SALAL CREDIT UNION
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May 23, 2016

Ms. Linda Jekel
Director of Credit Unions
Washington State Department of Credit Unions
P.O. Box 41200
Olympia, WA 98504

RE: SUGGESTED ENHANCEMENTS TO WASHINGTON STATE MBL REGULATIONS

Dear Linda:

Thank you for allowing us to provide input on enhancements to Washington's Member Business Loan ("MBL") regulations. We appreciate the expanded authority Washington's credit unions have in providing services to our business members and communities through your leadership. Our suggestions are intended to focus on how we can improve choices to businesses as well as work to improve affordable housing throughout the State of Washington.

1. Loans on 1-4 family residential real estate for investment purposes should be excluded from the definition of a MBL. While these loans may have elements of commercial businesses and may be made to individuals or related parties who own multiple homes, often these loans are made to individuals who are buying one or two homes for their personal investments rather than for commercial business purposes. We often see individuals who want to diversify their investments out of the public securities markets and find real estate a much more stable and secure investment alternative. Because these loans are classified as MBL's, credit unions are at a competitive disadvantage versus commercial banks. We believe the risks in the investment property rental market are much less than commercial business loans. Helping to finance rental properties at competitive terms will add to the affordable housing inventory in our local communities.

   We do understand there are safety and soundness concerns with investment properties. However, we believe a much more efficient monitoring process would be to have credit unions have loan policy guidelines and concentration limits for this specific type of loan. Requiring them to be classified as MBL's increases the cost of originating and servicing these loans which decreases our ability to support this market.

2. Changes to enhance the requirements around unsecured credit lines:
   a. The $100,000 limit for unsecured business loans is too restrictive in today's marketplace. While we do not anticipate granting many large unsecured lines, from time-to-time borrowers inquire about larger lines; a waiver process does not permit an outstanding member experience. A more reasonable approach would be to increase the amount to $500,000.

b. We would support changes in policy to allow automated valuation services to support credit lines rather than having to obtain costly and untimely appraisals.
c. We would also support liens or Wild filings to be taken as an "Abundance of Caution" to support credit lines.
d. Finally, the undrawn portion of unsecured business loans should not count against the MBL cap. Unfunded commitments are already calculated as a component of risk-based capital. This double counting unnecessarily penalizes credit unions from offering credit lines.

3. We would support a change allowing credit unions to take equity positions in businesses as additional collateral and/or compensation for business relationships and lending. Small and start-up businesses are an increasing part of the Washington State economy. Technology is allowing more individuals and small teams to start businesses and successfully compete against far larger companies. Very often commercial banks refuse to offer financial services to these businesses because they are in start-up mode. This is a space some credit unions can find opportunities to support entrepreneurs and local communities.

   Experienced credit unions can evaluate and manage the risks in providing financial services to these companies. The businesses however need cash flow for operations. Risk- adjusted interest rates or very high fees decrease cash available for those businesses. Allowing credit unions to accept equity, options, or warrants from the businesses can offer a way to help some small and start-up businesses pay for their banking services. For the credit unions, they can realize returns commensurate with the risks taken in banking these businesses.

   We understand there will be questions around valuation, but there are acceptable methods to arrive at valuations ensuring safety and soundness for the credit unions and a balanced cost to the business.

We would be very interested in discussing these proposals in greater detail at any time.

Best regards,

Russell E. Rosendal
President and Chief
Executive Officer