difficult to track.

Prepayment Penalties: While not specifically addressed in the Proposed Rule, this is a matter that should be considered for addition. Federally chartered credit unions are prohibited by regulation from having a prepayment penalty on any type of loan. Originating an MBL incurs considerable expense in the form of employee time, equipment, specialized software, and higher cost staff expertise. Many of these business loans take extended time periods to complete. In addition, extra time is spent in collecting updated financial information from borrowers and performing periodic reviews and analysis of the collected data.

Without a prepayment penalty, a business borrower can take out an MBL from our credit union and pay it off, through a refinance or from coming into extra cash, with no consequence. Just because of a regulation barring a federally chartered credit union from assessing such a prepayment penalty, our credit union would not recoup all the expenses incurred to originate, process, approve, document, and fund the loan. This regulation also puts a federally chartered credit union at a disadvantage with our friends in some state chartered credit unions who are allowed to charge prepayment penalties on MBLs. I'm sure not on purpose, but in reality an uneven playing field has been allowed to exist and continue. A change to Regulation 723 could rectify this situation.

Thank you, again, for this opportunity to comment on proposed changes. I hope that you will take my suggestions into consideration as you continue to study these important issues impacting America's credit unions. If I can be of further assistance, please do not hesitate to contact me.

With best regards,



Larry D. Hudson
Senior Vice President
& Chief Lending Officer