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NATIONAL CREDIT UNION ADMINISTRATION
Washington, D.C. 20456

November 4, 1988

Office of General Counsel

Kenneth A. Glenn
President
Ryder System Federal Credit Union
P.O. Box 020816
Miami, FL 33102-0816

Re: Pledging Credit Union Assets to Secure a Line
of Credit (Your August 11, 1988, Letter)

Dear Mr. Glenn:

You requested our opinion concerning a corporate Federal credit union's ("FCU's") requiring a member FCU to pledge all its assets to secure a relatively small line of credit. FCU law does not prohibit such a requirement; it is a matter each FCU must negotiate with the corporate FCU or any other creditor. We are not aware of any state law which would prohibit it, either, but that would have to be confirmed by an attorney with expertise in the relevant state laws.

FACTS

Your FCU is a member of Southeast Corporate FCU. Southeast Corporate sent you a Uniform Commercial Code Filing Statement (Form UCC-1) requesting that your FCU pledge all its assets to secure a relatively small line of credit.

RELEVANT STATUTES

Section 107 of the Federal Credit Union Act [12 U.S.C. §1757] provides:

A Federal credit union . . . shall have
power--

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(9) to borrow in accordance with such rules and regulations as may be prescribed by the [NCUA] Board, from any source, in an aggregate amount not exceeding, except as authorized by the Board in carrying out the provisions of title III, 50 per centum of its paid-in and unimpaired capital and surplus

Section 701.23(d) of the NCUA Rules and Regulations [12 C.F.R. §701.23(d)] provides:

(1) A Federal credit union may pledge, in whole or in part, to any source, eligible obligations of its members, eligible obligations purchased in accordance with subsection (b)(ii), student loans purchased in accordance with subsection (b)(1)(iii), and real estate loans purchased in accordance with subsection (b)(1)(iv), within the limitations of the board of directors' written pledge policies, provided:

(i) The board of directors or investment committee approves the pledge;

(ii) Copies of the original loan documents are retained; and

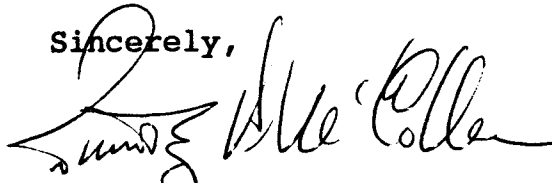
(iii) A written agreement covering the pledging arrangement is retained in the office of the credit union that pledges the eligible obligations.

(2) The pledge agreement shall identify the eligible obligations covered by the agreement.

ANALYSIS

Section 107(9) of the FCU Act permits your credit union to borrow from Southeast Corporate FCU in an aggregate amount up to 50% of your paid-in and unimpaired capital and surplus. Section 701.23 governs the pledging of your FCU's "eligible obligations," which is defined as "a loan or a group of loans." Under that provision, for your FCU to include your eligible obligations in the pledge, you must: (1) have the FCU board or investment committee approve the pledge, within the limitations of the board of directors' written pledge policies; (2) retain copies of the original loan documents; (3) retain in your FCU a written agreement covering the pledging arrangement; and (4) identify the eligible obligations covered by the agreement. There is no limitation in FCU law on a third party's requiring your FCU to pledge all your eligible obligations and other assets to secure a relatively small line of credit; that matter has been left to negotiation between the parties. Whether applicable state law would prohibit such a pledge would have to be addressed by an attorney with expertise in the relevant state laws.

Sincerely,



TIMOTHY P. MCCOLLUM
Assistant General Counsel

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