

Open Board Meeting

February 18, 2016

**NCUA Chairman Debbie Matz  
Statement on the Final Member Business Lending Rule**

With this new rule, we will begin a new era, for NCUA as a regulator and for credit unions as business lenders. This new era will be defined by principles-based regulation, not by prescriptive limits on credit unions.

This new rule will remove the prescriptive limits that were needed when many credit unions were just entering the business-loan marketplace.

Today, the vast majority of credit unions making these loans have well-established business lending infrastructures and solid risk management in place.

The results have been remarkable. Over the last 15 years, credit unions' total business lending portfolio has grown 14 times larger, from \$4 billion in 2000 to more than \$56 billion today. And the portfolio has grown in a safe and sound manner. Credit unions' delinquencies and charge-offs on business loans have been steadily reduced.

It is now time to transition away from prescriptive limits, toward over-arching principles that will provide greater flexibility for credit unions to serve more business owners.

Of course, business lending is not appropriate for every credit union. Business lending carries unique safety and soundness risks. When poorly managed and highly concentrated, business loans have led to the costly failures of several credit unions.

However, safely expanding business lending will produce three tangible benefits:

- It will diversify loan portfolios, thereby improving credit unions' ability to withstand economic downturns;
- It will grow small businesses, by providing capital they may not be able to obtain from other institutions; and
- It will strengthen communities, by creating jobs and fostering local economic development.

Whether to engage in business lending is a strategic decision for each board of directors to make. If they do decide to engage in business lending, under this new rule, each board of directors and management team will have the freedom to develop their own policy governing how they will do business.

For example, their policy can set guidelines for personal guarantees, loan-to-value ratios, and construction-and-development thresholds they feel are most appropriate for their credit union.

With the exemptions we're creating in this final rule, credit unions that originate or purchase small amounts of commercial loans will not be required to have a formal policy. So, credit unions that only make a few small loans for commercial use—such as delivery trucks or pizza ovens—would be exempt from the policy requirement. And credit unions that buy pieces of those loans would likewise be exempt.

As a result, this rule will allow exempt credit unions to serve small business owners as needed, without filling out additional paperwork or hiring full-time staff.

This new rule will also address two unintended consequences I heard from credit union officials:

- **Personal Guarantees**—I heard loud and clear that when credit unions are required to have a personal guarantee on every business loan, they lose business from some of their best members. Some members who have well-established, strong businesses often simply can't wait for loan waivers. They take their business to other lenders who don't require personal guarantees. That's why I insisted on implementing the part of this rule that removes the personal guarantee requirement as soon as possible, well before the rest of this rule.
- **Blanket Waivers**—I also heard loud and clear that the provision for blanket waivers is not working as intended. Applying for blanket waivers covering loan-to-value limits, construction-and-development limits, and non-member participations, in addition to personal guarantees, can result in massive amounts of paperwork. Although blanket waivers are an opportunity for credit unions to gain relief from the current rule, the waiver process has become a burden, both for credit union officials and NCUA staff. Instead, we'll provide relief through this new rule, and remove the waiver process altogether.

Finally, I want to address another important issue on which commenters agree: state member business lending rules. Our proposed rule sought comments on three options for states that currently have MBL rules approved by NCUA, as well as other states that may want to write their own rules in the future. We also invited comments on any other options.

Clearly, the majority of commenters prefer the option to grandfather the seven states with pre-approved rules—while also allowing all states to submit new rules for NCUA approval. It's important to note that among this majority was the National Association of State Credit Union Supervisors. The NASCUS comment letter recommended that

the NCUA Board “exempt federally insured, state-chartered credit unions in a given state from NCUA’s member business loan rule if NCUA approves the state’s rule...”

Despite this position from the trade association representing state regulators, a minority of stakeholders argued for states to implement their own MBL rules without any review by NCUA. However, just like every other insurer, it is incumbent upon NCUA to set standards. NCUA has a statutory responsibility to protect the safety and soundness of all federally insured credit unions. And this includes state charters as well as federal charters.

So, our new rule is designed to serve as a floor, or a baseline minimum safety and soundness standard. States may choose to impose a higher standard, but not a lower standard. As we’ve done in the past, when reviewing proposed state MBL rules, NCUA’s rule will guide our decision, in the interest of safety and soundness.

The vast majority of states currently follow NCUA’s rule as prescribed. So in addition to training all NCUA field staff on our new rule, we have also committed to train state examiners on this rule. In addition, before the final implementation date, supervisory guidance will be designed for examiners and distributed to all federally insured credit unions at the same time.

This modernized and flexible rule, implemented by well-trained examiners, will empower federally insured credit unions to safely and soundly serve more of our nation’s growing and thriving small businesses. And as a result, it will allow those credit unions to grow and thrive, providing jobs and economic resources in their communities, in a new era of regulatory relief.