

December 4, 1996

John C. Reed
President/CEO
BARCO Federal Credit Union
101 Western Avenue
Hampden, Maine 04444

Re: Risk Assets (Your November 6, 1996, Letter)

Dear Mr. Reed:

You seek our guidance as to what assets of BARCO Federal Credit Union ("BARCO") should be classified as risk assets. Your specific questions and our responses are set forth below.

ANALYSIS

First, you ask whether BARCO's Federal Home Loan Bank ("FHLB") stock should be classified as a risk asset. The answer is yes. Section 700.1(i) of NCUA Rules and Regulations lists the assets that are not considered risk assets. 12 C.F.R. §700.1(i). Although FHLB stock may present little economic risk, it is not included in the list under Section 700.1(i) and thus, must be classified as a risk asset. This being the case, you request that BARCO be allowed to exclude the FHLB stock from its risk asset calculation for this accounting period. Unfortunately, NCUA cannot grant BARCO permission to exclude the FHLB stock from its risk asset calculation since the regulation does not provide for waivers. If BARCO's existing reserves are now inadequate because it has to reclassify the FHLB stock as a risk asset, the credit union must replenish the reserve by regular contributions in such amounts as may be needed to maintain the statutory reserve goals. 12 U.S.C. §1762(a)(3).

Second, you ask whether a commercial loan that is 90% guaranteed by the Finance Authority, a state agency, should be classified as a risk asset. More specifically, you ask whether BARCO can exclude from its risk asset calculation the portion of the loan that is 90% guaranteed. The answer is no. Section 700.1(i)(6) provides that loans with a remaining maturity of 3 years or less and are fully insured or guaranteed by the Federal or state government or any agency of either are excluded from the definition of risk assets. 12 C.F.R. §700.1(i)(6). Consequently, if a loan is not fully guaranteed it must be classified as a risk asset. BARCO must classify the entire commercial loan as a risk asset.

Sincerely,

Michael J. McKenna
Acting Associate General Counsel

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SSIC 3500
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