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NATIONAL CREDIT UNION ADMINISTRATION
Washington, D.C. 20456

March 9, 1987

GC/HM 10/87
4660

Office of General Counsel

Clifford G. Niemeyer, Esq.
Clark & Eyrich
2900 Carew Tower
Cincinnati, Ohio 45202

Dear Mr. Niemeyer:

This is in response to your letter concerning a proposed line of credit to be made by a Federal credit union (FCU) to a non-natural person member.

Briefly, we understand the relevant facts to be as follows: A nonnatural person member of an FCU (athletic association) has applied for and obtained a \$100,000 line of credit secured by a second mortgage from the FCU. At the time of examination, the athletic association had \$127,000 on deposit in share and share draft accounts at the FCU. At the time of your letter, the athletic association had not drawn on its line of credit. The NCUA examiner raised an exception to the line of credit because a future draw on the line and withdrawal from share and/or share draft accounts could cause a violation of Article XII, Section 1 of the Standard FCU Bylaws.

Article XII, Section 1 of the Bylaws states in part that "loans to a member other than a natural person shall not be in excess of its shareholdings with the credit union." We have stated previously that this bylaw provision applies to lines of credit as well as loans. We have stated further that it does not require that shares be pledged to secure the loan, but that the shares be held on deposit.

As noted in your letter, the June, 1986, proposed business lending regulation incorporated the language quoted above from Article XII, Section 1 of the Bylaws. Since the time of your incoming letter, the NCUA Board issued a new proposed business lending regulation (see 51 Federal Register 46869, December 29, 1986). The new proposed rule does not incorporate the language from the bylaw. As noted in the preamble, the NCUA Board intends to amend the bylaw provision to except out loans for business or commercial purposes that are made jointly to natural person members and a business organization (nonnatural persons) in which

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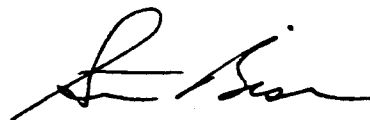
they (the natural person members) have a majority ownership interest. The amended bylaw, if adopted, would permit a loan to exceed shares of a nonnatural person member if all the borrowers are jointly and severally liable on the full loan amount. This proposed exception would not apply to the situation described in your letter since the natural person members, as described above, are not jointly and severally liable along with the athletic association.

In conclusion, Article XII, Section 1 of the Standard FCU Bylaws does apply to the line of credit to the athletic association. The line of credit need not be secured by shares held in the FCU, but the FCU must satisfy NCUA's concerns that shares up to the limit of the line of credit will remain on deposit in the FCU.

There is one possible alternative that you may wish to consider. If the Bylaws or Articles of the athletic association are amended so as to authorize the officials of the association to personally obligate the members on loans (or certain loans) to the association, then the requirements in the soon-to-be-amended Bylaw provision would be satisfied. The officials of the association could then sign for the association and also sign on behalf of all the members of the association.

I hope that we have been of assistance.

Sincerely,



STEVEN R. BISKER
Assistant General Counsel

HMU:sg

cc: Chris Sachleben, NCUA Examiner
Regional Director, Region IV