

June 17, 2005

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

Re: Comments on Part 723 Member Business Loans

Dear Ms. Rupp,

The Georgia Credit Union League (GCUL) appreciates the opportunity to comment on the National Credit Union Administration's proposal to revise its member business loans (MBLs) rule. GCUL is the state trade association and one member of the network of state leagues that make up the Credit Union National Association (CUNA). GCUL serves approximately 200 credit unions that have over 1.7 million members. This letter reflects the views of our Regulatory Response Committee, which has been appointed by the GCUL Board to provide input into proposed regulations such as this.

Background:

NCUA is proposing to amend its MBLs rule to: 1) clarify the minimum capital requirements a federally insured corporate credit union (Corporate CU) must meet to make unsecured MBLs to its members other than member credit unions and corporate credit union service organizations (Corporate CUSOs); 2) revise the definition of "construction or development loan" to include loans for renovating or developing property owned by a borrower for income producing purposes; 3) revise the definition of "net worth" to be more consistent with how that phrase is defined in the Federal Credit Union Act (Act) and NCUA's prompt corrective action regulation (PCA); and 4) respond to a request for comments on how best to amend the MBL rule to enable credit unions to participate more fully in government guaranteed loan programs.

Summary of GCUL's Position:

Corporate Credit Union Minimum Capital Requirements

MBLs made by corporate credit unions to member credit unions and Corporate CUSOs are exempt from the MBL rule. MBLs made by corporate credit unions to other members,

however, are subject to the MBL rule. Accordingly, in those instances where the MBL rule applies, a corporate credit union must comply with the rule's collateral and security requirements. NCUA proposes to amend the MBL rule's capital requirements for unsecured MBLs to accommodate the differences between the more general capital requirements for natural person credit unions and those for corporate credit unions. We support this proposed clarification. Consistency is paramount in order to avoid any potential confusion.

Definition Revisions

“Construction & Development” Loans:

The MBL rule's current definition of “construction or development loans” is limited to financing arrangements for acquiring property or rights to property to convert it to an income producing purpose. This definition excludes a loan to a borrower, who already owns or has rights to a property, to convert it to or improve it as income producing property. NCUA believes an appropriate test for determining if a loan is a construction or development loan is whether the loan will be used to renovate or otherwise develop a property for an income producing purpose. NCUA does not believe loans for these purposes, the essential nature of which is related to construction or development, should be excluded from the definition of “construction or development loan” just because the borrower has already acquired the property or rights to it. Accordingly, NCUA proposes to revise the definition of “construction or development loans” as discussed. While we agree with the intent to clarify an existing definition, in this case, we believe the change would unintentionally subject credit unions to negative consequences and therefore we do not support this proposed revision.

Construction and development loans have very stringent guidelines that must be adhered to. For example, the borrower must have a minimum 25% equity interest. Additionally, these loans are subject to on-site inspections, a pre-approved schedule of draws and written inspection reports. In many cases, members already own a rental property and only need to make minor repairs such as a new roof or a repainting. These are relatively minor activities that would unintentionally subject a credit union (and its borrower) to the aforementioned burdens. By applying stringent restrictions to construction & development loans within the context of the already-strict MBL rule, NCUA is indicating that these loans are inherently riskier than other types of loans.

“Net Worth”:

The MBL rule defines the phrase “net worth” slightly differently than it is defined in the Federal Credit Union Act and Prompt Corrective Action (PCA) Rule. To avoid confusion, NCUA proposes to revise the definition of “net worth” in the MBL rule to be the same as in PCA. The PCA rule's definition of “net worth” is an expanded version of the Act's. The PCA and Act definitions both state that secondary capital accounts are

counted in the net worth of low-income credit unions. We support this change in definition.

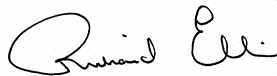
Additional Government-Guaranteed Loan Programs

In October 2004, NCUA amended the MBL rule to permit credit unions to make SBA guaranteed loans under SBA's less restrictive lending requirements instead of under the more restrictive MBL rule. NCUA is interested in comments on whether to broaden the MBL rule in this regard, and, if so, if it is better to expand it to permit only specifically identified programs or to permit all such programs.

Government-guaranteed loan programs can serve certain niches of the small business market. For example, both the USDA and FSA have programs that would benefit small business members, particularly in the rural and underserved areas. These should be treated the same as SBA-guaranteed loans. Additionally, we believe that any government-guaranteed loan program should be excluded from the MBL guidelines. We believe it is more important for NCUA to be focused on the credit union's ability to close and administer these loans, particularly as they relate to the requirements for continuing the guarantees.

Thank you for the opportunity to comment on the proposed revisions to NCUA's MBLs rule. If you have questions about our comments, please contact Cynthia Connelly or me at (770) 476-9625.

Respectfully submitted,



Richard Ellis
Vice President/Credit Union Development
Georgia Credit Union League