 Office of Credit Unions Policies and Procedures	POLICY NUMBER
	10490
INVESTMENTS	EFFECTIVE DATE
	11/01/2018
SUBJECT	REVISION DATE
	06/21/2024
Credit Union Service Organizations (CUSOs)	PAGE(S)
	Page 1 of 3

I. PURPOSE

This policy provides guidance for the credit union examination procedures related to credit union service organizations (CUSOs). CUSOs are defined by Section 102(I) of the Michigan Credit Union Act (MCUA).


CUSOs are required to be structured and operated as a separate legal entity from a domestic credit union. Credit unions with investments in or loans to a CUSO must ensure the CUSO has complied with pertinent provisions of the MCUA, and that activities undertaken by the CUSO do not elevate credit union risk to an excessive level. Credit unions' initial and ongoing due diligence on the CUSO is necessary to mitigate risk. This should be reviewed by examiners during the course of a credit union's safety and soundness examination.

II. PRIMARY REFERENCES/ REGULATIONS


1. Michigan Credit Union Act:
 - a. Section 490.102(I): Definition of a CUSO
 - b. Section 490.401: Domestic credit union; powers
 - c. Section 490.407: Credit union service organizations
2. Michigan Credit Union Bulletin 2021-40-CU
3. NCUA Rules and Regulations Part 741.222: Requirements for insurance; credit union service organizations.

III. MINIMUM PROCEDURES

1. In order to be an eligible CUSO for a credit union to invest in, or loan to, the criteria established in Section 407(3) of the MCUA must be met. This includes:
 - a. The CUSO must be adequately capitalized or have a reasonable plan for adequate capitalization if it is to be formed or is newly formed.
 - b. The CUSO must be structured and operated as a separate legal entity from the domestic credit union.
 - c. There must be a written legal opinion supporting that the CUSO is structured and operated in a manner that limits the credit union's potential liability for the debts and liabilities of the CUSO to not more than the loss of money invested in or loaned to the CUSO by the credit union.

 Office of Credit Unions Policies and Procedures	POLICY NUMBER
	10490
INVESTMENTS	EFFECTIVE DATE
	11/01/2018
SUBJECT	REVISION DATE
	06/21/2024
Credit Union Service Organizations (CUSOs)	PAGE(S)
	Page 2 of 3

- i. Current operating practices between the CUSO and the credit union must support that a satisfactory corporate veil exists between the entities, limiting exposure to the credit union.
 - ii. A credit union’s regular reviews should include evaluating if changes in operating practices could potentially pierce the corporate veil and/or otherwise impair the validity of the legal opinion.
 - d. There must be written evidence of the CUSO’s agreement to provide financial statements at least quarterly to the credit union. (The credit union should have documentary evidence to show this is occurring as required.)
 - e. Written evidence the CUSO agrees to obtain an audit of the CUSO from a certified public accountant at least annually and provide a copy of each audit report to the credit union. (The credit union should have documentary evidence to show this is occurring, and the audit is being reviewed by credit union management.)
 - f. The CUSO operates in compliance with applicable state and federal regulations.
2. Verify the CUSO is engaged primarily in providing services approved in Section 407 to credit union members. The following factors could be considered:
- a. Allocation of gross income derived from various components (those received from credit union members/customers and those from other-than-credit union members/customers);
 - b. The allocation of expenses related to those various components;
 - c. Number of credit union customers and other-than credit union customers;
 - d. Time, space and employees allocated those various components; and
 - e. Other factors relevant to the particular circumstances.
3. Verify the credit union has established a written maximum percentage of assets limit the credit union’s exposure of an investment in or loan to the CUSO.
- a. The maximum in aggregate shall not exceed 6% of the credit union’s assets under [401\(2\)\(gg\)](#) without prior approval of the Director.
 - b. This percentage limitation includes all loans cosigned, endorsed, or otherwise guaranteed by the credit union.

 Office of Credit Unions Policies and Procedures	POLICY NUMBER
	10490
INVESTMENTS	EFFECTIVE DATE
	11/01/2018
SUBJECT	REVISION DATE
	06/21/2024
Credit Union Service Organizations (CUSOs)	PAGE(S)
	Page 3 of 3

4. Verify senior management employees of a credit union are not receiving any salary, commission, investment income, or other compensation from a CUSO that is an affiliate of the credit union.
5. Verify the credit union is following generally accepted accounting principles in its accounting of its financial involvement in the CUSO(s).
6. Evaluate the credit union's systems for ongoing monitoring of the CUSO, to evaluate the ongoing degree of risk the CUSO may pose to the affiliated credit union and monitoring the CUSO's ongoing status of compliance with the MCUA.
7. Review the financial statements prepared by the CUSO and the audit reports from the auditing firm. Ensure there is a separation of the accounting function of the credit union versus the CUSO.
8. Evaluate the degree and likelihood of credit union risk exposure which may result from CUSO conditions. Material risks should be discussed with OCU management for consideration in CUSO examination scheduling.

IV. ATTACHMENTS

1. [10490 A: CUSO Review Checklist](#)