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NATIONAL CREDIT UNION ADMINISTRATION
Washington, D.C. 20456

March 31, 1988

Office of General Counsel

Mr. David A. Kwant
Supervisor of Credit Unions
Department of Financial Institutions
State of Utah
P.O. Box 89
Salt Lake City, Utah 84110-0089

Re: Payment of Dividends on Share Draft Accounts (Your
February 5, 1988, Letter)

Dear Dave:

You have asked for an explanation of when, under Federal law, a federally-insured credit union ("FICU") may pay dividends on share draft accounts. Under Section 205(f) of the Federal Credit Union ("FCU") Act [12 U.S.C. §1785(f)], an FICU can offer share draft accounts to: (1) members, regardless of whether they are natural persons or for-profit or not-for-profit corporations, partnerships, or associations; (2) nonmember individuals who can legally establish an account at the FICU; (3) nonmember organizations "operated primarily for religious, philanthropic, charitable, educational, or other similar purposes and which [are] not operated for profit," who also can legally establish an account at the FICU; and (4) agents for public funds. Section 205(f) allows FICU'S to pay dividends on all these share draft accounts.

Persons and Entities Able to Establish an Account at an FICU

Section 107(6) of the FCU Act [12 U.S.C. §1757(6)], authorizes an FCU to:

receive [payments, representing equity,] from
its members, from other credit unions, from
an officer, employee, or agent of . . .
[certain] nonmember units of Federal, Indian
Tribal, State, or local governments and
political subdivisions, . . . from the

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Central Liquidity Facility, and from nonmembers in the case of credit unions serving predominantly low-income members

Depending on the field of membership defined in an FCU's charter, its member may include natural persons and nonnatural persons -- corporations, partnerships, associations, and other organizations, whether or not organized for profit. 12 U.S.C. §1759.

State chartered FICU's may be empowered to accept deposits from an even broader array of persons.

Persons and Entities Able under Federal Law to Establish a Share Draft Account

Section 205(f) of the Federal Credit Union Act [12 U.S.C. § 1785(f)] states:

(1) Every insured credit union is authorized to maintain, and make loans with respect to, share draft accounts in accordance with rules and regulations prescribed by the Board. Except as provided in paragraph (2), an insured credit union may pay dividends on share draft accounts. . . .

(2) Paragraph (1) shall apply only with respect to share draft accounts in which the entire beneficial interest is held by one or more individuals or members or by an organization which is operated primarily for religious, philanthropic, charitable, educational, or other similar purposes and which is not operated for profit, and with respect to deposits of public funds by an officer, employee, or agent of the United States, any State, county, municipality, or political subdivision thereof, the District of Columbia, the Commonwealth of Puerto Rico, American Samoa, Guam, any territory or possession of the United States, or any political subdivision thereof.

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The net effect of this provision is to allow FICU's to offer share draft accounts to four classes of persons:

1. "Members": Depending on the field of membership defined in an FCU's charter, its members may include natural persons and nonnatural persons -- corporations, partnerships, associations, and other organizations, whether or not organized for profit. 12 U.S.C. Section 1759. State-chartered FICU's may be empowered to accept deposits from an even broader array of persons.

2. Nonmember "individuals": This class adds nonmember natural persons -- e.g., nonmembers establishing share draft accounts at a credit union designated as serving predominantly low-income members; nonmembers legally establishing share draft accounts at state-chartered FICU's.

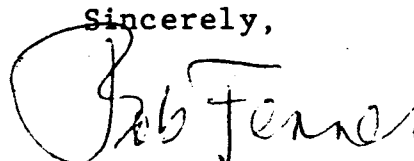
3. Certain "organizations . . . not operated for profit": This class adds certain nonmember organizations -- e.g., a religious group establishing a nonmember share draft account at a credit union designated as serving predominantly low-income members.

4. Agents for certain public unit funds.

Persons and Entities Able Under Federal Law to Receive Dividends on FICU Share Draft Accounts

Under section 205(f) of the FCU Act [12 U.S.C. §1785(f)] an FICU can pay dividends on all share draft accounts it is thereby authorized to offer. It can therefore pay dividends on share draft accounts of "members," nonmember "individuals," certain described "organizations . . . not operated for profit," and agents for certain public unit funds.

Sincerely,



ROBERT M. FENNER
General Counsel