



NATIONAL CREDIT UNION ADMINISTRATION

WASHINGTON, D.C. 20456

June 30, 1991

Henry Dyehouse, Esq.
General Counsel
U.S. Central Credit Union
7300 College Blvd.
Suite 600
Overland Park, KS 662210

Re: Loan Assignment Agreement between NCUA and
Corporate Credit Unions Regarding §208 Assistance

Dear Mr. Dyehouse:

You have requested that the National Credit Union Administration ("NCUA") review a draft Loan Agreement prepared by you (the "Draft Agreement") between the NCUA Board and Corporate Credit Unions (the "Corporates"). For several reasons, explained in this letter, the Draft Agreement is unsuitable to the needs of the NCUA. However, any revisions meeting the comments in this letter would be welcomed.

The intent of the Draft Agreement is to secure the Corporates for loans to Section 208 assisted credit unions with an obligation of the NCUA to purchase the loans upon the earliest occurrence of any of the following events: (1) a date mutually agreed to by the Corporate and NCUA; (2) 30 days after NCUA receives notice that the §208 assisted credit union is in default of its' loan agreement with the Corporate or that the Corporate no longer wishes to extend credit to the credit union; or (3) 30 days after the Corporate receives written notice from the NCUA directing the Corporate to assign the

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loan to the NCUA. The purchase price, to be paid in immediately available funds under the Draft Agreement, shall be an amount equal to the outstanding principal balance on the loan to the §208 assisted credit union, together with any outstanding unpaid interest and penalties through and including the assignment date. Upon the assignment of the §208 assisted credit union loan to NCUA, the Corporate will also assign any associated security interest.

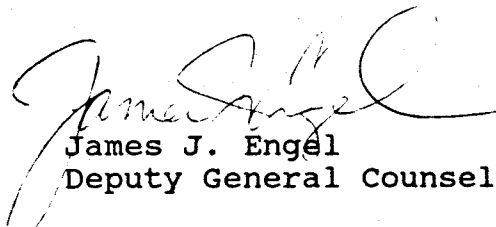
While the Draft Agreement is similar to the loan assignment agreement presently in use by the NCUA, several important differences prevent its adoption. First, the Draft Agreement does not have a maturity date. The NCUA does not want these obligations to extend into perpetuity. Second, the Draft Agreement can only be used for §208 assisted credit unions. There have been many instances in the past where the NCUA entered into a guaranty agreement even though the credit union involved was not a §208 case. Existing NCUA agreements are flexible enough to provide for these situations with special features, such as overline guarantees. Third, a one-page document, such as the agreement currently used by the NCUA, is preferred by the agency for reasons of efficiency and ease of administration. Fourth, the Draft Agreement does not address the situation where the Central Liquidity Facility ("CLF") will fund the loan and the Corporate will serve as the pass-through institution. The CLF would need to be a party to such an agreement. Fifth, in paragraph 1 of the Draft Agreement, a specific date and amount is identified. It is unclear whether you intend that every time the subject credit union draws on a line of credit that it and the NCUA would have to complete another agreement. This would be impractical and unwieldy. A credit union could conceivably draw on a line of credit on a daily basis to cover its' clearing at the Corporate. Finally, paragraph 2(b) of the Draft Agreement, which would permit a Corporate to unilaterally assign the loan to the NCUA when the Corporate "no longer wishes to extend credit under the Credit Agreement" is unacceptable to the NCUA. Existing NCUA agreements permit the assignment only in the event of default by the credit union.

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We appreciate your interest in the §208 assistance program. If you have any questions concerning our comments to the Draft Agreement please contact Martin Conrey, Staff Attorney, at (202) 682-9630.

Sincerely,



James J. Engel
Deputy General Counsel

cc: D. Michael Riley, Director
Office of Examination and Insurance

Robert J. LaPorte, President
Central Liquidity Facility

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