

UNITED STATES OF AMERICA
BEFORE THE NATIONAL CREDIT UNION ADMINISTRATION

In the Matter of

Route 56, Inc.

Docket BD-11-05

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 Route 56, Inc.'s (Route 56's) insurance claim in the amount of \$84,768.32.

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 Route 56 share and loan accounts.

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

Route 56 - Background and Accounts

Route 56, a corporate member of the FCU, maintained one large and several smaller share accounts. xxxxxxxxxxxxxx, the principal of Route 56, was also a member of the FCU. xxxxxxxxxxxxxx took out a \$185,000 loan from the FCU in April, 2004. Although the loan application states the purpose of the loan was to purchase a residence, the loan was secured by the large Route 56 share account.

The uncontested balances of the Route 56 share accounts and the xxxxxxxx loan at the time of the liquidation were as follows:

Regular share account	\$ 50.00
Secondary share account	\$ 179,754.05
Club account	\$ 843.20
Share draft account	\$ 4121.07
Total shares	\$ 184,768.32
Share secured loan (xxxxxxx)	\$ 177,272.67
Total loan	\$ 177,272.67

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 Route 56's \$100,000 in insured shares to pay down the xxxxxxxx loan, leaving a loan balance of \$77,777.78. AMAC again wrote to Route 56 on October 28th, enclosing a certificate for its uninsured shares in the amount of \$84,768.32. The letter accompanying the certificate notes the uninsured share balance and explains that the certificate has been assigned to the Lock Haven FCU liquidation estate due to the outstanding balance on the xxxxxxxx loan. This letter also set forth appeal rights.

Appeal

On November 14, 2005, Route 56, Inc., through xxxxxxxxxxxxxx, submitted an appeal to the Secretary of the NCUA Board. Route 56 is not represented by counsel. 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. Although not specifically stated in his appeal letter, it appears that xxxxxxxx believes the entire balance in the Route 56 secondary share account (\$179,754.05) should have been insured. After trying to reach xxxxxxxx by telephone several times, we wrote to him on February 8, 2006, requesting additional information on his appeal. No additional information was submitted.

Insurance Analysis

As noted, Route 56, a corporate member, had several share accounts with the FCU. At the time of liquidation, its shares totaled \$184,768.32, with \$179,754.05 in its secondary share account and the remaining several thousand dollars in various other share accounts. 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 Route 56, Inc. accounts are insured up to \$100,000 in the aggregate pursuant to §745.6. This is the only provision for insurance coverage of funds held in corporate accounts. The fact that most of the funds held in the Route 56 accounts were used as security for the xxxxxx loan 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 Route 56, 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