

NATIONAL CREDIT UNION ADMINISTRATION

WASHINGTON D.C. 20456

September 26, 1990

Mr. Philip Graves
Chairman, Credit Committee
Rapids School Employees Federal Credit Union
P.O. Box 837
Tioga, Louisiana 71477

Re: Loan Disapproval (Your July 24, 1990, Letter)

Dear Mr. Graves:

You have asked whether the credit committee may delegate to loan officers appointed by the credit committee the final authority to deny loans. The answer is no.

APPLICABLE LAW

Section 114(b) of the FCU Act (12 U.S.C. §1761c(b)) states that:

If the bylaws provide for a credit committee, all applications not approved by the loan officer shall be reviewed by the credit committee, and the approval of a majority of the members who are present at the meeting when such review is undertaken shall be required to reverse the loan officer's decision provided a majority of the full committee is present. If there is not a credit committee, a member shall have the right upon written request of review by the board of directors of a loan application which has been denied. No individual shall have authority to disburse funds of the Federal credit union with respect to any loan or line of credit

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for which the application has been approved
by him in his capacity as a loan officer.

The legislative history of this section (1982 U.S. Code Cong. & Ad. News 3123) provides further insight. It states in part that Section 114 grants a:

. . . . federal credit union board of directors the ability to make a credit committee optional. If there is to be a credit committee for a particular credit union, then it either can be appointed by the board of directors or elected by the members of the credit union as provided by the bylaws. The right of appeal by a member on a loan decision is preserved. If there is no credit committee, the appeal would be directly to the board of directors. . . .

ANALYSIS

Your credit committee believes that the cited provision of the FCU Act implies that the credit committee may delegate to loan officers appointed by the credit committee the authority to turn down loans. A loan officer must first disapprove a loan before it is reviewed by the credit committee. However, it is clear from the FCU Act and the legislative history that if a credit committee exists, all loan applications not approved by a loan officer shall be reviewed by the credit committee, whether or not there is a written request for such review. This review can not be delegated. Therefore, a denial by the loan officer can never end the loan process.

We do not have a problem with the loan officer's use of the word "denial" versus "not approved". If you so choose, you could also develop a form to record the credit committee's decision to overturn a loan officer's denial, and use the form to allow the loan officer to complete the loan process.

One additional note. The current Federal Credit Union Bylaws

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were revised as of December 1987. You can obtain a copy of the current Bylaws from the NCUA's Administrative Office - telephone (202) 682-9700.

Sincerely,

Hattie M. Ulan

Hattie M. Ulan
Associate General Counsel

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