

August 27, 1996

Flandus McClinton, Jr.
Southern Teachers & Parents FCU
730 Harding Boulevard
Baton Rouge, LA 70807

Re: Southern Teachers & Parents FCU (Your July 10, 1996, Letter)

Dear Mr. McClinton:

You have asked whether a federal credit union (FCU) can establish an auto buying program that involves a member paying a fee to the FCU's chief loan officer. As explained below, the proposed program is not permissible.

The FCU Act does not authorize FCUs to establish and offer auto buying services. An FCU that wishes to offer these services may engage in either of the following: (1) offer the services of an independent vendor to its members pursuant to 12 C.F.R. Part 721; or (2) provide these services by investing in a credit union service organization (CUSO).

Part 721 of the NCUA Regulations authorizes FCUs to make available group purchasing activities, including auto buying programs, from an independent vendor. This appears to be the arrangement your FCU currently has with an employee of another FCU. The service can be provided without NCUA's prior approval. An FCU may perform administrative functions on behalf of the vendor and have the vendor reimburse the FCU (not its employees) for its cost. NCUA's Regulation governing an FCU's involvement in a CUSO is 12 C.F.R. §701.27. Attached is an opinion letter dated January 5, 1993, from Hattie M. Ulan, Associate General Counsel to Guy Messick. The letter sets forth the permissible parameters for a CUSO auto buying service.

Sincerely,

Richard S. Schulman
Associate General Counsel

GC/MFR:bhs
SSIC 3501
96-0721
Enclosure