

July 29, 1998

Maxine M. Walter, Manager
Erie Metro Federal Credit Union
3291 Lake Shore Road
Blasdell, New York 14219

Re: Hiring of Family Members to Perform Services for a Credit Union.

Dear Ms. Walters:

You asked whether either of two situations would pose a conflict of interest for Erie Metro Federal Credit Union. In the first situation, you have hired the spouse of a teller to perform computer consulting. In the second situation, you would like to continue to use a printing service, which folds and mails the credit union newsletter, that is owned by the spouse of a newly appointed supervisory committee member. While we have identified no conflict of interest regulation that prohibits these services by family members, you should keep in mind limitations that appear in the Federal Credit Union Bylaws, the need for good internal controls, and the need to comply with other state and federal requirements.

The FCU Bylaws provide that it is impermissible for a director, committee member, officer, agent, or employee of an FCU to participate in any manner, directly or indirectly, in the deliberation or determination of a question affecting his or her pecuniary interest. Article XIX, Section 4. Also, there is a standard bylaw amendment, which your FCU may have adopted, that prohibits the family members of directors or committee members from being paid employees of the FCU. Article VIII, Section 7. Also, we note that hiring the spouse of a teller for computer consulting services may pose an internal control risk. You may consider it helpful to consult with your examiner regarding such an arrangement. Furthermore, we would caution you that the fees paid to any third party must not be excessive. Safety and soundness concerns may be raised where a credit union pays fees beyond the fair market value to an outside service provider. Finally, please note that the payment of such compensation is subject to all state and federal revenue reporting and record keeping requirements.

Sincerely,

Sheila A. Albin
Associate General Counsel

OGC/DMS:bhs
SSIC 3500
98-0549