

March 2, 1998

Rosemary Brady Hardiman, Esq.
Hardiman & Hardiman
6464 Blarney Stone Court
Springfield, VA 22152

Re: Integrated Financial Service Arrangements, Your Letter of November 6, 1997.

Dear Ms. Hardiman:

You state that several federal credit unions (FCUs) wish to establish integrated financial service arrangements that link members' share draft accounts with investment accounts at broker-dealers. You have identified four issues related to National Credit Union Administration (NCUA) rules or policies that might apply to these arrangements and ask if there are any others. As explained more fully below, you are correct that the only NCUA-related issues presented by the arrangements, as you describe them, relate to Article XIX, Section 2, of the Standard FCU Bylaws, Letter to Credit Unions # 150, and Section 701.21 and Part 721 of the NCUA Rules and Regulations.

Description of the Arrangement

As noted above, members' share draft accounts are linked to their money market reserve accounts ("money market accounts") at broker-dealers. A member can automatically transfer funds between the share draft and money market accounts based on a previously executed written authorization. When a member establishes a linked account, he or she provides the FCU with written direction to transfer all or a portion of the balance from the member's share draft account to his or her money market account at the broker-dealer at the end of each business day. At the beginning of each business day, the broker-dealer provides the FCU with a report of the member's balance in his or her money market account. During the day, drafts are presented for payment on the member's FCU account. If the account does not have sufficient funds to cover the drafts, the FCU informs the broker-dealer of the amount needed, based on a previously executed written direction from the member. The FCU and the broker-dealer settle each night.

In connection with the account services, the FCU also could establish a line of credit through separate application and agreement with the member. The line would be used to cover overdrafts if there are not sufficient funds in the money market account

Before allowing any transactions to take place, the FCU and the broker-dealer would execute a written agreement regarding the details of the program, including any liability issues. The FCU also would notify its bonding company.

NCUA Issues

As you suggest, the arrangement implicates Section XIX, Article 2, of the Standard FCU Bylaws, which requires an FCU to keep its members' transactions confidential. However, a member may consent to an FCU providing information to an outside entity. By signing the account agreement, a member would permit the FCU and the broker-dealer to share information regarding the linked accounts.

Letter to Credit Unions # 150 requires an FCU offering nondeposit investment products to its members to follow certain guidelines, including making specific disclosures regarding the products. Letter # 150 applies to the broker-dealer money market fund you have described, and you represent that the arrangement will follow the Letter in all respects.

An FCU may provide overdraft services to its members as long as it complies with 12 C.F.R. §701.21 and has an overdraft lending agreement in place. If the FCU establishes a line of credit through separate application and agreement with the member, as you indicate, it may cover overdrafts when there are not sufficient funds in the money market account

FCUs are limited in the reimbursement they may receive for making available to their members group purchasing plans involving outside vendors, such as a broker-dealer money market fund. 12 C.F.R. Part 721. You state that any FCU offering the arrangement will comply with Part 721.

Based on the information you have provided, we do not think the arrangement involves any other specific NCUA rules or policies.

Sincerely,

Sheila A. Albin
Associate General Counsel

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