



NCBANKERS

NORTH CAROLINA BANKERS ASSOCIATION

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August 13, 2008

DELIVERED VIA E-MAIL

Ms. Mary Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428
regcomments@ncua.gov

Re: Comments on Advanced Notice of Proposed Rulemaking for 12 CFR Part 723; Member Business Loans; 73 Fed. Reg. 35977 (June 25, 2008)

Dear Ms. Rupp:

Thank you for this opportunity to comment on the proposed rulemaking relating to member business loans made by credit unions. The North Carolina Bankers Association (NCBA) is a trade association representing all 144 banks and savings institutions headquartered or with branches in North Carolina. The membership also includes a number of trust companies. For the reasons stated below, the NCBA strongly opposes this proposed rulemaking.

The rulemaking would lower equity requirements for construction and land development (CLD) loans and fleet financing, expand the involvement by credit union service organizations (CUSO) in business lending, and increase the use of waivers under 12 CFR 723.10 from certain loan requirements. In 1998, Congress placed limits on business lending by credit unions to ensure credit unions remained focused on their mission of serving people of modest means and to ensure the safety and soundness of credit unions and the National Credit Union Share Insurance Fund. However, since the beginning of October 2003, NCUA has repeatedly amended its rules to make it easier for credit unions to participate in business lending.

This latest proposal is occurring at the same time as an increasing number of credit unions are reporting financial problems arising from defaulted business loans. The delinquency rate of member business loans at federally-insured credit unions was up nearly 60 percent at the end of the first quarter of 2008 from the period a year ago, and the value of delinquent loans increased 91 percent between March 2007 and March 2008. Raising the maximum LTV ratio would only increase the potential size of CLD loan losses. The risk of losses is compounded when business loans are made in areas outside a credit union's local market. A couple of recent credit union failures highlight these dangers and call into question whether the credit unions would have been at risk had they focused on their local markets and their primary mission to serve the financial needs of people of modest means.

The NCBA also is concerned about other facets of the proposed rulemaking. The proposed rulemaking included an assertion that credit unions may not be taking full advantage of waiver opportunities. On the contrary, it appears to us that the waiver process already carries the potential for abuse by allowing for a circumvention of the statutory business loan cap of 12.25 percent of credit union assets. The changes with respect to fleet loans and CUSO involvement are also worrisome. Fleet loans are more risky than other types of vehicle loans because of the greater risk of depreciation, and permitting CUSOs to originate business loans circumvents the limitation imposed by Congress on credit union business lending. The NCUA should end the circumvention of statutory restrictions and count all credit union interest in CUSO business loans within the parameters of the limitation on exposure to business lending.

As both a regulator and an administrator of a federal deposit insurance fund, NCUA has an obligation to ensure that credit unions are meeting their statutory mandate of serving people of modest means and are operating in a safe and sound manner. The proposed rulemaking would undercut these twin mandates and should be withdrawn.

Thank you for your consideration of these comments.

Sincerely,

A handwritten signature in cursive script that reads "Thad Woodard".

Thad Woodard