Proposed Rule: Loans to Members and Lines of Credit to Members

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Introduction

This proposal tries to make the "regulation on loans to members and lines of credit to members more user friendly by: (1) Identifying in one section the various maturity limits applicable to FCU loans; (2) clarifying that the maturity for a lending action that qualifies as a "new loan" under GAAP is calculated from the new date of origination; (3) seeking comment on whether the NCUA should provide for longer, more flexible maturity limits on certain loans; and (4) more clearly expressing the limits in place for loans to a single borrower or group of associated borrowers." I will address parts (1) and (3).

My name is Koty King. I am the Tennessee Audit Manager for CU Audit & Compliance Group. My company audits over 150 Credit Unions in the Southeast. We audit over 80 Credit Unions in the state of Tennessee alone. I am a Bank Secrecy Act Compliance Specialist (BSACS). I am working towards obtaining my MBA as well as my CPA. I have been auditing Credit Unions for over five years. These opinion are my own and it does not reflect employer's opinion.

I just want to start off by applauding the NCUA for complying with President Trump's Executive Order 13777 even though the NCUA is an independent agency and is not required to comply with this Executive Order.

<u>Section 1: Identifying the Various Maturity Limits in One Section</u>

The various loan maturity limits are spread out in Section 701.21 in different paragraphs such as (c), (e), (f), & (g). The sections are not easy to follow. A loan maturity limit could easily be overlooked by having the various limits in four or more different sections. The sections such as (E), (2), and (i) all have the same indentations. This makes it difficult to follow and figure out exactly what an individual is reading and what they are exactly reading. As said in the proposed regulation,

"Having the various maturity limits spread among numerous sections of the NCUA's regulations, often separated by large amounts of regulatory text unrelated to maturities, <u>can be confusing to the reader and makes it more difficult to understand the lending regulations</u>." (This exert is found under section (II)(A)(i) of the proposed regulation.)

I agree completing with this exert from the proposed regulation. Anything that can be done to simplify a regulation, should be done. This will make it a lot easier for a credit union manager, auditor, or examiner to find the exact regulation they are looking for. I would also suggest making a small graph that includes the different types of loans and the maximum loan maturity that the NCUA will allow for each type of loan. Making one section (701.21 (c.) (4)) for all maturity requirements will make the regulation more understandable and user-friendly.

<u>Section 3: Request for Comment on Providing Longer Maturity Limits for Certain Loans</u>

In Section 3, the NCUA Board asked the following questions: (1) Whether the NCUA should provide longer maturity limits for certain lending actions permitted by section 107(5)(A)(i)-(ii) of the FCU Act; (2) the appropriate maturity limits for such lending actions; (3) whether the case-by-case Board exemption should be retained and, if so, under what circumstances would such exemptions be appropriate; and (4) any other issues stakeholder believe relevant. I intend to answer the questions below.

1. <u>Should the NCUA should provide longer maturity limits for certain lending actions permitted by section 107(5)(A)(i)-(ii) of the FCU Act?</u>

   Section 107 (5)(A)(i)-(ii) of the FCU Act covers residential real estate loans on a one-to-four family dwelling (mortgages) and loans to finance the purchase of a mobile home. The regulation grants the maturity limit of one to four family real estate loan to be 40 years. The regulation grants the maturity limit of a loan to finance a mobile home to be 15 years. <u>I do not believe residential real estate loans should go beyond 30 years</u>. The "well-being" of the member must be taken into account. If a member is granted a 40-year mortgage, they will build back their equity slower than if they did a 15 or even a 30-year mortgage. For example, if a member financed a $300,000 @ 5% for 15 years, the total interest paid (assuming the member did not pay ahead) would be $127,028.56. If the same member financed the mortgage for 30 years, the member would pay a total of $279,767.35 in interest. If the same member financed the mortgage for 40 years, the member would pay a total of $394,363.10 in interest. If the maturity limit for residential mortgage loans was increased to 50 years, the member would have to pay a total of $517,449.78 in interest. (This figure only includes the interest to be paid back. The principal balance must also be paid back.) It is not fair to the member to pay almost two times the amount of interest on a 50-year loan compared to the principal of the loan. That is the main reason why I would not have a maturity limit greater than 30 years for any mortgage loan.

This would also prevent members from living outside their means. If a member is making below the poverty line, there is no need for the member to have a $500,000 residence. If a member could finance a resident for 50 years, they may believe they can afford a home, that in reality, they cannot. It is also fair to note that the longer the maturity limit is for a loan, the higher the interest rate will be.

2. <u>What would be the appropriate maturity limits for the loans discussed in Question 1?</u>

I believe the appropriate maturity limits residential real estate loans on a one-to-four family dwelling should be 30 years. See discussion in Question 1 above for details.

I believe the maturity limit for loans to finance the purchase of a mobile home are appreciate where they are now. According to a study completed by Homes Direct, in November 2017, the average selling price for a double-wide mobile home was $130,300 (Homes Direct, 2018). It is more than reasonable to expect a member to pay off a loan for $130,300 in 15 years or under. If the NCUA wanted to increase this maturity limit, I would only increase the maturity limit on loans that are greater than $100,000. Any mobile home financed for over $100,000 could have a 20-year maturity limit and any mobile home financed for under $100,000 could have a 15-year maturity limit. This will allow a member a little more flexibility in financing a mobile, but it also will not cause the member to pay a large more sum of interest like in the example in question 1.

3. <u>Should the case-by-case Board exemption be retained?</u>

Yes, the case-by-case board exemption should still be retained. The Board never knows what circumstances might come back that would require a loan to have a maturity limit greater than what is stated in the regulation. This gives the NCUA an “out” for an instance was to arise. I believe this exemption would be appropriate on loan over a certain dollar amount. The dollar amount could be anything greater than $1,000,000 or any figure the Board see fit. The Board should also consider all cases that have been brought before them in the past and where a special exemption was sought. One of the best ways to predict what will happen in the future is to look at the past. The past is bound to repeat itself.

4. <u>Other Relevant Issues</u>

I believe the Board should consider a different maturity limit for share/CD secured loans. Credit Unions have a zero-default risk with share/CD secured loans. The Credit Union already has the funds to cover the loan in the member’s account. Exceeding the limit for these loans will increase the amount of interest the Credit Union will receive. More interest received, mean more income for the Credit Union. I would not have a maturity limit for share/CD secured loans.

Works Cited

Homes Direct. (2018, March 29). *Average Cost of a Manufactured Home in 2018*. Retrieved from TheHomesDirect.com: https://www.thehomesdirect.com/blog/average-cost-of-a-manufactured-home