

GC/MFR:bhs  
SSIC 3000  
99-0636

TO:  
FROM: Sheila A. Albin, Associate General Counsel  
SUBJ: TRW Systems FCU -  
Your Memorandum dated June 10, 1999.  
DATE: July 7, 1999

You have asked whether [ ] Federal Credit Union ([ ]) must have a nonstandard bylaw amendment to purchase a participation interest in a loan to a church. As explained below, the answer is yes.

[ ] wishes to enter into a participation agreement with an originating lender to purchase a participation interest in a loan to a church. The loan participation rule requires a federal credit union (FCU) that is not the originating lender "to participate only in loans it is empowered to grant." 12 C.F.R. §701.22(d)(1). An FCU is not empowered to make a loan to a church without a nonstandard bylaw amendment. The Federal Credit Union Bylaws and Standard Amendments require that loans to other than natural persons be either share secured or fully guaranteed. Article XII, Section 1.

The nonstandard amendment requested does not address the issue of [ ] being empowered to make a loan to a church. The suggested language is "in the case of a participation loan the loan is made under a participation agreement." We suggest you use the previously approved nonstandard amendment language that permits a loan to a church in excess of its shareholdings. The originating lender must also have a nonstandard amendment that permits this type of loan. We defer to your office on the safety and soundness issues involved in a participation agreement of this nature.