

January 29, 1996

Lisa Sable
NWA Federal Credit Union
4 Appletree Square
Bloomington, MN 55425-1642

Re: Dividends on Escrow Accounts (Your December 28, 1995, Letter)

Dear Ms. Sable:

According to your letter, NWA Federal Credit Union ("FCU") originates mortgage loans across the country. In connection with those loans, the FCU offers its members escrow accounts. You have asked whether the FCU must follow the applicable state's escrow account laws when determining the dividend of the escrow account.

The Federal Credit Union Act ("Act") authorizes an FCU to set the dividend rates of share accounts, and preempts state laws that purport to regulate an FCU's decision in that area. 12 U.S.C. §1763. You indicated that local counsel has opined escrow accounts are subject to state law since they are not specifically referenced in the Act or in NCUA's Regulations. This analysis is not correct. There is no authority for an FCU to establish an escrow account in any way other than as some form of share account. As such, the authority to set dividend rates is established by the Act and NCUA's Regulations and not by state law. 12 C.F.R. §701.35. See, enclosed letters from Hattie M. Ulan, Associate General Counsel to Mary Isaacs, Trane Employees FCU, Re: Preemption of Wisconsin Statute Requiring Interest of Mortgage Escrow Accounts, dated June 3, 1991, and to Walter H. Hotz, Esq., Re: State Law's Applicability to Federal Credit Unions, dated January 26, 1990.

Sincerely,

Richard S. Schulman
Associate General Counsel

GC/JM:sg
SSIC 3500
96-0106
Enclosures