



NATIONAL CREDIT UNION ADMINISTRATION

WASHINGTON, D.C. 20456

September 3, 1991

Karl Yoneshige
Loan Administrator
Oahu Educational Employees Federal Credit Union
771 Amana St.
Honolulu, Hawaii 96814

Re: Securitizing Mortgage Loans (Your May 11,
1991, Letter)

Dear Mr. Yoneshige:

You state that the Oahu Educational Employees Federal Credit Union (the FCU) has an asset size of \$230 million and a loan-to-share ratio of 58%. The loan portfolio is made up of almost 70% real estate secured 15-year fixed loans and variable lines of credit. To reduce the FCU's ratio of real estate loans, you are considering "securitizing" a portion of the real estate loans with a local mortgage company. To increase the FCU's loan-to-share ratio and yield on excess cash, you are contemplating purchasing loans from other credit unions. In response to a request from Staff Attorney Lisa Henderson, you submitted additional information on the loan securitization plan. As we understand it, the FCU will essentially exchange whole mortgage loans for Federal National Mortgage Association (Fannie Mae) mortgage pass-through securities. You have asked for our comments on these proposals.

Analysis

Section 701.23(c) of the National Credit Union Administration (NCUA) Rules and Regulations, 12 C.F.R. §701.23(c), provides that FCUs may sell, in whole or in part, eligible obligations of their members. Section 1757(7) of the FCU Act, 12 U.S.C. §107(7), provides that FCUs may invest in obligations issued by Fannie Mae. If what is proposed is a sale of loans and a purchase of securities, the program is permissible. Without

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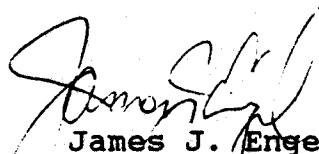
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reviewing the underlying agreements, however, it is impossible to make a conclusive determination as to the program's permissibility. You should have the FCU's attorney review the agreements and make this determination. You may also wish to contact your examiner or the Division of Supervision in the Region VI Office (tel. 415-825-6125) to discuss any possible safety and soundness concerns with the program.

You have also asked for our comments on purchasing loans from other credit unions. Section 701.23(b) of NCUA's Rules and Regulations, 12 C.F.R. §701.23(b), provides that an FCU may purchase, in whole or in part: 1) eligible obligations of its members, from any source, if 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; 2) eligible obligations of a liquidating credit union's individual members; 3) 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 4) real estate-secured loans from any source, if the purchaser is granting real estate-secured loans on an ongoing basis and the purchase will facilitate the purchasing credit union's packaging of a pool of such loans to be sold or pledged on the secondary mortgage market. As long as the purchase of loans is conducted within the parameters of the regulation, it is permissible. Again, you may wish to discuss any possible safety and soundness concerns with your examiner or the Regional Office.

Sincerely,



James J. Engel
Deputy General Counsel

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