

restructure their insured accounts to maximize insurance coverage in each of two separate occurrences. Specifically, NCUA proposed the grace periods would take effect upon the death of a member and the merger of insured credit unions.

NCUA explained that the death of a member results in an immediate change in the ownership of the member's share accounts. This change in ownership could significantly change the amount of share insurance coverage available for those accounts, most likely reducing coverage.¹

NCUA recognizes the practical difficulties a member's survivors might encounter in attempting to restructure the member's share accounts immediately after the member's death, and that these difficulties are worsened as they would occur at a time of grief when dealing with financial matters may be particularly difficult for the member's survivors. Accordingly, NCUA proposed to grant a six-month grace period after a member's death for his or her survivors to restructure the accounts. During this grace period, the insurance coverage of the deceased member's accounts would not change from that available immediately before the member's death, unless the accounts are restructured during the grace period by those authorized to do so. Because the intent of the proposal is to avoid reduced insurance coverage, the grace period would not be applied if doing so would result in decreased share insurance coverage.

NCUA also proposed a six-month grace period for members to restructure their insured accounts after the merger of insured credit unions. NCUA

explained that a member's share accounts at an insured credit union are insured separately from that member's share accounts at any other separately chartered, insured credit union. When a member has accounts at more than one insured credit union, a merger of those credit unions could reduce the amount of share insurance coverage the member had before the merger.²

NCUA does not believe members should immediately have reduced share insurance coverage as a result of credit union mergers. Accordingly, NCUA proposed to provide members with a six-month grace period following the merger of insured credit unions, during which members will receive separate insurance of their accounts as though no merger had occurred. NCUA also proposed a methodology for extending insurance coverage for share certificates that mature at varying times in relation to the merger.³

NCUA believes insured credit unions should help their members benefit from these grace periods wherever possible and reasonable. We believe this can be done in a number of ways. For example, insured credit unions should make reasonable efforts to explain to their members how the grace periods operate. Merging credit unions are encouraged to make their members aware of the pending merger as soon as possible so members can evaluate their existing accounts and begin to plan how to restructure their accounts to maximize their coverage after the merger. Once a merger is completed, the surviving credit union should make reasonable efforts to notify members with uninsured funds as a result of the merger that the grace period has begun to run and assist members to restructure their accounts to maximize coverage. NCUA encourages insured credit unions to do all of these things as a service to

their members and to minimize the potential for confusion regarding the coverage of their accounts.

In May 2000, Education IRAs were specified as insurable under NCUA's share insurance rules as irrevocable trust accounts. 65 FR 34921 (June 1, 2000). Since that time, Education IRAs have been replaced with Coverdell Education Savings Accounts. NCUA proposed to revise the share insurance rules to reflect that change.

NCUA also proposed to revise its revocable trust account insurance rule to address the frequent inquiries NCUA receives regarding how: (1) Revocable trusts are created; (2) an owner demonstrates testamentary intent; and (3) the interests of nonqualifying beneficiaries are treated. In brief, NCUA explained that simple revocable trusts can be created at the credit union without the need for a formal written trust. NCUA proposed that the member's intent to create a revocable trust be noted in the title to the account. NCUA explained that common terms used in the account title to create a revocable trust and indicate the owner's intent include "payable on death," "in trust for," and "as trustee for," or acronyms for these phrases, respectively, POD, ITF and ATF. NCUA explained that the account title "John Smith POD" is sufficient to create a revocable trust account. NCUA stated in the proposal it believed that naming the beneficiaries in the account *title* is the most effective way of establishing insurance coverage, but made it clear that, to be insurable, the beneficiaries must only be specifically named somewhere in the credit union's account *records*, not necessarily in the account *title*.

Finally, NCUA explained that it treats the interests of nonqualifying beneficiaries, those beneficiaries that are not the owner's spouse, child, grandchild, parent, brother or sister, as the individually owned funds of the owner of the account. In this context, these funds would be aggregated with all other individual accounts of the owner and insured up to \$100,000. NCUA acknowledged that the current language of the rule could be read as providing that these nonqualifying beneficiary interests would only be insured as the individually owned funds of the owner if the owner has actually opened an individual account in the insured credit union where the revocable trust account is held. NCUA proposed to revise the rule to clarify that it will treat nonqualifying beneficiary interests as the individually owned funds of the owner even if the owner has not actually opened an

¹ For example, a husband and wife may hold a joint account, a joint revocable trust account for the benefit of their two children, and two individual accounts in their own names. Assuming these accounts satisfy all applicable requirements, these four accounts would be insured up to a maximum of \$800,000. The \$800,000 is broken down as follows: \$200,000 for the joint account; \$400,000 for the joint revocable trust account; and \$100,000 for each of the two individual accounts. Upon the death of either the husband or wife, however, the surviving spouse would become the sole owner of the joint account and the joint revocable trust account. Under NCUA share insurance rules, the joint account would be transformed into an individual account subject to aggregation with the surviving spouse's other individual account and insured up to a maximum of \$100,000. The single ownership (individual) account in the name of the deceased spouse would continue to be insured separately from the other accounts. The maximum coverage of the joint revocable trust account would be reduced from \$400,000 to \$200,000, because coverage for this type of account is calculated as \$100,000 for each combination of settlors and qualifying beneficiaries. In sum, the maximum coverage of the four accounts would be reduced immediately upon the death of the husband or wife from \$800,000 to \$400,000.

² For example, member X has a \$75,000 individual account at insured credit union A and a \$50,000 individual account at insured credit union B. Both accounts are fully insured because a member is entitled to \$100,000 of coverage in the aggregate for all individual accounts in each insured credit union. 12 CFR 745.1; 12 CFR 745.3. If the credit unions merge, then X would have individual accounts in the surviving insured credit union totaling \$125,000. X's individual accounts would be uninsured for \$25,000.

³ A share certificate that matures after the six-month grace period will receive the separate insurance treatment until the first maturity date following the grace period. One that matures during the six-month grace period and is renewed for the same term and amount will receive the separate insurance treatment until the first maturity date after the grace period under the terms of the renewed certificate. One that matures during the grace period that is not renewed, or is renewed on any basis other than for the same term and amount as the original certificate, is separately insured only for the six-month grace period.