



NATIONAL CREDIT UNION ADMINISTRATION

Washington, D.C. 20456

October 23, 1987

GC/RD:rd
4675

Office of General Counsel

Peter Buck, Esq.
Downey, Brand, Seymour & Rohwer
555 Capitol Mall, 10th Floor
Sacramento, CA 95814-4686

Dear Mr. Buck:

This is in response to your September 9, 1987, letter concerning permissible credit union service organization (CUSO) activities.

Based on the description in your letter, the CU Auto Club (Auto Club) is presently engaged in permissible CUSO activities. The Auto Club is currently providing marketing services to the members of several credit unions by arranging an appointment by and between the credit union member and the Fleet Purchasing Manager of the auto dealer most conveniently located to the credit union member.

The proposed new activity would have the Auto Club solicit area automobile dealers for the best possible price on the vehicle selected by the credit union member. Once located, the Auto Club will then act on behalf of the credit union member and the auto dealer and will arrange the delivery of the vehicle to the Auto Club site. Once the dealer has been paid the purchase price for the car, title is transferred directly from the dealer to the credit union member. The Auto Club will not take title to the vehicle at any time in the transaction. Payment to the Auto Club for its services will be rendered by the member under a separate transaction. The financing credit union will include the CUSO fee in the amount financed.

It is our opinion that the new service activity described above would fall within the activity of "marketing services" listed in

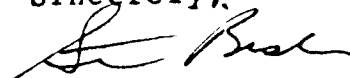
FOIA Vol II Part D CUSO Auto Club

Peter Buck, Esq.
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Section 701.27(d)(5)(i) of the regulation. Therefore, it would be permissible for Federal credit unions to invest in or make loans to the Auto Club.

I hope that we have been of assistance.

Sincerely,



STEVEN R. BISKER
Assistant General Counsel

RD:rd



NATIONAL CREDIT UNION ADMINISTRATION
Washington, D.C. 20456

February 11, 1987

GC/RD:sg
4675

Office of General Counsel

Mr. T. J. Ryan
First Financial of New Mexico FCU
P.O. Box 1355
Albuquerque, N.M. 87103-1355

Dear Mr. Ryan:

This is in response to your letter concerning the legality of Federal credit union ("FCU") investment in and loans to a corporation providing vehicle purchase and consulting services for members of the FCU. You seek our opinion as to whether the corporation would satisfy the requirements of Section 701.27 of the NCUA Rules and Regulations (12 C.F.R. §701.27).

The following is our understanding of the facts provided in your letter. A corporation will be chartered under the laws of New Mexico with three Federal credit unions (FCU's) owning 85% of the stock and two of the corporation's employees owning 15% of the stock. The corporation will be capitalized with a \$75,000 loan from the three FCU's and \$10,000 cash from the 15% owners. The formation of the corporation board of directors is not clear from your letter but presumably will conform to state corporate law and the conflict of interest provisions of 12 C.F.R. §701.27(d)(6). The corporation will primarily serve members of the three credit unions. Later, other credit unions may wish to participate through involvement and investment in the corporation. The corporation will have price agreements with fleet dealers and offer members lower charges for extended warranties, credit life and disability insurance. The credit union member can either order a vehicle from the dealer or select one off the dealer's lot. Two percent (2%) of the price of the vehicle would be added to the cost of the vehicle. The two percent would be charged by the corporation to cover operating costs. Originally, it was planned that the corporation charge a \$20.00 to \$50.00 fee which would be paid to the member's credit union as a marketing fee. As discussed in our telephone conversation of January 29, 1987, since this marketing fee would be limited by Part 721 of the NCUA Rules and Regulations to the credit union's "cost amount," you have decided to delete the \$20.00 to \$50.00 marketing fee so as to avoid any problems with Part 721. The corporation will apply profits generated from its operations to liquidate the credit union's investments.

Mr. T. J. Ryan

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The corporation employee assisting the credit union member will be paid a salary rather than a commission. The money to purchase the vehicle will be transferred from the credit union or member directly to the dealer. The corporation will not become involved with the transfer of funds. The dealer will file the credit union's lien and charge the appropriate sales taxes. The document preparation required by the Motor Vehicle Department could be prepared by the corporation or the dealer.

It is our opinion that the service provided by the corporation, as described above, is a permissible "marketing service" as described in Section 701.27(d)(5)(i). Additionally, we believe that the corporation will provide a service associated with routine credit union operations and will meet credit union needs as required by Sections 107(5)(D) and 107(7)(I) of the FCU Act and Section 701.27(b) of the Rules and Regulations.

Credit unions have been involved in special sales of automobiles to their members under the authority of Part 721 of the NCUA Rules and Regulations for the last fifteen years. The corporation will provide a similar marketing service to the credit union member that the special automobile sales have provided and continue to provide to credit union members. Automobiles will be offered to credit union members at preferred prices. In conjunction with the purchase of the automobiles, it is anticipated that many of the purchases will be financed through credit union loans.

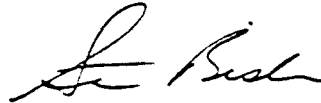
You state that directors of the corporation will not be compensated but will be reimbursed for out-of-pocket expenses by either their credit union or the corporation. As you know, directors who are also employees or officials of affiliated FCU's may not be compensated by the credit union service organization ("CUSO"). (See Section 701.27(d)(6).) The issue of reimbursement for out-of-pocket expenses is not addressed in the regulation or the preamble thereto. However, it is our opinion that CUSO directors can be reimbursed for out-of-pocket expenses by the CUSO to the same extent that they can be reimbursed by an FCU for expenses incurred as FCU directors.

Mr. T. J. Ryan

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I hope that we have been of assistance. Please let me know if further questions arise.

Sincerely,

A handwritten signature in cursive script, appearing to read "S. Bisker".

STEVEN R. BISKER
Assistant General Counsel

RD:sg