



NATIONAL CREDIT UNION ADMINISTRATION
Washington, D.C. 20456

May 29, 1987

GC/JT:sg
3600

Office of General Counsel

Francis J. Moran, Esq.
Francis J. Moran & Associates, P.C.
Suite 714
Lewis Tower Building
Fifteenth and Locust Streets
Philadelphia, Pennsylvania 19102

Dear Mr. Moran:

This is in response to your letter of March 3, 1987, regarding permissible services for credit union service organizations (CUSO's).

You enclosed with your letter an agreement between IGA Federal Credit Union (FCU) and Prudential-Bache Securities (Prudential-Bache). The agreement provides that Prudential-Bache will provide the following services:

1. Announce to membership new services and affiliation with Prudential-Bache Securities.
2. Provide additional communication via inserts.
3. Mail to the top 750 members a special portfolio review.
4. 2 or 3 posters for display in two locations, Philadelphia and Feasterville, to be changed periodically.
5. Arrange seminars (2).
6. All members are free to attend any Prudential-Bache Securities seminar in their area.
7. A financial column will appear in the Newsletter on a quarterly basis.
8. Membership will continue to receive 25% discount on a stock transaction with commission fees greater than \$50.00.

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Francis J. Moran, Esq.

Page Two

Your letter indicates that the above-listed services would be offered to members of IGA Federal Credit Union through the CUIGA Credit Union Service Organization (CUSO) via Prudential-Bache. The attached agreement, however, is between the FCU and Prudential-Bache. In light of your question (whether the listed services are permissible for a CUSO), we assume that the services are to be provided through the CUSO. Therefore, the agreement should be between the CUSO and Prudential-Bache rather than between the FCU and Prudential-Bache. We would note, however, that the listed services could be provided to the FCU by a third party vendor, e.g., Prudential-Bache, pursuant to Part 721 of the NCUA Rules and Regulations. The FCU would be limited to performing administrative functions on behalf of the vendor, and would not be permitted to make a profit from these services. The FCU could be reimbursed for costs incurred in the manner set forth in Section 721.2(b)(3).

Under Section 701.27(d)(5) of the NCUA Rules and Regulations, FCU's can only invest in, or make loans to, CUSO's that provide the services listed in Section 701.27(d)(5)(i) through (iii). Section 701.27(d)(5)(ii) lists the permissible financial services. These financial services include financial planning and counseling, investment counseling, and securities brokerage services. Permitting members to attend Prudential-Bache seminars free of charge, publishing a financial column, and granting members a 25% discount on certain stock transactions are all permissible services for CUSO's. While it is not completely clear to us what is involved in the mailing of a special portfolio review to the "top" 750 members, providing members with these materials would also be a permissible CUSO service. We assume that the posters, inserts, and seminars you refer to are all related to financial planning and counseling, investment counseling, securities brokerage services, or one of the other permissible financial services listed in Section 701.27(d)(5)(ii). If so, they are permissible CUSO services.

The agreement states that Prudential-Bache will announce to the membership (presumably the FCU membership) "new services and affiliation with Prudential-Bache." It appears to this Office that the CUSO should provide the membership with notice of the new services. Moreover, as far as we can determine, there is no affiliation between the FCU and Prudential-Bache. The "affiliation" is either between the CUSO and Prudential-Bache or the CUSO and the FCU.

The agreement further provides that the CUSO will bill Prudential-Bache for "use of list," and that "the mailings will be sent to CUIGA CUSO for distribution." The membership list is

Francis J. Moran, Esq.

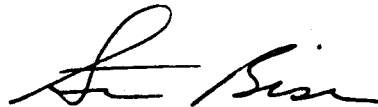
Page Three

the property of the FCU rather than the CUSO. We assume that the CUSO and the FCU have entered into an agreement with respect to use of the FCU membership list. We should point out to you that under Article XIX, Section 2 of the FCU Bylaws, the FCU generally must hold in confidence all transactions of the FCU with its members and all information respecting their personal affairs. Divulging the names and addresses of FCU members will not violate this provision.

Lastly, we would note that we have commented on the terms of the agreement only when they had a bearing on the FCU or the specific services to be provided by the CUSO to the FCU via Prudential-Bache. The remaining contract terms between the CUSO and Prudential-Bache are to be determined by the parties themselves and will be interpreted under the relevant state law.

We trust this has been of assistance.

Sincerely,



STEVEN R. BISKER
Assistant General Counsel

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