



NATIONAL CREDIT UNION ADMINISTRATION
Washington, D.C. 20456

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April 1, 1986

Office of General Counsel

Honorable Tom Loeffler
Member, U. S. House of Representatives
40 N.E. Loop 410
Suite 415
San Antonio, TX 78216

Dear Congressman Loeffler:

This is in response to the letters of Harold and Jeanne Johnson, which have been forwarded to us from the Department of Justice by cover letter dated February 28, 1986. Specifically, your constituents are concerned about the legality of their Federal Credit Union's ("FCU") termination of their Life Savings Insurance. For years, the Credit Union had supplied the coverage free of charge (matching up to \$2,000 of a member's share deposits at time of death), but because of rising costs, it decided to end the free coverage. Your constituents noted that one of the primary reasons for opening and maintaining their share accounts was the free life insurance offered by the FCU.

Although we are sympathetic to the problem of Mr. & Mrs. Johnson, it is one that is appropriately resolved between the parties and not one in which this Agency would normally become involved. The matter raised by your constituents is not regulated by NCUA. The issues involve matters of state contract law. I regret that we are not able to advise your constituents on matters of state law.

I would note that this is an issue that has been raised with NCUA on previous occasions. From the Credit Union's perspective, benefit was provided to the members over the years that the free insurance was in place. Because of rising expenses, and the desirability of providing all credit union members with the best possible share and loan rates, some credit unions have made the decision to discontinue free life savings insurance. In many of those cases, the credit union will offer the insurance on a member-pay basis, so that those members who choose the insurance pay for it explicitly, rather than having the cost spread out among all members. Other credit unions, on the other hand, believe that it is more consistent with the cooperative nature of credit unions to provide the insurance to all members at the credit union's expense. This is a business decision that NCUA believes is best left to each credit union's board of directors. I would note in this connection that every Federal

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credit union's board of directors is democratically elected by the membership. Also, each FCU has a board-appointed supervisory committee that is responsible, among other things, for investigating member complaints.

From the members' perspective, if they feel they have been treated unfairly, they may wish to take the matter up either through the supervisory committee or the elective process. Also, if the members feel that the credit union has made a contractual commitment for continued provision of the insurance, they may wish to consult local counsel for a review of state contract law.

I hope this has been of assistance. If we can provide any further information, please let me know.

Sincerely,

ROBERT M. FENNER
General Counsel

SRB:cch

cc: DOJ