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June 20, 2005

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

RE: Comments on Proposed Rule Part 723, Member Business Loans

Dear Ms. Rupp:

The Pennsylvania Credit Union Association (PCUA) appreciates this opportunity to provide comments to the National Credit Union Administration (NCUA) on its proposal to update its member business loans (MBL) rule to address current regulatory concerns.

The PCUA is a statewide trade association that represents nearly ninety (90%) percent of the approximate six hundred and sixty (660) credit unions located within the Commonwealth of Pennsylvania. To respond to the Board's request for comment, the PCUA consulted with its Regulatory Review Committee (the Committee). At the time comments were solicited, the Committee consisted of twelve (12) credit union CEOs who lead the management teams of Pennsylvania federal and state-chartered credit unions. Members of the Committee also represent credit unions of all asset sizes. The comments contained in this letter reflect the input of the Committee and PCUA staff.

Our Committee and staff agree with the clarification regarding corporate credit union minimum capital requirements for making unsecured MBL loans. Corporate credit unions should not have to comply with MBL rules when lending to member credit unions or corporate CUSOs. However, it is definitely appropriate that they should comply with all the same MBL rules regulating natural person credit unions when lending to entities.

While some of our group members agree that, depending upon a specific credit union's underwriting standards and criteria, loans made to borrowers who already own the property for construction and development can be speculative in nature, some members expressed concerns with regard to the amendment to the definition of "construction or development loan."

We understand the NCUA Board's concern for the additional risks associated with construction or development loans but the expansion of the definition to include loans for renovating or developing property owned by a borrower for income-producing purposes can be unnecessarily restrictive based upon the risk associated with those types of loans. The proposed expansion of the construction or development loan definition could potentially prevent credit unions from assisting members with important business needs because of the 15% of net worth limitation on total construction/development loans included in the regulations at 12 C.F.R. § 723.3(a) and could even cause some members' current portfolios to exceed the limitation.

A normal construction or development loan carries additional risks because the repayment of the loan, in many cases, is dependent upon the sale of the collateral. Those types of construction/development loans generally carry a greater risk because market conditions could change during the period of construction/development. In some of our members' normal underwriting criteria for borrower-owned income-producing property, the credit unions analyze the borrower's ability to carry the debt without regard to future income from the property in order to mitigate the risk. Therefore, some of our members are not in favor of expanding the definition to include these loans without adjusting the net worth limitations for conservative underwriting policies.

Our Committee and staff agree that the phrase "net worth" used in the MBL rule should be revised to be consistent with the definition of that phrase found in the Federal Credit Union Act and in the NCUA's Prompt Corrective Action rules. It is burdensome and impractical for affected credit unions to have to perform separate calculations of net worth for compliance purposes. Consistent definitions are less confusing and make the overall regulatory burden less cumbersome.

Our group also agrees that NCUA should broaden the MBL rule to enable credit unions to participate more fully in additional government guaranteed loan programs. The use of government guarantees allows credit unions to service a wider array of member business loan needs while decreasing the risk associated with these loans. SBA lending, USDA guaranteed loans and programs made available under HUD all serve to encourage lenders to lend money at favorable rates at less risk to borrowers who might not be eligible for credit through more traditional lending programs.

Credit risk is typically not the issue with regard to government guaranteed loan programs. The risk lies in documenting and servicing the loans in compliance with the varied, and sometimes complex, government procedures so that the credit union does not lose the government

Ms. Mary Rupp
Secretary of the Board

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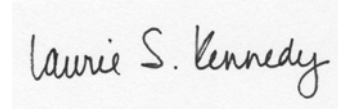
guarantee. The Board should not attempt to narrowly define the permissible government guaranteed loan programs by specific program. Rather, we suggest that the Board permit more favorable treatment for loans under all government guaranteed loan programs.

In addition, our Committee and staff agree that the expanded MBL powers proposed under CURIA will be extremely beneficial to credit union in helping them meet the needs of their business members and fulfilling their mission in contributing to the success of communities and business owners who cannot obtain the financial services they need from other traditional types of business lenders.

Please feel free to contact me or any of the PCUA staff at 1-800-932-0661 if you have any questions.

Sincerely,

Pennsylvania Credit Union Association

A handwritten signature in cursive script that reads "Laurie S. Kennedy". The signature is written in black ink on a light-colored rectangular background.

Laurie S. Kennedy
Associate Counsel

LSK:llb

cc: Association Board
Regulatory Review Committee
J. McCormack
J. Kilduff
R. Wargo
M. Dunn, CUNA
K. Lee