

June 8, 2017

Ms. Linda Jekel  
Director, Division of Credit Unions  
Washington State Department of Financial Institutions  
P.O. Box 41200  
Olympia WA 98504-1200

**RE: Comments on Proposed MBL Rule  
For Washington State-chartered Credit Unions**

Dear Ms. Jekel:

BECU appreciates the opportunity to provide comments on the Division of Credit Union's ("DCU's") proposed member business loan ("MBL") rule for Washington state-chartered credit unions. We welcome the DCU's efforts to update and streamline its current member business lending regulations as part of its modernization efforts. We particularly welcome all efforts to bring commercial lending regulation for credit unions more in line with those applying to other financial institutions.

**General Principles**

BECU generally favors a level playing field between federal- and state-chartered credit unions whenever possible. We believe that providing rules no more restrictive than those available to federal-chartered credit unions helps to promote the dual chartering system. As a result, BECU would prefer language in the state rule that is similar or identical to the federal MBL rule when possible and formatting that permits side by side comparison of the federal and state rule requirements. However, we also appreciate the DCU's efforts to provide greater flexibility for Washington state chartered-credit unions to administer their commercial lending programs. This includes efforts to ease unnecessary regulatory burdens and to simplify compliance.

**Specific Comments**

The DCU asked for specific comments on several matters. Our comments with regard to some of these are set forth below:

- *Should definitions be rewritten so they are easier to follow and understand?*

BECU generally believes that language in the state rule should mirror that in the federal rule, unless there is a significant advantage to simplifying or clarifying these definitions. We agree that the distinction between MBLs and "commercial loans" causes much confusion.

However, any clarification to these terms should preserve the distinction between loans that are subject to all of the requirements of a commercial lending program and those that are not.

In addition, other terms used in the federal rule, such as the definition of “construction and development loans,” could be clarified. In particular, this latter definition could more clearly distinguish loans that include future advances, but are used primarily for renovation. Such renovation efforts do not bear the same level of risk as does “ground up” construction and should not need to satisfy all of the requirements for originating and servicing construction and development loans.

In other cases, BECU would generally support simplification and clarification if the rewritten definitions reduce ambiguity.

- ***Should credit union have the option to put some commercial loan policy in procedures rather than in board approved policies?***

BECU supports moving as much of the technical or administrative detail required by the federal rule into procedures as possible, while still allowing the board broad oversight of the commercial lending program. Too much detail in a board-approved policy requires the board of directors to take on tasks that are best left to the expertise of the credit union management and trained lending, risk management, servicing or collection personnel. Requiring the board to approve and monitor such detailed operational processes, may detract from the primary functions of a board’s responsibilities – that of identifying the credit union’s strategic vision and evaluating overall business risks.

The policy requirements mentioned by the DCU (WAC 208-4060-050 (10 & (11)) appear to be much better suited to management oversight than direct board approval. Other areas that should be considered as more suitable for management-administered procedures include the (i) specific qualifications and experience required of personnel involved in underwriting, processing, approving, administering and collecting loans, as well as (ii) certain risk management processes, such as the use of specific loan covenants in particular loan documents.

- ***Should restrictions in WAC 208-460-070 and -080 on loans to one/associated borrowers be the same as federal rule and include the federal rule definition of “associated borrower?”***

BECU supports amending the calculation for the limit on loans to one borrower (including associated borrowers) to match the federal rule. We also support adopting the federal rule’s definition of “associated borrower.”

- ***Should WAC 208-464-110, WAC 208-460-120, and WAC 208-460-160 be eliminated?***

BECU believes that the minimum reserves for loan losses should be set in accordance with GAAP and that the arbitrary formulation provided in the table in WAC 208-460-120 should be eliminated.

BECU agrees that a separate record keeping requirement for MBLs is not necessary and so WAC 208-460-160 should also be eliminated.

- *Should the waiver application requirements set forth in WAC 208-460-100 be simplified?*

While BECU does not believe the current waiver process is overly burdensome, we support simplifying the waiver application process wherever possible. In particular, if the NCUA no longer requires waivers for certain requirements (e.g., the federal rule would not place a cap on construction and development loans as a percentage of net worth), then the formal waiver process should not include a requirement for the DCU to consult with NCUA before issuing such a waiver. We understand that the DCU would prefer to work closely with the NCUA when it is considering issuing a waiver, but suggest that such consultation should not be part of the formal regulatory scheme.

In addition, BECU would support language in this section specifically stating that waivers for the construction and development cap would be available to well capitalized credit unions with a mature commercial lending program.

On a related topic, we understand that the DCU's final rule will clarify that all existing waivers issued to state chartered credit unions will be grandfathered under the new rule. BECU supports expressly providing this grandfather provision in the language of the new rule.

#### **Additional Comments**

BECU has no other comments at this time, but may have additional comments on further specific changes to the rule language as those changes are proposed.

Sincerely,



Scott Strand, Senior Vice President

Member Lending, Business and Wealth/CLO