



NATIONAL CREDIT UNION ADMINISTRATION

WASHINGTON, D.C. 20456

LS/HMU:cch  
3500 28  
June 28, 1985

Charles W. MacDonald, Esq.  
P.O. Box 1088  
Wheat Ridge, CO 80033

Dear Mr. MacDonald:

This is in response to your letter of May 23, 1985, concerning a credit union service organization (CUSO) offering National Warranty Corporation's vehicle service contract program and/or a mechanical breakdown insurance program.

We will address the vehicle service contract program first. As we stated in our February 19, 1985, letter to you, Federal credit unions (FCU's) may not enter into your client's vehicle service contract program directly. Direct FCU involvement in that program (assuming it has not changed since we last reviewed the materials) is not in compliance with Part 721 of the NCUA Rules and Regulations. As to the permissibility of a CUSO entering into the program, that issue has been discussed in a more recent letter, a copy of which is enclosed. The enclosed letter notes that the program does not squarely fit into any of the four categories of activities set out in the CUSO regulation (see Section 701.27(b)(1)-(4), 12 C.F.R. §701.27(b)(1)-(4)). However, because the issue is not clear and because of the current work on amending the regulation, NCUA adopted an informal policy that CUSO's offering the service contract program prior to January 25, 1985, may maintain their status quo. All other CUSO's shall refrain from entering into the program at this time.

It is likely that the NCUA Board will promulgate a revised CUSO regulation within the next few months. A change in the CUSO regulation could result in changes affecting existing CUSO activities. If certain activities become impermissible, either FCU's will be given adequate time to adjust their CUSO arrangements to come into compliance with the new regulation or certain existing CUSO activities will be grandfathered in under a new regulation.

The second program about which you inquire is a mechanical breakdown insurance program. We stated to you in our letter of February 19, 1985, that an FCU may offer such a program to its members pursuant to Part 721 of the NCUA regulations, without the involvement of a CUSO. As you may know, the NCUA Board recently amended the reimbursement section of Part 721. The amendment takes effect on August 1, 1985. It permits an FCU to make a profit from the sale of certain types of insurance, including

FOIA Lib. Vol. III C. CUSOs; Vol. II, A. 2. Auto Ins.



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mechanical breakdown insurance, if offered in direct connection with an extension of credit. (See 50 F.R. 16462, 4/26/85.) The FCU may serve as insurance agent for a mechanical breakdown insurance plan, assuming this is permitted under relevant state insurance laws and the FCU is in compliance in all respects with those laws.

A mechanical breakdown insurance plan may also be offered to FCU members through a CUSO. A CUSO may act as agent for the sale of insurance (including mechanical breakdown insurance) pursuant to Section 701.27(b)(3) of the CUSO regulation (12 C.F.R. §701.27(b)(3)). Further, CUSO's are not limited by NCUA regulation in the amounts of reimbursement they may receive. Again, a change in the CUSO regulation could result in a change in what would be treated as a permissible CUSO activity.

We trust this is responsive to your inquiry. If further questions arise, please contact Hattie Ulan of this Office.

Sincerely,

A handwritten signature in dark ink, appearing to be 'RS' or similar initials, written over the typed name.

ROBERT M. FENNER  
Acting General Counsel

Enclosure



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