



NATIONAL CREDIT UNION ADMINISTRATION

WASHINGTON, D.C. 20456

LS/SRB:cch

4660

9/10/85

Mr. John J. Conaghan  
Mortgage Loan Officer  
Construction Equipment  
Federal Credit Union  
P.O. Box 1715  
Peoria, IL 61656

Dear Mr. Conaghan:

This is in reply to your letter dated August 1, 1985, to Mr. Robert Fenner, and pursuant to our telephone conversation on August 23, 1985, concerning Federal credit union investment in Federal Housing Administration ("FHA") guaranteed loans.

As we discussed, FHA guaranteed loans are not fully guaranteed as to principal and interest. Neither the interest nor the principal is fully guaranteed. Therefore, while FHA, as a division within the Department of Housing and Urban Development, is an agency of the United States as that term is used in Section 107(7)(E) of the FCU Act (12 U.S.C. §1757(7)(E)), the FHA guarantee does not satisfy the statutory requirement.

Based upon the above, it is our opinion that investment in FHA guaranteed loans is not legal for FCU's. Of course, this does not address the question of the origination or purchase of FHA loans of an FCU's members. Pursuant to Sections 107(5), 107(7)(A) and 107(13) of the FCU Act, an FCU could legally originate and purchase such member loans.

Lastly, during our conversation you noted that, under the terms of the contemplated investment by your FCU, only the fully guaranteed portions of the FHA loans were to be purchased. However, as discussed, the issue is not whether, through contract or shrewd investing (purchasing the loans at a deep discount so that effectively in the event of a default the entire amount of the investment, including interest, would be guaranteed), you effectively have a full guarantee as to principal and interest, but rather that the guarantee itself is a full guarantee as to principal and interest.



NATIONAL CREDIT UNION ADMINISTRATION

WASHINGTON, D.C. 20456

I hope that we have been of assistance. If you have any additional questions or comments, please let me know.

Sincerely,

STEVEN R. BISKER  
Assistant General Counsel

cc: Regional Director, Region IV (Chicago)