



NATIONAL CREDIT UNION ADMINISTRATION  
Washington, D.C. 20456

June 19, 1989

Office of General Counsel

GC/RRD:sg  
SSIC 3501  
89-0418

Francis J. Moran, Esq.  
Francis J. Moran & Associates  
1600 Locust St.  
Philadelphia, PA 19103

Re: Marketing Student Loans to Federal Credit  
Union Members (Your April 7, 1989, Letter)

Dear Mr. Moran:

You have asked whether a Federal credit union may enter into an agreement with a subsidiary corporation of a bank which is in the business of processing, funding, and servicing student loans. Such an activity is permissible under Part 721 of the NCUA's Rules and Regulations.

**BACKGROUND**

The State of Pennsylvania has a special low-interest rate student loan program for Pennsylvania residents. A bank has created a subsidiary corporation named CLASS which will assist credit unions in offering the special student loans to their members. When IGA Federal Credit Union (FCU) members inquire about the special student loans, the FCU will refer them to CLASS. CLASS will be responsible for issuing and servicing the loans. CLASS has indemnified the FCU from all causes of action. In addition, CLASS will also purchase student loans which the FCU has made in the past.

FOIA

VOL. II Part D. Student Loan Marketing Program

ANALYSIS

Section 721.1 of the NCUA's Rules and Regulations (12 C.F.R. §721.1) provides:

A Federal credit union may make insurance and group purchasing plans involving outside vendors available to the membership (including endorsement), and may perform administrative functions on behalf of the vendors.

The activity you describe would be a permissible one for an FCU under Section 721.1. If the FCU is to receive compensation for the referral of its members to CLASS, the compensation to the FCU would be limited as set forth in Section 721.2 of the regulation. Section 721.2 also prohibits a director, committee member, or senior management employee of the FCU or the immediate family members of such individuals from receiving any direct or indirect compensation or benefit in conjunction with any activity under Part 721.

CLASS would have to become a credit union service organization (CUSO) in order for IGA FCU or any other FCU to loan to or invest in CLASS. The FCU would then have to comply with Section 701.27 of the NCUA Rules and Regulations, 12 C.F.R. 701.27, which governs FCU investments in and loans to CUSO's.

Lastly, Section 701.23(c) of the NCUA's Rules and Regulations (12 C.F.R. §701.23(c)) provides, in part:

- (1) A Federal credit union may sell, in whole or in part, eligible obligations of its members. . . within the limitations of the board of directors' written sale policies, provided:
  - (i) The board of directors or investment committee approves the sale; and
  - (ii) A written agreement and a schedule of the eligible obligations covered by the agreement are retained in the seller's office.

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"Eligible obligations" is defined as a loan or a group of loans (see §701.23(a)(1)). Using this authority, IGA FCU may sell the student loans it presently possesses to CLASS.

Sincerely,



HATTIE M. ULAN  
Assistant General Counsel

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