December 5, 2000

Donald G. Storch, Chief Executive Officer
U.S. Employees Credit Union
515 Rusk, Suite 7104
Houston, Texas 77002

Re: Share Insurance for Individual Development Accounts.

Dear Mr. Storch:

You have asked us to review the share insurance coverage for an account established by a nonprofit organization at your federally-insured credit union. The nonprofit uses the account, described as a parallel or reserve account, to provide matching funds for an Individual Development Account (IDA) program. As discussed below, this parallel account appears to be owned by the establishing nonprofit and, if the nonprofit is a member of the credit union, will be insured up to $100,000 in the aggregate with all other accounts owned by the nonprofit.

The U.S. Department of Health and Human Services (HHS), Office of Refugee Resettlement (ORR) has a program to encourage eligible refugee participants to save money for specified goals, including car ownership, home ownership, business capitalization, and post-secondary education. 64 Fed. Reg. 31009 (June 9, 1999). To encourage savings, the ORR provides funding to match, on as much as a two-for-one basis, money saved by the participant toward the specified goal.

To carry out the program, the ORR selects a nonprofit organization that works with participants to establish goals and calculate associated costs. Each participant then opens a savings account, or IDA, in a financial institution such as a credit union. The nonprofit agrees to provide matching monies in support of the specified goal when the participant has funded the IDA to an agreed level. The nonprofit opens a parallel account at the institution to hold all the matching funds for the various IDAs, and, as the participants fund their IDAs, the nonprofit draws on ORR grant money and funds the parallel account.

When a particular IDA reaches its targeted funding level, the participant will withdraw the funds and give them to a designated recipient, such as a car dealer or educational institution, towards the purchase of the desired commodity. The nonprofit will direct the financial institution to take matching monies out of the parallel account and provide them to the designated recipient to complete the purchase.

Participants have no rights to matching funds before fully funding the IDA. If the participant withdraws from the program before reaching the stated savings target, the matching funds will revert to the nonprofit organization. We contacted ORR to ask what limits, if any, the ORR places on the nonprofit's use of such funds. The ORR program specialist was unable to answer this question.

Based on the information we have, our view is that the nonprofit is the owner of the parallel account. ORR provides the funds in the account as a grant to the nonprofit. The credit union exercises no discretion over the account and will disburse funds from the account only as authorized by the nonprofit. Assuming the nonprofit account owner is a member of the credit union, its accounts are insured, in the aggregate, up to $100,000. 12 C.F.R. §745.6. To be a member, the nonprofit must be a type of organization enumerated in the credit union’s field of membership and be properly elected to membership. 12 C.F.R. §745.1(b).

We realize that the parallel account could contain in excess of $100,000 and thus not be entirely insured. We considered whether we might be able to categorize the account, because of its multiple intended beneficiaries, as something other than a single ownership account. Before complete funding of his or her IDA, however, each participant has insufficient rights in the parallel account for NCUA to treat the account as either a joint account, an irrevocable trust account, or a custodial account, with separate insurance coverage. 12 C.F.R. §745.2(d)(4), §745.3(b), §745.8, §745.9-1. The account is also not insurable as a revocable trust account, which for purposes of our insurance regulations means a transferable-on-death account. 12 C.F.R. §745.4.

We did think of one possible way to restructure the parallel account to expand the available insurance coverage. For public unit accounts, the official custodian, rather than the public unit itself, is insured as the account holder. 12 C.F.R. Part 745, Appendix E. Each public unit account with a different named custodian is insured separately up to $100,000. 12 C.F.R. §745.10(a). Although a nonprofit organization is not a public unit, the ORR is. If the parallel account was split into multiple accounts with ORR as named account owner and a different named official custodian on each account, the funds in each account would be insured up to $100,000. We do not know if this form of account structure is feasible under HHS policy or regulation, and we do not endorse it. We offer it only as an alternative for the consideration of you and your members.

Sincerely,

Sheila A. Albin
Associate General Counsel

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