



Office of the Chairman

September 11, 2015

The Honorable Edward R. Royce
Member of Congress
2310 Rayburn House Office Building
Washington, DC 20515

Dear Congressman Royce:

Thank you for your letter of September 8, 2015, expressing your support for NCUA's proposed rule to provide federally insured credit unions with greater flexibility and autonomy in safely and soundly offering member business loans.

First and foremost, the NCUA Board welcomes your views on this important issue. In all, NCUA received more than 3,000 comment letters on this proposal during the comment period, which ended August 31, 2015. As we move ahead with the proposed rule on member business lending, we will carefully consider all of the views raised. We will also move as quickly as possible to finalize this rulemaking, consistent with all applicable laws and regulations.

I believe that now is an appropriate time for NCUA to update the rules governing member business lending. Credit unions have gained considerable experience in making these loans since the NCUA Board adopted the current rule; the system's total member business lending portfolio has grown from \$4 billion in 2000 to \$54 billion as of the second quarter of 2015. Overall delinquencies and charge-offs for commercial loans at credit unions also indicate solid performance.

Additionally, member business lending offers important benefits by diversifying loan portfolios to improve the ability of credit unions to withstand economic downturns. Through member business lending, credit unions also make important investments in local economies to create jobs and expand access to goods and services in communities around the country, including those in your district in California.

The proposed member business lending rule would provide credit unions with greater freedom in making decisions about commercial lending to better serve their members. Consistent with safety and soundness, the proposed rule modernizes the regulatory requirements that govern credit union commercial lending activities by replacing the current rule's prescriptive requirements and limitations—such as collateral and security requirements, equity requirements, and loan limits—with a broad principles-based regulatory approach.

Specifically, some of the key changes included in the proposed rule would:

- Give credit union loan officers the ability to waive a personal guarantee;

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- Remove explicit loan-to-value limits and eliminate the need for a waiver process;
- Lift limits on construction and development loans; and
- Clarify that non-member loan participations will not count against the statutory member business lending cap.

In proposing these changes, the NCUA Board has followed the requirements related to the limitations placed on member business lending by the Credit Union Membership Access Act of 1998. While NCUA may make regulatory changes consistent with this law, we are also appreciative of your efforts in Congress to pass legislation to make statutory changes to the member business lending cap. For example, the agency has testified in support of two bills you have sponsored: H.R. 1188, the Credit Union Small Business Jobs Creation Act, and H.R. 1422, the Credit Union Residential Loan Parity Act.

The proposed rule is the latest product of NCUA's Regulatory Modernization Initiative, which I launched in 2011. The initiative balances strengthening regulations necessary to protect credit union members and the National Credit Union Share Insurance Fund with revising and removing regulations that limit flexibility and growth, without jeopardizing safety and soundness. NCUA remains committed to regulatory modernization, including modifying, streamlining, refining, or repealing outdated regulations such as the current rule on member business lending.

Thank you again for writing NCUA on this important issue. Please do not hesitate to contact me with any additional questions or concerns you may have. Your staff may also reach NCUA's legislative staff at 703-518-6330.

Sincerely,



Debbie Matz
Chairman