



NATIONAL CREDIT UNION ADMINISTRATION
Washington, D.C. 20456

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April 27, 1988

Office of General Counsel

E. Andrew Keeney, Esq.
Baker and Hostetler
Washington Square, Suite 1100
1050 Connecticut Avenue, N.W.
Washington, D.C. 20036

Re: Merrill Lynch BlueprintSM Program (Your
March 14, 1988, Letter)

Dear Mr. Keeney:

You have asked whether a Federal credit union may form a credit union service organization ("CUSO") for the purpose of making the "BlueprintSM Program" (the "Program"), a brokerage service marketed by Merrill Lynch, available to its members. The Program as described in your letter is permissible for a CUSO under Section 701.27(d)(5) [12 C.F.R. Section 701.27(d)(5)] of NCUA's Rules and Regulations. Please understand this is not an endorsement of the Program; NCUA does not evaluate the investment potential of such products.

Background

The Merrill Lynch Program offers brokerage services with these features:

1. Discounted commissions on stock transactions - Brokerage commissions and fees will be lower than Merrill Lynch's standard rates.
2. Automatic credit union account deduction - Participating members of an FCU can elect to have a pre-authorized amount deducted monthly from their credit union account.
3. Low investment minimums - With automatic credit union account deductions, the purchase minimum for stocks or mutual funds will be \$20 per month per investment.

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4. Mutual funds with no sales loads or redemption fees - For participating members of an FCU, Merrill Lynch will offer several existing mutual funds but no sales loads or redemption fees will be charged. (There will be ongoing management and distribution fees as described in each fund's prospectus.)

5. Dollar-denominated investing - The Program will offer participating members of an FCU the opportunity to invest by the dollar amount.

6. Investment counseling - Participating members of an FCU will receive counseling in the form of announcements of educational seminars and Merrill Lynch's stock recommendations. Members can also call Merrill Lynch toll free and obtain a current research opinion on any stock followed by Merrill Lynch.

Under the planned structure, an FCU wanting to make the Program available to its members will form a CUSO in compliance with Section 701.27 of NCUA's Rules and Regulations [12 C.F.R. §701.27]. The CUSO will enter into a servicing agreement with Merrill Lynch requiring the CUSO: (a) to market the Program to members of the participating FCU; and (b) to set up a system by which FCU members can use share deductions to pay for the stock they purchase through the Program.

Analysis

Section 701.27(d)(5) of NCUA's Rules and Regulations [12 C.F.R. §701.27(d)(5)] states:

A Federal credit union may invest in and/or loan to those credit union service organizations that provide only one or more of the following services and activities:

(i) Operational services. Credit card and debit card services; check cashing and wire transfers; internal audits for credit unions; ATM services; EFT services; accounting services; data processing; shared credit union branch (service center) operations; sale of repossessed collateral; management, development, sale or lease of fixed assets; sale, lease or servicing of computer hardware or software; management and personnel training and support; payment item processing; locator services; marketing services; research services; record retention and storage; microfilm and microfiche services; alarm-monitoring and other security services; debt collection

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services; credit analysis; consumer mortgage loan origination; loan processing servicing and sales; coin and currency services; provision of forms and supplies.

(ii) Financial services. Financial planning and counseling; retirement counseling; investment counseling; securities brokerage services; estate planning; income tax preparation; acting as administrator for prepaid legal service plans; developing and administering IRA, Keogh, deferred compensation, and other personnel benefit plans; trust services; acting as trustee, guardian, conservator, estate administrator, or in any other fiduciary capacity; real estate brokerage services; travel agency services; agency for sale of insurance; personal property leasing; and provision of vehicle warranty programs.

A CUSO may perform these services or contract with a third party to provide the services.

The NCUA Board intended that the term "securities brokerage services" include a full range of securities services. [51 Fed. Reg. 10357 (March 26, 1986)]. We therefore agree that the term "securities brokerage services" includes a service offering discounted commissions on stock transactions, low investment minimums, mutual funds with no sales loads or redemption fees, and dollar-denominated investing. We also agree that announcements by Merrill Lynch of educational seminars and its latest stock recommendations, and toll-free calls to Merrill Lynch for current research opinions on stocks followed by Merrill Lynch constitute "investment counseling" under Section 701.27(d)(5)(ii).

Finally, we believe the CUSO's setting up a system permitting an FCU member to authorize deductions from their share account to pay for stock purchased through the Program is a permitted "accounting service" under Section 701.27(d)(5)(i).

Once again, this letter does not constitute an endorsement of the Program. Moreover, we offer no opinion on the Program's

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compliance with Federal and state securities laws. Those are matters under the jurisdiction of the Securities and Exchange Commission and state securities regulators.

Sincerely,



TIMOTHY P. McCOLLUM
Assistant General Counsel

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