Credit Union
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November 7, 2005

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, NW.,
Washington, DC 20429

Re: Part 330 – Stored Value Cards

Dear Mr. Feldman,

The Credit Union National Association (CUNA) is pleased to respond to the Federal Deposit Insurance Corporation's (FDIC) proposed rule that would clarify whether the funds held at insured banks for stored value cards qualify as "deposits". This letter was prepared under the auspices of CUNA's Payment Systems Subcommittee, which is chaired by Ralph Jones, Executive Vice President of the Georgia Credit Union Affiliates, Georgia. By way of background, CUNA is the largest credit union trade association, representing approximately 90% of our nation's nearly 8,900 state and federal credit unions, which serve nearly 87 million members.

Summary of CUNA's Position

- CUNA believes that the method by which an account holder can access his or her funds should not be a basis for how the funds in the account is insured.
- CUNA believes that insurance coverage should continue to be applied with the same criteria.
- CUNA believes that issuing rules addressing stored value cards at this time may be premature.
- CUNA believes that pass through rules will be confusing for consumers.

Discussion

The proposal would clarify the insurance coverage of funds subject to transfer or withdrawal through the use of stored value cards and other nontraditional access mechanisms. This proposed rule would recognize the term "deposit" to include funds that are subject to transfer or withdrawal solely through the use of nontraditional access mechanisms to the extent that the mechanisms provide

access to funds that are received and held by an insured depository institution for payment to others. We believe that the method by which an account holder can access his or her funds should not be a basis for how the funds in the account is insured. Insurance coverage has been typically applied to depository accounts regardless of the access devices that are connected to the accounts. We believe that insurance coverage should continue to be applied with the same criteria.

The Federal Deposit Insurance Act states that an insured depository institution must recognize any portion of a deposit appearing on the records of the depository institution as the owners of the deposits (12 U.S.C. 1822(c)). We believe that if a depository institution has an account that reflects funds owned by a particular account holder, the funds should be subject to federal deposit insurance to that party.

The FDIC is seeking comment on whether a "secondary system" exists. A secondary system is one in which a depository institution collects funds from cardholders but does not hold the funds for the cardholders. We are not aware of any such secondary system existing today. However, new types of stored value products continue to be released in the marketplace and we believe that issuing rules addressing stored value cards at this time may be premature. We believe that issuing new regulations could stifle development of stored value products and limit stored value options for consumers.

The FDIC is considering specific disclosure requirements when "pass-through" coverage is available. We believe that pass through rules will be confusing for consumers and place the financial institution community in an awkward position between employers and employees. We believe that the existing insurance coverage protecting the consumers' funds should continue to govern the insurability of the funds.

Conclusion

CUNA believes that the method by which an account holder can access his or her funds should not be a basis for how the funds in the account is insured and addressing stored value cards at this time may be premature. If you have any questions, please contact me at (202) 638-5777.

Sincerely,

Lilly Thomas