



NATIONAL CREDIT UNION ADMINISTRATION

WASHINGTON, D.C. 20456

April 2, 1991

Renee T. Panackia
Vice President/COO
Corporate Credit Union of Arizona
3611 North Black Canyon Hwy.
Phoenix, Arizona 85015

Re: Check Cashing Program (Your January 4, 1991,
Letter)

Dear Ms. Panackia:

You have asked whether credit unions may provide check cashing services for members of other credit unions. Federal credit unions (FCUs) may provide such services under a correspondent credit union agreement.

Analysis

Correspondent credit union programs are cooperative arrangements between credit unions in which one or all agree to service the members of the others. Participation in a correspondent credit union program is authorized for FCUs pursuant to the incidental powers clause of the FCU Act, 12 U.S.C. §1757(17). As a party to a correspondent credit union agreement, an FCU that cashes nonmembers' checks is acting in an agency capacity for the other credit unions that are parties to the agreement.

FCUs may participate in correspondent credit union programs with one or more other federal or state chartered credit unions. The arrangements may be bilateral or unilateral, i.e., a credit union may agree to service the members of another credit union without reciprocation from the serviced credit union. While such programs generally are implemented when distance prevents members' ready access to their own credit union's place of business, they may be utilized in a

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situation such as you describe, where larger credit unions can facilitate smaller credit unions in providing services to their members.

To implement a correspondent credit union program, the board of directors of each participating credit union should determine if the activity will be in its best interests and provide a service to its members. In reaching the decision, which should be documented in the minutes, the board should consider, among other things, the likely degree of participation by members and the capability of credit union personnel to handle the additional activity.

The types of services provided should be determined by written agreement and should fall within the policies and limitations established by the board of directors of each participating credit union. Services may include, but not necessarily be limited to, receiving share and loan payments, disbursing share withdrawals and loan proceeds, cashing share drafts, and cashing and selling checks and money orders. Each credit union is responsible and accountable to its own individual members regarding correspondent transactions reflected in their accounts. The responsibilities of the board of directors and credit committee must not be delegated to or assumed by the correspondent credit union. In addition, all share disbursements and loan advances between a member and a correspondent credit union should be authorized by the proper authority in the member's own credit union. The failure to provide such authorization may be an unsafe and unsound practice.

The methods of settlement between correspondent credit unions will be determined by agreement of the parties involved. Settlement can be made through a variety of methods including the establishing of permissible share accounts in each other, use of a draft instrument drawn on the other credit union or on a designated clearing credit union, direct payment by check and/or draft between correspondents for transacted activity, or by use of Due To/Due From clearing accounts. Any settlement account should be cleared at least monthly and be supported by a detailed listing of the transactions occurring on behalf of the correspondent. Arrangements should be made between correspondents for the timely communication of daily transactions in order that the

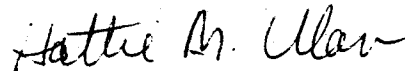
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members' subsidiary ledgers can be maintained currently and so that members' statements will properly reflect all correspondent transactions.

Each credit union should obtain written assurances from its surety company that coverage extends to the correspondent activity. These assurances are necessary to comply with Section 701.20 of NCUA's Rules and Regulations, 12 C.F.R. §701.20.

It is recommended that an Operations Manual and/or other type of Statement of Operating Specifications be maintained in the credit union's files describing the specific services and transactions covered under the program and such other information as is necessary to provide management and operating staff with an overview of the scope of the activity, as well as the day-to-day details. The Operations Manual/Statement of Operating Specifications may be incorporated as part of the agreement between the parties involved in the program. An unsafe or unsound practice may exist if an FCU enters into a correspondent credit union program without a written agreement being established which addresses the following: 1) the type of business to be transacted; 2) the method and frequency of settlement; 3) the method of communication between correspondents concerning individual transactions; 4) service fees, if applicable; 5) provisions for notifying credit unions of the addition or removal of participants; and 6) procedures for arbitrating disputes and terminating the contract.

Sincerely,



Hattie M. Ulan
Associate General Counsel

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