

August 10, 1998

Gay Lyne Tarango, Vice President/Controller  
Share Plus Federal Credit Union  
18333 Preston Road  
Dallas, Texas 75252

Re: Confirmation Statements and Deposit Insurance Coverage for Investments by Federal Credit Unions.

Dear Ms. Tarango:

You have asked several questions regarding the purchase of a \$700,000 certificate of deposit (CD) by a federal credit union (FCU) from a federally insured bank. On receipt of the wired funds, the bank would distribute \$100,000 to each of seven other banks owned or otherwise controlled by it. Firstly, you have asked whether it is permissible under NCUA's investment regulation for the FCU to fund the transaction using only one wire and receive from the bank only one safekeeping certificate, which lists the seven banks that will hold the funds. 12 C.F.R. Part 703. Secondly, you have asked whether deposit insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC) would be in the amount of \$700,000 or \$100,000. Lastly, you have asked whether FDIC insurance coverage would change in the event any of the seven banks were later merged with another bank.

As explained more fully below, the FCU's use of one wire and receipt of one safekeeping certificate does not violate NCUA regulations. Further, the FDIC has indicated that deposit insurance would cover \$700,000 if properly structured. If a merger of one of the banks with another bank would alter the deposit insurance coverage, the FCU would first be notified and given an opportunity to restructure its accounts to maintain maximum coverage.

NCUA's investment regulation requires that an FCU "must obtain an individual confirmation statement for each investment purchased or sold." 12 C.F.R. §703.60(b). In this instance, our view is that the above described CD purchase is one investment transaction for \$700,000, not seven transactions for \$100,000 each. We understand the distribution of the investment to the seven banks is to maximize deposit insurance coverage. Accordingly, the purchase, structured as discussed above with only one confirmation statement, would not violate §703.60(b).

If a bank deposit is not fully insured by the FDIC, including accumulated interest, the FCU must conduct and document a credit analysis of the issuing bank and/or

Gay Lyne Tarango

Page Two

investment before making the investment and update this analysis at least annually as long as the FCU holds the investment. 12 C.F.R. §703.40(d). Initially, \$600,000 of the \$700,000 wire to the

bank would be uninsured, until distributed among the other seven banks. Assuming interest is accumulated and not paid to the FCU as it is earned, portions of the deposit would continue to be uninsured even after it is distributed among the seven other banks. As each \$100,000 account would begin accumulating interest, it would exceed the \$100,000 per account insurance limit. Accordingly, the FCU will need to comply with the credit analysis requirements of §703.40(d).

With respect to your questions regarding FDIC deposit insurance coverage, Staff Attorney Frank Kressman provided you with preliminary answers, but suggested that it would be more appropriate for you to contact the FDIC directly to receive that agency's interpretation of its own regulations. I understand that you have contacted the FDIC's regulatory compliance department in Washington, DC and were informed that the bank to which you will wire funds and each of the seven banks among which the deposit is to be distributed are separately chartered and FDIC insured. You were informed that the FDIC concluded that, if the FCU has no other deposit accounts with any of the seven banks, each \$100,000 would be covered up to the \$100,000 federal deposit insurance limit. FDIC also informed you that a merger of any of the banks with another bank could alter the deposit insurance coverage. However, you were informed that you would be given an opportunity to restructure your deposit accounts to maintain maximum coverage.

Sincerely,

Sheila A. Albin  
Associate General Counsel

GC/FSK:bhs  
SSIC 3500  
98-0625