

July 18, 1997

Mary D. Wenck, VP Lending/Compliance  
Steuben Educators Federal Credit Union  
77 Victory Highway  
Painted Post, New York 14870

Re: Segregation of Duties, Your Letter dated April 25, 1997.

Dear Ms. Wenck:

You have asked us to provide you with a written definition of disbursement as it relates to Section 114(b) of the Federal Credit Union Act.

Section 114(b) provides, in pertinent part, that:

No individual shall have authority to disburse funds of the Federal credit union with respect to any loan or line of credit for which the application has been approved by him in his capacity as a loan officer.

12 U.S.C. §1761c(b). You state that in an effort to comply with Section 114(b), your credit union prohibits a loan officer who approves a loan from signing the loan proceeds check for that same loan. Your concern is that this policy may not be sufficient to comply with Section 114(b) given questions raised about the credit union's segregation of duties in two recent audits.

In your letter, you did not specify what specific concerns were raised by the audits about the credit union's loan policies and procedures. However, we would like to point out that the act of disbursement is not limited to just signing a loan proceeds check. Disbursement can encompass any method of payment of funds resulting in a member or a third party designated by the member having physical possession or use of the funds.

A loan officer disburses funds when he or she cuts and signs a loan proceeds check, uses a check signing machine to impress a signature on a loan proceeds check, transfers loan proceeds to a member's share account, transfers loan proceeds to a third party designated by a member, pays a member's third party bills, etc. Therefore, a loan officer would be considered to be disbursing funds when the officer takes any action that creates a loan on a credit union's books.

The purpose of Section 114(b) is to decrease the incidence of fraud, embezzlement, and undetected errors by limiting a loan officer's ability to approve a loan and then disburse or furnish the funds, directly or indirectly. If your credit union's loan policies and procedures are drafted so as to prevent such dual actions by a loan officer, then they should be in compliance with Section 114(b).

Sincerely,

Sheila A. Albin  
Associate General Counsel

GC/NSW:bhs  
SSIC 3600  
97-0446

cc: Kristin Ryan, Region I  
Office of Examination and Insurance