



## Remarks for DFI MBL Rulemaking Meeting April 26, 2016

### Commercial Lending History

TAPCO began making commercial loans in 1994. Historically it engaged in making a wide variety of loans including: C & I, Acquisition and Development and 1-4 family Spec Construction, as well as owner and non-owner occupied commercial real estate loans. During the economic downturn, TAPCO discontinued financing land acquisition, development, and construction activities and scaled back C & I lending, adopting a more narrow focus.

### Commercial Lending Managers' Experience in Commercial Lending

#### Member Business Lending Officer - 40+ Years of Experience

TAPCO's Commercial and Business Lending Officer's career began 40 years ago, with a National Bank headquartered in Tacoma, Washington. He began making small business, commercial Real Estate, and construction and development loans over 35 years ago. Following senior management responsibilities for CRE, C & D and Residential loan production, he was the Real Estate Credit Administrator for all of the regional bank holding company's subsidiary banks and the President of its Mortgage Servicing subsidiary, as well as its Appraisal Administration and ALLL committee. Following that company's acquisition, he worked for a Washington State Bank as a Senior Vice President and the Real Estate Group manager there. Responsibilities included the management of its portfolio of term commercial real estate loans, as well as its A & D, and spec construction loans, SFR family residential loans, and as the SVP of the Real Estate Group, had administrative responsibility for all related staff. He also worked for a SBA Certified Development Company engaged in the origination of SBA 504 loans, as a Vice President and Senior Loan Officer; and following that spent several years at a community bank as its Vice President and SBA Lending Manager, before joining TAPCO Credit Union as its Member Business Lending Officer in 2014.

Today he is responsible for TAPCO's commercial/member business lending, which primarily consists of the origination of small balance, long and short-term financing of investment properties for TAPCO's loan portfolio.



### **MBL Processor - 27+ Years of Experience**

TAPCO's Commercial and Business Lending Processor, has over 27 years of banking experience. She began her commercial lending career as a Loan Processor with a Sumner, Washington based community bank in 1998. Following gaining many years of commercial lending experience there and the bank's acquisition by a large regional bank, she was promoted to the position of Vice President and Commercial Loan Officer. She maintained a portfolio of small business and commercial loans, including CRE, construction, and A & D loans, of over \$50 million. Subsequent to that bank's acquisition, she held similar positions with two other large national banks, before joining TAPCO in 2012. She is currently responsible for the financial analysis, processing, closing, and servicing of TAPCO's commercial loan portfolio.

### **Underwriting Standards and Type of Business Loans Originated**

TAPCO is primarily engaged in assisting members with term commercial real estate loans, small balance equipment and rolling stock loans, and small working capital lines of credit. Underwriting includes the analysis of business, personal and global cash flows for business loans.

For owner-occupied real estate and for income producing properties, the properties primary debt service coverage and loan to value ratios must conform to established guidelines. By policy, advances are limited based on a debt service coverage ratio of no less than 1.20:1, and a maximum loan to value ratio for secured loans no greater than 80%. These guidelines do not include land, construction, or development loans, which are not currently being originated. All loans are underwritten to similar or more stringent standards than were used by the incumbents during their commercial banking careers.

Loan to value ratios of newly originated loans rarely reach the maximum and in the past year have ranged from 16% to 65%. Debt Service Coverage ratios have generally exceeded 1.30:1 to as much as 5.93:1. As such, it can be demonstrated that TAPCO typically underwrites its loans with low risk metrics and policy limits do not mirror its historical underwriting methodology.

Although TAPCO has curtailed C & D lending activities, it should be noted that the current rules are restrictive, limiting total C & D loans to 15% of capital, which sets an approximate \$4,000,000 limit for TAPCO Credit Union in this loan type. Consideration



of an increase in this limit should be given, to allow expansion of services, such that more than very small fraction of members could be assisted. It might be in keeping with the spirit of the NCUA's proposed rule changes, to allow credit union management and boards to, independently, set policies on portfolio concentrations with self-imposed limitations. Broad provisions of the proposed rules already provide guidance on the need for close attention to safety and soundness.

### **Success Stories: Members helped, who would not have been able to get the funding they needed elsewhere**

TAPCO CU financed the acquisition of an existing insurance agency by a new insurance agent, who started his new business venture, during the peak of the recession. The member was unable to secure financing elsewhere. TAPCO worked with the member creatively, through a process of identifying and collateralizing multiple assets as well as the assignment of cash flow from commissions, to ensure repayment. The insurance agency has operated successfully and is scheduled to retire the debt at its maturity this year.

TAPCO CU financed the start-up and expansion of a commercial landscaping company, which remained profitable during the economic downturn, and continues to be well capitalized. The company has also been assisted with acquisition financing for several large ticket pieces of equipment, the most recent of which was \$200,000. The company continues to grow and diversify its lines of business in its market segment today. TAPCO CU assisted a low-income, multifamily property owner with financing the acquisition of a non-conforming cottage-style rental property. That loan helped to fill an affordable housing need in a local community.

### **Specific examples of business loans that TAPCO has not been able to fund due to regulatory barriers or an uneven playing field**

One borrower chose bank financing versus terms offered by TAPCO Credit Union, because they were able to obtain non-recourse financing TAPCO was unwilling or unable to provide.