State Employees' Credit Union

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Loan Administration

March 28, 2006

MAR29'06 AM 9:40 BOARD

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

Re: Comments on Interagency Guidance on Nontraditional Loans

Dear Ms. Rupp:

The State Employees' Credit Union very much appreciates this opportunity to comment on the proposed guidance on nontraditional loans being considered by NCUA and other regulators. The State Employees' Credit Union has $13 billion in assets, 1.2 million members, and a very long history of serving our members in North Carolina with member friendly mortgage loan programs.

It is felt that the term "Nontraditional" is somewhat poorly defined in the proposed guidance. While somewhat clear from the discussion of the issue, we feel that it is very important to avoid confusion between the terms "nontraditional" and "nonconforming". Loans which do not meet the normal guidelines of Fannie Mae and Freddie Mac in regard to structure or documentation are classified as nonconforming loans within the industry. Many credit unions, including SECU, have developed in house loan programs to serve members without regard to normal secondary market restrictions. This has been accomplished quite successfully over many years, and one must be clear that the proposed guidance is not speaking to nonconforming loans.

The following is a quote from a report prepared by a private mortgage insurance company:

> "Stronger competition has resulted in short –sighted behavior by some lenders in their efforts to maintain market share or just stay in business. These strategies can only succeed under very favorable economic conditions."

Interestingly, this quote comes from a report written in 1987, and we believe that it is even more applicable today.

While nontraditional loans may have some appropriate benefit for a select and small segment of consumers, there is great concern that consumers and lenders are being very

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shortsighted, with obvious disastrous results for those involved. We believe that the guidance as proposed properly identifies the issues created by the use of these nontraditional loan products. However, we do have reservations about the choice of one word in the guidance. As proposed, the word "should" appears in excess of 50 times in the guidance. Due to the safety and soundness concerns raised by these loan products, as well as concerns for less than well informed consumers, it is felt that "must" is a more appropriate term in the guidance. There must be no doubt in the minds of the lenders as to the importance of proper procedures to be implemented when offering these products.

Again, we appreciate the opportunity to comment on this important issue.

Sincerely,

Philip E Greer

Philip E. Greer
Senior Vice President
Loan Administration
State Employees' Credit Union

PEG/lp