

June 27, 1996
John R. Edwards, President
Southern New England Federal Credit Union
P.O. Box 9625
New Haven, CT 06535

Re: Administration of a Loan Program (Your May 6, 1996, Letter)

Dear Mr. Edwards:

You have asked us to reconsider our opinion regarding the ability of your credit union to act as the administrator of a loan fund on behalf of your sponsor, Southern New England Telephone Company (SNET). You have attempted to amend the program to make it qualify as a loan to the sponsor. However, after reviewing your amendments, the program remains impermissible.

You state that the loan program is no different than a business credit card program for a sponsor's employees. We disagree. In a business credit card program the credit cards are issued for a business purpose of the sponsor. Under your program, the loan program is a result of a bargaining agreement with the Connecticut Union of Telephone Workers. The credit cards are not being issued as a result of SNET's need to have employees with business credit cards. Your program lacks the close business nexus that exists with a credit card program. Under your program, SNET could negotiate to provide other lending programs that would be administered by the credit union and that need not have any connection to SNET's main business.

The primary reason this program is impermissible is that FCUs do not have the authority to underwrite and disperse loans on behalf of third parties. However, a credit union service organization (CUSO) may perform this activity if it was structured so that SNET was making the loan and the CUSO was simply responsible for the loan processing and servicing.

Sincerely,

Richard S. Schulman

Associate General Counsel

GC/MJMcK:bhs

SSIC 3501

96-0518

cc: Region I Director