

June 22, 2015

Mr. Gerard Poliquin  
Secretary of the Board  
National Credit Union Administration  
1775 Duke Street  
Alexandria, Virginia 22314-3428

***Re: Proposed Rule – Share Insurance and Appendix***

Dear Mr. Poliquin:

I am writing on behalf of SchoolsFirst Federal Credit Union, which serves school employees and their families in Southern California. We currently have more than 649,000 Members and \$11.4 billion in assets. SchoolsFirst FCU appreciates the opportunity to provide comment and feedback on the NCUA Board's proposed rule regarding Share Insurance and Appendix.

The NCUA Board is proposing to amend its share insurance regulations to implement statutory amendments to the Federal Credit Union Act resulting from the recent enactment of the Credit Union Share Insurance Fund Parity Act. These amendments require the NCUA to provide pass-through share insurance for interest on lawyer's trust accounts (IOLTAs) and other similar escrow accounts.

We respectfully provide our opinions, feedback, and recommendations to address the following items within the proposed rule.

**Definition of Pass-Through Insurance**

The Insurance Parity Act defines "pass-through share insurance", with respect to IOLTAs and other similar escrow accounts, as "insurance coverage based on the interest of each person on whose behalf funds are held in such accounts by the attorney administering the IOLTA or the escrow agent administering a similar escrow account, in accordance with regulations issued by NCUA. In addition, these said accounts are considered Member accounts if the attorney or escrow agent administering the account is a Member of the insured credit union in which the funds are held.

**Recommendations**

***Payroll Cards***

Based on the Insurance Parity Act's definition of a similar escrow account, we are recommending the NCUA consider payroll card programs to also be covered by pass-through insurance. Payroll cards issued by credit unions are acting in the capacity of an escrow agent administering the account, and in doing so has the fiduciary responsibility to ensure the funds are insured and protected until the funds leave the credit union. Funds on deposit are comparable to the funds on deposit for an IOLTA, and should be covered by pass-through insurance because they are "similar escrow accounts" pursuant to the language of the Act. Payroll cards should not be excluded under the premise that these are non-Member funds on hand. The employer funds the payroll for their employees who are either Members or eligible Members of the credit union. These funds are being held and administered by the credit union on behalf of their employees and while on deposit at an insured credit union, they should be protected and insured accordingly.

***Gift Cards and Other Similar Instruments***

Furthermore, we are recommending that gift cards administered through a credit union be also subject to pass-through insurance coverage. The gift cards administered by credit unions are similar to escrow

account-type products inasmuch as issued funds on these gift cards are housed in the credit union's general ledger (GL) account, until the gift card is redeemed. Gift cards are in essence a negotiable instrument, originating from a Member's share account in which the credit union is liable for payment of. Since negotiable instruments such as cashier's checks and money orders are currently insured; gift cards should also be insured accordingly. The balance on a gift card is monies on deposit with the credit union, and while housed in a GL account, that balance remaining should have the same insurance protection as long as the credit union can trace the outstanding gift card balance back to a Member transaction. These funds should be considered on deposit with the credit union, regardless of where the liability sits on the balance sheet, until such time that the instrument has been redeemed or negotiated.

**5300 Reporting**

The form 5300 used for quarterly reporting currently does not have clearly defined fields for reporting the values of negotiable instruments, IOLTA's, payroll, prepaid and gift cards. We recommend that specific fields be placed to capture this information to assist in accurate reporting of balances covered by federal insurance.

**Summary**

We appreciate your consideration to our perspective and recommendations to the areas addressed above. We understand the NCUA's mission to ensure the safety and soundness of federally insured credit unions. We feel that the above comments and recommendations will provide the NCUA a better understanding of the overall impact to Members of insured credit unions and our fiduciary responsibility to protect their deposits on hand regardless of the conduit utilized to withdraw the said funds.

Sincerely,



Francisco Nebot  
Senior Vice President, Chief Financial Officer  
SchoolsFirst Federal Credit Union

Cc: Credit Union National Association (CUNA)  
California/Nevada Credit Union League (CCUL)