CUNA
Credit Union National Association
cuna.org
Daniel A. Mica
President & CEO

601 Pennsylvania Ave., NW | South Building, Suite 600 | Washington, DC 20004-2601 | **Phone:** 202-638-5777 | **Fax:** 202-638-7734

April 14, 2006

Office of the Comptroller of the Currency
250 E Street SW – Mail Stop 1-5
Washington, DC 20219

Re: Comments on Proposed Guidance on Concentrations in Real Estate Commercial Lending

To Whom It May Concern:

The Credit Union National Association (CUNA) appreciates the opportunity to comment on the proposed guidance on concentrations in commercial real estate (CRE) lending. CUNA represents approximately 87 percent of our nation's 8,900 state and federal credit unions, which serve nearly 87 million members.

CUNA supports the efforts of the federal bank and thrift regulators, including the Federal Reserve Board, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision, in issuing this proposed guidance that addresses the sound risk management practices for concentrations in CRE lending. The guidance is intended to reinforce existing regulations and guidelines for a safe and sound CRE lending program, while also providing criteria for identifying institutions with CRE loan concentrations that may warrant greater supervisory scrutiny.

Summary of CUNA's Comments

- The proposed guidance on CRE lending is necessary, based on recent history in which the savings and loan and banking crisis of the late 1980s and early 1990s were caused to some extent by inappropriate CRE lending.
- Credit unions also face lending restrictions, such as those that apply to business loans to members. Consistent with the opposition by banks and thrifts to the modest relaxation of these restrictions, as proposed in recent federal legislation, the proposed thresholds in the proposed CRE lending guidance should be acceptable to the bank and thrift industries.

America's Credit Unions
PO Box 431 | Madison, WI 53701-0431 | 5710 Mineral Point Road | Madison, WI 53705-4454 | **Phone:** 608-231-4000

The proposed guidance would consider a bank or thrift at risk if its total loans in construction, land development or other land represent 100% or more of its capital or if total loans secured by multifamily and nonresidential properties and loans for construction, land development, and other land exceed 300% of capital. If a bank or thrift exceeds one of these thresholds, then the institution would need to have capital beyond the normal regulatory minimum requirements that is commensurate with the level of risk in their CRE lending portfolios. However, the proposed guidance does not specify the amount of additional capital a bank or thrift would need to hold. The institution would also be expected to have robust risk management plans in place.

The guidance would exclude loans secured by owner-occupied properties because the risk profiles of such loans are less influenced by the conditions of the general CRE market. But the guidance does not indicate the percentage of the property that would need to be owner-occupied in order for the loan to be excluded. It is expected that many institutions would likely fall below the 300% threshold because of this owner-occupied real estate exception.

CUNA supports these guidelines as a common sense approach to protect the safety and soundness of the banking system, which is vital not only for the protection of the customers of these institutions, but for the entire economy as well. The banking and thrift industry is one of the most profitable and powerful industries in America today and problems in this industry can have a profound affect on many other aspects of our economy, as well as the federal government.

The savings and loan and banking crisis of the late 1980s and early 1990s is a classic and the most notorious example of how lax supervision from the federal bank and thrift regulators has cost our economy hundreds of billions of dollars, much of this in the form of a taxpayer-provided bailout that was necessary to ensure that bank and thrift customers did not lose any of their deposits. Although this crisis may have been caused by a number of factors, it is clear that inappropriate commercial real estate lending was a cause, or at least exacerbated this problem, and increased the cost for all consumers.

The thrift and banking crisis negatively impacted consumers' perception of all financial institutions. Although not directly impacted, this perception may have affected credit union members who may also have been concerned at the time about the financial health of their credit union, notwithstanding that this problem was confined to the bank and thrift industries and not one dollar of taxpayer money was necessary to resolve any problems at credit unions at that time or during any other time in our nation's history. For this reason, CUNA and credit unions follow, and will continue to follow, with interest any regulatory and legislative efforts that are intended to ensure the safety and soundness of the bank and thrift industries, such as this proposed guidance on CRE lending.

Although credit unions have an exceptional safety and soundness record, have the highest relative capital levels of any insured financial institutions in the United States, and are subject to the most stringent capital requirement in the financial services industry, they are under legislative and regulatory restrictions with regard to their lending activities. For example, the amount of business loans that a credit union can make to its members is limited to the lesser of 1.75 times the credit union's net worth or 12.25% of the credit union's total assets.

The Credit Union Regulatory Improvements Act of 2005 would raise this ceiling to 20% of the credit union's assets, an improvement that the bank and thrift industries, or at least their trade associations, vehemently oppose. It is difficult to reconcile the bank and thrift industries' adamant position on limits for credit union member business lending with their opposition to the relatively modest thresholds outlined in the proposed CRE guidelines.

Thank you for the opportunity to comment on the proposed guidance on concentrations in CRE lending. If you or your staff have questions about our comments, please give me a call at (202) 638-5777.

Sincerely,

Daniel A. Mica

Daniel A. Mica
President & Chief Executive Officer

cc: Ms. Jennifer J. Johnson, Secretary, Board of Governors of the Federal Reserve System
Mr. Robert E. Feldman, Executive Secretary, Federal Deposit Insurance Corporation
Chief Counsel's Office, Office of Thrift Supervision