



NATIONAL CREDIT UNION ADMINISTRATION  
Washington, D.C. 20456

Office of General Counsel

GC/JT:sg  
SSIC #3500  
89-1230

January 25, 1990

J. Gregory Garrison, Esq.  
Garrison & Kiefer, P.C.  
7351 Shadeland Station, Suite 201  
Indianapolis, Indiana 46256

Re: Corporate Credit Union Service Contracts (Your  
December 14, 1989, Letter)

Dear Mr. Garrison:

You asked whether the proposed amendment to Section 701.26 of NCUA's Regulations ("Credit Union Service Contracts") would prohibit corporate credit unions from providing payment systems services to other credit unions. That is not the intent of the proposed amendment. We will clarify in the final amendment that Section 701.26 is not applicable to corporate credit unions.

**ANALYSIS**

On November 21, 1989, the NCUA Board published a proposed amendment to Section 701.26 of NCUA's Regulations ("Credit Union Service Contracts") (See 54 Fed. Reg. 48110). The intent of the proposed amendment was to clarify that Section 701.26 does not authorize credit unions to provide services to other credit unions. The services are to be provided by third parties with whom the FCU contracts. You asked whether the proposed amendment applies to corporate credit unions providing payment systems services to other credit unions. You also asked whether current Section 701.26(b) is applicable to services being provided by corporate credit unions.

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Section 704.6 of NCUA's Regulations authorizes corporate credit unions to provide payment systems services and other listed services to credit unions. The proposed amendment to Section 701.26 was not intended to curtail this authority. This issue will be clarified when the final amendment is published. Comments will be accepted on the rule until February 20, 1990, and a final rule should follow several months after that date.

Section 701.26(b) provides that:

Where any agreement calls for, or requires, the payment in advance of the actual or estimated charges for more than 3 months such payment shall be deemed an investment in a credit union service organization and subject to the limitations delineated in Sections 107(7)(I) and 107(5)(D) of the Federal Credit Union Act (12 U.S.C. 1757(I) and 1757(5)(D)).

The effect of Section 701.26(b) is to require the existence of a credit union service organization when a Federal credit union is required to pay the charge for services for more than three months in advance. You asked whether Section 701.26(b) would be triggered if a corporate credit union required advance payments for more than three months. Section 701.26(b) is not applicable to corporate credit unions. Corporate credit unions can provide payment systems services pursuant to Section 704.6. We will clarify this issue in the final amendment to Section 701.26.

Sincerely,

*Hattie M. Ulan*

HATTIE M. ULAN  
Associate General Counsel