



August 31, 2015

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

RE: Member Business Loans & Commercial Lending; Docket No. NCUA-2015-0031-0001

Dear Mr. Poliquin,

On behalf of Randolph-Brooks Federal Credit Union (“RBFCU”), this letter is being submitted in response to the National Credit Union Administration’s (“NCUA”) request for comment on Member Business Loans & Commercial Lending. In an effort to promote our mission to improve our members’ economic well-being and quality of life, we have made significant efforts over the last few years to prudently expand our business lending activities. RBFCU deeply appreciates the NCUA Board (the “Board”) taking on the onerous task of modernizing the Member Business Loan (“MBL”) rule and commends the Board on considering these regulations to assist credit unions, like RBFCU, to better serve their members’ increasing and diverse economic needs.

RBFCU generally agrees with many of the changes contained in the proposed rule. First, we commend the proposed rule and NCUA’s shift from prescriptive regulation to a principles-based approach that is understandable and clear. It will allow credit unions like RBFCU to focus on credit administration rather than monitoring the program with ratios that provide for little risk control.

We also applaud the elimination of the minimum two-year experience requirement for underwriting MBLs with a shift toward requiring an appropriate level of expertise for the type of commercial lending in which a credit union is engaged. We also praise the need for senior executives to have a comprehensive understanding of the risks of a commercial lending program. RBFCU has always viewed this as utmost importance to the long-term success of an MBL program.

However, in reviewing the proposed rule, RBFCU requests that further clarification be provided in the following areas.

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Earlier Implementation of Certain Items

RBFCU is generally in favor of the extended timeline for implementation, particularly because the Board will need to write policies and train staff on the proposed regulatory changes. However, we feel that certain items would benefit the communities we serve if they were implemented earlier. Credit unions can easily incorporate the proposed requirements for unsecured lending, loan-to-value definitions for construction loans, line-item budget requirement for construction loans, and the new loans to one borrower limit into their current business lending policies.

One of the most important changes that RBFCU feels could be implemented on an expedited schedule is that of removing the requirements for a personal guarantee. Many credit unions would appreciate the autonomy of determining both when a personal guaranty is necessary and to what extent. For example, if a credit union wanted to proportionally divide the personal guarantee based on the number of business owners, it would not be permitted to do so under the current rules. Proper risk management and underwriting policies within credit unions can be employed to facilitate the implementation of this portion of the proposal so that our members can begin benefiting from this rule prior to the 18 month timeline. RBFCU will continue to have a conservative approach to business lending, and we understand that a personal guarantee will still be appropriate most of the time.

Associated Borrowers

The proposal adds definitions for “common enterprise” and “control” in relation to associational borrowers. RBFCU seeks clarification on whether these definitions will prevent credit unions from exercising judgment when determining who is an associated borrower. As the proposal currently reads, the definitions seem to be criteria that must be met in order for an individual to be considered an associated borrower. While the definitions may help credit unions definitively decide who is an associational borrower, clarity is needed on whether credit unions are permitted to have more conservative criteria in their policies for identifying associational borrowers.

Classification of Loans

Upon reading the proposed rule as written, RBFCU feels that the rules for classifying loans as either an MBL or a Commercial loan are overly complex and in need of clarification. We suggest that the Board simplify the rule by editing the exceptions or, if the rule remains unchanged, include clear examples or tables to which credit unions and regulators can refer to eliminate confusion.

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Non-Member Participations

The Board's decision to exclude non-member participation interests from the MBL Cap is greatly appreciated by RBFCU. Allowing for geographically diverse portfolios will reduce the chance that a regional economic disaster will negatively impact credit unions, such as RBFCU, that operate in a relatively small region or community. This will also give credit unions of all sizes the opportunity to benefit from the proposed changes without needing a huge MBL portfolio of their own.

While the new proposal does not currently include a cap on non-member participations, RBFCU seeks clarification on whether any such limit will be in place prior to the implementation of a final rule. If the Board intends to set a limit, we recommend that credit unions that exceed the limit be subjected to stress testing to determine if the concentration risk is too high rather than disallowing concentrations above the stated limit.

Prepayment Penalties for MBLs

With the upcoming changes to MBL rules, RBFCU feels that this would be a good time to address prepayment penalties relating to business lending. If the current rules relating to prepayment penalties remain unchanged, banks and most state chartered credit unions will continue to be permitted to charge reasonable prepayment penalties while federally chartered credit unions are still prohibited from the practice. This kind of disparity within the same industry is unnecessary and confusing to consumers.

RBFCU's intent is not to penalize borrowers, but rather to recover some of the costs and time associated with the origination of business loans. Borrowers may not be aware of the resources expended by credit unions during the business lending process or that refinancing early into a loan's term can negatively impact the credit union's ability to provide business loans to other members.

As the MBL rules are currently under review by the Board, RBFCU recommends implementation of a prepayment penalty rule that will standardize the credit union marketplace. We feel that MBLs under Regulation 723 should not be subjected to the prohibition on prepayment penalties for federally chartered credit unions.

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For the above reasons, RBFCU is generally in favor of the proposed rule. Thank you for the opportunity to provide feedback on this important proposal.

Sincerely,

Randy Carswell
Senior Vice President

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