



GC/JS:sg
3500

NATIONAL CREDIT UNION ADMINISTRATION

Washington, D.C. 20456

July 28, 1988

Office of General Counsel

Ms. Patricia F. Claire
Willingham & Cote', P.C.
P.O. Box 1070
East Lansing, Michigan 48826

Re: Insurance Coverage of Testamentary Accounts (Your
June 1, 1988, Letter)

Dear Ms. Claire:

You have asked for clarification of how NCUA insures testamentary accounts under Section 745.4 of the NCUA Rules and Regulations. (12 C.F.R. §745.4).

Section 745.4(b) Questions

Section 745.4(b) provides:

[i]f the named beneficiary of a testamentary account is a spouse, child, or grandchild of the owner, the account shall be insured up to \$100,000 in the aggregate as to each beneficiary, separately from any other accounts of the owner or beneficiary, regardless of the membership status of the beneficiary.

Your questions relating to this provision are:

The phrase "\$100,000 in the aggregate as to each" appears internally contradictory and thus is baffling. Is the end result to be that the account is insured up to \$100,00 for each beneficiary of the account, regardless of the number of beneficiaries? Also, does the number of grantors make a difference? Is there \$100,000 insurance per grantor per beneficiary, as the Appendix example implies (H & W grantors of \$400,000 to son and daughter, all \$400,000 insured), or does "in the aggregate" mean regardless of the number

FOIA Vol IV A (i)

Ms. Patrica F. Claire
July 28, 1988
Page 2

of grantors, the account is insured up to \$100,000 for each beneficiary (H & W grantor of \$400,000 to son and daughter, only \$100,000 per beneficiary for total of \$200,000 insured)?

Assuming the appropriate familial relationship exists between grantors and beneficiaries, there is a maximum of \$100,000 of insurance per grantor for each beneficiary. Thus, the number of both grantors and beneficiaries makes a difference. Example B(3) in the Appendix clearly illustrates how insurance of this kind of testamentary account works with multiple grantors.

The phrase "\$100,000 in the aggregate as to each" is used to assure credit union members are aware that all similar accounts held by the same parties will be considered together. For example, if H set up two \$75,000 testamentary accounts for his son, S, and daughter, D, each account would be fully insured for a total of \$150,000. If H subsequently changes the account for the benefit of S to an account for the benefit of D, both accounts would then be considered as one account and insured to "\$100,000 in the aggregate as to" D, leaving \$50,000 uninsured.

Section 745.4(c) Questions

Section 745.4(c) states: "[i]f the named beneficiary of a testamentary account is other than the owner's spouse, child, or grandchild, the funds in such account shall be added to any individual accounts of such owner and insured up to \$100,000 in the aggregate."

Your questions on this section are:

§745.4(c) addresses only the fact situation of an individual grantor with individual accounts at the credit union. How about the other probable scenarios under §745.4(c):

- a. Two grantors with all other accounts being joint accounts (most common).
- b. Two grantors with some individual, some joint accounts.
- c. One grantor with all other accounts being joint accounts.

Ms. Patrica F. Claire
July 28, 1988
Page 3

d. One grantor with some individual, some joint accounts.

In these instances, how is \$100,000 insurance aggregated?

Section 745.4(c) makes this kind of testamentary account equivalent to an individual account, and as such, it will be aggregated with all other individual accounts of the owner for insurance purposes. Individual accounts are insured under Section 745.3(a)(1) of NCUA's Rules and Regulations [12 C.F.R. §745.3(a)(1)]. Joint accounts are insured under Section 745.8 separately from individual accounts [12 C.F.R. §745.8].

In your "scenario (a)", the amount in the testamentary account would be considered evenly divided into two individual accounts, each of which would be insured up to \$100,000, separate from the joint accounts.

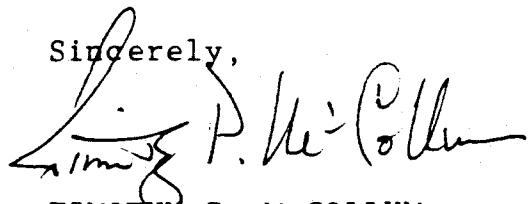
In your "scenario (b)", the amount in the testamentary account would be considered evenly divided into two individual accounts and aggregated with other individual accounts of the same owner; the aggregated accounts would be insured up to \$100,000, separate from joint accounts.

In your "scenario (c)", the amount in the testamentary account would be considered an individual account and insured up to \$100,000, separate from the joint accounts.

In your "scenario (d)", the amount in the testamentary account would be considered an individual account and aggregated with other individual accounts of the same owner; the aggregated accounts would be insured up to \$100,000, separate from the joint accounts.

In all four "scenarios", joint accounts with the same joint owners would be aggregated and insured to \$100,000.

Sincerely,



TIMOTHY P. MCCOLLUM
Assistant General Counsel

JS:sg