

June 14, 2017

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. Changes to enhance the requirements around unsecured credit lines:
 - a. The \$250,000 limit for unsecured business loans is a welcome increase. While we do not anticipate granting many large unsecured lines, from time-to-time borrowers inquire about larger lines; a waiver process to allow unsecured loans up to \$500,000 would be helpful in today's marketplace.
 - b. 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.
2. 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,

A handwritten signature in blue ink, appearing to read "Russell Rosendal", with a long horizontal flourish extending to the right.

Russell E. Rosendal
President and Chief
Executive Officer