

June 17, 1999

Mike Davis, Chairman
UARK Federal Credit Union
1424 West Sixth Street
Fayetteville, AR 72702

Re: Conflict of Interest.

Dear Mr. Davis:

You have inquired whether a conflict of interest exists when either a real estate appraiser, an insurance company employee, or an attorney, all with business ties to a federal credit union (FCU), serve on the board of directors or a committee of the FCU. Generally, directors and committee members interested in a transaction are required to remove themselves from the decision-making process to cure issues of conflict of interest. Appraisers are prohibited from being compensated for appraisals if they hold a management position within the FCU. Similar rules pertaining to sales of insurance also apply to insurance company employees serving on FCU boards and committees.

FCU Bylaws provide that "[n]o director, committee member, officer, agent, or employee . . . shall in any manner, directly or indirectly, participate in the deliberation upon or the determination of any question affecting his pecuniary interest of any corporation, partnership, or association . . . in which he is directly or indirectly interested." FCU Bylaws, Article XIX, Section 4. When a decision affecting an FCU director's or committee member's pecuniary interest is required, such individuals must recuse themselves from that body's decision-making process.

When performing an appraisal for an FCU, fee-based real estate appraisers may not have a direct or indirect interest, financial or otherwise, in the property or transaction. 12 C.F.R. §722.5(b). However, a professional appraiser serving on an FCU's board of directors or volunteer committee is prohibited from conducting an appraisal for the FCU in exchange for any compensation. NCUA's regulations on lending provide that "no official or employee of an FCU, or immediate family member of an official or employee of an FCU, may receive directly or indirectly, any commission, fee, or other compensation in connection with any loan made by the credit union." 12 C.F.R. §701.21(c)(8)(i).

An FCU may allow outside vendors to offer insurance plans to its membership, pursuant to 12 C.F.R. Part 721. However, "[n]o director, committee member, or senior management employee of an FCU or any immediate family member of any such individual may receive any compensation or benefit, directly or indirectly, in conjunction with any activity under this Part." 12 C.F.R. §721.2(c). Therefore, if an employee of the company selling insurance to the FCU's members receives any

benefit resulting from these sales, such person would be prohibited from serving on the FCU's board of directors or any committee.

Finally, an attorney who represents a labor union which shares members with the FCU may serve on the FCU's board or committees, provided that such individual withdraws from the decision-making process regarding any issue in which the attorney has a pecuniary interest. See FCU Bylaws XIX, Section 4. We suggest that you also consult with your own legal counsel regarding local law governing conflicts of interest and fiduciary duty.

Sincerely,

Sheila A. Albin
Associate General Counsel

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