



NATIONAL CREDIT UNION ADMINISTRATION

WASHINGTON, D.C. 20456

July 3, 1990

Mr. Robert E. Binford
Special Assistant to the President
Andrews Federal Credit Union
5711 Allentown Road
Suitland, Maryland 20746

Re: CUSO Clearing of FCU Share Drafts and Money
Orders (Your February 15, 1990, Letter)

Dear Mr. Binford:

You have asked whether your credit union service organization ("CUSO") can clear official checks and money orders for your federal credit union ("FCU"). As described, the activity is not permissible.

ANALYSIS

The CUSO will establish a share draft account at the FCU that will be used to process official checks (share drafts) and money orders. Share drafts will be paid through the FCU's routing and transit number. The FCU will pay the CUSO a per-item fee for clearing the drafts and money orders. The CUSO's accounts will be maintained at a zero balance daily as bookkeeping entries are made to offset the dollar amount of drafts and money orders cleared each day.

In a prior letter to you from NCUA's Region II Office, it was explained to you that an FCU cannot maintain a share account in itself. A share account represents equity in the FCU. An FCU cannot have an equity interest in itself. An FCU can issue a treasurer's check or cashier's check drawn upon itself. These instruments are payable from the general assets of the FCU. This approach is not acceptable to you.

To avoid the prohibition against an FCU having an account in itself, you suggested substituting the CUSO's name for the

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FCU's on the share drafts. This substitution will not make the activity permissible. The form of the activity is still the same -- the account would belong to the FCU, not the CUSO.

You stated that your goal is to eliminate the need for a commercial bank in the clearing process. Presently, a commercial bank clears the FCU's official checks and money orders. Since the FCU will need to deposit its funds in a financial institution, we do not see how the elimination will be possible. A CUSO that is owned by an FCU cannot be a financial institution. (See Section 107(I) of the FCU Act, 12 U.S.C. 1757(7)(I) and Section 701.27(b)(1)(iii) of the NCUA Regulations, 12 C.F.R. 701.27(b)(1)(iii).) The CUSO can, pursuant to Section 701.27(d)(5)(i) of NCUA's Regulations, process the FCU's official checks and money orders. This section of the Regulations includes payment item processing as a permissible CUSO activity. To accomplish the clearing process, the CUSO could establish a settlement account at the FCU. The CUSO must be a member of the FCU to establish this account.

Another option would be for the FCU to establish a clearing account with a Federal Reserve bank. We contacted the Federal Reserve Board and were advised that, due to its geographical location, Andrews FCU would have to open its clearing account with the Baltimore, Maryland branch of the Richmond Federal Reserve Bank. The Baltimore branch's telephone number is (301) 576-3000. You may wish to contact the Baltimore branch for further information on establishing a clearing account.

Sincerely,

Hattie M. Ulan

Hattie M. Ulan
Associate General Counsel

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