



NATIONAL CREDIT UNION ADMINISTRATION
Washington, D.C. 20456

GC/JT:sg
4700

July 2, 1987

Office of General Counsel

Mr. Daniel P. Bradley
Executive Vice President
DM Federal Credit Union
P.O. Box 15115
Tucson, Arizona 85708

Dear Mr. Bradley:

This is in response to your letter of May 7, 1987, regarding a recent opinion issued by this Office on self-insurance.

In our prior opinion (copy enclosed) we reviewed loan protection and life savings insurance policies sold to Federal credit unions by NN Investors Life Insurance Company. The policies we reviewed called for the payment of an annual premium, and at the time of loss (death of a member and claim of life savings or loan protection), a premium equal to the amount of each claim, plus an administrative expense of \$50, except when the claim is considered a catastrophic loss. A catastrophic loss was defined as "a single accident or occurrence which results in the death of three or more insured members within ninety days from the date of such accident or occurrence." We determined that this type of policy constituted 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. We further stated that the loan protection policies may result in corporate waste. In reaching this conclusion, we noted that it is the responsibility of the board of directors to charge off only those loans that are uncollectible, and that death of a debtor does not relieve the debtor or his estate from paying the debt. We concluded that, in charging off collectible debts, which was the net effect of the loan protection policies, corporate waste would result.

You indicated in your letter that, after reading the above-described opinion from this Office, you concluded that the life savings and loan protection policy your credit union has purchased from CUNA Mutual, which is entitled "Select Risk Rating Plan" (Select Risk), also constitutes self-insurance.

After receiving your letter, members of this Office met with representatives from CUNA Mutual to discuss the Select Risk program. Based on representations made by the CUNA

Mr. Daniel P. Bradley
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representatives, it is our opinion that Select Risk does not constitute self-insurance nor does it result in corporate waste. The significant difference between Select Risk and the policies of NN Investors is that with Select Risk, CUNA has risk exposure; i.e., it may be required to pay claims in excess of premiums paid by the credit union. In the NN Investors policies, the insurer has no risk exposure as the credit union is responsible for paying the full amount of each claim, plus an administrative expense of \$50.00 per claim, except in the instance of a catastrophic loss. The likelihood of a catastrophic loss occurring is so remote that the insurer is not exposed to any real risk.

We are enclosing a copy of a letter from CUNA Mutual which discusses the Select Risk program. Should you have any questions on the program, please contact CUNA Mutual directly. If you still have questions concerning the legal issues involved, please let me know.

Sincerely,



STEVEN R. BISKER
Assistant General Counsel

JT:sg

Enclosures

cc: RD, Region V (Austin)



CUNA MUTUAL INSURANCE SOCIETY

MEMBER OF THE CUNA MUTUAL INSURANCE GROUP

POST OFFICE BOX 391 (608) 238-5851

MADISON, WISCONSIN 53701

KEVIN G. SHEA
ASSISTANT VICE PRESIDENT
(608) 231-7322

May 27, 1987

Mr. Steve Bisker
Office of General Counsel
National Credit Union Administration
1776 G Street, N.W.
Washington, DC 20456

SUBJECT: Select Risk Rating Plan

Dear Steve:

This is in follow-up to our conversation on Wednesday, May 27, 1987 concerning the above subject.

CUNA Mutual's original Select Risk Rating Plan for loan protection (credit union-pay credit life insurance) and life savings insurance was developed by CUNA Mutual in 1966. This plan provided larger credit unions with an opportunity to help control the costs of loan protection and life savings contracts in exchange for rates more closely related to their individual claims experienced. Unfortunately, the name of the program might imply that the credit union is selecting a risk which they are willing to share. In fact, the credit union is only selecting the amount of retroactive premium which might be owed by them based on bad loss experience. Consistent with group insurance concepts, rates move up and down based on the experience of the policyholder.

Select Risk is a premium rating plan which removes credit unions from the "pooling concept" and individually rates them on their own credit union experience. Premium rates and administrative charges are determined by the credit union's amount of coverage, claims experience and the risk-sharing option selected by the credit union. The contract putting into force the Select Risk rating plan is a filed insurance contract which outlines the specific terms regarding deposit premium rates, the amount that premiums may be retroactively charged, administrative charges, premium refunds, handling of carryovers, etc. Our Select Risk Rating Plan does not replace the credit union's loan protection and life savings policy. The agreement replaces the rating under the plan with experience rating and becomes an integral part of the loan protection and/or life savings insurance policy.

Mr. Steve Bisker
Office of General Counsel
May 27, 1987
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CUNA Mutual's plan in no way subjects the credit union to an insurance risk. The credit union's risk is that of paying additional premium based on the experience in the credit union with a full understanding that, even under our so-called 100% risk selection, the credit union would not pay more than double their normal premium in one year regardless of how large the claims were for that period. All of these plans, policies and rating formulas have been filed for and approved by the Insurance Departments of every state in which they are used. Our program is not a cost-plus program where the credit union assumes the risk of the claim and pays CUNA Mutual simply for the administration. CUNA Mutual does not offer such programs, nor does it intend to at any time in the future.

I hope this information has been useful and would be glad to furnish you with any additional information.

Sincerely yours,



Kevin G. Shea

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Reading file

NATIONAL CREDIT UNION ADMINISTRATION
Washington, D.C. 20456

March 27, 1987

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Office of General Counsel

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

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 responsibility 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

Mr. Perry B. Lewis, President

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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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