

August 10, 1992

James G. Miller  
Deputy Commissioner  
Minnesota Department of Commerce  
133 East 7th Street  
St. Paul, Minnesota 55101

Re: Uninsured Membership Shares (Your July 1, 1992, Letter)

Dear Mr. Miller:

The NCUA Board requested that I respond to your recommendation that NCUA amend Section 741.14 of its Rules and Regulations to permit natural person credit unions to accept Membership Capital Share Deposits (MCSDs) under the same conditions permitted for corporate credit unions.

As you know, a MCSD account in a corporate credit union is defined as:

a share, or other account that: (1) Is established, at a minimum, as a 12-month notice account; (2) Is limited to members; (3) Is not subject to share insurance coverage by the National Credit Union Share Insurance Fund (NCUSIF) or other deposit insurers; and (4) In the event of liquidation of the corporate credit union, is payable only after satisfaction of all liabilities of the liquidation estate, including uninsured obligations to shareholders and the NCUSIF. 12 CFR 704.2 (57 FR 22631, 5/28/92)

MCSDs do bear a resemblance to uninsured membership shares. Although NCUA permits the acceptance of MCSDs by corporate credit unions, we believe it would be inappropriate to permit natural person credit unions to accept MCSDs. The reasons that applied at the time we prohibited uninsured membership shares are still valid today for natural person credit unions. As we have stated previously, NCUA has four concerns with uninsured memberships shares. They are as follows: First, the Federal Credit Union (FCU) Act does not appear to contemplate uninsured membership shares; rather, it indicates an intent to provide insurance coverage of all of the first \$100,000 in an account. Second, if federally insured credit unions require or offer uninsured membership shares, confusion will inevitably result, even where good faith efforts are made to disclose the uninsured status of the account. The failure of a credit union offering these accounts is likely to result in substantial adverse public reaction, litigation, and potentially increased liability to the National Credit Union Share Insurance Fund. Third, there appears to be no effective and coherent plan to deal with losses that must be absorbed by uninsured shares. Last, the potential for the use of uninsured shares to support excessive rates of growth could be detrimental.

We note that the NCUA Board can, by order or regulation, subject corporate credit unions to rules different from those applicable to natural person credit unions. (See Section 120(a) of the FCU Act, 12 U.S.C. 1766(a).) The reasons for prohibiting uninsured membership shares in natural person credit unions do not apply to corporate credit unions. Corporate credit unions generally serve the needs of other credit unions rather than those of natural person members. MCSDs are an appropriate equity building mechanism for the unique needs of corporate credit unions.

We decline to act on your suggestion to permit federally-insured state-chartered credit unions to accept MCSDs. Furthermore, state-chartered federally insured credit unions must divest themselves of uninsured membership shares.

Such credit unions should coordinate with their appropriate Regional Director to either pay out the

uninsured shares or convert them to insured share status.

Sincerely,

Hattie M. Ulan  
Associate General Counsel

cc: Chairman Roger Jepsen  
Vice Chairman Shirley Bowne  
Board Member Robert Swan  
Region V Director John Ruffin

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