

November 30, 1998

Raymond J. McConaghy, Jr., President
Greenwood Credit Union
2669 Post Road
Warwick, Rhode Island 02866

Re: Collateral Requirements for Member Business Loans.

Dear Mr. McConaghy:

You have asked a number of questions regarding the collateral requirements for member business loans. After a telephone conversation with Staff Attorney Michael McKenna of this office, we were able to narrow down your questions. Your questions concern §701.21(h)(2)(ii)(A) of NCUA's previous member business loan regulation. That provision of the prior regulation stated that "loans shall be granted on a fully secured basis by collateral" and set out certain loan-to-value requirements. You have asked for clarification of the phrase "fully secured" and whether business loans must be secured by real estate.

As you may know, the NCUA Board recently issued a new interim final business loan rule in September, a copy of which is enclosed. 12 C.F.R. Part 723. The new interim rule eliminates the words "fully secured." Instead, it states that "all member business loans must be secured by collateral" and then sets out the loan-to-value requirements. 12 C.F.R. §723.7. Loan-to-value is defined in the regulation. 12 C.F.R. §723.21. Briefly summarized, the loan-to-value ratio is a measurement of the permissible loan amount in relation to the value of the collateral. Under the new interim rule, unless the loan is exempt from the definition of a member business loan or the credit union has a waiver from NCUA, a member business loan must be secured and meet the loan-to-value ratios set forth in §723.7. The collateral on a member business loan does not have to be real estate. For example, if a credit union makes a \$100,000 loan to a member to buy farm equipment, then the collateral will most likely be the farm equipment being purchased.

You have also provided us with a copy of your business lending policies and asked if they were legal. You should consult with your attorney to determine whether they meet Raymond J. McConaghy, Jr.

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the requirements of the member business loan rule. NCUA's Office of General Counsel does not conduct individual reviews of credit unions loan policies.

Sincerely,

Sheila Albin
Associate General Counsel

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SSIC 3501
98-0715
Enclosure