

October 24, 1997

Colonel (Ret) Geoffrey R. Louis, President
West Point Federal Credit Union
P.O. Box 105
West Point, New York 10996

Re: Conflict of Interest
Your letters dated August 15 & 21, 1997

Dear Colonel Louis:

You have asked whether it would be a conflict of interest for the chairman of the board of West Point Federal Credit Union (the Credit Union), who also serves as the President of the Alumni Association of the United States Military Academy, to sign certain promotional material related to a credit card program that the Credit Union has with the Alumni Association. He would be signing the material in his capacity as President of the Alumni Association, a position for which he receives compensation. We do not believe these circumstances present a conflict of interest.

BACKGROUND

The United States Military Academy is the sponsor of your credit union and the members of the Alumni Association are within your field of membership. In 1988, prior to your chairman becoming president of the Alumni Association, the Credit Union had already entered into an Affinity Mastercard Agreement with the Alumni Association. Under the agreement, the Credit Union receives the Alumni Association's current mailing list which it uses to solicit credit union membership and new cardholders. In return, the Credit Union "donates" a percentage of the average cardholder balances to the Alumni Association. You have stated that the President of the Alumni Association's compensation is not tied to the money paid by the Credit Union to the Alumni Association.

The Alumni Association has a similar arrangement with another financial institution and promotional material is sent to members of the Alumni Association signed by your chairman in his capacity as President of the Alumni Association.

ANALYSIS

We believe the underlying issue, which determines the specific question you have raised about signing the promotional material, is whether the receipt of compensation by the chairman of the board as a result of his position as president of the Alumni Association violates the conflict of interest provision in NCUA's lending regulation. Because the credit card program involves the extension of credit, we have reviewed §701.21(c)(8)(i) of NCUA's regulations which prohibits a credit union official, and certain others, from receiving compensation in connection with any loan made by a federal credit union. 12 C.F.R. §701.21(c)(8)(i).

The purpose of this provision is to ensure that an individual who is in a position of authority at a credit union does not put his or her self interest ahead of the credit union's interest in making good loans. Accordingly, §701.21(c)(8)(i) is applicable to situations where an individual is compensated for an activity performed outside the credit union in connection with a loan or line of credit made by the credit union.

It is our understanding that the Alumni Association compensates the chairman of the board strictly on a

salary basis and that no part of his compensation is based on the compensation the Alumni Association receives from the credit union. Based on the above facts, the chairman of the board's compensation from the Association would not be considered connected to any loan or line of credit made by the credit union. Thus, there would be no conflict of interest situation created in violation of §701.21(c)(8)(i) from the Credit Union's arrangement with the Alumni Association. Accordingly, it is permissible for the chairman of the board to sign his name to the credit union's promotional materials as president of the Alumni Association.

Sincerely,

Sheila A. Albin
Associate General Counsel

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