



Credit Union National Association

# *CUNA Issue Summary*

## **PRIVATE SHARE INSURANCE**

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**ISSUE:** Private deposit insurance has been in existence in the credit union movement since the early 1960s. In fact, federal insurance for credit unions did not exist until 1971. A relatively small number of credit unions (less than 170, with under 2% of all deposits) have opted for private deposit insurance. Private insurance funds typically have an equity ratio even higher than the federal fund, and state regulators oversee privately insured credit unions just like any other state-chartered credit unions. A credit union opting for private insurance is required to disclose this to its members.

The *Financial Services Regulatory Relief Act* (S. 2856, Public Law No. 109-351) was signed into law by President Bush on October 13, 2006. It amended Section 43 of the *Federal Deposit Insurance Act* (FDIA), making technical changes to advertising, disclosure, and oversight rules for privately insured credit unions. The Act also ensured that the Federal Trade Commission (FTC) and state supervisors of the privately-insured depository institutions and their insurers could enforce the new law's requirements. In addition, the Act required that new depositors, obtained other than through a conversion or merger, must sign an acknowledgement that they understand that the institution is not federally insured. Also, it requires this acknowledgement for new depositors obtained either through a conversion or a merger.

Section 43 of the FDIA was added in 1991 by the *Federal Deposit Insurance Corporation Improvement Act* (FDICIA). From 1993 to 2003, federal appropriations acts barred the FTC from expending funds to enforce this section. In fiscal year (FY) 2004, the spending prohibition ended, allowing the FTC to enforce this provision of law. CUNA supported this provision in the context of its continuing support for the private insurance option for state chartered credit unions. CUNA has always supported pro-consumer disclosures.

**CUNA POSITION:** CUNA supports the right of state governments to provide private deposit insurance as an option for their citizens. As required by federal statute, privately insured credit unions must make substantial disclosures in periodic statements, on signature card, other account information and in advertising regarding the nature of the insurance. The disclosures to members must specifically spell out that if the private insurance system fails, the federal government does not guarantee the deposits. In addition, the privately insured credit union must comply with requirements for members to acknowledge receipt of the insurance disclosures. Also, a clear and conspicuous notice regarding private insurance must be placed at every station where deposits are normally received; in the main office and branches where deposits are accepted (except for ATMs and POS terminals.) Credit unions that want to convert to private insurance must make disclosures to members regarding the insurance before the member vote. In fact, every communication to members regarding the conversion to private insurance before the member vote must include this disclosure in a conspicuous location on the communication:

“IF YOU ARE A MEMBER OF THIS CREDIT UNION, YOUR ACCOUNTS ARE CURRENTLY INSURED BY THE NATIONAL CREDIT UNION ADMINISTRATION, A FEDERAL AGENCY. THIS INSURANCE IS BACKED BY THE FULL FAITH AND CREDIT OF THE UNITED STATES GOVERNMENT. IF THE CREDIT UNION (CONVERTS TO PRIVATE INSURANCE) (TERMINATES ITS FEDERAL INSURANCE), AND THE CREDIT UNION FAILS, THE FEDERAL GOVERNMENT DOES NOT GUARANTEE THAT YOU WILL GET YOUR MONEY BACK.” If the credit union provides Internet services, the above disclosure must also be provided on the credit union's main page of its website in a conspicuous location.

**IMPACT ON CREDIT UNIONS:** The number of credit unions that have opted for private deposit insurance is relatively small and is utilized by credit unions operating in only nine states. The state regulators oversee privately insured credit unions just like any other state chartered credit union. Private deposit insurance is an integral part of the dual chartering system. The dual chartering system provides states and credit unions with a choice of regulator and applicable law. It has been widely recognized that the dual chartering system has successfully served as an incubator for innovative approaches to regulation and administration of financial institutions. States should be able to retain the right to offer private insurance to their credit unions as an option, always subject to appropriate safety and soundness considerations.

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