



NATIONAL CREDIT UNION ADMINISTRATION
Washington, D.C. 20456

GC/JT:sg
3500

March 14, 1988

Office of General Counsel

Mr. Douglas J. Smith
Senior Vice President
Public & Corporate Finance
The Westcap Corporation
First City Financial Center
1301 Fannin St., 23rd Floor
Houston, Texas 77002

Re: CUSO Issuance of CMO's (Your letter dated
December 10, 1987)

Dear Mr. Smith:

A Federal credit union (FCU) may invest in and make loans to credit union service organizations (CUSO's) that issue collateralized mortgage obligations (CMO's) primarily for credit unions, up to its two percent loan and investment limit.

Under your proposal, an FCU would set up a wholly-owned corporation (CUSO) that would issue CMO's primarily for credit unions. The FCU would "contribute" single-family mortgages to the CUSO that would serve as collateral for the proposed CMO issue. An investment banking company would underwrite and sell the CMO. The proceeds from the CMO sale would flow from the CUSO to the FCU. You stated that your proposal¹ would enable an FCU to liquify and restructure its portfolios.

Section 701.27 of NCUA's Rules and Regulations [12 C.F.R. §701.27] regulates FCU investments in and loans to CUSO's. Section 701.27(d)(5) states that FCU's may invest in and make loans to CUSO's that provide primarily to credit unions only the services listed in Section 701.27(d)(5). Section 701.27(d)(5)(i) authorizes FCU's to invest in and make loans to CUSO's providing operational services, including "loan processing, servicing and sales." The issuance of a CMO, which involves the packaging and

¹You also state your proposal would provide "distinct tax advantages", but do not indicate whether these advantages are envisioned for the FCU or the CUSO. FCU's are exempt from Federal and state income taxes.

FCU IA - III CMO CUSO'S

Mr. Douglas J. Smith
March 14, 1988
Page Two

securitizing of loans, is included within this service. The issuance of a CMO is, therefore, a permissible CUSO activity provided all the requirements contained in Section 701.27 are complied with.

Please note, however, that Section 701.27(b)(1)(i) of NCUA's Rules and Regulations and Section 107(7)(I) of the FCU Act [12 U.S.C. Section 107(7)(I)] limit an FCU's investment in CUSO's, in the aggregate, to 1% of the FCU's paid-in and unimpaired capital and surplus. Also, Section 701.27(b)(2)(i) of NCUA's Rules and Regulations and Section 107(5)(D) of the FCU Act [12 U.S.C. Section 107(5)(D)] limit an FCU's loans to CUSO's to amounts not to exceed, in the aggregate, 1% of the FCU's paid-in and unimpaired capital and surplus. An FCU "contribution" of mortgages to the CUSO, whether characterized as a loan or an investment, or of cash used to purchase the mortgages, would have to be in compliance with these provisions.

Sincerely,



TIMOTHY B. MCCOLLUM
Assistant General Counsel

JT:sg