



NATIONAL CREDIT UNION ADMINISTRATION
Washington, D.C. 20456

GC/RRD:bhs
4675

March 30, 1988

Office of General Counsel

Lance D. Becker, Esq.
Assistant Counsel
Bankers Systems Brokerage Services, Inc.
P.O. Box 283
St. Cloud, MN 56302-0283

Re: Federal Credit Union Receiving
Commissions or Fees for Assisting
Outside Brokerage Firm (Your Letter
of February 2, 1988)

Dear Mr. Becker:

A Federal credit union ("FCU") may establish a relationship with a securities brokerage firm in order to offer the firm's securities brokerage services to FCU members. You ask: (a) whether an FCU may recover costs associated with offering these services by sharing in commissions up to the point of cost recovery; and (b) whether an initiation fee charged by the broker to cover access to a toll-free number, administration materials, and training are reimbursable. An FCU may recover costs of offering outside vendor products, including the initiation fees you described, by any mechanism -- flat fee or commission -- so long as the amount is justified using standard accounting procedures. The parties may also sidestep this problem by establishing a credit union service organization to provide brokerage service to an FCU's members.

Section 721.2(b)(2) of NCUA's Rules and Regulations [12 C.F.R. 721.2(b)(2)] limits reimbursement that an FCU may receive from a securities firm to an amount not exceeding the FCU's "cost amount." Section 721.2(a)(2) defines "cost amount" as:

FOIA - Vol III Part D
Brokerage Products offered through FCU

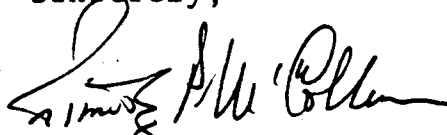
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the total of the direct and indirect costs to the Federal credit union of any administrative functions performed on behalf of the vendor. The Federal credit union must be able to justify this amount using standard accounting procedures.

Initiation fees to cover costs of access to a toll-free number and of providing administration and training materials fall under indirect costs associated with offering the securities products to the FCU's members. FCU law does not prohibit the reimbursements' being called commissions if the parties so choose.

As an alternative to providing the brokerage services directly, an FCU may offer securities brokerage services to its members through a credit union service organization ("CUSO"). The CUSO may be owned in whole or in part by the FCU. There is no limitation on the CUSO's profit from offering permitted services to FCU members. Under Section 701.27 of NCUA's Rules and Regulations [12 C.F.R. 701.27], a CUSO may contract with a securities brokerage firm to offer brokerage services to an FCU's members.

Sincerely,



TIMOTHY P. McCOLLUM
Assistant General Counsel

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