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NATIONAL CREDIT UNION ADMINISTRATION  
Washington, D.C. 20456

July 20, 1988

Office of General Counsel

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Re: Share Insurance for Irrevocable Trust Accounts

Dear Steve:

I apologize for the delay in providing you with a written response to your question on share insurance coverage for irrevocable trust accounts. As you know, I also asked the Office of Examination and Insurance to review your question. Both Offices agree that, based on the facts you presented, total insurance would be limited to \$100,000 as explained below.

You presented the following fact situation and question:

Settlor X, a member of an FCU, establishes 5 separate irrevocable trusts, each for a different nonmember beneficiary. Each trust establishes a \$100,000 account at the FCU. Is each account separately insured for a total of \$500,000 on all the accounts or are they aggregated and insured for a total of only \$100,000 ?

For insurance purposes, these five accounts would be treated the same as one irrevocable trust account established by Member X for 5 nonmember beneficiaries. Since NCUA does not insure nonmember accounts, except when authorized under the Act, the beneficiaries' interests are not insured. Instead, because the settlor is a member, the account will be insured as to the settlor for \$100,000 separate from his other accounts.

Section 745.9-1 of NCUA's Rules provides that the trust interests of a beneficiary in an account will be separately insured from other accounts of the settlor, trustee, or beneficiary. But this section does not specifically address

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insurance in terms of membership, a crucial issue in determining insurance coverage. (NCUA insures member accounts. 12 U.S.C. §1781.) It is therefore necessary to look to other provisions in Part 745 for guidance in this area.

Section 745.0 - Scope - provides as follows:

For purposes of applying the rules in this Part, it is presumed that the owner of funds in an account is an insured credit union member or otherwise eligible to maintain an insured account in a credit union. These rules do not extend insurance coverage to persons not entitled to maintain an insured account .... Where there are multiple owners of a single account, generally only that part which is allocable to the member(s) is insured. (Emphasis added.)

The above principles are also stated in the opening paragraphs of the Appendix to Part 745.

Generally, in the case of irrevocable trust accounts, we look to the interest of the beneficiary to determine insurance coverage. (See subpart G of the Appendix.) However, where the beneficiary is not a member, and therefore not entitled to insurance, the settlor must be a member. The account is then insured as to the settlor, i.e., for the benefit of the settlor as a member, up to the maximum of \$100,000. This insurance will be separate from the insurance provided on the settlor's other types of accounts. I use the phrase "for the benefit of the settlor as a member" because, in an irrevocable trust situation, the settlor is no longer the owner of the funds. Insurance is being provided on the account solely as a benefit to the member although it would be payable to the trust.

As can be seen from a review of the other provisions in Part 745, the use of multiple accounts, where the member's rights and interests in the accounts are the same, does not extend insurance coverage unless there is a specific exception. Multiple accounts held in the same right and capacity are treated as one account and insured in the aggregate to \$100,000. There is no specific exception for the 5 accounts you have posed.

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I hope the above clarifies our position on this issue.  
Again, I apologize for the delay.

Sincerely,



JAMES J. ENGEL  
Deputy General Counsel

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