

May 7, 2001

Yvonne L. Hoekstra, Manager/CEO
IBEW/SJ Cascade Federal Credit Union
P.O. Box 3227
Salem, Oregon 97302-0227

Re: Director's Interest in Financial Counseling Services Offered by a Third Party.

Dear Ms. Hoekstra:

You have asked if your federal credit union (FCU) may enter into an arrangement with a financial services firm to offer discounted financial counseling to members. You noted in your letter that the FCU is considering adding the firm as an occupational group to its field of membership. Also, you have asked if an FCU director, who is an investment advisor with the firm, may serve as a financial counselor to members under this arrangement. Your letter notes that investment advisors with the firm are supported by it but are not firm employees. Our group purchasing regulation permits FCUs to establish the kind of arrangement you described with the financial services firm for the benefit of their members but the FCU director associated with the firm may not participate in the decision to establish the arrangement. The conflict of interest provision in our group purchasing regulation also appears to bar the director from providing services to members.

Our group purchasing regulation permits FCUs to endorse and provide administrative functions on behalf of outside vendors. 12 C.F.R. §721.1. The fact that the firm is or may become an occupational group within your field of membership is not an obstacle. The FCU Bylaws contain a provision that would prohibit the director who is associated with the firm from participating in the decision of whether to establish this arrangement.

No director . . . may participate in any manner, directly or indirectly, in the deliberation upon or the determination of any questions affecting his or her pecuniary or personal interest or the pecuniary interest of any corporation, partnership, or association . . . in which he or she is directly or indirectly interested.

FCU Bylaws, Article XVI, Section 4.

Our group purchasing regulation provides that no director, committee member or senior management employee may receive compensation, directly or indirectly, in conjunction with activities covered by the regulation. 12 C.F.R. §721.2(c).

We interpret this provision as a prohibition against compensation linked to products

or services provided by third party vendors. Generally, compensation that is fixed in amount and not related to the amount of products or services sold is permissible. If the interested director were paid a fixed salary as an employee of the firm, unrelated to the amount of services sold through the FCU's group purchasing plan, the compensation would be permissible. You indicated that the interested director is not an employee of the firm. Thus, it appears that the compensation he would receive as a counselor would be prohibited because it would be linked to the amount of services provided.

Sincerely,

Sheila A. Albin
Associate General Counsel

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