

April 4, 2008

Steven D. Eimert, Esq.
Sherin and Lodgen LLP
101 Federal Street
Boston, MA 02110

Re: Benefits for Employees of Credit Union Service Organizations (CUSOs).

Dear Mr. Eimert:

You have asked if a federal credit union (FCU) may provide employee benefits to the employees of a CUSO that is wholly-owned or majority-owned by the FCU. You specify that by "provide," you mean obtain, administer and pay for the benefits. No, that is not permissible. You also have asked, in the alternative, if the FCU may obtain and administer benefits for the CUSO employees if the CUSO pays for them. Yes, this is permissible subject to the conditions discussed below.

An FCU is authorized to provide employee benefits, including retirement benefits, to its employees and officers. 12 C.F.R. §701.19(a). The kind and amount of these benefits must be reasonable given the FCU's size, financial condition, and the duties of the employees. Id. This authority is expressly limited to the FCU's employees. It does not extend to the employees of a CUSO, which is a legal entity separate and distinct from the FCU, even if wholly-owned or majority-owned by the FCU. Also, an FCU may provide employee benefits to an FCU employee, who also performs some duties for a CUSO, but only for the duties that employee performs for the FCU.

We believe, as you suggest, that an FCU may obtain and administer employee benefits for CUSO employees, as part of a program for its own employees, if the FCUA does not pay for the benefits for CUSO employees and subject to certain conditions. By "obtain and administer," you mean the FCU will combine CUSO employees with FCU employees to form a larger employee group solely for administrative convenience and as a cost savings measure to obtain better rates as a result of having a larger group of beneficiaries.

We do not object to this proposal provided: it is accomplished in a manner that will not affect the legal separateness of the FCU and CUSO, preserving the corporate veil; the CUSO pays in advance for its share of the cost of the benefits attributable to its employees or reimburses the FCU within a reasonable time after the fact; and the CUSO complies with state insurance and other applicable law. We view this approach as serving a legitimate FCU purpose, because of the administrative convenience and cost savings it would provide to an FCU, and conclude FCUs are authorized to engage

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in this approach under their general contracting authority provided in the Federal Credit Union Act. 12 U.S.C. §1757(a).

Please feel free to contact Staff Attorney Frank Kressman or me with any additional questions.

Sincerely,

/S/

Sheila A. Albin
Associate General Counsel

GC/FSK:bhs
08-0218