

NATIONAL CREDIT UNION ADMINISTRATION
WASHINGTON, D.C. 20456

June 29, 1990

F. Dennis Hudner
Assistant Director
Directorate for Financial Services Policy
Office of The Secretary of Defense
Washington, DC 20301-1100

Re: Foreign exchange outlets (Your
June 7, 1990, memorandum)

Dear Mr. Hudner:

This is in response to your memo enclosing documentation concerning defense credit unions participating in the sale of foreign exchange at their overseas outlets. As you know, it is a longstanding NCUA position that a federal credit union (FCU) may provide a foreign currency exchange service to its members as incidental to its authority to accept and maintain shares (12 U.S.C. 1757(6) & (17)). Enclosed are two recent opinion letters addressing similar issues. I asked staff in our Office of Examination and Insurance to review your memo and documentation and they had the following comments:

1. In view of foreign exchange rate risk, FCUs should not purchase excessive quantities of foreign currency.

2. FCUs can purchase foreign currency for the following purposes:

- a. to meet payroll and vendor payment needs;
- b. to provide foreign exchange for members on a consignment basis from the military bank outlet; and
- c. to purchase foreign exchange for members provided the FCU only purchased the amount needed to satisfy immediate short-term needs.

The possible risk under 2.c. is that an "innovative" FCU may perceive this avenue as a means to speculate on the

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foreign exchange rate. FCUs are clearly not permitted to invest in foreign currency for this purpose.

Please contact Timothy Hornbrook, Director of Supervision in our Office of Examination and Insurance, (682-9640) if you have any questions on the above-noted concerns.

Sincerely,



Hattie M. Ulan
Associate General Counsel
Office of General Counsel

Enclosure
GC/HMU:bhs
SSIC 4600
90-0637



NATIONAL CREDIT UNION ADMINISTRATION

Washington, DC 20536

GC/JT:sg
SSIC 3601
89-0822

September 15, 1989

Office of General Counsel

Mr. Scotty Broome
General Manager
Keesler Federal Credit Union
Keesler AFB, MS 39534-7001

Re: Foreign Currency Exchange Service (Your August 10,
1989, Letter)

Dear Mr. Broome:

You have asked whether it is permissible for a Federal credit union ("FCU") to provide a foreign currency exchange service to its members. It has been NCUA's longstanding position that this service is incidental to an FCU's authority to accept and maintain shares, and is therefore authorized pursuant to Sections 107(6) and 107(16) of the FCU Act (12 U.S.C. 1757(6) and 1757(16)). We have further stated that, although an FCU can accept shares in foreign currencies, the shares cannot be maintained in foreign currencies due to the high risk associated with the fluctuating foreign exchange rates (see enclosed opinion). You indicated that your FCU does not intend to maintain foreign currency accounts.

You also asked whether Part 721 of NCUA's Rules and Regulations (12 C.F.R. Part 721) would limit any profit that the FCU may receive from offering an exchange service. Since the proposed service will be offered directly by the FCU and not through a third party vendor, we do not believe that Part 721 is applicable.

Sincerely,

HATTIE M. ULAN
Assistant General Counsel

Enclosure

cc: Regional Director, Region III (Atlanta)



NATIONAL CREDIT UNION ADMINISTRATION
Washington, D.C. 20456

Office of General Counsel

GC/HMU:bhs
89-0613
SSIC 3500

July 31, 1989

Ms. Paula J. Garten
Director of Member Relations
Bank Fund Staff Federal Credit Union
1818 H Street, NW
Washington, DC 20433

Re: Foreign Currency Deposits (Mr. Osius'
June 7, 1989, Letter)

Dear Ms. Garten:

You asked whether a Federal credit union (FCU) may accept shares in foreign currencies and, if legally accepted, how such shares would be insured and regulated. It is our opinion that the acceptance of shares in a foreign currency would not violate the FCU Act or NCUA Rules and Regulations. However, the maintenance of such shares in foreign currencies presents risk to credit unions accepting such deposits and to the National Credit Union Share Insurance Fund. Therefore, FCUs may not maintain deposits denominated in foreign currencies.

Your letter asked whether an FCU could accept shares in foreign currencies. In subsequent telephone conversations, you informed us that the shares would be maintained in the foreign currencies. Neither the FCU Act nor the NCUA Rules and Regulations addresses the acceptance and/or maintenance of shares in foreign currencies. It is our opinion that an FCU can accept shares in foreign currencies pursuant to its authority to accept shares (see Section 107(6) of the FCU Act (12 U.S.C. 1757(6))). The shares cannot be maintained in foreign currencies due to the high risk associated with the fluctuating foreign exchange rates. The FCU's involved, and

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ultimately the NCUSIF, would be subject to such risk. Please contact our Office of Examination and Insurance if you have additional questions.

Sincerely,



HATTIE M. ULAN
Assistant General Counsel

cc: Director, Office of Examination and Insurance