

December 29, 2005

Stuart Perlitsh, CEO
Glendale Area Schools Federal Credit Union
P.O. Box 556
Montrose, CA 91021

Re: Credit Union Vendor Endorsements.

Dear Mr. Perlitsh:

You have asked if it is proper for a federal credit union (FCU) to provide endorsements of products or services offered by third-party vendors. Although an FCU should be alert to the potential risk to its reputation, nothing in the Federal Credit Union Act or NCUA's regulations prohibits this activity.

Your receipt of promotional material from a software vendor prompted your inquiry. A letter signed by the CEO of another FCU endorsing the vendor accompanied the promotional material. The CEO's letter notes the credit union's favorable experience with the vendor and concludes by noting that the CEO has no hesitation to recommend the vendor to other credit unions.

We believe a recommendation based on an FCU's experience with a vendor can be useful to other credit unions in making their own determinations about a product or service. Endorsements from satisfied customers are common in the marketplace and, assuming they are offered in good faith, present minimal risk. The practice is analogous to finder activity on behalf of an FCU's membership, which is expressly authorized in our incidental powers rule. 12 C.F.R. §721.3(f). Under this rule, an FCU may act as a finder and introduce or bring together its members with third party vendors so the two parties may negotiate and consummate transactions. Although the present circumstances differ from a finder activity, we think the risks to the credit union are, if anything, even less, since an institution rather than a consumer will be considering the recommendation.

While nothing prohibits an FCU from engaging in this type of activity, a credit union should perform adequate due diligence to assure that the vendor is reputable before providing a recommendation or endorsement. As you have noted, the vendor is outside the credit union's control, and a carelessly offered recommendation could subject the credit union to reputation risk.

Mr. Stuart Perlitsh

Page 2

You also asked if there was any potential liability for the NCUA, as the federal regulator, if a credit union relies on the recommendation of another credit union. No, the NCUA, as an independent agency within the executive branch of the federal government, has no potential liability in these circumstances.

Sincerely,

/s/

Sheila A. Albin
Associate General Counsel

GC/RPK:bhs
05-1223