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August 31, 2015

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

RE: Member Business Loans; Commercial Lending; Proposed Rule

Dear Mr. Poliquin:

Hope Federal Credit Union (HOPE) appreciates the opportunity to comment on the National Credit Union Administration proposal to amend its member business loans (MBL) rule. HOPE is a low-income designated credit union with over 31,000 members and branch locations in Arkansas, Louisiana, Mississippi and Tennessee. HOPE made its first member business loan in 2004. Since then, it has closed over 300 commercial loans for $100 million.

Importantly, HOPE has been a responsible source of capital for entrepreneurs that have been historically underserved by traditional banks in the Mid South. On average, 45% of the MBLs made by HOPE were to minority and women owned businesses and another 20% were to nonprofit organizations – many of which are also run by women and minorities. Six out of 10 commercial loans were also made to businesses located in census tracts that were federally designated as areas of economic distress.

HOPE also surveys each MBL borrower about his or her experience in trying to obtain financing elsewhere. One fourth of HOPE's commercial loan borrowers applied for financing elsewhere, prior to working with HOPE. Forty percent (40%) of the borrowers who tried to obtain financing prior to working with HOPE were denied financing or referred directly to HOPE. Notably, the loans perform well. HOPE's charge off rate for its MBL portfolio is 0.50%.

Given HOPE's track record of responsibly providing commercial loans to its members in underserved communities, HOPE is strongly in favor of the proposed changes to move from the current prescriptive rules governing MBLs to a principle-based approach. The current MBL regulatory framework and waiver protocol have created a "chilling effect" on the types of loans that HOPE will consider. In the past two years, HOPE has chosen not pursue a number of loans that appeared to promising due to waiver uncertainty and the time required to attain approval for the waiver (typically 45 days after underwriting has been completed). On deals where HOPE has sought a waiver, the process has been time consuming and taken away from time that should be spent serving members. Over the last three years, HOPE has spent 150 hours on waivers associated with six projects. Collectively, the current MBL regulations have restricted capital access in the Mid South, and frankly, the job creation associated with commercial lending. The regulations have also made HOPE uncompetitive with other financial institutions that do not have similar regulatory constraints.

The proposed regulations represent a positive step towards increasing access to responsible credit and creating a more competitive environment for commercial loans that ultimately benefits credit union members. HOPE strongly supports the following recommendations:

- **Removal of the Personal Guarantee Requirement** – this requirement has been very restrictive, particularly with HOPE's permanent financing for Low Income Housing Tax Credit (LIHTC) projects which represent a significant portion of HOPE's portfolio. One cannot make a personal guarantee on permanent loans to finance LIHTC projects which are strong credits due to the recapture provisions associated with the tax credits. HOPE will continue to use personal guarantees where appropriate and prudent, however, the flexibility to make this call remains a critical distinction.
- **Removal of C&D limitations of 15% of net worth** – while HOPE currently has a waiver that allows the credit union to lend for C&D purposes up to 30% of net worth, this restriction has curtailed HOPE's willingness to participate in a number of projects.
- **Removal of the minimum equity requirement of 25% on C&D Loans –** while a 25% equity requirement on C&D loans is a good rule of thumb; it is not always achievable even on some credits that are strong for other reasons.
- **Removal of the requirement of an 80% LTV ratio –** similar to the minimum equity requirement, while 80% LTV is a good rule of thumb, it takes away the ability of the lender to account for other factors that may mitigate the credit risk associated a loan such as a high debt service coverage ratio, strong guarantors or high liquidity.

The proposed switch from the prescriptive rule to a principle-based rule will provide much needed flexibility to our commercial lending team to underwrite credit requests in their entirety by providing the space to account for a full range of factors that could affect the outcome of the loan. The removal of the waiver process will benefit our MBL program by expanding the types of requests that we can and will review.

Finally, HOPE supports an effective date of the rule prior to the proposed 18 month delay once a credit union has satisfied the new regulatory requirements within its commercial loan policy. We anticipate that any update to our loan policies following the approval of the proposed regulations will be minimal and incremental and position the credit union to maintain strong safety and soundness practices. An earlier implementation would allow us to more quickly create the system needed to produce the information under which NCUA will examine our commercial lending activities.

Again, thank you for the opportunity to comment on the proposed changes to the MBL regulations. Should you need any additional information, please feel free to contact me.

Sincerely,

William J. Bynum
Chief Executive Officer
Hope Federal Credit Union