



NATIONAL CREDIT UNION ADMINISTRATION  
Washington, D.C. 20456

Office of General Counsel

GC/MM:sg  
SSIC 3800  
89-0927

October 13, 1989

Mr. John L. McDermott  
Suite 711, Century Square  
1188 Bishop Street  
Honolulu, Hawaii 96813

Re: Permissible Services and Activities Under 12  
C.F.R. 701.27(d)(5) (Your September 27, 1989,  
Letter)

Dear Mr. McDermott:

You have asked us for a legal opinion on whether a Vehicle Consulting/Purchasing credit union service organization ("CUSO") program is in compliance with Section 701.27(d)(5)(i) of the NCUA Rules and Regulations. The program as presented is a permissible "marketing service" under Section 701.27(d)(5)(i) (12 C.F.R. 701.27(d)(5)(i)).

**BACKGROUND**

The following is our understanding of the facts provided in your letter. C.U. CARS, INC., a CUSO, is a Hawaii corporation, which is owned by eight credit unions in the State of Hawaii and another credit union service organization. The Board of Directors of the CUSO will be elected by the stockholders in accordance with the laws of the State of Hawaii and will consist of one representative from each of the eight credit unions, one representative from the credit union service organization stockholder and one representative from CUNA Mutual Insurance Society. The stockholders will make an initial equity investment of \$11,000 to the CUSO and loan up to \$264,000 to the CUSO. CUNA Mutual Insurance Society and/or its affiliates will additionally loan up to \$325,000 to the CUSO. The CUSO will serve all of the 135 credit

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unions in the State of Hawaii and their members provided each such credit union is an affiliated credit union in accordance with Sections 701.27(d)(4) and 701.27(c)(1) of the NCUA Rules and Regulations. The CUSO will acquire all of the stock of Hillis Motors, Inc., a Hawaii corporation, which owns one of the last remaining viable Broker's Licenses in the State of Hawaii. The license enables Hillis Motors, Inc. to act as agent for a buyer in negotiating the purchase of any make or model of motor vehicle. The CUSO will have price agreements with fleet dealers and also offer members lower charges for extended warranties, credit life, and disability insurance.

To initiate the purchase of a vehicle a member can approach either an affiliated credit union to preapprove a loan to purchase a vehicle or approach the CUSO directly. In either case, a customer service representative ("CSR") will have price agreements with fleet dealers providing all makes and models of vehicles. The member can either order a vehicle or select one from a dealer lot, with the assistance of a CSR. A percentage of the purchase price of the vehicle will be added to the cost of the vehicle. The percentage will be charged by the CUSO operation to cover operating costs. The CSR will be paid a salary rather than direct commissions. All monies representing consumer funds will be placed in a fiduciary escrow account designated in the name of the member. The CUSO will also prepare the documentation to transmit to the Motor Vehicle Department.

#### ANALYSIS

Under the proposed program, automobiles will be offered to credit union members at preferred prices. The CUSO will not be buying and selling automobiles, but rather facilitating purchases for credit union members. In conjunction with the purchase of the automobiles, it is anticipated that many of the purchases will be financed through credit union loans.

It is our opinion that the service provided by the CUSO, as described above, is a permissible "marketing service" as described in Section 701.27(d)(5)(i). Additionally, we believe that the CUSO 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 NCUA Rules and Regulations. As you know, FCU's

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investing in the CUSO must comply with all of the provisions of  
the CUSO regulation (Section 701.27).

Sincerely,

*Hattie M. Ulan*

HATTIE M. ULAN  
Assistant General Counsel

cc: Buddy Asato  
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