



NATIONAL CREDIT UNION ADMINISTRATION
Washington, D.C. 20456

GC/JT:sg
3500

February 16, 1988

Office of General Counsel

Mr. Michael J. Fontanetta
Computerized Insurance Agency, Inc.
P.O. Box 518
Claremont, California 91711

Re: Federal Credit Union Sale of Insurance (Your
December 3, 1987, Letter)

Dear Mr. Fontanetta:

A Federal credit union ("FCU") may receive income in excess of costs from the sale of insurance if the sale is "directly related" (1) to an extension of credit by the FCU ("credit-related") or (2) to the opening or maintenance of a share, share draft or share certificate account ("share-related"). Your letter did not provide us with enough information to determine whether the mechanical breakdown, collateral protection, term life, and accidental death and dismemberment insurance you referred to are "credit-related" or "share-related." However, we have provided below some general guidance.

Section 721.1 of NCUA Rules and Regulations [12 C.F.R. §721.1] authorizes an FCU to make all types of insurance plans available to its members. Section 721.2(b)(1) states:

Except as otherwise provided by applicable state insurance law, reimbursement or compensation is not limited with respect to insurance sales by the credit union or its employees which are directly related to an extension of credit by the credit union or directly related to the opening or maintenance of a share, share draft or share certificate account at the credit union.
(Emphasis added.)

When issuing Part 721, the NCUA Board provided an exemplary list of the types of insurance that may be directly related to an

FOIA
Vol. II, D. Group Purchasing

Mr. Michael J. Fontanetta
February 16, 1988
Page 2

extension of credit or to a share account [50 Fed. Reg. 16462, 16463 (April 26, 1985)]:

Included among the types of insurance that may be incidental to an extension of credit by an FCU are: credit life insurance, credit disability insurance, loss of income insurance, property and casualty insurance on motor vehicles, boats and residential dwellings, title insurance, mortgage guarantee insurance, and mechanical breakdown insurance on motor vehicles. Life savings insurance is the primary existing example of share-related insurance of which the Board is aware. Most FCU's that offer life savings insurance do so pursuant to a group plan under which the FCU itself pays the premium for all members. Some FCU's have chosen, however, to offer life insurance on a member-pay basis in connection with share, share certificate and share draft accounts. In addition, other credit unions are offering life and disability insurance in connection with IRA accounts.

The Board specifically listed mechanical breakdown insurance as a type of insurance which "may" be credit-related. The extension of credit and the insurance will in fact have to be directly related -- e.g., insurance is on property securing the loan and is payable to the FCU. We cannot envision this type of insurance ever being share-related.

By "collateral protection" insurance you presumably mean property and casualty insurance on motor vehicles, boats and residential dwellings, which the Board also gave as examples of insurance which may be credit-related. We cannot envision this type of insurance as share-related, either.

The Board did not list term life or accidental death or dismemberment insurance as examples of insurance which an FCU could sell at a profit. We have previously given our opinion, however, that the sale of term life insurance is not directly related to an extension of credit unless the proceeds from the policy are available to pay off the loan. We suspect a similar requirement would apply to accidental death or dismemberment insurance.

Mr. Michael J. Fontanetta
February 16 , 1988
Page 3

please keep in mind that FCU's are subject to state laws
applicable to the sale of insurance, including any limits states
may place on insurance commissions.

Sincerely,

A handwritten signature in black ink, appearing to read "Timothy P. McCollum". The signature is fluid and cursive, with a long horizontal stroke at the end.

TIMOTHY P. MCCOLLUM
Assistant General Counsel

JT:sg