

March 20, 2001

Robert D. Ramirez, President/CEO
DM Federal Credit Union
P.O. Box 15115
Tucson, Arizona 85708-0115

Re: Permissibility of Student Loans to Nonmembers.

Dear Mr. Ramirez:

The Region V Office has asked us to respond to your inquiry on whether your federal credit union (FCU) may make a student loan to a student who is not a member. No, it may not.

You have explained in your letter and in discussions with staff that the FCU participates in a program through Southwest Student Services Corporation (Southwest), a nonprofit corporation that, among other things, facilitates financial aid for postsecondary education. Southwest maintains a website that assists students in preparing loan applications. Your letter states that two major member groups within your field of membership are a university and community college and that the FCU refers members inquiring about student loans to the Southwest website. Students may select a lender from a list Southwest provides, which includes the FCU, and, in some cases, students may also receive application documents from their school financial aid offices. Southwest processes the loans and sends documentation to the FCU for funding of a bundle of loans. FCU staff indicates that the FCU does not establish individual accounts for the student loans because Southwest purchases the loans usually within 45 to 120 days and also provides servicing in the interim. The FCU funds the loans from its general ledger. Your letter states that a very small percentage of borrowers may be nonmembers, and FCU staff states that the process does not provide an opportunity to determine whether the individual student borrowers are, in fact, FCU members.

FCUs are only authorized "to make loans . . . and extend lines of credit to members" 12 U.S.C. §1757(5). The FCU must interject a means for ensuring that the student borrowers are FCU members into the process. When Southwest provides documentation for funding, the FCU must obtain sufficient

information about the borrowers to determine that they are members. We also suggest that it may be possible for Southwest and university financial aid offices that participate in this program to provide student applicants with notice about the membership requirement if the students select FCU as their lender.

Sincerely,

Sheila A. Albin
Associate General Counsel

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