NCUA LETTER TO CREDIT UNIONS

NATIONAL CREDIT UNION ADMINISTRATION
1775 Duke Street, Alexandria, VA 22314

DATE: November 2008 **LETTER NO.: 08-CU-26**

TO: Federally Insured Credit Unions

SUBJ: Evaluating Loan Participation Programs

ENCL: Supervisory Letter- Evaluating Loan Participation Programs

Dear Board of Directors:

Properly managed loan participation programs can be beneficial to both selling and buying credit unions. Loan participation sales may provide selling credit unions with a mechanism to manage interest rate, liquidity, and credit risks as well as an enhanced ability to serve members. Buying credit unions may benefit from balance sheet diversification and increased revenue.

Despite the benefits of loan participation programs, there are potential risks. A credit union should perform a comprehensive risk assessment before beginning loan participation activities. Due diligence is a key factor in assuring risks are identified and mitigated.

The enclosed guidance and questionnaire regarding evaluating loan participation programs were provided to NCUA field staff in November 2008.

If you have any questions or concerns, please contact your NCUA Regional Office or State Supervisory Authority.

Sincerely,

/s/

Michael E. Fryzel
Chairman

Enclosure