



NATIONAL CREDIT UNION ADMINISTRATION

WASHINGTON, D.C. 20456

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12/19/85

OFFICE OF GENERAL COUNSEL

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

Dear Mr. Conaghan:

This is a follow-up letter to our September 11, 1985, letter to you (copy enclosed) concerning Federal credit union (FCU) investment in Federal Housing Administration (FHA) guaranteed loans and the guaranteed portions of Small Business Administration (SBA) loans.

We stated in our letter that FHA-guaranteed loans are not fully guaranteed as to principal or interest. In order to be permissible for FCU investment, the loans must be fully guaranteed as to principal and interest by a United States agency. (See Section 107(7)(E) of the FCU Act, 12 U.S.C. §1757(7)(E).) This statement is accurate with respect to the FHA program you were inquiring about (home improvement loans under Title I of the National Housing Act--See 12 U.S.C. §1703(a) for insurance of such loans). According to Section 1703(a), individual claims on loan losses are limited to 90 percent of each loss. In addition to the 90 percent limitation, total claims paid out cannot exceed 10 percent of all loans made by a financial institution under the program. Once 10 percent of total loans is paid out in claims, no further claims will be paid. For your information, we have been advised by a staff attorney at the Department of Housing and Urban Development that investment in a pool or participation of such loans is quite a risky investment due to the 10 percent limitation.

It has come to our attention that certain FHA-guaranteed loans may be fully guaranteed as to principal and interest. If that is the case, such loans would be permissible investments for FCU's.

It has been our longstanding policy that FCU's can invest in SBA loans pursuant to Section 107(7)(E) of the FCU Act, 12 U.S.C. §1757(7)(E), for the following reason. According to 15 U.S.C.

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§631 et seq., a lender can only sell the SBA fully guaranteed (principal and interest) portion of SBA loans. Investors (including FCU's) may only invest in either individual guaranteed portions of a loan, or in pools of these guaranteed portions. Inasmuch as the SBA is an agency of the U.S. Government, FCU investment in SBA loans is authorized pursuant to Section 107(7)(E) of the FCU Act which allows for investment in obligations ". . . fully guaranteed as to principal and interest by any other agency of the United States. . . ."

I hope that we have been of assistance. If further questions arise, please contact Hattie Ulan of this Office.

Sincerely,



STEVEN R. BISKER
Assistant General Counsel

HMU:cch

Attachment