

November 12, 1992

Ronald P. Powers
Texas Catholic Community Credit Union
1005 S. Josey Lane #202
Carrollton, Texas 75006

Re: Student Tuition Loans (Your October 5, 1992, Letter)

Dear Mr. Powers:

You have asked whether a proposed student tuition loan program is subject to NCUA's business loan rule (Section 701.21(h) of NCUA's Rules and Regulations (12 C.F.R. 701.21(h))). Loans granted under the proposed program would not be subject to the business loan rule.

ANALYSIS

Currently, various banks fund Catholic school tuition loans to parents who are unable to write one check covering the annual tuition. Tuition for each student can range from \$1,800 to over \$6,000. The parents of the students sign loan papers with the bank and make payments to the bank. As security, the school maintains a \$100,000 savings account at the bank. If a loan becomes delinquent (i.e. 61 days past due) the school permits the bank to draw the required funds from the school's account. The school is responsible for collecting the delinquent funds from the parents. The bank is supposedly not at risk for defaults on loans.

Texas Catholic Community Credit Union (TCC) is interested in providing this same type of tuition service. The Catholic schools and the parents seeking tuition loans are members of the credit union. TCC plans on structuring the tuition program as follows:

1. The school will maintain a savings balance of \$100,000 at TCC to serve as security for any loan that defaults.
2. The parents/members must open a share account at TCC and complete the basic Loanliner Application. TCC plans on approving such application due to the school's guarantee and compensating balance.
3. TCC will book the loans in the name of the parent/member, and individual collections will be made if payments are delinquent. If a loan should reach the 61-day status, the school is notified, the account brought up to date and further action agreed upon. (This third element is somewhat unclear since you also state in your request that the school will collect delinquent funds from the parents.)

The purpose of the loan is the determining factor in deciding whether a loan is subject to the business loan rule. Section 701.21(h)(1)(i) of NCUA's Regulations defines business loans in part as "any loan, line of credit, or letter of credit, the proceeds of which will be used for a commercial, corporate, business, investment property or venture, or agricultural purpose." Student tuition loans do not meet the definition of a business loan so they are not subject to the business loan rule. Furthermore, even if they met the definition, loans under \$25,000 are not subject to the business loan rule pursuant to Section 701.21(h)(1)(i)(C) of NCUA's Regulations. The fact that the school guarantees these loans does not make them business loans. We note that all loans must meet safety and soundness requirements. Safety and soundness issues will be dealt with during TCC's examination.

Sincerely,

Hattie M. Ulan
Associate General Counsel

GC/MM:sg
SSIC 3501
92-1010