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Sauk Centre, MN 56378

May 6, 2005

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

Ladies and Gentlemen:

I am writing you today in regards to the proposed changes to the member business lending rule, parts 723.3 & 723.4.

I am a credit analyst at Central Minnesota Federal Credit Union in Melrose, Minnesota. We are the largest agricultural lending credit union & also the 12th largest member business lending credit union in the nation. As an institution in a rural area of Central Minnesota, a vast majority of our member business lending portfolio consists of small businesses & farmers. As a result, we have a number of members that choose to participate in various government guaranteed loan programs such as SBA, RFA, and FSA to name a few. The October 2004 amendment to permit credit unions to make SBA guaranteed loans under SBA's less restrictive rules appears to be well received and should include other government sponsored programs. Also, loans made with these types of guarantees should be excluded from the definition of construction and development loans under part 723.3. The backing of the government eliminates nearly all of the risk that C&D loans may pose if not properly managed.

This point brings me to my main purpose for writing you. The proposed definition change of "construction and development loans" will have a significant, lasting negative affect on our credit union and the 27,000 members that we currently serve, not to mention others who may considering Central Minnesota Federal Credit Union for their financial needs. Not only does our field of membership serve a rural area, but it also serves an area that is seeing rapid growth and development. There are countless acres in the St. Cloud, Minnesota metro area that currently are under development or have the potential for development as the area continues to grow. In addition, the St. Cloud area supports a large rental community, because there is a large state university in addition to a technical college and several business/specialty colleges. The proposed definition change will limit our ability to help members convert current residential property to rental property or to construct new rental property.

There are a number of factors that should be carefully considered before adopting the proposed revision. My main concern lies with the definition itself. What is considered an improvement? All rental, commercial and industrial properties require constant upkeep & maintenance to retain its value. While some types of maintenance are minor, such as painting, other types are more extensive, such as replacing a leaky roof. I feel that there will need to be a precise definition that encompasses what types of activities are to be considered improvements or conversions.

I also feel that the experience level of the lender servicing this type of loan, as well as the experience level of the institution providing the financing, should also be taken into consideration. Obviously, a junior lender with limited experience may not be fully aware of the risks inherent to underwriting C&D loans; however, a seasoned lender will know now to carefully underwrite & monitor these types of loans. Also, an institution that has a history of lending in this area has first had experience monitoring C&D loans and should have a documented charge off history for this type of loan. I feel that institutions that have more experience and have a documented history of low charge offs versus other loan types should have a higher limit. A percentage of net worth is not always a clear indicator of how much of this type of loan that an institution can handle.

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Our institution has many seasoned lenders and some have been with this institution for 10+ years. Also, Central Minnesota Federal Credit Union has been involved in this type of lending activity since our inception in 1938. We are well known throughout our field of membership as a financial institution that is willing and capable of financing construction and development loans. We are known to have lenders with the expertise to service the loans, while providing excellent member service. Limiting our ability to continue to meet the needs that our membership has grown to trust us to provide will seriously hinder our growth & and will cause members to lose trust in the credit union that has always be willing and able to help them.

Finally, I would encourage you to consider the members' equity in the property. A member who has owned a piece of property for 20 years and has 80% equity in it poses substantially less risk than a member who has only 20% equity in a property. The member with 80% equity stands to lose much more than the member with only 20% equity and, therefore, lowers the inherent risks out of the gate.

Thank you for taking the time to consider my input. While I understand the need to impose regulations to help credit unions limit their risk, taking on and managing risk is part of the day-to-day routine of a credit union. The proposed definition for construction & development loans is trying to eliminate nearly all of the risk in servicing this type of loan, which will only end up hurting many credit unions in the long run.

Respectfully,



Sara Fletcher