

January 19, 1999

William F. Hannah, President/CEO  
Dana Federal Credit Union  
3102 Spring Street  
Fort Wayne, Indiana 46808

Re: Cash Inducements to Transfer Insurance Business.

Dear Mr. Hannah:

Your credit union has been offered a cash inducement to transfer its accident and disability insurance business to another insurance provider. That provider will also pay a fee for a mailing list of the credit union's members. You have asked whether accepting the offer is an acceptable practice under NCUA regulations. As long as there is no conflict of interest, the decision to select a new insurance provider does not violate either the Federal Credit Union Act or NCUA's regulations. Your local counsel should be consulted regarding state law and any outstanding contracts that may be affected by the selection of a new provider. Fees received from the provider are subject to Part 721 of NCUA's regulations.

NCUA regulations permit an FCU to make insurance involving outside vendors available to the membership. 12 C.F.R. §721.1. The amount of compensation an FCU may receive is dependent upon the type of insurance sales. 12 C.F.R. §721.2(b). The regulations do not limit reimbursement or compensation for insurance sales "directly related to an extension of credit by the credit union or directly related to the opening or maintenance of a share, share draft, or share certificate account at the credit union." 12 C.F.R. §721.2(b)(1). The regulations limit the fee for other insurance sales to "the greater of the dollar amount or the cost amount." 12 C.F.R. §721.2(b)(2). Section 5200.6 of the NCUA Accounting Manual addresses accounting for reimbursement from group purchasing and insurance activities.

As part of its participation in a group purchasing plan, an FCU may provide a mailing list to a vendor and receive reimbursement. As discussed above, NCUA regulations limit the amount of the reimbursement. 12 C.F.R. §721.2(b). State privacy or consumer laws may place limitations on the release of a mailing list and you should consult with local counsel. Finally, you may want to consider placing restrictions on a vendor's use of the mailing list such as limiting its use for a particular purpose and prohibiting the vendor from selling the list to a third party.

Sincerely,

Sheila A. Albin  
Associate General Counsel

GC/RMM:bhs  
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