



NATIONAL CREDIT UNION ADMINISTRATION
Washington, D.C. 20456

GC/JT:sg
3560

May 2, 1988

Office of General Counsel

Mr. Richard A. Kerr Jr.
1714 Heritage Avenue
Placentia, California 92670

Re: Proposed Amendment to Part 745 of NCUA's
Rules and Regulations [12 C.F.R. Part 745]

Dear Mr. Kerr:

This Office has reviewed your request to amend Part 745 of NCUA's Rules and Regulations [12 C.F.R. Part 745], "Clarification and Definition of Account Insurance Coverage and Appendix," and has determined that your proposed amendment is unnecessary. You may appeal this determination to the NCUA Board.

You have requested that Part 745 of NCUA's Rules and Regulations [12 C.F.R. Part 745] be amended to include the following "Death Transition Rule":

There is no immediate reduction of insurance coverage on "totally insured funds" due to the death of the owner of the funds or another insurance qualifier.

You have presented the following hypothetical in support of your proposed amendment. A and B have a joint account with right of survivorship at an insured credit union. They also have individual accounts. A dies. Shortly after A's death, the credit union fails.

Both before and after A's death, the individual accounts of A and B are insured up to \$100,000. If A or B have more than one individual account, the individual accounts will be added together and insured up to \$100,000 in the aggregate. (See Section 745.3 and 745.5 of NCUA's Rules and Regulations [12 C.F.R. 745.3 and 745.5.] Prior to A's death, the joint account of A and B is insured up to \$100,000 separately from their individual accounts. (See Section 745.8(a) of NCUA's Rules and Regulations [12 C.F.R. §745.8(a).] Since the joint account of A and B was held in joint tenancy with right of survivorship, A's

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death results in B's being the sole owner of the funds in the account. For insurance purposes, the account is viewed as an individual account of B, and is added together with B's other individual accounts and insured up to \$100,000 in the aggregate. (See Section 745.3 of NCUA's Rules and Regulations [12 C.F.R. §745.3].) The combination of A's death and the failure of the FCU has therefore resulted in the loss of insurance coverage to B.

You believe that NCUA's insurance regulation (Part 745) should be amended to extend the separate insurance coverage on a joint account for a period of time after the death of the joint accountholder. Your concern is that the credit union may fail before the surviving member has time to reorganize his or her accounts, and NCUA, strictly applying its regulations, will deny coverage.

This scenario, while theoretically possible, is, in our view, wholly unrealistic. We are not aware of any case with any of the Federal insurers where this has happened -- not surprising given the low number of insured institutions that fail and the fact that the joint accountholder's death would have to coincide with the credit union's failure. Moreover, as NCUA's Office of Examination and Insurance has already informed you, NCUA, as receiver or liquidating agent of a failed federally-insured credit union, would take into consideration the fact that a surviving joint accountholder did not have time to reorganize his or her accounts to assure full coverage.

You referred to Article III, Section 5(e) of the Federal Credit Union Bylaws. This bylaw provides:

. . . The share account of a deceased member (other than one held in joint tenancy with another member) may be continued until the close of the dividend period in which the administration of the deceased's estate is completed, but not to exceed a period of four years.

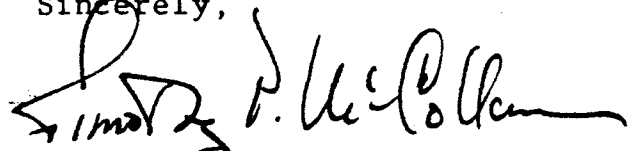
We should point out that the bylaw, which does not govern federally-insured, state-chartered credit unions, only permits a Federal credit union to maintain a share account of a deceased member for a stated period of time. Insurance coverage of decedents' share accounts is determined by Section 745.5 of NCUA's Rules and Regulations [12 C.F.R. §745.5] which states:

Funds of a decedent held in the name of the decedent or in the name of the executor or administrator of the decedent's estate and deposited in one or more accounts shall be insured up to \$100,000 in the

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aggregate for all such accounts, separately from
the individual accounts of the beneficiaries of the
estate or the executor or administrator.

Sincerely,

A handwritten signature in black ink, appearing to read "Timothy P. McCollum". The signature is written in a cursive style with a large initial "T" and "M".

TIMOTHY P. McCOLLUM
Assistant General Counsel

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