

July 10, 2002

William Vogeney, Chief Lending Officer
Ent Federal Credit Union
P.O. Box 15819
Colorado Springs, CO 80935

Re: Segregation of Duties for Loan Officers.

Dear Mr. Vogeney:

You have asked if a federal credit union (FCU) employee who obtains information from a loan applicant, obtains a credit report, and enters the data into an automated underwriting system may disburse a loan if the system "approves" it. No, an employee entering data into an automated underwriting system is responsible for the accuracy of the data and proper use of the system and, as such, the employee is acting as a loan officer and may not disburse the loan. 12 U.S.C. §1761c(a), (b).

The FCU Act provides:

No individual shall have authority to disburse funds of the Federal credit union with respect to any loan or line of credit for which the application has been approved by him in his capacity as a loan officer.

12 U.S.C. §1761c(b). As discussed in a letter to Mary D. Wenck from me, dated July 18, 1997, the purpose of this provision requiring a segregation of approval and disbursement duties for loans is to decrease the incidence of fraud, embezzlement and errors.

An FCU may use an automated underwriting system in the loan approval process. As discussed in the attached letter from Richard Schulman to William Berg, dated July 18, 1996 (the Berg letter), an automated underwriting system applies underwriting criteria to facts about the applicant and indicates if the applicant meets the FCU's lending criteria, but an automated underwriting system is not a substitute for a loan officer. The potential for fraud or error exists in the use of an automated underwriting system for loan approval because the result depends on the correct entry of data about a loan applicant. We conclude that an FCU employee using an automated underwriting system to approve a loan is functioning as a loan officer and may not disburse a loan the employee has approved.

To the extent you read the Berg letter as authorizing an automated underwriting system as a replacement for a loan officer, this letter clarifies the Berg letter.

Sincerely,

Sheila A. Albin

Associate General Counsel

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SSIC 4650
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Enclosures