



NATIONAL CREDIT UNION ADMINISTRATION
Washington, D.C. 20456

May 29, 1987

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4700

Office of General Counsel

Mr. Robert J. Korthase
Investment Manager
66 Federal Credit Union
P.O. Box 1358
Bartlesville, Oklahoma 74005-1358

Dear Mr. Korthase:

This is in response to your letter regarding the permissibility of a Federal credit union (FCU) investing in a life insurance policy.

Unfortunately, you did not provide us with a copy of the life insurance policy you are considering. Therefore, our comments with respect to the policy must be limited to a general analysis of the types of insurance policies that FCU's can purchase.

It is the position of this Office that FCU's may purchase "key man insurance" pursuant to Section 107(16) of the FCU Act (12 U.S.C. §1757(16)). The term "key man insurance," as interpreted by this Office, refers to the purchase of an insurance policy by the FCU in which the FCU is both the owner and beneficiary of the policy. The insured is typically a key employee of the FCU, i.e., an employee whose skill and expertise would be difficult to readily replace. Following the death of a key employee, the FCU will use the proceeds from the insurance policy to find and train a replacement.

An FCU may also, pursuant to Section 113(12) of the FCU Act (12 U.S.C. §1761b(12)), purchase life insurance for FCU employees as part of their compensation package. We should point out, though, that under Sections 111 and 112 of the FCU Act (12 U.S.C. §1761 and §1761a), members of the credit committee, supervisory committee, and board of directors, with the exception of one designated board officer, may not be compensated for holding these respective positions. Therefore, the life insurance policies, which are considered compensation under Section 111(c) of the FCU Act (12 U.S.C. §1761(c)) and Section 701.33 of the NCUA Rules and Regulations (12 C.F.R. §701.33), could not be purchased on these individuals. However, if any of these individuals, in addition to their board or committee position are also employees of the FCU, the FCU could purchase insurance policies for them as part of their compensation package.

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FCU's may not purchase insurance policies solely for, or with the predominant intent of, investment purposes. Section 107(7) of the FCU Act (12 U.S.C. §1757(7)) sets forth permissible investments for FCU's. Insurance policies are not included under this section as permissible investments.

The insurance program you described in your letter appears to be a hybrid policy that encompasses both the concepts of key man insurance and insurance as an employee benefit. We hope that the above comments will assist you or the FCU's attorney in determining if the specific insurance program you are considering is permissible for FCU's. Should you have any further questions with respect to your specific policy, please send a copy of the policy to us with your questions and your opinion.

We hope this has been of assistance.

Sincerely,



STEVEN R. BISKER
Assistant General Counsel

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