



NATIONAL CREDIT UNION ADMINISTRATION
Washington, D.C. 20456

May 25, 1988

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3500

Office of General Counsel

Mr. David J. Serlo
President
PSCU
Sherwood Forest Center
11007 North 56th Street, Suite 204
Tampa, Florida 33617-1774

Re: Federal Credit Union Issuance of
Corporate Credit Cards (Your March 28, 1988,
Letter)

Dear Mr. Serlo:

A Federal credit union ("FCU") may extend a line of credit to a corporation member of the FCU for credit card access by the corporation's employees to pay business expenses provided: (1) as required by Article XII, Section 1 of the Standard Bylaws, the line of credit on the credit card does not exceed the corporation's shares in the FCU; and (2) the terms of the line of credit are in compliance with Section 701.21(h) of NCUA's Rules and Regulations [12 C.F.R. §701.21(h)] pertaining to member business loans, particularly the provision (Section 701.21(h)(2)(i)) limiting the amount of a line of credit to any one borrower to 20 percent of reserves.

These restrictions may substantially limit an FCU's flexibility in offering this service. An FCU may request a nonstandard bylaw amendment and an exemption to the 20 percent limitation from the appropriate NCUA regional office.

Background

Under your proposal, an FCU will extend a line of credit to a corporation member and issue credit cards to this corporation's employees so they can access the line of credit for business expenses. Only the corporation member will be liable on the line of credit. This type of credit card is commonly referred to as a "company" or "corporate" credit card.

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Analysis

An FCU may issue to a member approved for a line of credit to be accessed by a credit card ("borrower") additional cards for use by another individual or entity. The users of the additional cards are agents of the borrower since they are not liable for the debts incurred. Therefore, your proposal is generally permissible for an FCU, subject to certain restrictions in the FCU Act, NCUA's Rules and Regulations, and the Standard FCU Bylaws.

Standard Bylaw Restriction

Article XII, Section 1 of the FCU Bylaws states that "loans to a member other than a natural person shall not be in excess of its shareholdings with the credit union." We have interpreted this bylaw to apply to lines of credit as well as loans. The NCUA Board has recently reaffirmed the importance of this provision in the FCU regulatory structure [51 Fed. Reg. 23234 (June 26, 1986)]:

One of the primary reasons for the bylaw is to guarantee that nonnatural person members (e.g., organizations, corporations, partnerships, sole proprietorships, etc.) would not be a drain on a credit union's liquidity, to the detriment of natural person members. By requiring that the loan amount not exceed shares at the credit union, the net effect of a loan to a nonnatural person on the credit union's liquidity would be zero, since the loan would be offset by the liquidity created by the shares placed into the credit union. In light of the typically large dollar amount of member business loans, the liquidity problem becomes even more acute. While the Board is aware that current market conditions have resulted in excess credit union liquidity, it is their belief that this condition is transitory. Any excess liquidity that exists today can very quickly be absorbed by member business loans, and be lost for an extended period of time. Therefore, a limitation that is in place before liquidity again becomes a problem is the logical approach.

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This provision may substantially limit an FCU's ability to offer corporate credit cards to member corporations, since the line of credit must be matched by shares in the corporation's account.

NCUA permits an alternative to the standard Article XII, Section 1 bylaw. If adopted by an FCU, the standard bylaw amendment would permit a loan to a nonnatural person to exceed its shares in the FCU if the loan is made:

jointly to one or more natural person members and a business organization in which they have a majority ownership interest, or, if the nonnatural person is an association, the loan is made jointly to a majority of the members of the association and to the association in its own right.

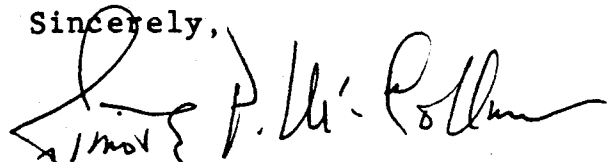
This seems no better suited to your proposal than the standard version.

An FCU might consider seeking a nonstandard bylaw amendment that would fit your proposal's requirements. A request may be submitted to the appropriate regional office. A denial would be appealable to the NCUA Board.

Member Business Lending Rule Restriction

Section 701.21(h)(2)(ii) of NCUA's Rules and Regulations [12 U.S.C. §701.21(h)(2)(ii)] states: "[T]he aggregate amount of outstanding member business loans to any one member or group of associated members shall not exceed 20% of the credit union's reserves." The program you propose would likely be subject to this restriction. A waiver may be obtainable, in appropriate cases, from the appropriate NCUA regional office, with appeal rights to the NCUA Board.

Sincerely,



TIMOTHY P. MCCOLLUM
Assistant General Counsel

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