

April 1, 1997

Karl R. Kirwan, Vice President  
J.B. Hanauer & Co.  
Corporate Headquarters  
At Gatehall Corporate Center  
4 Gatehall Drive  
Parsippany, New Jersey 07054

Re: Flow-through Insurance Coverage of Share Certificates  
(Your December 18, 1996, Letter)

Dear Mr. Kirwan:

You have asked whether the titling language that you use to broker a share certificate issued by a federally insured credit union is sufficient to show the existence of a relationship that would allow for the same extended or "flow-through" insurance coverage under the National Credit Union Share Insurance Fund (NCUSIF) as is provided by the Federal Deposit Insurance Corporation (FDIC).

Since you initially wrote us concerning this issue, you have submitted substitute titling language for our review. The new titling language you want us to review and you intend to use on a share certificate reads: "The CMB, as custodian for members or those otherwise eligible to maintain an insured account foregoing #C\_\_\_\_\_." We understand that CMB is an abbreviation for Chase Manhattan Bank. Depending on the factors discussed below, your titling may be sufficient to provide the beneficial owners with extended or pass-through insurance coverage.

Under the National Credit Union Administration's (NCUA) regulations, a beneficial owner of a share certificate is entitled to receive extended or pass-through insurance coverage if the following conditions are met: (1) the beneficial owner is a member of the credit union or otherwise eligible to maintain an insured account at the credit union; (2) the credit union's account records disclose the existence of a relationship which may provide a basis for additional insurance, namely, that the purchaser of the share certificate is holding it for a beneficial owner; and (3) the records of either the credit union or the member maintained in good faith and in the regular course of business identify the member as the beneficial owner and divulge the extent of the member's interest. See attached copy of Part 745, Share Insurance and Appendix, of the NCUA Rules and Regulations.

We emphasize that only member funds are insured by the NCUSIF. For the purpose of applying the NCUSIF rules, it is presumed that the owner of the funds deposited with a credit union is a member or otherwise eligible to maintain an insured account in the credit union. The term member is defined as "those persons enumerated in the credit union's field of membership who have been elected to membership in accordance with the Act or state law in the case of state credit unions." 12 C.F.R. §745.1(b). Member also includes nonmember credit unions and nonmember public units and political subdivisions if these entities have funds deposited in a credit union designated "low-income." 12 U.S.C. §1752. The amount of all public unit and nonmember accounts of a federally insured credit union cannot exceed the greater of 20% of its shares or 1.5 million. 12 C.F.R. §701.32(b).

The proposed titling language appears properly to limit a beneficial owner of a share certificate issued by a federally insured credit union to a party who is a member of the credit union or otherwise eligible to maintain an insured account at that credit union. Nonetheless, you should be aware that if either the credit

union or J.B. Hanauer is negligent or mistaken in determining the membership or account eligibility of a beneficial owner of a share certificate, this negligence or mistake is not binding on the NCUA in determining the insurance coverage of an account.

The proposed titling language is detailed enough to alert the NCUA that there exists a relationship which may allow for additional insurance coverage, however, it is not specific enough to identify the beneficial owner to whom the insurance coverage would extend nor the beneficial owner's interest. Thus, the identity of the beneficial owner and the owner's interest must be ascertainable either from records of the credit union or the records of the member to allow for the extended or flow-through insurance coverage to the beneficial owner of a share certificate.

For future reference, please note that, unlike the FDIC regulations, the NCUA regulations do not specifically address nor instruct on the insurance coverage of an account with two levels of beneficial owners or a multi-tiered fiduciary relationship. Because of the membership requirement stated above, it is difficult to establish an account with more than one level of beneficial owners or involving a multi-tiered fiduciary relationship. Consequently, the sufficiency of any titling language for a share certificate involving a multi-tiered relationship would have to be reviewed on a case-by-case basis.

If you have any additional questions, please contact Nicole Williams at 703-518-6567.

Sincerely,

Sheila A. Albin  
Acting Associate General Counsel

GC/NSW  
SSIC 8000  
96-1239

cc: Robert Roach, AMAC