

National Credit Union Administration

Pt. 741, App. A

negotiable checks, money orders, and electronic transaction services, including international and domestic electronic fund transfers, to persons eligible for membership in any credit union having a loan, investment or contract with the entity.

(b) This section shall have no preemptive effect with respect to the laws or rules of any state providing for access to CUSO books and records or CUSO examination by credit union regulatory authorities.

(c) The effective date for compliance with this section is June 29, 2009.

[73 FR 79313, Dec. 29, 2008]

§ 741.223 Registration of residential mortgage loan originators.

Any credit union which is insured pursuant to Title II of the Act must adhere to the requirements stated in part 761 of this chapter.

[75 FR 44704, July 28, 2010]

§ 741.224 Golden parachute and indemnification payments.

Any credit union insured pursuant to Title II of the Act must adhere to the

requirements stated in part 750 of this chapter.

[76 FR 30517, May 26, 2011]

APPENDIX A TO PART 741—EXAMPLES OF PARTIAL-YEAR NCUSIF ASSESSMENT AND DISTRIBUTION CALCULATIONS UNDER § 741.4

The following examples illustrate the calculation of deposit and premium assessments under each circumstance addressed in paragraphs (i) and (j) of § 741.4.

A. Direct Conversion to NCUSIF Insurance

1. Paragraph (i)(1)(i) provides that a credit union or other institution that converts to insurance coverage with the NCUSIF will immediately fund its one percent deposit based on the total of its insured shares as of the last day of the most recently ended reporting period prior to the date of conversion.

i. The following hypothetical illustrates the application of this provision. Assume Main Street Credit Union completes its conversion from nonfederal to federal insurance on May 15 of Year One. Assume further that Main Street credit union had 1,000 insured shares for the end of month in December of the previous year (Year zero), 1,100 insured shares for at the end of May, the month of conversion, and 1,200 insured shares at the end of June. This information is presented in this Table A:¹

TABLE A

	End of month, December, year zero	End of month, May, year one (month conversion completed)	End of month, June, year one
Main Street Credit Union's Federally Insured Shares	1,000	1,100	1,200

ii. Paragraph (i)(1)(i) requires that on the date of its conversion, Main Street fund its one percent deposit based on “the total of its insured shares as of the last day of the most recently ended reporting period prior to the date of conversion.” Since Main Street has less than \$50,000,000 in assets, its reporting period is annual, and ends on December 31. 12 CFR 741.4(b)(6) (definition of “reporting period”). Main Street had \$1,000 in insured shares on that date, and one percent of that is \$10, and so that is the amount Main Street must immediately remit to the NCUSIF to establish its one percent deposit.

¹Although Main Street Credit Union was not federally insured as of December 31 of Year Zero, proposed § 741.4(b)(3) provides that “For a credit union or other entity that is not federally insured, ‘insured shares’ means,

2. Paragraph (i)(1)(ii) provides that a credit union or other institution that converts to insurance coverage with the NCUSIF will, if the NCUSIF assesses a premium in the calendar year of conversion, pay a premium based on the institution’s insured shares as of the last day of the most recently ended reporting period preceding the invoice date times the institution’s premium/distribution ratio * * *.

i. To illustrate the application of paragraph (i)(1)(ii), take the same facts in hypothetical A related to the conversion of Main Street from nonfederal to federal insurance.

for purposes of this section only, the amount of deposits or shares that would have been insured by the NCUSIF under part 745 had the institution been federally insured on the date of measurement.”

Now, further assume that on the previous March 15, NCUA had declared a premium assessment, and on September 15 following the conversion NCUA sent out the invoices for the March 15 assessment. Also assume that

Main Street had grown to 1,300 insured shares at the end of September, the month the invoices were sent to Main Street and other credit unions. This information is presented in this Table B:

TABLE B

	End of month, December, year zero	End of month, May, year one (month conversion completed)	End of month, June, year one	End of month, September, year one (month invoice sent)
Main Street Credit Union's Federally Insured Shares	1,000	1,100	1,200	1,300

ii. Paragraph (i)(1)(ii) requires Main Street pay a premium based on the institution's "insured shares as of the last day of the most recently ended reporting period preceding the invoice date times the institution's premium/distribution ratio." Again, because Main Street is under \$50 million in assets, the most recently ended reporting period preceding the September 15 invoice date is all the way back to December of Year Zero, when Main Street had \$1,000 in shares. Main Street's "premium/distribution ratio," as defined in § 741.4(b)(5), is "the number of full remaining months in the calendar year following the date of the institution's conversion or merger divided by 12." Since Main Street completed its conversion in May, there are seven full months remaining in the calendar year (June through December), and Main Street's premium/distribution ratio is seven divided by 12. Accordingly, Main Street's premium will be assessed on \$1,000 times seven divided by 12, or about \$583.² Note that if Main Street's assets had exceeded \$50 million as of June 30, it would have had semiannual reporting periods under § 741.4(b)(6), and its "insured shares as of the last day of the most recently ended reporting period preceding the invoice date" would have been its insured shares as of June 30, Year One, and not as of December 31, Year Zero.

3. Paragraphs (i)(1)(iii) and (iv) describe the responsibility of a credit union or other

entity converting to federal insurance to replenish a depleted NCUSIF deposit, as follows: A credit union or other institution that converts to insurance coverage with the NCUSIF will, if the NCUSIF declares, in the calendar year of conversion but on or before the date of conversion, an assessment to replenish the one-percent deposit, pay nothing related to that assessment; if the NCUSIF declares, at any time after the date of conversion through the end of that calendar year, an assessment to replenish the one-percent deposit, pay a replenishment amount based on the institution's insured shares as of the last day of the most recently ended reporting period preceding the invoice date.

i. Paragraph (i)(1)(iii) clarifies that a converting credit union has no responsibility to pay anything toward the replenishment of a depleted deposit that is declared on or before the date of conversion, even if NCUA sends out invoices related to the depletion after the date of conversion. Paragraph (i)(1)(iv) requires that a converting credit union replenish its deposit with regard to a depletion declared after the date of conversion through the end of the calendar year. Again, assume the same facts for Main Street as in Table B, but that the deposit depletion was announced in June, after Main Street converted, and that NCUA sent the invoices in September.

TABLE B

	End of month, December, year zero	End of month, May, year one (month conversion completed)	End of month, June, year one	End of month, September, year one (month invoice sent)
Main Street Credit Union's Federally Insured Shares	1,000	1,100	1,200	1,300

²Main Street's actual premium charge will be this \$583 divided by the aggregate insured shares of all federally insured credit unions

times the aggregate premium for all federally insured credit unions.

ii. Main Street would receive an invoice amount “based on the [Main Street’s] insured shares as of the last day of the most recently ended reporting period preceding the invoice date.” Since Main Street has less than \$50 million in shares, the most recently ended reporting period preceding the September invoice date was December 31, Year Zero, and it would pay for the replenishment based on \$1,000 in insured shares. If Main Street, however, had had \$50 million or more in assets on June 30, its most recently ended reporting period preceding the invoice date would have been the semiannual period ending on June 30, and Main Street would have used its insured shares as of June 30 to calculate the replenishment amount due to the NCUSIF.

4. Under the Federal Credit Union Act, distributions, if any, are declared once a year, early in the year, based on excess funds in the NCUSIF as of the prior December 31. Paragraph (i)(1)(v) describes the right of a credit union or other entity converting to federal insurance to receive a distribution from the NCUSIF, specifically: A credit union or other institution that converts to insurance coverage with the NCUSIF will, if the NCUSIF declares a distribution in the year following conversion based the NCUSIF’s equity at the end of the year of conversion, receive a distribution based on the institution’s insured shares as of the end of the year of conversion times the institution’s premium/distribution ratio. With regard to distributions declared in the calendar year of conversion but based on the NCUSIF’s equity at the end of the preceding year, the converting institution will receive no distribution.

i. To illustrate how paragraph (i)(1)(v) works, assume that Main Street Credit Union converts to federal insurance in May of Year One, and that the NCUA declares a distribution in January of Year Two based on the NCUSIF equity as of December 31 of Year One. Then Main Street will be entitled to a pro rata portion of the distribution, calculated on its insured shares as of December 31 of Year One times its premium/distribu-

tion ratio. Since it converted in May of Year One, and there were seven full months remaining in Year One at on the date of conversion, Main Street’s premium/distribution ratio under §741.4(b)(6) equals seven divided by 12.

ii. On the other hand, if the NCUA declared a distribution a year earlier, that is, in January of Year One based on the NCUSIF’s equity ratio as of December 31 in Year Zero, then under paragraph (i)(1)(v) Main Street would receive no part of this distribution. Main Street is not entitled to any part of this distribution because Main Street, which completed its conversion in Year One, did not contribute in any way to the excess funds in the NCUSIF as of the end of Year Zero.

B. Conversion to NCUSIF Coverage Through Merger with a Federally Insured Credit Union.

Paragraph (i)(2) addresses the NCUSIF premiums, deposit replenishments, and distribution calculations when a nonfederally insured credit union or entity converts to NCUSIF coverage by merging with a federally insured credit union.

1. Paragraph (i)(2)(i) provides that a federally-insured credit union that merges with a nonfederally-insured credit union or other non-federally insured institution (the “merging institution”), where the federally-insured credit union is the continuing institution, will immediately on the date of merger increase the amount of its NCUSIF deposit by an amount equal to one percent of the merging institution’s insured shares as of the last day of the merging institution’s most recently ended reporting period preceding the date of merger.

i. To illustrate this provision, and the other provisions of paragraph (i)(2) related to mergers of nonfederally insured entities into federally-insured credit unions, consider the following hypothetical. Nonfederally-insured Credit Union A merges into federally-insured Credit Union B on August 15 of Year One. The relevant insured shares of Credit Union A and Credit Union B at various dates before and after the merger are reflected in Table D:

TABLE D

	End of month December, year zero	End of month June, year one	End of month August, year one (month merger completed)	End of Month September, year one (month invoice sent)
Credit Union A Insured shares	1,000	1,100	N/A	N/A
Credit Union B Insured shares	9,000	9,900	12,900	14,000

ii. Paragraph (i)(2)(i) requires that Credit Union B, the continuing credit union, immediately increase the amount of its deposit with the NCUSIF in an amount “equal to one

percent of the merging institution’s insured shares as of the last day of the merging institution’s most recently ended reporting period preceding the date of merger.” Since

Credit Union A, the merging institution, has less than \$50 million in assets, its reporting period is the calendar year, and its most recently ended reporting period preceding the August merger date is December 31 in Year Zero. Credit Union A had \$1,000 in insured shares on that date. Accordingly, Credit Union B, the continuing credit union, must immediately increase the amount of its deposit with the NCUSIF by one percent of \$1,000, or \$10. Note that if Credit Union A had been a larger credit union, with \$50 million or more in assets on June 30 in Year One, then Credit Union B would have used Credit Union A's insured shares as of June 30 in this calculation.

2. Paragraph (i)(2)(ii), relating to NCUSIF premium assessments, provides that the continuing institution will, with regard to any NCUSIF premiums assessed in the calendar year of merger, pay a two-part premium, with one part calculated on the merging institution's insured shares as described in subparagraph (1)(ii) above, and the other part calculated on the continuing institution's insured shares as of the last day of its most recently ended reporting period preceding the date of merger.

i. Paragraph (i)(2)(ii) provides for a two-part calculation, with the first part relating to the merging credit union and the second part relating to the continuing credit union. Assuming the facts as in Table D, and assuming the premium is assessed sometime in Year One, calculate the insured shares of Credit Union A, the merging credit union, as in the example for paragraph (i)(1)(ii). Once again, because Credit Union A is under \$50 million in assets, the most recently ended reporting period preceding the invoice date is December of Year Zero, when Credit Union A had \$1,000 in shares. The merger was completed in August, leaving four full months in the calendar year, so the premium/distribution ratio is four divided by 12. Accordingly, this part of the premium will be assessed on \$1,000 times four divided by 12, or about \$333. Then calculate the insured shares of Credit Union B, the continuing credit union, "as of the last day of its most recently ended reporting period preceding the merger date." Since Credit Union B is also under \$50 million in assets, "the last day of the most recently ended reporting period" is also December 31 of Year Zero. Credit Union B's insured shares on that date were \$9,000, and so the combined insured shares for purposes of the premium assessment is \$9,333. Note that if Credit Union B had \$50 million or more in assets on June 30 of Year One, then Credit Union B's "most recently ended reporting period preceding the merger date" would have been June 30 of Year One, and not December 31 of Year Zero. The Board is aware that the NCUA might declare a NCUSIF premium, invoice it, and receive the premiums in Year One from the continuing institution

before the continuing institution consummates its merger. In that case, the Board would invoice the continuing credit union again after the merger, but only for the difference between the amount previously invoiced and the amount calculated under paragraph (i)(2)(ii).

3. Paragraph (i)(2)(iii) prescribes the procedures for calculating the NCUSIF distribution when a nonfederally insured credit union or entity merges into a federally insured credit union. Paragraph (i)(2)(iii) provides that the federally insured credit union will, if the NCUSIF declares a distribution in the year following the merger based on the NCUSIF's equity at the end of the year of merger, receive a distribution based on the continuing institution's insured shares as of the end of the year of merger. With regard to distributions declared in the calendar year of merger but based on the NCUSIF's equity from the end of the preceding year, the institution will receive a distribution based on its insured shares as of the end of the preceding year.

i. This formula recognizes that the merging institution did not contribute to the NCUSIF equity as of the end of the year preceding the merger and so no distribution is allotted against the merging institution's shares. As for distributions based on the NCUSIF equity at the end of the year of merger, this formula does not include any pro rata reduction for the merging institution's contribution. The Board determined that a pro rata reduction was unnecessary, given the generally small relative size of merging institutions to continuing institutions, and the fact that the Federal Credit Union Act does not require any sort of pro rata reduction or other pro rata calculation with regard to distributions.

C. Conversion from, or termination of, Federal share insurance.

Paragraph (j)(1) addresses direct insurance conversions and conversions by merger. Paragraph (j)(2) addresses liquidations and insurance termination.

1. Paragraph (j)(1)(i) provides that a federally insured credit union whose insurance coverage with the NCUSIF terminates, including through a conversion to, or merger into, a nonfederally insured credit union or a noncredit union entity, will receive the full amount of its NCUSIF deposit paid, less any amounts applied to cover NCUSIF losses that exceed NCUSIF retained earnings, immediately after the final date on which any shares of the credit union are NCUSIF-insured.

i. To illustrate the application of this paragraph (j)(1)(i), consider the following hypothetical. Assume Anytown Credit Union, a credit union with \$30 million in assets, converts from federal to nonfederal insurance on November 15. Also assume Anytown Credit Union had \$20 million in insured shares as of

the previous December 31, the end of its most recent reporting period. 12 CFR 741.4(b)(5), (c). The NCUSIF would return one-percent of \$20 million, or \$200,000 to Anytown Credit Union immediately following the effective date of its conversion. Note that, if Anytown Credit Union had reported \$50 million or more in assets on June 30, then June 30 would have been the end of its most recent reporting period. Now further assume that, on July 15 of that same year, the NCUSIF had announced an expense that reduced the equity ratio from 1.3 to .75, which would have included a write-off (depletion) of 25%, or 25 basis points, of the one-percent deposit. The amount of the deposit returned to Anytown would be reduced by 25%, from \$200,000 to \$150,000. If the NCUSIF had announced expenses reducing the equity ratio to .75 after the November 15 conversion date, this announcement would have no effect on Anytown and it would still receive the full \$200,000 from the NCUSIF.

2. Paragraph (j)(1)(ii) provides that a federally insured credit union whose insurance coverage with the NCUSIF terminates, including through a conversion to, or merger into, a nonfederally insured credit union or a noncredit union entity, will, if the NCUSIF declares a distribution at the end of the calendar year of conversion, receive a distribution based on the institution's insured shares as of the last day of the most recently ended reporting period preceding the date of conversion times the institution's modified premium/distribution ratio.

i. To illustrate the application of this paragraph (j)(1)(ii), again assume Anytown Credit Union converts to nonfederal insurance on November 15, and in January of the following year, the NCUSIF declares a distribution based on the NCUSIF's equity ratio as of December 31. Anytown would receive a pro rata distribution calculated as its \$20 million in insured shares multiplied by the modified premium/distribution ratio. Anytown's modified premium/distribution ratio, from the definition in §741.4(b)(5), is one minus Anytown's premium/distribution ratio, which is one minus the ratio of the full number of months remaining in the year divided by twelve, which is one minus (one divided by twelve), which is eleven divided by twelve. So Anytown would receive a pro rata distribution based on \$20 million of insured shares times eleven-twelfths, or based on about \$18.33 million in shares.³

3. Paragraph (j)(1)(iii) provides that a federally insured credit union whose insurance coverage with the NCUSIF terminates, in-

³Anytown's actual distribution would be \$18.33 million times the aggregate amount of the distribution divided by the aggregate amount of all insured shares at all federally insured credit unions.

cluding through a conversion to, or merger into, a nonfederally insured credit union or a noncredit union entity, will, if the NCUSIF assesses a premium in the calendar year of conversion or merger on or before the day in which the conversion or merger is completed, pay a premium based on the institution's insured shares as of the last day of the most recently ended reporting period preceding the conversion or merger date times the institution's modified premium/distribution ratio. If the institution has previously paid a premium based on this same assessment that exceeds this amount, the institution will receive a refund of the difference following completion of the conversion or merger.

i. To illustrate these premium provisions, again assume Anytown Credit Union is a credit union with \$30 million in assets that converts from federal to nonfederal insurance on November 15 of Year One, and that Anytown Credit Union had \$20 million in insured shares as of the previous December 31 (of Year Zero), the end of its most recent reporting period. Further assume that NCUA declares a premium on February 12 of Year One and invoices the premium on November 15. Since the premium was declared "on or before the day in which [Anytown's] conversion [was] completed," §741.4(j)(1)(iii) applies. Anytown would then pay a premium based on \$20 million (its "insured shares as of the last day of the most recently ended reporting period preceding the conversion or merger date") times eleven-twelfths (its "modified premium/distribution ratio"), or based on about \$18.33 million. Note that NCUA might have already have invoiced Anytown for the premium sometime between February 12 and Anytown's merger on November 15. If so, Anytown will likely receive a refund of some of this earlier premium, as provided in the last sentence of §741.1(j)(1)(iii), since it may have overpaid the earlier premium.

[74 FR 63281, Dec. 3, 2009]

PART 742—REGULATORY FLEXIBILITY PROGRAM

Sec.

742.1 Regulatory Flexibility Program.

742.2 Criteria to qualify for RegFlex designation.

742.3 Loss and revocation of RegFlex designation.

742.4 RegFlex relief.

AUTHORITY: 12 U.S.C. 1756, 1766.

SOURCE: 71 FR 4039, Jan. 25, 2006, unless otherwise noted.