NATIONAL CREDIT UNION ADMINISTRATION
Washington, D.C. 20456

March 27, 1987

Office of General Counsel

Mr. Perry B. Lewis, President
NN Investors Life Insurance Company, Inc.
Cedar Rapids, Iowa 52406

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Dear Mr. Lewis:

At the request of H. Allen Carver, Regional Director of our Chicago Regional Office, we have reviewed two of your company's insurance policies which are being used by Federal credit unions. The policies are for life savings and loan protection under the name Creditor's Resources, Inc. The purpose of our review was to determine if the policies as written are legal for Federal credit unions and to determine if they represent any inherent risks to those institutions.

Each contract calls for the payment of an annual premium, and at the time of loss (death of member and claim of life savings or loan protection), a premium equal to the amount of the loss plus $50, except when the claim is considered a catastrophic loss. A catastrophic loss is defined in each policy as "A single accident or occurrence which results in the death of three or more insured debtors within ninety (90) days from the date of such accident or occurrence." Thus when one or several members die on the same day from separate and unrelated accidents or natural causes, the credit union would have to pay a premium equal to the amount of the insurance. We consider this process as self-insurance, which is neither permissible for Federal credit unions nor a safe and sound activity in that it exposes the credit union to undue risk which ultimately must be assumed by the credit union's members.

The credit union's board of directors does not have the authority to forgive enforcement of an obligation upon the debtor's death. It is the board's responsiblity to charge off only those loans that are uncollectible. Death of a debtor does not relieve him or his estate from paying the debt. In charging off collectible loans, which is the effect of your loan protection policy, the board may be engaged in "corporate waste," e.g., the giving up or wasting of credit union assets. Generally, a board of directors may not undertake to waste or give away corporate assets without unanimous approval of the shareholders. Since we believe that your loan protection policies may result in

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corporate waste, we believe that the policies are not permissible for Federal credit unions.

We will be notifying the credit unions involved of our finding and will advise them to seek an alternative method of insuring the accounts of their members. If you wish to work with our staff on developing a permissible method of providing these insurances, please contact me.

Sincerely,

STEVEN R. BISKER
Assistant General Counsel

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