

§ 704.19

12 CFR Ch. VII (1–1–99 Edition)

receive the prior written approval of NCUA. Fidelity bonds must provide coverage for the fraud and dishonesty of all employees, directors, officers, and supervisory and credit committee members. Notwithstanding the foregoing, all bonds must include a provision, in a form approved by NCUA, requiring written notification by surety to NCUA:

(1) When the bond of a credit union is terminated in its entirety;

(2) When bond coverage is terminated, by issuance of a written notice, on an employee, director, officer, supervisory or credit committee member; or

(3) When a deductible is increased above permissible limits. Said notification shall be sent to NCUA and shall include a brief statement of cause for termination or increase.

(d) *Minimum coverage amounts.* (1) The minimum amount of bond coverage will be computed based on the corporate credit union's daily average net assets for the preceding calendar year.

Reserve ratio	Maximum deductible
Less than 1.0 percent	7.5 percent of the sum of reserves and undivided earnings and paid-in capital.
1.0–1.74 percent	10.0 percent of the sum of reserves and undivided earnings and paid-in capital.
1.75–2.24 percent	12.0 percent of the sum of reserves and undivided earnings and paid-in capital.
Greater than 2.25 percent	15.0 percent of the sum of reserves and undivided earnings and paid-in capital.

(2) A deductible may be applied separately to one or more insuring clauses in a blanket bond. Deductibles in excess of those showing in this section must have the written approval of NCUA at least 30 calendar days prior to the effective date of the deductibles.

(f) *Additional coverage.* NCUA may require additional coverage for any corporate credit union when, in the opinion of NCUA, current coverage is insufficient. The board of directors of the corporate credit union must obtain additional coverage within 30 calendar days after the date of written notice from NCUA.

§ 704.19 Wholesale corporate credit unions.

(a) *General.* Wholesale corporate credit unions are subject to the preceding requirements of this part, except as set forth in this section.

The following table lists the minimum requirements:

Daily average net assets	Minimum bond (million)
Less than \$50 million	\$1.0
\$50–\$99 million	2.0
\$100–\$499 million	4.0
\$500–\$999 million	6.0
\$1.0–\$1.999 billion	8.0
\$2.0–\$4.999 billion	10.0
\$5.0–\$9.999 billion	15.0
\$10.0–\$24.999 billion	20.0
\$25.0 billion plus	25.0

(2) It is the duty of the board of directors of each corporate credit union to provide adequate protection to meet its unique circumstances by obtaining, when necessary, bond coverage in excess of the minimums in the table in paragraph (d)(1) of this section.

(e) *Deductibles.* (1) The maximum amount of deductibles allowed are based on the corporate credit union's reserve ratio. The following table sets out the maximum deductibles, except that in each category the maximum deductible shall be \$5 million:

(b) *Capital.* (1) A wholesale corporate credit union will maintain a minimum capital ratio of 5 percent.

(2) A wholesale corporate credit union shall make reserve transfers at the lower of .10 percent of its moving daily average net assets or the amount that would be required under § 704.3(c).

(i) Required transfers are to be made from earnings in either the prior calendar month or prior twelve-month period. Transfers made during the prior twelve-month period must be greater than or equal to the aggregate amount of required reserve transfers for each of the months in that twelve-month period.

(ii) NCUA and, in the case of state-chartered wholesale corporate credit unions, the state supervisory authority, must be notified within 30 calendar days of the close of any calendar month in which a wholesale corporate

credit union's required reserve transfer exceeds earnings for that month. The notice must include the dollar amounts of the required reserve transfer and earnings for that month and for the prior twelve-month period. The notice must also provide an explanation of why the current month's required reserve transfer exceeded earnings for that month.

(c) *Asset and liability management.* (1) In conducting the interest rate sensitivity analysis set forth in §704.8(d)(1)(i), a wholesale corporate credit union must limit its risk exposure to levels that do not result, at any time, in an NEV ratio below .75 percent or a decline in NEV of more than 35 percent.

(2) A wholesale corporate credit union must obtain, at its expense, an annual third-party review of its asset and liability management modeling system.

APPENDIX A TO PART 704—MODEL FORMS

This appendix contains sample forms intended for use by corporate credit unions to aid in compliance with the membership capital account and paid-in capital disclosure requirements of §704.2. Corporate credit unions that use this form will be in compliance with those requirements.

Sample Form 1

Terms and Conditions of Membership Capital Account

(1) A membership capital account is not subject to share insurance coverage by the NCUSIF or other deposit insurer.

(2) A member credit union may withdraw membership capital with three years' notice.

(3) Membership capital cannot be used to pledge borrowings.

(4) Membership capital is available to cover losses that exceed reserves and undivided earnings and paid-in capital.

(5) Where the corporate credit union is liquidated, membership capital accounts are payable only after satisfaction of all liabilities of the liquidation estate including uninsured obligations to shareholders and the NCUSIF.

If the form is used when an account is opened, it must also contain the following statement:

I have read the above terms and conditions and I understand them. I further agree to maintain in the credit union's files the annual notice of terms and conditions of the membership capital account.

The form must be signed by either all of the directors of the member credit union or, if authorized by board resolution, the chair and secretary of the board of the credit union.

If the form is used for the annual notice requirement, it must be signed by the chair of the corporate credit union. The chair must then sign a statement which certifies that the form has been sent to member credit unions with membership capital accounts. The certification must be maintained in the corporate credit union's files and be available for examiner review.

Sample Form 2

Terms and Conditions of Paid-In Capital

(1) Paid-in capital is not subject to share insurance coverage by the NCUSIF or other deposit insurer.

(2) The funds are callable only at the option of the corporate credit union and only if the corporate credit union meets its minimum level of required capital after the funds are called.

(3) Paid-in capital is available to cover losses that exceed reserves and undivided earnings.

(4) Paid-in capital is subordinate to membership capital and the NCUSIF.

If the form is used when a paid-in capital instrument is created, it must also contain the following statement:

I have read the above terms and conditions and I understand them. I further agree to maintain in the credit union's files the annual notice of terms and conditions of the paid-in capital instrument.

The form must be signed by either all of the directors of the credit union or, if authorized by board resolution, the chair and secretary of the board of the credit union.

If the form is used for the annual notice requirement, it must be signed by the chair of the corporate credit union. The chair must then sign a statement which certifies that the form has been sent to credit unions with paid-in capital accounts. The certification must be maintained in the corporate credit union's files and be available for examiner review.

APPENDIX B TO PART 704—EXPANDED AUTHORITIES AND REQUIREMENTS

PART I

A corporate credit union may obtain expanded authorities if it meets all of the requirements of this part 704, fulfills additional capital, management, infrastructure, and asset and liability requirements, and receives NCUA's written approval. The additional requirements and authorities are set forth in this Appendix and in the NCUA publication Guidelines for Submission of Requests for Expanded Authority. A corporate

credit union which seeks expanded authorities must submit to NCUA a self-assessment plan which analyzes and supports its request. A corporate credit union may adopt expanded authorities when NCUA has provided final approval. If NCUA denies a request for expanded authorities, it will advise the corporate of the reasons for the denial and what it must do to resubmit its request. NCUA may revoke these expanded authorities at any time if an analysis indicates a significant deficiency. NCUA will notify the corporate credit union in writing of the identified deficiency. A corporate credit union may request, in writing, reinstatement of the revoked authorities by providing a self-assessment plan which details how it has corrected these deficiencies.

(a) In order to participate in the authorities set forth in paragraphs (b) through (d) of this Part I, a corporate credit union must:

(1) Have a minimum capital ratio of 5 percent;

(2) Evaluate monthly the changes in NEV, NEV ratio, and net interest income for the tests set forth in § 704.8(d)(1)(i); and

(3) Regardless of the amount of instruments which possess unmatched embedded options, conduct periodically, as appropriate, the tests set forth in § 704.8(d)(2).

(b) A corporate credit union which has met the requirements of paragraph (a) of this Part I is not bound by the concentration limits on investments set forth at § 704.6(c)(1) and (2). Instead, the corporate credit union must establish limits on such investments as a percentage of the sum of reserves and undivided earnings and paid-in capital that take into account the relative amount of credit risk exposure based upon, but not limited to, the legal and financial structure of the transaction, the collateral, all other types of credit enhancement, and the term of the transaction.

(c) A corporate credit union which has met the requirements of paragraph (a) of this Part I may:

(1) Except for investments in a wholesale corporate credit union, invest in non secured obligations of any single domestic issuer up to 150 percent of the sum of reserves and undivided earnings and paid-in capital;

(2) Purchase long-term investments rated no lower than AA-(or equivalent);

(3) Purchase asset-backed securities rated no lower than AA (or equivalent);

(4) Engage in short sales of permissible investments to reduce interest rate risk;

(5) Purchase principal only (PO) stripped mortgage-backed securities to reduce interest rate risk;

(6) Enter into a repurchase transaction where the collateral securities are rated no lower than A (or equivalent);

(7) Enter into a dollar roll transaction; and

(8) Engage in when-issued trading, when accounted for on a trade date basis.

(d) In performing the rate stress tests set forth in § 704.8(d)(1)(i), the NEV of a corporate credit union which has met the requirements of paragraph (a) of this Part I may decline as much as 35 percent.

(e) The maximum aggregate amount in unsecured loans and irrevocable lines of credit to any one member credit union, excluding pass-through and guaranteed loans from the CLF and the NCUSIF, shall not exceed 100 percent of the corporate credit union's capital. The board of directors will establish the limit, as a percent of the corporate credit union's capital plus pledged shares, of secured loans and irrevocable lines of credit.

PART II

(a) In order to participate in the authorities set forth in paragraphs (b)–(d) of this Part II, a corporate credit union must:

(1) Have a minimum capital ratio of 6 percent; and

(2) Evaluate monthly the changes in NEV, NEV ratio, and net interest income for the tests set forth in § 704.8(d)(1)(i); and

(3) Regardless of the amount of instruments which possess unmatched embedded options, conduct periodically, as appropriate, the tests set forth in § 704.8(d)(2).

(b) A corporate credit union which has met the requirements of paragraph (a) of this Part II is not bound by the concentration limits on investments set forth at § 704.6(c)(1) and (2). Instead, the corporate credit union must establish limits on such investments as a percentage of the sum of reserves and undivided earnings and paid-in capital, that take into account the relative amount of credit risk exposure based upon, but not limited to, the legal and financial structure of the transaction, the collateral, all other types of credit enhancement, and the term of the transaction.

(c) A corporate credit union which has met the requirements of paragraph (a) of this Part II may:

(1) Except for investments in a wholesale corporate credit union, invest in nonsecured obligations of any single domestic issuer up to 250 percent of the sum of reserves and undivided earnings and paid-in capital;

(2) Purchase long-term investments rated no lower than A– (or equivalent);

(3) Purchase asset-backed securities rated no lower than AA (or equivalent);

(4) Engage in short sales of permissible investments to reduce interest rate risk;

(5) Purchase principal only (PO) stripped mortgage-backed securities to reduce interest rate risk;

(6) Enter into a dollar roll transaction; and

(7) Engage in when-issued trading, when accounted for on a trade date basis.

National Credit Union Administration

§ 705.2

(d) In performing the rate stress tests set forth in §704.8(d)(1)(i), the NEV of a corporate credit union which has met the requirements of paragraph (a) of this Part II may decline as much as 50 percent.

(e) The maximum aggregate amount in secured and unsecured loans and irrevocable lines of credit to any one member credit union, excluding pass-through and guaranteed loans from the CLF and the NCUSIF, shall be established by the board of directors as a percentage of the corporate credit union's capital plus pledged shares.

PART III

(a) A corporate credit union which has met the requirements of paragraph (a) of either Part I or Part II of this Appendix may invest in:

(1) Debt obligations of a foreign country; and

(2) Deposits in, the sale of federal funds to, and debt obligations of foreign banks or obligations guaranteed by these banks.

(b) All foreign investments are subject to the following requirements:

(i) Short-term investments must be rated no lower than A-1 (or equivalent);

(ii) Long-term investments must be rated no lower than AA (or equivalent);

(iii) A sovereign issuer, and/or the country in which a bank issuer/guarantor is organized, must be rated no lower than AA (or equivalent) for political and economic stability;

(iv) A bank issuer/guarantor must be rated no lower than AA;

(v) For each approved foreign bank line, the corporate credit union must identify the specific banking centers and branches to which it will lend funds;

(vi) Non secured obligations of any single foreign issuer may not exceed 150 percent of the sum of reserves and undivided earnings and paid-in capital; and

(vii) Non secured obligations in any single foreign country may not exceed 500 percent of the sum of reserves and undivided earnings and paid-in capital.

PART IV

A corporate credit union which has met the requirements of paragraph (a) of either Part I or Part II of this Appendix may engage in derivatives transactions which are directly related to its financial activities and which have been specifically approved by NCUA. A corporate credit union may use such derivatives authority only for the purposes of creating structured instruments and hedging its own balance sheet and the balance sheets of its members.

[62 FR 12938, Mar. 19, 1997, as amended at 63 FR 24105, May 1, 1998]

PART 705—COMMUNITY DEVELOPMENT REVOLVING LOAN PROGRAM FOR CREDIT UNIONS

Sec.

705.0 Applicability.

705.1 Scope.

705.2 Purpose of the program.

705.3 Definitions.

705.4 Program activities.

705.5 Application for participation.

705.6 Community needs plan.

705.7 Loans to participating credit unions.

705.8 State-chartered credit unions.

705.9 Application period.

705.10 Technical assistance.

AUTHORITY: 12 U.S.C. 1772c-1; 42 U.S.C. 9822 and 9822 note.

SOURCE: 58 FR 21646, Apr. 23, 1993, unless otherwise noted.

§705.0 Applicability.

Monies from the Community Development Revolving Loan Fund for Credit Unions are governed by this part.

§705.1 Scope.

(a) This part implements the Community Developments Revolving Loan Program for Credit Unions (Program) under the sole administration of the National Credit Union Administration.

(b) This part establishes the following:

(1) Definitions;

(2) The application process and requirements for qualifying for a loan under the program;

(3) How loan funds are to be made available and their repayment; and

(4) Technical assistance to be provided to participating credit unions.

§705.2 Purpose of the program.

(a) The Community Development Revolving Loan Program for Credit Unions is intended to support the efforts of participating credit unions through loans and technical assistance to those credit unions in:

(1) Providing basic financial and related services to residents in their communities; and

(2) Stimulating economic activities in the communities they service which will result in increased income, ownership and employment opportunities for low-income residents, and other community growth efforts.