



NATIONAL CREDIT UNION ADMINISTRATION

WASHINGTON, D.C. 20456

LS/SRB:cch
3600
July 19, 1985

Bryce H. Pettey, Esquire
Assistant Attorney General
State of Utah
236 State Capitol
Salt Lake City, UT 84114

Dear Mr. Pettey:

This responds to your letter dated June 3, 1985, concerning nonnatural person members of Federal credit unions. Specifically, you ask: (1) whether persons other than natural persons (e.g., corporations) may become members of Federal credit unions (FCU); and (2) under what circumstances can loans be made to members who are not natural persons.

As you note in your letter, the statutory authorization for nonnatural person members, such as corporations, partnerships, sole proprietorships, etc., is contained in Section 109 of the FCU Act (12 U.S.C. §1759). This Section states, in pertinent part, that:

"Federal credit union membership shall consist of the incorporators and such other persons and incorporated and unincorporated organizations, to the extent permitted by rules and regulations prescribed by the Board. . . ." (Emphasis added.)

You have sought information from NCUA concerning rules and regulations that may have been promulgated with respect to Section 109.

We should first point out that there are no express rules or regulations authorizing membership in FCU's for nonnatural persons. You were referred to the Standard FCU Bylaws as one example of a rule and regulation relating, in part, to this membership issue. The Standard FCU Bylaws, although once formally incorporated by reference into the NCUA Rules and Regulations (see Section 701.2(d)(1), 12 C.F.R. §701.2(d)(1)), are not so incorporated at this time. However, even the Bylaws do not have an express provision stating that nonnatural persons are authorized to be members of the FCU. Rather, Article XVIII, Section 2(b) of the Bylaws provides:

"If included in the definition of the field of membership in the organization certificate (charter) of this credit union, the terms or expressions:



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(b) 'Organization of such persons' means an organization or organizations composed exclusively of persons who are within the field of membership of this credit union."
(Emphasis added.)

Rather than having an express regulatory provision authorizing nonnatural person members, such authority is contained in an FCU's charter which, pursuant to the FCU Act and NCUA Rules and Regulations, must be approved by the Agency. Section 701.1(a) of the Rules and Regulations specifies that:

"Persons desiring to form a Federal credit union shall submit a charter application to NCUA in accordance with the requirements of Sections . . . and 109 of the Federal Credit Union Act. . . ." (Emphasis added.)

The word "persons" is intended to be read broadly to include persons other than natural persons. Therefore, those nonnatural persons specifically included in the field of membership provision in an FCU's charter (either expressly or through the "organization of such persons" provision) would be eligible for membership in the FCU.

Further, nonnatural person members are implicitly recognized in Section 745.6 of the Rules and Regulations (12 C.F.R. §745.6). This rule provides that deposits of a corporation or partnership engaged in any independent activity shall be insured up to \$100,000 in the aggregate.

In light of the above, it is clear from an overall view of the Rules and Regulations that nonnatural persons are authorized to be members of FCU's.

Turning to your final question, Article XII, Section 1 of the Standard FCU Bylaws limits loans to nonnatural persons to the amount of their shareholdings. However, in all other respects, such as terms and maturities, loans to nonnatural persons are treated the same as loans to other members.

I hope we have been of assistance. Please do not hesitate to contact me if you have further questions.

Sincerely,

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STEVEN R. BISKER
Assistant General Counsel