

March 7, 2003

Eric M. North, Esq.
The North Law Firm
1625 The Alameda, Suite 615
San Jose, California 95126

Re: FCU Facilitating City Loan Program.

Dear Mr. North:

You have asked if a federal credit union (FCU) may facilitate a city government loan program by evaluating members' loan applications and, if the member does not qualify for a loan from the FCU, verifying certain information on the loan application and forwarding their loan applications to the city for loan approval. Yes, it is within the FCU's express lending authority and incidental powers to provide these services to its members. 12 U.S.C. §1757(5), (17).

You have stated that a city has established a program to assist residents in obtaining loans to make required building renovations. The city identifies residents qualified for the program and then directs them to the credit union to begin the loan approval process. If those residents are the FCU's members, they complete a loan application and submit it to the FCU for review. The FCU reviews the application and makes the loan if the member qualifies under the FCU's loan policies and underwriting standards. If the FCU does not approve the loan, the FCU reviews the application under the city's loan standards and forwards the loan application with its findings to the city. After receiving the application, the city will determine whether to make the loan directly to the resident. The FCU will review only applications submitted by members and will receive a fee of \$250 from the city for each application reviewed, regardless of whether the member obtains any loan.

The FCU Act expressly authorizes FCUs to make loans to members, including loans for building renovations as contemplated here. 12 U.S.C. §1757(5). Residents affected by the city's program who are within the FCU's field of membership and have joined the FCU may obtain loans from the FCU.

In addition, the FCU may assist members in obtaining loans from the city under the FCU's finder authority. Under our incidental powers rule, an FCU may act as a finder by bringing together outside vendors, including the city, with members, so the two parties may negotiate and consummate transactions. 12 C.F.R. §721.3(f). An FCU may engage in finder activities through its role as a financial service provider and intermediary of financial services. 66 Fed. Reg. 40,845, 40,852 (Aug. 6, 2001). As a finder, the FCU may provide information to members about the city's program and perform administrative functions for the parties to the transaction. 12 C.F.R. §721.3(f). The FCU may earn income when it engages in a finder activity, as with all incidental powers activities. 12 C.F.R. §721.6.

Sincerely,

Sheila A. Albin
Associate General Counsel

GC/CJL:bhs
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