

unpreapproved activity or service, the FCU must first receive NCUA Board approval. The request for NCUA Board approval of an unpreapproved activity or service must include a full explanation and complete documentation of the activity or service and how that activity or service is associated with routine credit union operations. The request must be submitted jointly to your Regional Office and to the Secretary of the Board. The request will be treated as a petition to amend §712.5 and NCUA will request public comment or otherwise act on the petition within 60 days after receipt.

**§712.8 What transaction and compensation limits might apply to individuals related to both an FCU and a CUSO?**

(a) *Officials and Senior Management Employees.* The officials, senior management employees, and their immediate family members of an FCU that has outstanding loans or investments in a CUSO must not receive any salary, commission, investment income, or other income or compensation from the CUSO either directly or indirectly, or from any person being served through the CUSO. This provision does not prohibit such FCU officials or senior management employees from assisting in the operation of a CUSO, provided the officials or senior management employees are not compensated by the CUSO. Further, the CUSO may reimburse the FCU for the services provided by such FCU officials and senior management employees only if the account receivable of the FCU due from the CUSO is paid in full at least every 120 days. For purposes of this paragraph (a), “official” means affiliated credit union directors or committee members. For purposes of this paragraph (a), “senior management employee” means affiliated credit union chief executive officer (typically this individual holds the title of President or Treasurer/Manager), any assistant chief executive officers (e.g. Assistant President, Vice President, or Assistant Treasurer/Manager) and the chief financial officer (Comptroller). For purposes of this paragraph (a), “immediate family member” means a spouse or

other family members living in the same household.

(b) *Employees.* The prohibition contained in paragraph (a) of this section also applies to FCU employees not otherwise covered if the employees are directly involved in dealing with the CUSO unless the FCU’s board of directors determines that the FCU employees’ positions do not present a conflict of interest.

(c) *Others.* All transactions with business associates or family members of FCU officials, senior management employees, and their immediate family members, not specifically prohibited by paragraphs (a) and (b) of this section must be conducted at arm’s length and in the interest of the FCU.

**§712.9 When must an FCU comply with this part?**

(a) *Investments.* An FCU’s investments in CUSOs in existence prior to April 1, 1998, must conform with this part not later than April 1, 2001, unless the Board grants prior approval to continue such investment for a stated period.

(b) *Loans.* An FCU’s loans to CUSOs in existence prior to April 1, 1998, must conform with this part not later than April 1, 2001, unless:

(1) The Board grants prior approval to continue the FCU’s loan for a stated period; or

(2) Under the terms of its loan agreement, the FCU cannot require accelerated repayment without breaching the agreement.

**PART 713—FIDELITY BOND AND INSURANCE COVERAGE FOR FEDERAL CREDIT UNIONS**

Sec.

713.1 What is the scope of this section?

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**§ 713.1**

AUTHORITY: 12 U.S.C. 1761a, 1761b, 1766(a), 1766(h), 1789(a)(11).

SOURCE: 64 FR 28720, May 27, 1999, unless otherwise noted.

**§ 713.1 What is the scope of this section?**

This section provides the requirements for fidelity bonds for Federal credit union employees and officials and for other insurance coverage for losses such as theft, holdup, vandalism, etc., caused by persons outside the credit union.

**§ 713.2 What are the responsibilities of a credit union's board of directors under this section?**

The board of directors of each Federal credit union must at least annually review its fidelity and other insurance coverage to ensure that it is adequate in relation to the potential risks

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facing the credit union and the minimum requirements set by the Board.

[64 FR 28720, May 27, 1999, as amended at 64 FR 57365, Oct. 25, 1999]

**§ 713.3 What bond coverage must a credit union have?**

At a minimum, your bond coverage must:

(a) Be purchased in an individual policy from a company holding a certificate of authority from the Secretary of the Treasury; and

(b) Include fidelity bonds that cover fraud and dishonesty by all employees, directors, officers, supervisory committee members, and credit committee members.

**§ 713.4 What bond forms may be used?**

(a) The following basic bonds may be used without prior NCUA Board approval:

Credit union form No.	Carrier
Credit Union Blanket Bond Standard Form 23 of the Surety Association of America (revised May 1950).	Various.
Extended Form 23 .....	USFG.
100 .....	CUMIS (only approved for corporate credit union use).
200 .....	CUMIS.
300 .....	CUMIS.
400 .....	CUMIS.
ALIG 23 .....	National Union Fire Insurance Co. of Pitts., PA.
Reliance Preferred Form 23 .....	Reliance Insurance Company.
Form 31 .....	ITT Hartford.
Form 24 with Credit Union Endorsement .....	Continental (only approved for corporate credit union use).
Form 40325 .....	St. Paul Fire and Marine.
Form F2350 .....	Fidelity & Deposit Co. Of Maryland.
Form 9993 (6/97) .....	Progressive Casualty Insurance Co.
Credit Union Blanket Bond (1/96) .....	Cooperativas de Seguros Multiples de Puerto Rico.

(b) To use any of the following, you need prior written approval from the Board:

- (1) Any other basic bond form; or
- (2) Any rider or endorsement that limits coverage of approved basic bond forms.

**§ 713.5 What is the required minimum dollar amount of coverage?**

(a) The minimum required amount of fidelity bond coverage for any single loss is computed based on a Federal credit union's total assets.

Assets	Minimum bond
\$0 to \$10,000 .....	Coverage equal to the credit union's assets.
\$10,001 to \$1,000,000 .....	\$10,000 for each \$100,000 or fraction thereof.
\$1,000,001 to \$50,000,000 .....	\$100,000 plus \$50,000 for each million or fraction over \$1,000,000.
\$50,000,001 to \$295,000,000 .....	\$2,550,000 plus \$10,000 for each million or fraction thereof over \$50,000,000.
Over \$295,000,000 .....	\$5,000,000.

(b) This is the minimum coverage required, but a Federal credit union's

board of directors should purchase additional coverage when circumstances,

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such as cash on hand or cash in transit, warrant.

(c) While the above is the required minimum amount of bond coverage, credit unions should maintain increased coverage equal to the greater of either of the following amounts within thirty days of discovery of the need for such increase:

(1) The amount of the daily cash fund, i.e. daily cash plus anticipated daily money receipts on the credit union's premises, or

(2) The total amount of the credit union's money in transit in any one shipment.

(3) Increased coverage is not required pursuant to paragraph (c) of this section, however, when the credit union temporarily increased its cash fund be-

cause of unusual events which cannot reasonably be expected to recur.

(d) Any aggregate limit of liability provided for in a fidelity bond policy must be at least twice the single loss limit of liability. This requirement does not apply to optional insurance coverage.

(e) Any proposal to reduce your required bond coverage must be approved in writing by the NCUA Board at least twenty days in advance of the proposed effective date of the reduction.

**§ 713.6 What is the permissible deductible?**

(a)(1) The maximum amount of allowable deductible is computed based on a Federal credit union's asset size, as follows:

Assets	Maximum deductible
\$0-\$100,000 .....	No deductibles allowed.
\$100,001-\$250,000 .....	\$1,000.
\$250,001-\$1,000,000 .....	\$2,000.
Over \$1,000,001 .....	\$2,000 plus 1/1000 of total assets up to a maximum deductible of \$200,000.

(2) The deductibles may apply to one or more insurance clauses in a policy. Any deductibles in excess of the above amounts must receive the prior written permission of the NCUA Board.

(b) A deductible may not exceed 10 percent of a credit union's Regular Reserve unless a separate Contingency Reserve is set up for the excess. In computing the maximum deductible, valuation accounts such as the allowance for loan losses cannot be considered.

**§ 713.7 May the NCUA Board require a credit union to secure additional insurance coverage?**

The NCUA Board may require additional coverage when the Board determines that a credit union's current coverage is inadequate. The credit union must purchase this additional coverage within 30 days.

- 715.2 Definitions used in this part.
- 715.3 General responsibilities of the Supervisory Committee.
- 715.4 Audit responsibility of the Supervisory Committee.
- 715.5 Audit of Federal Credit Unions.
- 715.6 Audit of Federally-insured State-chartered credit unions.
- 715.7 Supervisory Committee audit alternatives to a financial statement audit.
- 715.8 Requirements for verification of accounts and passbooks.
- 715.9 Assistance from outside, compensated person.
- 715.10 Audit report and working paper maintenance and access.
- 715.11 Sanctions for failure to comply with this part.
- 715.12 Statutory audit remedies for Federal credit unions.

AUTHORITY: 12 U.S.C. 1761d, 1782(a)(6).

SOURCE: 64 FR 41035, July 29, 1999, unless otherwise noted.

**§ 715.1 Scope of this part.**

This part implements section 202(a)(6)(D) of the Federal Credit Union Act, 12 U.S.C. 1782(a)(6)(D), as added by section 201(a) of the Credit Union Membership Access Act, Pub. L. No. 105-219, 112 Stat. 918 (1998). This part prescribes the responsibilities of the Supervisory

**PART 715—SUPERVISORY COMMITTEE AUDITS AND VERIFICATIONS**

Sec.  
715.1 Scope of this part.