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comply with §§ 618.8015, 618.8020 and 618.8025.

(d) Service corporations must follow the requirements of this section in offering related services out-of-territory. A service corporation cannot consent to an out-of-territory institution providing services in its chartered territory.

Subpart B—Member Insurance

§ 618.8040 Authorized insurance services.

(a) Farm Credit System banks (excluding banks for cooperatives) (hereinafter banks) and associations may sell to their members and borrowers, on an optional basis, credit or term life and credit disability insurance appropriate to protect the loan commitment in the event of death or disability of the debtors. The sale of other insurance necessary to protect a member's or borrower's farm or aquatic unit is permitted, but limited to hail and multiple-peril crop insurance, title insurance, and insurance necessary to protect the facilities and equipment of aquatic members and borrowers. A member or borrower shall have the option, without coercion from the bank or association, to accept or reject such insurance.

(b) Bank and association board policies governing the provision of member insurance programs shall be established within the following general guidelines:

(1) A System bank or association may provide credit or term-life or credit-disability insurance only to persons who have a loan or lease with any System bank or association, without regard to whether such institution is the provider. Term-life insurance coverage may continue after the loan has been repaid or the lease terminated, provided the member can reasonably be expected to borrow again within 2 years, and provided the continuation of insurance is not contrary to state law.

(2) A debtor-creditor relationship is not required for the sale of other insurance specified in paragraph (a) of this section, as long as purchasers are members of a System bank or association. For the purposes of this section, "member" means someone eligible to

borrow who is a stockholder or participation certificate holder and who acquired stock or participation certificates to obtain a loan, for investment purposes, or to qualify for other services of the association or bank.

(3) In making insurance available through private insurers, each bank shall approve the programs of more than two insurers for each type of insurance offered in the bank's chartered territory, provided that more than two insurers for each type of insurance have proposed programs to the bank that will, in all likelihood, have long-term viability, and meet the requirements of § 618.8040(b)(4)(i) of this section. The banks shall make a reasonable and good faith effort to attract more than two qualified insurers for each insurance program offered to borrowers in all States of the bank's chartered territory. Where the bank is unable to approve more than two insurers, the bank shall document its efforts to attract additional qualified insurers for the affected insurance program and State. The banks may provide comparative information relating to costs and quality of approved programs and the financial condition of approved companies.

(4) Member insurance services may be offered only if:

(i) The insurance program has been approved by the bank or association from among eligible programs made available to it by insurers—

(A) Meeting reasonable financial and quality of service standards prescribed by the bank; and

(B) Licensed under State law to do business in the State(s) in which the insurance is offered:

(ii) The bank or association has the capacity to render authorized insurance services in an effective and efficient manner;

(iii) There exists the probability that the service will generate sufficient revenue to cover all costs;

(iv) Rendering the insurance service will not have an adverse effect on the credit or other operations of the bank or association; and

(v) In making insurance available through approved insurers, the board of directors of the bank or association shall make a reasonable and good faith

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effort to select and offer at least two approved insurers for each type of insurance made available to the members and borrowers. In the event that the bank or association has selected less than two insurers for any insurance program, such bank or association shall document the reasons why it is unable to offer members and borrowers additional insurers for the affected insurance program.

(5) All costs to members and borrowers for insurance services provided shall be disclosed separately from interest charges.

(6) Bank and association personnel shall not benefit from insurance sales by receipt of commissions or gifts from underwriting insurance companies. However, employees may participate in an incentive plan under which incentive compensation is provided based on the sale of insurance.

(i) In any single year, for all employees except full-time insurance personnel or full-time supervisors or managers of insurance departments, incentive compensation attributable to sales of all types of insurance cannot exceed an amount equivalent to 5 percent of the recipient's annual base salary.

(ii) In any single year, for full-time insurance personnel and full-time supervisors and managers of insurance departments, incentive compensation for sales of credit life and similar types of insurance (i.e. insurance that pays on a loan or mortgage upon the death or disability of the debtor) cannot exceed an amount equivalent to 5 percent of the recipient's annual base salary.

(iii) No incentive compensation limit applies to sales of other insurance (crop, title, etc.) by full-time insurance personnel or full-time supervisors or managers of insurance departments.

(7) Term insurance may be written for the amount of coverage desired by the member or borrower, but in no case may the amount of term insurance, credit life insurance, or a combination of the two with an institution of the System, be in excess of total loan commitments to the member or borrower by the institution writing the insurance.

(8) The banks may, only by agreement with an insurer, offer services traditionally furnished by insurers to

the Farm Credit System. This shall include master marketers when considering the sale of Federal crop insurance. The banks shall not underwrite insurance, adjust claim payments or settlements, or train and school or service adjustors or insurance agents.

(9) No bank or association shall, directly or indirectly, condition the extension of credit or provision of other service on the purchase of insurance sold or endorsed by a bank or association. At the time insurance sold or endorsed by a bank or association is offered to a member or borrower, a bank or association shall present a written notice that the service is optional. The notice shall be in prominent type and separately signed by the member or borrower. The bank or association shall explain to the member or borrower that purchase of insurance from the association is optional and that the member or borrower will not be discriminated against for obtaining the insurance elsewhere.

(10) No bank or association shall, directly or indirectly, discriminate in any manner against any agent, broker, or insurer that is not affiliated with such bank or association, or against any party who purchases insurance through any such nonaffiliated insurance agent, broker, or insurer.

(11) Bank supervision shall ensure that insurance services offered by approved insurers consistently provide members or borrowers with a high quality and cost-effective service as prescribed by policies of the bank's board of directors, but such supervision shall be without any coercion or suasion from any bank in favor of any agent or insurer.

(12) Records must be maintained by banks and associations in sufficient detail to facilitate the review and supervision required herein.

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Subparts C-F [Reserved]