



NATIONAL CREDIT UNION ADMINISTRATION

Washington, D.C. 20456

November 6, 1987

GC/ST 29  
3600

Office of General Counsel

Mr. Bob Engebretth  
NN Investors Life Insurance Co., Inc.  
1100 Johnson Ferry Road  
Atlanta, Georgia 30342

Dear Mr. Engebretth:

This is in response to your letter requesting that this Office determine that a proposed life savings and loan protection insurance plan that NN Investors Life Insurance Co., Inc. (NN Investors) intends to market is a permissible purchase for Federal credit unions (FCU's). With your request you submitted a copy of the insurance plan and a legal opinion that concluded that the plan was permissible for FCU's. Our opinion is based upon a review of these documents and a conversation with a representative from NN Investors.

This Office previously reviewed a loan protection and life savings plan which NN Investors was marketing to FCU's. 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 was 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 could result.

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The proposed life savings and loan protection plan presently before us differs significantly from the prior NN Investor's policies reviewed by this Office. The difference between the two plans is that the original plan was merely a cost-plus program in which the FCU assumed the risk of the claim and, additionally, paid NN Investors to administer the claims. NN Investors did not assume any risk. Under the proposed plan, NN Investors has risk exposure in that it may be required to pay claims in excess of premiums paid by the FCU. Therefore, it is our opinion that the proposed plan does not constitute self-insurance and is permissible for FCU's.

I hope that we have been of assistance.

Sincerely,



STEVEN R. BISKER  
Assistant General Counsel

JT:sg