

July 16, 1996  
Michael Fredrick  
Internal Auditor  
US Federal Credit Union  
2772 East 82nd Street  
Bloomington, MN 55425-1372

Re: Credit Cards to Nonnatural Person Members (Your June 11, 1996, Letter)

Dear Mr. Fredrick:

You have asked whether it is permissible for a federal credit union (FCU) to issue credit cards to nonnatural person members secured by a "letter of guarantee" by the nonnatural person member instead of shares in the FCU. Pursuant to the Standard FCU Bylaws, such a loan is impermissible.

The FCU wishes to issue credit cards to select employee groups (SEGs) who are all nonnatural person members. The SEGs are a union whose members are all eligible to join the FCU, and an organization whose members are also eligible to join the FCU.

Assuming the SEG entities are members of the credit union, the FCU could provide credit card services to the nonnatural person members, subject to FCU bylaw provisions and NCUA's Regulations. Article XII, Section 1 of the Standard FCU Bylaws limits loans to nonnatural person members to their shareholdings in the FCU. There are no circumstances either in the bylaws or in NCUA Regulations which would allow a letter of guarantee to substitute as shares in the FCU.

If an FCU has adopted the standard bylaw amendment, the credit union may make loans to nonnatural persons in excess of the members shareholdings only when the loan is co-signed by the principals or, in the case of an association, with the co-signatures of a majority of the members. Furthermore, if credit cards issued to any one member has a credit limit in excess of \$50,000, is not secured by shares in the credit union and is for a business purpose, then section 701.21(h)(2)(ii)(B) of NCUA's Regulations requires the personal liability and guarantee of the principals (natural person member) except where the borrower is a not-for-profit organization.

Sincerely,

Richard S. Schulman  
Associate General Counsel

GC/MJMcK:bhs  
SSIC 3501  
96-0634