

August 28, 1997

Jessica A. Suro, Manager
Trenton Times Employees Federal Credit Union
500 Perry Street
Trenton, NJ 08618

Re: Account at Federal Savings Bank
Your Letter dated July 10, 1997

Dear Ms. Suro:

You requested an opinion regarding the ability of a federal credit union (FCU) to receive interest on a checking account it holds at a federal savings bank. Federal savings banks can pay interest on checking accounts only to individuals and certain nonprofit entities. As defined by the Office of Thrift Supervision (OTS), FCUs are not among the nonprofit entities qualifying for such accounts.

A provision of the Federal Deposit Insurance Act permits FDIC-insured depository institutions to pay interest or dividends on checking accounts only to individuals and certain nonprofit entities. 12 U.S.C. §1832(a). The Office of Thrift Supervision (OTS), which regulates federal savings banks, has defined by regulation those nonprofit entities that may receive interest or dividends under 12 U.S.C. §1832. They are entities that are operated primarily for religious, philanthropic, charitable, or educational purposes, as described in sections 501(c)(3) through (13), 501(c)(19), and 528 of the Internal Revenue Code, I.R.C. §§501(c)(3-13, and19) and 528 (1996). 12 C.F.R. §561.29.

Although FCUs are tax-exempt under section 501(c)(1) of the I.R.C., I.R.C. §501(c)(1), they are not within the OTS definition and may not receive interest or dividends on checking accounts held at a federal savings bank. For your information, this is also true for state-chartered credit unions, which are tax exempt under section 501(c)(14) of the I.R.C., I.R.C. §501(c)(14). The OTS Office of Chief Counsel confirmed this interpretation.

Sincerely,

Sheila A. Albin
Associate General Counsel

GC/MSc:bhs
SSIC 4660
97-0719

cc: Region II