



NATIONAL CREDIT UNION ADMINISTRATION

WASHINGTON, D.C. 20456

September 4, 1990

Mr. Mitchell C. Glass
Vice President of Finance
Eastern Financial Federal Credit Union
P.O. Box 028532
Miami, Florida 33102

Re: Financial Services (Your April 20, 1990, Letter)

Dear Mr. Glass:

You have asked whether it is permissible for a CUSO to contract with a federal credit union ("FCU") in order to receive certain financial services from the FCU.

BACKGROUND

Our understanding of the program follows. First Credit Union Trust, a wholly-owned CUSO of Eastern Financial Federal Credit Union ("FCU"), wants to work with the FCU to offer a mortgage reduction payment arrangement to members of the FCU and the general public. Through the program, using ACH debit transactions, participants' will be debited (both FCU members and the general public) on their savings or checking accounts at their financial institution on a biweekly basis for one-half of their normal monthly mortgage payment, causing participants to pay one extra mortgage payment per year. The extra payment will be applied to principal so that the participants may build equity faster while reducing interest cost. The participants are the owners of the debited funds until the FCU makes payment on the mortgages. The CUSO will pay the FCU for the services listed below as well as for all incidental charges.

The FCU wants to provide the following services to the CUSO:

- 1) The FCU will provide a segregated group of account numbers to be used by the CUSO's customers (participants). The customers will not be offered any other FCU services.
- 2) Quarterly statements will be produced using the CUSO's letterhead and stationery.

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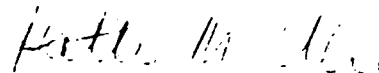
- 3) ACH originations will be done for both the receipt of the bi-weekly payment and the monthly mortgage payment.
- 4) Funds will flow in and out of the FCU for this program through the FCU's ACH system with the Federal Reserve and be distributed into the appropriate participant's account.

ANALYSIS

There appear to be several problems with this program. First, an FCU is not permitted to provide services to nonmembers. Maintaining an account at an FCU is a service. Even if the CUSO is a member, under the program the FCU appears to be providing accounts to nonmembers. Unless all of the participants in the program are members of the FCU, they cannot maintain accounts in the FCU. Therefore, the program, as we understand it, is impermissible.

In addition, we can find no authority in the FCU Act for a credit union to provide mortgage lending services to a CUSO. It seems that the activities that the FCU would provide under the program should be performed by the CUSO pursuant to Section 701.27 of the FCU Act (12 C.F.R. 701.27). We would be glad to entertain any interpretations of the FCU Act that would grant an FCU the authority to enter into this transaction.

Sincerely,



HATTIE M. ULAN
Associate General Counsel

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