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NATIONAL CREDIT UNION ADMINISTRATION  
Washington, D.C. 20456

March 2, 1988

Office of General Counsel

Harold Violette, President  
Fraser Employees Federal Credit Union  
P.O. Box 389  
Madawaska, ME 04756

Re: Credit Cards to Nonmembers (Your  
January 15, 1988, Letter)

Dear Mr. Violette:

You asked if it is possible for your Federal credit union (FCU) to offer its VISA credit card program to members of smaller credit unions that are unable to offer credit card services to their members. FCU's cannot make extensions of credit to nonmembers. An alternative that we can suggest is for your FCU to enter into a loan participation agreement with the smaller credit unions to enable members of those credit unions to have access to a credit card program.

Enclosed for you convenience is a copy of Section 701.22 of the NCUA Regulations relating loan participation. Please be aware that Section 701.22 is currently being studied to see if these FCU powers can be expanded.

Sincerely,

A handwritten signature in cursive script that reads 'Robert M. Fenner'.

ROBERT M. FENNER  
General Counsel

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Enclosure

### §701.22 Loan Participation

(a) For purposes of this section:

(1) "Participation loan" means a loan made in participation with one or more eligible organizations, where the written commitment to participate in the loan precedes final disbursement.

(2) "Eligible organizations" means a credit union, credit union organization, or financial organization.

(3) "Credit union" means any Federal or state chartered credit union.

(4) "Credit union organization" means any organization as determined by the Board, established primarily to serve the daily operational needs of its member credit unions. The term does not include trade associations, membership organizations principally composed of credit unions, or corporations or other businesses which principally provide services to credit union members as opposed to corporations or businesses whose business relates to the daily in-house operation of credit unions.

(5) "Financial organization" means any federally chartered or federally insured financial institution.

(6) "Originating lender" means the participant with which the member contracts.

(b) Subject to the provisions of this section any Federal credit union may participate in making loans with eligible organizations within the limitations of the board of directors' written participation loan policies. PROVIDED:

(1) no Federal credit union shall obtain an interest in a participation loan if the sum of that interest and any (other) indebtedness owing to the Federal credit union by the borrower exceeds 10 per centum of the Federal credit union's unimpaired capital and surplus;

(2) prior to final disbursement, a written participation agreement shall be properly executed, acted upon by the Federal credit union's board of directors or the investment committee and retained in the Federal credit union's office. The agreement shall include provisions which identify the participation loan or loans.

(3) A Federal credit union may sell to or purchase from any participant the servicing of any loan in which it owns a participation interest.

(c) An originating lender which is a Federal credit union shall:

(1) originate loans only to its members;

(2) retain an interest of at least 10 per centum of the face amount of each loan;

(3) retain the original or copies of the loan documents; and

(4) obtain approval of the loan from the credit committee or loan officer.

(d) A participant Federal credit union that is not an originating lender shall:

(1) participate only in loans it is empowered to grant;

(2) participate in participation loans only if made to its own members or members of another participating credit union;

(3) retain the original or a copy of the written participation loan agreement and a schedule of the loans covered by the agreement; and

(4) obtain the approval of the board of directors or investment committee of the disbursement of proceeds to the originating lender.

### §701.23 Purchase, Sale, and Pledge of Eligible Obligations.

(a) For purposes of this Section:

(1) "Eligible obligation" means a loan or group of loans;

(2) "Student loan" means a loan granted to finance the borrower's attendance at an institution of higher education or at a vocational school, which is secured by and on which payment of the outstanding principal and interest has been deferred in accordance with the insurance or guarantee of the Federal Government, of a State government, or any agency of either.

(3) "Real estate loan" means a loan granted on a one-to-four family dwelling that is or will be the principal residence of the borrower and which is secured by a first lien or first security interest on the dwelling.

(b) Purchase.

(1) A Federal credit union may purchase, in whole or in part, within the limitations of the board of directors' written purchase policies:

(i) Eligible obligations of its members, from any source, if either (A) they are loans it is empowered to grant or (B) they are refinanced with the consent of the borrowers, within 60 days after they are purchased, so that they are loans it is empowered to grant;

(ii) Eligible obligations of a liquidating credit union's individual members, from the liquidating credit union;

(iii) Student loans, from any source, if the purchaser is granting student loans on an ongoing basis and if the purchase will facilitate the purchasing credit union's packaging of a pool of such loans to be sold or pledged on the secondary market; and

(iv) Real estate loans, from any source, if the purchaser is granting real estate loans pur-