TWIN CITY CO-OPS
FEDERAL CREDIT UNION

May 25, 2005

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

Dear Ms. Rupp,

I am writing to you on behalf of Twin City Co-ops Federal Credit Union (TCU) in regards to the proposed changes to the definition of construction and development (C&D) loans under the Member Business Loan Regulation 723. While we understand the concerns of NCUA, we feel that the proposal in its present form is too broad. It will limit our ability to be competitive and result in an unnecessary regulatory burden disruptive to serving this growing demand for small business members.

We believe the distinction whether a loan should be defined as a C & D loan should be based on the degree and type of improvement(s) made to the property and the proposed use for the property. We don't believe some commercial uses should be included. There are already restrictions in place to ensure that these loans do not put the safety and soundness of the credit union at risk. We understand that waivers can be sought for exceeding the cap, but wait time limits our ability to be responsive and competitive.

Loans made for commercial use which include improvements that are cosmetic or otherwise provide for normal maintenance repairs/improvements should not carry the C & D classification. Cosmetic improvements would include improvements such as painting, landscaping or erecting signage on a building. Normal maintenance/repairs would include improvements such as repaving a parking lot, replacing a roof, siding or heating and cooling systems – items which have useful life expectancies but don't materially increase the value of the property.

Only those loans where improvements <u>significantly</u> change the property value or are speculative in nature should be classified as C & D loans. In terms of a percentage, we would consider improvements that are greater than 50% of the property's current value to be inherently more risky or speculative. By doing this, you would be recognizing the reality of a small business member's ongoing need to make improvements without applying a one-size-fits-all regulation.

From an organizational and administrative standpoint, the proposed definition would classify an unnecessarily high concentration of loans in that category, thus limiting our opportunity to serve our members because of the 15% cap. Furthermore, it is not clear under the current conditions whether the entire loan amount or the portion used for improvements should be considered in determining whether we are within the 15% cap. One alternative to changing the definition would be to increase the cap on C & D loans from 15% to 35%. We would also be open to considering different lending caps for true "income producing" or speculative property versus commercial use property.

We hope that you will consider some alternatives to this definition so credit unions can have the flexibility to serve small business members. We would welcome the opportunity to discuss these situations to further clarify and provide real life business examples if you are interested.

Sincerely,

Mike Schrader

Mike Schrader
Vice President of Lending
Twin City Co-ops Federal Credit Union