
From: Craig Litchfield [mailto:CraigL@cnbankpa.com]

Sent: Wednesday, August 13, 2008 11:54 AM

To: _Regulatory Comments

Subject: Craig Litchfield - Comments on Advanced Notice of Proposed Rulemaking for Part 23

Ladies and Gentlemen:

We oppose the expansion of Federal Credit Union business lending. Business lending is inherently more risky than consumer lending and increases the risk of loss to the National Credit Union Share Insurance Fund (NCUSIF). Historically, business lending by credit unions has been a major contributor of losses sustained by the NCUSIF.

- The recent failures of Norlarco Credit Union and Huron River Area Credit Union highlight the inherent risk associated with business lending by credit unions.
- The delinquency rate of member business loans (30 days or more past due) at federally-insured credit unions stood at 2.58 percent at the end of the first quarter of 2008 - up by nearly 60 percent from a year ago. Even more disturbingly, the value of delinquent business loans went from \$351.7 million in March 2007 to \$672.2 million in March 2008 - an increase of 91 percent.

Credit union regulators, at both the state and federal level, have demonstrated a weak track record of evaluating and managing the type of risks involved in commercial lending. The Government Accountability Office (GAO) warned about this in 2003: "[S]ince member business loans constitute only a small percentage of credit union lending, most NCUA examiners will not have significant experience looking at this type of lending activity. In contrast, banks and thrifts offer these loans to a much greater extent than credit unions and their regulators do have experience in this area." The GAO was skeptical that NCUA was up to "the challenge to ensuring that it is adequately prepared to monitor" the expansion of credit union business lending.

The lowering of equity requirements for construction and land development loans and fleet financing; the expansion of involvement by credit union service organizations (CUSO) in business lending; and greater use of waivers, especially with regard to loan participations, would only increase risks. Such an expansion of risk is incompatible with NCUA's responsibility as the administrator of the NCUSIF.

Craig G. Litchfield

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General Eric Shinseki, Chief of Staff, US Army

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