HAWAII STATE

FEDERAL CREDIT UNION

October 5, 2018

National Credit Union Administration
Via email to regcomments@ncua.gov

RE: Comments on Proposed Rule 701, Loans to Members and Lines of Credit to Members

In response to your request for comments on the proposed rule amendments as published in the Federal Register on August 10, 2018, Vol. 83, No. 155, we fully support the expansion to the exemption of the 15-year maximum term of loans secured by 1-4 family real estate for <u>all</u> occupancy types. <u>We would like the ability to originate and retain or sell 30 year loans secured by 1-4 family second homes or investment properties</u>.

We frequently receive requests to finance the purchase, or to refinance, 1-4 family residential units which will be used as second homes or rental properties for existing members. Most often, they desire, or may only qualify for, loans with a lower payment 30-year amortization. Additionally, a 30-year amortization makes the financing more affordable, which means that the rent that must be charged to a tenant, for investment properties, can be less than what would be required with a 15-year amortization.

In theory, under current rules, we may structure a balloon loan with a 30-year amortization and a 15-year balloon term. However, under the Dodd-Frank "Qualified Mortgage" ("QM") rules, loans with such balloons are not eligible as QM, as we are not a "small creditor" in a rural area and do not desire to retain all these loans in our portfolio. Additionally, most members do not desire a balloon mortgage when they are able to obtain fully amortized 30-year term loans with other lenders at similar rates and terms. Fannie Mae and Freddie Mac no longer purchase balloon loans, therefore our ability to sell these loans to mitigate interest-rate or credit risk is impeded. A 30 year fully-amortized loan is industry standard now.

The existing rules also prevent us from originating and funding loans with 30 year terms for further sale to another lender or government sponsored enterprise ("GSE"). Under the existing rules, we must refer our existing members to other lenders for these transactions.

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Without reviewing the original congressional testimony of the Federal Credit Union Act, it is difficult to address the concerns that lawmakers and regulators may have had in mind when restricting credit unions from these type of extended terms for 1-4 family secured loans. In practice, credit unions are mandated by their examiners to closely monitor their interest-rate risk relative to the duration of their assets and to limit and adjust their exposure accordingly. Sophisticated computer-based software programs that model various interest rate movements and scenarios are now readily available to assist with monitoring. Additionally, extended term loans, of up to 30 years, may be sold to the GSE's when rebalancing of interest rate risk and credit risk is necessary. Hence, the risk to credit union failure due to a high proportion of extended term loans, similar to the late 1980's savings and loan crisis, is not valid rationale for limiting these types of loans.

In summary, restrictions on the maximum term for 1-4 family residential loans for investment properties and second homes originated by credit unions have the following negative effects:
1. Credit unions are not able to offer terms that are otherwise available in the marketplace to their existing members. Their members must seek financing elsewhere.
2. Credit unions are not able to offer loans with the most affordable payments to their members. If members accept loans with shorter-amortized less-affordable payment terms, the rent that they must charge their tenants on investment properties to make the cash flow break even is higher, which has a negative impact on the cost of rental housing in the community.

We respectfully request that the exemption to the 15-year maximum term be expanded to include loans secured by both 1-4 family second homes and investment properties.

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