STATE OF MICHIGAN

DEPARTMENT OF COMMERCE

FINANCIAL INSTITUTIONS BUREAU

IN RE: APPLICATION OF BLUE CROSS BLUE SHIELD EMPLOYEES CREDIT UNION TO INVEST IN A SERVICE ORGANIZATION PROVIDING CERTAIN SERVICES AND SUPPLIES TO CREDIT UNIONS, CREDIT UNION EMPLOYEES, AND THEIR MEMBERS

Facts

Blue Cross Blue Shield Employees Credit Union (Credit Union) has applied for an order determining that certain services and activities to be provided by a credit union service organization (CUSO) it will establish and own fall within the meaning of subsection 4(2)(gg) of the Credit Union Act of 1925, (Act) as amended, MCL 490.4(2)(gg). The Credit Union proposes to invest in, as sole shareholder, a CUSO which will provide the following services to it and to other credit unions which will contract with the CUSO for the services:

1. credit union software programs for financial and investment analysis;
2. credit collections and investigations;
3. printing of forms;
4. supplies for annual meetings, member communications, etc. such as promotional items and the like;

and which will provide the following service to credit unions, credit union employees and credit union members:

5. automobile leasing.

The Credit Union has stated that its investments in or loans to the CUSO will not exceed 2% of the Credit Union's shares, deposits, undivided earnings and reserves. Further, the Credit Union has stated that the CUSO

will execute an agreement which would allow the Commissioner to conduct an examination of the CUSO to the same extent that the Commissioner is authorized to examine credit unions, and that the CUSO will make such reports to the Commissioner as he may require.

Issue

Is a credit union's investment in or loan to a corporation which will provide to credit unions credit union software programs for financial and investment analysis; credit collection and investigation services; printing of forms; supplies for annual meetings, member communications, etc. such as promotional items and the like; and which will provide automobile leasing services to credit unions and their employees and members, a permissible investment or loan under Section 4(2)(gg) of the Credit Union Act of 1925, as amended, MCL 490.4(2)(gg)?

Decision

MCL 490.4(2)(gg) governs a credit union's power to invest in or make loans to organizations which

> "engage in activities incidental to the conduct of a credit union or in activities which further or facilitate the purposes of a credit union, or which furnish services to credit unions."

Section 4(2)(gg) further states: "The Commissioner shall determine by rule or order the activities and services which fall within the meaning of the subdivision." Thus, in order to find that providing the listed services falls within the meaning of subsection 4(2)(gg), the Commissioner must determine that the service is incidental to the conduct of a credit union or furthers or facilitates the purposes of a credit union.

Subsection 1a(b) of the Act, MCL 490.1a(b), states the purposes of a credit union as:

> . . . encouraging thrift among its members, creating a source of credit at fair and reasonable rates of interest, and providing an opportunity for its members to use and control their own money on a democratic basis, in order to improve their economic and social condition."

Before the most recent amendments to the Act, effective December 19, 1986, the Act required the Commissioner to approve each credit union's investment in a CUSO. In an order dated January 30, 1987 the Commissioner recited those service organization activities or services which have been approved for credit union investment before the December 19, 1986 amendments. Included among those previously approved services or activities were data processing services and financial planning services. Providing software programs to credit unions is closely related to providing data processing services. Further, financial planning and tracking investment of its funds is surely an integral part of the conduct of a credit union's business. Therefore, providing computer software for these purposes to a credit union is incidental to the conduct of a credit union and furthers or facilitates its purposes.

Similarly, credit collections and investigations, printing of forms, and providing supplies for annual meetings, member communications, etc., such as promotional items and the like, are all services which support a credit union in its daily activities. Credit collections and investigations support a credit union's lending activities, thereby assisting a credit union in creating a source of credit for its members. Forms are a necessary part of a credit union's daily operations, while promotional materials, annual meeting supplies and the like are often used by a credit union in conducting its business. A CUSO may be able to provide credit unions with a cost effective source for forms and promotional materials thereby allowing the credit union to operate efficiently. Therefore these activities and products further or facilitate a credit union's purposes.

A credit union may lease personal property to its members pursuant to MCL 490.4(2)(y), so long as the credit union does not acquire an interest in the property before the member selects the property. Here the CUSO owned by the Credit Union intends to provide automobile leasing to members of the Credit Union as well as enter into agreement(s) with other credit unions to lease automobiles to members of those credit union(s) which contract with the CUSO for providing the service.

Since a credit union may itself lease automobiles to its members within the limitations of MCL 490.4(2)(y), the activity is surely incidental to the conduct of a credit union. To accomplish this activity through a CUSO is merely to do indirectly what a credit union has the power to do directly. Additionally, providing automobile leasing furthers or facilitates a credit union's purpose of encouraging thrift among its members. A credit union itself may have a need for leased automobiles for use in carrying on its business. Therefore, automobile leasing to Credit Union members or a credit union, so long as the CUSO does not acquire an interest in the property before the member or credit union selects the property, falls within the meaning of MCL 490.4(2)(gg).

MCL 490.4(2)(kk) permits a credit union to perform services for members of other credit unions pursuant to a written contractual arrangement. If a credit union itself has the statutory authority to perform services for members of other credit unions, performing such services is incidental to the conduct of a credit union. Again, to accomplish the activity through a CUSO is to do indirectly what a credit union has the power to do directly. Therefore providing automobile leasing services to members of other credit union(s) which enter into a written contractual arrangement(s) with the CUSO constitutes providing a service to a credit union which is incidental to its conduct and furthers or facilitates its purposes. Again, the credit union member must select the property before the CUSO acquires an interest.

For these reasons, I conclude that the proposed services fall within the meaning of MCL 490.4(2)(gg) and IT IS HEREBY ORDERED, that the proposed services fall within the meaning of subsection 4(2)(gg).

A state-chartered credit union may invest in a service organization which provides any of the proposed services to credit unions and credit union employees and members subject to the following conditions:

1. The credit union meets the requirements of subsection 4(2)(gg), namely:

a. The credit union must notify the Commissioner if the investment would cause aggregate investments in and loans to service organizations to exceed 2% of the credit union's shares, deposits, undivided earnings and reserves.

b. Aggregate loans to and investments in service organizations shall not exceed 5% of the shares, deposits, undivided earnings and reserves of the credit union.

2. Before commencing business, the service organization provides the Commissioner with a written agreement, signed by an authorized officer(s) of the service organization, stating that the Commissioner may conduct an examination of the service organization to the same extent that the Commissioner is authorized to examine credit unions and to make such reports to the Commissioner as the Commissioner may require from time to time.

June 25, 1987
Date

Eugene W. Kuthy,
Commissioner
Financial Institutions Bureau