

June 11, 2002

Michael J. Rieley, Attorney at Law
7 West Sixth Avenue, P.O. Box 1211
Helena, MT 59624

Re: Credit Union Service Organization (CUSO) Conversion From A Corporation To
A Limited Liability Company (LLC)

Dear Mr. Rieley:

You have asked if the conversion of a CUSO from a profitable corporation to an LLC triggers the divestiture provision of the CUSO rule. No, it does not.

You have informed us that CUsource, Inc. is a CUSO formed as a Montana corporation. CUsource Inc. intends to convert to an LLC.

A federal credit union's (FCU's) investment in CUSOs is limited to 1% of its paid-in and unimpaired capital and surplus as of its last calendar year-end financial report. An FCU has separate authority to loan to CUSOs up to that limit. 12 C.F.R. §712.2(a) and (b). Further, the CUSO rule states:

Divestiture. If the limitations in paragraph (a) of this section are reached or exceeded because of the profitability of the CUSO and the related GAAP valuation of the investment under the equity method, without an additional cash outlay by the FCU, divestiture is not required. An FCU may continue to invest up to 1% without regard to the increase in the GAAP valuation resulting from a CUSO's profitability.

12 C.F.R. §712.2 (e). The intent of this provision is to avoid penalizing FCUs for making good investments in CUSOs. It applies to your circumstances where there is no additional cash outlay and the CUSO is merely converting its structure from a corporation to an LLC.

Sincerely,

Sheila A. Albin
Associate General Counsel

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