From: Joan Karrle [mailto:jkarrle@chetcofcu.org]
Sent: Monday, August 25, 2008 7:49 PM
To: _Regulatory Comments
Subject: Comments on Advanced Notice of Proposed Rulemaking for Part 723

Ms. Mary Rupp
Secretary to the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

RE: Proposed amendments to Member Business Loan regulations

Dear Ms. Rupp,

Thank you for the opportunity to comment on the proposed changes to member business loan regulations.

Chetco Federal Credit Union has been funding member business loans (MBL) for over 20 years. As a credit union in a low-income designated area, we are exempt from the 12.25% lending cap on MBL's and have maintained a successful program including construction/development lending. We are committed to serving the underserved and find that lending to small businesses is a greatly underserved arena.

Prior to addressing the items requested, please allow us to say that we believe that leaving the current cap at 12.25% for most credit unions is a disservice to the small business owners of America. The small business owner is one of the most underserved of borrowers and credit unions need to be able to more adequately meet the needs of the business persons who make up the communities they serve. We work with numerous credit unions through our MBL CUSO and find the cap very restrictive in meeting the needs of their communities – both in rural areas as well as metropolitan. We urge our regulators to move to increase the MBL cap to 20% as early as possible.

As to the **loan-to-value requirements**, we do not believe that individual security requirements for MBL credits should be changed from the maximum 80% LTV. Construction and development loan LTV should stay at 75% maximum LTV. We currently have a waiver to fund up to 80% on a construction loan, but that waiver was allowed in light of our many years of construction experience. The existing waiver procedure adequately addresses an individual credit union's ability to modify this requirement on a case by case basis as it will apply to their particular needs and expertise. The existing paragraph in this section referencing the use of private mortgage insurance to gain an overall LTV of 95% is vague, in that PMI is not generally available for commercial use real estate. The recent change to allow greater LTV's if underwritten to a guarantor's guidelines (i.e. SBA) should be sufficient. We would advocate lower maximum LTV's on higher risk loans, but that should be at the credit union's discretion. It has been our experience that most credit unions will heed the voice of more experienced business lenders and CUSO's in setting more conservative limits on higher risk collateral.

Regarding hiring a **CUSO with 2 years experience in MBL's,** we believe this is sufficient. The key phrase is "type of lending in which the credit union will engage". The variety of projects we work with over a two year period allows for a great diversity of underwriting experience and provides a solid foundation for future projects. More complex credits will require experience in more complex credits. Most CUSO's are made up of multiple employees with varied experience, expertise and synergy. It should be the responsibility of each credit union to determine which CUSO has the experience to work with their unique membership and the "type of lending in which the credit union will engage".

We feel that **participation accounting** is more a problem of core system functionality than of regulation. We also believe, though, that most credit unions do not understand the waiver that would allow non-member MBL participations to not count against their aggregate limit. A clearer explanation of that waiver would be appropriate.

Yes, we would agree that the **waivers** available need some clarification. Perhaps if a waiver is allowable, then it should be referenced in the applicable section. This would make it easier to identify if a particular section has a waiver available.

On the question on **easing or restricting the MBL regulations**, we believe the high degree of restriction on business lending is (as stated earlier) a disservice to the small business community and to credit unions. The degree of regulatory restriction should be a function of proven experience in the industry. Our experience in business lending demonstrates the ability to manage the risks and maintain a strong program and yet we are held accountable for the mistakes of other lenders. Though multiple examinations, third party reviews, and audits indicate a well-managed program, our regulators remain overly cautious and critical of the depth of our business lending. We feel a great sense of pride in the fact that we have strengthened our communities through business lending, making them a better place to live for everyone and showing confidence in our small business owners. Our charge-off ratio is insignificant (.003%) in light of the number of business members we have helped to be successful.

A recent third-party analysis of our credit union showed that it was the business member accounts and the business loans that were the most profitable for our credit union. It was these relationships that heavily subsidized the 40% of our members whose annual income is less than $30,000. We are in a low-income-designated area and the need to support our business members is great. We would greatly appreciate a relaxation of regulations in light of our proven and extensive experience and would expect the same for other credit unions in the same manner.

As stated previously, we are committed to serving the underserved and find that lending to small businesses is a greatly underserved arena. An easing of the restrictions on experienced business lenders and perhaps tiered regulations as more credit unions gain experience in business lending would be appropriate. We believe that encouraging, rather than discouraging, growth in member business lending through an expansion of the current regulation (especially the 12.25% cap) is fundamental for strong credit unions and strong communities.

Sincerely,

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