

July 24, 1996

John Pettazzoni
President & CEO
Hanscom Federal Credit Union
1610 Eglin Street
Hanscom AFB, MA 01731-2620

Re: Reimbursement of Expenses (Your July 3, 1996, Letter)

Dear Mr. Pettazzoni:

You have asked whether a federal credit union (FCU) that adopts a loan policy favorable to all members with loans secured by a first mortgage is in violation of NCUA's prohibition against compensating a board member if one of the members/borrowers who benefits from the program is a director. As explained below, the answer is no.

Due to a computer error, the FCU's loan program miscalculated payments for 48 loans secured by first mortgages. In an effort to rectify the problem, the FCU offered a rate reduction to those 48 members, one of whom was a director. The issue is not whether it is impermissible compensation to a director, but rather whether it is a violation of Section 701.21(d)(5) of NCUA's Rules and Regulations. This regulation prohibits an FCU from offering preferential rates, terms or conditions to officials on any loan or line of credit. Since the loan to the official is being made on terms and conditions comparable to other members in the same situation, we do not believe it is a violation of the regulation. If the board member that benefited from the loan policy, participated in the decision to adopt the policy, this would be a violation of Article XIX, Section 4 of the FCU Bylaws which states:

No director, committee member, officer, agent, or employee of this credit union shall in any manner, directly or indirectly, participate in the deliberation upon or the determination of any question affecting his pecuniary interest . . .

I hope that we have been of assistance.

Sincerely,

Richard S. Schulman
Associate General Counsel

GC/MFR:bhs
SSIC 3600
96-0714