



August 23, 2018

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

Re: Docket No. RIN 3133-AE88, Proposed Rule 701, Loans to Members and Lines of Credit to Members

Dear Mr. Poliquin,

On behalf of TruStone Financial Federal Credit Union, please accept this correspondence in response to the National Credit Union Administration's (NCUA) request for comment on the recently published notice of proposed rulemaking regarding loans and lines of credit to members. TruStone Financial is a \$1.3 billion federal credit union based in Plymouth, Minnesota with over 100,000 members served by branches throughout the Minneapolis/St. Paul, MN and Milwaukee, WI metropolitan areas. Thank you for giving us an opportunity to provide a response on this matter.

We applaud the NCUA for its efforts to improve existing rules and regulations regarding loans and lines of credit to members. Please consider the following as you move to implement this proposed rulemaking.

While overall the proposed changes appear to provide for a reduction in regulatory burden by providing clarity and by making compliance easier, there is one specific area of the proposed rule that we feel warrants additional discussion; namely, the section that considers providing longer maturity limits for 1- to 4-family real estate loans and other loans permitted by the Federal Credit Union Act such as home improvement, mobile home, and second mortgage loans.

Long-Term Mortgage Loans

While we do not find reason to extend the available 40-year maturity for long-term mortgage loans as outlined in NCUA Regulation 701.21 (g), we do feel there is a need for much-needed clarity and regulatory relief in this area. As written, the ability to provide a purchase money mortgage or first mortgage refinance on a traditional second home or investment home with a term greater than 15 years is prohibited unless the member, at the time of making the loan, intends to make the home their principal residence at some undetermined time in the future. The "is or will be" principal residence requirement is simply too restrictive and frankly draws arbitrary and potentially unfair distinctions. The



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current rule favors those who, at loan origination, intend (or say they intend) to make a second home their principal residence over those who may not clearly know where they intend to reside one, five or ten years down the road; the rule also favors those whose principal residence intention at time of loan origination later changes (i.e. they may never ultimately reside in the second home) over those who actually do make the second home their principal residence but whose intention wasn't clear at time of loan origination. The ability of a credit union member to qualify for a long-term mortgage on a second home should not be determined solely by whether the member recites a particular intention at time of loan origination.

As we interpret the current rule, a member that wishes to purchase a true vacation home or investment home would be limited to a 15-year maturity at a Federal Credit Union. That same individual could easily obtain a 30-year loan at most banks or mortgage companies. Credit unions who want to serve their members with loans for such homes are currently restricted to offering limited and perhaps less desirable products: 15-year balloon loans or even a line of credit, neither of which may be considered the "best available" product for certain borrowers. Certainly, this restrictive or at least unclear rule puts Federal Credit Unions and their membership at a distinct disadvantage in the residential real estate lending space.

Allowing terms of up to 40 years for both principal and second homes makes good sense and helps to provide a level playing field for Federal Credit Unions. In fact, generally a term of 30 years provides sufficient access to credit for the largest member base. We understand that mitigating elevated risk related to residential investment property lending should remain important; however, with prudent guidelines and underwriting standards, offering a 30-year term on these products helps to serve a valuable member need. Without these amendments to the current rule, many borrowers will simply "go down the street" to obtain products that are truly standard in the mortgage industry.

Insured, Guaranteed and Advance Commitment Loans

NCUA regulation 701.21 (e) provides that a federal credit union may make loans secured by the insurance or guarantee of, or with the advance commitment to purchase the loan, by the Federal Government, a State Government or agency of either, for the maturity and under the terms and conditions of the program under which the insurance, guarantee, or advance commitment are provided. This regulation provides another exception to the 15-year maturity limit; however the current industry interpretation of this exception is that it does not apply to government-sponsored-enterprises such as Fannie Mae or Freddie Mac. Thus, even though Fannie Mae or Freddie Mac may be willing to purchase a 30-year mortgage on a true vacation home or residential investment property, federal credit unions still cannot originate such loans. Changing or clarifying this exception to specifically include Fannie Mae and Freddie Mac would provide relief to Federal Credit Unions.

20-Year Loans



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NCUA regulation 701.21(f) provides another current exception to the general 15-year maturity limit for loans. This section, when reconciled with the two exceptions above, only serves to cloud the requirements and intent of the rule. Under the rule, a second mortgage loan (or nonpurchase money first) can have a term of 20 years if it is the residence of the member-borrower; however, the rule does not require that the loan is for the member's "principal residence," leaving open the possibility that this exception could apply to a second mortgage on a member's secondary residence (and with the incongruity that the first mortgage on the secondary residence may not qualify for an exception to the 15 year maturity limit). The rule also permits an exception for a 20-year term on a loan to finance the repair, alteration, or improvement of a residential dwelling which is the residence of the member-borrower. And yet, this exception can be confusing to put into practice. For example, if a member-borrower is refinancing their second home and taking cash out for minor debt consolidation and a new kitchen, can a Federal Credit Union offer a 20-year term, a 15-year term (because not principal residence), or perhaps even a 30-year term if the borrower offers the information that they intend to live there some day?

Summary

Credit unions play an important role in the residential mortgage market. Members trust credit unions and recognize that we were not the cause of the mortgage crisis of a decade ago. Members want to come to us for mainstream products which, unfortunately, are only available to them at banks and other financial institutions. It is appropriate to look at the general lending rule and consider modest changes and clarifications which reflect prudent lending activity and today's market. The simplest way to address these issues would be to allow Federal Credit Unions the ability to offer loans with maturities of up to 30 years if secured by a valid first or second lien on 1- to 4-family residential property; regardless of current or intended principal residence.

Thank you for the efforts you are making to improve your adopted rules. We truly appreciate the work you are doing and thank you for the opportunity to comment on this matter. If you have questions about our comments, please contact me at (763) 270-4305.

Sincerely,

A handwritten signature in black ink, appearing to read 'Jess McClellan', written over a white background.

Jess McClellan
VP, Corporate Compliance
TruStone Financial Federal Credit Union