



NATIONAL CREDIT UNION ADMINISTRATION

WASHINGTON, D.C. 20456

April 1, 1992

Scholarship Program

Kristen D. Tatlock,
Compliance Specialist
Governmental Affairs
P.O. Box 11469
Lynchburg, Virginia 24506

Re: Federal Credit Union Establishment of
Scholarship Program (Your February 5, 1992,
Letter)

Dear Ms. Tatlock:

You asked whether a federal credit union ("FCU") may establish a program to offer scholarships to its members. While **subject to some restrictions, such a program is permissible for FCUs.** Since you did not provide any facts about how the proposed program would be set up, operated, or funded, we are unable to say whether the particular program that you have in mind would be acceptable. However, we are enclosing a copy of an **earlier memorandum** on this subject, that **sets forth** legal requirements imposed by the Federal Credit Union Act and NCUA's Rules and Regulations, and contains suggestions for setting up, operating and funding a scholarship program. If you have specific alternative plans for a program, we would be happy to review them for compliance with the FCU Act and the NCUA Rules and Regulations.

We note that a scholarship program may present a sensitive issue both because it may involve sizable disbursements and because in all likelihood not all FCU members or their children will be eligible for or receive the scholarships. FCU

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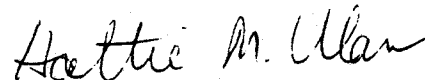
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boards of directors should be advised of this fact, as well as the legal issues raised in the enclosed memorandum, before deciding whether to start a scholarship program.

Sincerely,



Hattie M. Ulan
Associate General Counsel

Enclosure

GC/MRS:sg
SSIC 3500
92-0212



NATIONAL CREDIT UNION ADMINISTRATION

WASHINGTON, D.C. 20456

GC\RRD:sg
SSIC 3500
89-0712

TO: Regional Director, Region IV (Chicago)
H. Allen Carver

FROM: Assistant General Counsel
Hattie M. Ulan *Hattie M. Ulan*

SUBJ: Establishment of Scholarship Fund (Your July 7, 1989,
Memo)

DATE: September 13, 1989

Rolla Federal Credit Union ("Rolla FCU") requested guidance concerning the establishment and administration of a scholarship fund in memory of its former president.

BACKGROUND

Presently, a committee consisting of FCU board members is working to establish the scholarship fund. Contributions will be accepted from:

- a. family members of Mr. Schwaneke;
- b. friends at the time of the memorial service;
- c. one other organization where Mr. Schwaneke held membership; and
- d. individual credit union members.

Dividends earned from the fund will be used for scholarships and offered to credit union members and possibly local area students. Rolla FCU presented two questions concerning the fund:

1. Is Rolla FCU permitted to administer the account as credit union-owned funds? No.

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2. May the committee now working select persons from among credit union membership to administer the fund? Yes.

ANALYSIS

In order to establish an insured scholarship fund account to be maintained in the FCU, the account must be a legally-established member account. No information was submitted on how the scholarship fund would qualify as a member account. A suggestion on how an insured member account could be set up follows:

Members of the FCU may wish to create a scholarship fund organization. Such an organization will be eligible to become a member of the FCU if the FCU's charter includes "organizations of such persons." Article XVIII, Section 2(b) of the Standard FCU Bylaws provides:

"Organizations of such persons" means an organization or organizations composed exclusively of persons who are within the field of membership of this credit union.

Alternatively, an organization may be separately added to an FCU's field of membership through a field of membership expansion request.

As a member of the FCU, the organization account would be insured pursuant to Section 745.6 of the NCUA's Rules and Regulations. (12 C.F.R. 745.6.) Governance of the organization would be controlled by applicable Federal and state law. Rolla FCU may make donations to the organization if it qualifies under Section 501(c)(3) of the Internal Revenue Code as a tax-exempt organization. (See IRPS 79-6.) This is only a suggested method of setting up an insured account. We are not adverse to alternatives that the FCU might have.

You asked if the FCU is permitted to administer the account. Federal credit unions have very limited trust powers. Part 724 of the NCUA's Rules and Regulations (12 C.F.R. Part 724) authorizes FCU's to act as trustee or custodian of a pension plan which qualifies for specific tax treatment under section 401(d) or 408 of the Internal Revenue Code (IRA and Keogh accounts). FCU's have no other authority under which they could act as administrator or trustee or in a custodial capacity.

Your second question concerned who in the credit union could administer the account and whether the committee of FCU board members could select someone from the FCU to administer the

account. There are no applicable conflict of interest provisions in the FCU Act or the NCUA's Regulations which prevent an FCU board member, official or employee from serving on the scholarship organization board. Article XIX, Section 4 of the Standard FCU Bylaws requires FCU board members, other officials, agents, and employees to withdraw from any deliberation or determination which affects their pecuniary interest or the pecuniary interest of any association in which they are directly or indirectly interested. It is unlikely that an individual's pecuniary interest will be affected unless his/her child is a selected scholarship recipient. We have no objection to the FCU board committee selecting someone to administer the account. We recommend that state law be reviewed for any applicable conflict of interest provisions. Any safety and soundness issues remain in your discretion.