

May 27, 2009

Morris Drabinsky, Esq.
PO Box 260187
Encino, CA 91426-0187

Re: Liability of a Credit Union Member.

Dear Mr. Drabinsky:

You have asked if a federal credit union (FCU) member, as an owner-shareholder of an FCU, faces the same risk of loss as a shareholder of a for-profit corporation or a partner in a partnership. No, FCU members invest in and become owners of their FCU by placing funds in savings, checking, or share certificate accounts and the National Credit Union Share Insurance Fund (NCUSIF) currently insures qualifying accounts up to \$250,000 per qualifying account.

FCUs are nonprofit, cooperative financial institutions. 12 U.S.C. §1752(1). An FCU is owned by its members who invest in shares by opening savings, checking, and share certificate accounts. Member payments into FCU accounts represent equity and members are the owner-shareholders of an FCU. 12 U.S.C. §1757(6). An FCU sets a par value for a share, which is the minimum payment a member must make to open an account and join an FCU. A share in an FCU entitles a member to vote in the election of the board of directors and, as an owner-shareholder, a member is entitled to a pro rata portion of dividends, based on the amount of the member's shares, if dividends are declared. FCUs are democratically controlled and it is important to note that FCU members are entitled to only one vote regardless of the amount of shares a member has in FCU accounts. 12 U.S.C. §1760.

A major difference between shares in an FCU and shares in a for-profit company or an ownership interest in a partnership is that the NCUSIF insures shares held in qualifying accounts in an FCU against loss. NCUSIF insurance is substantially identical to the insurance the Federal Deposit Insurance Corporation (FDIC) provides to bank and thrift customers and, like the FDIC, is backed by the full faith and credit of the United States government. Currently, the NCUSIF, like the FDIC, insures accounts in FCUs for \$250,000 per qualifying account. If an FCU becomes insolvent or is liquidated, members are not at risk of losing any insured funds.

You also asked us to describe the benefits of being an FCU member. First, the nonprofit, cooperative structure of FCUs means members generally enjoy more favorable lending and savings rates than may be available at other financial institutions because FCU profits are returned to members, who are the owner-shareholders, in the form of dividends and lower lending rates. In addition, because member shares

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represent equity, in the event of a voluntary liquidation of a solvent FCU, a member is entitled to a pro rata share of the FCU's net worth.

For additional information about federal credit unions, we recommend you consult our agency website at ncua.gov or, if you have any further questions, please feel free to contact our office.

Sincerely,

/S/

Sheila A. Albin
Associate General Counsel

GC/JMA:bhs
09-0243