

UNITED STATES OF AMERICA
BEFORE THE NATIONAL CREDIT UNION ADMINISTRATION

In the Matter of

Log Home Components, Inc.

Docket BD-12-05

Insurance Claim

Decision and Order on Appeal

Decision

This matter comes before the National Credit Union Administration Board (Board) pursuant to 12 CFR 745.202, as an administrative appeal of the determination by the Agent for the Liquidating Agent of Lock Haven Federal Credit Union denying Log Home Components, Inc.'s (Log Home's) insurance claim in the amount of \$94,969.72.

Background

Lock Haven Federal Credit Union (hereinafter Lock Haven or the FCU), located in Lock Haven, Pennsylvania, was chartered in 1971 to serve employees of a local paper mill. Through the years its charter was expanded to serve several small employee groups. Several of the employee groups, including the paper mill, closed in 2001 – 2002, severely impacting the viability of the FCU's field of membership. Other problems impacting the FCU eventually caused its insolvency. On August 8, 2005, NCUA placed the FCU into involuntary liquidation and named itself as the liquidating agent. Staff within NCUA's Asset Management and Assistance Center (AMAC) was named as agent to the liquidating agent.¹

AMAC entered into a purchase and assumption agreement with Horizon FCU to continue services to members of the now-liquidated Lock Haven. Most Lock Haven member loans and shares were subject to the purchase and assumption agreement. However, certain loans and shares, including uninsured shares and share-secured loans, were maintained by AMAC. AMAC retained the Log Home share and loan accounts.

¹ All references to AMAC throughout this Decision refer to it in its capacity as agent for the liquidating agent.

Log Home - Background and Accounts

Log Home is a subchapter S corporation. xxxxxxxxxxx, xxxxxxx of the former FCU manager xxxxxxxxxxx, was the principal of Log Home. Log Home maintained a large share account in the FCU with account number 4409-2. Log Home was granted a \$300,000 line of credit by the FCU in March of 2004. The line of credit was secured by Log Home share account 4409-2. Log Home received an advance of \$285,082.32 on its line of credit on March 22, 2004.

Log Home's share account balance at liquidation was \$194,969.72 and the balance on its line of credit was \$272,352.93. On August 10, 2005, AMAC sent a letter to the FCU's members informing them of the liquidation. AMAC noted in its letter that each member account was insured to \$100,000. It stated that insured shares would be applied toward payment of loans and that shares securing loans would be retained until the loans are paid off. AMAC applied Log Home's \$100,000 in insured shares to pay down its line of credit, leaving a line of credit balance of \$172,740.94. AMAC again wrote to Log Home on October 28th, enclosing a certificate for its uninsured shares in the amount of \$94,969.72. The letter accompanying the certificate notes the uninsured share balance and explains that the certificate had been assigned to the Lock Haven FCU liquidation estate due to the outstanding balance on the Log Home line of credit. The certificate also set forth appeal rights.

Appeal

On November 14, 2005, Log Home submitted an appeal to the Secretary of the NCUA Board. The appeal letter was purported to be signed by xxxxxxxxxxx, the principal of Log Home. The appeal letter was quite brief and stated an objection to the account balances as determined by AMAC without any specifics on what the objection was. There were several noticeable mistakes in the appeal letter. The account number and balances and share account holder set forth in the appeal letter reflect those of another claimant, not Log Home. xxxxxxxxxxx also stated in his appeal letter that Log Home was represented by counsel. The Board Secretary sent the named counsel an acknowledgment of the appeal. Counsel responded stating that he did not represent Log Home. Staff attempted to reach xxxxxxxxxxx at the telephone number for Log Home and was informed that xxxxxxxxxxx was no longer associated with Log Home. When reached at home, xxxxxxxxxxx informed NCUA staff that he had not been associated with Log Home for several months and that he neither wrote nor signed the November 14th appeal letter. He had no knowledge of the appeal.

On February 13, 2006, staff wrote to Log Home seeking clarification on the appeal. Staff stated if Log Home wished to pursue an appeal, a Log Home official with appropriate authority must submit a written request for appeal. On March 31, 2006, xxxxxxxxxxxxxxxx, Acting Secretary for Log Home, submitted a brief letter noting that the appeal should remain open and stating that Log Home

was now represented by the same counsel noted in the November 14th appeal letter. On April 10th, staff spoke to counsel and he confirmed that he was now representing Log Home. On April 11th, staff sent counsel information on the appeal as requested, and further informed him the appeal was scheduled to be presented to the Board at the May 25, 2006 closed meeting. Counsel contacted staff on May 12th, requesting additional information. Staff faxed information to counsel on May 22nd. On the evening of May 24th, counsel faxed a letter to staff stating his belief that all of the funds in the share account should be insured. Counsel gave no credible support for this statement. Counsel noted further that he wished to pursue an issue regarding use of the \$100,000 in insurance proceeds to pay down the line of credit. Staff informed counsel that the issue was not appealable to the Board and should be pursued with AMAC.

Insurance Analysis

As noted, Log Home is a subchapter S corporation. The balance in its share account at the time the FCU was liquidated was \$194,969.72. Section 745.6 of the NCUA Rules and Regulations (NCUA's share insurance regulation found at 12 C.F.R. §745.6) provides in part as follows:

Accounts of a corporation, partnership, or unincorporated association engaged in any independent activity shall be insured up to \$100,000 in the aggregate.

The Log Home account is insured up to \$100,000 in the aggregate pursuant to §745.6. This is the only provision for insurance coverage of funds held in a corporate account. The fact that the funds held in the Log Home account were used as security for a loan to Log Home does not increase or otherwise affect the insurance coverage.

Order

For the reasons set forth above, it is ORDERED as follows:

The Board upholds the Liquidating Agent's decision and denies Log Home Component, Inc.'s appeal.

The Board's decision constitutes a final agency determination. Pursuant to 12 CFR 745.203(c), this final determination is reviewable in accordance with the provisions of Chapter 7, Title 5, United States Code, by the United States Court of Appeals for the District of Columbia or the court of appeals for the Federal

judicial circuit where the credit union's principal place of business was located. Such action must be filed not later than 60 days after the date of this final determination.

So **ORDERED** this 25th day of May 2006 by the National Credit Union Administration Board.

Mary Rupp
Secretary of the Board