

September 25, 2002

Hal Millard, Editor
The CEO Report
11300 Rockville Pike, Suite 1100
Rockville, MD 20852

Re: Process for Converting from Federal to Private Share Insurance.

Dear Mr. Millard:

You devoted much of the August 19, 2002 edition of the CEO Report to a discussion of private account insurance provided by American Share Insurance (ASI), including a description of the process for converting from federal account insurance to private insurance. The purpose of this letter is to bring to your attention an inaccuracy in your description of the conversion process and the article's failure to note a key point we believe would have provided a more balanced presentation on the subject of account insurance.

The sidebar article "Private Insurance: Six easy steps to consider," while correctly identifying several of the requirements of NCUA's regulation governing conversions to private insurance, is misleading because it fails to state that a conversion is subject to NCUA approval. The Federal Credit Union Act and NCUA regulations provide that no credit union may convert from federal insurance to private insurance without the prior, written approval of the NCUA. 12 U.S.C. §1785(b)(1)(D); 12 C.F.R. §708b.203(d).

The key distinction between federal account insurance and private account insurance, about which there is no mention in the article, is that the full faith and credit of the United States government backs shares that are insured by the National Credit Union Share Insurance Fund, just as it backs accounts insured by Federal Deposit Insurance Corporation. Competitive Equality Banking Act of 1987, P.L. 100-86, §901; Massachusetts Credit Union Share Insurance Corporation v. National Credit Union Administration, 693 F.Supp. 1225, 1230-31 (D.C.D.C. 1988). Shares insured by ASI have no government guarantee.

Your article notes that ASI is "one of only two surviving insurers from an original network of 22." The article makes no comment as to what happened to those other insurers, the institutions they insured, or any loss of savings. Not one penny of insured savings has ever been lost by a member of a federally insured credit union.

Eleven years ago, following the failures of private and state account insurers in the late 1980s and early 1990s, Congress enacted the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA). It requires that credit unions lacking federal share insurance disclose that fact to all their members and repeat that fact in all advertising, at account openings, and in all periodic account statements. 12 U.S.C. §1831t(b). FDICIA also requires credit unions to obtain a

signed acknowledgment from members that the credit union is not federally insured and, if the credit union fails, the federal government does not guarantee the member will get his or her money back. 12 U.S.C. §1831t(b)(3). Credit unions must obtain this signed acknowledgment before accepting any share purchases from a member. Id.

If you would like to obtain additional information about the regulatory provisions governing conversion to private insurance, please feel free to contact me. Also, if you would like additional information about the funding, coverage, historical performance and operation of the NCUSIF, I hope that you will also feel free to contact me or the Office of Public and Congressional Affairs.

Sincerely,

Robert M. Fenner
General Counsel

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