

July 31, 1996

Edward H. Lechner, President
Indiana Federal Credit Union
5103 South Madison Ave.
Indianapolis, IN 46227

Re: Loans to Credit Union Service Organizations ("CUSOs")
(Your Letter of June 2, 1996)

Dear Mr. Lechner:

You requested an answer to several questions concerning federal credit unions ("FCUs") and CUSOs. Your answers and our responses follow.

1. For purposes of the CUSO 1% loan limit, what books should be used to calculate the 1% limit; the FCU's, or the CUSO's?

The FCU's books are to be used to calculate the CUSO 1% loan limitation.

2. If an FCU has granted a line of credit to the CUSO, what amount should be used to calculate the 1% CUSO loan limit; the line of credit limit, the loan balance on the FCU's books, or the loan balance on the CUSO's books?

The total amount available under all loans and lines of credit are to be used to calculate the CUSO 1% loan limitation. Any negative balance in a share account is considered a loan.

3. Why use the line of credit limit to calculate the 1% CUSO loan limit?

The total amount available under all loans and lines of credit are to be used because that is the total amount of the FCU's exposure to the CUSO. Also, it would be very difficult to monitor day-to-day fluctuations in actual loan balances to determine compliance.

4. What law or regulation was used to establish the interpretation that FCUs should use the line of credit limit to measure the 1% CUSO loan limit?

The CUSO loan limitation derives from the FCU Act (12 U.S.C. §1757(5)(D)), as interpreted by NCUA regulation (12 C.F.R. §701.27(d)(1)).

Sincerely,

Richard S. Schulman
Associate General Counsel

GC/MS:sg
SSIC 4650
96-0637
cc: Nicholas Veghts, Region IV Director