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May 2, 2005

National Credit Union Administration
Attn: Mary Rupp, Secretary of the Board
1775 Duke Street
Alexandria, VA 22314-3428

Dear Ms. Rupp:

As the CEO of Central Minnesota Federal Credit Union, I am writing in response to your proposed changes in your definition of Construction and Development lending as it pertains to 723.4. Should the proposed become a reality, it will have a negative impact on our ability to serve our current and potential members. These proposed changes would hamper the member business lending activities of CMFCU and potentially force us to scale back or discontinue service to existing and proposed new members.

Additionally, such changes will provide our competition, namely banks, with a strong competitive advantage as a result of increased regulatory compliance. I believe that the construction aspect of this proposal and of this regulation should be discontinued.

I agree that there is a certain amount of risk associated with any lending, but if underwritten, closed, serviced, and monitored properly, the risks can be minimized and managed to ensure the safety and soundness of any financial institution. The above referenced proposal has some merit and I understand NCUA's concerns, but it is not a one size fits all regulation.

Central Minnesota Federal Credit Union has a long and successful history of providing such services. To be required to operate within such a broad definition of construction and development lending, it potentially encompasses a significant portion of our loan portfolio, becomes an extremely arduous task, and a great source of debate. Examples of this include: what dollar amount, if any, could be the threshold to deem improvements to property and buildings as a construction or development loan? Would we need to consider cosmetic improvements like painting, wall coverings, carpet, and landscaping construction purposes for an existing or new credit? Would we need to classify normal repair items like replacing roofs, siding, parking lots, and heating and cooling systems, all of which have useful life expectancies? I feel that there needs to be some sort of realistic

measurement in place to make such a determination. One possible example could be, are the improvements greater than 50 percent of the property's current appraised value?

To require segmenting construction and development lending out of our entire portfolio becomes a daunting task, especially when you consider the number of self employed and small businesses that are served and represented by credit unions. Small business owners make up a major share of the national economy. The banking industries, particularly the large banks, are turning their focus away from these businesses. Now is not the time to over regulate, but a time to encourage greater participation and hold true to our mission of helping people, especially the little guy.

Small businesses do not solely rely on specific member business lending products and services for the necessary working capital to grow, improve, and upgrade their operations and facilities. There are significant numbers of individuals that rely on credit cards, both personal and corporate, home equity lines, loans, and cash out refinance mortgages on their personal residences to provide them with capital. In short, the task of making the determinations that NCUA is requesting becomes a burdensome task that will spend valuable resources of credit unions and NCUA regulators to monitor.

As the 12th largest member business lending credit union in the nation and the largest agricultural lending credit union, I can assure you that we have and will continue to ensure the safety and soundness of our credit union. We do not enter into such relationships without first examining the risks and costs of monitoring and servicing such loans. I feel that there are systems already in place to ensure that safety and soundness concerns of NCUA are addressed.

One requirement is capital. NCUA should have higher requirements for credit unions engaged in such lending activities. Over the years, we have been criticized for our excess capital and been questioned repeatedly for our higher than peer levels. In light of NCUA's recent concerns, they may now be viewed in a more favorable light. Another requirement is loan loss reserves. Again, NCUA could have higher standards for institutions engaging in such lending practices. We have been questioned about our level of reserves and if they are excessive. We intentionally have maintained higher than peer levels because of the complexity and size of our loan portfolio.

In addition to reserves, there are many other safeguards in place to detect potential problems before they occur and have a negative impact on financial performance. People are the key to the success and we have our most experienced lenders engaged in these lending activities. NCUA has a 2-year experience requirement for lenders engaged in member business lending. This could potentially be raised to 3 or 4 years or require additional education or training for lenders wishing to engage in construction and development lending.

Economies of scale are a very important consideration in this matter. The risks associated with lending in credit unions of varying sizes are vastly different. As credit unions grow and evolve, so too do their systems. A credit union with 5 million dollars in

assets does not function like a credit union with 300 million dollars in assets. This proposal may be an issue that could be incorporated into a reg flex type program that takes size, capital, reserves, experience, and CAMEL rating into consideration when engaging in such activities.

My experience with NCUA has been that you employ a competent staff that has a sincere interest in the viability and performance of credit unions. We have been very fortunate that our examination staff has taken on a partnering role and worked with us over the years to develop and improve our systems of managing risks. Our credit union has even provided training to our local NCUA examiners. Together we work to develop and refined policies and procedures that serve our members while ensuring the safety and soundness of our credit union.

In addition to the NCUA oversight, we have external audits that are conducted by third party vendors that have extensive experience in auditing not only credit unions, but also commercial banks that are engaged in such practices. We are subject to SBA, FHLB and FSA reviews and audits to participate in their government sponsored programs. Through all of these reviews and audits, we have proven that risks have been minimized and that we continue to operate in a sound and prudent manner.

NCUA recognizes the benefits of utilizing government guaranteed programs such as SBA. I would agree that there are benefits, but there are some costs that are associated with these guarantees that should not be borne by all members. Such programs are not suitable and are unnecessary for all members. They can become cost prohibitive and uncompetitive for some members and the credit union. CMFCU is currently a FSA certified lender and we are seeking to become a preferred lender. We are also the largest SBA lending credit union in the State of Minnesota. Even with our experience and use of such programs, it would become unrealistic and overkill to expect all members to participate in these programs and pay the costs associated with them.

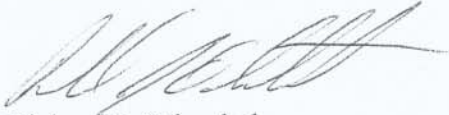
As a credit union, we have been very fortunate to been able to work outside the restrictions of the member business lending associated with HR 1151. I feel that as an organization we have recognized the risks associated with these types of loans. We have developed systems to ensure their performance and continue to look for opportunities to further protect the assets of the credit union while serving our members. Over the last 66 years, the losses that we have incurred with construction and development lending have been minimal. The losses when compared to our consumer loan portfolio have been a non-event. In comparison to our peers, our total charge-off ratios have been consistently lower than that of our peers. Currently, we are also experiencing delinquencies that are at record lows.

Working within the Credit Union industry has been a rewarding experience as I am a product of the Banking environment. Putting people before profit and being part of an organization that people help people has been very fulfilling. Not to be able to serve our member's requests would be a disappointment and even mentioning the possibility of converting to a bank to serve our members needs is not a prospect that I would welcome.

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I would like to thank NCUA for your consideration in this matter. Should NCUA need additional information, please feel free to contact me. I am providing NCUA with an open invitation to an on site visit in order to meet with our staff and to view our operations. The staff of CMFCU would also be willing to personally meet with you at any of your locations to further testify and discuss this matter.

Respectfully,



Richard J. Odenthal
CEO

Enclosures: St. Cloud Times Article
Albany Branch Manager Community Analysis

CENTRAL MINNESOTA FEDERAL CREDIT UNION
ALBANY OFFICE
BRANCH COMMUNITY ANALYSIS

Community of Albany

Tom Schneider, City Clerk of Albany, provided the following information as to the number of residential and industrial building permits that were issued from 2002 to 2004.

Residential New Construction Building Permits		Industrial and Remodeling Permits	
2004	49	2004	11
2003	44	2003	15
2002	33	2002	16

The cost associated with these building permits were \$7.3 million in 2004, \$5.6 million in 2003 and \$6.9 million in 2002.

The Community of Albany has many new developments, both residential and industrial, in progress or proposed at this time.

The Lumber One Development is located on the North side of Albany, which consists of 60 acres. This area is being developed in 3 phases. The first phase is complete and consists of 44 lots. The 2nd phase is in progress at this time. When the 3rd phase is complete, there will be 132 lots in this development. Lumber One is in the process of partnering with a Mortgage Company. CMFCU handling loans out of this development would be unlikely if Lumber One begins handling it's own mortgages.

Trails Edge Development is located on the North side of town adjacent to the Lumber One Development. This development consists of 29 acres, which will provide 67 new residential lots. The City Council has just recently approved the final plat for this development.

Whispering Oaks at Two Rivers is located East of County Rd 54 on the North side of I-94 and East of the Albany Golf Course. This development is in the early stages of development. It will contain 74 new lots. The Whispering Oaks project, which includes water mains, sanitary sewer, storm sewer, streets and curb and gutter, will cost about \$2 million, of which \$1.7 will be assessed to the development.

Leo Sand is in the preliminary stages of developing 16 acres East of the Albany Golf Course. This was formerly the Carl Obermiller property.

The Albany Business & Industrial Park is a long range plan for increased industrial growth in Albany. It is located south of I-94 and being developed by Roger Dowell. Roger owns Rainbow Restoration, which will be the first business to be located in the

new development. Phase one of the development is 56 acres consisting of 19 lots. The long range plan will have the development spreading out over 96 acres. It is expected that it will take upwards of 15 years to fill up all of the lots that will be available in the new Business & Industrial Park.

Albany Area Schools is proposing construction to both Avon Elementary and Albany Elementary and the Junior/Senior High School. There is a vote coming up on May 17th. The residents of the school district will be voting on 2 separate questions in regards to this proposed construction. The first question proposes the additions to the Elementary Schools and the upgrades to the Junior High Technical Education area. The 2nd question adds a Community Fine Arts Center to the present Junior/Senior High School. The passing of these proposals could affect future growth in the Albany Area. Prospective new residents of the Albany/Avon areas look at Albany Area Schools as one of the determining factors as to whether or not they wish to live and raise their children in this community.

Community of Avon

Water's Edge Addition, the Brix Property, is made up of 125 lots with the option to purchase more land. Currently 6 new homes have been built and 2 more are under construction. The contractor on the street and sewer upgrades was SJ Louis Construction of Waite Park. The lots are being sold through Klein Goerger Homes and Noble Custom Homes. The time line for completing this development has not been determined at this time.

There are 306 acres west of town that could be annexed to the city as well. 60 acres have already been annexed. At this time the City does not expect any development to take place on the newly annexed 60 acres for at least the next 12 months. It could be another 2-4 years before any additional acreage would be annexed to the City.

In the past 3 months there has been interest by Super Value to put a grocery store where the baseball park is located West of the Avon Quik Mart. There have been numerous meetings in Avon regarding this. At this time no final decision has been made in regards to the possible location of the Super Value.

A McDonalds restaurant has been added to the Avon Quik Mart and will be opening at the beginning of May 2005.

Community of Holdingford

The Holdingford City Clerk indicated that there are a few new developments in the works in the Holdingford area.

Holding Heights will consist of 48 acres made up of 70 lots. This development is located on the East end of town, South of Holdingford High School. This is a 10 year project.

There are 40 acres south of town, East of Co Rd 9 that are proposed to be annexed to the city as an Industrial Park.

South of Town, West of Co Rd 9, there are 40 acres that are proposed as a residential development. There is no time line for these developments at this time.

St. Cloud prepares for booming development



Projects on south, east sides will make sure growing areas have roads, utilities

By Michelle Tan
mtan@stcloudtimes.com

Jodi Bump isn't lacking for neighbors.

"I can't even count how many houses have been built since I've been here," she said. "It's just exploded."

Bump moved into her house in the Deer Creek Crossing development more than two years ago. The 160-acre development lies in St. Cloud's southwest corner, where growth is abundant and new homes are common.

Bump's neighbor, Robin Poepping, agreed. Poepping moved into her house about six months after Bump.

"When we moved in here, this road was a dead end," Poepping said, pointing to 21st Avenue South. "They never stop building."

There are about 2,000 acres of land in St. Cloud north of Interstate Highway 94 and south of the city's urbanized areas that can be developed for homes, making that part of town ripe for at least 25 years of growth and new houses, city planning director Matt Glaesman said. There's also growth on the city's East Side, including the massive Waters Edge at Donovan Lake development that's set to add 1,261 housing units to St. Cloud in 10 years.

So as developers continue to build and residents continue to buy, city leaders are planning years into the future to support St. Cloud's new homes and businesses.

"We're going to continue to be an attractive place to live," Glaesman said. "We're seeing increases in all areas."

Planning is key, because it takes a lot of money to keep up with and support

See DEVELOP, 4A ▶
See the locations of 2 developments/4A



Times photo by Jason Wachter, jwachter@stcloudtimes.com

Electrician Jim Kollmann of Bertram Electric splices wires together April 20 at a new home in Deer Creek.

Growth by the numbers

Here are a few examples of how St. Cloud has grown and changed.

■ In 1997, the city paid about \$5,000 an acre when it bought land to create Neenah Creek Regional Park.

This year, the city bought property near the park for \$35,000 an acre.

■ The population in St. Cloud was about 64,000 in 2003 compared with about 43,000 in 1980, 49,000 in 1990 and 59,000 in 2000.

■ Existing urban use

areas in the city have grown to 16,000 acres in 2003 from 8,300 acres in 1993.

Specifically, residential areas have increased to 5,800 acres in 2003 from 2,600 in 1993.

Commercial areas have increased to 962 acres in 2003 from 520 acres in 1993, and industrial areas were at 1,282 in 2003 compared with 600 acres in 1993.

The numbers for 2003 reflect new developments and new growth, as well as existing areas that became part of the

city when it merged with St. Cloud Township.

Source: City of St. Cloud planning office.

Prices

Median home prices in St. Cloud area:

■ 2004: \$160,000.

■ 2003: \$151,060.

■ 2002: \$138,900.

■ 2001: \$129,150.

Median building lot prices in St. Cloud area:

■ 2004: \$53,000.

■ 2003: \$42,000.

■ 2002: \$40,000.

■ 2001: \$33,500.

Source: St. Cloud Area Association of Realtors.

From Page 1A

Develop

growth, Glaesman said.

Upcoming work

The city is working on a number of projects or priorities as it continues to plan for its burgeoning neighborhoods.

■ St. Cloud is working with Sauk Rapids, Sartell, Waite Park, St. Joseph and St. Augusta on a study and plan to expand St. Cloud's wastewater treatment plant. All six cities are served by one plant.

The plant serves about 100,000 people and has a capacity of 13 million gallons a day, said Steve Gaetz, director of public services for the city. That's equivalent to nine full tanks the size of the water tank near the Municipal Athletic Center. The plant runs at 10 million to 11 million gallons a day, he said.

"I wouldn't be surprised if we double that facility," Gaetz said about the plant, which was built in the late 1970s.

Any expansion or work on the plant probably won't begin for four to five years, Gaetz said.

■ The city is focused on transportation, or roads, as the city gets more congested, Gaetz said.

"That's the area we struggle on," he said. "There's just not enough money."

St. Cloud Area Planning Organization is working on its transportation master plan for the area. The plan should be done in late summer or early fall.

■ The city plans to expand a trunk sewer line that runs through East St. Cloud and into Sauk Rapids to support sewer needs for new neighborhoods.

Preliminary estimates show St. Cloud's portion of the project — about six miles of pipe — could cost \$6 million.

City leaders will meet with Sauk Rapids leaders next year, when they have a better idea of how the wastewater treatment plant study progresses, Gaetz said.

The new sewer line is needed because the East Side is at its capacity. Any new developments, apart from those already under way, will have to wait for service, Glaesman said.

"When you're developing these days, it's critically important to have public utilities available," said Ed Schnettler, president of Schnettler Properties, the St. Cloud company that developed Deer Creek Crossing. "Water and sewer is really a critical issue, so your development is very limited



Times graphic by Lisa Mueller. lmueller@stcloudtimes.com

in that way. You can't jump way out somewhere and expect to have it."

■ St. Cloud could build a new fire station and relocate an existing fire station to support the growth in the southwest part of the city.

A study released last month showed the fire department needed to improve its coverage and response times to those parts of the city because of the rapid growth.

Mixing it up

The area is experiencing steady, quality growth, said John Pearson, a real estate agent with Prudential Pladson Realty in St. Cloud.

"Healthy growth means that you've got citizens and cities working together, controlling the growth so it's not random places that're going in," Pearson said.

"They work together to make sure (growth) is tied in with sewer services and fire services and other services."

Growth must complement what exists in the city, Glaesman said.

"The idea is avoiding concentrations of one particular use in the city," he said.

A mix of homes, businesses, apartment buildings and other buildings ensures certain roadways or utility lines aren't overburdened. It also provides for more social interaction, he said.

A good example of mixed-use neighborhoods is the area near Westwood Elementary School.

The developer of Waters Edge

at Donovan Lake believes his development will fill a demand for something different from what's more typically available in the city.

"If people have their choice, they want to live on a lake three to five minutes from town," said Rick Lewandowski, owner of Waters Edge Development LLC in Anoka. "They feel like they're in the country, but they have access to everything in town. The timing was right for a lake community because that's always a draw over other types of property."

Lewandowski, a Foley native, also owns 600 acres of land in St. Cloud's south side. He hopes to develop that land when municipal sewer and water service is available there.

"We sense there's a market for above-average, upscale communities in St. Cloud," Lewandowski said.

Building community

Schnettler is trying to get a good mix of residents in Deer Creek Crossing, which is where he also lives. The development, which has homes that typically are worth \$300,000 and more, boasts young families, empty-nesters, teachers, doctors, lawyers, retirees and more, he said.

"When I think of developments, I don't only think of buildings and construction and lot layouts," Schnettler said. "I also really think about what makes community. To me, developing is more than just laying out attractive land."

The growth enjoyed by St. Cloud and its neighboring cities is expected to continue, St. Cloud council member Mike Landy said. Landy represents Ward 6, which covers the southwest portion of the city.

"There's growth all over Central Minnesota," Landy said. "We're a very vibrant community, very vital, and I don't know if that's going to slow down."

St. Cloud is attractive because of its proximity to Interstate Highway 94, its schools and its relatively affordable land, Landy said.

"We're not the little town we were," he said. "What we need to do is grow the economy and grow the jobs. What we don't want to be is a commuter village. It's a different challenge than the housing."

The growth in St. Cloud matches that of cities along the interstate from the Twin Cities, and it has attracted developers from the metro area, Landy said.

"I think those people realize that we exist now, and their view of the Twin Cities now includes us," he said.

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