



June 20, 2005

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

RE: Comments on Proposed Rule 723, Member Business Loans

Dear Ms. Rupp:

On behalf of the National Association of Federal Credit Unions (NAFCU), the only trade association that exclusively represents the interests of our nation's federal credit unions (FCUs), I am responding to the National Credit Union Administration's (NCUA) request for comment on proposed amendments to 12 C.F.R. part 723. The proposed rule: 1) clarifies the minimum capital requirements a federally insured corporate credit union (Corporate CU) must meet to make unsecured member business loans (MBLs) to its members other than member credit unions and corporate credit union service organizations (Corporate CUSOs); (2) revises the definition of "construction development loan" to include loans for renovating or developing property owned by a borrower for income-producing purposes; and (3) solicits comments on how the MBL rule may be broadened to enable federal credit unions to participate more fully in other government guaranteed loan programs.

Corporate Credit Union Capital Requirements and Amendments to Net Worth Definition

NAFCU supports the proposed change to the definition of corporate credit union capital requirements. NAFCU believes that this change clarifies the difference between the more general capital requirements for natural person credit unions and those for corporate credit unions. NAFCU also supports the changes to the MBL definition of net worth to be in keeping with the definition of net worth for prompt corrective action purposes.

Construction or Development Loans

In general, NAFCU supports expanding the definition of construction loan to include property that is already owned by an individual. NAFCU does not, however,

Ms. Mary Rupp

June 20, 2005

Page 2 of 3

support the current language of the proposed change to the definition of “construction or development” loan and believes that the definition needs further refining to avoid any unintended results from an examination standpoint. By expanding the definition of construction loan to include property that is already owned by an individual, the distinction between a construction loan and a home improvement loan is diminished. True construction and development lending is higher-risk since property is being converted to another use. The definition that NCUA proposes does not adequately address the materiality of the change to the property that is necessary to define what constitutes a construction or development loan to merit this higher-risk loan.

The proposed definition states:

“Construction or development loan is a financial arrangement for acquiring property or rights to property, including land or structures, with the intent to convert it to or improve it as income-producing property such as residential housing for rental or sale; commercial use; industrial use; or similar uses. Construction or development loan also is a financing arrangement for renovating or otherwise developing property, including land or structures, already owned by the borrower or that the borrower already had right to, with the intent to convert it to or improve it as income-producing property such as residential housing for rental or sale; commercial use; industrial use; or similar uses.”

Although the language of the second sentence of the definition mirrors that of the first sentence, because the property is already owned by an individual, the term “or improve it” does not necessarily have the same meaning as it does in the first sentence. For instance, an individual could own a 50-unit apartment building and decide to improve the building by putting in new carpet to attract a better clientele. A loan for new carpet does not rise to the level of risk that a traditional construction loan is designed to address. Accordingly, NAFCU suggests that NCUA address the level of “improvement” needed to classify an improvement loan as a construction loan. In the alternative, NAFCU suggests that the words “or improve it” be eliminated from the second sentence of the definition.

Government Guaranteed Loan Programs

Recently, NCUA expanded the MBL rule to permit credit unions to make loans under the requirements of the Small Business Administration (SBA) program. NCUA now requests comment on the expansion of the rule to other government guaranteed programs. NAFCU supports expanding the MBL rule to permit credit unions to make business loans under the requirements of any government guaranteed program. If NCUA decides to limit the rule to certain programs, then in particular NAFCU requests that NCUA amend the rule to permit FCUs to follow the loan requirements of Farm Service Agency guaranteed loan programs to the extent they are less restrictive than NCUA rule requirements. NAFCU has heard from credit unions that wish to participate in these loan

Ms. Mary Rupp

June 20, 2005

Page 3 of 3

programs and believes the programs should be afforded the same treatment in the MBL rule as SBA guaranteed programs.

NAFCU would like to thank you for this opportunity to share its views on this proposed rule. Should you have any questions or require additional information please call me or Carrie Hunt, NAFCU's Associate Director of Regulatory Affairs, at (703) 522-4770 or (800) 336-4644 ext. 234.

Sincerely,

A handwritten signature in cursive script, reading "Fred R. Becker, Jr.", positioned to the left of a vertical red line.

Fred R. Becker, Jr.

President/CEO

FRB/crh