SELF HELP

CREATING OWNERSHIP AND ECONOMIC OPPORTUNITY

August 31, 2015

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

via e-mail: regcomments@ncua.gov

Re: Comments on NCUA Proposed Rulemaking for Part 723

Dear Mr. Poliquin:

We are submitting these comments on behalf of Self-Help Credit Union and Self-Help Federal Credit Union (collectively "Self-Help") regarding the proposed amendments to NCUA's member business loan regulations. Between our two credit unions, Self-Help serves 120,000 members across North Carolina, Illinois and California and manages almost $1.3 billion of assets on behalf of our members. Self-Help has thirty years of commercial lending experience that is relevant to this proposal.

Overall, we wholeheartedly commend NCUA's proposed revision of the regulations to adopt a principles-based approach to safe and sound commercial lending. Several of the proposed changes, including removal of an absolute maximum combined loan-to-value requirement, will help credit unions make credit available to critical projects that serve our members. In our experience, many of the most necessary and valuable projects rely on multiple and diverse sources of financing, some of which are so deeply subordinated that they are more aptly treated as equity rather than debt. Therefore, removing the maximum combined loan-to-value ratio will allow credit unions to act as lead lenders on multi-party deals, all without incurring additional risk.

Similarly, we appreciate that the proposed regulations continue to allow credit unions making loans backed by government guaranties to comply with the alternate underwriting guidelines of the relevant guaranty programs. As the Board is well aware, government guaranties are a critical piece of the financing puzzle in underserved areas and communities such as those served by Self-Help. The strength of these guaranties, which come with stringent underwriting requirements, ensures that a credit union can provide financing to an emerging market or project without shouldering the risk it would normally incur.

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To that end, we are perplexed by – and object to – the inclusion of government-guaranteed loans in the calculation of the maximum aggregate dollar amount of "commercial loans" that may be made to one borrower or group of associated borrowers. Under the existing regulations, the "net member business loan" balance for the purpose of such calculation is defined to exclude any government-guaranteed portions of loans. See 12 CFR 723.21.

We agree with the current standard that the government-guaranteed portion of any such loan is not relevant for the purpose of calculating a credit union's borrower-based concentration risk and are therefore confused as to why NCUA is changing that standard. Federal banking regulations[1] expressly exclude government guarantees from the aggregate borrower-based concentration limit. Contrary to the comparability with banks that NCUA seeks, the proposed new Section 723.4 bases the calculation on the "aggregate dollar amount of commercial loans," with no exclusion for government-guaranteed portions of loans.

Given NCUA's clear focus on principles-based underwriting at credit unions and the recognition that government guaranties are an invaluable piece of that underwriting, we do not agree that government guaranteed-portions of loans should be included when calculating concentration risk. We commend NCUA for explicitly stating that credit unions must demonstrate "the requisite expertise and risk management systems to meet the requirements to maintain the government guarantee", which is consistent with 12 CFR 32.3(c) and urge NCUA to clarify that federally guaranteed loans should be similarly excluded from the borrower-based concentration limits.

Therefore, we encourage NCUA to revise the proposed regulation to exclude government-guaranteed portions of loans from the calculation of the maximum aggregate dollar amount of commercial loans to any one borrower or group of associated borrowers. Thank you for the opportunity to comment on this important issue.

Additionally, we believe that NCUA's principles-based approach should also be applied to the disbursement of construction and development loans. The revised regulations still requires that all disbursements be made only after on-site inspections: "Release or disbursement of loan funds occurs only after on-site inspections, documented in a written report by qualified personnel". While we strongly agree with the general principle of on-site inspection, there are times when a disbursement is relatively small and the risk is negligible such that the cost to the credit union and to the borrower doesn't warrant an on-site visit. Flexibility should be given to experienced construction lenders to set policies and guidelines that would manage the safety

[1] 12 CFR 32(c) which states "*Loans not subject to the lending limits*. The following loans or extensions of credit are not subject to the lending limits of …this part…

> *(4) Loans to or guaranteed by a Federal agency*. (i) Loans or extensions of credit to any department, agency, bureau, board, commission, or establishment of the United States or any corporation wholly owned directly or indirectly by the United States. (ii) Loans or extensions of credit, including portions thereof, to the extent secured by unconditional takeout commitments or guarantees of any of the foregoing governmental entities."

and soundness of construction administration. We think the language should be revised to be consistent with the other principles-based monitoring throughout the revisions.

Thank you for the opportunity to comment on these important regulatory revisions. We appreciate NCUA's attempt to bring credit union commercial and business lending in line with our peers in the banking sector, while retaining strong principles that ensure safety-and-soundness.

Sincerely,

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