

November 23, 2005

Stephen A.J. Eisenberg, General Counsel  
Pentagon Federal Credit Union  
Post Office Box 1432  
Alexandria, Virginia 22312-2032

Re: Credit Union Service Organization (CUSO) Investments in Non-CUSO  
Service Providers.

Dear Mr. Eisenberg:

You have asked whether a CUSO may purchase and own shares of a closely held title insurance agency as a permissible CUSO activity. No, a CUSO may only invest in a non-CUSO service provider if its investment is necessary to receive the non-CUSO's services or a reduced price for goods or services.

Specifically, you have asked if your client's CUSO, established to offer real estate brokerage services to the credit union's members, may acquire twenty percent of the outstanding issued shares in a title insurance agency (the agency). You assert the investment is a permissible CUSO activity because the dividend income from the agency shares is ultimately returned to the credit union through the CUSO, enabling the credit union to defray its members' title insurance costs.

In connection with providing a permissible service, a CUSO may invest in a non-CUSO service provider, if the amount invested is limited to the "amount necessary to participate in the service provider, or a greater amount if necessary to receive a reduced price for goods or services." 12 C.F.R. §712.5(r). For instance, a CUSO may buy stock in an ATM-network in order to make the network available to members of its participating credit unions. 63 Fed. Reg. 65714, 65715 (Nov. 30, 1998). In the facts presented, it is not necessary for the CUSO to acquire any amount of shares in the agency before it can obtain the agency's services. Furthermore, there is no evidence the agency reduces the price of its services for shareholders. The CUSO, therefore, may not make the investment in the agency as a permissible CUSO activity.

Sincerely,

Sheila A. Albin  
Associate General Counsel

GC/CJL:bhs  
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