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August 19, 2008

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

RE: Advance Notice of Proposed Rulemaking and Request for Comment on 12 CFR Part 723, Member Business Loans; 73 Fed Reg. 35977, June 25, 2008.

Dear Mrs. Rupp:

Local Government Federal Credit Union (LGFCU) appreciates the opportunity to comment on the above-named proposal. Before offering our comments, however, it would be helpful to put them in context by providing some background information regarding LGFCU.

Background

This year, LGFCU celebrates its twenty-fifth anniversary of serving the local government sector in North Carolina. LGFCU has no nongovernmental employee groups in our field of membership. Throughout the history of LGFCU, the board and management have maintained a steady focus on North Carolina municipalities and county employees, elected officeholders, appointed officials and their families. LGFCU firmly believes that improving the lives of members also improves the communities in which they live. So it seemed a natural extension that when local governmental units themselves needed financial assistance to serve their communities, they would turn to their credit union.

The most pressing need is for fire department financing in rural and small communities. North Carolina has over 545 municipalities and 100 counties. The large metropolitan areas have many options for access to credit to finance public infrastructure. We have learned that small communities lack similar resources. Nonetheless, small communities have a need for fire and emergency protection. This protection is mandated by state law. Without local fire departments and first responders, local economic development is stifled. As a result, our members and their neighbors face additional hardships.

LGFCU was petitioned by local government officials, our members, to meet this critical need. Our Credit Union mission statement simply provides "To help improve the lives of our members." We see the facilitation of these types of loans as a critical element in our quest to help all members live better.

LG FCU
The Quorum Center
323 West Jones Street, Suite 600, Raleigh, North Carolina 27603

o LGFCU responded to this member need. To date, the FCU has made over thirty-four ›ans to fire departments for an aggregate sum of $7.1 million. The average loan is pproximately $200,000. The purposes for the loans have been for vehicles, buildings nd fire protection gear. One hundred percent of the loans we've made are performing as ›recasted with no delinquencies. We believe that in helping these local government gencies, we are serving the public good and working cooperatively with others to nprove the community for all.

:omments

;ased on the background provided above, LGFCU has only one recommendation for the JCUA Board's consideration. That is, that the language in §723.1(b) be amended to add new subsection "(6)" as shown below:

(b) *Exceptions to the general rule.*

The following are not member business loans:

(1) A loan fully secured by a lien on a 1 to 4 family dwelling that is the member's primary residence;

(2) A loan fully secured by shares in the credit union making the extension of credit or deposits in other financial institutions;

(3) Loan(s) to a member or an associated member which, when the net member business loan balances are added together, are equal to or less than $50,000;

(4) A loan where a federal or state agency (or its political subdivision) fully insures repayment, or fully guarantees repayment, or provides an advance commitment to purchase in full;

(5) A loan granted by a corporate credit union to another credit union; or

<u>(6) A loan to a state agency or to any of a state's political subdivisions.</u>

/e ask NCUA to consider this additional exception for three reasons. First, we believe ıat loans to state agencies or any of the state's political subdivisions carry less risk and a reater guarantee of repayment than those enumerated above. The aforementioned xceptions appear to be based on a determination that repayment is either secured or ısured (e.g., fully secured by shares or deposits, or insured or otherwise guaranteed) or ecause the risk of default is considered minimal (e.g., aggregate balance less than 50,000 or fully secured by a lien on a 1 to 4 family dwelling that is borrower's primary esidence).

ertainly, in today's financial environment, a fully secured loan to a local fire company arries far less risk, if any, of delinquency, than a loan that is fully secured by a lien on a to 4 family dwelling that is the member's primary residence.

econd, it is an extension of subsection 723.1(b)(4), above. While that subsection applies loans guaranteed by political subdivisions, we believe the regulation does not address ı important class of loans, e.g., instances where the borrower itself is the political ıbdivision. If the guaranty of a political subdivision is of sufficient worth to create an xception for a loan, it would seem the same creditworthiness should be sufficient to tablish an exception for the political subdivision when it is the primary obligor.

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Third, these loans are safe and sound with little or no risk of default. Under North Carolina general statutes, fire departments are considered part of the political structure of the counties, which are political subdivisions of the State. In fact, North Carolina statutory law identifies fire departments as political subdivisions. The financial wherewithal of local government units in North Carolina is closely regulated by the Local Government Commission. The Commission is a creature of the North Carolina Legislature. The Commission has statutory jurisdiction over the financial management practices of local government units. The Commission has a demonstrated record of ensuring high quality financial management for our local political subdivisions.

The only possible downside to these loans is the potential for reduced interest income because of prepayment. Rural fire/rescue departments tend to accelerate their debt repayment. It seems to be a badge of honor with them to pay off equipment as quickly as possible. Often, when a fire truck is purchased or building constructed, the community rallies with baked goods sales, car washes, barbeques and other fundraising events to help pay for the acquisition or improvements. The proceeds augment the tax revenue that has already been allocated to retire the debt. Fundraising is the community's way of showing its support for professional and volunteer first responders. To put this matter in perspective, the prospects of early prepayment is a manageable scenario.

Loans have been made for vehicles, equipment and real estate. Over 300 fire trucks are purchased by North Carolina fire departments each year. To date, there has never been a default to any creditor on a fire truck loan in North Carolina. Hence, we believe this fact helps affirm the unwavering credit quality of such loans.

Therefore, because these loans are to governmental units, and thus unlikely to default and are far less risky than loans made under exceptions described in subsection (1) and (3) above, we believe NCUA should add loans to a state agency or any of a state's political subdivisions to its list of exceptions.

We believe our recommendation is narrowly drawn and consistent with safety and soundness considerations. In addition, the proposed exception does not conflict with the previously established exceptions.

Thank you for the opportunity to provide comments.

Sincerely,

Maurice R. Smith
President

cc. LGFCU Board of Directors

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