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NATIONAL CREDIT UNION ADMINISTRATION
Washington, D.C. 20456

APR 13 1987

Office of General Counsel

Mr. Warren P. Scholl
General Manager
Capitol Region Federal Credit Union
34 Jerome Avenue
Bloomfield, CT 06002

Dear Mr. Scholl:

This is in response to your letter concerning a wholly-owned credit union service organization ("CUSO") and payment of certain of its expenses by the Federal credit union ("FCU").

You state that your FCU has made a \$75,000 capital investment in and a \$75,000 loan to its wholly-owned CUSO. In addition, the FCU has paid legal fees, computer maintenance fees and rental costs for the CUSO without the CUSO accounting for these liabilities on its Statement of Financial Condition. It is not apparent how these costs are reflected on the FCU's books and financial statements since they were not enclosed with your letter. You also state that the FCU will bill the CUSO for these costs once the CUSO is operating in the black. Hence, we assume that FCU payment of these CUSO costs is an additional loan from the FCU to the CUSO.

Generally Accepted Accounting Principles (GAAP) required by Section 701.27(d)(7)(i) of the NCUA Rules and Regulations (12 C.F.R. §701.27(d)(7)(i)) for FCU involvement in CUSO's requires that the credit union and the CUSO reflect the substance of their transactions in their books and records, i.e., the credit union should book a "loan to CUSO" or "receivable from the CUSO" and the CUSO should book the expenses with a corresponding "loan from the credit union" or "payable to the credit union." In addition, Section 701.27(d)(7)(ii)(A) of the regulation requires that the CUSO agree in writing with its FCU that it will follow GAAP.

It is our view that the credit union is effectively loaning additional funds to the CUSO in this instance. Pursuant to GAAP, all loans received by a subsidiary must be reflected on the subsidiary's financial statements.

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In addition to the GAAP requirements, Section 107(5)(D) of the FCU Act (12 U.S.C. §1757(5)(D)) and Section 701.27(d)(1) of the NCUA Rules and Regulations limit FCU loans to CUSO's to 1% of the FCU's paid-in and unimpaired capital and surplus. Unless all loans to the CUSO properly appear on the FCU's records, a determination cannot be made as to the FCU's compliance with the one percent limitation.

I hope that we have been of assistance.

Sincerely,



STEVEN R. BISKER
Assistant General Counsel

HMU:sg

cc: Karen Fulton, E&I
Region I (Boston)
Marcia A. Sarrazin, Region I Examiner