

May 13, 1998

Philip F. Donovan, Vice President
First Union Capital Markets
1000 Ridgeway Loop Road, Suite 103
Memphis, Tennessee 38120

Re: Permissibility of Home Equity Loan Collateralized Mortgage Obligations
Your Letter dated March 30, 1998

Dear Mr. Donovan:

You have asked whether a federal credit union may invest in a Home Equity Loan Collateralized Mortgage Obligation. Based on the information in your letter, this is not an authorized investment for a federal credit union under the Federal Credit Union Act.

Sections 107(7), (8), and (15) of the Federal Credit Union Act and Part 703 of NCUA's Regulations list those securities, deposits, and other obligations in which a federal credit union may invest. Federal credit unions have long been authorized to invest in mortgage related securities issued by federal instrumentalities such as the Federal National Mortgage Association, the Government National Mortgage Association, and the Federal Home Loan Mortgage Corporation. We understand that the Home Equity Loan Collateralized Mortgage Obligation is not generally insured or guaranteed by one of these organizations. Therefore, this investment must meet the requirements of section 107(15)(B) of the Federal Credit Union Act to be permissible for federal credit unions.

Section 107(15)(B) of the Federal Credit Union Act permits federal credit unions to invest in mortgage related securities as defined in section 3(a)(41) of the Securities Exchange Act. 15 U.S.C. §78c(a)(41). This definition provides, among other things, that the mortgage related security represents ownership of one or more notes which are secured by a first lien on real estate. We understand that a Home Equity Loan Collateralized Mortgage Obligation does not meet this definition because the notes underlying the security are not secured by a first lien. Therefore, it is an impermissible investment for a federal credit union.

Sincerely,

Sheila A. Albin
Associate General Counsel

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