



NATIONAL CREDIT UNION ADMINISTRATION
Washington, D.C. 20456

September 10, 1986

Office of General Counsel

GC/HMU:sg
4700

Ernest A. Goetz, Jr., Esq.
Cullen and Dykman
1010 Franklin Avenue
Garden City, NY 10530-0755

Dear Mr. Goetz:

This is in response to your letter of April 10, 1986, concerning a Federal credit union's (FCU) receipt of insurance commissions pursuant to Section 721.2(b)(1) of the NCUA Rules and Regulations (12 C.F.R. Section 721.2(b)(1)).

As we understand it, the Credit Union desires to receive insurance commissions (pursuant to Section 721.2(b)(1) of the NCUA Regulations and applicable New York State insurance laws) for term and whole life insurance policies sold to FCU members who have been granted an extension of credit under a loan secured by a mortgage on real property. The members will have the option of designating the FCU as beneficiary of the insurance policies, but such designation is not required.

Pursuant to Section 721.2(b) of the Regulations and the preamble thereto (see 50 Fed. Reg. 16462, 4/26/85), reimbursement or compensation for insurance sales is not limited (except by state law) for insurance which is directly related to an extension of credit or to a share account. The preamble to the regulation contains an exemplary list of the types of insurance that may be directly related to an extension of credit. Whole or term life insurance is not included on that list. Examples of such insurance are credit life or disability insurance and property insurance on dwellings.

In your scenario, the beneficiary of the whole or term life insurance need not be the FCU, and therefore, the proceeds of the insurance policies will not necessarily be used to pay off the mortgage loans. In contrast, the proceeds of credit life or disability insurance are used to automatically pay off the FCU loan for which the insurance was purchased. Additionally, property insurance on dwellings collateralizing mortgage loans protects an FCU's interest in the collateral. The insurance you describe does not have the same direct connection to an extension of credit as the types of insurance described above.

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In conclusion, it is our opinion, from the facts given, that whole or term life insurance is not directly related to an extension of credit, as required by Section 721.2(b)(1) of the Regulations. Hence, FCU's must comply with Section 721.2(b)(2) of the Regulations (reimbursement limited to cost or dollar amount) and all applicable state laws.

I hope that we have been of assistance.

Sincerely,



STEVEN R. BISKER
Assistant General Counsel

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