



NATIONAL CREDIT UNION ADMINISTRATION  
Washington, D.C. 20456

August 17, 1987

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3500

Office of General Counsel

Mr. Donald R. Klesges  
Senior Vice President  
TRW Systems Federal Credit Union  
One Space Park  
Redondo Beach, California 90278

Dear Mr. Klesges:

This is in response to your letter of April 1, 1987, regarding Federal credit union (FCU) insurance and group purchasing activities. You suggested in your letter that FCU's should be permitted to directly offer insurance and group purchasing activities to their members, and be permitted to receive income from these activities not subject to the restrictions in Part 721 of the NCUA Rules and Regulations.

FCU's are institutions of statutorily limited powers. The powers of FCU's are enumerated in Section 107 of the FCU Act (12 U.S.C. 1757). Included are several specific powers, such as the power to make loans to members, to make certain investments, and to accept share, share draft and share certificate accounts. The legal basis for permitting FCU's to offer insurance and group purchasing activities to their members pursuant to Part 721 and to receive remuneration in excess of costs for certain activities is based on the incidental powers clause of the FCU Act (12 U.S.C. Section 1757(16)).

Section 1757(16) of the FCU Act provides FCU's with the authority to exercise such incidental powers as necessary to enable an FCU to effectively carry on business. The NCUA has interpreted this provision to authorize FCU's to make available to their members, through a third-party vendor, insurance that is directly related to an extension of credit by the FCU or directly related to the opening or maintenance of a share, share draft or share certificate account at the FCU. These two types of insurance are incidental to an FCU's express authority to make loans to members and to establish member accounts.

When an FCU engages in an insurance or group purchasing activity that is incidental to an express power, the FCU may receive reimbursement in excess of the costs it incurred with respect to the activity. See Section 721.2. At this time, the only

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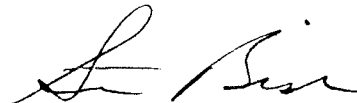
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insurance or group purchasing activities that are considered to be incidental to an express power of an FCU are credit-related and share-related insurance. While an FCU may, pursuant to Part 721, offer to its members group purchasing activities and insurance that are not incidental to an express FCU power, an FCU does not have the authority to receive reimbursement in excess of costs for these activities. See Section 721.2. The rationale for permitting the FCU to make available these types of activities is that the FCU is providing a goodwill service to its members.

As you pointed out in your letter, many of the activities that an FCU could offer to its members through a third-party vendor could also be offered through a CUSO. CUSO's, which are structured as state corporations or limited partnerships, generally have much broader powers than FCU's. The powers of CUSO's are determined by state law. However, FCU's may only invest in, or make loans to, CUSO's that provide the services listed in Section 701.27 of the NCUA Rules and Regulations. If the insurance or group purchasing activities are offered through a CUSO, the CUSO is not restricted by Part 721.

We trust this has been of assistance.

Sincerely,



STEVEN R. BISKER  
Assistant General Counsel

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