



Office of the Chairman

February 24, 2010

The Honorable Timothy F. Geithner, Secretary
United States Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Dear Secretary Geithner:

I am writing as a follow-up to the recent discussions our agencies have had about credit union member business loan limitations.

The Federal Credit Union Act limits the amount of member business loans (MBLs) the great majority of credit unions can grant to the lesser of 1.75 percent of net worth or 12.25 percent of assets. Congress presently contemplates legislation that would raise or eliminate that statutory limitation by enabling credit unions to grant more MBLs. Should the legislative process result in an increase to or elimination of the current MBL limitations, I assure you NCUA would remain vigilant in carrying out our supervisory responsibilities.

NCUA has long exercised caution in monitoring MBLs from the standpoint of safety and soundness. We routinely issue guidance to ensure the credit union community and agency staff understand the risks associated with MBLs. For example, last month, the agency released NCUA Letter to Credit Unions 10-CU-02 ("Current Risks in Business Lending and Sound Risk Management Practices"). This guidance reminds credit union officials of the importance of ensuring that risk management practices must continue to evolve as the size and complexity of MBL portfolios increase. NCUA also plans to provide extensive MBL training to our field staff in the coming months.

NCUA recognizes that successful MBL programs depend upon credit unions limiting products to only those consistent with the capabilities of their respective lending staffs and the principles of sound risk management. In consideration of these precepts, NCUA already has efforts underway to strengthen the regulatory qualifications that credit union officials must have to serve as business lenders.

Let me assure you: If legislative changes increase or eliminate the current aggregate MBL cap, NCUA would promptly revise our regulation to ensure that additional capacity in the credit union system would not result in unintended safety and soundness concerns.

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As one of the most important changes, NCUA would only permit credit unions to increase their MBL capacities on a gradual basis by adopting a tiered approval process. In addition to other regulatory changes, the agency would develop procedures to fully monitor MBL growth.

Earlier this month, NCUA joined the other Federal Financial Institution Examination Council members in advocating prudent lending to creditworthy small businesses. We recognize the importance of small businesses in leading our nation's recovery efforts. As such, we support efforts to allow credit unions to provide businesses additional avenues of credit when appropriate under a comprehensive regulatory framework.

Sincerely,

A handwritten signature in black ink, appearing to read "Debbie Matz". The signature is fluid and cursive, with a large initial "D" and a long, sweeping tail.

Debbie Matz
Chairman

CC: Michael Barr
Assistant Secretary for Financial Institutions