

February 25, 1999

Mr. Bernard E. Desjardins
4151 Seventeen Mile Road, Suite A
Sterling Heights, MI 48310

Re: Key Man Life Insurance and Deferred Compensation Agreements,
Your Letter dated November 30, 1998.

Dear Mr. Desjardins:

You have written asking for a legal opinion on key man life insurance and deferred compensation agreements. I have attached several letters which explain General Counsel's opinion on these types of plans.

Key man insurance is permissible only as a means of providing a credit union with protection from the loss of key personnel. It may not be used as an investment tool. See attached letter from Richard S. Schulman to Joseph A. Caramadre dated August 1, 1994.

A federal credit union (FCU) may fund a deferred compensation agreement through the purchase of an annuity that would be an impermissible investment for an FCU investing on its own account. See attached letter from Steven R. Bisker to Barbara Chastain dated July 2, 1987.

Because the annuities and life insurance policies used to fund the key man insurance and deferred compensation agreements are impermissible investments for an FCU investing on its own behalf, it would be impermissible for an FCU to hold onto them once the deferred compensation agreement is funded or the "key man" dies. It would seem reasonable for an FCU to hold onto a policy for a short period of time after the executive retires if the intent is to transfer the policy to the executive's replacement.

Sincerely,

Sheila A. Albin
Associate General Counsel

GC/MFR:bhs
SSIC 3601
98-1202

Enclosures