National
Credit Union Administration

Accounting Manual For Federal Credit Unions

ACCOUNTING MANUAL FOR FEDERAL CREDIT UNIONS

TABLE OF CONTENTS

CHART OF ACCOUNTS

SECTION 1000
GENERAL INSTRUCTIONS

SECTION NO.		PAGE NO.
1010	THE ACCOUNTING MANUAL FOR FEDERAL CREDIT UNIONS	1-1
1010.1	Purpose and Use as a Prescribed System	1-1
1010.2	Loose-leaf System - Periodic Revisions	1-1
1020	CREDIT UNION OPERATIONS GOVERNED BY LAWS, BYLAWS AND REGULATIONS	1-2
1030	ACCURATE AND CURRENT RECORDS ESSENTIAL	1-2
1030.1	Purpose of Records	1-2
1030.2	Basic Accounting Records	1-2
1030.2.1	Double-Entry System	1-2
1030.2.2	Types of Accounts	1-2
1030.2.3	Records of Original Entry and Record of Final Entry	1-3
1030.2.3.1	The Records of Original Entry	1-3
1030.2.3.2	The Record of Final Entry	1-3
1040	BRIEF OUTLINE OF THE PRESCRIBED ACCOUNTING SYSTEM	1-4
1040.1	Modified Cash Basis	1-4
1040.2	Accrual Basis	1-4
1040.3	The Basic Credit Union Accounting System Described	1-4

SECTION 2000

ACCOUNTING PRINCIPLES AND STANDARDS FOR FEDERAL CREDIT UNIONS

SECTION NO.		PAGE NO.
2010	PURPOSE AND SCOPE	2-1
2020	BASIC CONCEPTS AND GENERAL PRINCIPLES	2-1
2020.1	Separate Enterprise	2-1
2020.2	Going Concern Concept	2-2
2020.3	Monetary Basis for Accounting	2-2
2020.4	Consistency in Accounting from Period to Period	2-2
2020.5	Timely Recognition in Accounting Records	2-2
2020.6	Materiality	2-2
2020.7	Conservative Accounting	2-3
2020.8	Internal Control	2-3
2020.9	Complete Recording of Income and Expenses	2-3
2020.10	Accounting Basis	2-4
2020.11	Accounting and Dividend Periods	2-4
2020.12	Fiscal Year	2-4
2030	ACCOUNTING PROFESSION PRONOUNCEMENTS	2-5
2040	PRINCIPLES AFFECTING THE RECORDING OF ASSETS	2-5
2040.1	Under the Modified Cash Basis of Accounting	2-5
2040.1.1	Assets-General Basis for Recording	2-5
2040.1.2	Cash-Unrestricted or Restricted	2-5
2040.1.3	Loans	2-6
2040.1.4	Investments	2-6
2040.1.5	Fixed Assets	2-7
2040.1.6	Depreciation	2-8
2040.1.7	Prepaid Expenses and Deferred Charges	2-8
2040.1.8	Assets Pledged	2-8
2040.2	Under the Accrual Basis of Accounting	2-8
2040.2.1	Income on Loans	2-9
2040.2.2	Income on Investments	2-9
2040.2.3	Amortization of Premiun or Discount on Securities Purchased	2-9

SECTION NO.		PAGE NO.
2050	PRINCIPLES AFFECTING THE RECORDING OF LIABILITIES	2-9
2050.1	Under the Modified Cash Basis of Accounting	2-9
2050.1.1	Liabilities-General Basis for Recording	2-9
2050.1.2	Accounts Payable	2-9
2050.1.3	Notes Payable	2-9
2050.1.4	Accrued Interest Payable	2-10
2050.1.5	Dividends Payable	2-10
2050.1.6	Interest Refund Payable	2-10
2050.1.7	Accrued Expenses	2-10
2050.1.7.1	Accrued Dividends	2-10
2050.1.8	Deferred Credits	2-11
2050.1.9	Liabilities Secured by Liens	2-11
2050.1.10	Contingent Liabilities	2-11
2050.2	Under the Accrual Basis of Accounting	2-12
2050.2.1	Accrued Interest Payable	2-12
2050.2.2	Accrued Expenses	2-12
2060	PRINCIPLES AFFECTING EQUITY	2-12
2060.1	Net Income	2-12
2060.2	Undivided Earnings	2-12
2060.3	Dividends	2-13
2060.4	Reserve for Loss Contingencies	2-13
2060.5	Donated Equity	2-14
2060.6	Regular Reserve	2-14
2060.7	Shares as Equity	2-14
2070	PRINCIPLES AFFECTING THE RECORDING OF INCOME AND EXPENSES	2-15
2070.1	Under the Modified Cash Basis of Accounting	2-15
2070.1.1	General Rules for Recording Income and Expenses	2-15
2070.1.2	Basis for Recording Income	2-15
2070.1.3	Basis for Recording Expenses	2-15
2070.1.4	Tangible Fixed Asset Expenses	2-15
2070.1.5	Amortization of Deferred Charges	2-15
2070.1.6	Equipment Rental Expense	2-16
2070.1.7	Loan Losses	2-16
2070.1.8	Other Gains and Losses	2-16
2070.1.9	Cash Overage and Shortages	2-16
2070.1.10	Donations	2-17
2070.1.11	Pension Plan Costs	2-18

SECTION NO.		PAGE NO.
2070.1.12	NCUA Insurance Guaranty	2-18
2070.2	Under the Accrual Basis of Accounting	2-18
2070.2.1	Income on Loans	2-18
2070.2.2	Income on Investments	2-18
2070.2.3	Accrued Expenses	2-19
2070.2.4	Accrued Interest on Loans Included in Valuation Allowance	2-19
2080	FINANCIAL STATEMENTS	2-19
2080.1	Purpose	2-19
2080.2	Required Statements	2-20
2080.3	Statement of Financial Condition	2-20
2080.4	Statement of Income	2-21
2080.5	Notes to Financial Statements	2-22
2080.5.1	Disclosures About Fair Values of Financial Statements	2-22
2080.6	Statement of Members' Equity	2-23
2080.7	Statement of Cash Flows	2-23
2080.8	Full and Fair Disclosure Required	2-23
2080.9	Full and Fair Disclosure Defined	2-23
2080.10	Chart of Accounts	2-24
2080.11	Required Certification	2-24
2090	DEFINITION OF TERMS	2-24
2090.1	Amortization	2-24
2090.2	Accrual Basis of Accounting	2-24
2090.3	Accrued Interest	2-25
2090.4	Collateral	2-25
2090.5	Composite Depreciation Basis	2-25
2090.6	Deferred Charge or Deferred Expense	2-25
2090.7	Deferred Credit	2-25
2090.8	Donated Equity	2-25
2090.9	Reserve for Loss Contingencies	2-25
2090.10	Undivided Earnings	2-26
2090.11	Valuation Allowance	2-26
2090.12	Modified Cash Basis of Accounting	2-26

SECTION 3000

FINANCIAL REPORTS

SECTION NO.		PAGE NO.
3010	PURPOSE	3-1
3020	FREQUENCY OF REPORT DISTRIBUTION	3-1
3030	REPORTS REQUIRED BY NATIONAL CREDIT UNION ADMINISTRATION	3-1
3040	FORMAT OF FINANCIAL REPORTS	3-2
3050	DESCRIPTION OF FINANCIAL REPORTS	3-2
3050.1	Statement of Financial Condition	3-2
3050.2	Statement of Income	3-3
3050.2.1	Classification of Loans Outstanding	3-4
3050.2.2	Other Loan Information	3-4
3050.2.3	Miscellaneous Information	3-4
3050.3	Supporting Schedules for Financial Statements	3-4
3050.4	Instructions for Preparing the Statements of Financial Condition, Statement of Income, and the Supporting Schedules for Financial Statements	3-8
3050.5	Statement of Reserves and Undivided Earnings	3-16
3050.6	Statement of Cash Flows	3-16
3050.7	Notes to the Financial Statements	3-17
3050.7.1	Illustration of the Use of Notes to the Financial Statements	3-17

ILLUSTRATIONS:

Figure 3-1:	Statement of Financial Condition (FCU 109A)	3-5
Figure 3-2:	Statement of Income (FCU 109B)	3-6
Figure 3-3:	Supporting Schedules for Financial Statement (FCU 109C)	3-7
Figure 3-4:	Statement of Reserves and Undivided Earnings (FCU 109D)	3-18

SECTION NO.		PAGE NO.
Figure 3-5:	Illustration of a Completed Statement of Cash Flows (FCU 109E)	3-19
Figure 3-6A:	Illustration of a Completed Workpaper to Develop the Cash Flow for Operating Activity	3-20
Figure 3-6B:	Illustration of a Completed Workpaper to Develop the Cash Flow for Investment and Financing Activities	3-21
Figure 3-7:	Illustration of a Statement of Financial Condition (FCU 109A) with Notes	3-22
Figure 3-8:	Illustration of a Completed Statement of Income (FCU 109B) with Notes	3-23
Figure 3-9:	Illustration of a Completed Statement of Reserved and Undivided ..... Earnings (FCU 109D) with Notes	3-24

SECTION 4000

GENERAL LEDGER ACCOUNTS

SECTION NO.		PAGE NO.
4010	BASIC ACCOUNTING	4-1
4010.1	Purpose of the General Ledger	4-1
4010.2	Opening the General Ledger Accounts	4-1
4010.3	Sources of Postings from Books of Original Entry	4-2
4010.4	Opening the Journal and Cash Record	4-2
4010.5	Purpose of the Journal and Cash Record	4-2
4010.6	Illustrative Entries	4-3
4020	GROUPS OF GENERAL LEDGER ACCOUNTS	4-5
4020.1	Purpose of Six Main Groupings	4-5
4020.2	Relationship of Grouping to Financial Reports	4-10
4020.3	Subordinate Grouping Within Main Classifications	4-10
4020.4	Use Only Needed Accounts	4-10

SECTION NO.		PAGE NO.
4020.5	Use of Additional Accounts	4-10
4020.6	Numbering of General Ledger Accounts	4-10
4020.7	Single Operating Expense (Control) Account as an Optional Procedure	4-11
4030	ACCOUNTING BASIS-MODIFIED CASH BASIS OR ACCRUAL BASIS	4-11
4030.1	Modified Cash Basis	4-11
4030.1.1	Minimum Procedure Prescribed for All Credit Unions	4-11
4030.1.2	Definition of Modified Cash Basis	4-11
4030.1.3	Shortcomings of Modified Cash Basis	4-12
4030.2	Accrual Basis of Accounting	4-12
4030.2.1	Definition of Accrual Basis	4-12
4030.2.2	Applicability	4-13
4030.2.3	Scope of Accruals	4-13
4030.2.4	Accrued Income	4-13
4030.2.4.1	Accrued Interest on Loans	4-13
4030.2.4.2	Accrued Income on Investments	4-14
4030.2.5	Accrued Insruance Refunds-Life Savings and Borrowers' Protection Insurance	4-15
4030.2.6	Accrued Expenses	4-16
4030.2.7	Deferred Credits	4-17
4030.2.8	Deferred Charges	4-18
4030.2.9	Conversion to the Accrual Basis of Accounting	4-19
4030.2.9.1	Accrued Income	4-20
4030.2.9.2	Accrued Expenses	4-21
4030.2.10	Transactions After Conversion to Accrual Accounting	4-21
4030.2.11	Over or Under Accrued Expenses	4-22
4030.2.11.1	Over Accrued Expenses	4-22
4030.2.11.2	Under Accrued Expenses	4-22
4030.3	Accrual Entries in General Ledger Account Descriptions	4-22
4040	CHART OF GENERAL LEDGER ACCOUNTS	4-23
4040.1	Operating Income Accounts (100 Series)	4-23
4040.2	Operating Expense Accounts (200-300 Series)	4-24
4040.3	Nonoperating Income and Expense Accounts (400 Series)	4-26
4040.4	Asset Accounts (700 Series)	4-27
4040.5	Liability Accounts (800 Series)	4-30
4040.6	Savings/Equity Accounts (900 Series)	4-32

SECTION NO.		PAGE NO.
4050	DESCRIPTION OF GENERAL LEDGER ACCOUNTS	4-33
4050.1	Operating Income Accounts (100 Series)	4-33
4050.2	Operating Expense Accounts (200-300 Series)	4-55
4050.2.1	Approval of Expenses	4-55
4050.3	Nonoperating Income and Expense Accounts (400 Series)	4-71
4050.4	Asset Accounts (700 Series)	4-76
4050.5	Liability Accounts (800 Series)	4-174
4050.6	Savings and Equity Accounts (900 Series)	4-224

ILLUSTRATIONS		PAGE NO.
Figure 4-1:	Illustration of a Completed General Ledger Account (Form FCU 102)	4-1
Figure 4-2:	Illustration of a Completed Journal and Cash Record (Form FCU 101)	4-6 & 4-7
Figure 4-3:	Illustration of a Completed Transactions for Cash Receipts and Disbursements and Their Relation to Accounting Records	4-8 & 4-9
Figure 4-4:	Vacant	
Figure 4-5:	Illustration of a Suggested Individual Payroll Ledger	4-197

SECTION 5000

GENERAL ACCOUNTING

SECTION NO.		PAGE NO.
5010	ACCOUNTING FOR CASH RECEIPTS AND DISBURSEMENTS	5-1
5010.1	Procedure When Cash is Received	5-1
5010.2	Procedure When Cash is Disbursed	5-2
5010.2.1	Disbursements to be Made by Check	5-2

SECTION NO.		PAGE NO.
5010.2.2	Countersignatures and Single Signatures	5-2
5010.2.3	Journal Voucher Forms to be Used with Disbursements	5-4
5020	BASIC ACCOUNTING RECORDS	5-7
5020.1	Standard Forms	5-7
5030	MEMBERSHIP	5-13
5030.1	Procedure When a New Member is Admitted	5-13
5030.1.1	Applying for Membership	5-14
5030.1.2	Making Initial Payments	5-15
5030.1.3	Issuance of a Passbook	5-15
5030.1.4	Assigning Account Numbers	5-16
5030.1.5	If Member Desires a Joint Account	5-17
5030.1.5.1	Termination of a Joint Account	5-18
5030.1.6	Membership Officer	5-19
5030.1.7	Accounting for Transactions with the Member	5-20
5040	PROCESSING BASIC SHARE AND LOAN TRANSACTIONS	5-20
5040.1	When Payments on Shares are Received	5-20
5040.2	When Shares are Withdrawn	5-21
5040.2.1	Pledge of Shares	5-21
5040.3	Presenting Passbooks for Transactions	5-23
5040.4	Entering Member Loans on the Records	5-23
5040.4.1	Maintaining the Note Record on the Individual Share and Loan Ledger	5-24
5040.4.2	Maintaining the Delinquency Control on the Individual Share and Loan Ledger	5-24
5040.5	When Payments on Loans are Received	5-24
5040.5.1	Collection of Interest	5-24
5040.5.1.1	365-Day Year Method	5-25
5040.5.1.2	30-Day Month Method (360-Day Year)	5-25
5040.5.1.3	Grace Period	5-26
5040.5.1.4	Accrual of Interest	5-26
5040.5.2	Methods of Calculating Interest	5-26
5040.5.2.1	United States Rule-Simple Interest	5-26
5040.5.2.1.1	Level Payment	5-26
5040.5.2.1.2	Principal Payment Plus Interest	5-26
5040.5.2.2	Rule of 78	5-27
5040.5.2.3	Acturial Method	5-27

SECTION NO.		PAGE NO.
5040.5.2.4	Interest Rates in Relation to Different Classification of Loans	5-27
5040.5.3	Repayment Plans	5-29
5040.5.4	When a Loan is Refinanced	5-29
5040.5.5	When a Loan is Extended	5-30
5040.5.6	When a Loan is Deferred	5-30
5040.5.7	Assessment of Late Charges	5-30
5040.5.8	Regulation G (Securities Credit by Persons Other Than Banks, Brokers or Dealers)	5-30
5045	TROUBLED DEBT RESTRUCTURING	5-31
5045.1	Transfer of Assets In Settlement of the Debts	5-32
5045.2	Modification of Terms	5-33
5045.3	Combination Restructuring	5-35
5045.4	Capitalizing Delinquent Interest	5-35
5045.5	Legal Fees and Other Direct Costs of Restructuring	5-35
5050	OTHER METHODS OF ACCOUNTING FOR RECEIPTS AND DISBURSEMENTS	5-36
5050.1	Procedures for Cash Receipts	5-36
5050.1.1	Balancing Out Teller's Funds	5-36
5050.1.1.1	Reconciling the Cash on Hand	5-39
5050.1.1.2	Check Endorsements	5-39
5050.1.2	Total Payment Vouchers	5-40
5050.1.3	Mail Receipts	5-40
5050.1.3.1	When Passbooks are Used	5-40
5050.1.3.2	When Statements of Account are Used	5-42
5050.1.4	Coupon Book Plans for Loan Repayments	5-42
5050.1.5	Balancing Teller's Cash Receipts and Disbursements Using On-Line Computer Terminals	5-43
5050.1.6	Receipts and Disbursements Using Automatic Transfer Accounts and NOW Accounts	5-43
5050.2	Procedures for Cash Disbursements	5-46
5050.2.1	Summary Entries of Disbursements in the Journal and Cash Record	5-46
5050.2.1.1	Check Register	5-46
5050.2.1.2	Listed Check Register	5-46
5050.2.1.3	Voucher Check Register	5-48
5050.2.2	Disbursing Share Withdrawals and Loans in Cash	5-48
5050.2.3	Check Signing Machines	5-53

SECTION NO.		PAGE NO.
5050.2.4	Check Protectors	5-54
5050.2.5	Check Writing Machines	5-54
5050.2.6	Loan Drafts	5-54
5050.2.6.1	Nature of Loan Drafts	5-54
5050.2.6.2	Liability in Connection with Loan Drafts	5-55
5050.2.6.3	Records in Connection with Loan Draft Procedures	5-56
5050.2.6.4	Responsibility for Funds on Hand to Meet Loan Draft Obligations	5-57
5050.2.7	"Fluctuating" Change Funds	5-57
5050.2.8	Change Funds and Monetary Reserve Requirements of Regulation D	5-59
5060	END-OF-MONTH PROCEDURES	5-59
5060.1	Ruling and Checking the Journal and Cash Record	5-59
5060.2	Posting	5-60
5060.2.1	Places to Which Postings from Journal and Cash Record are Made	5-60
5060.2.2	Posting to the General Ledger Accounts	5-60
5060.3	Taking a Trial Balance of the General Ledger	5-61
5060.4	When the General Ledger Trial Balance Does Not Balance	5-61
5060.5	Preparing the Bank Reconcilement	5-62
5060.5.1	Cash Balance per Books of Credit Union	5-63
5060.5.2	Bank Balance per Bank Statement	5-63
5060.5.3	Reconciliation-Balancing Procedures	5-64
5060.6	Taking a Trial Balance of the Individual Share and Loan Ledgers	5-64
5060.7	Balancing the Individual Share and Loan Ledger	5-66
5060.8	Establishing a Systematic Procedure	5-67
5060.9	Arbitrary Adjustment of Subsidiary Share and Loan Ledger Differences	5-68
5060.10	Daily Balancing of Postings to Individual Share and Loan Ledgers	5-69
5060.10.1	Procedures for Proving the Daily Postings	5-69
5060.11	Preparing the Schedule of Delinquent Loans	5-70
5060.12	Preparing List of New Members and Those Who Have Withdrawn	5-70
5060.13	Month-End Financial Statements	5-70
5070	END OF ACCOUNTING PERIOD	5-70
5070.1	Adjusting Entries	5-72
5070.2	Interest Refunds	5-73
5070.3	Alternative Interest Refund Procedures	5-76
5070.3.1	First Alternative	5-76
5070.3.2	Second Alternative	5-76
5070.4	Dividends	5-77
5070.5	Closing Entries	5-77

SECTION NO.		PAGE NO.
5070.5.1	Purpose	5-77
5070.5.2	Procedures to be Used	5-77
5070.5.3	Closing Entries in Detail	5-80
5070.5.4	Closing Procedure Illustrated	5-80
5080	SUBSIDIARY RECORDKEEPING	5-82
5080.1	Subcontrols for Individual Share and Loan Ledgers	5-82
5080.2	Comments and Recommendations on the Establishment of Subcontrols	5-83
5080.3	Posting to Subcontrol Records	5-83
5080.4	Balancing the Subcontrols	5-84
5080.5	Other Subsidiary Records for Other General Ledger Accounts	5-84
5080.6	Reconciling Subsidiary Records	5-93
5090	PAYROLL PLANS AND PROCEDURES	5-93
5090.1	Payroll Deductions and Allotments	5-93
5090.2	Direct Deposit of Federal Recurring Payments	5-94
5090.3	Set Date for Posting Payroll Deductions	5-94
5090.4	Payroll Deduction Plans	5-94
5090.4.1	Plan No. 1	5-95
5090.4.2	Plan No. 2	5-95
5090.4.2.1	Modification of Plan No. 2 (Accumulated Payroll Deduction Plan)	5-96
5090.4.3	Plan No. 3	5-97
5090.5	Payroll Deduction Records	5-97
5090.5.1	Authorization for Payroll Deductions	5-97
5090.5.2	When Credit Union Develops all the Records in Connection with Payroll Deductions	5-98
5090.5.3	Where the Credit Union Receives a Record of the Payroll Deductions from the Employer	5-98
5090.5.4	Records of Distribution of Payroll Deductions, and Records of Share to Loan Transfers under Payroll Deduction Plan No. 2	5-99
5090.6	Entries in the Journal and Cash Record	5-99
5090.6.1	Entries Under Payroll Deduction Plans 1 and 3, and Entries Under the Share Credit Portion of Payroll Deduction Plan No. 2	5-99
5090.6.2	Share to Loan Transfers Under Payroll Deduction Plan No. 2	5-100
5090.7	Statements of Account	5-103
5090.8	Distribution of Statements of Account	5-103
5090.8.1	"No Mail" Accounts	5-105
5090.9	Periodic Statements	5-105
5090.9.1	Regulation E	5-105
5090.9.2	Part 707, Truth In Savings	5-109

SECTION NO.		PAGE NO.
5100	RECORDKEEPING FOR COLLECTION BY OUTSIDE SOURCES	5-109
5100.1	Collection of Loans by Outside Sources	5-109
5100.1.1	Nature of Collection Costs and Expenses	5-109
5100.1.2	Accounting for Recoverable Collection Costs Advanced by the Credit Union	5-109
5100.1.2.1	Method of Recordkeeping for Recoverable Collection Costs	5-110
5100.1.2.2	Uncollectible Collection Costs	5-110
5100.1.3	Priority in Application of Payments	5-110
5100.1.4	Records in Connection with Loans Placed with Outside Sources for Collection	5-111
5100.2	Field Collectors	5-113
5100.2.1	Accounting Control Procedures over Field Collections	5-114
5100.2.1.1	Receipt of Funds by the Collector	5-114
5100.2.1.2	Transmitting Funds and Records to the Credit Union Office	5-114
5100.2.1.3	Exchange of Records Between Credit Union Office and Field Collector	5-114
5100.2.1.4	Preparation of Records for Entry in the Journal and Cash Record	5-114
5100.2.1.5	Entry in the Journal and Cash Record	5-115
5100.2.1.6	Posting to the Individual Share and Loan Ledger	5-116
5100.2.1.7	Credit Union Funds in the Possession of Collectors	5-117
5110	REPOSSESSION AND SALE OF COLLATERAL ON LOANS	5-117
5110.1	Nature of Collateral in Process of Liquidation	5-117
5110.1.1	Loans-Collateral in Process of Liquidation (Account No. 707)	5-117
5110.1.2	Assets Acquired in Liquidation of Loans (Account No. 798)	5-118
5110.1.3	Worksheet Records for General Ledger Account No. 707, Loans-Collateral in Process of Liquidation, and Account No. 798, Assets Acquired in Liquidation of Loans	5-119
5110.1.4	Notes and Contracts Receivable (Account No. 711)	5-120
5110.2	Disposition of the Proceeds from the Liquidation of Collateral in Possession of the Credit Union	5-120
5110.3	Disposition of the Related Accounts After the Collateral Has Been Liquidated	5-121
5110.4	Uncollectible Notes and Contracts Receivable	5-121

SECTION NO.		PAGE NO.
5120	ASSET VALUATION ALLOWANCE	5-121
5120.1	Allowance for Loan Losses	5-122
5120.2	Allowance for Depreciation of Tangible Fixed Assets	5-125
5120.2.1	Sample Depreciation Calculation	5-126
5120.2.1.1	Straight Line	5-126
5120.2.1.2	Sum-of-Year-Digits	5-127
5120.2.1.3	Declining Balance	5-127
5120.2.1.4	Composite Depreciation Method	5-128
5120.3	Amortization of Computer Hardware Costs	5-128
5120.4	Amortization of Purchased System Software Costs	5-129
5120.5	Investments	5-129
5120.5.1	Allowance for Losses on Investments (Account No. 758)	5-129
5130	ACCOUNTING SYSTEM	5-129
5130.1	Miscellaneous Procedures and Systems	5-129
5130.1.1	Posting Board Systems and Forms	5-129
5130.1.2	Electronic Data Processing Systems and Forms	5-130
5130.1.3	Substitute Forms	5-130
5130.1.3.1	General Requirements for Substitute Forms	5-130
5130.1.3.2	Specific Requirements for Substitute Forms	5-130
5130.1.3.3	Note Forms	5-135
5140	INTERNAL CONTROLS	5-136
5140.1	Definition of Internal Controls	5-136
5140.2	Basic Elements of an Internal Control System	5-137
5140.2.1	Administrative Controls	5-137
5140.2.2	Accounting Controls	5-138
5140.3	Internal Control with Limited Staff	5-140
5140.4	Management Official Interlocks	5-141
5140.5	Dormant Accounts	5-141
5150	SHARE, SHARE DRAFT, AND SHARE CERTIFICATE ACCOUNTS	5-143
5150.1	Definitions	5-145
5150.2	Regular Share Account	5-145
5150.3	Share, Share Draft, and Share Certificate Accounts	5-145
5150.3.1	Other Share Accounts	5-146
5150.4	Share Draft Accounts	5-146
5150.5	Shares-Escrow	5-147
5150.6	Share Certificates	5-147

SECTION NO.		PAGE NO.
5150.6.1	Varieties of Share Certificates	5-147
5150.6.1.1	Hybrid Varieties of Share Certificates	5-148
5150.6.1.2	Notice Share Certificates	5-149
5150.6.2	Upon Maturity	5-149
5150.6.3	Premature Withdrawal from a Share Certificate Account	5-151
5150.6.4	Penalty Provisions	5-151
5150.6.5	Exceptions to the Penalties	5-152
5150.6.6	Share Certificate Documents	5-152
5150.7	Disclosures for Share, Share Draft, and Share Certificate Accounts	5-152
5150.8	Advertising	5-154
5150.9	Notice Accounts	5-155
5150.10	Trust Accounts	5-155
5150.10.1	Deposit Insurance Coverage on Trust Accounts	5-156
5150.11	Share Accounts of Minors	5-156
5150.12	Share Accounts of Terminated or Deceased Members	5-156
5150.13	Individual Retirement Accounts	5-157
5150.14	Gifts or Premiums on Savings Accounts	5-158
5160	DIVIDENDS, ANNUAL PERCENTAGE YIELD (APY), AND ANNUAL PERCENTAGE YIELD EARNED (APYE)	5-158
5160.1	Dividends	5-158
5160.1.1	Two Basic Dividend Principles	5-159
5160.1.2	Establishing A Dividend Policy	5-159
5160.1.2.1	Dividend Calculation Methods	5-159
5160.1.2.2	Dividend Periods	5-164
5160.1.2.3	Dividend Declaration Dates	5-165
5160.1.2.4	Compounding Periods	5-165
5160.1.2.5	Crediting Periods	5-166
5160.1.2.6	Dividend Distribution Dates	5-166
5160.1.2.7	Daily Rates	5-166
5160.1.2.8	Dividend Credit Determination Dates (When A Share Purchase Begins Earning Dividend Credit)	5-167
5160.1.2.9	Minimum Balances Associated With Dividends	5-167
5160.1.2.10	Dividend Reductions and Penalties	5-168
5160.1.3	Rounding Rules for Dividends	5-169
5160.1.4	Dividend Entitlement on Closed Accounts	5-169
5160.1.5	Withdrawal Funds	5-170
5160.1.6	Dividend Accrual	5-170

SECTION NO.		PAGE NO.
5160.1.7	Term Share Account Dividend Rate	5-174
5160.1.8	Determining Maximum Dividend Rate	5-174
5160.1.9	Methods of Distribution And Use of Dividend Record for Hand Posted Credit Unions	5-174
5160.1.10	Reporting Dividends to Internal Revenue Service	5-175
5160.2	Annual Percentage Yield (APY)	5-175
5160.2.1	Dividend Formulas in Determining Dividends Using the APY Calculation	5-175
5160.2.1.1	Examples of Dividend Calculations in Determining Dividends Used in the APY Calculation	5-176
5160.2.1.2	Rounding Rules For Dividends Used In The APY Calculation	5-180
5160.2.2	APY Formula	5-180
5160.2.3	APY Calculation	5-180
5160.2.3.1	APY Calculation for a Non-Term Share Account	5-181
5160.2.3.2	APY Calculation for a Term Share Account	5-181
5160.2.3.3	Short-Cuts to the APY Calculation	5-182
5160.2.3.4	APY Calculation for a Stepped Rate Account	5-184
5160.2.3.5	APY Calculation for Tiered-Rate Account	5-185
5160.2.3.6	APY Calculation for a Noncompounding Multi-Year Term Share Account	5-186
5160.2.4	Rounding and Accuracy Rules for the APY	5-187
5160.3	Annual Percentage Yield Earned (APYE)	5-188
5160.3.1	Rounding Rules for Dividends used in the APYE Calculation	5-189
5160.3.2	APYE Formula	5-189
5160.3.2.1	Average Daily Balance Calculation	5-189
5160.3.3	APYE Calculations	5-190
5160.3.4	Special APYE Formula	5-191
5160.3.5	Special APYE Calculation	5-192
5160.3.6	Dividend Period Length Versus Statement Period Length for the APYE	5-192
5160.3.7	APYE Requirements When the Collected Balance Method is Used to Accrue and Pay Dividends	5-194
5160.3.8	APYE On Closed Accounts	5-194
5160.3.9	Rounding and Accuracy Rules for the APYE	5-194
5190	RECORDS PRESERVATION AND RETENTION	5-194
5190.1	Records Preservation Program	5-194
5190.2	Records Retention	5-195

SECTION NO.		PAGE NO.
5190.3	Destruction of Obsolete Records	5-196
5190.3.1	Microfilming of Records	5-198
5190.3.2	Disposal of Data Processing Output Reports	5-198
5190.3.3	Microfiched Records	5-199
5193	SECURITY DEVICES AND PROCEDURES	5-199
5195	SALE AND REDEMPTION OF U.S. SAVINGS BONDS	5-200
5195.1	Bond Sale Transactions	5-200
5195.1.1	Records	5-201
5195.1.2	Cash Received from Sales of U.S. Savings Bonds	5-201
5195.1.3	Illustrative Entries	5-202
5195.2	Installment Payments	5-202
5195.2.1	Payments Received	5-203
5195.2.2	Installment Payments Received Over the Counter	5-203
5195.2.3	Disbursements	5-203
5195.2.4	Liability Account	5-203
5195.2.5	Records of Installment Payments	5-204
5195.2.6	Subsidiary Ledgers	5-204
5195.2.7	Illustrative Entries	5-205
5195.3	Savings Bond Redemption Transactions	5-206
5195.3.1	Payment by Check	5-206
5195.3.1.1	Illustrative Entries	5-206
5195.3.2	Payment by Share Credit	5-206
5195.3.2.1	Illustrative Entry	5-207
5195.3.3	Payment in Cash	5-207
5195.3.3.1	Illustrative Entry	5-207
5195.3.4	Recording Payment Data	5-207
5195.3.5	Shipment of Paid Bonds	5-208
5195.3.6	Compensation for Services	5-208
5200	REIMBURSEMENT FOR SERVICES	5-208
5200.1	Definition of Direct and Indirect Costs	5-208
5200.1.1	Essentials Needed for Offering the Sale of, and Cashing of, Money Orders and Checks	5-209
5200.2	Reimbursement Fees-Cost of Selling Checks	5-209
5200.2.1	Separate Bank Account	5-210
5200.2.2	Checks Sold	5-210
5200.2.3	Agent	5-210

SECTION NO.		PAGE NO.
5200.2.4	Escheatment-Abandoned Money Orders and Checks	5-210
5200.3	Reimbursement Fees-Cost of Cashing Checks	5-211
5200.4	Reimbursement Fees-Cost of Handling Insurance	5-211
5200.5	Reimbursement Fees-Cost of Handling Trust Accounts	5-211
5200.6	Group Purchasing and Insurance Activities	5-211
5200.6.1	Illustration of a Federal Credit Union Computation of Maximum Reimbursable Costs for Services	5-213
5210	THIRD PARTY PAYMENTS	5-213
5210.1	Electronic Funds Transfer, Automated Clearing House Payments, and Payments by Phone	5-214
5210.1.2	Electronic Funds Transfer Act	5-215
5210.1.3	Automated Clearing House	5-216
5210.2	Federal Recurring Payments	5-217
5210.3	Check Transmittal Service	5-217
5210.4	Collection of Utility Bills by Federal Credit Unions	5-218
5210.4.1	Written Agreement	5-218
5210.4.2	Procedures for the Collection of Utility Bills	5-218
5210.4.2.1	Receipts	5-218
5210.4.2.2	Records	5-219
5210.4.2.3	Accounting Instructions	5-219
5210.4.2.4	Illustrative Entries (Journal and Cash Record)	5-219
5210.5	Operational Guidelines	5-220
5220	DELINQUENCY CONTROL	5-220
5220.1	Need for Delinquency Control	5-220
5220.2	Elements of Delinquency Control	5-221
5220.2.1	Lending Policies	5-221
5220.2.2	Education of Members	5-222
5220.2.3	Collection Policies	5-222
5220.2.4	Selection and Training of Personnel	5-223
5220.2.5	Identification	5-223
5220.2.6	Computation of Delinquency	5-223
5220.2.6.1	Method A	5-223
5220.2.6.2	Method B	5-225
5220.2.6.3	Method C	5-226

SECTION NO.		PAGE NO.
5220.2.6.4	Computerized Delinquency Records	5-228
5220.2.6.5	Open-Ended Loans	5-228
5220.2.6.6	Method D	5-228
5220.2.7	Schedule of Delinquent Loans	5-229
5220.2.8	Charge off of Loans Against Allowance for Loan Losses (Account No. 719)	5-231
5220.2.9	Supervisory Committee	5-232
5230	RESERVE REQUIREMENTS	5-232
5230.1	Regular Reserve Transfer	5-232
5230.1.1	Computation of Risk Assets	5-233
5230.1.2	Computation of Total Regular Reserves	5-233
5230.1.3	Determination of the Percentage of Gross Income to Transfer to Total Regular Reserves	5-234
5230.1.4	Split-Rate Transfers	5-235
5230.1.5	Net Regular Reserve Transfers	5-236
5240	REGULATION D	5-237
5240.1	Pass-Through Correspondents	5-237
5240.2	Regulation D-Transaction Account Reserves	5-237
5240.3	Regulation D-Nonpersonal Time Deposit Reserves	5-239
5240.4	Regulation D-Accounting Entries	5-240
5250	FEDERAL FUNDS TRANSACTIONS	5-240
5250.1	Borrowing Federal Funds	5-240
5250.2	Sale of Federal Funds	5-240
5250.3	General Comments	5-240
5250.4	Accounting Entries	5-241
5260	CREDIT UNION SERVICE CONTRACTS	5-241

ILLUSTRATIONS:

Figure 5-1:	Illustration of a Completed Cash Received Voucher (Form FCU 105)	5-3
Figure 5-2:	Illustration of Completed Journal Vouchers (Form FCU 106A)	5-5 & 5-6

ILLUSTRATIONS: **PAGE NO.**

Figure 5-3:	Illustration of Completed Expense Ledger (Form FCU 106-Rev. 81)	5-10 & 5-11
Figure 5-3A:	Illustration of Completed Expense Ledger (Form FCU 104) Journal and Cash Record (FCU 101) and Statement of Income (FCU 109B) and How They Are Balanced	5-12
Figure 5-4:	Illustration of Completed Application for Membership (Form FCU 150)	5-14
Figure 5-5:	Illustration of Completed Passbook (Form FCU 107)	5-16
Figure 5-6:	VACANT	
Figure 5-7:	Illustration of Completed Joint Share Account Agreement (Form FCU 123)	5-17
Figure 5-7A:	Chart for Determining on What Social Security of Employer I.D. Number Dividends Paid or Credited are Reported	5-19
Figure 5-9:	Illustration of How a Loan is Recorded on the Individual Share and Loan Ledger (Form FCU 103)	5-28
Figure 5-10:	Illustration of a Completed Sample Teller's Daily Cash Sheet.....	5-38
Figure 5-11:	Illustration of a Completed Sample Cashier's Daily Summary	5-41
Figure 5-12:	Cash Received Vouchers and a Total Payment Receipt and Passbook	5-44
Figure 5-13:	Illustration of a Completed Statement of Account (Form FCU 107G)	5-45
Figure 5-14:	Illustration of Computer Terminal Generated Settlement Form and Audit Tape By-product	5-47
Figure 5-15:	Illustration of a Completed Voucher Check (Original Copy)	5-49
Fig. 5-15A:	Illustration of a Completed Voucher Check (First and/or Second Carbon Copy)	5-50

ILLUSTRATIONS: **PAGE NO.**

Figure 5-16 & 5-16A:	Illustration of a Sample Voucher for a Loan Disbursed in Cash	5-52
Figure 5-17:	Illustration of a Completed Bank Reconcilement (Form FCU 108)	5-65
Figure 5-18:	Illustration as to How Individual Share Ledger Postings for a Day's Business are Balanced with the Share Transactions Posted in the Journal and Cash Record by Netting the Debits and Credits	5-71
Figure 5-19:	Illustration of a Completed Record of Interest Refunds (Form FCU 92)	5-75
Figure 5-20:	Illustration of a Sample Bond Ledger (FCU 741)	5-85
Figure 5-21:	Illustration of a Subsidiary Record for Shares, Deposits, or Certificates of Other Credit Unions (Form FCU 127)	5-85
Figure 5-22:	Illustration of a Completed Subsidiary Record for Other Shares Deposits and Certificates (Form FCU 124)	5-86
Figure 5-23:	Illustration of a Completed Subsidiary Record for Loans to Other Credit Unions (Form FCU 125)	5-86
Figure 5-24:	Illustration of a Completed Furniture and Equipment Subsidiary Ledgers (Form FCU 774)	5-87
Figure 5-25:	Illustration of a Completed Trial Balance of Furniture and Equipment Subsidiary Ledgers	5-88
Figure 5-26:	Illustration of a Completed Notes Payable Subsidiary Record (Form FCU 126)	5-89
Figure 5-27:	Illustration of a Completed Subsidiary Record for Federal Agency Securities (Form FCU 742)	5-90
Figure 5-28:	Illustration of a Completed Expense Ledger Form FCU 104-Rev. 81	5-91
Figure 5-28:	Illustration of a Completed Expense Ledger Form FCU 104-Rev. 81 (Continued)	5-92

ILLUSTRATIONS: **PAGE NO.**

Figure 5-29:	Illustration of a Completed Record of Payroll Deductions for Period Ended (Form FCU 105D)	5-100
Figure 5-30:	Illustration of a Completed Record of Payroll Deductions for Period Ended (Form FCU 105B)	5-101
Fig. 5-30A:	Illustration of a Completed Loans Transfer Summary (Form FCU 105C)	5-101
Figure 5-31:	Illustrated Record of Payroll Deductions (Form FCU 105-A)	5-102
Figure 5-32:	Illustration of a Completed Statement of Account (Form FCU 107G)	5-104
Fig. 5-32A:	Illustration of a Share Draft Statement of Account (Form FCU 107G-SD)	5-106
Fig. 5-32B:	Illustration of a Statement of Account for Open-End Credit (Form FCU 107-G OE)	5-107
Figure 5-33:	Illustrations of a Completed List of Cash Collected (Form FCU 250)	5-116
Figure 5-34:	Positions in Federal Credit Unions and Persons Who Are Prohibited From Holding Them	5-142
Figure 5-35:	Illustration of a Share Draft	5-148
Figure 5-36:	Illustration of a Share Draft Statement of Account (Form FCU 107G-SD)	5-150
Figure 5-37:	VACANT	
Figure 5-38:	VACANT	
Figure 5-38:	VACANT	
Figure 5-39:	Illustration of a Joint Ownership Agreement for a Share Certificate Account (FCU 123 CT)	5-153

Figure 5-40: Dividend Policy for Regular Shares 5-160

ILLUSTRATIONS: **PAGE NO.**

Figure 5-41: Dividend Policy for Share Certificates 5-161

Figure 5-42: Illustrated Dividend Record (Form FCU 112) 5-171

Figure 5-43: Example Dividend Work Sheet and Payment Record (Form FCU 112A) ... 5-172

Figure 5-44: Illustration of a Record of Dividends (Form FCU 112B) 5-173

Figure 5-45: Illustration of a Computation of Maximum Reimbursable Costs for Services 5-214

Figure 5-46: Illustration of a Completed Schedule of Delinquent Loans (Form FCU 118) 5-230

SECTION 6000

SPECIALIZED ACCOUNTING

SECTION NO. **PAGE NO.**

6010 LENDING ACTIVITIES 6-1
6010.1 Nonrefundable Loan Origination Fees and Costs 6-1
6010.1.1 Under the Modified Cash Basis 6-2
6010.1.2 Under the Full Accrual Basis 6-2
6010.2 Loan Origination Fees 6-2
6010.3 Commitment Fees 6-3
6010.4 Demand Loans 6-3
6010.5 Revolving Lines of Credit 6-3
6010.6 Purchase of a Loan or Group of Loans 6-3
6010.7 Aggregation of Similar Loans 6-4
6010.8 Definitions 6-4
6010.9 Accounting Entries and the Interest Method 6-5

6020 ACCOUNTING GUIDELINES FOR REAL ESTATE LENDING 6-5
6020.1 General 6-5
6020.1.1 Types of Real Estate Mortgage Loans 6-5

SECTION NO.		PAGE NO.
6020.2	Affected Accounts	6-7
6020.3	Sample Accounting Entries	6-8
6020.4	Recomputation for Rebate	6-12
6020.5	Flood Insurance	6-16
6020.6	Regulation C-Home Mortgage Disclosure Act	6-17
6030	PURCHASE, SALE, AND PLEDGE OF ELIGIBLE OBLIGATIONS	6-17
6030.1	Definitions Relating to Purchase, Sale or Pledge of Eligible Obligations	6-18
6030.1.1	Definitions Concerning the Purchase, Sale or Pledge of Eligible Obligations	6-18
6030.1.2	Accounting for Fees Generated From the Purchase, Sale, or Pledge of Eligible Obligations	6-19
6030.2	Purchase of Eligible Member Obligations	6-19
6030.2.1	Five Percent Limitation On Eligible Obligation Purchases	6-19
6030.2.2	Ten Percent Limitation	6-20
6030.3	Student Loans	6-20
6030.4	Real Estate Loans	6-20
6030.5	Sale of Eligible Member Obligations	6-21
6030.5.1	Sale Without Recourse	6-21
6030.5.2	Sale With Recourse	6-22
6030.5.2.1	Recourse Sale Recorded as a Sale	6-22
6030.5.2.2	Recourse Sale Recorded as a Liability	6-23
6030.5.2.3	Disclosure Requirements	6-24
6030.6	Pledge of Eligible Member Obligations as Security	6-25
6030.7	Accounting for the Purchase, Sale, and Pledge of Eligible Obligations	6-25
6030.7.1	Loans Purchased	6-25
6030.7.1.1	Subsidiary Records	6-27
6030.7.1.2	Escrow Accounts	6-28
6030.7.2	Loans Sold (Servicing Retained)	6-28
6030.7.2.1	Loans Sold At a Premium	6-30
6030.7.2.2	Loans Sold At a Discount	6-30
6030.8	Participation Loans	6-32
6030.9	Loan Participations Sold	6-33
6030.10	Gains and Losses on the Sale of Participations	6-35
6030.10.1	Determining the Gain or Loss	6-35
6030.10.2	Determination of Market Price	6-36
6030.10.3	Discounting the Gross Gain or Loss	6-36
6030.10.4	Additional Consideration in Discounting the Gross Gain or Loss	6-37
6030.11	Credit Unions As SBA Guaranteed Loan Originators	6-38
6030.12	Sale of Assets Other Than Loans Involving a Note As Payment	6-38

SECTION NO.		PAGE NO.
6030.13	Accounting for Profit Recognition on Sales of Real Estate	6-40
6030.14	Methods of Recognizing Profit on the Sale of Real Estate	6-43
6040	MORTGAGE BANKING ACTIVITIES	6-43
6040.1	Long-Term Servicing	6-44
6040.1.1	Definitions	6-44
6040.1.2	Servicing Internally Generated Loans	6-44
6040.1.3	Servicing Purchased Loans	6-46
6050	CREDIT CARDS	6-47
6050.1	Interest Computation	6-50
6050.2	Accounting and Operational Policy	6-50
6050.3	Accounting for Credit Card Transactions	6-53
6050.3.1	Illustrative Entries	6-54
6050.4	Trial Balance	6-59
6050.5	Internal Controls	6-60
6060	INVESTMENTS	6-60
6060.1	Method of Recording Investments	6-60
6060.1.1	Held-To-Maturity	6-61
6060.1.2	Trading	6-63
6060.1.3	Available-for-Sale	6-63
6060.1.4	Transfers Between Categories	6-63
6060.1.5	Impairment of Securities	6-64
6060.2	Definitions	6-64
6060.3	Authorized Investment Activities	6-66
6060.3.1	Cash-Investment Purchase	6-66
6060.3.2	Cash Forward Agreements	6-67
6060.3.3	Cash Forward Agreement To Sell Securities	6-67
6060.3.4	Investment-Type Repurchase Transactions	6-68
6060.3.5	Financial Institution-Type Repurchase Transaction	6-70
6060.3.6	Loan-Type Repurchase Transaction	6-70
6060.3.7	Reverse Repurchase Transaction	6-71
6060.4	Unauthorized Investment Transactions and Activities	6-72
6060.4.1	Adjusted Trading	6-73
6060.4.2	Yield Maintenance Contract	6-73
6060.4.3	Pair-Off Transaction	6-74
6060.5	Permissible Investment Activities and Transactions Subject to Specified Conditions	6-74

SECTION NO.		PAGE NO.
6060.5.1	Dollar Price Repurchase Agreement (Dollar Price Repo)	6-74
6060.6	Mortgage-Backed Securities	6-75
6060.6.1	Mortgage Pass-Through Securities	6-75
6060.6.2	Collateralized Mortgage Obligations (CMOs)	6-77
6060.6.3	Stripped Mortgage-Backed Securities (IO's/PO's)	6-80
6060.7	Zero Coupon Securities	6-81
6060.8.1	Accounting for Mutual Funds and Unit Investment Trusts	6-82
6060.8.1.1	Accounting for Mutual Funds	6-82
6060.8.2	Accounting for Unit Investment Trusts	6-84
6060.9	Put Options	6-85
6060.10	Objectionable Investment Practices	6-86
6060.11	Investment Trading Policies	6-87
6061	INVESTMENT CONSIDERATIONS	6-88
6061.1	Responsibility	6-88
6061.2	Special Considerations	6-89
6061.2.1	Liquidity	6-90
6061.2.2	Safety	6-90
6061.2.3	Yield	6-90
6061.3	Authorized Broker/Dealers	6-91
6061.4	Reporting Requirements	6-91
6061.5	Internal Controls	6-91
6061.5.1	Surety Aspects	6-91
6061.5.2	Safekeeping	6-91
6061.6	Periodic Review Policy	6-92
6070	FIXED ASSETS	6-92
6070.1	FCU Ownership of Fixed Assets	6-92
6070.2	Amount of Investments in Fixed Assets	6-92
6070.3	Premises	6-94
6070.4	Prohibited Transactions	6-94
6070.5	Furniture, Fixtures and Equipment	6-95
6070.6	Depreciation of Fixed Assets	6-95
6070.6.1	Straight Line	6-95
6070.6.2	Sum of the Years Digits	6-96
6070.6.3	Declining Balance	6-98
6070.6.4	Comparison of Three Methods	6-99
6070.6.5	Gain or Loss in the Year of Sale of an Asset	6-99
6070.6.6	Trade-In	6-100
6070.6.7	Composite Depreciation Method	6-101

SECTION NO.		PAGE NO.
6080	LEASES	6-102
6080.1	Definitions	6-102
6080.2	Lease Classifications for Lessees	6-102
6080.2.1	Capital Leases	6-102
6080.2.2	Accounting Procedures - Capital Leases	6-103
6080.2.3	Required Disclosures - Capital Leases	6-105
6080.3	Operating Leases	6-105
6080.3.1	Accounting Procedures - Operating Leases	6-105
6080.3.2	Required Disclosures - Operating Leases	6-106
6080.4	Lease Classifications for Lessors	6-106
6080.5	Sales-Type Leases	6-106
6080.5.1	Accounting Procedures Sales-Type Leases	6-107
6080.6	Direct Financing Leases	6-107
6080.6.1	Accounting Procedures - Direct Financing Leases	6-107
6080.7	Leveraged Leases	6-110
6080.8	Operating Leases	6-110
6080.9	Required Disclosures - Lessors	6-110
6080.10	Leases Involving Real Estate	6-111
6080.10.1	Criteria for Classifying Real Estate Leases	6-111
6080.10.2	Leases Involving Land Only	6-112
6080.10.3	Leases Involving Land and Building	6-112
6080.10.4	Leases Involving Real Estate and Equipment	6-114
6080.10.5	Leases Involving Only Part of a Building	6-114
6080.11	Sale and Leaseback Transactions	6-114
6080.11.1	Accounting Treatment for Sale and Leaseback Transactions for Seller-Lessees	6-115
6080.11.1.1	Accounting Treatment for Non-Real Estate Sale and Leaseback Transactions for Seller-Lessees	6-115
6080.11.1.2	Accounting Treatment for Real Estate Sale and Leaseback Transactions for Seller-Lessees	6-116
6080.11.1.3	Financial Statement Presentation and Disclosure for Sale and Leaseback Transactions for Seller-Lessees	6-118
6080.11.2	Accounting Treatment for Sale and Leaseback Transactions for Buyer-Lessors	6-118
6080.12	Accounting For Subleases and Similar Transactions	6-118
6080.12.1	Accounting for Subleases and Similar Transactions for the Original Lessor	6-119

SECTION NO.		PAGE NO.
6080.12.2	Accounting for Subleases and Similar Transactions for the Original Lessee	6-119
6080.12.3	Accounting for Subleases and Similar Transactions for the New Lessee	6-119
6080.13	Accounting for Lease Changes, Renewals, Extensions and Early Terminations	6-120
6080.13.1	Accounting for Changes to Lease Provisions	6-120
6080.13.2	Accounting for Renewals of or Extensions to Lease Provisions	6-120
6080.13.3	Accounting for Early Terminations of Lease Provisions	6-120
6090	MEMBERSHIP IN CENTRAL LIQUIDITY FACILITY	6-121
6090.1	Purpose of the Central Liquidity Facility	6-121
6090.2	Availability of Membership in the Facility	6-121
6090.3	Required Stock Subscription	6-121
6090.4	Computing the Amount of the Stock Subscription	6-122
6090.5	Accounting Entries for CLF Transactions Membership and Dividends	6-123
6090.6	Extension of Credit to Members	6-123
6090.7	Illustrative Entries	6-123
6110	CREDIT UNION SERVICE ORGANIZATION	6-125
6110.1	Accounting Procedures	6-125
6110.1.1	Investments In and Loans to Credit Union Service Organizations	6-126
6110.2	Accounting Entries	6-126
6110.2.1	Equity Method	6-127
6110.2.1.1	Special Accounting Treatment	6-128
6110.2.1.2	Cost in Excess of Carrying Value	6-129
6110.2.1.3	Cost Less Than Carrying Value	6-129
6110.2.2	Cost Method	6-129
6110.2.2.1	Permanent Impairment and Services of Credit Union Services Corporation Are No Longer Used	6-131
6110.2.2.2	Permanent Impairment and Services of Credit Union Service Corporation Are Being Used	6-131
6110.3	Financial Statement Presentation	6-132
6110.4	Loans to a Credit Union Service Organization	6-134
6110.4.1	Accounting Procedures	6-135
6110.4.2	Collection Procedures	6-135

SECTION NO.		PAGE NO.
6120	SPECIAL ACCOUNTING AND OPERATING PROCEDURES FOR FEDERAL CREDIT UNIONS MAINTAINING BRANCH OPERATIONS	6-135
6120.1	Branches	6-136
6120.2	Centralized Operations	6-136
6120.2.1	Cash Receipts	6-136
6120.2.2	Disbursements	6-137
6120.2.3	Cash Accounts	6-137
6120.2.4	Processing of Loans	6-137
6120.2.5	Records at a Branch	6-137
6120.2.6	Staffing of a Branch	6-138
6120.2.7	Surety Bond and Other Insurance Coverage	6-138
6120.2.8	Supervisory Committee	6-138
6120.2.9	Membership Applications	6-138
6120.2.10	Security	6-138
6120.2.11	Records Preservation	6-139
6120.2.12	Service	6-139
6120.2.13	Overseas Branches	6-139
6120.3	Decentralized Operations	6-139
6120.4	Accounting System for a Branch	6-139
6120.4.1	Reciprocal Accounts	6-140
6120.4.2	Investment in Branch Account	6-140
6120.5	Financial Statements for the Branch	6-140
6120.6	Financial Statement for the Main Office and the Branch	6-140
6120.7	Illustrative Journal and Cash Record Entries	6-141
6120.7.1	Descriptions of the Transactions	6-141
6120.7.2	Reciprocal Account in Main Office General Ledger	6-143
6120.7.3	Reciprocal Account in Branch Ledger	6-143
6125	SPECIAL ACCOUNTING AND OPERATING PROCEDURES FOR FEDERAL CREDIT UNIONS MAINTAINING OFFICES OVERSEAS	6-144
6125.1	Accounting and Operating Procedures	6-144
6125.2	Special Considerations	6-144
6125.2.1	Responsibility for Operations	6-145
6125.2.2	Allotments	6-145
6125.2.3	Foreign Currency Transactions	6-145
6125.3	Overseas Procedures	6-145
6125.3.1	Records	6-145

SECTION NO.		PAGE NO.
6125.3.1.1	Minimum Records to be Maintained At Overseas Office	6-146
6125.3.1.2	Records and Information to be Transmitted by the Overseas Office to the Main Office	6-146
6125.3.2	Operations	6-147
6125.3.2.1	Receipts	6-147
6125.3.2.2	Deposits Made By an Overseas Branch	6-147
6125.3.2.3	Disbursements	6-147
6125.3.2.4	Daily Log	6-148
6125.3.2.5	Allotments	6-148
6125.3.2.6	Records of Loans Made	6-148
6125.3.2.7	Loans to Purchase Securities	6-148
6125.4	Main Office Procedures	6-148
6125.4.1	Records	6-149
6125.4.1.1	Records to be Maintained at the Main Office	6-149
6125.4.1.2	Individual Share and Loan Ledgers (Duplicates)	6-149
6125.4.1.3	Journal and Cash Record and General Ledger	6-149
6125.4.1.4	Schedule of Delinquent Loans	6-150
6125.4.1.5	Statement of Account	6-150
6125.4.1.6	Supervisory Committee	6-150
6125.4.1.7	Other Accounting Entries	6-150
6125.5	Illustrative Operational Entries	6-151
6125.5.1	Illustrative Entries for the End of the Accounting Period	6-152
6128	CREDIT UNION OFFICE FACILITIES ON DEPARTMENT OF DEFENSE INSTALLATIONS	6-154
6128.1	Government-Owned Facility	6-154
6128.2	Office Facilities Constructed by Federal Credit Unions	6-154
6128.3	Off-Site Office Facility	6-155
6128.4	Risk Assets	6-155
6130	CORPORATE CENTRAL CREDIT UNIONS	6-155
6140	PENSIONS	6-156
6140.1	Definitions	6-158
6140.2	Accounting for Pension Costs	6-160
6140.2.1	Determination of Net Periodic Pension Cost	6-161
6140.2.2	Illustration of Net Periodic Pension Cost Computation	6-162
6140.2.3	Provision for Vested Benefits	6-162

SECTION NO.		PAGE NO.
6140.3	Actuarial Gains and Losses	6-163
6140.4	Recording Pension Assets and Liabilitie	6-163
6140.5	Illustrative Journal Entries	6-163
6140.6	Required Disclosure for Post Employment Health Care and Life Insurance Benefits	6-164
6140.7	Deferred Compensation Contracts/Agreements	6-165
6140.7.1	Accounting Procedures for Deferred Compensation Contracts/ Agreements	6-165
6140.7.2	Required Disclosures for Deferred Compensation Contracts/Agreements	6-165
6140.8	The Employee Retirement Income Security Act of 1974	6-166
6140.9	Defined Contribution Plans	6-168
6140.10	Presentation of Pension Plans in Financial Statements	6-168
6140.11	Settlements and Curtailments of Pension Plans and Termination Benefits	6-170
6140.11.1	Accounting for Settlements of Defined Benefit Pension Plans	6-170
6140.11.2	Accounting for Defined Benefit Plan Curtailments	6-171
6140.11.3	Disclosure and Financial Statement Presentation for Settlements and Curtailments of Pension Benefits and Termination Benefits	6-171
6140.11.4	Termination Benefits	6-171
6150	SHARE DRAFTS	6-172
6150.1	Definitions	6-172
6150.2	Establishing a Share Draft Program	6-172
6150.2.1	Experimental Share Draft Program	6-173
6150.3	Guidelines on the Use of Payable-Through Share Drafts in a Federal Credit Union's General Description of Operational Flow	6-173
6150.4	Description of a Share Draft Under a Payable-Through System	6-174
6150.5	Share Draft Agreement	6-174
6150.6	Share Draft Account	6-175
6150.7	Share Draft Account Overdrafts	6-175
6150.8	Draft Verification Procedures	6-176
6150.9	Settlement Account	6-177
6150.10	Stop Payment Procedures	6-177
6150.11	Draft Cashing Programs	6-177
6150.12	Service Charges and Fees	6-177
6150.13	Internal Share Draft Account	6-177
6150.14	Use of Share Drafts	6-178
6150.15	Needed Opinions of Legal Counsel	6-178
6150.16	Federal Reserve Regulation D	6-178
6150.17	Federal Reserve Regulation CC	6-178

SECTION NO.		PAGE NO.
6160	TREASURY TAX AND LOAN ACCOUNTS	6-179
6170	PUBLIC UNIT ACCOUNTS	6-180
6180	SECONDARY CAPITAL ACCOUNTS FOR LOW INCOME CREDIT UNIONS	6-180

CHART OF GENERAL LEDGER ACCOUNTS

The chart of General Ledger accounts includes six main groups of accounts as follows:

OPERATING INCOME ACCOUNTS (100 SERIES)

110 Income from Loans
- 111 Interest on Loans
  - 111.1 Interest on Business Loans
  - 111.2 Interest on Agriculture Loans
  - 111.3 Interest on Consumer Loans
  - 111.4 Interest on Mobile Home Loans
  - 111.5 Interest on Share Secured/Insured
  - 111.6 Interest on Other Member Loans
  - 111.7 Interest on Home Equity Loans
- 112 Interest on Lines of Credit
  - 112.1 Interest on Other Lines of Credit
  - 112.2 Interest on Credit Cards
- 113 Income from Loans of Liquidating Credit Unions
- 114 Interest on Real Estate Loans
  - 114.1 Interest on Real Estate Loans Over 12 Years
  - 114.2 Interest on Real Estate Loans 12 Years and Under
- 115 Interest on Loans and Other Obligations Purchased (100%)
- 116 Interest on Loans Participations Purchased
- 117 Service Income on Loans Sold and Participations
- 118 Interest Income on Other Miscellaneous Nonmember Loans
- 119 Interest Refunds

120 Investment Income
- 121 Income from U.S. Government Obligations
- 122 Income from Federal Agency Securities
- 123 Income form Investment in NCUSIF
- 124 Interest on Trading Securities
- 125 Income from Common Trust Investments
- 126 Income from Shares/Deposits/Certificates of Corporate Credit Unions
- 127 Income from Shares/Deposits/Certificates of Other Credit Unions
- 128 Income from Other Shares/Deposits/Certificates
  - 128.1 Income from Investments in Credit Union Services Corporations (CUSO)
- 129 Income from Other Investments

130 Fees and Charges
- 131 Other Fees and Charges
- 132 Loan Origination Fees

140 Gain (Loss on Sale of Loans and Other Obligations
- 141 Gain (Loss) on Sale of Eligible Obligations

150 Miscellaneous Operating Income
- 151 Other Miscellaneous Operating Income
- 152 Miscellaneous Fee Income
- 153 Credit Card Interchange Income

154 Miscellaneous Operating Income Earned on Leases

160 Service Income on Loans and Other Obligations
- 161 Service Income of Loans and Other Obligations
- 162 Service Income on Credit Card Loans
- 163 Service Income-Net Commitment Fees

170 Trading Profits and Losses

OPERATING EXPENSE ACCOUNTS (200-300 SERIES)

210 Compensation Expense
- 221 Salaries
- 212 Reimbursement to Sponsor for Services
- 219 Other Compensation

220 Employee Benefits
- 221 Pension Plan Costs
- 222 Social Security Taxes (Employers' Share)
- 223 Unemployment Compensation Taxes
- 224 Other Employee Benefits

230 Travel and Conference Expenses
- 231 Employees' Travel and Conference Expenses
- 232 Officers' and Directors' Travel and Conference Expenses
- 239 Other Travel and Conference Expenses

240 Association Dues

250 Office Occupancy Expenses
- 251 Rent
- 252 Maintenance of Buildings
- 253 Utilities
- 254 Depreciation of Buildings
- 255 Amortization of Leasehold Improvements
- 256 Real Estate Taxes
- 257 Depreciation Expense for Leased Assets
- 259 Other Office Occupancy Expenses

260 Office Operations Expenses
- 261 Communications
- 262 Rental of Furniture and Equipment
- 263 Maintenance of Furniture and Equipment
- 264 Stationery and Supplies
- 265 Insurance
- 266 Depreciation of Furniture and Equipment
- 268 Bank Service Charges
- 269 Other Office Operations Expenses

270 Educational and Promotional Expense
- 271 Advertising
- 272 Publicity and Promotions
- 279 Other Educational and Promotional Expenses

280 Loan Servicing Expenses
- 282 Collection Expenses
- 283 Recording Fees-Chattel Lien Insurance
- 284 Credit Reports
- 285 Refunds-Real Estate Finance Charges
- 286 Credit Card Program Expenses
- 287 Service Fees on Loans Purchased
- 289 Other Loan Servicing Expenses

290 Professional and Outside Services
- 291 Legal Fees
- 292 Audit Fees
- 293 Accounting Services
- 294 Management Consulting Fees
- 299 Other Professional and Outside Services

300 Provision for Loss
- 301 Provision for Loan Losses-Consumer Loans
- 302 Provision for Loan Losses-Lines of Credit
- 303 Provision for Loan Losses-Real Estate Loans
- 304 Provision for Loan Losses-Mobil Home Loans
- 305 Provision for Loan Losses-Other Loans
- 309 Other Provision for Losses

310 Members' Insurance
- 311 Share Insurance
- 312 Life Savings Insurance
- 313 Borrowers' Insurance
- 319 Other Members' Insurance

320 Federal Operating Fee Expense

330 Cash Over and Short

340 Interest on Borrowed Money
- 341 Inputed Interest Costs
- 342 Other Interest on Borrowed Money

350 Annual Meeting Expenses

360 Truth in Lending Expenses (TIL)
- 361 Truth in Lending Reimbursement of Interest Overcharges
- 362 TIL Restitution

370 Miscellaneous Operating Expenses
- 371 Unexercised Commitment Fees
- 372 Commitment Fees on Borrowed Money

380 Dividend Expenses
- 380.1 Regular Share Dividend Expense
- 380.2 Share Draft Dividend Expense
- 380.3 Club Account Dividend Expense
- 380.4 IRA/Keogh Dividend Expense
- 380.5 IRA/KEOGU Certificate Dividend Expense
- 380.6 Share Certificate Dividend Expense
- 380.7 Money Market Dividend Expense
- 380.8 Other Dividend Expense

385 Interest on Deposits

NONOPERATING INCOME AND EXPENSE ACCOUNTS (400 SERIES)

400 Nonoperating Income (Expense)

420 Gain (Loss) on Investments

430 Gain (Loss) on Disposition of Assets

440 Other Nonoperating Income (Expense)
- 446 Extraordinary Gains and Losses

ASSET ACCOUNTS (700 SERIES)

700 Loans to Members
- 701 Loans
- 701.1 Commercial Loans
- 701.2 Agriculture Loans
- 701.3 Consumer Loans
- 701.4 Other Member Loans
- 701.5 Home Equity Loans
- 701.8 Net Commitment Fees-Loans to Members
- 701.9 Net Origination Fees (Costs)-Loans to Members

702 Lines of Credit to Members
- 702.1 Lines of Credit to Members-Credit Cards
- 702.2 Lines of Credit-Cash Advances in Process
- 702.3 Net Origination Fees (Costs)-Lines of Credit
- 702.4 Net Origination Fees (Costs)Lines of Credit

703 Real Estate Loans Over 12 Years
- 703.1 Net Origination Fees (Costs)-Real Estate Loans Over 12 Yeats

704 Real Estate Loans 12 Years or Less
- 704.1 Net Origination Fees (Cost)-Real Estate Loans 12 Years or Less

705 Mobil Home Loans
- 705.1 Net Origination Fees (Costs) Mobile Home Loans

706 Share Secured/Insured Loans

707 Loans-Collateral in Process of Liquidation

710 Other Loans

711 Notes and Contracts Receivable
712 Loans Purchased from Liquidating Credit Unions
    712.1 Discounts on Loans Purchased from Liquidating Credit Unions
713 Loans Purchased from Liquidating Credit Unions-Collateral in Process of Liquidation
714 Loans or Other Obligations Purchased
    714.1 Premium on Loans Purchased
    714.2 Discount on Loans Purchased
715 Loans or Other Obligations Purchased
    715.1 Premium on Loan Participations Purchased
    715.2 Discount on Loan Participation Purchased
716 Loan Participations Sold
    716. 1 Loan Participation Sold (Contra-Asset Account)
717 Other Miscellaneous Nonmember Loans
718 Loans Subject to Repurchase Agreements

719 Allowance for Loan Losses

720 Other Receivables
    721 Payroll Deductions Receivable
    722 Receivables from Officials and Employees
    723 Lease Payments Receivable
    724 Insurance Premiums LRecievables
    725 Advance for Taxes, Insurance, and Other Charges
    727 U. S. Savings Bonds Redeemed Receivable
    728 Real Estate Loans Receivable
        729.1 TIL Bond Claim Receivable
        729.2 TIS Bond Claim Receivable
730 Cash
    731 Cash-Checking Accounts
    732-735 Reserved for Additional Cash Accounts
    736 Treasury Tax and Loan Remittance
    737 Cash-U.S. Bond Installment Payments
    738 Petty Cash
    739 Cash Fund

740 Investments
    741 Held-to-Maturity Securities
        741.1 Discount on Held-to-Maturity Securities
        741.2 Premium on Held-to-Maturity Securities
    742 Trading Securities
    743 Available-for-Sale Securities
    744 Share, Deposits, Certificates of Corporate Credit Unions
    745 Shares, Deposits, Certificates of Other Credit Unions
    746 Other Shares, Deposits, and Certificates
        746.1 Commercial Bank Deposits
        746.2 Savings & Loans and Mutual Savings Bank Deposits
        746.3 Other Investments
747 Loans to Other Credit Unions
748 Investments in Credit Unions Service Corporations
    748.1 Loans to Credit Union Service Corporations
751 Investment in Central Liquidity Facility
    751.1 Investment in CLF Membership Stock
    751.2 Investment in CLF Liquidity Clearing

752 Investment in NCUA Share Insurance Capitalization Fund
753 Investment in Branch
755 Purchased Accrued Interest Receivable

700 Prepaid Expenses and Deferred Charges
762 Deferred Charges-Commitment Fees Paid in Connection With the Acquisition of Borrowed Funds
763 Deferred Charges-Commitment Fees on Loans to be Purchased
764 Prepaid Rent
765 Prepaid Share Insurance
766 Other Prepaid Insurance
767 Deferred Pension Cost
768 Unamortized Organization Costs
769 Other Prepaid Expenses and Deferred Charges

770 Fixed Assets
771 Land
772 Building
773 Allowance for Depreciation of Building
774 Furniture an dEquipment
775 Allowance for Depreciation of Furniture and Equipment
776 Leasehold Improvements
777 Allowance for Amortization of Leasehold Improvement
778 Leased Assets under Capital Lease
779 Allowance for Depreciation of Leased Assets

780 Accrued Income
781 Accrued Interest on Loans
782 Accrued Income on Investments
783 Accrued Credit Card Income
784 Accrued Intrest on Real Estate Loans
785 Purchased Accrued Interest Receivable on Loans (100%)
786 Accrued Interest on Loan Participations Purchased
787 Accrued Interest-Other Lines of Credit to Members
788 Accrued Income on NCUSIF Investment
789 Other Accrued Income

790 Other Assets
792 Insurance Premium Stabilzation
793 Monetary Control Reserve Deposits
797 Advance Payments by Borrowers for TAxes and Insurance on Serviced Loans
798 Assets Acquired in Liquidation on Loans
799 Other Assets

LIABILITY ACCOUNTS (800 SERIES)

800 Accounts Payable
801 Accounts Payable
801.1 Accounts Payable-Traveler's Checks and Money Orders
802 Accounts Payable-Undistributed Payments
802.1 Accounts Payable-Credit Card Payments in Process
802.2 Accounts Payable-Credit Card Adjustments in Process

802.3 Accounts Payable-Credit Card Chargebacks in Process
803 Accounts Payable-Undistributed Payroll Deduction or Allotments
804 Accounts Payable-Check Transmittal
805 Accounts Payable-Drafts Authorized
806 Accounts Payable-Installment Payments on U.S. Bonds
807 Accounts Payable-U.S. Savings Bond Remittances
808 Real Estate Loans Payable
809 Escrow Accounts

810 Notes and Inerest Payable
811 Mortgage Notes Payable
812 Notes Payable-Other
812.1 Notes Payable-Commitment Fees
813 Federal Funds Payable
818 Accrued Interest Payable

820 Dividends Payable
820.1 Dividends Payable on Regular Shares
820.2 Dividends Payable on Share Drafts
820.3 Dividends Payable on Club Accounts
820.4 Dividends Payable on IRA/Keogh Accounts
820.5 Dividends Payable on IRA/Keough Certificate Accounts
820.6 Dividends Payable on Share Certificates
820.7 Dividends Payable on Money Market Accounts
820.8 Dividends Payable on Other Accounts

830 Interest Refunds Payable

840 Taxes Payable
841 Federal Withholding Taxes Payable
842 State Withholding Taxes Payable
845 City Withholding Taxes Payable
846 Social Security Taxes Payable
847 Federal Unemployment Compensation Tax Payable
848 State Unemployment Compensation Tax Payable
849 Other Taxes Payable

850 Accrued Expenses
851 Accrued Salaries
852 Accrued Employee Benefits
853 Accrued Cost of Space Occupied
854 Accrued Dividends Payable
855 Accrued Accounting Service Cash
856 Accrued Loss Contingencies
859 Other Accrued Expense

860 Other Liabilities
861 Liability Under Pension Cost
862 Collection on Loans and Other Obligations Serviced
863 Obligations Under Capital Lease
864 Monetary Control Pass Through Deposits
865 Main Office
866 Undisbursed Loan Proceeds

867 Subordinated CDCU Debt
869 Other Liabilities

870 Unapplied Data Processing Exceptions
871 Unapplied Data Processing Exceptions (Receipts)
872 Unapplied Data Processing Exceptions (Disbursements)

880 Deferred Credits
881 Unearned Interest on Loans
882 Deferred Credits-Insurance Premium Rates
883 Deferred Gain on Liquidation of Loans
884 Deferred Credits-Credit Card Commitments
885 Deferred Credits-Prepaid Interest-Real Estate Loans
886 Unamortized Discount on Sale of Assets
887 Deferred Credits-Fees Received on Loans to be Purchased
888 Deferred Credits-Insurance Premium Stabilization Reserve
889 Other Deferred Credits
890 Deferred Drecits-Net Origination Fees (Costs)-Lines of Credit to Members
891 Deferred Credits-Net Origination Fees (Costs)-Lines of Credit to Members Credit Cards
892 Deferred Credits-Net Origination Fees (Csots)-Home Equity Lines of Credit
893 Deferred Credits-Net Commitment Fees (Costs)-Home Equity Lines of Credit to Members
894 Deferred Credits-Net Commitment Fees (Costs)-Loans to members

Savings/Equity Accounts (900 Series)

900 Shares of Members
901 Regular Shares
902 Share Draft
903 Club Accounts
904 Other Shares
905 Escrow Accounts
906 IRA/Keogh Retirement Service Shares
907 IRA/Keogh Retirement Service Certiricates
908 Share Certificates
909 Shares-Unposted Payroll Deductions
910 Public Unit Shares
911 Money Market Shares
921 Shares of Nonmembers
925 Uninsured Secondary Capital
926 Deposits

930 Reserves
931 Regular Reserves
932 Special Reserve for Losses
933 Other Revocable Reserves
934 Reserve for Loss Contingencies 935 Corporate Central Reserve
935 Corporate Central Reserve

940 Undivided Earnings
- 942 Appropriated Undivided Earnings
- 945 Accumlated Unrealized Gains/Losses on Avaiolable-for-Sale Securities

950 Donated Equity

960 Net Income (Loss)

SECTION 1000
GENERAL INSTRUCTIONS
TABLE OF CONTENTS

SECTION NO.		PAGE NO.
SUBSECTION NO.		
1010	**THE ACCOUNTING MANUAL FOR FEDERAL CREDIT UNIONS**	1-1
.1	Purpose and Use as a Prescribed System	1-1
.2	Loose-leaf System - Periodic Revisions	1-1
1020	**CREDIT UNION OPERATIONS GOVERNED BY LAWS, BYLAWS AND REGULATIONS**	1-2
1030	**ACCURATE AND CURRENT RECORDS ESSENTIAL**	1-2
.1	Purpose of Records	1-2
.2	Basic Accounting Records	1-2
.2.1	Double-Entry System	1-2
.2.2	Types of Accounts	1-2
.2.3	Records of Original Entry and Record of Final Entry	1-3
.2.3.1	The Records of Original Entry	1-3
.2.3.2	The Record of Final Entry	1-3
1040	**BRIEF OUTLINE OF THE PRESCRIBED ACCOUNTING SYSTEM**	1-4
.1	Modified Cash Basis	1-4
.2	Accrual Basis	1-4
.3	The Basic Credit Union Accounting System Described	1-4

1000 GENERAL INSTRUCTIONS

1010 THE ACCOUNTING MANUAL FOR FEDERAL CREDIT UNIONS

1010.1 PURPOSE AND USE AS A PRESCRIBED SYSTEM

This manual sets forth comprehensive procedures for the maintenance of accounting records by federal credit unions. It also contains accounting guidelines and requirements for specialized problems and services, such as branch office accounting, membership in the Central Liquidity Facility, investments in credit union service organizations, share drafts, credit cards, etc. In addition, the manual throughout describes some techniques which can be used by management in making a better analysis of the credit union's financial condition and in improving the planning process.

This Manual is not incorporated by reference in the NCUA Rules & Regulations (R&Rs). However, adherence to the accounting principles and standards in Section 2000 of this Manual will ensure compliance with the full and fair disclosure requirements of Section 702.3 of the R&Rs which:

- Defines the required level of disclosure needed on financial statements;
- Requires federal credit unions to select an accounting basis that is described in this Manual; and
- Instructs credit unions to prepare financial statements in the manner prescribed in this Manual or its equivalent financial statements.

The remainder of the Manual is intended to provide guidelines to credit union officials and employees with information on recommended procedures and practices.

For the most part, the manual adheres to generally accepted accounting principles (GAAP) except for certain intentional regulatory accounting practices (RAP) which differ from GAAP.

The manual may be adopted by federally insured, state chartered credit unions at the option of the credit unions and their state supervisor.

1010.2 LOOSE-LEAF SYSTEM - PERIODIC REVISIONS

The manual is designed as a loose-leaf system to facilitate updating. When revisions become necessary, revised pages will be issued, accompanied by appropriate explanations and instructions for updating your manual.

1020 CREDIT UNION OPERATIONS GOVERNED BY LAWS, BYLAWS AND REGULATIONS

Federal credit unions are corporations organized and operated under the provisions of the Federal Credit Union Act (Act). They are corporations with powers limited to those granted by their charter and the Act. They are governed by their bylaws and the regulations issued by the National Credit Union Administration. All directors, officers, and committee members should have a general knowledge of these laws, bylaws, and regulations, and a specific knowledge of the duties required of the particular office held.

1030 ACCURATE AND CURRENT RECORDS ESSENTIAL

1030.1 PURPOSE OF RECORDS

The transactions of the credit union are compiled in its records which serve as a source of information needed by the directors to properly manage the credit union. The accounting records also serve as the basis for reports to the members and interested third parties. Therefore, it is essential that the records be accurate, current, and that they show the true financial condition of the credit union. Prompt preparation of reports will aid the credit union in achieving its objectives and fulfilling the purposes for which it was formed.

1030.2 BASIC ACCOUNTING RECORDS

1030.2.1 DOUBLE-ENTRY SYSTEM

Bookkeeping may be defined as the systematic recording of the financial transactions of a business in a suitable form. To accomplish this, a well-defined system of accounts is necessary.

All federal credit unions should use a double-entry accounting system. In this system each transaction results in at least two entries: a debit (or entry on the left side of an account ledger) and a credit (or entry on the right side of an account ledger). If the transaction requires several debits and credits, the total of the debits and the total of the credits must be the same. In other words, for every debit entry there must be an offsetting credit entry and vice versa. By following this rule and determining that the total debits equal the total credits, the records can be kept in balance.

1030.2.2 TYPES OF ACCOUNTS

The “Asset Accounts” record what the credit union owns. These include cash, loans, investments, etc. These accounts, as well as the expense accounts, normally have debit balances.

The "Liability Accounts" record what the credit union owes and the "Equity Accounts" reflect the members ownership interests. Together these accounts include notes payable, members' shares, undivided earnings and reserves. The "Liability Accounts" and "Equity Accounts" as well as the income accounts normally have credit balances.

A brief general rule for debits and credits is: Debit the increase of an asset, the reduction of a liability or equity account, or the payment of an expense; credit the reduction of an asset, increase of a liability or equity account or, receipt of income.

1030.2.3 RECORDS OF ORIGINAL ENTRY AND RECORD OF FINAL ENTRY

A bookkeeping system can be broken down into two distinct parts: Records of Original Entry and Records of Final Entry.

1030.2.3.1 THE RECORDS OF ORIGINAL ENTRY

The Records of Original Entry are diaries of the transactions as they occur. The Journal and Cash Record is the main record used for this purpose. Each day's cash receipts, disbursements and other transactions are entered in the Journal and Cash Record in chronological sequence. Thus, a running history of each day's transactions are kept and may be summarized as needed.

At the end of a given period, usually the month end, the total of all transactions pertaining to each account can be obtained by totaling the debit and credit columns of the Journal and Cash Record. The accuracy of the entries can be proved in part by balancing the debit columns against the credit columns.

1030.2.3.2 THE RECORD OF FINAL ENTRY

The Record of Final Entry is the General Ledger. This record serves as a means of summarizing the entries in a form that will enable the bookkeeper to prepare reports on the results of operations to date. Entries in the General Ledger consist of posting (simply transferring) the debits and credits (either individually or in total at the end of the month) for each account in the Journal and Cash Record to the corresponding account in the General Ledger and computing the net balance for each account. The result obtained shows the current balances of the credit union's accounts and the results of operations for the period.

Sometimes, when a General Ledger account summarizes a large number of transactions, it is necessary to provide detailed information about this account with a record known as a Subsidiary Ledger. The Individual Share and Loan Ledgers are examples of subsidiary records which show the detailed share and loan transactions with each member. The Share and Loan accounts in the General Ledger reflect the total transactions with all members. These General Ledger accounts are called Control Accounts since they act as a control or check over the numerous postings to the individual or subsidiary ledgers. Subsidiary records are balanced with related control accounts on a monthly basis and the reconcilement, or other proof of balancing, is retained.

1040 BRIEF OUTLINE OF THE PRESCRIBED ACCOUNTING SYSTEM

The accounting records of federal credit unions should be maintained on either of two accounting bases: namely, the modified cash basis or the accrual basis. The accrual basis of accounting is recommended for credit unions with assets totaling $2 million or more at the end of the accounting period.

1040.1 MODIFIED CASH BASIS

Generally under a strictly cash basis of accounting, income is recorded and accounted for when actuary collected and expenses are accounted for when actually paid. Under the modified cash basis prescribed herein, the accounting is based on the actual receipts and disbursements of the credit union except that provisions should be made to reflect:

- Liabilities which are not promptly paid when due,
- Dividends and interest refunds applicable to the accounting period but not yet paid,
- Deferred income or expenses applicable to future periods,
- Estimated losses to be sustained on loans outstanding and other risk assets, and
- Estimated unrealized losses associated with mutual fund and common trust investments, and
- Depreciation on fixed assets.

The foregoing exceptions to maintenance of accounting records on a strictly cash basis are designed to recognize in the accounts certain significant financial transactions not involving the concurrent receipt **or** disbursement of cash and to reflect their effect in financial reports prepared from the accounts. In unusual circumstances, there may be other significant non-cash financial transactions that should be recorded. Therefore, the above list is not all inclusive.

Credit unions for which adoption of the accrual basis of accounting is not required or practicable should use the modified cash basis of accounting.

1040.2 ACCRUAL BASIS

The accrual basis of accounting refers to that method under which liabilities and expenses are recorded when incurred, whether or not paid, and income is recorded when earned, whether or not received. It is intended that credit union accounting be maintained on the accrual basis by all credit unions for which such basis is deemed practicable by them.

Generally accepted accounting principles require the accrual basis of accounting.

1040.3 THE BASIC CREDIT UNION ACCOUNTING SYSTEM DESCRIBED

For credit unions following either the accrual basis or the modified cash basis of accounting, the majority of entries originate with the receipt or disbursement of cash. Other entries are relatively few in number

and consist generally of adjustments or transfers between accounts, establishment and maintenance of an allowance for loan losses, write-offs of bad loans, and recording depreciation of tangible fixed assets. In addition, credit unions following the accrual basis of accounting should make entries to record accrued income and expenses.

The principal bookkeeping records consist of the Journal and Cash Record which is the RECORD OF ORIGINAL ENTRY, and the General Ledger which is the RECORD OF FINAL ENTRY. In addition, the Cash Received Voucher or its equivalent and the Journal Voucher or its equivalent serve as memorandum records of the original transactions and the sources of entries in the Journal and Cash Record.

SECTION 2000

ACCOUNTING PRINCIPLES AND STANDARDS FOR FEDERAL CREDIT UNIONS

TABLE OF CONTENTS

SECTION NO.	SUBSECTION NO.		PAGE NO.
2010		**PURPOSE AND SCOPE**	2-1
2020		**BASIC CONCEPTS AND GENERAL PRINCIPLES**	2-1
	.1	Separate Enterprise	2-1
	.2	Going Concern Concept	2-2
	.3	Monetary Basis for Accounting	2-2
	.4	Consistency in Accounting from Period to Period	2-2
	5	Timely Recognition in Accounting Records	2-2
	.6	Materiality	2-2
	.7	Conservative Accounting	2-3
	.8	Internal Control	2-3
	.9	Complete Recording of Income and Expenses	2-3
	.10	Accounting Basis	2-4
	.11	Accounting and Dividend Periods	2-4
	.12	Fiscal Year	2-4
2030		**ACCOUNTING PROFESSION PRONOUNCEMENTS**	2-5

SECTION NO.		PAGE NO.
SUBSECTION NO.		
2040	**PRINCIPLES AFFECTING THE RECORDING OF ASSETS**	2-5
.1	Under the Modified Cash Basis of Accounting	2-5
.1.1	Assets-General Basis for Recording	2-5
.1.2	Cash-Unrestricted or Restricted	2-5
.1.3	Loans	2-6
.1.4	Investments	2-6
.1.5	Fixed Assets	2-7
.1.6	Depreciation	2-8
.1.7	Prepaid Expenses and Deferred Charges	2-8
.1.8	Assets Pledged	2-8
.2	Under the Accrual Basis of Accounting	2-8
.2.1	Income on Loans	2-9
.2.2	Income on Investments	2-9
.2.3	Amortization of Premiun or Discount on Securities Purchased	2-9
2050	**PRINCIPLES AFFECTING THE RECORDING OF LIABILITIES**	2-9
.1	Under the Modified Cash Basis of Accounting	2-9
.1.1	Liabilities-General Basis for Recording	2-9
.1.2	Accounts Payable	2-9
.1.3	Notes Payable	2-9
.1.4	Accrued Interest Payable	2-10
.1.5	Dividends Payable	2-10
.1.6	Interest Refund Payable	2-10
.1.7	Accrued Expenses	2-10
.1.7.1	Accrued Dividends	2-10
.1.8	Deferred Credits	2-11
.1.9	Liabilities Secured by Liens	2-11
.1.10	Contingent Liabilities	2-11
.2	Under the Accrual Basis of Accounting	2-12
.2.1	Accrued Interest Payable	2-12
.2.2	Accrued Expenses	2-12

SECTION NO.	SUBSECTION NO.		PAGE NO.
2060		**PRINCIPLES AFFECTING EQUITY**	2-12
	.1	Net Income	2-12
	.2	Undivided Earnings	2-12
	.3	Dividends	2-13
	.4	Reserve for Loss Contingencies	2-13
	.5	Donated Equity	2-14
	.6	Regular Reserve	2-14
	.7	Shares as Equity	2-14
2070		**PRINCIPLES AFFECTING THE RECORDING OF INCOME AND EXPENSES**	2-15
	.1	Under the Modified Cash Basis of Accounting	2-15
	.1.1	General Rules for Recording Income and Expenses	2-15
	.1.2	Basis for Recording Income	2-15
	.1.3	Basis for Recording Expenses	2-15
	.1.4	Tangible Fixed Asset Expenses	2-15
	.1.5	Amortization of Deferred Charges	2-15
	.1.6	Equipment Rental Expense	2-16
	.1.7	Loan Losses	2-16
	.1.8	Other Gains and Losses	2-16
	.1.9	Cash Overage and Shortages	2-16
	.1.10	Donations	2-17
	.1.11	Pension Plan Costs	2-18
	.1.12	NCUA Insurance Guaranty	2-18
	.2	Under the Accrual Basis of Accounting	2-18
	.2.1	Income on Loans	2-18
	.2.2	Income on Investments	2-18
	.2.3	Accrued Expenses	2-19
	.2.4	Accrued Interest on Loans Included in Valuation Allowance	2-19

SECTION NO.			PAGE NO.
	SUBSECTION NO.		
2080		**FINANCIAL STATEMENTS**	2-19
	.1	Purpose	2-19
	.2	Required Statements	2-20
	.3	Statement of Financial Condition	2-20
	.4	Statement of Income	2-21
	.5	Notes to Financial Statements	2-22
	.5.1	Disclosures About Fair Values of Financial Statements	2-22
	.6	Statement of Members' Equity	2-23
	.7	Statement of Cash Flows	2-23
	.8	Full and Fair Disclosure Required	2-23
	.9	Full and Fair Disclosure Defined	2-23
	.10	Chart of Accounts	2-24
	.11	Required Certification	2-24
2090		**DEFINITION OF TERMS**	2-24
	.1	Amortization	2-24
	.2	Accrual Basis of Accounting	2-24
	.3	Accrued Interest	2-25
	.4	Collateral	2-25
	.5	Composite Depreciation Basis	2-25

SECTION NO.		PAGE NO.
SUBSECTION NO.		
.6	Deferred Charge or Deferred Expense	2-25
.7	Deferred Credit	2-25
.8	Donated Equity	2-25
.9	Reserve for Loss Contingencies	2-25
.10	Undivided Earnings	2-26
.11	Valuation Allowance	2-26
.12	Modified Cash Basis of Accounting	2-26

2000 ACCOUNTING PRINCIPLES AND STANDARDS FOR FEDERAL CREDIT UNIONS

2010 PURPOSE AND SCOPE

Accounting by federal credit unions serves many internal and external purposes. Comprehensive and accurate financial information is essential so that credit union management can make sound decisions concerning the operation of the credit union. Management must also account for its actions to members, creditors, the National Credit Union Administration in its supervisory capacity, and others having valid financial interests.

Financial information provided to management is summarized in credit union financial statements which are intended to present fairly the financial position of the credit union at a given date, and the results of its operations for a given accounting period. The financial information so presented must be supported by accounting records maintained in conformance with principles and standards designed to provide full and fair disclosure of all material information relating to the credit union's operations.

The principles and standards of federal credit unions have been designed to follow practices in use by other financial and lending institutions and are based on generally accepted accounting principles as developed by the accounting profession. Use of these principles by credit unions for their accounting and financial reporting will provide for full and fair disclosure of financial information.

Many of the principles and standards require the exercise of judgment by credit union officials where optional courses of action are available or where estimates are required for application of a particular principle. Also, direction is necessary under the doctrine of materiality (See Section 2020.6) in order to evaluate the need for applying a particular principle to specific transactions or situations. Subject to these qualifications, the principles and standards in this section of the Manual must be followed to comply with the full and fair requirements of Section 702.3 of the Rules and Regulations.

2020 BASIC CONCEPTS AND GENERAL PRINCIPLES

The basic concepts and general principles fundamental to the detailed accounting principles and standards for federal credit unions are listed and described below.

2020.1 SEPARATE ENTERPRISE

Each credit union is a separate corporate enterprise requiring the maintenance of comprehensive accounting records and financial reporting practices to provide meaningful information to members, officers, directors, the supervisory committee, the National Credit Union Administration (NCUA), and interested third parties.

2020.2 GOING CONCERN CONCEPT

Each credit union should normally maintain its accounts as a "going concern" on the basis that its operations will be continued indefinitely. Therefore, assets and liabilities should represent the value to the credit union as a "going concern" and should not be based on liquidation values.

Whenever unusual circumstances indicate a limited life for a credit union, e.g., if the credit union liquidates, the "going concern" concept win no longer apply. As a result, appropriate adjustments should be made to realistically state assets and liabilities and recognize appropriate revenues and expenses. These adjustments could include, for example, a reevaluation of the loan portfolio to recognize possible discounts on sales of loans, an evaluation of the realizable value of fixed assets in liquidation, possible adjustments required in the carrying value of deferred charges and deferred credits, etc.

2020.3 MONETARY BASIS FOR ACCOUNTING

Accounts of each credit union should be stated in terms of the dollar amounts involved at the time transactions occur. The recording of each transaction in terms of dollar units provides the best feasible indicator of its relative impact on the overall operations of the credit union. It also permits identification of the amount of assets, liabilities, income or expenses represented by the transaction.

2020.4 CONSISTENCY IN ACCOUNTING FROM PERIOD TO PERIOD

Consistent accounting practices should be followed by each credit union from one accounting period to the next. Should a material change in accounting treatment occur, the facts must be disclosed on credit union financial statements, including the dollar effect upon the balance sheet and the changes in net income for the period. For example, if a credit union converts to the accrual system of accounting, it should make a complete conversion at one time and report the conversion on the current period financial statements. See Section 4030.2.9 for further guidance.

2020.5 TIMELY RECOGNITION IN ACCOUNTING RECORDS

Accounting transactions should be recorded on a timely basis so that all material information applicable to each accounting period will be shown in the records. To properly recognize in accounting records and financial reports the reasonable value of assets, liabilities, and shareholders' equity, each credit union should make provision for estimated loss to be sustained in the collection or conversion of loans and other assets by charges against current expenses. Estimated amounts should be used in accruing income or expenses if actual amounts are not known and cannot be readily determined. Differences between the actual and estimated amounts should be absorbed in the operations of the subsequent accounting period.

2020.6 MATERIALITY

Material facts relating to credit union financial activity must be recognized in the accounts of a credit union and reported on its financial statements. A statement, fact, or item is material if, giving full consideration to the surrounding circumstances as they exist at the time, it is of such a nature that its

disclosure, or the method of treating it, would be likely to influence or to "make a difference" in the judgment and conduct of a reasonable person. The accumulation of many small items, each of which in itself would not be "material", would be "material" if the overall effect would tend to influence the judgment and conduct of a reasonable person.

2020.7 CONSERVATIVE ACCOUNTING

Each credit union should maintain its accounting records on a conservative basis. It should make reasonable provisions in the accounts for potential losses on assets and for the settlement of liabilities. It should not materially overstate nor understate its assets, liabilities, revenues or expenses.

2020.8 INTERNAL CONTROL

Each credit union should adopt appropriate measures of internal control to improve the dependability of its accounting records. These measures must include:

- An organization plan to provide, to the extent feasible, segregations of duties so that different employees will handle the operational custodial and accounting functions.
- A system of authorization and recording procedures adequate to provide reasonable accounting control over assets, liabilities, income and expenses.
- Employment of personnel capable of performing duties and responsibilities.
- Effective and timely audits of credit union records and accounts by its supervisory committee including verification of members' accounts, with assistance provided, where needed, by an independent auditing firm.

2020.9 COMPLETE RECORDING OF INCOME AND EXPENSES

Income, expenses, gains and losses should be recorded in income and expense accounts and shown on the Statement of Income prepared for the accounting period. Income and expense accounts should include actual and estimated loan and other asset losses.

2020.10 ACCOUNTING BASIS

The accrual basis of accounting provides the most complete and informative record of the financial activities of credit unions. The accrual basis refers to that method of accounting under which liabilities and expenses are recorded when incurred, whether or not paid, and income is recorded when earned, whether or not received. It is recognized, however, that a requirement that all credit unions adopt the full accrual basis of accounting would work a hardship on many small credit unions. Therefore, the accounting basis to be used shall be determined by each credit union in accordance with the following guidelines:

- The adoption of the accrual basis of accounting is *recommended* for credit unions with assets totaling $2 million or more at the end of the accounting period.

- The accrual basis of accounting should be used by all credit unions where it is deemed practicable by the board of directors.

- Where the accrual basis is followed, a cash basis of accounting and reporting may be applied to particular accounts where the results would be only insignificantly different from the accrual basis. For this purpose "insignificantly" refers to differences which would not be considered important for a proper evaluation of condition or operations of the credit union.

- Credit unions for which adoption of the accrual basis is not required or not practicable should use a modified cash basis of accounting. Under the modified cash basis, the accounting will be based upon the cash receipt and disbursement transactions of the credit union except that provision should be made to reflect: (a) liabilities which are not paid promptly when due; (b) dividends and interest refunds applicable to the accounting period but not yet paid; (c) deferred credits and charges applicable to future periods; (d) estimated losses to be sustained on loans outstanding and other risk assets; and (e) depreciation of fixed assets.

2020.11 ACCOUNTING AND DIVIDEND PERIODS

Credit union accounting periods may be monthly, quarterly, semiannually or annually depending on the period selected by the credit union to close its books. Each credit union must close its books at least annoy at the end of the fiscal year. It is *recommended* that federal credit unions close their books at the end of each regular share account dividend period unless dividends are paid more frequently than monthly. Provision must be made for statutory reserve transfers and adjustments to meet valuation allowance requirements when a credit union elects not to close the books at the end of any dividend period except where such dividend period is more frequent than monthly. Interim financial statements should be prepared on a proforma basis reflecting a reserve position that would be achieved if the books had been closed.

2020.12 FISCAL YEAR

The fiscal year of all federal credit unions should begin January 1 and end on December 31.

2030 ACCOUNTING PROFESSION PRONOUNCEMENTS

Within the accounting principles authorized by the NCUA for use by credit unions, various alternatives are provided for adoption at the option of any credit union for certain types of transactions. These alternatives are designed to provide the flexibility required for meaningful accounting under a variety of circumstances that may be encountered by credit unions of different size and scope of operations. *Absolute uniformity is not required so long as each credit union conforms its accounting to authorized generally accepted accounting principles. Con*sistency in accounting from period to period and disclosure of material accounting changes is necessary (See Section 2020.4).

The American Institute of Certified Public Accountants (AICPA) and the Financial Accounting Standards Board (FASB) and their committees establish generally accepted accounting principles (GAAP), accounting guidelines, and preferred accounting treatment for various activities. Credit unions should refer to such accounting profession pronouncements for guidance where a particular activity is not addressed by this manual or other NCUA publications. Credit unions may adopt such accounting profession pronouncements provided they are not inconsistent with the principles, standards, and procedures set forth herein or statutory or regulatory requirements.

Activities which are unique to credit unions and have not been addressed in existing accounting industry literature or in NCUA publications should be referred to an independent accountant for review and comment. Copies of the correspondence should be maintained in the credit union's files.

2040 PRINCIPLES AFFECTING THE RECORDING OF ASSETS

2040.1 UNDER THE MODIFIED CASH BASIS OF ACCOUNTING

The principles and standards of accounting relating to assets of federal credit unions following the modified cash basis of accounting are set forth below.

2040.1.1 ASSETS-GENERAL BASIS FOR RECORDING

Assets should be recorded normally at their cost to the credit union.

2040.1.2 CASH-UNRESTRICTED OR RESTRICTED

Any cash on deposit or on hand, which is *restricted* as to its use, should be recorded in separate accounts from other cash accounts of the credit union. Each category of *restricted* cash other than change funds or petty cash should be shown separately on financial reports.

2040.1.3 LOANS

Loans outstanding and other receivables due the credit union should be recorded to reflect their unpaid balances. Appropriate valuation allowance accounts should be maintained to cover estimated losses. Allowances may include amounts not allocated to or identified with specific loans. Credit unions adopting the accrual basis of accounting should amortize net loan origination fees and costs over the life of the related loans using the interest method. Credit unions adopting the modified cash basis of accounting should, at a minimum, amortize origination fees over 10 years or the life of the loan, whichever period is shorter.

2040.1.4 INVESTMENTS

Investments and related transactions should be recorded based on the principles and standards described below. When securities are acquired, each credit union shall assess its intent and ability with regard to its securities holdings. It then must assign its debt and equity securities to the appropriate measurement category: *trading, held-to-maturity,* or *available-for-sale*. Not less frequently than the end of each dividend period (i.e., monthly, quarterly, semiannually, or annually), the appropriateness of the classifications, and the reasonableness and accuracy of the related fair value measurement (*trading* and *available-for-sale*), shall be assessed.

Reporting requirements shall be as follows:

- Debt and equity securities that are bought and held principally for the purpose of selling them in the near term shall be classified as *trading securities* and reported at fair value through the income statement.

- Debt securities (not equity) that the enterprise has the positive intent and ability to hold to maturity shall be classified as *securities held-to-maturity* and reported at amortized cost, i.e., cost adjusted for the amortization of premiums or the accretion of discounts.

- Debt and equity securities not classified as either *trading* or *held-to-maturity* securities all be classified as *securities available-for-sale* and reported at fair value through a separate component of equity in the balance sheet, *Accumulated Unrealized Gains/Losses on Available-for-sale Securities*.

- Premiums paid for securities should be amortized using the nterest method by periodic entries offsetting income on investments over the period from acquisition to maturity. If the securities were issued with a call date falling prior to maturity, the premium should be amortized to the earliest call date. Amortization should be recorded on a time basis that corresponds to the recording of the related income. If interest on investments is recorded at the time the income is received by cash payments, the amortization of the premium should be recorded similarly.

- Discounts on securities should be recorded using the interest method as income over the period from acquisition to maturity by periodic entries augmenting income from investments. Entries to record the write-off of discounts should be coordinated with the recording of the related income.

- Income earned on investments should be recorded as income when received, except that income automatically reinvested in common trust investments, marketable equity securities, bank passbook

accounts, savings and loan shares, etc., should be recorded as an increase in the carrying value of the investments when notice of income credits are received by the credit union; the offsetting credit should be to income from investments.

- Accrued interest purchased on bonds and securities should be recorded as an asset and cleared by an offset against interest received when the first interest payment on the related securities is received.

Refer to Section 6060 of this manual for more detailed information regarding investments.

2040.1.5 FIXED ASSETS

Fixed assets should be recorded in accordance with the following principles:

- Acquisitions of tangible fixed assets should be recorded at cost. The cost of acquisition is the net purchase price of the asset plus all incidental costs necessary to put the asset in condition for use, such as freight, installation cost, etc. If property is exchanged for the acquired asset, then cost is recorded as the amount of cash paid plus the recorded amount of the asset surrendered. No gain, if any, should be recognized on the transaction; the entire indicated loss on the exchange, if any, should be recognized. If property is acquired through exchange without cost, the fair market value should be used as the "cost"."

- Each credit union's board of directors should establish a dollar value limit (e.g., $100) under which tangible property units purchased will be recorded as current expense even though the items may be expected to be serviceable for more than 1 year.

- Cost of land (and land improvements) should be shown separately from the cost of the buildings and other improvements. In combination purchases, the cost of land should be recorded based on a fair market value estimate.

- Whenever depreciation is computed on a unit basis, retirements of fixed assets should be recorded by eliminating the amount of the asset together with any related depreciation allowance. Any material difference between the net amount realized from disposition and the net carrying value of the depreciable assets should be recorded as an "other gain or loss" and shown in financial reports separate from regular operating income or expense.

- If a credit union computes depreciation on a composite-life basis, the cost of units retired should be credited to the appropriate fixed asset account; the same amount less salvage value should be charged to the allowance for depreciation account. No gain or loss should be recognized in the accounts since the composite rate contemplates that items in the group will be retired both before and after expiration of the estimated average life. When retirements are abnormal or unusual, however, gains or losses should be recorded in the accounts, similar to the unit basis since composite rates do not anticipate such retirements.

2040.1.6 DEPRECIATION

Depreciation of credit union tangible fixed assets is the charge allocated to an accounting period under a system which aims to distribute the cost or other basic value of the fixed assets less salvage (if any) over the estimated useful life of the unit (which may be a group of assets) in a systematic and rational manner. Depreciation should be recorded in each accounting period by charges to expense and credits to the appropriate valuation allowance accounts under either of two bases as set forth below:

- The unit depreciation basis may be used for recording depreciation over the estimated useful lives of the assets based on the cost of the assets less estimated salvage value. However, for assets having a remaining use. full value, the depreciation shall not exceed the carrying value of the asset less: (1) the salvage value, or (2) $1.00. Under this method a depreciation record should be maintained for each item of depreciable fixed assets.

- For the purpose of computing the periodic amounts of the depreciation to be charged, credit unions may use either the straight-line, declining balance, or the sum of years' digits methods.

- Under the composite basis, depreciation should be recorded continuously for such assets based on established composite rates. The accumulated depreciation allowance account under the composite-life method of depreciation, however, cannot exceed the related fixed assets account.

2040.1.7 PREPAID EXPENSES AND DEFERRED CHARGES

Costs affecting subsequent accounting periods, if material in amount, should be recorded as prepaid expenses and amortized over the accounting periods to which applicable (e.g., insurance premiums, stationery and supplies, advances for accounting services, annual share insurance premium, National Credit Union Administration operating fee, organization costs, etc.). Deferred organization costs should be amortized over a period not extending beyond the year in which incurred and the 2 subsequent fiscal years.

2040.1.8 ASSETS PLEDGED

The nature and extent of credit union assets pledged to secure debts should be disclosed in the financial statements.

2040.2 UNDER THE ACCRUAL BASIS OF ACCOUNTING

The principles and standards of accounting applicable to the modified cash basis of accounting apply under the accrual basis of accounting except as follows. Also note, when income and expense items are to be accrued, the accruals should be recorded monthly, or at least at the end of each regular share account dividend period.

2040.2.1 INCOME ON LOANS

Interest earned each month or dividend period on loans outstanding (where material) should be recorded as an asset and credited to income. Interest should not be accrued on loans 3 months or more delinquent.

2040.2.2 INCOME ON INVESTMENTS

Income on investments should be recorded as income based on the time the investments are held for which the dividend income has not been received. (See Section 2070.2.2)

2040.2.3 AMORTIZATION OF PREMIUM OR DISCOUNT ON SECURITIES PURCHASED

If interest on investments is accrued (monthly, quarterly, semiannually or annually), the amortization of premium should be recorded based on the same time periods. Likewise, discount on securities purchased should be accreted by periodic entries augmenting accrued income from investments. Entries to record the write-off of the discount should be recorded within the same periods of time.

2050 PRINCIPLES AFFECTING THE RECORDING OF LIABILITIES

2050.1 UNDER THE MODIFIED CASH BASIS OF ACCOUNTING

The principles and standards of accounting for liabilities of federal credit unions following the modified cash basis of accounting are set forth below.

2050.1.1 LIABILITIES-GENERAL BASIS FOR RECORDING

Known liabilities should be recorded at their actual amounts or, if the actual amounts are not known, they should be recorded based on reasonably accurate estimates.

2050.1.2 ACCOUNTS PAYABLE

All bills due and remaining unpaid should be recorded as accounts payable if not paid before the end of the period.

2050.1.3 NOTES PAYABLE

Funds borrowed should be recorded to show at all times the outstanding amount payable on the notes. Notes payable should include balances of senior liens on assets repossessed or foreclosed where the credit union acquires title subject to the prior liens.

2050.1.4 ACCRUED INTEREST PAYABLE

Under the Modified Cash basis of accounting, recording of accruals of interest due on notes payable will not be required. If accrued interest is recorded the offsetting charge should be to the expense account-Interest on Borrowed Money.

2050.1.5 DIVIDENDS PAYABLE

Upon declaration of a dividend, the actual or estimated amount payable should be recorded as a liability unless the dividend is paid or credited to share accounts in the last month of the dividend period. The offsetting charge is to Dividend Expense or to Accrued Dividends Payable.

2050.1.6 INTEREST REFUND PAYABLE

Upon declaration of an interest refund, the actual or estimated amount payable should be recorded as a liability unless the refund is paid or credited to share accounts in the last month of the dividend period. The offsetting charge is to Acct. No. 119 - Interest Refunds. Credit unions may record estimated interest refunds monthly.

2050.1.7 ACCRUED EXPENSES

Except for dividends, credit unions following the modified cash basis of accounting are not required to accrue expenses to allocate the costs to the periods benefited. These expenses should be recorded as cash disbursements when made. However, when expenses are not paid promptly when due, those expenses must be accrued.

2050.1.7.1 ACCRUED DIVIDENDS

Whenever a dividend rate on any type of account is specified in advance or contracted for, dividend expense for those accounts must be accrued monthly or at the end of the shortest dividend period offered by the credit union on any type of account. The only exception to this rule is that accruals never have to be made more frequently than monthly.

Dividends in any dividend period cannot exceed:

a) Undivided earnings available at the beginning of the period;

b) Plus-net income (or less net loss) before dividends for the current dividend period;

c) Less-amount of required transfer to the regular reserve based upon gross income;

d) Plus-the net amount of provision for losses on loans charged to expense during the current dividend period to the extent that such charge can be absorbed by the Regular Reserve.

or

Items a, b, and c above:

d) Less-the net amount of provision of losses on loans credited to expense in the current dividend period;

e) Less-the amount of any provision for losses on loans charged to expense during the current period which cannot be absorbed by the Regular Reserve.

2050.1.8 DEFERRED CREDITS

Deferred credits should be recorded separately and amortized by credits to income during subsequent periods as the income is earned; e.g., discounts on FHA loans, discount on loans purchased from other credit unions, etc. The amounts of discounts on loans recorded as deferred credits should be shown as deductions from the related asset accounts for presentation in financial reports.

2050.1.9 LIABILITIES SECURED BY LIENS

The nature and extent to which particular liabilities are covered by a lien on assets should be shown on the financial statements.

2050.1.10 CONTINGENT LIABILITIES

A contingency is defined as an existing condition, situation or set of circumstances that may or may not result in a gain or loss to the credit union. The amount of the resulting gain or loss will be determined by future event(s). The amount of a contingent loss should be accrued by charges to expense if:

- Prior to the issuance of the financial statements, it is probable that a loss will actually occur because an asset had been impaired or a liability had been incurred at the date of the financial statements; and

- A reasonable estimate of the resulting loss can be made.

NOTE: The amount of the contingent loss to be accrued should be estimated realistically on the basis of all information available. If some amount within a range appears at the time to be a better estimate than any other amount within the range, that amount shall be accrued. If no amount within the range is a better estimate than any other amount, however, the minimum amount in the range shall be accrued.

If both of the above conditions are not met but a reasonable possibility exists that a loss may have been incurred, or if the estimated amount is not material, a contingent loss need not be accrued but disclosed as a note to the financial statements.

Examples of contingent liabilities are: pending or threatened litigation, selling loans with recourse, guarantees of the indebtedness of others, and agreements to repurchase assets that have been sold. See Section 6030.5 of this manual for a discussion on selling loans with recourse.

2050.2 UNDER THE ACCRUAL BASIS OF ACCOUNTING

The principles and standards applicable to the modified cash basis of accounting apply under accrual basis of accounting, except as follows.

2050.2.1 ACCRUED INTEREST PAYABLE

Credit unions should record in each month or dividend period the accrued interest payable on notes and mortgages with an offsetting charge to interest expense.

2050.2.2 ACCRUED EXPENSES

Credit unions should accrue expenses to allocate costs to the periods benefited; e.g., dividends, salaries, etc. The accruals normally should be recorded each month or dividend period so that all significant expenses will be shown on financial reports provided to directors and members.

2060 PRINCIPLES AFFECTING EQUITY

The principles and standards of accounting relating to credit union equity are set forth below.

2060.1 NET INCOME

The net income or losses for the current accounting period should represent the difference between all income and expense items.

2060.2 UNDIVIDED EARNINGS

At the close of each accounting period, the income and expense accounts should be closed into the Net Income (loss) account, after which the balance of the Net Income (Loss) account should be transferred to Undivided Earnings. The following transfers should then be made from Undivided Earnings:

- Transfer to the credit of the Regular Reserve the applicable percentage of gross income for the accounting period.

- Transfer to the debit (or credit) of the Regular Reserve an amount equal to the net Provision for Loan Losses expense (or expense credit) representing additions to (or reductions of) the Allowance for Loan Losses account during the accounting period.

- For example, assume that $500 has been added to the Allowance for Loan Losses through a charge to Account No. 300, "Provision for Loan Losses," during the accounting period. In this case, the $500 should be debited to Regular Reserve and credited to Undivided Earnings. Conversely, assume that the Allowance for Loan Losses had been decreased by $500 through a credit to Account No. 300 during the accounting period. In this case, the $500 should be debited to Undivided Earnings and credited to Regular Reserve.

Undivided earnings should be charged or credited with amounts required to establish or adjust other reserve accounts, including the reserve for loss contingencies or the special reserve for losses established when so ordered by the NCUA Board. Other direct charges or credits should be made to undivided earnings only for a correction of an error for material amounts which represent adjustments affecting prior accounting periods. Material errors in such financial statements could include arithmetic mistakes, the misuse or deletions of information, mistakes in the applications of accounting principles or procedures, and improper interpretations of the accounting aspects of major transactions. Correction of an error would include a change from an unacceptable accounting principle to a generally accepted one. Correction of an error should result in the restatement of the prior year's financial statements to disclose the correction of the error.

Treatment as prior-year adjustments should not be applied to the normal recurring corrections and adjustments which are the natural result of the use of estimates inherent in the accounting process; for example, changes in estimated losses on loans, accumulated depreciation on assets disposed of, estimated dividends, etc. These changes are properly recorded as transactions affecting the current year in the appropriate income and expense accounts. All items of profit and loss recognized during a period, including accruals of estimated loss from loss contingencies, must be included in the determination of net income for the period.

2060.3 DIVIDENDS

Dividends to shareholders should be declared and paid from current income, after providing for required transfers to the legal reserves, plus any available balances of undivided earnings. The dividends should be charged as a current year expense. Credit unions should use caution in expending undivided earnings to meet current operating expenses, particularly in the payment of above market dividends; rather credit unions should strive to build their capital positions.

2060.4 RESERVE FOR LOSS CONTINGENCIES

A reserve for contingencies may be established by any credit union for possible or unforeseen decreases in the value of assets or for other unforeseen or indeterminate liabilities not otherwise shown on the credit union's records. Any such reserve established only as a precautionary measure will represent a segregation of undivided earnings and should be so classified in financial reports. Contingency reserves should not be used as a substitute for valuation requirements for the amount of currently estimated losses on loans or other assets. When the net loss during any accounting period exceeds available undivided earnings, the reserve for loss contingencies and/or other segregations of undivided earnings should be reduced to offset such excess.

Even though a Reserve for Loss Contingencies has been established for a particular liability or expenditure, such expenditures should not be charged directly to the reserve. The loss or cost must be recorded as an operating expense.

The reserve for contingencies is established by a charge to undivided earnings. When the event has occurred, or the liability has been paid, for which the reserve for loss contingencies was appropriated, the balance of the account should be credited back to undivided earnings. Transfers from the Reserve for Loss Contingencies to Undivided Earnings must be in amounts equal to costs charged to expenses during an accounting period, thereby eliminating any reduction in Undivided Earnings which would have occurred due to the contingency taking place.

2060.5 DONATED EQUITY

When a credit union receives a gift or donation of a tangible fixed asset of material value, the offsetting credit for the recorded value of the asset should be to a special equity classification for "donated equity." Such amounts will represent equity capital of the credit union but will not be available for dividend payments, valuation allowance or reserve requirements. Depreciation on donated fixed assets should be recorded and charged to current expenses based on the established value of the assets.

2060.6 REGULAR RESERVE

The Regular Reserve is an appropriation of the Undivided Earnings. It is established in accordance with the Federal Credit Union Act and/or the National Credit Union Administration Rules and Regulations as a Regular Reserve to provide for the financial stability of the credit union.

2060.7 SHARES AS EQUITY

Shares should be classified as equity in the credit union's Statement of Financial Condition.

- Shares are legally defined as equity;
- Shares function as equity and represent ownership; and
- Share dividends are based on earnings and are not guaranteed, i.e., shares are at risk, insurance programs notwithstanding.

Some credit unions offer savings accounts to their members beyond that which represents an ownership interest (shares). Credit unions should properly classify such accounts as liabilities in the Statement of Financial Condition.

2070 PRINCIPLES AFFECTING THE RECORDING OF INCOME AND EXPENSES

2070.1 UNDER THE MODIFIED CASH BASIS OF ACCOUNTING

The principles and standards of accounting relating to income, expenses, gains and losses of federal credit unions following the modified cash basis of accounting are set forth below.

2070.1.1 GENERAL RULES FOR RECORDING INCOME AND EXPENSES

All income, expenses, gains and losses affecting each accounting or dividend period should be recorded through income and expense accounts. Exceptions to this principle should be made only for correction of an error affecting prior accounting period operations as described in Section 2060.2

2070.1.2 BASIS FOR RECORDING INCOME

Income should be recorded periodically as received. Fees and late charges should be recorded as income when received.

2070.1.3 BASIS FOR RECORDING EXPENSES

Expenses are the using or the consuming of goods and services in the process of producing income. Expenses relate to current operations and should be paid and recorded promptly when due; however, all bills due and payable on open accounts at the end of the month should be recorded as current month expenses and as accounts payable or accrued expenses. Significant amounts of expenses paid or accrued that are applicable to future periods should be recorded as prepaid or deferred expenses and amortized over the periods to which they are applicable.

2070.1.4 TANGIBLE FIXED ASSET EXPENSES

Depreciation of fixed assets should be recorded as expense over the useful lives of the assets under the unit or the composite basis.

2070.1.5 AMORTIZATION OF DEFERRED CHARGES

Charges should be included in expenses each month or dividend period for amortization of deferred charges; e.g., prepaid insurance, leasehold improvements, organization expenses, etc.

2070.1.6 EQUIPMENT RENTAL EXPENSE

Rental charges under equipment leases should be charged directly to expense unless they represent installment purchases of fixed assets. If a rental agreement represents an optional purchase contract which the credit union plans to exercise by purchasing the equipment, the cost of the equipment should be recorded as a fixed asset and a liability. Thereafter, payments made will reduce the liability amount, and appropriate depreciation expense should be recorded. Reference may be made to FASB Statement No. 13 for further guidance.

2070.1.7 LOAN LOSSES

Losses on loans and related assets should be recorded as described below:

- Loan losses and losses on property acquired in liquidation of loans should be charged off as they occur with the approval of the board of directors by charges to the Allowance for Loan Losses. Recoveries on loans charged off should be recorded as they occur as credits to the Allowance for Loan Losses.

- The Allowance for Loan Losses should be established and maintained to reflect the estimated amount of: (1) collection problem loans, (2) losses on assets acquired in liquidation of loans, and (3) losses on loans purchased from other credit unions. The amount of the allowance account should be adjusted monthly or at the end of the regular share dividend period, if longer than monthly. For this purpose, the amount of the adjustment should be determined based on either the "Experience Method" or the "Adjustment Method" which are described later in this manual under the discussion of the General Ledger Account No. 719-Allowance for Loan Losses.

2070.1.8 OTHER GAINS AND LOSSES

Other gains and losses normally will be included in determining periodic net earnings or losses. Nonrecurring gains or losses (those unrelated to ordinary credit union activities) should be shown separately as non-operating income (expense) on periodic income and expense statements; e.g., gain or loss from the sale of a credit union office building. Also, any loss charged off on a note or contract taken in connection with a sale of credit union office quarters should be similarly charged to other losses.

2070.1.9 CASH OVERAGE AND SHORTAGES

Cash overages and shortages arising in the processing of cash transactions should be recorded as debits or as credits to expense daily as the cash differences occur. Adjustments to the cash over and short expense account should be made whenever the reason for the cash shortage or overage is determined and the proper account should be charged or credited. Any shortage or overage in negotiable instruments should be considered as a "cash overage or shortage" and the appropriate adjustment should be made at least prior to the close of each month.

2070.1.10 DONATIONS

The Financial Accounting Standards Board (FASB) issued a Statement of Financial Accounting Standard (FAS) which will affect how many credit unions measure/disclose sponsor-donated assets and services on the financial statements. The standard is FAS 116, "*Accounting for Contributions Received and Contributions Made*" and was issued by FASB in June 1993.

NCUA is taking a regulatory accounting position with regard to the standard-viewing the donation of assets and services by a sponsor to a credit union as a reciprocal transfer (i.e., in return, sponsor gets the fringe benefit to employees of on-site financial services) and, therefore, not encompassed by the standard. Sponsor-donated assets and services as well as other reciprocal transfers of contributions whether or not sponsor-donated should continue to be accounted for as set forth in the following paragraph. While credit unions have the choice to follow FAS 116the standard, the decision to follow the standard-the standard must be consistently applied. Credit unions that seek an unqualified opinion on their financial statements may be chief among those choosing to follow FAS 116.

Under the regulatory accounting position, donations and gifts received (including donations made for the specified purpose of enabling the credit union to pay dividends) should be recorded by the credit union as non-operating income and should be shown as part of the net income for the current month. As an exception to the foregoing, if a credit union receives a gift of a tangible fixed asset of substantial value, such as a building, a computer, or a bookkeeping machine, the offsetting entry for the fair market value of the asset recorded in the fixed asset account should be to Donated Equity in order to exclude such amounts from current income and undivided earnings. Such assets donated to the credit union should be depreciated with charges to expense over their remaining useful lives.

FAS 116the standard requires that all contributions received/made be included in income/expense when received/made. Contributions include many of the "donations" credit unions receive, e.g., office space, telephone services, data processing support; and some volunteer services, e.g., some accounting/auditing services, some legal advice, etc. Under FAS 116the standard:

- Some contributions which are simultaneously received and used should be recognized as both a revenue and expense in the period received and used (e.g., sponsor-contributed utilities).
- The contribution of office space would be treated as above as long as the sponsoring entity could discontinue providing the space at any time. If the sponsoring entity provides the facility for a specified period of time (say 5 years), the promise would have to be set up as a receivable at its fair value.
- Contributed services must be recognized if the services received: (a) create or enhance non-financial assets, or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

2070.1.11 PENSION PLAN COSTS

In view of the complexity of the generally accepted accounting principles that relate to the recording of pension plan costs (reflecting the complexity of the subject matter), judgment is especially important in applying the principles of pension plan accounting. The computation of pension costs for accounting purposes requires the use of actuarial techniques and judgments. Refer to Section 6080 for information concerning pension plans and their accounting treatment.

The cost of plan termination insurance and contingent liability insurance which is required for all defined plans may be included in this expense category. The preferred treatment for these two costs along with the cost of fiduciary liability insurance is to include them in Insurance (Account No. 265).

2070.1.12 NCUA INSURANCE GUARANTY

Any guaranty provided by NCUA to a credit union to make it insurable under Title 11 of the Federal Credit Union Act, as amended, should not be recorded as income. This guaranty represents a claim by the credit union against NCUA which is payable only in the event of liquidation of the credit union and then only to the extent needed to reduce or eliminate loss claims against the Title 11 share insurance fund. Amortization of guaranties should be through charges to expense in accordance with the terms of the guaranty agreement.

2070.2 UNDER THE ACCRUAL BASIS OF ACCOUNTING

The principles and standards of accounting applicable to the modified cash basis of accounting apply under the accrual basis of accounting, except as follows:

2070.2.1 INCOME ON LOANS

Interest income earned on loans outstanding (where material) should be recorded as an asset and included in income.

2070.2.2 INCOME ON INVESTMENTS

Credit unions should:

- Record income on investments in savings and loan associations and other credit unions as income in the month or dividend period based on the actual time the investments are held for which the interest or dividend income has not been received; i.e., the amount of each quarterly or other distribution applicable to each dividend period should be accrued as Accrued Income on Investments with offsetting entry to Income from Investments.

- Record income on mutual fund and common trust investments as income for the month or dividend period based on the time the investments are owned. The initial recording each month or dividend period should be adjusted as required based on the advice of income received during the ensuing period, which will show the actual amount of interest earned for the preceding period.

- Record income earned on other investments in each month or dividend period based on the actual time the investments are held for which the interest or dividend income has not been received by recognizing the amount earned as both income and as an asset. Interest earned on the general type of government securities should be accrued in each month or dividend period based on the applicable portion of the semiannual interest. Interest on appreciation-type savings bonds should be accrued in each month or dividend period based on the pro rata amount of the bond appreciation for the period shown by the bond's table of redemption values. Interest on loans to other credit unions, certificates of deposit and deposits in other credit unions should be accrued to record the interest earned in each month or dividend period based on the actual time the investments or deposits are in effect.

- Record any differences between the amount of income accrued and actual income in the appropriate accounts when income is received.

2070.2.3 ACCRUED EXPENSES

Expenses should either be paid or accrued and matched against periodic revenues with offsetting credits where necessary to cash, payables or accrued expenses. Accruals of expenses should include, but not be limited to, charges to expense for unpaid salaries, taxes, interest on borrowed funds and dividends.

2070.2.4 ACCRUED INTEREST ON LOANS INCLUDED IN VALUATION ALLOWANCE

The valuation allowance for estimated losses on outstanding loans should include an amount to cover potential losses on accrued interest receivable from loans. Interest should not be accrued on any loans which are 3 months or more delinquent. Previously I accrued interest on such loans should be reversed by appropriate entries to the accrued interest and interest income accounts.

2080 FINANCIAL STATEMENTS

2080.1 PURPOSE

The financial statements of Federal credit unions provide the vehicle for accomplishing the most important external function of the accounting process, that of presenting fairly the financial position of the credit union at a particular date and the results of operations for a particular period in accordance with generally accepted accounting principles and the principles prescribed herein. The financial statements are needed to permit management to make sound demons and effectively manage the credit union and to show how management has carried out its stewardship to shareholders, creditors, or others having an interest in the credit union.

2080.2 REQUIRED STATEMENTS

Two financial statements should be prepared by each credit union every month for internal use and for the information of members at each credit union location and as required by the National Credit Union Administration. These statements are:

- Statement of Financial Condition
- Statement of Income

The following statement is required of all credit unions quarterly or at the end of the regular share account dividend period if that dividend period is longer than quarterly.

- Statement of Reserves and Undivided Earnings

In addition, all credit unions following the accrual basis of accounting should provide at least annually a Statement of Cash Flows.

2080.3 STATEMENT OF FINANCIAL CONDITION

The credit union's Statement of Financial Condition (balance sheet) and notes thereto should show the financial condition of the credit union as of the date for which it was prepared. The statement should:

- Recognize the basic concepts of the principles and standards of accounting by showing, on a conservative basis, assets and liabilities including contingent losses, and appropriate classifications of credit union equity, and by identifying any significant changes in the supporting accounting practices from those used in the previous presentation.
- Provide valuation allowances as deductions from related assets to show estimated amounts of losses to be sustained in collection or realization, as well as depreciation on tangible assets.
- Identify separately unrestricted cash and restricted cash, and identify the nature and extent of any assets which have been pledged or hypothecated.
- Reflect the nature and extent to which specific liabilities are a preferred lien on assets; e.g., indicate for any mortgage on real estate the particular assets pledged as security.
- Disclose on financial statements or by notes to the financial statements the following data relating to any currently effective credit union defined benefit pension plan:
- A description of the plan including employee groups covered, type of benefit formula, funding policy, types of assets held and significant nonbenefit liabilities, if any, and the nature and effect of significant matters affecting comparability of information for all periods presented.
- The amount of net periodic pension cost for the period showing separately: (a) the service cost component, (b) the interest cost component, (c) the actual return on assets for the period, and (d) the net total of other components.

- A schedule reconciling the funded status of the plan with amounts reported in the employer's statement of financial position, showing separately:

  1) The fair value of plan assets;

  2) The projected benefit obligation identifying the accumulated benefit obligation and the vested benefit obligation;

  3) The amount of unrecognized prior service cost;

  4) The amount of unrecognized net gain or loss (including &-,set gains and losses not yet reflected in market-related value);

  5) The amount of any remaining unrecognized net obligation or net asset existing at the date of initial application of this section;

  6) The amount of any additional liability recognized;

  7) The amount of net pension asset or liability recognized in the statement of financial position which is the net result of combining the preceding six items).

- The weighted-average assumed discount rate and rate of compensation increase (if applicable) used to measure the projected benefit obligation and the weighted-average expected long-term rate of return on plan assets.

- If applicable, the amounts and types of securities of the employer and related parties included in plan assets, and the approximate amount of annual benefits of employees and retirees covered by annuity contracts issued by the employer and related parties. Also, if applicable, the alternative amortization method used pursuant to paragraphs. 120 and .127, and the existence and nature of the commitment discussed in paragraph .135 [FAS87, Section 54].

2080.4 STATEMENT OF INCOME

This statement and notes thereto should reflect all income, expenses, gains and losses of the credit union for the period for which prepared. It should:

- Reflect the results of credit union operations which are to be presented in accordance with generally accepted accounting principles and the principles prescribed herein.

- Segregate income, expenses, gains and losses from regular operations from any extraordinary income, expenses or losses which occur during the period.

- Include within the regular operations, increases and decreases in the valuation allowance established for estimated losses on loans and loan assets.

- Include as income all fees and charges made to members and borrowers.

2080.5 NOTES TO FINANCIAL STATEMENTS

The objective of notes to financial statements is to provide information that cannot be sufficiently described within the body of the financial statements, Notes to financial statements are an integral part of the statements and should provide the following:

a) A description of significant accounting policies that are being followed;

b) An explanation of changes in methods or techniques of handling accounting transactions;

c) An explanation of creditors' rights to specifically pledged assets;

d) A disclosure of contingent assets and liabilities, restrictions on dividend payments, and executory contracts; and

e) The market value of investments.

2080.5.1 DISCLOSURES ABOUT FAIR VALUES OF FINANCIAL INSTRUMENTS

Consistent with generally accepted principles, credit unions with $150 million or more in total assets must disclose, either in the body of the financial statements or in the accompanying footnotes, the fair values of financial instruments on their statements of financial position for fiscal years ending after December 15, 1992. For all other credit unions, the disclosure will be required for fiscal years ending after December 15, 1995.

The disclosure is necessary for all financial instruments, both assets and liabilities, recognized and not recognized in the statement of financial condition, *for which it is practicable to estimate fair value.* The applicable guidance is provided in Statement of Financial Accounting Standard (FAS) No. 107 which details what constitutes a "financial instrument," procedures for estimating fair value and illustrations for applying the disclosure requirements about fair value of financial instruments. For those affected credit unions, we recommend that you obtain a copy of FAS 107 and begin preparing a financial statement footnote including your methods for establishing the fair value of the assets, liabilities and equity pursuant to FAS 107. These methods should provide the basis for your dollar estimates of the fair value. Historical records should be retained of your fair value calculations based on these methods. An overall policy documenting these methods should be maintained. If it is not practicable to estimate the fair value of a particular financial instrument, disclose in your footnote the pertinent characteristics of the instrument and the reason for impracticability of setting a fair value (e.g., it would be excessively expensive to estimate).

At the present time, federal credit unions will not be required to provide fair value information on the call reports they submit quarterly/semiannually to NCUA. Fair value information should be included on your financial statements of condition as you and your independent auditing firm agree (e.g., if you are seeking an unqualified opinion).

2080.6 STATEMENT OF MEMBERS' EQUITY

This statement and notes thereto should show changes in total earnings during the period for which prepared. It should be prepared quarterly or at the end of the regular share account dividend period (if that period is longer than quarterly) and should be presented with other financial statements by all credit unions.

2080.7 STATEMENT OF CASH FLOWS

This statement supplements the Statement of Financial Condition and the Statement of Income by providing relevant information about the cash receipts and cash payment during the covered period. The Statement of Cash Flows should be prepared at least annually by all federal credit unions which use the accrual basis of accounting. The statement may be prepared more frequently and may also be used by those federal credit unions not using the accrual basis of accounting.

The information provided in a Statement of Cash Flows, when used with the related disclosures and other financial statements, should help to assess the:

a) Credit union's ability to generate positive future cash flows;

b) Credit union's ability to meet its obligations, pay dividends, and to determine its need for external financing;

c) Reasons for differences between net income and associated cash receipts and cash payments; and

d) Effects on the credit union's position of both its cash and noncash investing and financing transactions during the covered period.

More information pertaining to the Statement of Cash Flows, and its preparation and illustrations are found in Section 3050.6 of this manual.

2080.8 FULL AND FAIR DISCLOSURE REQUIRED

The financial statements described above shall provide full and fair disclosure of all assets, liabilities, reserves and retained earnings including a limited number of valuation allowance accounts as may be necessary to present fairly the credit union's financial position; and all income and expenses necessary to present fairly the results of the credit union's operations for the period covered by the report.

2080.9 FULL AND FAIR DISCLOSURE DEFINED

"Full and fair disclosure" is the level of disclosure which a reasonable person would provide to a member of a credit union, a creditor, or the National Credit Union Administration in order to fairly inform them of the financial condition and the results of operation of the credit union. Full and fair disclosure is met by preparing financial statements consistent with this accounting manual or generally accepted accounting principles (GAAP) as long as GAAP is not inconsistent with regulatory requirements.

2080.10 CHART OF ACCOUNTS

Included in Section 4000 of this manual is a chart of accounts for use by federal credit unions. The financial reports forms described in Section 3000 of this manual are keyed to that chart of accounts. The prescribed chart of accounts and financial report forms should be used by credit unions for reporting to the National Credit Union Administration.

For purposes other than reporting to the Administration, any credit union may use a different system for numbering its General Ledger accounts. Any such alternate system adopted should permit the classification of transactions in at least the detail required to properly complete the financial report forms:

- FCU 109A, Statement of Financial Condition;
- FCU 109B, Statement of Income;
- FCU 109C, Supporting Schedules for Financial Statements;
- FCU 109D, Statement of Changes in Earnings; and
- FCU 109E, Statement of Cash Flows.

2080.11 REQUIRED CERTIFICATION

The financial statements, when presented to members, creditors or the National Credit Union Administration, should contain a declaration by the treasurer and by the president or, in the absence of the president, by any other officer designated by the board of directors of the reporting credit union to make such declaration, that the report is true and correct to the best of their knowledge and belief and presents fairly the financial position and the results of operations for the period covered.

2090 DEFINITIONS OF TERMS

Unless the context requires otherwise, the following terms should have the meaning indicated in this section:

2090.1 AMORTIZATION

The gradual extinction (write-down) of any amount over a period of time, as the periodic write-down of an insurance premium or bond premium.

2090.2 ACCRUAL BASIS OF ACCOUNTING

The accrual basis of accounting is adjusting cash flows for leads and lags which have occurred during a dividend period. Under the accrual basis of accounting, the credit union records income when earned and expenses and liabilities as they are incurred regardless of the timing of the actual receipt of payment.

2090.3 ACCRUED INTEREST

Interest earned on loans, investments, or notes or mortgages payable, which has not been received or paid by the credit union. Interest may be accrued periodically on a time period consistent with the periodic financial statements that are prepared.

2090.4 COLLATERAL

Real or personal property pledged as part or full security on a debt including completed documentation for repossession and sale of the collateral in the event of default. A co-maker also may be accepted in lieu of collateral to further secure a debt.

2090.5 COMPOSITE DEPRECIATION BASIS

The calculation of depreciation on a group of fixed assets using a rate based on the estimated average useful lives of the assets. Under this method no further depreciation should be recorded when the accumulated depreciation allowance equals the book value of the fixed assets.

2090.6 DEFERRED CHARGE OR DEFERRED EXPENSE

An expenditure not recognized as a cost of operations of the period in which incurred but carried forward to be written off in one or more future periods. Includes prepaid expenses such as insurance premiums, stationery and office supplies, etc.

2090.7 DEFERRED CREDIT

Revenue or income received or recorded before it is earned. Includes income held in suspense until offsetting charges have been determined and deducted, until a period of time has been completed (such as collection of a related doubtful receivable), or until it is fully identified.

2090.8 DONATED EQUITY

Equity in a credit union arising from contributions to the credit union of real or personal tangible property (fixed assets).

2090.9 RESERVE FOR LOSS CONTINGENCIES

An account which represents accumulated earnings set aside for possible decreases or shrinkages in the book values of assets or other indeterminate liabilities not otherwise reflected on the credit union's books. Contingency reserves are established as precautionary measures only and are included as a part of credit union's equity, as they represent segregations of undivided earnings.

2090.10 UNDIVIDED EARNINGS

Accumulated net income after distributions to shareholders and provision for reserves required by law, plus or minus decreases or increases in other reserves (reserve for loss contingencies, or special reserve for losses), plus or minus other authorized direct credits or charges for adjustments affecting prior period operations.

2090.11 VALUATION ALLOWANCE

An account established through an appropriate charge representing management's judgment as to possible loss or decline in value within a specific class of assets such as loans or tangible fixed assets.

2090.12 MODIFIED CASH BASIS OF ACCOUNTING

A modified cash basis is a mixture of the cash basis of accounting and the accrual basis of accounting. Under the modified cash basis, the accounting should be based on actual receipts and disbursements and may include provisions for:

a) Liabilities which are not paid when due;

b) Unpaid dividends and interest refunds applicable to the accounting period;

c) Deferred credits and charges that are applicable to future periods;

d) Estimated anticipated losses on loans outstanding and other risk assets; and

e) The depreciation of fixed assets.

SECTION 3000

FINANCIAL REPORTS

TABLE OF CONTENTS

SECTION NO.			PAGE NO.
SUBSECTION NO.			
3010		**PURPOSE**	3-1
3020		**FREQUENCY OF REPORT DISTRIBUTION**	3-1
3030		**REPORTS REQUIRED BY NATIONAL CREDIT UNION ADMINISTRATION**	3-1
3040		**FORMAT OF FINANCIAL REPORTS**	3-2
3050		**DESCRIPTION OF FINANCIAL REPORTS**	3-2
	.1	Statement of Financial Condition	3-2
	.2	Statement of Income	3-3
	.2.1	Classification of Loans Outstanding	3-4
	.2.2	Other Loan Information	3-4
	.2.3	Miscellaneous Information	3-4
	.3	Supporting Schedules for Financial Statements	3-4
	.4	Instructions for Preparing the Statements of Financial Condition, Statement of Income, and the Supporting Schedules for Financial Statements	3-8
	.5	Statement of Reserves and Undivided Earnings	3-16
	.6	Statement of Cash Flows	3-16
	.7	Notes to the Financial Statements	3-17
	.7.1	Illustration of the Use of Notes to the Financial Statements	3-17

ILLUSTRATIONS: **PAGE NO.**

Figure 3-1:	Statement of Financial Condition (FCU 109A)	3-5
Figure 3-2:	Statement of Income (FCU 109B)	3-6
Figure 3-3:	Supporting Schedules for Financial Statement (FCU 109C)	3-7
Figure 3-4:	Statement of Reserves and Undivided Earnings (FCU 109D)	3-18
Figure 3-5:	Illustration of a Completed Statement of Cash Flows (FCU 109E)	3-19
Figure 3-6A:	Illustration of a Completed Workpaper to Develop the Cash Flow for Operating Activity	3-20
Figure 3-6B:	Illustration of a Completed Workpaper to Develop the Cash Flow for Investment and Financing Activities	3-21
Figure 3-7:	Illustration of a Statement of Financial Condition (FCU 109A) with Notes	3-22
Figure 3-8:	Illustration of a Completed Statement of Income (FCU 109B) with Notes	3-23
Figure 3-9:	Illustration of a Completed Statement of Reserved and Undivided Earnings (FCU 109D) with Notes	3-24

SECTION NO. **PAGE NO.**

SUBSECTION NO.

OUR FEDERAL CREDIT UNION NOTES TO FINANCIAL STATEMENTS - DECEMBER 31, 19X1 3-25

3000 FINANCIAL REPORTS

3010 PURPOSE

The purpose of financial reports is to disclose to the members a summary of the credit union's and members' transactions as of a specific date. A copy of the reports must be displayed so that the members may have a picture of the development and financial condition of their credit union, and so that potential depositors can make an informed decision on the likelihood of future dividends. Copies are to be submitted to the directors for consideration at their regular meeting. In addition, each credit union is to prepare and display a Statement of Changes in Earnings quarterly or at the end of the regular share account dividend period, if that dividend period is longer than quarterly. Also, as of the calendar year end, each credit union following the accrual basis of accounting is to prepare and display the Statement of Cash Flows.

3020 FREQUENCY OF REPORT DISTRIBUTION

NAME OF REPORT	*FREQUENCY*	*APPLICABLE TO*
STATEMENT OF FINANCIAL CONDITION	MONTHLY	ALL FCUs
STATEMENT OF INCOME	MONTHLY	ALL FCUs
STATEMENT OF MEMBERS' EQUITY	QUARTERLY OR AT THE END OF THE REGULAR SHARE ACCOUNT DIVIDEND PERIOD, IF THAT DIVIDEND PERIOD IS LONGER THAN QUARTERLY	ALL FCUs
STATEMENT OF CASH FLOWS	AT LEAST ANNUALLY	ALL FCUs ON AN ACCRUAL BASIS

3030 REPORTS REQUIRED BY NATIONAL CREDIT UNION ADMINISTRATION

Federal credit unions should submit reports to the National Credit Union Administration as and when the Administration may require. Notice will be sent whenever such reports are required.

The Federal Credit Union Act exempts federal credit unions from federal, state, and local income tax. The information return, Form 990, which tax-exempt organizations are required to file with the Internal Revenue Service, is prepared on a consolidated basis by the Washington office from the year-end financial statements submitted to NCUA by all operating federal credit unions. Individual federal credit unions are, therefore, not required to file this return.

3040 FORMAT OF FINANCIAL REPORTS

Standard forms have been designed to simplify the submittal of required reports and to standardize forms used by the National Credit Union Administration, the State regulatory agencies and trade associations. Federal credit unions should use these forms when preparing the Statement of Financial Condition and Statement of Income for reporting to the National Credit Union Administration. A "Supporting Schedules for Financial Statements" form is provided for use by credit unions that wish to provide a further breakdown of line items on the Statement of Financial Condition and/or the Statement of Income.

For the remaining reports, the Statement of Changes in Earnings and Statement of Cash Flows, suggested formats are also illustrated in this section. Any credit union may adopt a report form designed to satisfy its particular needs provided it accomplishes full and fair disclosure. Any alternative report format adopted should be substantially similar to the corresponding suggested standard form.

3050 DESCRIPTION OF FINANCIAL REPORTS

3050.1 STATEMENT OF FINANCIAL CONDITION

The statement (Form FCU 109A) shows the financial condition of the credit union as of a given date. The assets (property) are shown in one section and the liabilities (obligations) savings and equity (ownership) are shown in another section. The total of the assets must equal the total of the liabilities and equity.

The Statement of Financial Condition is intended to recognize the basic concepts of the accounting principles and standards by showing on a conservative basis assets, liabilities and appropriate classes of equity. The statement should include notes (on a separate attachment) to identify any material transactions of an irregular nature and/or any significant changes in accounting practices adopted since the previous presentation, together with a description of their effect on the financial condition of the credit union. In addition, the statement should identify by note or otherwise:

- All significant accounting principles;
- Restricted cash separately from unrestricted cash;
- Nature and extent that assets are pledged as collateral on borrowed funds;
- Nature and extent that specific liabilities have a preferred lien on assets;
- Contingent losses;
- Specific details relating to pension plans;
- The number and aggregate dollar amount of business loans; and
- Other significant events or activities that will provide full and fair disclosure.

Except on reports prepared as of the close of an accounting period, the amount entered on the "Net

Income (Loss)" line of the Statement of Financial Condition will be taken from the "Net Income (Loss)" line of the Statement of Income in the "Period From _____ To Date" column. A loss will be written in parentheses.

In the reports as of the close of an accounting Period, no amount will be entered on the "Net Income (Loss)" line of the Statement of Financial Condition. The amounts entered on the "Regular Reserve" and "Undivided Earnings" lines on the Statement of Financial Condition will be the balance of these respective accounts after entries have been made: (1) closing the income and expense accounts into the Net Income (Loss) account, (2) transferring the balance of the Net Income (Loss) account to Undivided Earnings, (3) transferring an amount equivalent to the net provision for losses on loans for the accounting period from the Regular Reserve to Undivided Earnings, and (4) transferring the required amount based on gross income from Undivided Earnings to the Regular Reserve. At the close of an accounting period, the Statement of Financial Condition will be prepared from the post-closing trial balance since this trial balance will reflect the closing entries made to the Regular Reserve and Undivided Earnings accounts.

In reports prepared at the close of a dividend period for which the credit union has elected not to close its accounting records, interim adjustments will be made on a work sheet basis to give effect to the entries (1) through (4) as described in the preceding paragraph. The financial reports will then be prepared in the same manner as though the books had been closed.

3050.2 STATEMENT OF INCOME

This statement (Form FCU 109B) will reflect all income, expenses, gains and losses of the credit union. It provides for segregating net interest income, other operating income and expense, and nonoperating income and expense. The provision for loss expenses will be applied to net interest income.

Three columns are provided on the form for recording income, expenses and gains or losses: (1) current month, (2) period from _____ to date (e.g., semiannual or quarterly period to date), and (3) for year to date. All three columns will be completed unless dividends are paid annually (in which case period from _____ to date could be the same as the current month).

If the books are closed only as of December 31, the Statement of Income will reflect in the "Year-to-Date" column the income, expenses, gains and losses based upon amounts shown in the General Ledger and the Expense Ledger for the year-to-date. When the books are closed quarterly or at the end of the regular share account dividend period if that dividend period is longer than quarterly, the totals for the "Year-to-Date" column will represent the accumulated totals for the calendar year through the date the books were last closed plus the amounts of income, expenses, gains and losses in the related income and expense accounts subsequent to the date the books were last closed.

Operating expense amounts to be reported for the "Year-to-Date" column are to be reported based upon the totals of expenses for each grouping of expense accounts in the 200-300 series of accounts; e.g., a single amount will be reported as Account No. 250-"Office Occupancy Expenses" representing the total charges to Expense Accounts Nos. 251 through 256.

Income and expenses for the current "Month" and "Period From _____ to Date" columns will represent the net postings for the current month and the current period to date as shown in the income, expenses, gains and losses accounts for the period identified in the column heading. For operating expenses categories (series 200-300), however, the summary of each major group of individual expense accounts will be entered as indicated above.

3050.2.1 CLASSIFICATION OF LOANS OUTSTANDING

This portion of the Statement of Income provides for a breakdown for the number and amount of delinquent loans outstanding. This information is derived from the Schedule of Delinquent Loans (Form FCU 118) and the Statement of Financial Condition (Form FCU 109A).

3050.2.2 OTHER LOAN INFORMATION

This portion of the Statement of Income (Form FCU 109B) discloses a breakdown of the number and amount of:

a) Loans sold and being serviced by the credit union;

b) Real estate loans made during the current year;

c) Loans made during the current year; and

d) Loans made since the organization of the credit union.

In addition, it also provides for the total amount of charged-off loans, recoveries, and net loans charged off since organization.

3050.2.3 MISCELLANEOUS INFORMATION

This section of the Statement of Income (Form FCU 109B) solicits information as to the number of members of record as of the month-end, and the number of potential members.

3050.3 SUPPORTING SCHEDULES FOR FINANCIAL STATEMENTS

This form is to be used by those credit unions that wish to provide additional information as to what is included in any line item on either the Statement of Financial Condition or the Statement of Income. For example, other assets may consist of Accrued Interest on Loans (Acct. No. 781) of $6,745 and Accrued Income on Investments (Acct. No. 782) of $600. If this is the first breakdown, it would be labeled Schedule A on the Statement of Financial Condition (Form FCU 109A) and on the Supporting Schedules for Financial Statements (Form FCU 109C). The Reference Item Number would be 21 as indicated on the Statement of Financial Condition (Form FCU 109A). The Account Number refers to the General Ledger account number. The remaining two columns are for balances or appropriate dollar amounts.

Figure 3-1:Statement of Financial Condition (FCU 109a)

STATEMENT OF FINANCIAL CONDITION AS OF December 31, 19X1

Internal Use Only
Report Type ____

Acct. Code No. 100

70089A
Chapter $ or Ins. Cert. #

OUR FEDERAL CREDIT UNION

ASSETS

Ref *	Item	LOANS & CASH	$ Amount	¢	Acct. Code
	1. a.	Commercial and agricultural loans to members	1,000,000	00	701
	b.	Real Estate loans to members (first lien), original maturity over 12 years	400,000	00	703
	c.	Loan balance fully secured by shares	96,611	00	706
	d.	All other loans to members (excluding a, b, c, above)	3,400,000	00	
	e.	Total loans to members (include items a, b, c, and d)	4,896,611	00	700
	f.	All other loan accounts (excluding amts. in 1a, b, c, and d)			710
	2.	Total loans (Sum of 1e, f)	4,896,611	00	700-710
	3.	(Less) Allowance for loan losses	40,120	00	719
	4.	Net loans outstanding (Sum of 1e plus 2 less 3)	4,856,491	00	
	5.	Cash (Cash on hand, petty cash, checking accts., etc.)	85,389	00	730

	INVESTMENTS (A + B = C)	Remaining Maturities A. 1 yr. or less		B. More than 1 yr.		Total C $	¢	
	6. Held-to-maturity securities	43,500	00			43,500	00	741
	7. Trading Securities							742
	8. Available - For - Sale							743
	9. Shares, Deposits & certif. in Corp. Centrals							744
	10. Shares, deposits and certif. in other CUs, banks, S&Ls, & MSBs	136,500	00			136,500	00	746
	11. Other Investments							
	12. NCUSIF Capital Deposit							752
	13. Shares in Central Liquidity Facility (Direct or Indirect)							751
	14. Net Investments (Sum of 6-13)					180,000	00	

	OTHER ASSETS			
	15. Land and buildings (net of depreciation)			773
	16. Other fixed assets (net of depreciation)	95,440	00	774-779
	17. Monetary control reserve deposits			793
	18. All other assets	7,345	00	
	19. TOTAL ASSETS (Sum of 4, 5, 14, and 15-18)	5,224,665	00	

LIABILITIES AND EQUITY

Ref *	Item	(A + B = C)	Remaining Maturities A. 1 yr. or less		B. More than 1 yr.		Total C $	¢	
	20.	Notes payable							810
	21.	Reverse repurchase transactions							812
	22.	Interest payable							818
	23.	Accounts payable					8,973	00	800
	24.	Dividends/interest on share/deposits payable					97,845	00	820
	25.	Unapplied data processing exceptions							870
	26.	All other liabilities					1,504	00	
	27.	TOTAL LIABILITIES(Sum of 20-26)					108,322	00	

		Remaining Maturities A. 1 yr. or less		B. More than 1 yr.		Amount C $	¢	
	28.a. Share Certificates	1,000,000	00	500,000	00	1,500,000	00	908
	b. Share draft accounts					200,000	00	902
	c. Member's deposits (SCU's only)							
	d. IRA/Keogh & retirement accounts							906
	e. Other member savings					2,796,873	00	
	f. Non-member savings							921
	g. Total savings/shares/deposits (Sum of 31a-31f					4,496,873	00	

	29. Regular/statutory reserves	526,361	00	931
	30. Investment valuation reserve (SCU's only)			
	31. Special reserves			932
	32. Uninsured secondary capital			925
	33. Other reserves			933
	34. Accumulated unrealized gains/losses on A.F.S Sec.			945
	35. Undivided earnings	93,109	00	940
	36. Net income (loss)			960
	37. TOTAL LIABILITIES AND EQUITY (Sum of 27, 28, and 29-36)	5,224,665	00	

FAIR VALUE HELD TO MATURITY SECURITIES	Remaining Maturities A. 1 yr. or less		B. More than 1 yr.		Amount C $	¢	
38. U.S. Government Obligations	43,500	00			43,500	00	
39. Federal Agency Securities							
40. All other investments							

* Numbers in this column refer to notes to financial statements, letters refer to supplementary schedules which are attache

FCU 109A

Figure 3-2:Statement of Income (FCU 109B)

Internal Use Only Report Type		Acct. Code No. 100	70089A Chapter $ or Ins. Cert. #

STATEMENT OF INCOME FOR PERIOD ENDED 12/31/x1 .

OUR FEDERAL CREDIT UNION

Refer to the Accompanying Statement of Reserves and Undvided Earnings for the Change in Undivided Earnings

Ref *	Item	INTEREST INCOME	Month Dec. 19X1 $ Amount	¢	Period From 10/1/X1 To Date $ Amount	¢	Year To Date 19X1 $ Amount	¢	
	42.	Interest on Loans (Gross)	49,787	00	131,345	00	525,383	00	110
	43.	(Less) Interest Refunded							119
	44.	Income from Investments	937	00	3,206	00	12,825	00	120
	45.	Total Interest Income (sum of 42 - 44 less 43)	50,724	00	134,551	00	538,208	00	
		INTEREST EXPENSE							
	46.	Dividends	15,654	67	46,964	00	187,857	00	380
	47.	Interest on Borrowed Money							340
	48.	Total Interest Expense	15,654	67	46,694	00	187,857	00	
	49.	Net Interest Income (Item 45 less 48)	35,069	33	87,587	00	350,351	00	
	50.	Provision for Loan Losses	2,713	00	7,592	00	30,371	00	301
	51.	Net Interest Income after Provisions for Losses (Item 49 less 50)	32,356	33	79,995	00	319,980	00	
		OPERATING EXPENSES							
	52.	Employee Compensation	7,964	00	23,052	00	92,908	00	210
	53.	Employee Benefits							220
	54.	Travel & Conference	480	00	4,731	00	5,211	00	230
	55.	Association Dues							240
	56.	Office Occupancy Expenses	557	00	1,988	00	7,951	00	250
	57.	Office Operation Expenses	1,416	00	8,961	00	35,664	00	260
	58.	Loan Servicing Expenses	836	00	1,278	00	5,110	00	280
	59.	Professional & Outside	1,000	00	2,092	00	8,366	00	290
	60.	Member Insurance	2,665	00	8,547	00	34,189	00	310
	61.	Operating Fees (Exam)	815	00	2,437	00	9,749	00	320
	62.	Misc. Operating Expense	817	00	2,223	00	12,594	00	
	63.	Total Operating Expense (Sum of 52-62)	16,550	00	55,264	00	211,742	00	
		OTHER OPERATING INCOME							
	64.	Operating Income							
	65.	Trading Profits and Losses							170
	66.	Total Other Operating Income (Sum of 64-65)							
		NON-OPERATING INCOME							
	67.	Gain (Loss) on Investments							420
	68.	Gain (Loss) on Disposition of Assets							430
	69.	Other Non-Operating Income (Expense)							440
	70.	Total Non-Operating Gains and Losses (Sum of 67-69)							
	71.	Net Income (Sum of 51, 66, and 70 less 64	15,806	33	24,731	00	108,238	00	

FCU 109B

Ref *	Item	CLASSIFICATION OF LOANS OUTSTANDING				
	72.	Degree of Delinquency				
		a. Current and less than 2 months	2,714	4,894,602	00	
		b. 2 to less than 6 months	4	387	50	
		c. 6 to less than 12 months	1	563	30	
		d. 12 months and over	1	1,058	20	
		e. Total loans (Sum of 73a thru 73d must equal 1e + 2)	2,720	4,896,611	00	
		MISCELLANEOUS INFORMATION				
	73.	Number of member's at end of month	2,044			
	74.	Number of potential members	8,176			
		OTHER LOAN INFORMATION				
	75.	Loans sold and being serviced by credit union				
	76.	Real estate loans made during current year	14	400,000	00	
	77.	Total loans made during current year (including real estate loans)	637	2,370,490	00	
	78.	Total loans made since organization	6,700	48,564,910	00	
	79.	Total loans charged-off since organization		58,503	00	
	80.	Recovery of loans charged-off since organization		46,500	00	
	81.	Net loans charged-off since organization		12,003	00	

We certify, to the best of our knowledge and belief, this statement and the related statements are true and correct and present fairly the financial position and the results of operations for the periods covered.

Ephriam Quimby — Certified Corrected by: (PLEASE PRINT)

424-3205 — Telephone No.

Treasurer-Manager (Signature)

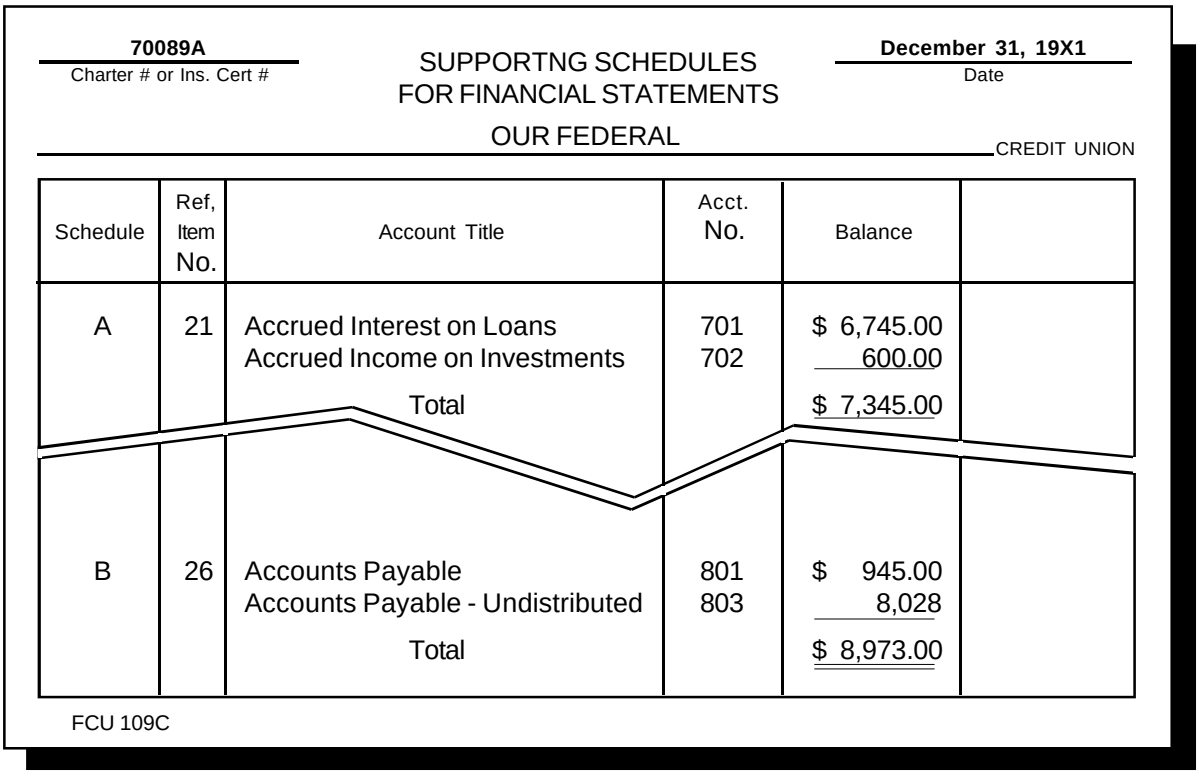
1/1/X2 — Date

President/Authorized Officer

1/1/X2 — Date

* Numbers in this column refer to notes to financial statements; Letters refer to supplementary schedules which are attached.

Figure 3-3: Supporting Schedules for Financial Statements (FCU 109 C)



70089A
Charter # or Ins. Cert #

SUPPORTNG SCHEDULES
FOR FINANCIAL STATEMENTS

December 31, 19X1
Date

OUR FEDERAL CREDIT UNION

Schedule	Ref, Item No.	Account Title	Acct. No.	Balance	
A	21	Accrued Interest on Loans	701	$ 6,745.00	
		Accrued Income on Investments	702	600.00	
		Total		$ 7,345.00	
B	26	Accounts Payable	801	$ 945.00	
		Accounts Payable - Undistributed	803	8,028	
		Total		$ 8,973.00	

FCU 109C

3050.4 INSTRUCTIONS FOR PREPARING THE STATEMENTS OF FINANCIAL CONDITION, STATEMENT OF INCOME, AND THE SUPPORTING SCHEDULES FOR FINANCIAL STATEMENTS

Assets

ITEM

1-

a. Commercial Loans and Agricultural Loans (Accounts Nos. 701.1 and 701.2). Report the total amount of loans over $25,000 for business, inventory, and commercial purposes, plus all loans for the purpose of farming, raising livestock, or the purchase of farm equipment or loans secured by farmland, equipment or loans secured by farmland, equipment, or crops.

b. Real Estate Loans (Account No. 703). Report the total amount of real estate loans to members outstanding as of the report date. Only those loans with original maturities in excess of 12 years should be reported on this line.

c. Loan Balances Fully Secured by Shares (Account No. 706). Report the amount of loans to members outstanding as of the report date that are completely secured by pledged shares.

d. All Other Loans to Members. This amount should be the residual of loans to members after commercial and agricultural loans, real estate loans, and loan balances fully secured by shares have been deducted. Include Account Nos. 701, 702, 704, 705, and 707.

e. Total Loans to Members (Account No. 700). Include all loans to members (including commercial loans, agricultural loans, real estate loans and loans fully secured by shares) outstanding as of the report date. Do not include loans to other credit unions which are reported in the investments section. (Sum of 1a, b, c, and e.)

2- **All Other Loan Accounts (Account Nos. 710-718).** Represents all other loan accounts of the credit union such as loans purchased, in whole or in part, from other credit unions, any note or contract receivable resulting from the sale of assets and similar accounts, if any. Include Accounts 710 through 718. Do not include loans to other credit unions which are reported in the investment section.

3- **(Less) Allowance for Loan Losses (Account No. 719).** This item, if applicable to your credit, represents the amount set aside by the credit union which is necessary to absorb possible losses on loans. This should not include amounts reported in items 32 through 35 as reserves.

4- **Net Loans Outstanding.** This represents the value of loans outstanding net of the allowance for loan losses. Item 2 less item 3.

5- **Cash (Account Nos. 730-739).** This account represents cash on hand, petty cash, checking accounts, etc.

6- **Held-to-Maturity Securities (Account No. 741).** Represents the amortized cost of investments that the credit union has the positive intent and ability to hold to maturity.

7- **Trading Securities (Account No. 742).** Represents the fair value of credit union funds that are held principally for the purpose of selling them in the near term. The amounts in 7a plus 7b must equal the amount in 7c.

8- **Available-for-Sale Securities (Account No. 743).** Represents the fair value of investments that the credit union has that are available for sale.

9- **Shares, Deposits and Certificates Invested in Corporate Central Credit Unions (Account No. 744).** Report the total amount of shares, deposits and certificates invested in Corporate Central Credit Unions as of the report date. Special share accounts established in a corporate central credit union to fund the corporate central's Central Liquidity Facility stock subscription should not be reported in the item; such accounts should be reported in item 12. The amounts reported in 8A and 8B must equal the amount in 8C.

10- **Shares, Deposits and Certificates in Other Credit Unions, Banks, S&Ls, and Mutual Savings Banks (Account No. 745 and 746).** Represents the amount of outstanding shares, deposits and certificates of other credit unions, banks, S&Ls and MSBs as of the report date. The amounts reported in 9A plus 9B must equal the amount in 9C.

11- **All Other Investments.** This amount should reflect all other investments other than those in items 6 through 10, 12, and 13. Include Account Nos. 747, 748, and 753.

12- **NCUA Share Insurance Capitalization Deposit (Account No. 752).** The current outstanding balance of the credit union's NCUA Share Insurance Deposit.

13- **Shares in Central Liquidity Facility (Account No. 751).** Represents the total amount of shares invested directly or indirectly in the Central Liquidity Facility as of the report date. Credit unions that have gained access to the Central Liquidity Facility (CLF) through a CLF Agent member should report on this line the amount of their "CLF Stock Reimbursement" (a special share account established in a corporate central to fund the corporate central's CLF stock subscription). A corporate central credit union that is a member of a CLF Agent Group should report on this line the amount it has invested in its Agent Group Representative (AGR) to reimburse the AGR for purchasing CLF stock on its behalf.

14- **Net Investments.** This represents the sum of items 6 through 13.

15- **Land and Building (Net).** Represents the amount of land and building less depreciation on building, if any. (Account 771 plus 772 less 773.)

16- **Other Fixed Assets.** Represents all other fixed assets of the credit union such as furniture and fixtures, leasehold improvements, less related depreciation items, if any. Include Account Nos. 774 through 779.

17- **Monetary Control Reserve Deposits (Account No. 793).** Represents amounts deposited by the credit union in the Federal Reserve Bank or Branch or any pass-through Financial Institution as required to comply with the Federal Reserve Board's Regulation D requirements.

18- **All Other Assets.** Represents all other assets of the credit union not included in the above items. Includes such items as prepaid expenses and insurance, accounts receivable, accrued income, etc. Include Account Nos. 720 through 729, 760 through 769, 780 through 789, 790 through 792, and 794 through 799.

19- **Total Assets.** Represents the sum of the amounts in items 4, 5, 14, and 15-18 (total columns).

LIABILITIES/SAVINGS EQUITY

20- **Notes Payable (Account Nos. 811 to 817).** Represents the amount of the credit union's liability for borrowed funds. The amounts reported in items 23A plus 23B must equal the amount in 23C.

21- **Reverse Repurchase Transactions (Account No. 813).** Report the outstanding balance of funds borrowed by the credit union from any source using its securities as collateral on the loans.

22- **Accrued Interest Payable (Account No. 818).** Represents the amount of interest accrued on all notes and borrowings.

23- **Accounts Payable (Account Nos. 808-809).** Represents all accounts payable of the credit union such as undistributed payments, undistributed payroll deductions, etc. Include Account Nos. 800-809.

24- **Dividends/Interest on Shares/Deposits Payable (Account No. 820).** This account should reflect the total amount of dividends/interest on shares/deposits payable that are declared for the last dividend period and not paid.

25- **Unapplied Data Processing Exceptions (Account No. 870).** Represents the unapplied data processing exceptions outstanding as of the report date.

26- **All Other Liabilities**. This represents all liability accounts not shown separately above. Include such items as taxes payable (Account No. 840), accrued expenses (Account No. 850), deferred income (Account No. 880), etc.

27- **Total Liabilities**. This represents the sum of items 20 through 26 (total column).

28-

a. **Share Certificates and Time Deposits**. Represents the total amount of regular, Money Market, Jumbo and other share certificates and time deposits held by the credit union members, if any. The sum of the amounts in the two maturity categories for share certificates must equal the total.

b. **Share Draft Accounts**. Represents the total amount outstanding of share draft accounts held by the credit union members.

c. **Member Deposits**. Represents the amount of deposits (not shares) of members in the credit union. For use by state-chartered credit unions only.

d. **IRA/Keogh and Retirement Accounts (Account No. 906)**. This represents the amount of member funds deposited for retirement purposes under a trust or custodial agreement.

e. **Other Member Savings**. This represents the total member savings of the credit union, excluding share draft accounts, share certificates, member deposits, and IRA/ Keogh and retirement accounts.

f. **Nonmember Savings (Account No. 921)**. This represents the total amount on nonmember savings in the credit union. Primarily applicable to Limited Income Credit Unions.

g. **Total Savings/Shares/Deposits**. Represents the sum of the amounts held in all savings/shares/deposits accounts of members and nonmembers. Includes Share Certificates, Share Draft Accounts, Public Unit Accounts, Retirement Plans and special share accounts such as Christmas and Vacation accounts, if any. The sum of the total columns of items 31a through 31f, must equal 31g.

29- **Regular/Statutory Reserve (Account No. 931)**. Represents the statutory (regular) reserve balance as of the report date.

30- **Investment Valuation Reserve (SCU's only)**. Represents the reserves to cover the excess of book value over market value for investments other than those authorized for federal credit unions by Section 107 of the Federal Credit Union Act. For use by state-chartered credit unions only.

31- **Special Reserves**. This represents any other reserves required by regulation, special agreement or other of the credit union's supervisory authority.

32- **Uninsured Secondary Capital.** For low-income designated credit unions only. Represents the amount of secondary capital accounts accepted from organizational or institutional investors.

33- **Other Reserves**. Represents the sum of other reserve accounts (excluding amounts in items 29, 30, and 31) such as reserve for contingencies appropriated undivided earnings, unrealized loss in value of long-term investments.

34- **Accumulated Unrealized Gain/Losses on Available-for-Sale Securities**. Represents the unrealized and unrecognized gains and losses (net) on securities that are classified as available-for-sale.

35- **Undivided Earnings (Account No. 940)**. Represents the total amount of accumulated income or surplus of the credit union. Should not include the amount of dividends and interest on deposits paid or payable which are reported in item 24.

36- **Net Income (Loss)**. Represents the net income (loss) from operations.

37- **Total Liabilities, Savings and Equity**. Represents the sum of amounts in items 27, 28g and 29 through 36.

FAIR VALUE OF HELD-TO-MATURITY SECURITIES

38- **U.S. Government Obligations**. Represents the fair value, as of the statement date, for the U.S. Government Obligations.

39- **Federal Agency Securities**. Represents the fair value, as of the statement date, for the Federal Agency securities.

40- **All Other Investments**. Identify any other investment reported in items 9 through 13 which have a market value below the reported amount and show the market value for the investment(s) as of the statement date.

41- **N/A**

OPERATING INCOME

42- **Interest on Loans (Gross) (Account Nos. 110-117)**. Represents the total amount of income from interest on loans.

43- **(Less) Interest Refunded (Account No. 119)**. Represents the total amount of interest refunded.

44- **Income From Investments (Account No. 120-129)**. Represents the total amount of income earned on investments.

45- **Total Interest Income**. Sum of items 42 and 44, less item 43.

INTEREST EXPENSE

46- **Dividends (Account No. 380)**. Report the actual or estimated amount of dividends for the reporting period.

47- **Interest on Borrowed Money (Account Nos. 340-342)**. Represents the interest cost to the credit union for borrowed money.

48- **Total Interest Expense**. Sum of items 46 and 47.

49- **Net Interest Income**. This represents the gross profit of the credit union (item 45 minus item 48).

50- **Provision for Loan Loss (Account No. 301)**. Represents the current period provision for all losses and related costs on loans and other receivables.

51- **Net Interest Income After Provisions for Losses**. This represents the gross profit after the provisions for losses (item 49 minus 50).

OPERATING EXPENSES

52- **Employee Compensation (Account Nos. 210-219)**. Represents the total amount of salaries paid to employees of the credit union, including the treasurer, if paid. Also includes reimbursement to the sponsor when credit union employees are on the sponsor company's payroll.

53- **Employee Benefits (Account Nos. 220-224)**. Represents all expenses of the credit union that relate to employee benefits. Includes such items as pension plan costs, employer's social security taxes, unemployment compensation taxes, and other benefits provided to employees.

54- **Travel and Conference Expense (Account Nos. 230-239)**. Represents the amount of authorized expenses incurred by employee and officers (including the treasurer) for travel and attendance at conferences and other meetings.

55- **Association Dues (Account Nos. 240-249)**. Represents membership dues and other fees paid to credit union organizations of which the credit union is a member.

56- **Office Occupancy Expense (Account Nos. 250-259)**. Represents all expenses relating to occupying an office including rent, utilities (except telephone), depreciation of building, if owned by the credit union, real estate taxes, and amortization of leasehold improvements.

57- **Office Operation Expense (Account Nos. 260-269)**. Represents all expenses relating to the operation of an office including communications, stationery and supplies, insurance, furniture rental and/or maintenance, depreciation, bank service charges, etc.

58- **Loan Servicing Expense (Account Nos. 280-289)**. Represents all expenses incurred in the servicing of loans such as collection expense, credit reports, recording fees, chattel lien insurance, etc.

59- **Professional and Outside Services (Account Nos., 290-299)**. Represents expenses incurred by the credit union for such items as legal fees, audit fees, accounting services, and management and consultant fees.

60- **Member Insurance (Account Nos. 310-319)**. Represents the cost of members' insurance, including premiums paid for life savings insurance, annual share insurance premium and borrowers for protection insurance.

61- **Operating Fees (Account Nos. 320-329)**. Represents the NCUA annual operating fee, state supervision fee and the cost of periodic examinations assessed by the supervisory agency, it any.

62- **Miscellaneous Operating Expense (Account No. 370)**. Includes all miscellaneous operating expenses for which no separate expense categories are listed.

63- **Total Operating Expenses**. Sum of all operating expenses. Items 52 through 62.

OTHER OPERATING INCOME

64- **Other Operating Income**. Represents all operating income other than interest on loans, income from investments and gain or loss on trading accounts.

65- **Trading Profits and Losses (Account No. 170)**. This represents the gains and losses on trading accounts, both from the sale of trading securities and from adjusting the trading securities to market.

66- **Total Other Operating Income**. The sum of items 64 and 65.

NONOPERATING INCOME

67- **Gain (Loss) on Investments (Account No. 420)**. Report the amount of nonoperating income or expense resulting from the gain or loss on the disposition of investments. Do not include gain or loss on the disposition of trading securities.

68- **Gain (Loss) on Disposition of Assets (Account No. 430)**. Report the amount of nonoperating income or expense resulting from the disposition of assets.

69- **Other Nonoperating Income (Expense) (Account No. 440)**. Represents miscellaneous nonoperating income or expenses.

70- **Total Nonoperating Gains and Losses**. The sum of items 67, 68 and 69.

71- **Net Income (item 51 minus item 63, plus items 66 and 70)**. Represents the net profit before required reserve transfers.

CLASSIFICATION OF LOANS OUTSTANDING

72- **Classification of Loans Outstanding**. This section calls for the reporting of the number and amount of delinquent loans: current and less than 2 months delinquent; 2 and less than 6 months delinquent; 6 and less than 12 months delinquent; and 12 months and over. Information on loans delinquent should be taken from a schedule of delinquent loans as of the report date.

73- **Number of Members at End of Month**. Enter the actual number of members on record as of the month end. Do not enter the number of accounts.

74- **Number of Potential Members**. Represents the number of actual members plus persons in the field of membership who have not yet joined the credit union. If the field of membership is stated in terms of the number of families, use an average of three persons per family to estimate the total potential membership.

75- **Loans Sold and Being Serviced by the Credit Union**. Record the number and the outstanding dollar amount of loans sold to others which the credit union continues to service.

76- **Real Estate Loans Made During Current Year**. Record the number and the dollar amount of real estate loans (first lien with original maturities in excess of 12 years) made during the current year.

77- **Total Loans Made During Current Year**. Report the total number and amount of loans made during the current year.

78- **Total Loans Made Since Organization**. Report the total number and amount of loans made since the organization of the credit union.

79- **Loans Charged Off Since Organization**. Represents the total amount of loans charged off since the credit union was organized. Loans charged off during the current period should be added to the amount reported on the previous period's form to obtain the total charged off since organization as of the report date.

80- **Recoveries on Loans Charged Off Since Organization**. Represents the total amount of recoveries on previously charged off loans since the organization of the credit union. Add the amount recovered during the current period to the previous period's total.

81- **Net Loans Charged Off Since Organization**. Represents net charge offs; item 80 less item 81.

3050.5 STATEMENT OF MEMBERS' EQUITY

This Statement (Form FCU 109D) is to be prepared and displayed as part of the regular financial reports at least quarterly or at the end of the regular share account dividend period if that dividend period is longer than quarterly. It may also be used by any credit union as part of its financial reports at any time.

The Statement shows changes in earnings during the period for which it is prepared. It will show the total increases and the total decreases in each account representing the equity (ownership) of the credit union. The report is based on an analysis of the debits and credits during the period covered in certain "Equity" General Ledger accounts (900 series of accounts).

3050.6 STATEMENT OF CASH FLOWS

As stated in Section 2080.7 of this manual, the Statement of Cash Flows must be prepared at least annually by all federal credit unions which utilize the accrual basis of accounting. It may be prepared more frequently than annually, but if prepared more frequently, an annual report should be prepared as of each fiscal year end. The statement may also be used by those federal credit unions which do not use the accrual basis of accounting.

The Form FCU 109E-Revised, see Figure 3-5, or a similar type format can be used for the Statement of Cash Flows. The statement must report the cash effects of the credit union's operating activities, investing activities, and financing activities. The statement shall explain the changes during the period in cash and cash equivalents. Figures 3-6A and 3-6B are illustrations of some of the preliminary workpapers completed prior to completing the Statement of Cash Flows. The principles applied in the preparations of, the Statement of Cash Flows, and the supporting workpapers and notes are compatible with the Statement of Financial Accounting Standards No. 95. The Statement of Cash Flows must be used by all federal credit unions which utilize the accrual basis of accounting for all fiscal periods ending after July 15, 1988.

There are basically two ways to report cash flows: (1) gross receipts and gross payments, or (2) net receipts and/or payments. For federal credit union accounting purposes, the gross receipts and gross payments method will be used except where otherwise permitted. Items which qualify for "net" reporting are cash flows stemming from all investments, loans, and debt with original maturities of 3 months or less (considered to be short term). Also qualifying for "net" reporting are share draft accounts, and any other types of share accounts for which the credit union is basically holding and disbursing cash on behalf of the member. The board of directors of each federal credit union which prepares the Statement of Cash Flows should establish policy and disclose this policy with the statement as to which of its eligible cash flow items qualify for "net" reporting. The objective is to enable preparation of the most meaningful Statement of Cash Flows.

Note 11 of the Notes to Financial Statements contains information developed from the Journal and Cash Record and other sources for some of the gross receipts and gross payments items. The Statement of Cash Flows illustration in Figure 3-5 uses the basic information illustrated for Our Federal Credit Union in Figures 3-7, 3-8, and 3-9.

3050.7 NOTES TO THE FINANCIAL STATEMENTS

The objective of notes is to provide information that cannot be sufficiently described within the body of the financial statements without detracting from the clarity of the statements. Notes are not to be used as a substitute for proper accounting entries, accounting classifications, valuations or descriptions and they should not contradict items disclosed within the financial statements. Common types of notes are:

a) Explanations of creditors rights to specifically pledged assets;

b) Explanations of changes in methods or techniques of handling accounting transactions;

c) Disclosure of contingent assets and liabilities, restrictions on dividend payments, and executory contracts; and

d) A description of accounting policies that are being followed.

Caution should be exercised when preparing notes to accompany the financial statements. Notes can be difficult to understand and read without further research and analysis. This may cause the reader to disregard them. Notes can also be overused to the extent they are ignoring the use of needed accounting entries that provide for the proper development and relationships within the financial statements themselves.

3050.7.1 ILLUSTRATION OF THE USE OF NOTES TO THE FINANCIAL STATEMENTS

Illustrations 3-7, 3-8, and 3-9, are a completed Statement of Financial Condition (Form FCU 109A) a practically completed Statement of Income (Form FCU 109B), and a Statement of Reserves and Undivided Earnings (Form FCU 109D). Immediately following these financial statements are the related notes.

Figure 3-4: Statement of Members' Equity (FCU 109D)

OUR FEDERAL CREDIT UNION CHARTER NO. 70089A

Statement of Members' Equity for the Period Ending December 31, 19X1.

	Appropriated Earnings			Unappropriated Earnings	
	Regular Reserve (Acct. No. 931)		Other Reserves	Undivided Earnings (Acct. No. 940)	Total
	Statutory	Other			
	$ Amount ¢	$ Amount ¢	$ Amount ¢	$ Amount ¢	$ Amount ¢
Balance, Beginning of Period	502,911.00		—	14,821.00	517,731.00
Transfers:					
Required Transfer to Regular Reserve	53,821.00			(53,821.00)	—
Provision for Loan Losses	(30,371.00)		—	30,371.00	—
Other Transfers					
Net Transfers	23,450.00		—	(23,450.00)	—
Accumulated Unrealized gains/losses on Available- For-Sale-Securities			XXX		XXX
Net Income (Loss)				108,238.00	108,238.00
Balance, End of Period	$526,361.00	—	—	$99,609.00	$625.970

FCU 109D

CHARTER NO. 70089A

OUR FEDERAL Credit Union

Statement of Cash Flows
For the Period 1/1/X1 to 12/31/X1
Increase or (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities:		
Net Income	$1,100,000	
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation - Land and Buildings	200,000	
Depreciation - Furniture, Equipment and Fixtures	200,000	
Provision for Loan Losses	200,000	
(Gain) Loss on Investments	200,000	
Increase in Dividends Payable	200,000	
Total Adjustments		$2,100,000
Net Cash Provided by Operating Activities		
Cash Flows from Investment Activities		
Proceeds from Sales of Investment Securities	$23,800,000	
Purchases of Investment Securities	(21,700,000)	
Net Increase in Receivables or Loans with Maturities of less than 90 days		
Principal Collected on Loans with Maturities in Excess of 90 days	33,350,000	
Loans Made with Maturities in Excess of 90 days	(50,150,000)	
Purchases of Assets to be Leased		
Principal Payments Received on Leases		
Capital Expenditures Made		
Proceeds Received from Sales of Property, Plant or Equipment		
Other Investment Cash Flows		
NCUSIF Capitalization Deposit	(110,000)	
Net Cash Provided or Used in Investment Activities		($14,810,000)
Cash Flows from Financing Activities:		
Net Increase in Share Draft Accounts	$2,000,000	
Proceeds from Sale of Share Certificates	36,200,000	
Payments for Maturing Share Certificates	(31,700,000)	
Proceeds from All Other Share Account Purchases	9,300,000	
Payments Made for All Other Share Withdrawals	(3,800,000)	
Net Increase in Short-Term (90 days or less) Debt		
Proceeds from Long-Term (more than 90 days) Debt	15,000,000	
Repayment of Long-Term Debt	(14,150,000)	
Other Financing Activity		
Net Cash Provided by Financing Activities		$12,850,000
Net Increase or Decrease in Cash and Cash Equivalents		$140,000
Cash and Cash Equivalents at Beginning of Year		550,000
Cash and Cash Equivalent at End of Year		690,000

Disclosure of accounting policy: All loans are made with maturities of more than 90 days, or treated as such in the statement of cash flows. All investments and trading activities are treated as having original maturities in excess of 90 days. Notes payable and other borrowing activity are also considered to be long-term activities and reported as such. Share draft accounts are considered short-term and only the net increase or decrease is reported on the statement of cash flows. Share certificates and all other share accounts are treated as long-term and reported as gross receipts and gross payments on the statement of cash flows.

Figure 3-6A: Illustration of Completed Workpapers to Develop Cash Flows Statement for Investment and Financing Activities

CHARTER NO. 70089A

OUR FEDERAL Credit Union

Working Paper to Develop Cash Flows Statement
Investment and Financing Activities for Period 1/1/X1 to 12/31/X1

ACCOUNT NO.	DESCRIPTION	BALANCES 1/1/X1	BALANCES 12/31/X1	CHANGES DURING PERIOD	CASH FLOW IN	CASH FLOW OUT
	Loans					
701.1	Commercial	$ 6,500,000	$ 8,000,000	$ 1,500,000	$ 3,000,000	$ 4,500,000
703	Real Estate	15, 100,000	17,200,000	2,100,000	1,750,000	3,850,000
702	Lines of Credit	6,400,000	11,400,000	5,000,000	3,400,000	8,400,000
701.3	Consumer Loans	45,200,000	53,400,000	8,200,000	25,200,000	33,400,000
701	Total Loans	$73,200,000	$90,000,000	$16,800,000	$33,350,000	$50,150,000
719	Allowance for Loan Losses	(200,000)	(400,000)	(200,000)		
731	Cash	550,000	690,000	140,000		
740	Investments					
741	Federal Agency Securities	10,000,000	8,000,000	(2,000,000)	18,300,000	16,500,000
743.1	Common Trust & Mutual Funds	1,500,000	1,200,000	(300,000)	3,500,000	3,200,000
747	Loans to Other Credit Unions	800,000	800,000		2,000,000	2,000,000
751	Shares in NCUSIF Central Liq.	500,000	500,000			
752	NCUSIF Capital Deposit	600,000	710,000	110,000		110,000
772	Land and Building (Net)	1,500,000	1,300,000	(200,000)		
774	Furniture and Equipment	1,000,000	800,000	(200,000)		
	All Other Assets	300,000	300,000			
	Totals	$89,750,000	$103,900,000	$14,150,000		
812	Notes Payable	$ 8,150,000	$ 8,500,000	$350,000	$12,500,000	$12,150,000
813	Reverse Repurchases	1,000,000	1,500,000	500,000	2,500,000	2,000,000
821	Dividends Payable	800,000	1,000,000	200,000		
	All Other Liabilities	600,000	600,000			
908	Share Certificates	34,700,000	39,200,000	4,500,000	36,200,000	31,700,000
902	Share Draft Accounts	5,000,000	7,000,000	2,000,000	2,000,000	
901	All Other Share Accounts	33,500,000	39,000,000	5,500,000	9,300,000	3,800,000
931	Regular Reserve	4,920,000	5,000,000	80,000		
940	Undivided Earnings	1,080,000	2,100,000	1,020,000		
	Totals	$89,750,000	$103,900,000	$14,150,000		

Figure 3-6B: Illustration of Completed Workpapers to Develop Cash Flows Statement for Operating Activity (FCU 109A)

CHARTER NO. 70089A

OUR FEDERAL Credit Union

Working Paper to Develop Cash Flows Statement
Investment and Financing Activities for Period 1/1/X1 to 12/31/X1

ACCOUNT NO.	DESCRIPTION	TOTAL OF ITEMS	CASH FLOWS	RECONCILEMENT ITEMS	COMMENTS
101	Interest on Loans	$8,600,000	$ 8,600,000		
120	Income from Investments	1,000,000	1,000,000		
170	Other Operating Income	300,000	300,000		
	Total Operating Income	$9,900,000	$9,900,000		
380	Dividends to Members	$5,5000,000	$(4,800,000)	$200,000	Increase in Dividends Payable
340	Interest on Borrowed Money	600,000	(600,000)		
210	Employee Compensation	1,000,000	(1,000,000)		
220	Employee Benefits	400,000	(400,000)		
250	Office Occupancy Expense	400,000	(200,000)	200,000	Depreciation
260	Office Operation Expense	460,000	(260,000)	200,000	Depreciation
290	Professional Services	150,000	(150,000)		
301	Provision for Loan Losses	200,000		200,000	Allowance for Loan Losses
310	Member Insurance	350,000	(350,000)		
320	Operating Fees (NCUA)	20,000	(20,000)		
	Miscellaneous Operating Exp.	20,000	(20,000)		
	Total Operating Expenses	$8,600,000			
420	Gain (Loss) on Investments	200,000		200,000	Loss on Sale Investments
	Totals	$8,800,000	$(7,800,000)	$1,000,000	
	Total Income	$9,900,000			
	Total Expenses	$8,800,000			
	Net Income	$1,100,000			

Figure 3-7:Illustration of Statement of Financial Condition (FCD 109A) with Notes

STATEMENT OF FINANCIAL CONDITION AS OF December 31, 19X1

Internal Use Only Report Type ____ | Acct. Code No. 100 | 70089A Chapter $ or Ins. Cert. # | OUR FEDERAL CREDIT UNION

ASSETS

Ref*	Item	LOANS & CASH	$ Amount	¢	Acct. Code
1	1. a.	Commercial and agricultural loans to members	8,000,000	00	701
10	b.	Real Estate loans to members (first lien), original maturity over 12 years	17,200,000	00	703
	c.	Loan balance fully secured by shares	2,400,000	00	706
	d.	All other loans to members (excluding a, b, c, above)	62,400,000	00	
3,9	e.	Total loans to members (include items a, b, c, and d)	90,000,000	00	700
	f.	All other loan accounts (excluding amts. in 1a, b, c, and d)			710
	2.	Total loans (Sum of 1e, f)	90,000,000	00	
1,4	3.	(Less) Allowance for loan losses	400,000	00	719
	4.	Net loans outstanding (Sum of 1e plus 2 less 3)	89,600,000	00	
	5.	Cash (Cash on hand, petty cash, checking accts., etc.)	1,400,000	00	730

1,2	INVESTMENTS (A + B = C)	Remaining Maturities A. 1 yr. or less		B. More than 1 yr.		Total C $	¢	
	6. Held-to-maturity securities	1,200,000	00			9,200,000	00	741
	7. Trading Securities				00		00	742
	8. A.F.S. Securities							743
	9. Shares, Deposits & certif. in Corp. Centrals							744
	10. Shares, deposits and certif. in other CUs, banks, S&Ls, & MSBs	800,000	00			800,000	00	745-746
	11. Other Investments							
	12. NCUSIF Capital Deposit							752
	13. Shares in Central Liquidity Facility (Direct or Indirect)					500,000	00	751
	14. Net Investments (Sum of 6-13)					10,500,000	00	

5	OTHER ASSETS			
	15. Land and buildings (net of depreciation)	1,300,000	00	771-773
	16. Other fixed assets (net of depreciation)	800,000	00	774-779
	17. Monetary control reserve deposits			793
	18. All other assets	300,000	00	
	19. TOTAL ASSETS (Sum of 4, 5, 14, and 15-18)	103,900,000	00	

LIABILITIES AND EQUITY

Ref*	Item	(A + B = C)	Remaining Maturities A. 1 yr. or less		B. More than 1 yr.		$	¢	
	20.	Notes payable			8,500,000	00	8,500,000	00	810
	21.	Reverse repurchase .. transactions	1,500,000	00			1,500,000	00	812
	22.	Interest payable							818
	23.	Accounts payable						00	800
	24.	Dividends/interest on share/deposits payable					1,000,000	00	820
	25.	Unapplied data processing exceptions							870
	26.	All other liabilities					600,000	00	
	27.	TOTAL LIABILITIES (Sum of 20-26)					11,600,000	00	

6			Remaining Maturities A. 1 yr. or less		B. More than 1 yr.		Amount C $	¢	
	28.a.	Share Certificates	28,000,000	00	11,200,000	00	39,200,000	00	908
	b.	Share draft accounts					7,000,000	00	902
	c.	Member's deposits (SCU's only)							
	d.	IRA/Keogh & retirement accounts							906
	e.	Other member savings					39,000,000	00	
	f.	Non-member savings							921
	g.	Total savings/shares/deposits (Sum of 31a-31f					85,200,000	00	

1					
	29.	Regular/statutory reserves	5,000,000	00	931
	30.	Investment valuation reserve (SCU's only)			
	31.	Special reserves			932
	32.	Uninsured secondary capital			925
	33.	Other reserves			933
	34.	Accumulated unrealized gains/losses on A.F.S Sec.			945
	35.	Undivided earnings	2,100,000	00	940
	36.	Net income (loss)			960
	37.	TOTAL LIABILITIES AND EQUITY (Sum of 27, 28, and 29-36)	103,900,000	00	

	FAIR VALUE HELD TO MATURITY SECURITIES	Remaining Maturities A. 1 yr. or less		B. More than 1 yr.		Amount C $	¢	
	38. U.S. Government Oblig.	7,600,000	00	7,600,000	00			741
	39. Federal Agency Securities							742
	40. All other Investments	1,200,000	00			1,200,000	00	

* Numbers in this column refer to notes to financial statements, letters refer to supplementary schedules which are attached.

FCU 109A

Figure 3-8: Illustration of a Completed Statement of Income (FCU 109B) with Notes

Internal Use Only Report Type		Acct. Code No. 100	70089A Chapter $ or Ins. Cert. #

STATEMENT OF INCOME
FOR PERIOD ENDED 12/31/x1 .

OUR FEDERAL CREDIT UNION

Refer to the Accompanying Statement of Reserves and Undvided Earnings for the Change in Undivided Earnings

Ref*	Item	INTEREST INCOME	Month Dec. 19X1 $ Amount ¢	Period From 10/10/X1 To Date $ Amount ¢	Year To Date 19X1 $ Amount ¢	
	42.	Interest on Loans (Gross)			8,600,000	110
	43.	(Less) Interest Refunded				119
	44.	Income from Investments			1,000,000	120
	45.	Total Interest Income (sum of 42 - 44 less 43)			9,600,000	
		INTEREST EXPENSE				
1	46.	Dividends			5,000,000	380
	47.	Interest on Borrowed Money			600,000	340
	48.	Total Interest Expense			5,600,000	
	49.	Net Interest Income (Item 45 less 48)			4,000,000	
	50.	Provision for Loan Losses			200,000	301
	51.	Net Interest Income after Provisions for Losses (Item 49 less 50)			380,000,000	
		OPERATING EXPENSES				
	52.	Employee Compensation			1,000,000	210
	53.	Employee Benefits			400,000	220
8	54.	Travel & Conference				230
	55.	Association Dues				240
	56.	Office Occupancy Expenses			400,000	250
	57.	Office Operation Expenses			460,000	260
	58.	Loan Servicing Expenses				280
	59.	Professional & Outside			150,000	290
	60.	Member Insurance			350,000	310
	61.	Operating Fees (Exam)			20,000	320
	62.	Misc. Operating Expense			20,000	
	63.	Total Operating Expense (Sum of 52-62)			2,800,000	
		OTHER OPERATING INCOME				
	64.	Operating Income			300,000	
	65.	Trading Profits and Losses				170
	66.	Total Other Operating Income (Sum of 64-65)			300,000	
		NON-OPERATING INCOME				
	67.	Gain (Loss) on Investments			(200,000)	420
	68.	Gain (Loss) on Disposition of Assets				430
	69.	Other Non-Operating Income (Expense)				440
	70.	Total Non-Operating Gains and Losses (Sum of 67-69)			(200,000)	
	71.	Net Income (Sum of 51 and 66 less 64 less 70)			1,100,000	

FCU 109B

Ref*	Item	CLASSIFICATION OF LOANS OUTSTANDING				
	72.	Degree of Delinquency				
		a. Current and less than 2 months				
		b. 2 to less than 6 months				
		c. 6 to less than 12 months				
		d. 12 months and over				
		e. Total loans (Sum of 73a thru 73d must equal 1e + 2)				
		MISCELLANEOUS INFORMATION				
	73.	Number of member's at end of month				
	74.	Number of potential members				
		OTHER LOAN INFORMATION				
	75.	Loans sold and being serviced by credit union				
	76.	Real estate loans made during current year				
	77.	Total loans made during current year (including real estate loans)				
	78.	Total loans made since organization				
	79.	Total loans charged-off since organization				
	80.	Recovery of loans charged-off since organization				
	81.	Net loans charged-off since organization				

We certify, to the best of our knowledge and belief, this statement and the related statements are true and correct and present fairly the financial position and the results of operations for the periods covered.

George Tighman — Certified Corrected by: (PLEASE PRINT)
535-4848 — Telephone No.

Treasurer-Manager (Signature)
1/1/X2 — Date

President/Authorized Officer
1/1/X2 — Date

* Numbers in this column refer to notes to financial statements; Letters refer to supplementary schedules which are attached.

Figure 3-9: Illustration of a Completed Statement of Members' Equity (FCU 109D) with Notes

OUR FEDERAL CREDIT UNION

CHARTER NO. 70089A

Statement of Members' Equity for the Period Ending December 31, 19X1.

	Appropriated Earnings			Unappropriated Earnings	
	Regular Reserve (Acct. No. 931)		Other Reserves	Undivided Earnings (Acct. No. 940)	Total
	Statutory	Other			
	$ Amount ¢	$ Amount ¢	$ Amount ¢	$ Amount ¢	$ Amount ¢
Balance, Beginning of Period	4,920,000	—	—	1,080,000	6,000,000
Transfers:					
Required Transfer to Regular Reserve	280,000	—	—	(280,000)	—
Provision for Loan Losses	(200,000)	—	—	200,000	—
Other Transfers					
Net Transfers	80,000	—	—	(80,000)	—
Accum. Unrealized gains/losses on Available-For-Sale-Securities			xxx		xxx
Net Income (Loss)				1,100,000	1,100,000
Balance, End of Period	$5,000,000	—	—	$2,100,000	$7,100,000

FCU 109D

OUR FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 19Xl

Note 1-Significant Accounting Policies

Investments. Securities held for investment are stated at cost and are adjusted for amortization of premiums and accretion of discounts. Mutual funds are carried at the lower of cost or market. The Our Federal Credit Union plans to hold all investments to maturity. Gains and losses on dispositions are computed using the specific identification method.

Loans to Members (Account No. 700). Loans are reported in the Statement of Financial Condition at their book value. Interest income is recognized over the term of the loan and is generally computed using the simple interest method.

Allowance for Loan Losses (Account No. 719). This account represents the amount set aside by the credit union to absorb possible loan losses related to loans currently outstanding. The Allowance for Loan Losses is derived from charges made to the Provision for Loan Losses (Account No. 301). The Allowance for Loan Losses represents management's evaluation of various factors influencing the collectability of individual loans and is maintained at a level adequate to absorb potential losses related to loans currently outstanding.

Regular Reserve (Account No. 931). The Our Federal Credit Union is required to maintain this statutory reserve in accordance with Section 116 of the Federal Credit Union Act. This required reserve is established by an appropriation of Undivided Earnings. These amounts are not available for the payment of dividends.

Furniture and Equipment (Account No. 774). This account represents all other fixed assets. Furniture and Equipment is stated at cost. Depreciation is computed over the estimated useful lives of the related assets using the straight-line method of depreciation.

Income Taxes. The Our Federal Credit Union is exempt from federal and state income taxes in accordance with Section 501(c) of the Internal Revenue Code and Section 122 of the Federal Credit Union Act.

Dividend Expense (Account No. 380). The dividend rate is set by the board of directors on a quarterly basis for regular share accounts and dividends are charged to the Statement of Income (FCU 109B) when declared.

Note 2-Investments

The carrying value and approximate market value of investments are as follows:

	Carrying Value	Market Value
Federal Agency Securities (Account No. 742)	$8,000,000	$7,600,000
Common Trust and Mutual Fund Investments (Account No. 743)	1,200,000	1,200,000
Loans to Other Credit Unions (Account No. 747)	800,000	800,000
TOTAL	$10,000,000	$9,600,000

Note 3-Loans to Members

The composition of loans to members is as follows:

Commercial Loans		$8,000,000
Real Estate Loans (over 12 years)		17,200,000
Lines of Credit to Members		11,400,000
Consumer Loans:		
Automobile Loans	$37,000,000	
Education Loans	2,000,000	
Unsecured Loans	12,000,000	
Loans fully secured by shares	2,400,000	53,400,000
Total Loans to Members		$90,000,000

Note 4-Allowance for Loan Losses

Balance on January 1, 19X1		$200,00
Add:		
Provision for Loan Losses Expense	$200,000	
Recoveries on Charged-off Loans	20,000	220,000
Subtotal		$420,000
Less:		
Charged-off Loans		20,000
Balance, December 31, 19X1		$400,000

Note 5-Other Assets

Other assets are summarized as follows as of December 31, 19X1:

Land and Building:

Land (Account No. 771)		$200,000
Building (Account No. 772)	$1,300,000	
Less:		
Allowance for Depreciation of Building (Account No. 773)	200,000	1,100,000
Land and Building (net of depreciation)		$1,300,000

Other Fixed Assets:

Furniture and Equipment (Account No. 774)	$1,000,000	
Less:		
Allowance for Depreciation of Furniture and Equipment	200,000	800,000
Accrued Interest on Loans (Account No. 781)		200,000
Other Assets (Account No. 799)		100,000
Total Other Assets		$2,400,000

Note 6-Savings Accounts

A summary of savings accounts is as follows:

			Percent of Total
Share Certificates (Account No. 908):			
Money Market Certificate Accounts	$25,000,000		
Other Share Certificates	14,200,000	$39,200,000	46.0
Share Draft Accounts (Account No. 902)		7,000,000	8.2
Other Member Savings:			
Shares-Regular (Account No. 901)		39,000,000	45.8
Total Savings/Shares/Deposits		$85,200,000	100.0

Note 7 - Borrowed Funds Notes Payable (Account No. 812)

Borrowed Funds were as follows:

Promissory notes, interest at 7.5% due July 1, 19XX		$2,000,000
Reverse repurchase agreements, 10%, secured by Federal agency securities, due December 1, 19XX		1,500,000
Other notes payable:		
Central Liquidity Facility, 15% due on demand	$2,000,000	
DMR Federal Credit Union 11% Unsecured note, due March 19XX	4,500,000	6,500,000
Total Notes Payable		$10,000,000

Note 8 - Pension Plan

The Our Federal Credit Union has a noncontributory defined benefit pension plan covering substantially all of its employees. Total pension expense was $45,000 in 19X1. Annual contributions made to the plan equal amounts accrued for pension expense, including amortization of past service cost over 30 years. Accumulated plan benefit information, as estimated by consulting actuaries, and plan net assets for the plan are as follows:

Actuarial present value of accumulated plan benefits:	
Vested	$450,000
Nonvested	100,000
Total	$550,000
Net assets available for benefits	$345,000

The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 8 percent in 19X1.

Note 9 - Related Party Transactions

Loans to credit union officials were made with interest rates, terms and collateral requirements comparable to those required of other members. The aggregate amount of these loans is not significant to the financial statements. Employees of Our Company provide management and consulting services on a voluntary basis. The Our Federal Credit Union also uses the Our Company EDP facilities for processing its daily transactions and preparing its payroll. Our Company charges a nominal rate for these services. The Our Federal Credit Union does not consider the income or expense effects of these services to be material to the financial statements.

Note 10 - Commitments and Contingent Liabilities

Outstanding real estate loan commitments at December 31, 19XX. Total approximately $1,200,000. These commitments are not reflected in the financial statements.

The credit union is a party of various miscellaneous legal actions normally associated with financial institutions, the aggregate effect of which, in management's and legal counsel's opinion, would not be material to the Our Federal Credit Union's financial condition.

SECTION 4000

GENERAL LEDGER ACCOUNTS

TABLE OF CONTENTS

SECTION NO.	SUBSECTION NO.		PAGE NO.
4010		**BASIC ACCOUNTING**	4-1
	.1	Purpose of the General Ledger	4-1
	.2	Opening the General Ledger Accounts	4-1
	.3	Sources of Postings from Books of Original Entry	4-2
	.4	Opening the Journal and Cash Record	4-2
	.5	Purpose of the Journal and Cash Record	4-2
	.6	Illustrative Entries	4-3
4020		**GROUPS OF GENERAL LEDGER ACCOUNTS**	4-5
	.1	Purpose of Six Main Groupings	4-5
	.2	Relationship of Grouping to Financial Reports	4-10
	.3	Subordinate Grouping Within Main Classifications	4-10
	.4	Use Only Needed Accounts	4-10
	.5	Use of Additional Accounts	4-10
	.6	Numbering of General Ledger Accounts	4-10
	.7	Single Operating Expense (Control) Account as an Optional Procedure	4-11

SECTION NO.		PAGE NO.
4030	**ACCOUNTING BASIS-MODIFIED CASH BASIS OR ACCRUAL BASIS**	4-11
.1	Modified Cash Basis	4-11
.1.1	Minimum Procedure Prescribed for All Credit Unions	4-11
.1.2	Definition of Modified Cash Basis	4-11
.1.3	Shortcomings of Modified Cash Basis	4-12
.2	Accrual Basis of Accounting	4-12
.2.1	Definition of Accrual Basis	4-12
.2.2	Applicability	4-13
.2.3	Scope of Accruals	4-13
.2.4	Accrued Income	4-13
.2.4.1	Accrued Interest on Loans	4-13
.2.4.2	Accrued Income on Investments	4-14
.2.5	Accrued Insruance Refunds-Life Savings and Borrowers' Protection Insurance	4-15
.2.6	Accrued Expenses	4-16
.2.7	Deferred Credits	4-17
.2.8	Deferred Charges	4-18
.2.9	Conversion to the Accrual Basis of Accounting	4-19
.2.9.1	Accrued Income	4-20
.2.9.2	Accrued Expenses	4-21

SECTION NO.		PAGE NO.
SUBSECTION NO.		
.2.10	Transactions After Conversion to Accrual Accounting	4-21
.2.11	Over or Under Accrued Expenses	4-22
.2.11.1	Over Accrued Expenses	4-22
.2.11.2	Under Accrued Expenses	4-22
.3	Accrual Entries in General Ledger Account Descriptions	4-22
4040	**CHART OF GENERAL LEDGER ACCOUNTS**	4-23
.1	Operating Income Accounts (100 Series)	4-23
.2	Operating Expense Accounts (200-300 Series)	4-24
.3	Nonoperating Income and Expense Accounts (400 Series)	4-26
.4	Asset Accounts (700 Series)	4-27
.5	Liability Accounts (800 Series)	4-30
.6	Savings/Equity Accounts (900 Series)	4-32
4050	**DESCRIPTION OF GENERAL LEDGER ACCOUNTS**	4-33
.1	Operating Income Accounts (100 Series)	4-33
.2	Operating Expense Accounts (200-300 Series)	4-55
.2.1	Approval of Expenses	4-55
.3	Nonoperating Income and Expense Accounts (400 Series)	4-71
.4	Asset Accounts (700 Series)	4-76
.5	Liability Accounts (800 Series)	4-174
.6	Savings and Equity Accounts (900 Series)	4-224

PAGE NO.

ILLUSTRATIONS:

Figure 4-1:	Illustration of a Completed General Ledger Account (Form FCU 102)	4-1
Figure 4-2:	Illustration of a Completed Journal and Cash Record (Form FCU 101)	4-6 & 4-7
Figure 4-3:	Illustration of a Completed Transactions for Cash Receipts and Disbursements and Their Relation to Accounting Records	4-8 & 4-9
Figure 4-4:	Vacant	
Figure 4-5:	Illustration of a Suggested Individual Payroll Ledger	4-197

4000 GENERAL LEDGER ACCOUNTS

4010 BASIC ACCOUNTING

4010.1 PURPOSE OF THE GENERAL LEDGER

The General Ledger (Form FCU 102) is the book of final entry. All other records, regardless of the form they take, summarize postings for or are subsidiary to the General Ledger. It provides a summary record of all transactions which affect the assets, liabilities and ownership of the credit union. It also serves as a source of information from which the financial statements are prepared.

4010.2 OPENING THE GENERAL LEDGER ACCOUNTS

As the need arises accounts should be opened in the General Ledger in accordance with the account names and numbers which are shown in the Chart of Accounts. The name of the credit union and the name and number of the account should be written in the spaces provided. The General Ledger pages should be filed in a binder in numerical order by account number. Only one account should be opened on each General Ledger sheet. When the first page is filled with entries, the same account should be continued on the reverse side.

Figure 4-1: Illustration of a Completed General Ledger Account (Form FCU 102)

OUR
FEDERAL CREDIT UNION

ACCOUNT NO 701

GENERAL LEDGER

19x1 NAME OF ACCOUNT LOANS

DATE	EXPLANATORY REMARKS	FOLIO	DEBIT	CREDIT	DEBIT BALANCE	CREDIT BALANCE
JUNE 30		J.C. 1	4,320.00	3,127.75	4,007.25	
JULY 31		J.C. 3	7,253.00	1,442.75	9,817.50	
AUG 31		J.C. 5	5,060.00	4,669.75	10,277.75	
SEPT 30		J.C. 6	4,025.00	5,657.75	8,575.00	
OCT 31		J.C. 8	5,100.00	3,562.50	10,112.50	
NOV 30		J.C. 11	6,350.00	4,216.25	12,246.25	
DEC 31		J.C. 13	7,400.00	4,437.75	15,208.50	

4010.3 SOURCES OF POSTINGS FROM BOOKS OF ORIGINAL ENTRY

All postings to the General Ledger should be made directly from the Journal and Cash Record as described in the following section.

4010.4 OPENING THE JOURNAL AND CASH RECORD

To open the Journal and Cash Record, the name of the credit union, the month and the year should be written in the spaces provided. Before entering any transactions, enter "l" as the page number on each side of the first double page which is in view when the binder is open. Subsequent double pages should be numbered consecutively with the same number on both double pages.

4010.5 PURPOSE OF THE JOURNAL AND CASH RECORD

The Journal and Cash Record (Form FCU 101) is the book of original entry for all federal credit unions. It provides a means by which all financial transactions and adjustments are gathered together in the order in which they occur for posting to their respective General Ledger accounts. To do this efficiently, transactions affecting the most active accounts are assembled in special columns, the totals (debit totals must equal the credit totals) of which are posted at the end of each month. In addition to the special columns, "Miscellaneous" columns are provided to record entries to the less active accounts. The items entered in the "Miscellaneous" columns should be posted individually to the appropriate General Ledger accounts and dated as of the day the transaction occurs. They may be posted to the General Ledger on the day they are entered in the Journal and Cash Record or at the end of the month.

When the volume of monthly transactions is large, recapitulations may be prepared showing total debits and total credits pertaining to each General Ledger account affected by entries in the "Miscellaneous" columns, and a single debit and credit posting should then be made to each account based on the totals of the entries. When entries in the "Miscellaneous" columns are recapitulated for posting to the General Ledger, the detailed recapitulation should be entered following the last line of the Journal and Cash Record for the month as follows:

Miscellaneous

Acct. No.	*Dr.*	*Cr.*
113		$62.00
151		26.00
420	$80.00	30.00
719	78.00	300.00
738	51.43	62.00
743		8,000.00
801		25.83
	$209.43	$8,443.83

The totals shown at the foot of the recapitulation need to agree with the corresponding totals of the Miscellaneous" debit and credit columns of the Journal and Cash Record.

When transactions occur frequently in an account for which special colonies are not provided, one of the blank columns can be headed up with the name of the account and used to record the transactions. If both debits and credits to the account are numerous, two of the blank columns may be used, one for debits and the other for credits. The total of these columns should then be posted to the General Ledger account at the end of the month in the same manner as the other special columns are posted. Where special columns in excess of five are needed, the Journal and Cash Record (Continuation Sheet) (Form FCU 101A) can be used. This form provides 12 additional blank columns. When this form is used, it is interleaved or placed between the sheets of the Journal and Cash Record form.

4010.6 ILLUSTRATIVE ENTRIES

Entries illustrating the various types of transactions which occur in the operation of a federal credit union are shown in this manual. These illustrations show: (1) debits and credits to the accounts affected, (2) name of the accounts, (3) General Ledger account numbers, and (4) amounts of the entries. These illustrative entries can be used as a guide for entering transactions in the Journal and Cash Record and for posting such entries to the General Ledger. Each entry in the "Miscellaneous" columns of the Journal and Cash Record need to be adequately explained in the column headed "Account".

DAILY CASH RECEIVED SUMMARY VOUCHER

Cash received June 4:

Dr. - Cash (Acct. No. 731)	$461.75	
Cr. - Shares (Acct. No. 901)		$459.25
Cr. - Other Fees and Charges (Acct. No. 131)		2.50

PAYMENT FOR INITIAL SUPPLIES

On June 4, Check No. 1 was issued to Cooperative Supply Company for the initial supplies following the credit union's organization.

Dr. - Unamortized Organization Costs (Acct. No. 768)	$26.43	
Cr. - Cash (Acct. No. 731)		$26.43

DISBURSEMENT FOR A LOAN

On June 7, Check No. 2 was issued to John Jones for a loan:

Dr. - Loans (Acct. No. 701)	$42.00
Cr. - Cash (Acct. No. 731)	$42.00

ESTABLISHING PETTY CASH FUND

On June 7, Check No. 3 was issued to Petty Cash to set up the Petty Cash Fund:

Dr. - Petty Cash (Acct. No. 738)	$5.00
Cr. - Cash (Acct. No. 731)	$5.00

DAILY CASH RECEIVED SUMMARY VOUCHER

Dr. - Cash (Acct. No. 731)	$299.61
Cr. - Shares (Acct. 901)	$277.00
Cr. - Loans (Acct. No. 701)	20.00
Cr. - Interest on Loans (Acct. No. 111)	.36
Cr. - Other Fees and Charges (Acct. No. 131)	2.25

PAYMENT OF EXPENSE

On June 21, Check No. 12 was issued to XYZ Surety Company in payment of surety bond premium:

Dr. - Insurance (Acct. No. 265)	$8.00
Cr. - Cash (Acct. No. 731)	$8.00

DISBURSEMENT FOR A REFINANCED LOAN

On June 28, Check No. 48 for $116 was issued to John Jones for a loan. This check is for a $150 new loan after deducting the balance of $34.00 which was due on a previous loan. (The accumulated interest was paid in cash and recorded with the other cash receipts):

Dr. - Loans (Acct. No. 701) (Note #45)	$150.00
Cr. - Cash (Acct. No. 731)	$116.00
Cr. - Loans (Acct. No. 701) (Note #1)	34.00

DISBURSEMENT FOR A SHARE WITHDRAWAL

On June 30, Check No. 49 was issued to Henry J. Phillips for a share withdrawal:

Dr. - Shares (Acct. No. 901)	$20.00	
Cr. - Cash (Acct. No. 731)		$20.00

TRANSFER FROM SHARES TO LOANS AND INTEREST

On June 28, $10.00 was transferred from the shares of A. B. Duncan as payment on his loan and interest:

Dr. - Shares (Acct. No. 901)	$10.00	
Cr. - Loans (Acct. No. 701		$9.85
Cr. - Interest on Loans (Acct. No. 111)		.15

Entries of these and other transactions to the Journal and Cash Record are illustrated in Figure 4-3.

4020 GROUPS OF GENERAL LEDGER ACCOUNTS

4020.1 PURPOSE OF SIX MAIN GROUPINGS

The General Ledger accounts are grouped and numbered to make identifications easy and to simplify the preparation of trial balances and financial statements. The first number to the left indicates the main group to which the account belongs. These groups are designated based on the first number as follows:

1. Operating Income Accounts (100 Series)
2. and 3. Operating Expense Accounts (200-300 Series)
4. Non-Operating Income (Expense) Accounts (400 Series)
7. Asset Accounts (700 Series)
8. Liability Accounts (800 Series)
9. Equity Accounts (900 Series)

The account numbering order set forth above with income and expense groupings shown before asset, liability and equity groupings, is purposely designed to facilitate the processing of credit union transactions when data processing systems are used. Where the credit union's records are maintained on a manual basis, the sequence arrangement of the six main groupings of the accounts as shown in the manual should present no particular problem.

Figure 4-2: Illustration of a Completed Journal and Cash Record (Form FCU 101)

OUR

FEDERAL CREDIT UNION

Page No. 1

Month of June 19 X1

JOURNAL AND CASH RECORD

	DATE	ACCT NUMBER	NAME OR ITEM		CHECK NUMBER	CASH RECEIVED DR	CASH PAID OUT CR	DATE CHECK PAID	SHARES WITHDRAWN DR	SHARES PAID IN CR	NOTE NUMBER	LOANS LOANED DR	LOANS REPAID CR	
	COL 1	COL 2	COL 3	4	COL 5	COL 6	COL 7	COL 8	COL 9	COL 10	COL 11	COL 12	COL 13	
1														1
2	4		Summary			461 75				459 25				2
3			Cooperative Supply		1		26 43	X						3
4	7		Summary			500 25				498 00				4
5		3	John Jones	X	2		42 00	X			1	42 00		5
6			Petty Cash		3		5 00	X						6
7		17	Mary Jones	X	4		200 00	X			2	200 00		7
8		15	James K. Evans	X	5		100 00	X			3	100 00		8
9		7	A.B. Duncan	X	6		25 00	X			4	25 00		9
10	11		Summary			550 00				548 00				10
11	14		Summary			359 00				327 00			28 75	11
12	15		Summary			299 61				277 00			20 00	12
13		20	Henry J. Phillips	X	7		60 00				5	60 00		13
14	17		Cooperative Supply Co.											14
15														15
16	21		XYZ Surety Co.	X	12		8 00	July						16
17														17
18														18
19	28	3	John Jones	X	48		116 00	July			45	150 00	34 00	19
20		7	A.B. Duncan (Shares to loan)						10 00				9 85	20
21	30	20	Henry J. Phillips	X	49		20 00	July	20 00					21
22						4 661 97	4 309 43		70 00	4 450 98		4 320 00	312 75	22
23														23
24						Debits	Credits							24
25						4 661 97	4 309 43							25
26						70 00	4 450 98							26
27						4 320 00	312 75							27
28						23 35	16 74							28
29						56 43	26 50							29
30							15 85							30
31						9 132 25	9 132 25							31
32														32
33														33

Figure 4-2: (Continued)

OUR

FEDERAL CREDIT UNION

Page No. 1

JOURNAL AND CASH RECORD

Month of June 19 X1

	INTEREST ON LOANS CR	FEES & CHARGES CR	RECOV-ERIES CR							OPERATING EXPENSE CONTROL		ACCOUNT		MISCELLANEOUS		
										ACCT. NO.	AMOUNT			DR	CR	
	COL 14	COL 15	COL 16	COL 17	COL 18	COL 19	COL 20	COL 21	COL 22	COL 23	24	COL 25	COL 26	
1														1
2		2 50												2
3										Unamort, Org.	X	26 43		3
4		2 25								Cost 768				4
5														5
6										Petty Cash 738	X	5 00		6
7														7
8														8
9														9
10		2 00												10
11	75	2 50												11
12	36	2 25												12
13										Stat. & Supp. Accts.				13
14								264	15 85	Payable 801	X		15 85	14
15														15
16								265	8 00	Surety Bond Premium				16
17														17
18														18
19														19
20	15													20
21														21
22	16 74	26 50							23 85			56 43	15 85	22
23														23
24														24
25														25
26														26
27														27
28														28
29														29
30														30
31														31
32														32
33														33

Figure 4-3: Illustration of Completed Transactions for Cash Receipts and Disbursements and Their Related Accounting Records

Form FCU 106 (REV 67)

Service
Federal Credit Voucher

CASH RECEIVED VOUCHER

ACCOUNT NO. *178*

DATE *Aug. 2* 19 *75*

RECD FROM *R.G. Black*

	DOLLARS	CENTS
SHARES	10	00
ENTRANCE FEES		25
LATE CHARGES		
INTEREST ON LOANS		
LOANS		
TOTAL	10	25

RECEIVED BY: *Ha*
POSTED X
CREDIT & PASSBOOK BALANCES
SHARES $ 10.00
LOANS $ -----
CHECKS CROSS/TOD SUBJECT TO COLLECTION

Form FCU 103

Service
CREDIT UNION
INDIVIDUAL SHARE AND LOAN LEDGER

ACCT. NO. *178*
SOC. SEC. NO. *123-45*
TAX IDENT. NO. *6789*

NAME *R.G. Black* ADDRESS *Anytown, Indiana* DATE OF BIRTH

NOTE NUMBER	DATE LOANED	AMOUNT	DATE OF PAYMENT	CO MAKERS NAME	OTHER SECURITY	DATE	ACCT. NO.	CO-SIGNER ON NOTES OF OTHERS NOTE NO.	AMOUNT	DATE PAID

DATE	POST REF.	SHARES LEDGER PAID IN	WITHDRAWN	BALANCE	FULL CHARGES	PAL	BALANCE	DELINQUENCY CONTROL BALANCE SHOULD BE	ON DATE	MEMORANDUM
1975										ENTRANCE FEES COLLECTED
Aug. 2		10 00		10 00						DATE *8-2-75* AMT. *.25*

Form FCU 107 **SHARES**

DATE	PAID IN		WIDTHDRAWN		BALANCE		FEE LATE CHGS.		CASHIER
1975									
Aug. 2	10	00			10	00		.25	Ha.

CASH RECEIPTS ILLUSTRATED

Form FCU 106 (REV 67)

Service
Federal Credit Voucher

CASH RECEIVED VOUCHER

ACCOUNT NO. *Summary*

DATE *Aug. 2* 19 *75*

RECD FROM *Summary Voucher*

	DOLLARS	CENTS
SHARES	112	50
ENTRANCE FEES	3	90
LATE CHARGES	8	69
INTEREST ON LOANS		
LOANS	87	50
TOTAL	212	59

RECEIVED BY: *Mgr.*
POSTED X
CREDIT & PASSBOOK BALANCES
SHARES $
LOANS $
CHECKS CROSS/TOD SUBJECT TO COLLECTION

Form FCU 101

Service
Federal CREDIT UNION
JOURNAL AND CASH RECORD

Page No. *5*
Month of *August* 19 *75*

	DATE	ACCT. NUMBER	NAME OR ITEM	✓	CHECK NUMBER	Cash RECEIVED DR.	Cash PAID OUT CR.	DATE CHECK PAID	Shares WITHDRAWN DR.	Shares PAID IN CR.	NOTE NUMBER	INTEREST ON LOANS CR.	FEES & CHARGES CR.	RECOV-ERIES CR.
	COL 1	COL 2			4 COL 5	COL 6	COL 7	COL 8	COL 9	COL 10	COL 11	COL 14	COL 15	COL 15
1	2		*Summary*			212 59				11250		859	390	
2														
3														
32			*Total for Month*			3 8 1 3 10				276525		2720	896	
33														
34														

Form FCU 102

Service
Federal CREDIT UNION
GENERAL LEDGER

ACCOUNT NO. *901*

1975 NAME OF ACCOUNT *Shares*

DATE	EXPLANATORY REMARKS	FOLIO	DEBIT	CREDIT	DEBIT BALANCE	CREDIT BALANCE
June 30		J.C. 1	7 0 00	4 4 5 0 98		4 3 8 0 98
July 31		J.C. 3	1 5 0 00	2 5 8 2 50		6 8 1 3 48
Aug.30		J.C. 5	7 5 00	2 7 8 5 25		9 5 2 3 73

Figure 4-3: Illustration of Completed Transactions for Cash Receipts and Disbursements and Their Related Accounting Records (Continued)

CASH DISBURSEMENT ILLUSTRATED

Form FCU 107 — SHARES

DATE	PAID IN	WITHDRAWN	BALANCE	FEE LATE CHGS.	CASHIER
1975					
Aug. 2	10 00		10 00	25	Ha
9	10 00		20 00		Ha
16	10 00		30 00		Ha
23	10 00		40 00		Ha
30		25 00	15 00		Ha

JOURNAL VOUCHER — Service Federal C.U.
ACCT NO. 178 NAME R.G. Black DATE 8-30-75

SHARES	25 00
CREDIT	25 00
LOANS	
INTEREST	

CHECK NO. 135 AMT 25.00 APPROVED OR AUTHORIZED BY
ENTERED JCR. X POSTED RECEIVED BY R.G. Black
Form FCU 106A

Form FCU 103 - REV. 53
Service CREDIT UNION
ACCT. NO. 178
SOC. SEC. NO. 123-45
TAX IDENT. NO. 6789
INDIVIDUAL SHARE AND LOAN LEDGER
NAME R.G. Black ADDRESS Anytown, Indiana

NOTE RECORD

NOTE NUMBER	DATE LOANED	AMOUNT	DATE OF 1ST PAYMENT	AMOUNT OF INSTALLMENTS	INSTALLMENT DUE EACH	CO MAKERS ACCT NO.	CO MAKERS NAME	OTHER SECURITY

DATE	POST REF.	SHARES LEDGER PAID IN	WITHDRAWN	BALANCE	FULL CHARGES	LATE CHARGES	LOANS LEDGER NOTE NO.	AMOUNT LOANED	INT. PAID	PRINCIPAL PAID
1975										
Aug. 2		10 00		10 00						
9		10 00		20 00						
16		10 00		30 00						
30			25 00	15 00						

Anytown, Indiana August 30 19 75 No. 135

Pay to the Order of R.G. Black $ 25.00

Twenty-five and no/100 Dollars

SERVICE FEDERAL CREDIT UNION

by

Carl White, President — Harry Ames, Treasurer

Form FCU 101
Service Federal CREDIT UNION
Page No. 5
Month of August 19 75 JOURNAL AND CASH RECORD

	ACCT. NUMBER	NAME OR ITEM	CHECK NUMBER	Cash REC'D DR.	Cash PAID OUT CR.	DATE CHECK PAID	Shares WITHDRAWN DR.	Shares PAID IN CR.	NOTE NUMBER
	COL 1	COL 2	COL 4	COL 5	COL 6	COL 7	COL 8	COL 9	COL 10	COL 11
1	30	178 R.G. Black	135	25 00			25 00		
2									
3									
4									
33		Total for Month		106 29				25 00	
34									

Form FCU 102
Service Federal CREDIT UNION
ACCOUNT NO. 300
GENERAL LEDGER
1975
NAME OF ACCOUNT Shares

DATE	EXPLANATORY REMARKS	FOLIO	DEBIT	CREDIT	DEBIT BALANCE	CREDIT BALANCE
June 30		J.C. 1	7 0 00	4 4 0 98		4 3 8 0 98
July 31		J.C. 3	1 5 0 00	2 5 8 2 50		6 8 1 3 48
Aug.30		J.C. 5	7 5 00	2 7 8 5 25		9 5 2 3 73

4020.2 RELATIONSHIP OF GROUPINGS TO FINANCIAL REPORTS

The main groupings of General Ledger accounts are designed to easily distinguish the asset accounts from the liability, equity, income, and expense accounts and vice versa. The first three groupings (first digits 1 through 4) relate primarily to preparation of the Statement of Income (FCU 109B). The last three groupings (first digits 7 through 9) relate to the preparation of the Statement of Financial Condition (FCU 109A) and, later to the Statement of Reserves and Undivided Earnings (FCU 109D). Accounts in all groupings affect the preparation of the Statement of Cash Flows.

4020.3 SUBORDINATE GROUPINGS WITHIN MAIN CLASSIFICATIONS

Within the main classifications of General Ledger accounts (first digits 1 through 9), the second digits identify subordinate groupings of accounts generally in conformance with the groupings of individual accounts as required for separate captions on financial reports. The third digits are used for individual accounts related to each subordinate (second digit) grouping. This arrangement is also provided to permit flexibility in the event it later becomes necessary to prescribe additional account classifications.

4020.4 USE ONLY NEEDED ACCOUNTS

Each credit union need only use the particular General Ledger accounts required for recording its financial activities.

4020.5 USE OF ADDITIONAL ACCOUNTS

Any credit union may establish additional General Ledger accounts required by it for the classification of its financial activities. For example, where several checking accounts are maintained for current cash deposits, separate accounts can be established in the 730 series. Likewise, where additional expense categories are needed to provide identification of classes of expense in more detail than provided for in the chart of accounts, new accounts may be established within the appropriate subgroupings shown in the chart.

4020.6 NUMBERING OF GENERAL LEDGER ACCOUNTS

The Chart of General Ledger Accounts set forth in this manual has been assigned numbers as described above and is provided for use by any federal credit union. The financial report forms identify the particular assigned account numbers which are related to the various main captions shown in the Statement of Financial Condition. Any credit union may at its option use a different system for numbering its General Ledger accounts subject to the requirements that the system adopted can permit the classification of transactions in at least the detail required by the financial report forms (FCU 109A, Statement of Financial Condition; 109B, Statement of Income; 109C, Supporting Schedules for Financial Statements; 109D, Statement of Changes in Earnings; and 109E, Statement of Cash Flows).

4020.7 SINGLE OPERATING EXPENSE (CONTROL) ACCOUNT AS AN OPTIONAL PROCEDURE

The Chart of Accounts provides for operating expense classifications (200 and 300 series of accounts) as separate General Ledger accounts. Under this treatment each expense account would be established and maintained as a separate page of the General Ledger (Form FCU 102) and would appear as a separate item on the trial Balance of General Ledger Accounts (Form FCU 116). As an option, an Expense Control Account and Expense Ledger (Form FCU 104) may be maintained instead of separate General Ledger pages for each operating expense classification.

4030 ACCOUNTING BASIS-MODIFIED CASH BASIS OR ACCRUAL BASIS

This manual prescribes two alternative bases for use by federal credit unions in maintaining their accounting records; namely, the Modified Cash Basis and the Accrual Basis. These bases of accounting are described below.

4030.1 MODIFIED CASH BASIS

4030.1.1 MINIMUM PROCEDURE PRESCRIBED FOR ALL CREDIT UNIONS

The modified cash basis of accounting represents the minimum requirements prescribed for use by federal credit unions in maintaining their accounting records. Each credit union is required to at least maintain its accounting records on this basis to recognize: (a) all cash transactions and (b) those additional transactions set forth below. All credit unions are encouraged to follow the accrual basis of accounting. The accrual basis of accounting is recommended for certain credit unions, generally those with assets totaling $2,000,000 or more, as described in Section 2020.10 of this manual.

4030.1.2 DEFINITION OF MODIFIED CASH BASIS

The modified cash basis of accounting prescribed herein is a cash basis of accounting under which financial transactions are recorded based on the actual receipt or disbursement of cash. In order, however, to recognize in the accounting records certain significant transactions which have not yet been the subject of a cash receipt or a cash disbursement, the modified cash basis of accounting also should make provision for recording:

- Liabilities which are not promptly paid when due. Recurring monthly bills should be recorded consistently from month to month as paid by the credit union, and nonrecurring bills should be recorded when due and payable.
- Dividends and interest refunds applicable to the accounting period but not yet paid. The amount of unpaid dividends and interest refunds due members based on declarations by the board of directors should be recorded as a current charge to expense and as a liability.
- Deferred income or expense applicable to future periods. This applies to income and expense items of material

amounts which should be excluded from current operating income or expenses and included in income and expenses in future periods to the extent applicable.

- Estimated losses to be sustained on loans outstanding and other risk assets. This should represent net adjustments during the period to the valuation allowances maintained for losses on loans, investments, and assets.
- Depreciation on fixed assets. This requires charges to expense during the period to record depreciation on buildings, furniture and equipment unless these assets have previously been written off.

4030.1.3 SHORTCOMINGS OF MODIFIED CASH BASIS

The modified cash basis of accounting has certain shortcomings which can be overcome by adopting the accrual basis of accounting. Under the modified cash basis there are no provisions for recording in the current period:

Accrued interest earned and uncollected on loans. Loans outstanding usually represent the largest single asset account of credit unions. The related accrued interest earned and uncollected may represent a material asset that is not recognized in the accounts or in the financial reports under the modified cash basis. This affects both the aggregate assets shown in the Statement of Financial Condition and the current income as shown in the Statement of Income. The material significance of accrued unpaid interest on loans will vary between credit unions depending on their size and whether or not their loan agreements provide for regular monthly installment repayments.

Accrued income from investments. The failure to record this asset on the accrual basis results in understatements of both total assets and total operating income in periodic financial statements. It also causes significant fluctuations in income statements where significant amounts of interest income are received sporadically, such as at quarterly, semiannual or other intervals.

Accrued interest payable. Failure to recognize the liability for accrued interest payable on borrowings results in understatements of liabilities and in total operating expenses especially when payment of this expense is made infrequently.

Accrued expense. When the modified cash basis of accounting is used, expenses are frequently charged for significant costs relating to prior periods.

4030.2 ACCRUAL BASIS OF ACCOUNTING

4030.2.1 DEFINITION OF ACCRUAL BASIS

The accrual basis of accounting is the method of accounting under which liabilities and expenses are recorded when incurred, whether or not paid, and income is recorded when earned, whether or not received. This basis of accounting provides the most complete and informative record of the financial activities of a credit union.

4030.2.2 APPLICABILITY

As stated in Section 2020.10, the adoption of the accrual basis is recommended for credit unions with assets totaling $2,000,000 or more and should be used for all other credit unions for which the basis is deemed practicable by the credit union's board of directors.

4030.2.3 SCOPE OF ACCRUALS

The adoption of the accrual basis of accounting by any credit union contemplates that accruals will recognize all significant elements of income as earned, and all significant elements of expense as incurred. The differences from the modified cash basis, discussed below, do not present a substantial impairment to the uniform accounting system. Yet, they will serve to spread certain income and expense items over the period of time to which applicable.

If a credit union adopts the accrual basis it should be prepared to stay on that basis because, unless there is consistency from period to period, its financial picture will be distorted. Credit unions should also realize that adoption of the accrual basis may distort to some extent the financial picture in the accounting period in which the accrual basis is adopted.

The accounting system which is generally referred to as "accrual accounting" serves to apportion income and expense to the period in which the income is earned, regardless of when it is actually collected, and to the period in which expenses are incurred, regardless of when they are actually paid. When the accrual basis of accounting is used, accruals need to be recorded monthly or at least quarterly or at the end of each regular share account dividend period, if that period is longer than quarterly.

The accrual basis of accounting can be categorized into four areas as follows: Accrued Income, Accrued Expenses, Deferred Charges, and Deferred Credits.

4030.2.4 ACCRUED INCOME

The accrual of income is accomplished by debiting an asset account for the amount of income accrued and crediting the appropriate income account. This results in the allocation of income to the period earned prior to actual collection. The basic asset accounts to be established are "Accrued Interest on Loans", (Account No. 781) and "Accrued Income on Investments", (Account No. 782).

4030.2.4.1 ACCRUED INTEREST ON LOANS

Interest on loans and other receivables may be the largest single item of uncollected income. "Accrued Interest on Loans" represents the uncollected interest on members' loans based on their outstanding loan balances at all interest rates. The uncollected interest is determined by the use of composite interest rate factors that are applied to the respective outstanding loan balances derived through manual computations or use of computerized totals at various interest rates. The accrued interest should also include the applicable amounts of amortization relating to net origination fees and discounts on loans purchased that are required to be accounted for as an adjustment of yield.

4030.2.4.2 ACCRUED INCOME ON INVESTMENTS

Income on all types of investments can be recorded in each accounting period based on the actual time investments are owned or held for which the investment income has not been received. This applies to investments in savings and loan associations, other credit unions, common trust or mutual funds investments and all other investments. Each period, income accrued on common trust investments and mutual funds should be adjusted as required based on advice of income received during the ensuing month. Interest on the general type of government securities can be accrued each period based on the applicable portion of the semiannual interest. Income from dividends on savings and loan shares can be accrued based on the best information available as to the estimated effective dividend rate; appropriate adjustments should be made to reflect the actual effective investment income when this information becomes known. Income accrued on certificates of deposit may require an adjustment for a penalty assessed for withdrawal before maturity.

Below is an example of the entries in connection with the accrual of interest on U.S. Government bonds. This example also illustrates the use of "Accrued Income on Investments", (Account No. 782).

Assume a United States Government Bond is purchased March 15; par value $1,000; interest rate 6 percent, payable semiannually on December 31 and June 30; purchased at 102 plus $2.50 commission and accrued interest (cost of bond $1,022.50; accrued interest purchased $12.50).

Dr. - U.S. Government Obligations (Acct. No. 741)	$1,022.50	
Dr. - Accrued Income on Investments (Acct. No. 782)	12.50	
Cr. - Cash (Acct. No. 731)		$1,035.00

If interest is accrued at the end of each month, the following entry would be made at the end of March:

Dr. - Accrued Income on Investments (Acct. No. 782)	$2.50	
Cr. - Income on U.S. Government Obligations (Acct. No. 121)		$2.50

At the end of each succeeding month the following entry would be made:

Dr. - Accrued Income on Investments (Acct. No. 782)	$5.00	
Cr. - Income on U.S. Government Obligations (Acct. No. 121)		$5.00

Upon receipt of the interest payment at June 30 the following entry would be made:

Dr. - Cash (Acct. No. 731) $30.00
  Cr. - Accrued Income on
    Investments (Acct. No. 782) $30.00

An illustration of the recording of income on a bond involving the amortization of a premium or the accretion of a discount can be found in Section 4050.4.

The following are examples of the entries required to record the collection of income on savings and loans shares which had previously been accrued.

If the dividend (or interest) is paid in cash, the following entry would be made upon receipt of the check:

Dr. - Cash (Acct. No. 731) $62.50
  Cr. - Accrued Income on
    Investments (Acct. No. 782) $62.50

If the dividend (or interest) is paid by credit to the investment account, the following entry is made:

Dr. - Other Shares, Deposits, and
Certificates (Acct. No. 746) $62.50
  Cr. - Accrued Income on
    Investments (Acct. No. 782) $62.50

4030.2.5 ACCRUED INSURANCE REFUNDS-LIFE SAVINGS AND BORROWERS' PROTECTION INSURANCE

Another accrual which might fall into the category of accrued assets occurs when credit unions have life savings and borrowers' protection insurance policies which provide that the cost to the credit union is based on claims experience. Generally, the amount of the premium and the formula for computing a refund based on claims experiences are expressly stated in the policies. The policies usually provide that on the anniversary date there will be a settlement to determine any refunds due the credit union.

A credit union with such a policy may decide to employ accounting procedures that will show the insurance cost to the credit union for periods between settlement dates. This can be done by adjusting the records periodically in the same manner as would be done at settlement dates. Adjustments would involve the following accounts:

No. 312-Life Savings Insurance
No. 313-Borrowers' Insurance
No. 799-Other Assets

The adjustments to expense Account Nos. 312 and 313 should involve the cost of the insurance and Account No. 799 should reflect any amounts that would be due from the insurance company as of the adjustments date on the basis of premiums and claims paid. (Adjustments should not be made on the basis of claims filed). The adjustments may be made periodically as determined by the board of directors.

"Other Assets", (Account No. 799) is used in this case since the asset is not properly represented as earned income as is the case in the examples of income accruals, but instead represents a potential receivable from the insurance company. The final adjustment made as of the settlement date should represent the actual status of the accounts involved.

4030.2.6 ACCRUED EXPENSES

Expenses are accrued in order to allocate expenses prior to actual payment, to the period incurred, regardless of when due and payable. The accrual of expenses is accomplished by establishing a liability account for the amount of expense accrued and debiting the appropriate expense account. The basic liability accounts should be the Accrued Expenses, (Accounts Nos. 851 through 859). The board of directors authorizes the accrual of any expense item and requires the accrual to be recorded in a manner that is consistent with good accounting practice. One of the basic criteria is that each accounting period should be charged as closely as possible with the expenses applicable to that period.

An example of the accrual of dividends is illustrated below. In this example, the board has estimated in January that the semiannual dividend to be paid as of the following June 30 will be $6,000, and it is desired that the expense be accrued monthly. The following entry should be made in connection with the dividend during each month of the dividend period:

Dr. - Dividend Expenses		
(Acct. No. 380)	$1,000	
Cr. - Accrued Dividends		
Payable (Acct. No. 854)		$1,000

At the end of June, the liability account will have a balance of $6,000 for the dividend. If dividends are credited to shares on June 30 and the estimate was accurate, the following entry should be made to record the distribution of the dividend to members' accounts:

Dr. - Accrued Dividends Payable		
(Acct. No. 854)	$6,000	
Cr. - Shares (Acct. No. 901)		$6,000

If dividends are not credited to shares until July 1, the June 30 financial statements should reflect the dividend liability as an amount payable rather than as an accrued expense. In this case, the following entry should be made prior to closing the books on June 30:

Dr. - Accrued Dividends Payable		
(Acct. No. 854)	$6,000	
Cr. - Dividends Payable		
(Acct. No. 820)		$6,000

The following entry would then be made to record distribution of the dividend on July 1:

Dr. - Dividend Payable		
(Acct. No. 820)	$6,000	
Cr. - Shares (Acct. No. 901)		$6,000

Credit unions may not wish to accrue expenses as frequently as monthly. They can still allocate certain readily determinable expenses to the dividend period in which they are applicable. In such a case, credit unions can, at least quarterly or at the close of the regular share account dividend period if longer than quarterly, accrue expenses which have been incurred but which are not due and payable at that date. Examples are salaries, cost of space occupied, and interest on borrowed money. The appropriate expense account should be debited and the appropriate accrued expense account under the category Accrued Expenses (Account Nos. 850-859) credited. When these expenses are paid, the appropriate accrued expense account should be debited for the amount accrued.

4030.2.7 DEFERRED CREDITS

Deferred credits are generally defined as being advances of income and revenue prior to the performance of the services or transfer of the goods necessary to earn the income. Credit unions may use this account to allocate dividends on the savings and borrowers' protection insurance to the accounting periods that will benefit from the dividends. The procedure applies to insurance policies on which the credit union pays premiums on a periodic basis and may receive, at the discretion of the insurance company, dividends in one year based on the previous year's premiums. If a substantial refund was credited to income when received, this could result in a distortion of the insurance expense for that period when the books are closed more frequently than annually. Thus the dividend may be debited to "Other Prepaid Insurance", (Account No. 766) and credited to "Other Non-Operating Income (Expense)", (Account No. 440). Account No. 766 should be amortized over the 12-months benefited.

Under some circumstances, it may be reasonable to adopt and apply the theory that future periods benefit from dividends earned in a prior period. Since insurance dividends are generally received on an annual basis, it follows that the period that may benefit will be the year after the dividends are earned (i.e., the year in which the dividends are received). Since the entire year benefits, it is logical to reason that each of the remaining accounting periods should benefit equally. Therefore, a credit union that receives an insurance dividend credit in the first part of the year may distribute this credit evenly over the remaining periods of the year.

When notice is received of the insurance dividend credit, the charge for the entire amount of the credit should be to "Other Prepaid Insurance", (Account No. 766). "Borrowers' Insurance", (Account No. 313) or "Other Miscellaneous Operating Income", (Account No. 151), should then be credited, as appropriate. The amount of the credit may be only one-twelfth, one fourth or one-half of the amount of the dividend depending upon the frequency of the accruals. The remaining portion should be credited to "Deferred Credits-Insurance Premium Rebates", (Account. No. 882). During the remaining accrual periods in the calendar year, "Deferred Credits Insurance Premium Rebates", (Account No. 882) should be debited and the appropriate expense accounts or "Other Miscellaneous Operating Income", (Account No. 151) credited for the remaining proportionate parts of the dividend. Advances of funds received by a credit union pursuant to a grant from a governmental or private agency, to be used for various expenses, should be recorded as a deferred credit.

4030.2.8 DEFERRED CHARGES

Deferred charges are generally defined as the creation of an asset resulting from the prepayment of an expense item which should properly be allocated to subsequent operations. The significant consideration is to establish the asset at a reasonable value. When the Statement of Financial Condition is presented it should report a bona fide charge. The following asset accounts are provided in connection with deferred charges:

No. 763-Deferred Charges-Commitment Fees on Loans to be Purchased
No. 764-Prepaid Rent
No. 765-Prepaid Share Insurance
No. 766-Other Prepaid Insurance
No. 767-Deferred Pension Costs
No. 768-Unamortized Organization Costs

Detailed descriptions pertaining to the use of each account are given in Section 4050.4, listed by account number.

The board of directors may treat any other prepayment of expenses as a deferred charge. The asset account to be used is "Other Prepaid Expenses and Deferred Charges", (Acct. No. 769). This account can be debited as expenses are allocated (amortized) to the appropriate expense account in accordance with the period of amortization determined by the board of directors.
Below are some types of expenses that can be treated as deferred charges.

Stationery and Supplies

Credit unions sometimes purchase large quantities of forms to take advantage of lower unit costs (discounts) on large quantity buys. The cost of supplies is used to determine the amount of the deferred charge. If for example, a purchase of a 2-year supply of Individual Share and Loan Ledgers and members' passbooks is made and it is decided that the $1,200 cost is to be amortized monthly, the following entries would be made:

Upon Purchase:

Dr. - Other Prepaid Expenses
and Deferred Charges
(Acct. No. 769) $1,200.00
Cr. - Cash (Acct. No. 731) $1,200.00

At the End of the Month:

Dr. - Stationery and Supplies
(Acct. No. 264) $50.00
Cr. - Other Prepaid Expenses
and Deferred Charges
(Acct. No. 769) $50.00

Association Fees

Dues to a credit union organization are usually paid in advance. The cost may be amortized over the credit union's fiscal year as follows:

Upon payment of a year's dues:

Dr. - Other Prepaid Expenses and Deferred Charges (Acct. No. 769)	$840.00	
Cr. - Cash (Acct. No. 731)		$840.00

At the end of each month:

Dr. - Association Dues (Acct. No. 240)	$70.00	
Cr. - Other Prepaid Expenses and Deferred Charges (Acct. No. 769)		$70.00

Share Insurance Premium

The premium for share insurance may be amortized over the year for which the premium is paid.

Upon payment of a year's premium:

Dr. - Prepaid Share Insurance (Acct. No. 765)	$822.00	
Cr. - Cash (Acct. No. 731)		$822.00

At the end of each month:

Dr. - Share Insurance (Acct. No. 311)	$68.50	
Cr. - Prepaid Share Insurance (Acct. No. 765)		$68.50

4030.2.9 CONVERSION TO THE ACCRUAL BASIS OF ACCOUNTING

Conversion to the accrual basis of accounting should be accomplished immediately following the closing of the federal credit union's books at the end of a dividend period. It is recommended that all required financial statements be prepared both before and after the conversion to the accrual basis of accounting.

Under generally accepted accounting principles (GAAP), conversion to the accrual basis of accounting requires treatment as a prior period adjustment. Prior period adjustments should be reflected as adjustments to the opening balance of undivided earnings.

4030.2.9.1 ACCRUED INCOME

The conversion journal entry may be made by debiting each applicable accrued income account in the 780 account series and crediting Undivided Earnings with the amount of income earned but not yet received at the end of the accounting period.

How to determine the amount of accrued income:

#1 Accrued Interest on Loans (Acct. No. 781) can be determined by calculating the total loans outstanding at each effective interest rate, multiplying these totals by the appropriate monthly interest rate factors and prorating that amount for the average number of days of unpaid interest divided by the number of days in a year. It also may be determined by calculating the unpaid interest on individual loan balances. The individual calculations of unpaid interest would then be totaled and recorded as a lump sum. When the individual loan ledgers are maintained via electronic data processing, the amount of unpaid interest is usually available on month-end reports provided by the data processor.

#2 Accrued Income on *Investments (Acct. No. 782)* can be determined by calculating earned income using a similar method of interest computation as that used by the investee institution in which the funds are invested.

#3 Accrued Credit Card Income (Acct. No. 783) should be the total of billed interest charges that were calculated by the credit card processor and added to the member's statements of account, less members' payments posted by the credit card processor.

#4 Accrued Interest on Real Estate Loans (Acct. No. 784) may be determined in the same manner as described for Acct. No. 781 above.

#5 Purchased Accrued Interest Receivable on Loans (Acct. No. 785) may be calculated by deducting any interest received on purchased loans from the total interest receivable purchased.

#6 Accrued Interest on Loan Participations Purchased (Acct. No. 786) may be determined by adding together any unpaid interest on loans that was included in the purchase of a loan participation.

#7 Accrued Income on *NCUSIF Investment (Acct. No. 788)* should be accrued only when the NCUA Board of Directors declares a redistribution from the NCUSIF and should be calculated by multiplying the investment amount by the interest rate stated in the notice of redistribution, dividing by 365 days and multiplying by the number of days of unpaid interest accrued.

#8 Other Accrued Income (Acct. No. 789) should be the total of any other income earned but not yet received at the end of the accounting period and may be determined by using the same basis and method of computation as the individual or institution that is making the income payment.

4030.2.9.2 ACCRUED EXPENSES

The conversion Journal and Cash Record entry may be made by crediting each applicable accrued expense account in the 850 account series and debiting Undivided Earnings with the amount of expenses accrued and not yet paid at the end of the accounting period.

How to determine the amount of accrued expenses:

#1 Accrued Interest Payable (Acct. No. 818) should be computed using the same interest computation method(s) for computing interest on borrowed money that is specified in the respective loan agreement(s) to which the federal credit union is a party.

#2 Accrued Salaries (Acct. No. 851) should be computed based on the amount of salaries earned, but unpaid. They should be recorded on a basis of cost per hour for hourly paid employees, and by a prorated ratio of unpaid work days at period-end to total workdays for the period, for salaried employees.

#3 Accrued Employee Benefits (Acct. No. 852) should be determined on the same basis that was used for accrued salaries, i.e., using an hourly or salary basis.

#4 Accrued Cost of Space Occupied (Acct. No. 853) should be established at period-end based on the space occupancy cost per day for the number of days remaining for which occupancy costs have not been paid.

#5 Accrued Dividends Payable (Acct. No. 854) should be computed and accrued on accounts in which a rate has been specified in advance or contracted for. The accrual should be computed using the rate stated in the contract and should encompass dividends earned but not credited to the member's account.
#6 Accrued Accounting Service Cost (Acct. No. 855) should be computed using an average daily cost based on past experience. The daily cost should be multiplied by the number of remaining days within the period for which the cost has been incurred and has not been paid.

#7 Other Accrued Expenses (Acct. No. 859) should be based on an average daily historical cost or by any other method that accurately reflects the incurred cost at period end which has remained unpaid.

4030.2.10 TRANSACTIONS AFTER CONVERSION TO ACCRUAL ACCOUNTING

At the end of each month:

a) The Account Series 780 should be debited for the amount of income earned but not received for the period (with the appropriate income accounts credited for the same amount).

b) The Account Series 850 should be credited for expenses incurred but not yet paid for the month (with the appropriate expense accounts debited for the same amount).

The first day of the next period and following, income collected may be credited to the Account Series 780 until these accounts reach zero with subsequent income collections credited to the proper income accounts. Expenses paid may be debited to the Account Series 850 until these accounts reach zero with subsequent expense payments debited to the appropriate expense accounts.

4030.2.11 OVER OR UNDER ACCRUED EXPENSES

4030.2.11.1 OVER ACCRUED EXPENSES

If at the time of payment of an accrued expense, the amount to be paid is less than the amount that has been accrued, the following entry should be recorded:

Account Title	Acct. No.	Dr.	Cr.
Accrued Expenses	818, 851-859 852, 853	xxxx	
Operating Expenses	200, 399		xxxx

4030.2.11.2 UNDER ACCRUED EXPENSES

If at the time of payment of an accrued expense, the amount to be paid is more than the amount that has been accrued, the following entry should be made:

Account Title	Acct. No.	Dr.	Cr.
Operating Expense Accounts	200-399	xxxx	
Accrued Expenses	818, 851-859 852, 853		xxxx

4030.3 ACCRUAL ENTRIES IN GENERAL LEDGER ACCOUNT DESCRIPTIONS

The General Ledger account descriptions set forth below and following contain the operating procedures applicable to the accounts for federal credit unions following the modified cash basis of accounting. For each General Ledger account that may be subject to a different procedure under the accrual basis of accounting, a separate subheading may be provided which describes the alternate procedure applying to the accrual basis.

CHART OF GENERAL LEDGER ACCOUNTS

The chart of General Ledger accounts includes six main groups of accounts as follows:

4040.1 OPERATING INCOME ACCOUNTS (100 SERIES)

110 Income from Loans
- 111 Interest on Loans
  - 111.1 Interest on Business Loans
  - 111.2 Interest on Agriculture Loans
  - 111.3 Interest on Consumer Loans
  - 111.4 Interest on Mobile Home Loans
  - 111.5 Interest on Share Secured/Insured
  - 111.6 Interest on Other Member Loans
  - 111.7 Interest on Home Equity Loans
- 112 Interest on Lines of Credit
  - 112.1 Interest on Other Lines of Credit
  - 112.2 Interest on Credit Cards
- 113 Income from Loans of Liquidating Credit Unions
- 114 Interest on Real Estate Loans
  - 114.1 Interest on Real Estate Loans Over 12 Years
  - 114.2 Interest on Real Estate Loans 12 Years and Under
- 115 Interest on Loans and Other Obligations Purchased (100%)
- 116 Interest on Loans Participations Purchased
- 117 Service Income on Loans Sold and Participations
- 118 Interest Income on Other Miscellaneous Nonmember Loans
- 119 Interest Refunds

120 Investment Income
- 121 Income from U.S. Government Obligations
- 122 Income from Federal Agency Securities
- 123 Income from Investment in NCUSIF
- 124 Interest on Trading Securities
- 125 Income from Common Trust Investments
- 126 Income from Shares/Deposits/Certificates of Corporate Credit Unions
- 127 Income from Shares/Deposits/Certificates of Other Credit Unions
- 128 Income from Other Shares/Deposits/Certificates
  - 128.1 Income from Investments in Credit Union Service Corporations (CUSO)
- 129 Income from Other Investments

130 Fees and Charges
- 131 Other Fees and Charges
- 132 Loan Origination Fees

140 Gain (Loss) on Sale of Loans and Other Obligations
- 141 Gain (Loss) on Sale of Eligible Obligations

150 Miscellaneous Operating Income
- 151 Other Miscellaneous Operating Income
- 152 Miscellaneous Fee Income
- 153 Credit Card Interchange Income
- 154 Miscellaneous Operating Income Earned on Leases

160 Service Income on Loans and Other Obligations
- 161 Service Income of Loans and Other Obligations
- 162 Service Income on Credit Card Loans
- 163 Service Income-Net Commitment Fees

170 Trading Profits and Losses

4040.2 OPERATING EXPENSE ACCOUNTS (200-300 SERIES)

210 Compensation Expense
- 211 Salaries
- 212 Reimbursement to Sponsor for Services
- 219 Other Compensation

220 Employee Benefits
- 221 Pension Plan Costs
- 222 Social Security Taxes (Employers' Share)
- 223 Unemployment Compensation Taxes
- 224 Other Employee Benefits

230 Travel and Conference Expenses
- 231 Employees' Travel and Conference Expenses
- 232 Officers' and Directors' Travel and Conference Expenses
- 239 Other Travel and Conference Expenses

240 Association Dues

250 Office Occupancy Expenses
- 251 Rent
- 252 Maintenance of Buildings
- 253 Utilities
- 254 Depreciation of Buildings
- 255 Amortization of Leasehold Improvements
- 256 Real Estate Taxes
- 257 Depreciation Expense for Leased Assets
- 259 Other Office Occupancy Expenses

260 Office Operations Expenses
- 261 Communications
- 262 Rental of Furniture and Equipment
- 263 Maintenance of Furniture and Equipment
- 264 Stationery and Supplies
- 265 Insurance
- 266 Depreciation of Furniture and Equipment
- 268 Bank Service Charges
- 269 Other Office Operations Expenses

270 Educational and Promotional Expense
- 271 Advertising
- 272 Publicity and Promotions
- 279 Other Educational and Promotional Expenses

280 Loan Servicing Expenses
- 282 Collection Expenses
- 283 Recording Fees-Chattel Lien Insurance
- 284 Credit Reports
- 285 Refunds-Real Estate Finance Charges
- 286 Credit Card Program Expenses
- 287 Service Fees on Loans Purchased
- 289 Other Loan Servicing Expenses

290 Professional and Outside Services
- 291 Legal Fees
- 292 Audit Fees
- 293 Accounting Services
- 294 Management Consulting Fees
- 299 Other Professional and Outside Services

300 Provision for Loss
- 301 Provision for Loan Losses-Consumer Loans
- 302 Provision for Loan Losses-Lines of Credit
- 303 Provision for Loan Losses-Real Estate Loans
- 304 Provision for Loan Losses-Mobil Home Loans
- 305 Provision for Loan Losses-Other Loans
- 309 Other Provision for Losses

310 Members' Insurance
- 311 Share Insurance
- 312 Life Savings Insurance
- 313 Borrowers' Insurance
- 319 Other Members' Insurance

320 Federal Operating Fee Expense

330 Cash Over and Short

340 Interest on Borrowed Money
- 341 Inputted Interest Costs
- 342 Other Interest on Borrowed Money

350 Annual Meeting Expenses

360 Truth in Lending Expenses (TIL)
- 361 Truth in Lending Reimbursement of Interest Overcharges
- 362 TIL Restitution

370 Miscellaneous Operating Expenses
- 371 Unexercised Commitment Fees
- 372 Commitment Fees on Borrowed Money

380 Dividend Expenses
- 380.1 Regular Share Dividend Expense
- 380.2 Share Draft Dividend Expense
- 380.3 Club Account Dividend Expense
- 380.4 IRA/Keogh Dividend Expense
- 380.5 IRA/Keogh Certificate Dividend Expense
- 380.6 Share Certificate Dividend Expense
- 380.7 Money Market Dividend Expense
- 380.8 Other Dividend Expense

385 Interest on Deposits

4040.3 NONOPERATING INCOME AND EXPENSE ACCOUNTS (400 SERIES)

400 Nonoperating Income (Expense)

420 Gain (Loss) on Investments

430 Gain (Loss) on Disposition of Assets

440 Other Nonoperating Income (Expense)
- 446 Extraordinary Gains and Losses

4040.4 ASSET ACCOUNTS (700 SERIES)

700 Loans to Members
- 701 Loans
  - 701.1 Commercial Loans
  - 701.2 Agriculture Loans
  - 701.3 Consumer Loans
  - 701.4 Other Member Loans
  - 701.5 Home Equity Loans
  - 701.8 Net Commitment Fees-Loans to Members
  - 701.9 Net Origination Fees (Costs)-Loans to Members
- 702 Lines of Credit to Members
  - 702.1 Lines of Credit to Members-Credit Cards
  - 702.2 Lines of Credit-Cash Advances in Process
  - 702.3 Net Origination Fees (Costs)-Lines of Credit
  - 702.4 Net Commitment Fees (Costs)-Lines of Credit
- 703 Real Estate Loans Over 12 Years
  - 703.1 Net Origination Fees (Costs)-Real Estate Loans Over 12 Years
- 704 Real Estate Loans 12 Years or Less
  - 704.1 Net Origination Fees (Costs)-Real Estate Loans 12 Years or Less
- 705 Mobile Home Loans
  - 705.1 Net Origination Fees (Costs) Mobile Home Loans
- 706 Share Secured/Insured Loans
- 707 Loans-Collateral in Process of Liquidation

710 Other Loans
- 711 Notes and Contracts Receivable
- 712 Loans Purchased from Liquidating Credit Unions
  - 712.1 Discounts on Loans Purchased from Liquidating Credit Unions
- 713 Loans Purchased from Liquidating Credit Unions-Collateral in Process of Liquidation
- 714 Loans or Other Obligations Purchased
  - 714.1 Premium on Loans Purchased
  - 714.2 Discount on Loans Purchased
- 715 Loan Participations Purchased
  - 715.1 Premium on Loan Participations Purchased
  - 715.2 Discount on Loan Participation Purchased
- 716 Loan Participations Sold
  - 716.1 Loan Participations Sold (Contra-Asset Account)
- 717 Other Miscellaneous Nonmember Loans
- 718 Loans Subject to Repurchase Agreements
- 719 Allowance for Loan Losses

720 Other Receivables
- 721 Payroll Deductions Receivable
- 722 Receivables from Officials and Employees
- 723 Lease Payments Receivable
- 724 Insurance Premiums Receivables
- 725 Advance for Taxes, Insurance, and Other Charges
- 727 U.S. Savings Bonds Redeemed Receivable
- 728 Real Estate Loans Receivable
- 729 Other Accounts Receivable
  - 729.1 TIL Bond Claim Receivable
  - 729.2 TIS Bond Claim Receivable

730 Cash
- 731 Cash-Checking Account
- 732-735 Reserved for Additional Cash Accounts
- 736 Treasury Tax and Loan Remittance
- 737 Cash-U.S. Bond Installment Payments
- 738 Petty Cash
- 739 Cash Fund

740 Investments
- 741 Held-to-Maturity Securities
  - 741.1 Discount on Held-to-Maturity Securities
  - 741.2 Premium on Held-to-Maturity Securities
- 742 Trading Securities
- 743 Available-for-Sale Securities
- 744 Shares, Deposits, Certificates of Corporate Credit Unions
- 745 Shares, Deposits, Certificates of Other Credit Unions
- 746 Other Shares, Deposits, and Certificates
  - 746.1 Commercial Bank Deposits
  - 746.2 Savings & Loans and Mutual Savings Bank Deposits
  - 746.3 Other Investments
- 747 Loans to Other Credit Unions
- 748 Investments in Credit Union Service Corporations
  - 748.2 Loans to Credit Union Service Corporations
- 751 Investment in Central Liquidity Facility
  - 751.1 Investment in CLF Membership Stock
  - 751.2 Investment in CLF Liquidity Clearing
- 752 Investment in NCUA Share Insurance Capitalization Fund
- 753 Investment in Branch
- 755 Purchased Accrued Interest Receivable

760 Prepaid Expenses and Deferred Charges
- 762 Deferred Charges-Commitment Fees Paid in Connection With the Acquisition of Borrowed Funds
- 763 Deferred Charges-Commitment Fees on Loans to be Purchased
- 764 Prepaid Rent
- 765 Prepaid Share Insurance
- 766 Other Prepaid Insurance
- 767 Deferred Pension Cost
- 768 Unamortized Organization Costs
- 769 Other Prepaid Expenses and Deferred Charges

770 Fixed Assets
- 771 Land
- 772 Building
- 773 Allowance for Depreciation of Building
- 774 Furniture and Equipment
- 775 Allowance for Depreciation of Furniture and Equipment
- 776 Leasehold Improvements
- 777 Allowance for Amortization of Leasehold Improvement
- 778 Leased Assets Under Capital Lease
- 779 Allowance for Depreciation of Leased Assets

780 Accrued Income
- 781 Accrued Interest on Loans
- 782 Accrued Income on Investments
- 783 Accrued Credit Card Income
- 784 Accrued Interest on Real Estate Loans
- 785 Purchased Accrued Interest Receivable on Loans (100%)
- 786 Accrued Interest on Loan Participations Purchased
- 787 Accrued Interest-Other Lines of Credit to Members
- 788 Accrued Income on NCUSIF Investment
- 789 Other Accrued Income

790 Other Assets
- 792 Insurance Premium Stabilization
- 793 Monetary Control Reserve Deposits
- 797 Advance Payments by Borrowers for Taxes and Insurance on Serviced Loans
- 798 Assets Acquired in Liquidation on Loans
- 799 Other Assets

4040.5 LIABILITY ACCOUNTS (800 SERIES)

800 Accounts Payable
- 801 Accounts Payable
  - 801.1 Accounts Payable-Traveler's Checks and Money Orders
- 802 Accounts Payable-Undistributed Payments
  - 802.1 Accounts Payable-Credit Card Payments in Process
  - 802.2 Accounts Payable-Credit Card Adjustments in Process
  - 802.3 Accounts Payable-Credit Card Chargebacks in Process
- 803 Accounts Payable-Undistributed Payroll Deduction or Allotments
- 804 Accounts Payable-Check Transmittal
- 805 Accounts Payable-Drafts Authorized
- 806 Accounts Payable-Installment Payments on U.S. Bonds
- 807 Accounts Payable-U.S. Savings Bond Remittances
- 808 Real Estate Loans Payable
- 809 Escrow Accounts

810 Notes and Interest Payable
- 811 Mortgage Notes Payable
- 812 Notes Payable-Other
  - 812.1 Notes Payable-Commitment Fees
- 813 Federal Funds Payable
- 818 Accrued Interest Payable

820 Dividends Payable
- 820.1 Dividends Payable on Regular Shares
- 820.2 Dividends Payable on Share Drafts
- 820.3 Dividends Payable on Club Accounts
- 820.4 Dividends Payable on IRA/Keogh Accounts
- 820.5 Dividends Payable on IRA/Keogh Certificate Accounts
- 820.6 Dividends Payable on Share Certificates
- 820.7 Dividends Payable on Money Market Accounts
- 820.8 Dividends Payable on Other Accounts

830 Interest Refunds Payable

840 Taxes Payable
- 841 Federal Withholding Taxes Payable
- 842 State Withholding Taxes Payable
- 845 City Withholding Taxes Payable
- 846 Social Security Taxes Payable
- 847 Federal Unemployment Compensation Tax Payable
- 848 State Unemployment Compensation Tax Payable
- 849 Other Taxes Payable

850 Accrued Expenses
- 851 Accrued Salaries
- 852 Accrued Employee Benefits
- 853 Accrued Cost of Space Occupied
- 854 Accrued Dividends Payable
- 855 Accrued Accounting Service Cash
- 856 Accrued Loss Contingencies
- 859 Other Accrued Expense

860 Other Liabilities
- 861 Liability Under Pension Cost
- 862 Collection on Loans and Other Obligations Serviced
- 863 Obligations Under Capital Lease
- 864 Monetary Control Pass Through Deposits
- 865 Main Office
- 866 Undisbursed Loan Proceeds
- 867 Subordinated CDCU Debt
- 869 Other Liabilities

870 Unapplied Data Processing Exceptions
- 871 Unapplied Data Processing Exceptions (Receipts)
- 872 Unapplied Data Processing Exceptions (Disbursements)

880 Deferred Credits
- 881 Unearned Interest on Loans
- 882 Deferred Credits-Insurance Premium Rates
- 883 Deferred Gain on Liquidation of Loans
- 884 Deferred Credits-Credit Card Commitments
- 885 Deferred Credits-Prepaid Interest-Real Estate Loans
- 886 Unamortized Discount on Sale of Assets
- 887 Deferred Credits-Fees Received on Loans to be Purchased
- 888 Deferred Credits-Insurance Premium Stabilization Reserve
- 889 Other Deferred Credits
- 890 Deferred Credits-Net Origination Fees (Costs)-Lines of Credit to Members
- 891 Deferred Credits-Net Origination Fees (Costs)-Lines of Credit to Members Credit Cards
- 892 Deferred Credits-Net Origination Fees (Costs)-Home Equity Lines of Credit
- 893 Deferred Credits-Net Commitment Fees (Costs)-Lines of Credit to Members
- 894 Deferred Credits-Net Commitment Fees (Costs)-Loans to Members

4040.6 SAVINGS/EQUITY ACCOUNTS (900 SERIES)

900 Shares of Members
- 901 Regular Shares
- 902 Share Draft
- 903 Club Accounts
- 904 Other Shares
- 905 Escrow Accounts
- 906 IRA/Keogh Retirement Service Shares
- 907 IRA/Keogh Retirement Service Certificates
- 908 Share Certificates
- 909 Shares-Unposted Payroll Deductions
- 910 Public Unit Shares
- 911 Money Market Shares
- 921 Shares of Nonmembers
- 925 Uninsured Secondary Capital
- 926 Deposits

930 Reserves
- 931 Regular Reserves
- 932 Special Reserve for Losses
- 933 Other Revocable Reserves
- 934 Reserve for Loss Contingencies
- 935 Corporate Central Reserve

940 Undivided Earnings
- 942 Appropriated Undivided Earnings
- 945 Accumulated Unrealized Gains/Losses on Available-for-Sale Securities

950 Donated Equity

960 Net Income (Loss)

4050 DESCRIPTION OF GENERAL LEDGER ACCOUNTS

4050.1 OPERATING INCOME ACCOUNTS (100 SERIES)

The income accounts (those in the "100" series of the Chart of Accounts) are the operating accounts which reflect the income of the credit union. These accounts are closed into Undivided Earnings (through the Net Income (Loss) account) at the close of the accounting period.

110-INCOME FROM LOANS

111-INTEREST ON LOANS

111.1-INTEREST ON BUSINESS LOANS

111.2-INTEREST ON AGRICULTURE LOANS

111.3-INTEREST ON CONSUMER LOANS

111.4-INTEREST ON MOBILE HOME LOANS

111.5-INTEREST ON SHARE SECURED/INSURED LOANS

111.6-INTEREST ON OTHER MEMBER LOANS

111.7-INTEREST ON HOME EQUITY LOANS

For credit unions following the modified cash basis of accounting, these accounts (111 series) should reflect the interest received on loans to members, i.e., only that interest which is actually collected. These accounts should be credited in the "Interest Received" column of the Journal and Cash Record with the interest collected on loans as shown in the daily summary cash received vouchers. Interest income accounts should be separated according to loan account types as described in Section 4050.4. Separation of income to compare with loan balances facilitates the computation of yields on the various types of loans.

Posting to the General Ledger

The total of the respective "Interest Received" columns of the Journal and Cash Record should be posted to the General Ledger at the close of each month.

Illustrative Entries

---

a) When an installment on a loan is repaid and interest and late charges are collected:

Dr. - Cash (Acct. No. 731)	$11.10	
Cr. - Loans (Acct. No. 701)		$10.00
Cr. - Interest on Loans (Acct. 111)		1.00
Cr. - Other Fees and Charges (Acct. 131)		.10

b) When a member authorizes the credit union to transfer shares to loans and interest:

Dr. - Shares (Acct. No. 901-909	$25.25	
Cr. - Loans (Acct. No. 701)		$24.00
Cr. - Interest on Loans (Acct. 111)		.25

DETAILED TRANSACTIONS MODIFIED CASH BASIS

Credit:

a) At the end of each month with interest collected on loans outstanding.

Debit:

a) With the balance of the account when the income accounts are closed and transferred to the "Net Income (Loss)", (Account No. 960).

ACCRUAL BASIS OF ACCOUNTING

For a credit union following the accrual basis, these accounts should include the amount of interest earned and uncollected on the various types of loans. Interest should not be accrued on any loans which are 3 months or more delinquent. At the end of each month, the credit union should credit these accounts with the total uncollected interest earned during the month, with offsetting charges to the appropriate "Accrued Interest on Loans", (780 account series).

These accounts should also include period yield adjustments for loan origination and commitment fee accounts included in the "Loans to Members"' series of accounts (see Section 4050.4, Account Nos. 701.9, 702.1, 702.2, 702.5, 703.1, 704.1 and 705.1).

When the individual loan ledgers are maintained by electronic data processing, the amount of unpaid interest is usually available on periodic reports. The amount of accrued interest for credit unions on a manual system can be determined by totaling the outstanding loan balances at each effective interest rate and multiplying these totals by the respective interest rate factors. (The figures obtained then have to be adjusted to take into consideration the length of time since the last loan payments.) The formula for this computation is:

$$\text{Total Loan Balances} \times \frac{\text{No. of days interest due}}{365} \times \frac{\text{Interest rate}}{100} = \text{Amount of Accrued Interest}$$

As a simple example of calculating earned but uncollected interest, assume that as of June 30, a credit union has $300,000 in loans outstanding at 9% interest and $400,000 in loans outstanding at 12% interest. Assume further that all loans are repaid by payroll deductions which are credited on the 15th day of each month. Application of the above formula for each interest rate is illustrated as follows:

$$\$300{,}000 \times \frac{15}{365} \times \frac{9}{100} = \$1{,}109.59$$

$$\$400{,}000 \times \frac{15}{365} \times \frac{12}{100} = \$1{,}972.50$$

Total accrued interest, June 15 to June 30 = $3,082.09

This manual estimation method would naturally be more complicated whenever the loans have various payment dates which are unevenly spread throughout the month. It is acceptable in those cases to make an estimate of the weighted average number of days since last payment for use in place of the actual number of days in the above method. To illustrate this procedure, assume that a credit union posts several payroll deductions to loans during the month. The procedure involves totaling the number of days of unpaid interest and the number of loans from each payroll deduction and then dividing the total number of days of unpaid interest by the number of loans outstanding. This procedure is as shown.

Dates of Payroll Deduction Posting	No. of Days to Month-End	No. of Loans	Total No. Days of Unpaid Interest
June 2 - Salaried employees - paid monthly	28	8	224
June 12 - Office employees - paid monthly	18	32	576

Dates of Payroll Deduction Posting	No. of Days to Month-End	No. of Loans	Total No. Days of Unpaid Interest
June 17 - Supervisors - paid biweekly	13	18	234
June 25 - Other employees - paid weekly	5	970	4,850
June 29 - Credit Union employees - paid weekly	1	4	4
		1,032	5,888

The weighted average number of days since the last principle payment = 5,888/1,032 = 5.7 days. Thus, 5.7 days would be a reasonable estimate of the weighted average number of days since last payment to be used in the above formula for computing accrued interest at month-end.

Combination of cash payments and irregular payroll deductions of various amounts could further complicate estimations of accrued interest. Most credit unions failing into this category probably use electronic data processing systems which automatically provide the necessary information. However, those credit unions on manual systems may design their own method of estimating accrued interest, provided the method results in a reasonably accurate estimate and is consistently applied.

If payroll deductions are received on the same dates every month, interest rates do not change, loan volume is relatively stable, and all loans are repaid on a monthly basis, the amount of interest accrued should not vary greatly from month to month. In many cases, it would be permissible to use the same accrued figures for a 3-month period. It will be necessary, however, to recalculate the accruals at least quarterly and make any necessary adjustments.

Accruals of interest on loans can be reversed on the first day of the following month by debiting the appropriate income account and crediting the appropriate accrued income account. Interest collected during the month can then be credited to income and the accrual process repeated at the next month-end. As a preferable alternative to reversing the accrual entry on the first day of the following month, interest collected may be credited to accrued income until that account reaches zero with subsequent interest collections being -credited to income.

Detailed Transactions

ACCRUAL BASIS

Credit:

a) At the end of each month with the uncollected interest earned on loans outstanding.

b) With adjustments, subject to the approval of the board of directors, when interest collections exceed the balance of the accrued interest account(s).

c) At the end of each month with periodic yield adjustments from loan origination and/or commitment fee accounts.

Debit:

a) With adjustments required to charge off accrued interest when loans are charged off with the approval of the board of directors.

b) With adjustments, subject to the approval of the board of directors, when interest collections are less than accruals or balance of that account.

c) On the first day of each month with an adjustment to reverse the accrual set up at the end of the previous month, or actual interest payments received.

d) With the balance of the account when the income accounts are closed and transferred to the "Net Income (Loss)", (Account No. 960).

112-INTEREST ON LINES OF CREDIT

112.1-INTEREST ON OTHER LINES OF CREDIT

112.2-INTEREST ON CREDIT CARDS

The above accounts should be used to separate net interest income on the lines of credit offered by the credit union. Separation of the income to match loan balances is needed to compute yields on these type member accounts.

For credit unions that are following the modified cash basis of accounting, these accounts should reflect the interest received on credit card cash advances, charges, and other established lines of credit. Thus interest collected or received on loan balances recorded within Lines of Credit To Members, Account Series No. 702 should be recorded in these accounts. The amounts should be recorded in the "interest received" columns of the Journal and Cash Record, as shown on the daily cash received summary vouchers. The total column should then be recorded or posted to the General Ledger.

These accounts should also include periodic yield adjustments for loan origination and/or commitment fee accounts included in the Account Series No. 702 (see Account Nos. 702.1, 702.2 and 702.5 in Section 4050.4).

Illustrative Entries

---

a) Credit Cards:

(1) To record a credit card payment that is received in the credit union office:
(When credit card processor is notified that a payment was received.)

Dr. - Cash (Acct. No. 731) $237.50
Cr. - Undistributed Payments
(Acct. No. 802 ..... $237.50
(When the credit card processor posts the loan payment)
Dr. - Undistributed Payments
(Acct. No. 802) $237.50
Cr. - Lines of Credit to Members -
Credit Cards (Acct. No. 702) $200.00
Cr. - Interest on Lines of Credit
(Acct. No. 112) 37.50

Detailed Transactions

MODIFIED CASH BASIS

Credit:

a) At the end of the month with interest collected on the balances of outstanding lines of credit to members.

b) At the end of each month with periodic yield adjustments from loan origination and/or commitment fee accounts.

Debit:

a) With any reductions in the amount of interest collected due to corrections and adjustments of interest.

b) With the balance of the account when the income accounts are closed and transferred to the "Net Income (Loss)", (Account No. 960).

ACCRUAL BASIS OF ACCOUNTING

For a credit union following the accrual basis, these accounts should reflect the amount of interest due on "Lines of Credit To Members", (Account Series No. 702) at the end of each month. Offsetting charges should be to either "Accrued Credit Card Income", (Account No. 783) or "Accrued Interest Other Lines of Credit To Members", (Account No. 787).

When interest on these lines of credit loans is received, the amount collected should be recorded in the "Interest Received" column of the Journal and Cash Record based on the daily summary cash received vouchers. At the end of the month, the total of the "Interest Received" column of the Journal and Cash Record should be posted to the credit of "Accrued Credit Card Income", (Account No. 783) or "Accrued Interest-Other Lines of Credit to Member", (Account No. 787), as applicable.

Detailed Transactions

ACCRUAL BASIS OF ACCOUNTING

Credit:

a) At the end of each month with interest earned on the balances of members' lines of credit.

b) With adjustments when interest collections exceed accruals because the effective interest dates have varied from the transaction(s) dates.

c) With adjustments, subject to the approval of the board of directors, when the periodic inventory to verify the accrual in "Accrued Credit Card Income", (Account No. 783) and "Accrued Interest Other Lines of Credit To Members", (Account No. 787) exceeds the balance of those income accounts.

d) At the end of each month with periodic yield adjustments from loan origination and/or commitment fee accounts.

Debit:

a) With adjustments required to charge off interest accrued when loans are charged off with the approval of the board of directors.

b) With adjustments when interest collections are less than accruals because effective interest date(s) vary from the transaction date(s).

c) With adjustments, subject to the approval of the board of directors, when the periodic inventory to verify "Accrued Credit Card Income", (Account No. 783) and "Accrued Interest-Other Lines of Credit To Members", (Account No. 787) is less than the balances of those accounts.

d) With the balance of the account when it is dosed to the "Net Income (Loss)", (Account No. 960).

113-INCOME FROM LOANS OF LIQUIDATING CREDIT UNIONS

For credit unions following the modified cash basis of accounting, this account reflects interest income and late charges received on loans purchased from liquidating credit unions. It also includes the applicable amount of discount on such loans when the loans have been partially or fully collected.

Entries in the Journal and Cash Record

This account is credited in the "Miscellaneous Credit" column of the Journal and Cash Record (or in special columns assigned for this purpose if the volume of transactions justifies) with the interest and late charges collected on such loans as shown in the daily summary Cash Received Vouchers.

Posting to the General Ledger

The total interest and late charges received as recorded for this account in the "Miscellaneous Credit" column of the Journal and Cash Record (or the special column(s) assigned) is posted as a credit to this account in the General Ledger at the close of each month.

Illustrative Entries

---

a) When an installment on a loan purchased from a liquidating credit union is repaid with interest of $10.00 and a late payment charge of $2.00:

Dr. - Cash (Acct. No. 731)	$32.00	
Cr. - Loans Purchased from Liquidating Credit Unions (Acct. No. 712)		$20.00
Cr. - Income from Loans of Liquidating Credit Unions (Acct. No. 113)		12.00

b) When principal payments exceed the purchase price of a loan (unpaid balance at the time of purchase less applicable discount) an immediate transfer to income of an amount of the discount equal to such excess may be made. This entry is:

Dr. - Deferred Gain on Liquidation of Loans (Acct. No. 883)	$10.00	
Cr. - Income from Loans of Liquidating Credit Unions (Acct. No. 113)		$10.00

This entry may be deferred until the loan is paid in full, or the entry may be made for a group of loans with the discount transferred to income after all of the loans in the group have been collected.

Detailed Transactions

MODIFIED CASH BASIS

Credit:

a) At the end of each month with interest and late charges collected during the month.

b) Currently, or periodically, with appropriate portion. of discount on loans purchased. (See Section 4050.4.)

Debit:

a) With charges assessed by any person or organization covering the cost of collecting loans.

b) With balance of account when books are closed (transfer to the Net Income (Loss) account).

ACCRUAL BASIS OF ACCOUNTING

For a credit union following the accrual basis, this account reflects the amount of earned interest on notes purchased from liquidating credit unions. The accrual procedures for this account are the same as those described in the previous section for Account Nos. 111 and 112.

Detailed Transactions

Credit:

a) At the end of the month with interest earned on outstanding balances of loans purchased from liquidating credit unions.

b) With adjustments, subject to approval of the board of directors, when the periodic inventory made to verify accrued interest exceeds the balance of the account.

Debit:

a) With adjustments to charge off interest accrued when loans purchased are charged off with the approval of the board of directors.

b) With adjustments, subject to the approval of the board of directors, when the periodic inventory is less than the balance of that account.

c) With balance of account when books are closed (transfer to the Net Income (Loss) account).

114-INTEREST ON REAL ESTATE LOANS

114.1-INTEREST ON REAL ESTATE LOANS OVER 12 YEARS

114.2-INTEREST ON REAL ESTATE LOANS 12 YEARS AND UNDER

The above accounts should be used to show net income on the types of loans shown. Accounting for the incomes separately facilitates computing the yield on this type of loan.

These accounts should be credited with the actual amount of interest received or accrued on real estate loans. Net origination fees (costs) should be credited to this account in accordance with the interest method. See discussion under Section 4050.4, Account Number 703.1, "Net Origination Fees (Costs)-Real Estate Loans Over 12 Years."

115-INTEREST ON LOANS AND OTHER OBLIGATIONS PURCHASED (100%)

This account should be used to record the interest income received or accrued on loans or other obligations purchased to which the credit union has full title (seller assigned the note and supporting documents to the credit union). The income earned or received will be derived from assets recorded in "Loans or Other Obligations Purchased", (Account No. 714), "Premiums on Loans Purchased", (Account No. 714.1) and "Discount on Loans Purchased", (Account No. 714.2).

Usually the loans purchased will still be serviced by the original seller. Therefore, the interest and loan principal due will be collected by the servicer and forwarded to the purchasing credit union, net of any contracted service fees. Refer to Section 6000 of this manual for illustrative accounting entries regarding the use of this account.

116-INTEREST ON LOAN PARTICIPATIONS PURCHASED

Interest income earned or received from loans in which the credit union has only a participating interest should be recorded in this account. This will primarily consist of loan participations recorded in "Loan Participations Purchased", (Account No. 715) and necessary entries from (Account Number 715.1), "Premium on Loan Participations Purchased" and (Account Number 715.2), "Discount on Loan Participations Purchased", if applicable. Refer to Section 6000 for an illustrative account entry for this account and to Figure 6-7 in Section 6000 for an example as to how interest is separated from the principal payment by the seller, who retains title to the loan(s).

117-SERVICE INCOME ON LOANS SOLD AND PARTICIPATIONS

This account should be used to record the income earned from fees paid by a purchaser for the servicing of loans that were purchased from the credit union. Reference should be made to section 6000 for illustrative Journal and Cash Record entries.

118-INTEREST INCOME ON OTHER MISCELLANEOUS NONMEMBER LOANS

This account contains the interest income on nonmember loans that may be outstanding.

119-INTEREST REFUNDS

This account reflects the amount of interest refunds for the accounting period based upon action by the board of directors or entries made on a monthly basis to estimate an interest refund which will be made in a dividend period. The entry recording the interest refunds is made as of the last day of the dividend period. When the board of directors defers action to declare interest refunds until the first month following the dividend period, this entry should be made retroactively as of the close of the affected dividend period. The offsetting entry for interest refunds declared and recorded in this account is made to "Interest Refunds Payable," (Account No. 830). Refer to (Account No. 830), "Interest Refunds Payable" as well as Sections 5700.2 and 5700.3.

At the option of the board of directors, the estimated interest refunds anticipated to be paid for any dividend period may be recorded by entries to spread the cost over the dividend period. Under this optional procedure the appropriate portion of the next anticipated interest refund will be recorded each month by charging this account and crediting "Other Accrued Expenses", (Account No. 859); e.g., for a 6-month period, one-sixth of the anticipated amount of the next interest refund would be recorded each month, or if a 10 percent refund is planned for the dividend period, an entry for 10 percent of interest on loans for the month could be recorded as a debit to Account No. 119 and credit to Account No. 859. When the actual amount of the interest refund is determined at the end of the accounting period, the estimated amounts must be adjusted by an appropriate debit or credit to this account for the difference between the estimate and the actual amount. The adjustment and the actual amount of the refund as of the end of the accounting period would be recorded as described below.

Entries in this Journal and Cash Record

The amount declared for payment by the board of directors is recorded by entry in the "Miscellaneous Credit" column of the Journal and Cash Record by a debit to this account, with an offsetting credit to "Interest Refunds Payable", (Account No. 830). When the board of directors defers action to declare the interest refund payable until the first month following the dividend period affected, this entry is made retroactively as of the close of the affected dividend period.

Posting to the General Ledger

The charge to this account in the "Miscellaneous Debit" column of the Journal and Cash Record should be recorded as of the close of the accounting period to which applicable.

Illustrative Entries

---

a) When a refund of interest to borrowers is authorized by the board:

Dr. - Interest Refunds		
(Acct. No. 119)	$2,000.00	
Cr. - Interest Refunds Payable		
(Acct. No. 830)		$2,000.00

---

b) When the interest refund is paid in cash or credited to share accounts:

Dr. - Interest Refunds Payable (Acct. No. 830) $2,000.00
Cr. -Cash (Acct. No. 731) $2,000.00

or

Cr. - Shares (Acct. No. 901-909) $2,000.00

c) To record a monthly estimated interest refund, where the board estimates that a 5% interest refund will be paid at the end of some future dividend period, and gross interest on loans (Acct. No. 111) for the month is $5,000:

Dr. - Interest Refunds (Acct. No. 119) $250.00
Cr. - Interest Refunds Payable (Acct. No. 830) $250.00

An entry based on the above sample computation would be made each month. The credit union may have certain categories of loans where the board has determined that an interest refund will not be given (such as delinquent loans, or on certain interest-rate categories. In this case, adjusted estimates of the above entry would be made.

Detailed Transactions

Debit:

a) With total interest refunds authorized by the board of directors (contra entry to "Interest Refunds Payable", (Account No. 830)).

Credit:

a) With the balance of the account to close it to "Net Income (Loss)", (Acct. No. 960) at the end of the accounting period.

NOTE: The above debit entry may be recorded based on an estimate (see illustrative entry No. 3). This requires an adjustment based on actual interest refunds distributed by an appropriate debit or credit to this account in the next accounting period for the difference between the estimate and actual amounts, with an offsetting entry to "Interest Refunds Payable" (Account No. 830).

120-INVESTMENT INCOME

121-INCOME FROM U.S. GOVERNMENT OBLIGATIONS

122-INCOME FROM FEDERAL AGENCY SECURITIES

These accounts are used to record the interest earned on the investment of credit union funds in United States Government Obligations and Federal Agency Securities.

Entries in the Journal and Cash Record

a) To amortize the premium cost relating to the purchase of U.S. Government Obligations. For example, if a $10,000 bond is purchased for $11,000, the premium of $1,000 should be written off as an offset to income from investments over the period from acquisition to maturity or to the earliest call date. The entry to record the amortization should be related to the period for which interest income is recorded; if interest is received semiannually and the amortization period is 10 years, the entry would be:

Dr. - Income from U.S. Government
Obligations (Acct. No. 121) $50.00
Cr. - Premium on Held-to-Maturity
Securities (Acct. No. 741.2) $50.00

b) To record bond appreciation when U.S. Government Obligations are purchased at a discount, the amount of the discount should be transferred as an addition to current interest income on investments over the period from the date of acquisition to maturity of the bonds; e.g., bond discount of $1,800.00 where the period from acquisition to maturity date is 12 years, may be recorded semiannually as follows:

Dr. - Discount on Held-to-Maturity
Securities (Acct. No. 741.1) $75.00
Cr. - Income from U.S. Government
Obligations (Acct. No. 121) $75.00

c) To record semiannual amortization of premium paid when Federal Agency Securities were acquired; assume $600.00 premium paid in connection with purchase of $10,000 par value of securities with a maturity date 10 years after date of acquisition.

Dr. - Income from Federal Agency
Securities (Acct. No. (122) $30.00
Cr. - Premium on Held-to-Maturity
Securities (Acct. No. 742.2) $30.00

d) To record appreciation of Federal Agency Securities purchased at a discount:

Dr. - Discount on Held-to-Maturity
Securities (Acct. No. (742.1) $25.00
Cr. - Income from Federal Agency
Securities (Acct. No. 122) $25.00

NOTE: This entry assumes $500.00 of discount appreciated over 10-year period by semiannual entries.

Detailed Transactions

MODIFIED CASH BASIS

Credit:

a) With interest earned on the investment asset as the transactions occur.

b) With the accretion of discount applicable to the period covered by each interest collection on the related securities. Contra debit should be to applicable securities asset account.

Debit:

a) With amortization of premium applicable to the period covered by each collection of interest on the related securities. Contra credit should be to the securities asset account.

b) With balance of account when books are closed (transfer to the Net Income (Loss) account).

ACCRUAL BASIS OF ACCOUNTING

Credit unions using the accrual basis of accounting can record income earned on a monthly basis or, alternatively, at least quarterly at the end of each regular share account dividend period. When appreciation-type bonds are held as an investment, the value increases quarterly as shown in the table of redemption values. To accrue income for months between the quantity increases, debit "Accrued Income on Investments", (Account No. 782) and credit "Income from U.S. Government Obligations", (Account No. 121). At the end of each quarterly period, those entries can be reversed and the actual appreciation recorded through a debit to "United States Government Obligations", (Account No. 741) and a credit to Account No. 121.

For current income and general types of obligations as well as Federal Agency Securities, accrued income should also be periodically recorded by debiting Account No. 782 and crediting Account No. 121 or 122, respectively. When actual interest payments are received, the accrual entries should be reversed and the receipt of the cash should be recorded as a debit to "Cash", (Account No. 731) and a credit to Account No. 121 or 122.

123-INCOME FROM INVESTMENT IN NCUSIF

This account is used to record redistributions (dividends) of NCUSIF equity to insured credit unions when the NCUA Board makes an annual, proportionate adjustment of the amount necessary to reduce the NCUSIF to its normal operating level.

Illustrative Entries

Dr. - Cash (Acct. No. 731)
or Accrued Income on NCUSIF
(Acct. No. 788) $450.00
Cr. - Income from Investment
in NCUSIF (Acct. No. 123) $450.00

NOTE: Accruals should not be recorded in anticipation of dividends.

Detailed Transactions

Credit:

With redistributions of NCUSIF equity that have been declared by the NCUA Board of Directors.

124-INTEREST ON TRADING SECURITIES

This account is used to record interest earned from trading account securities. The income is generally received in the form of cash and should be recorded separately from trading income.

Illustrative Entries

Dr. - Cash (Acct. No. 731) $2,000.00
Cr. - Interest on Trading Securities
(Acct. No. 124) $2,000.00

Detailed Transactions

Credit:

With interest earned on trading securities.

125-INCOME FROM COMMON TRUST INVESTMENTS

This account is used to record income earned from investments in common trusts and mutual funds

Illustrative Entries

Dr. - Cash (Acct. No. 731) $500.00
Cr. - Income from Common Trust
Investments (Acct. No. 125) $500.00

Detailed Transactions

Credit:

With interest income earned/received on common trust or mutual fund investments.

126-INCOME FROM SHARES/DEPOSITS/CERTIFICATES OF CORPORATE CREDIT UNIONS

This account is used to record dividends and interest earned/received from deposits and investments in corporate credit unions.

Illustrative Entries

Dr. - Shares/Deposits/Certificates
of Corporate Credit Unions
(Acct. No. 744) $100.00
Cr. - Income from Shares/
Deposits/Certificates of
Corporate Credit Unions
(Acct. No. 126) $100.00

Detailed Transactions

Credit:

With dividends and interest credited to the credit union's investment in shares and deposits in corporate credit unions.

127-INCOME FROM SHARES, DEPOSITS, AND CERTIFICATES OF OTHER CREDIT UNIONS

This account is used to record dividends and interest earned/received from investments in other federally-insured credit unions, excluding corporate credit unions.

Illustrative Entries

Dr. - Shares/Deposits, or
Certificates of Other Credit
Unions (Acct. No. 745) $50.00
Cr. - Income from Shares/
Deposits/Certificates of
Other Credit Unions
(Acct. No. 127) $50.00

Detailed Transactions

Credit:

With dividends and interest credited to the credit union's investment in shares and deposits of a federally-insured credit union.

128-INCOME FROM OTHER SHARES/DEPOSITS/CERTIFICATES

This account is used to record dividends and interest earned/received from deposits and investments in commercial banks, savings and loan associations, and mutual savings banks.

Illustrative Entries

Dr. - Cash (Acct. No. 731) $1,000.00
Cr. - Income from Other
Deposits/Certificates of
Shares/Deposits/Certificates
(Acct. No. 128) $1,000.00

Detailed Transactions

Credit:

With income earned/received on deposits and investments in commercial banks, savings & loan associations, or mutual savings banks.

128.1-INCOME FROM INVESTMENTS IN CREDIT UNION SERVICE ORGANIZATIONS (CUSO)

This account is used to record income earned or received on a loan or investment in a credit union service corporation accounted for under either the Equity Method or the Cost Method of accounting for specialized long-term investments. The recorded income is based on the transactions recorded in "Investments in Credit Union Service Corporation", (Account No. 748) and its subsidiary account,

Account No. 748.2. The Equity Method of accounting for specialized long-term investments will result in a change in the investment balance of the Asset Account (asset balance increases or decreases depending on whether the service corporation's operations result in a net income or net loss, respectively, during an accounting period). Refer to Section 6050 of this manual for discussions and illustrative accounting entries regarding the use of this account.

129-INCOME FROM OTHER INVESTMENTS

This account is used to record income from investments that are not identified in any other 120 series account.

Illustrative Entries

Dr. - Cash (Acct. No. 731)	$120.00
Cr. - Income from Other Investments (Acct. No. 129)	$120.00

Detailed Transactions

Credit:

a) With income from other credit union investments not covered in any other 120 series account.

130-FEES AND CHARGES

131-OTHER FEES AND CHARGES

This account shows the income from the collection of membership fees and late charges on credit union loans for the accounting period. Late charges collected on loans purchased from other credit unions are entered in "Income from Loans of Liquidating Credit Unions", (Account No. 113). Collection expenses relating to loans of the credit union are included in "Collection Expenses", (Account No. 282). Such costs relating to loans purchased from other credit unions should be charged to Account No. 113.

Entries in the Journal and Cash Record

The amounts of fees and late charges collected, as shown in the daily summary cash received vouchers, are recorded in the special column of the Journal and Cash Record provided or designated for such purpose.

Posting to the General Ledger

The total charges for the month as shown by the Journal and Cash Record are posted at the end of each month by a credit to this account in the General Ledger.

Illustrative Entries

When a membership fee or late charge is collected in cash:

Dr. - Cash (Acct. No. 731) $10.00
Cr. - Fees and Charges
(Acct. No. 131) $10.00

Detailed Transactions

Credit:

a) With total collections of fees and charges at the close of each month.

Debit:

a) With balance of account when books are closed (transfer to the Net Income (Loss) account).

132-LOAN ORIGINATION FEES

Income resulting from nominal, nonrefundable loan origination fees on loans to members, i.e., commercial, agricultural and consumer loans, should be credited to this account in full, as collected when the following criteria are met:

a) The fees are nominal.

b) The direct costs incurred are nominal.

c) The maturity of the lending transaction is short term in nature.

For term loans, the net origination fee (costs) if material, should be deferred and amortized over the life of the loan by the interest method as an adjustment to yield. Refer to 700 series of accounts.

140-GAIN (LOSS) ON SALE OF LOANS AND OTHER ELIGIBLE OBLIGATIONS

141-GAIN (LOSS) ON SALE OF ELIGIBLE OBLIGATIONS

A federal credit union is authorized to sell, in whole or in part, eligible obligations of its members as well as real estate and student loans of nonmembers which it has purchased to facilitate packaging of a pool of loans to be sold or pledged on the secondary market. When real estate loans are sold on the secondary market or to third parties, the gain or loss on the sale is recorded in this account. The required refund of unpaid interest or service charges due to early payoff on the loan which has been sold should not be recorded in this account. Such refunds should be recorded in the expense account, " Refunds Real Estate Finance Charges", (Account Number 285).

Any unamortized net origination fees (costs) should be added (subtracted) to the amount received for purposes of computing the gain or loss. Accounts 703.1 and 704.1 have been established to account for unamortized net origination fees (costs). Section 6000 discusses the accounting for the sale of eligible obligations.

150-MISCELLANEOUS OPERATING INCOME

151-OTHER MISCELLANEOUS OPERATING INCOME

152-MISCELLANEOUS FEE INCOME

These accounts are used to record operating income of the credit union for which no specific account is provided. Miscellaneous fee income should be recorded in Account No. 152. Such items include unpresented check fees and reimbursement fees (for costs of selling checks, cashing checks, and handling insurance), etc. Other miscellaneous income should be included in Account No. 151, e.g., interest on notes and contracts receivable.

Unpresented Checks

When the statutory period prescribed for the presentation of checks has expired, such items may be credited to this account with an offsetting debit to "Accounts Payable", (Account No. 801), (See discussion of unpresented checks under Account No. 801). Before the accounts of any unpresented checks are credited to this account, it needs to be determined whether an abandoned property law is in force in the state.

Interest on Insurance Premiums Receivable

Interest collected on reimbursable insurance premiums which have been advanced on behalf of member-borrowers is credited to this account.

Reimbursement Fees

Fees collected from members are credited to this account.

Entries in the Journal and Cash Record

This account is credited in the "Miscellaneous Credit" column with fees collected for the sale of checks or money orders, for the cashing of checks, for the sale of insurance to members and any other miscellaneous operating income. If credits to this account are numerous, one of the blank columns of the Journal and Cash Record or the continuation sheet can be used to accumulate these entries. In such a case, a blank column can also be used to record the credits to the special Cash account.

a) When a credit union receives payment for the printing of share drafts and charges a fee for this service:

Dr. - Cash (Acct. No. 731 ..... $21.00
Cr. - Accounts Payable
(Acct. No. 801) $20.00
Cr. - Miscellaneous Fee
Income (Acct. No. 152) 1.00

NOTE: The actual cost of printing the share drafts is set up as an accounts payable as shown and is remitted to the printer upon receipt of the finished order.

b) When a check is cashed for a member for a fee or a reimbursement fee is collected for the purchase of insurance:

Dr. - Cash (Acct. No. 731 ..... $5.00
Cr. - Miscellaneous Fee
Income (Acct. No. 152) $5.00

c) When income is received for which no other income account is provided:

Dr. - Cash (Acct. No. 731 ..... $2.00
Cr. - Other Miscellaneous Operating
Income (Acct. No. 151) $2.00

153-CREDIT CARD INTERCHANGE INCOME

This account is used to record interchange fees received from the credit union's credit card program.

154-MISCELLANEOUS OPERATING INCOME EARNED ON LEASES

160-SERVICE INCOME ON LOANS

161-SERVICE INCOME ON LOANS AND OTHER OBLIGATIONS SOLD

This account is used to record service fees received from persons or institutions that have purchased portions of the credit union loans. Refer to Section 6000.

162-SERVICE INCOME ON CREDIT CARD LOANS

This account is used to record the amortized portion of fees that are periodically charged to cardholders. These fees entitle the cardholders to use the card for a specified period of time.

163-SERVICE INCOME-NET COMMITMENT FEES

This account should be used to recognize net commitment fees as follows:

a) When this commitment expires unexercised, the fee should be recognized in income upon expiration.

b) When the likelihood of the commitment being exercised is remote, the commitment fee should be recognized over the commitment period on a straightline basis.c) When the amount of the fee is determined retrospectively as a percentage of the line of credit available but unused in a previous period, and if the percentage is nominal in relation to the stated interest rate on any related borrowing, and if that borrowing will bear a market interest rate at the date the loan is made, the commitment fee should be recognized as a credit to this account as of the determined date.

c) When the amount of the fee is determined retrospectively as a percentage of the line of credit available but unused in a previous period, and if the percentage is nominal in relation to the stated interest rate on any related borrowing, and if that borrowing will bear a market interest rate at the date the loan is made, the commitment fee should be recognized as a credit to this account as of the determined date.

d) Credit with the periodic amortization of commitment fees on lines of credit based on the straightline method.

170-TRADING PROFITS AND LOSSES

This account is used to record periodic changes in the fair value of trading securities and gains and losses resulting from the disposition of trading investments. Trading account securities should be marked to fair value monthly.

Illustrative Entries

---

a) To record the write-down of trading securities to fair value. Assume that trading securities are presently carried at $15,000 and current fair value is $14,000.

Dr. - Trading Profits and Losses
Acct. No. 170) $1,000.00
Cr. - Trading Securities
(Acct. No. 759) $1,000.00

b) To record the increase in the fair value of trading securities. Assume the current fair value of the securities has risen to $17,000.

Dr. - Trading Securities
Acct. No. 759) $3,000.00
Cr. - Trading Profits and Losses
(Acct. No. 170) $3,000.00

Detailed Transactions

Credit:

With an increase in fair value of trading securities.

4050.2 OPERATING EXPENSE ACCOUNTS (200-300 SERIES)

200-OPERATING EXPENSES (CONTROL)

All operating expenses of the credit union are to be recorded in the General Ledger accounts in this series (200-300). The individual expense charges identified to each separate operating expense classification in the Journal and Cash Record should be posted individually or m -summary total for the month to the related expense accounts in the General Ledger. At the option of the credit union, an Operating Expenses (Control) account and an Expense Ledger (Form FCU 104) may be used to summarize the detailed expense charges. The expense accounts in this series should be closed into "Net Income (Loss)" (Account No. 960) m accordance with the procedure outlined under Closing Entries in Section 5070.5.3.

4050.2.1 APPROVAL OF EXPENSES

The board of directors of each credit union is responsible for insuring that all expenses are reasonable in amounts and necessary to the operation of the credit union. Expenses incurred must be submitted to the board of directors for approval. For many routine recurring expenses, the approval may take place during the review of expenses at each monthly board meeting, which would constitute an after-the-fact approval of the expense items. On the other hand, larger or nonroutine expenditures should be specially authorized by the board before the obligation is incurred, unless the expenditure is contained in a budget which has previously been approved by the board.

Disbursements for expenses should be supported by invoices, receipts or vouchers giving a complete description and the details of the items involved. Reimbursements of officers, directors, committee members and employees for expenses incurred by them in connection with the conduct of credit union business or attendance at credit union affairs are permissible. Reimbursement can only be made when actual expenses of a reasonable amount are supported by an itemized expense account with supporting receipts and vouchers. A fixed or standard rate type reimbursement cannot be made to directors or officers for time spent in connection with attendance at credit union meetings or affairs.

In cases where credit union personnel receive expense funds in advance, an accounting should be made to the credit union promptly after the event for which the funds were advanced. If the funds advanced exceed the actual itemized expenses of a reasonable amount incurred by the individual, the unused balance of the advance should be returned to the credit union. On the other hand, if the actual itemized expenses of a reasonable amount incurred exceed the amount of the advance, the individual should be reimbursed for the additional amount covered by his accounting.

Substantial expenses applicable to the current accounting period which will not be paid promptly should be charged to the appropriate expense account and credited to Accounts Payable at the time the expense is incurred.

Income should not be netted against expenses for individual items such as share drafts, data processing, arbitrage activities, etc. Such a netting procedure is not consistent with GAAP, circumvents the Regular Reserve transfer, and distorts income and expense. Rather, all income, expenses, gains and losses affecting each accounting or dividend period should be recorded through income and expense accounts. (Cross-reference Section 2070.1.1.)

Entries in the Journal and Cash Record

Each account in this series should be debited in the "Operating Expenses (Control)" column of the Journal and Cash Record when an expense is paid or incurred. Such accounts should be credited with the amount of adjustments and refunds made. The specific account classification of each item should be shown in the column headed "Accounts."

Debits to the "Operating Expenses (Control)", (Account No. 200) should be recorded as normal entries, but credits should be entered in red or in parentheses. When totaling the column at the month end, the items in red or in parentheses should be deducted from other items to reach a net total of charges for the month.

Posting to the General Ledger

The total of the operating expense charges and credits recorded in the Journal and Cash Record should be posted to the appropriate accounts in the General Ledger at the end of each month.

Illustrative Entries

---

a) When a check is issued in payment of any classification of operating expenses, e.g., payment for rental of office quarters:

Dr. - Rent (Acct. No. 251) $125.00
Cr. - Cash (Acct. No. 731) $125.00

b) Whenever a cash refund is received representing an overpayment of an operating expense; e.g. overpayment of utility expenses:

Dr. - Cash (Acct. No. 731) $16.25
Cr. - Utilities (Acct. No. 253) $16.25

c) To record depreciation of furniture and equipment:

Dr. - Depreciation of Furniture and
Equipment (Acct. No. 266) $65.00
Cr. - Allowance for Depreciation
of Furniture and Equipment
(Acct. No. 775) $65.00

d) To record amount of adjustment to increase the Allowance for Loan Losses account:

Dr. - Provision for Loan Losses
(Acct. No. 300) $175.00
Cr. - Allowance for Loan Losses
(Acct. No. 719) $175.00

e) When any part or the entire amount of the "Unamortized Organization Costs", (Account No. 768) is written off:

Dr. - Miscellaneous Operating
Expenses (Acct. No. 370) $12.50
Cr. - Unamortized Organization
Cost (Acct. No. 768 ..... $12.50

f) When an expense is incurred for promotional or advertising material and the check in payment is not immediately forwarded:

Dr. - Publicity and Promotions
(Acct. No. 272) $108.50
Cr. - Accounts Payable
(Acct. No. 801) $108.50

Detailed Transactions

MODIFIED CASH BASIS

Debit:

a) With charges to each expense classification as recorded in the Journal and Cash Record at the close of each month. These charges should include transactions disbursed in cash as well as expense transactions not involving cash disbursements, such as entries to depreciate fixed assets, establish or increase the allowance for loan losses, etc.

Credit:

a) With credit entries to each expense classification as recorded in the Journal and Cash Record at the close of each month.

b) With balance of account when books are closed (transfer to the Net Income (Loss) account).

Detailed Transactions

Credit unions following the accrual basis of accounting should record significant amounts of operating expenses in such a manner as to allocate the expenses to the period to which applicable regardless of when due and payable. This should be accomplished by recording expenses as accounts payable or accrued expenses if the amounts have not been paid, or as prepaid or deferred charges if paid but applicable to future periods.

ACCRUAL BASIS OF ACCOUNTING:

Debit:

a) With charges to each expense classification as recorded in the Journal and Cash Record at the close of each month. These charges should include transactions disbursed in cash as well as those expense transactions not involving cash, such as entries to record accruals of unpaid bills, to depreciate fixed assets, to establish or increase the allowance for loan losses, to write off to cost appropriate amounts previously recorded as prepaid or deferred expenses, etc.

Credit:

a) With credits to each expense classification as recorded in the Journal and Cash Record at the close of each month. These entries will include both cash refunds of operating expenses and other transactions, such as adjustments of accruals, decreases in the allowance for loan losses, etc.

b) With balance of account when books are closed (transfer to the Net Income (Loss) account).

Expense Ledger (FCU 104)

A subsidiary record of expenses is useful to analyze the expenses and to prepare the expense section of the Statement of Income. The optional Expense Ledger (Form FCU 104) is provided for this purpose.

When posting to the Expense Ledger all debits and credits are entered in the "Expense Total" column and the proper amounts are extended in the distribution columns to the right. The credit postings are entered in red or in parentheses and subtracted from the total of the other items in the columns involved. The grand total of the distribution columns must be the same as the total of the "Expense Total" column of the Expense Ledger and this total must agree with the balance of the "Operating Expenses (Control)", (Account No. 200).

Expense Classification-The Expense Ledger provides separate columns for the primary classifications of the expenses occurring in the operations of the credit unions. Columns for expense categories for which subordinate expense classifications are required by the chart of accounts also provide a designator column for use in identifying the particular subclassification of expense relating to each entry. The subclassification account numbers should be inserted in the space provided to enable the credit union to analyze its expenses within each primary classification. The columnar totals should be used for Preparing the Statement of Income. This Statement provides only for reporting the primary classifications (accounts in the 200 through 400 series with a zero as the third digit).

210-COMPENSATION

211-SALARIES

This classification is to include all compensation of the treasurer and the salaries of all credit union employees such as the manager, assistant treasurer, bookkeepers, tellers and other office employees. This account should include that portion of compensation which represents social security taxes withheld from employees' pay. See "Social Security Taxes Payable", (Account No. 846).

212-REIMBURSEMENT TO SPONSOR FOR SERVICES

When credit union employees are on the sponsor company's payroll and the company bills the credit union a lump -.sum for the salary, fringe benefits and other services it provides, reimbursement by the credit union should be recorded in this account. If the sponsor company's billing shows a breakdown so that the credit union can determine the amount of salary and miscellaneous benefits, the reimbursement should be classified in the appropriate expense subsidiary categories.

219-OTHER COMPENSATION

220-EMPLOYEE BENEFITS

221-PENSION PLAN COSTS

This classification includes all charges to expense relating to the credit union's pension plan. Although the plan termination insurance and the contingent liability insurance could be included in this category, it is recommended that these two insurance costs, along with fiduciary liability insurance, be included in "Insurance", (Account No. 265). Refer to Section 6140 for further information on Pensions.

222-SOCIAL SECURITY TAXES (EMPLOYER'S SHARE)

This classification includes only the employer's (credit union's) share of social security taxes which are paid on salaries. Social security taxes withheld from the employee's salaries should not be recorded in this account, but should be included in "Salaries", (Account No. 211). See "Social Security Taxes Payable", (Account No. 846).

223-UNEMPLOYMENT COMPENSATION TAXES

This classification includes the employer's (credit union's) costs for Federal and state unemployment compensation taxes which are paid by the credit union on salaries.

224-OTHER EMPLOYEE BENEFITS

This classification includes the costs to the credit union of other benefits provided to employees; e.g., group life insurance costs.

230-TRAVEL AND CONFERENCE EXPENSES

231-EMPLOYEES' TRAVEL AND CONFERENCE EXPENSES

This account includes authorized expenses incurred by credit union employees (other than officers and directors) for travel, attendance at conferences and other meetings.

232-OFFICERS AND DIRECTORS' TRAVEL AND CONFERENCE EXPENSES

This classification includes authorized expenses incurred by officers (including the Treasurer) and directors for travel, attendance at conferences and other meetings. (Note: The expenses of officers and directors in connection with efforts to correct loans should not be included in this account but should be charged to "Collection Expenses", (Account No. 282).)

239-OTHER TRAVEL AND CONFERENCE EXPENSES

240-ASSOCIATION DUES

This classification includes the membership dues and other fees paid to a credit union organization of which the credit union is a member.

250-OFFICE OCCUPANCY EXPENSES

251-RENT

This classification includes the cost of rent for space occupied.

252-MAINTENANCE OF BUILDING

This classification includes all costs incurred relating to the maintenance of a building owned or occupied by the credit union.

253-UTILITIES

This classification includes all utility costs related to space occupied by the credit union for heat, light, water, etc.

254-DEPRECIATION OF BUILDINGS

This classification includes the aggregate amount written off to expense in the current period for the depreciation of buildings owned by the credit union.

255-AMORTIZATION OF LEASEHOLD IMPROVEMENTS

This classification includes the prorated portion of leasehold improvement costs that are charged to the current period. Leasehold improvement costs should be systematically amortized over the assets' useful lives or the period covered by the lease agreement, whichever period is less.

256-REAL ESTATE TAXES

This expense account includes the costs of real I estate taxes on buildings owned by the credit union.

257-DEPRECIATION EXPENSE FOR LEASED ASSETS

This account includes the prorated portion of leased asset costs that are charged to the current period. The costs of leased assets should be systematically depreciated over the assets' useful lives or the period covered by the lease agreement, whichever period is less. Assets included in this category should be directly related to space and/or building occupancy. For other leased assets, refer to Account No. 262.

259-OTHER OFFICE OCCUPANCY EXPENSES

This account should include all other office occupancy costs that are charged to the current period, not specifically accounted for in account numbers 250 through 257 inclusively.

260-OFFICE OPERATIONS EXPENSES

261-COMMUNICATIONS

This classification includes all charges for telephone, telegraph, and postage expense.

262-RENTAL OF FURNITURE AND EQUIPMENT

This classification includes the cost of leased furniture and equipment. It does not, however, include the cost of leases that are, or should be, carried as Capital Leases. Refer to Section 6090.2, "Types of Leases."

263-MAINTENANCE OF FURNITURE AND EQUIPMENT

This classification includes costs incurred for maintenance of office machines and other equipment, including the cost of service contracts.

264-STATIONERY AND SUPPLIES

This classification includes the cost of stationery, paper, printed forms, binders, pencils, calendar pads, ink, and other supplies incidental to the operation of the credit union.

265-INSURANCE

This subsidiary classification includes all insurance premiums except share insurance, loan protection, life savings and chattel lien nonfiling insurance. It will include such insurance as surety bond coverage, compensation, fire, windstorm, public liability, property damage, burglary, robbery, etc. See "Other Prepaid Insurance", Account No. 766, concerning the handling of surety bond premiums paid in advance.

266-DEPRECIATION OF FURNITURE AND EQUIPMENT

This account includes the aggregate amount of furniture and equipment depreciation expense that is charged to the current accounting period. Corresponding credits are recorded in the "Allowance for Depreciation of Furniture and Equipment", Account No. 775. For additional information, refer to the "Furniture and Equipment", Account No. 774.

268-BANK SERVICE CHARGES

This classification includes charges made by the bank, usually against the credit union's bank account, for services in connection with handling the account. Normally, these charges are listed on the bank statement and should be recorded in the Journal and Cash Records promptly after receipt of the bank statement. The corresponding credit is recorded in Cash Account No. 731.

269-OTHER OFFICE OPERATIONS EXPENSES

This account should include all the other office operating costs that are charged to the current period, not specifically accounted for in Account Nos. 260 through 268.

270-EDUCATIONAL AND PROMOTIONAL EXPENSES

271-ADVERTISING

This classification includes expenses incurred for advertising, such as advertisements or notices in newspapers, periodicals, radio or television.

272-PUBLICITY AND PROMOTIONS

This classification includes the costs that are chargeable to the current accounting period for educating the members in the functions and purposes of credit unions. Additionally, this account is used to allocate the cost of nominally priced promotional items to the current accounting period.

NOTE: The expenses of directors and committee members, including travel and meals away from home, in connection with meetings of the official staff of the credit union and similar expenses of such officials in attendance at chapter, league and other credit union affairs should not be included in this classification. These latter expenses should be included under Account Nos. 231 or 232. Other educational and training costs should be recorded in Account No. 279, "Other Educational and Promotional Expense."

279-OTHER EDUCATIONAL AND PROMOTIONAL EXPENSES

This account includes all other educational and promotional costs chargeable to the current accounting period that are not specifically accounted for in either Account No. 271 or 272.

280-LOAN SERVICING EXPENSES

282-COLLECTION EXPENSES

This classification includes the costs incidental to the collection of delinquent loans. Generally, this includes expenses of officials and employees incurred in connection with efforts to collect loans. Such costs are usually not recoverable from the borrower. Collection costs which have been advanced to an outside source may also be charged to this account. (See Section 5100.1, "Collection of Loans by Outside Sources.")

283-RECORDING FEES-CHATTEL LIEN INSURANCE

This classification includes the cost of recording liens on personal or real property accepted as security for loans. It also includes the premiums on chattel lien nonfiling insurance policies.

284-CREDIT REPORTS

This classification includes costs of credit reports obtained by the credit union.

285-REFUNDS-REAL ESTATE FINANCE CHARGES

This classification includes refunds made to members on real estate loans where prepayment of the loans causes the maximum interest rate limitation to be exceeded because of points or service charges paid by the borrowers when the loans were made.

286-CREDIT CARD PROGRAM EXPENSES

This account is used to record appropriate credit card program expenses. Refer to Section 6030 for illustrated accounting entries. Such expenses will include the cost of the cards, separate billing statements, or service fees paid in connection with the program.

287-SERVICE FEES ON LOANS PURCHASED

This account is used to record service fee expenses incurred as the result of purchasing loans that are being serviced by another person or financial institution.

289-OTHER LOAN SERVICING EXPENSES

This classification includes all other loan servicing costs that are chargeable to the current period but, which are not specifically accounted for in Account Nos. 282 through 287.

290-PROFESSIONAL AND OUTSIDE SERVICES

291-LEGAL FEES

This classification includes the cost of legal services applicable to the general operations of the credit union. Attorney fees and court costs which are related to the credit union's efforts to collect loans may be charged to this account if not recovered from the individual borrowers, or these cost may be treated as losses on loans and charged to "Allowance for Loan Losses", (Account No. 719).

292-AUDIT FEES

This account should be charged with the costs incurred relating to an audit or audits of the credit union's records, usually the supervisory committee audit and/or the verification of the members' accounts, which are performed by an outside accounting firm or other professionals.

293-ACCOUNTING SERVICES

This classification includes expenses incurred for the performance of accounting services for the credit union by an outside person or firm. Expenses incurred in connection with a jointly owned accounting service center (as provided in Section 701.27 of NCUA Rules and Regulations) should also be included in this account. Charges assessed by a service center for performing data processing services for the credit union represent another example of an expense to be classified in this account.

294-MANAGEMENT CONSULTING FEES

This classification includes costs incurred by the credit union for the services of management consultants.

299-OTHER PROFESSIONAL AND OUTSIDE SERVICES

This account should include other professional and outside service costs that are allocated to the current accounting period but, which are not accounted for in Account Nos. 291 through 294.

300-PROVISION FOR LOSSES

301-PROVISION FOR LOAN LOSSES - CONSUMER LOANS

302-PROVISION FOR LOAN LOSSES - LINES OF CREDIT

303-PROVISION FOR LOAN LOSSES - REAL ESTATE LOANS

304-PROVISION FOR LOAN LOSSES - MOBILE HOME LOANS

305-PROVISION FOR LOAN LOSSES OTHER LOANS

The above accounts are used to record the periodic charge(s) to operating expense necessary to maintain a reasonable allowance for loan losses. The amount of the current period provision should be adequate to establish or to increase the allowance to a sufficient level to cover estimated losses inherent in the loan portfolio. The use of subaccount numbers 301 through 305 are optional. However, their use provides valuable information when conducting loan analysis.

The accounts should be charged only with amounts required to establish or increase the balance of "Allowance for Loan Losses", (Account No. 719) in order to provide for estimated potential losses to be sustained on outstanding loans and other receivables. The accounts should be credited only with amounts to decrease Account 719 to provide for such current estimated potential losses. All charge-offs of uncorrectible loans and other receivables as well as nonrecoverable costs chargeable to borrowers should be debited directly to Account No. 719 when cleared from the asset account(s) with the prior approval of the board of directors. Regular and consistent funding of the Allowance for Loan Losses should be carried out at least quarterly, and in some cases monthly, to ensure uniform charges to the Provision for Loan Losses over the annual accounting period.

Refer to the following sections for additional information:

- Section 2090.11, "Valuation Allowance" in the Accounting Principles and Standards section.
- Section 4050.4, "Account No. 719" in the General Ledger section.
- Section 5120.1, "Allowance for Loan Losses" in the General Accounting Procedures section.

309-OTHER PROVISION FOR LOSS

This account is used to record the estimated losses in collecting "Other Receivables" (This account should not be used in lieu of other 300-series accounts.) Estimated losses from receivables should be recorded at the end of each accounting period, or more frequently if the credit union is aware that a receivable is uncollectible.

310-MEMBERS' INSURANCE

311-SHARE INSURANCE

This classification includes the cost of the annual National Credit Union Share Insurance Fund premium paid by the credit union in connection with the insurance of share accounts under Title II of the Federal Credit Union Act.

NOTE: The annual share insurance fund capitalization deposit should be reflected in asset Account No. 752, "Investment in NCUA Share Insurance Capitalization."

312-LIFE SAVINGS INSURANCE

This classification includes the cost of premiums paid by the credit union for life savings insurance on the members. (Dividends on life savings insurance are discussed under the next expense classification, Account No. 313-"Borrowers' Insurance.")

313-BORROWERS' INSURANCE

This classification includes the cost of premiums paid by the credit union for life insurance protection on the borrowing members. Dividends on life savings insurance and borrowers' protection insurance (credit union insurance) will be subject to special handling. Since such dividends are, in effect, a return of a portion of the premiums paid, they may be credited to the appropriate expense classification, Account Nos. 312 or 313. The offsetting debit should be to "Other Assets", (Account No. 799), if the dividends is in the form of a credit memo, or to "Cash", (Account No. 731), if the dividend is received by check. The dividend amount charged to Account No. 799 should be cleared when the credit memo is used in lieu of cash for the payment of future premiums.

If a dividend or refund of premium applies to both borrowers' protection and life savings insurance without a breakdown being furnished by the insurance company, the amount may be according to prorated portions of the combined year-to-date costs. If, however, a credit union desires to do so, the dividends may be recorded as "Other Miscellaneous Operating Income", (Account No. 151) rather than a credit to the expense account(s).

319-OTHER MEMBERS' INSURANCE

This account includes the cost of all other member insurance that is paid by the credit union and chargeable to the current accounting period and not recorded in Account Nos. 311 through 313.

320-FEDERAL OPERATING FEE EXPENSE

This account includes the annual operating fee assessed by NCUA in accordance with Section 105 of the Federal Credit Union Act. The computation of the operating fee will be provided to federally chartered credit unions on NCUA Form 1305, Share Insurance/Operating Fee Invoice. The fee is payable on or before January 31 of each insurance year. Credit unions using the accrual basis of accounting may defer the annual fee as a prepaid expense if the fee is $500 or more.

Illustrative Entries

---

a) To record the annual payment of the fee to NCUA.

Dr. - Federal Operating Fee Expense
(Acct. No. 320) $600.00

or

Dr. - Other Prepaid Expenses
and Deferred Charges
(Acct. No. 769) $600.00
Cr. - Cash (Acct. No. 731) $600.00

b) To record the periodic expensing of the prepaid operating fee.

Dr. - Federal Operating Fee Expense
(Acct. No. 320) $50.00
Cr. - Other Prepaid Expenses and
Deferred Charges (Acct. No. 769) $50.00

Detailed Transactions

Debit:

a) With the payment of the operating fee (cash or modified cash basis of accounting).

b) With amortization of monthly expense (accrual basis of accounting).

330-CASH OVER AND SHORT

This classification includes the amount of cash which is either over or short in connection with each day's collections. At the end of each day's business, the Cash Received Vouchers, or its equivalent, are totaled and the result checked with the cash on hand. If the cash on hand is greater than the total of the vouchers and the error is not located before the transactions for the day are recorded, an additional Cash Received Voucher or its equivalent is prepared for the amount of the overage. The words "Cash Over" are shown on the voucher in the "Received From" space. This voucher is included with other Cash Received Vouchers when preparing the summary voucher of the day's cash receipts and entered as "Cash Over" on the first blank line of the summary voucher.

If the total of the voucher is greater than the cash on hand and the error is not located before the transactions for the day are recorded, a Cash Received Voucher is prepared for the amount of the shortage. The words "Cash Short" are shown on the voucher in the "Received From" space. The amount of the shortage should also be written in red or parentheses opposite the "Total" fine. This voucher should be included with the Cash Received Voucher when preparing the summary voucher for the day's receipts. The words "Cash Short" should be entered on the first blank line of the summary voucher. The amount of the cash short should be entered in red or in parentheses on the summary voucher of the day's receipts in the amount column opposite "Cash Short". This amount should be a deduction from the other items. The net cash shown on the summary voucher should then agree with the cash on hand.

The amount of the cash short or over for each day should be recorded in the "Expense" column of the Journal and Cash Record. If the amounts represent overages, they should be entered in red or parentheses and should be deducted from the total of the other items.

When an error which has been recorded as a cash overage or a cash shortage is located, a Journal Voucher or its equivalent should be prepared to reverse the original debit or credit entry to this account. The correcting entry should be entered in the Journal and Cash Record from this Journal Voucher. For instance, if it is later discovered that a cash overage resulted from failure to prepare a Cash Received Voucher in connection with a payment received on shares, the Cash Over and Short account should be debited and the Shares account should be credited. Proper credit should also be recorded in the individual share account.

If numerous debit and credit entries are recorded as "Cash Over and Short" expense during the month, separate totals can be taken of the items in red or parentheses and those in black. The total of the red items can then be subtracted from the total of the black items to obtain the net overage or shortage. If there is a net overage at the end of the month, it should be shown in red or in parentheses opposite the appropriate caption in the "Operating Expenses" Section of the Statement of Income and should be deducted from other expense items.

At each regular monthly meeting of the board of directors, the cash overages and shortages must be reported to the directors' for consideration and ratification. Some credit unions may find it informative to record cash over and short by teller. In this event, separate expense accounts in the Account No. 330 group may be established; e.g., Teller A-No. 331, Teller B-No. 332, Teller C-No. 333. Any abnormal overages and shortages will thus be promptly brought to the directors' attention so that proper action can be taken in controlling operations and in complying with the terms of the credit union's surety bond.

340-INTEREST ON BORROWED MONEY

This classification includes the interest cost to the credit union for borrowed money. This includes interest paid on promissory notes. (Cross-reference: Accounts in the 810 series, Notes and Interest Payable.)

341-IMPUTED INTEREST COSTS

Imputed interest costs are those which are derived from a computation of interest costs using an implicit interest rate. Interest costs result from the application of an approximated market interest rate to a note or other obligation of the credit union. The rate is used to discount the liability of the credit union to its present value. The Effective Interest Rate Method of computing interest (simple interest applied to the unpaid balance) is then used to determine the amount of periodic interest costs that should be recorded in this account. This approximates the cost of borrowing when the interest rate is not known', or when the rate is unrealistically low for the type of transaction.

Imputed interest costs often occur with transactions that include the exchange of long-term obligations for goods or services and a rate of interest has not been stipulated by the contracting parties or the stated rate is unreasonable relative to the current market conditions. The imputed rate is used in conjunction with determining the market value of the note and the cost of borrowing. Typical transactions include the purchase of long-term leases or loans, e.g., student loans. The use of this account is illustrated in Section 6000.

342-OTHER INTEREST ON BORROWED MONEY

This account is used to record all interest costs other than those chargeable to Account No. 341. Typical interest costs would be associated with notes payable, mortgage notes payable, reverse repurchase agreements, and Fed Funds.

Illustrative Entries

---

a) To record interest paid in conjunction with a mortgage note payable.

Dr. - Mortgage Notes Payable		
(Acct. No. 811)	$400.00	
Dr. - Other Interest on Borrowed Money		
(Acct. No. 342)	10.96	
Cr. - Cash (Acct. No. 731)		$410.96

Detailed Transactions

Debit:

a) With periodic interest payments related to a note.

350-ANNUAL MEETING EXPENSES

This classification includes all costs incurred in connection with the annual meeting of shareholders; e.g., costs of rental of meeting room, printing of notices to shareholders, costs of carrying out and administering a mail ballot election program, etc.

360-TRUTH IN LENDING EXPENSE (TIL)

361 -TIL REIMBURSEMENT OF INTEREST OVERCHARGES

This classification includes reimbursement expenses for overcharges under Regulation Z-Truth in Lending enforcement for accounting periods subsequent to the first examination period in which reimbursement is required.

362-TIL RESTITUTION

This classification includes restitution costs for expenses incurred for other than interest overcharges under Regulation Z-Truth in Lending enforcement. These costs should be the result of activities within the current accounting period.

370-MISCELLANEOUS OPERATING EXPENSES

This classification includes miscellaneous expenses for which no separate expense classification is provided. The nature of the expense should be noted in the "Account" column-m of the Journal and Cash Record. If a particular type of expense shown in this miscellaneous grouping represents a comparatively large amount of the total for this group, it may be shown as a separate item. If, for example, any expenses are large in relation to the other items in Miscellaneous Operating Expense, these expenses may be charged to a special expense account established by the credit union under the appropriate main grouping of expense classifications. These expenses would then be merged with and reported in the total for the designated expense grouping in the Statement of Income for the period.

371-UNEXERCISED COMMITMENT FEES

This account should be used to expense commitment fees paid to borrow funds where the commitment expires unexercised.

372-COMMITMENT FEES ON BORROWED FUNDS

This account should be used to expense commitment fees paid to borrow funds where the commitment fees are expensed based on the straight-line method of amortization.

380-DIVIDEND EXPENSES

380.1-REGULAR SHARE DIVIDEND EXPENSE

380.2-SHARE DRAFT DIVIDEND EXPENSE

380.3-CLUB ACCOUNT DIVIDEND EXPENSE

380.4-IRA/KEOGH DIVIDEND EXPENSE

380.5-IRA/KEOGH CERTIFICATE DIVIDEND EXPENSE

380.6-SHARE CERTIFICATE DIVIDEND EXPENSE

380.7-MONEY MARKET DIVIDEND EXPENSE

380.8-OTHER DIVIDEND EXPENSE

The above account classifications include the amount of dividends for each type of share account chargeable to the current accounting period based upon action by the board of directors, estimates, or per contractual agreements. The entries recording the dividend expense should be made no later than the last day of each dividend period regardless of whether the dividends were actually authorized by the directors on that date, or before or after that date. Offsetting entries for charges to these accounts should be made to the appropriate dividend payable account (the 820 series) or, if dividends are credited to members' accounts on the last day of the dividend period, to the appropriate General Ledger Share Account. When the board of directors defers action to declare dividends until the first month following the dividend period, entries should be made retroactively as of the close of the affected dividend period.

At the option of the board of directors, the estimated dividends anticipated to be paid for any dividend period may be recorded by monthly entries to spread the cost over the months comprising the dividend period. Under this optional procedure, the dividends should be allocated to the month that the expense was incurred, regardless of whether the dividends were declared or not. Accordingly, estimated dividends should be charged to their appropriate dividend expense accounts monthly. When this procedure is used, the offsetting credit is to the appropriate dividends payable account (the 820 series). When the actual dividends are paid in cash or credited to shares, the balances in the appropriate dividends payable account should be cleared.

References:

- Section 2050.1.7.1, Accrued Dividends
- Section 4030.2.6, Accrued Expenses
- Section 4050.5, Liability Accounts

385-INTEREST ON DEPOSITS

This account normally is not applicable to federal credit unions. However, its use may be appropriate for allocating the cost of interest bearing deposits (deposits that are not considered shares) to the current accounting period.

4050.3-NONOPERATING INCOME AND EXPENSE ACCOUNTS (400 SERIES)

400-NONOPERATING INCOME (EXPENSE)

420-GAIN (LOSS) ON INVESTMENTS

This nonoperating income (expense) classification reflects the gain or loss during the accounting period on investments of the credit union.

Upon sale or other disposition of all investments except trading accounts, the difference between the carrying value of the investments disposed of and the proceeds received by the credit union should be credited to this account if a gain, or charged to this account if a loss. (NOTE: Gains or losses on the disposition of trading account investments are recorded in "Trading Profits and Losses", Account No. 170.)

This account also includes estimated losses resulting from prolonged material declines in market values of investment securities. When such losses are imminent, a schedule of investments needs to be furnished to the board of directors listing each investment as to the: (a) identification of the investment, (b) the credit union's dollar carrying value, (c) the estimated current market value, and (d) the estimated loss that will be sustained. The amount of the loss to be recorded needs to be approved by the board and is incorporated into the minutes based on the above schedule. It should be recorded by debiting "Gain (Loss) on Investments," (Account No. 420) and crediting the respective investment accounts.

When the credit union has investments in U.S. Government or Federal agency securities, the market value of the investments should be show-n parenthetically next to the related asset category on the Statement of Financial Condition or in a note keyed to the related asset category on the statement.

This account also includes losses sustained as a result of a permanent decline in value of investment securities, which might occur in troubled debt restructuring. Troubled debt restructuring occurs when a creditor modifies the terms of an existing debt to be more favorable to protect his investment or portions of it. This occurs when a creditor is compelled by economic and legal considerations to grant relief to a debtor(s) who cannot satisfy the terms of a debt(s). In such cases of a permanent decline, the value of the security should be written down to the new market value by debiting this account and crediting the appropriate investment account. Changes in value of investments which are due only to unprolonged market interest rate fluctuations, rather than permanent changes in value, should be reflected by showing fair values of investments parenthetically, on a separate schedule, or by note on the Statement of Financial Condition. Gains or losses should be recognized only upon disposition of the securities.

Entries in the Journal and Cash Record

All entries to this account should be made in the "Miscellaneous Debit" or "Miscellaneous Credit" col. columns of the Journal and Cash Record based upon Cash Received Vouchers or Journal Vouchers prepared for each individual transaction.

Illustrative Entries

---

a) To record net gain on sale of investments for the excess of proceeds received over the credit union's carrying value:

Dr. - Cash (Acct. No. 731) ……	$1,000.00	
Cr. - Held-to-Maturity Securities (Acct. No. 741) ……		$960.00
Cr. - Gain (Loss) on Investments (Acct. No. 420) ……		40.00

b) To record an estimated potential loss of a nontemporary nature on investments due to a decline in the expected realizable value as authorized by the board of directors:

Dr. - Gain (Loss) on Investments (Acct. No. 420) ……	$2,000.00	
Cr. - Investments in Credit Union Service Corporations (Acct. No. 748.1) ……		$2,000.00

c) To record loss on investments in loans to other credit unions:

Dr. - Cash (Acct. No. 731) ……	$8,100.00	
Dr. - Gain (Loss) on Investments (Acct. No. 420) ……	1,900.00	
Cr. - Loans to Other Credit Unions (Acct. No. 747) ……		$10,000.00

d) To record a permanent decline in the value of an investment after the credit union learns that it will not collect the full amount:

Dr. - Gain (Loss) on Investments
(Acct. No. 420)..... $1,000.00
Cr. - Loans to Other Credit
Unions (Acct. No. 747) $1,000.00

or

Cr. - Investments in Credit Union
Service Corporations
(Acct. No. 748)..... $1,000.00

Detailed Transactions

Credit:

a) With amounts of gains on sales or other dispositions of investments, representing the excess of proceeds received over net carrying value.

b) With balance of account, if a debit, when books are closed (transfer to the Net Income (Loss) account).

Debit:

a) With net losses on sales or other disposition of investments, representing the excess of credit union's carrying value of the investments disposed of over the proceeds received.

b) With balance of account, if a credit, when books are closed (transfer to the Net Income (Loss) account).

c) With the amount of a prolonged or permanent decrease in the value of investments.

430-GAIN (LOSS) ON DISPOSITION OF ASSETS

This nonoperating income (loss) account reflects the gain or loss during the accounting period on sales or other dispositions of miscellaneous assets of the credit union. Gains or losses on assets (including notes and other receivables) acquired in liquidation of loans should not be credited or charged to this account but should be recorded in "Allowance for Loan Losses", (Account. No. 719). Also, gains or losses on investments should be recorded in "Gain (Loss) on Investments", (Account No. 420) instead of to this account.

Entries in the Journal and Cash Record

All entries to this account should be made in the Miscellaneous Debit or Miscellaneous Credit column of the Journal and Cash Record (Form FCU 101) based on Cash Received Vouchers (Form FCU 105) or Journal Vouchers (Form 106A) prepared for each individual transaction.

Illustrative Entry

To record the net loss sustained on disposition of furniture and equipment. A typewriter, which was originally purchased for $600.00, was sold for $20.00. The allowance for depreciation at the date of sale included $500.00 for this unit based on the unit depreciation method of depreciating fixed assets:

Dr. - Cash (Acct. No. 731)	$20.00	
Dr. - Gain (Loss) on Disposition of Assets (Acct. No. 430)	80.00	
Dr. - Allowance for Depreciation of Furniture and Equipment (Acct. No. 775)	500.00	
Cr. - Furniture and Equipment (Acct. No. 774)		$600.00

Detailed Transactions

Credit:

a) With the amount of gains realized on disposition of assets, representing the excess of proceeds received over the carrying value of the assets disposed of.

b) With the balance of the account, if a debit, when the books are closed (transfer to the Net Income (Loss) account).

Debit:

a) With the amount of losses sustained on disposition of assets, representing the excess of carrying value of the assets disposed of over the proceeds (if any) received from disposition.

b) With the balance of the account, if a credit, when the books are closed (transfer to the Net Income (Loss) account).

440-OTHER NONOPERATING INCOME (EXPENSES)

This nonoperating income (expense) account reflects all nonoperating income received or expenses or losses incurred for which no specific account is provided. This account should include such items as the value of donations and gifts received except in the case of a donated fixed asset of material value which should be recorded as Donated Equity.

Entries in the Journal and Cash Record

Entries to this account should be made in the "Miscellaneous Credit" or "Miscellaneous Debit" columns of the Journal and Cash Record based on Cash Received Vouchers or Journal Vouchers prepared for each individual transaction.

Detailed Transactions

Credit:

a) With the amount of gifts and donations received except tangible fixed assets of substantial value for which the credit entry should be to Account No. 950-"Donated Equity."

b) With the amount of miscellaneous nonoperating income received by the credit union for which no other account in the 400 series is specifically prescribed.

c) With amounts equivalent to depreciation charged to expense during the period on donated tangible fixed assets; offsetting debit should be to Account No. 950-"Donated Equity."

d) With balance of account, if a debit, when books are closed (transfer to the Net Income (Loss) account).

Debit:

a) With the amount of any miscellaneous nonoperating expenses of the credit union not specifically chargeable to other accounts in the 400 series.

b) With balance of account, if a credit, when books are closed (transfer to the Net Income (Loss) account).

446-EXTRAORDINARY GAINS AND LOSSES

This account is used to record gains and losses resulting from events or transactions that are of an unusual nature and are infrequent in occurrence. Both of the following criteria must be met to classify an event or transaction as an extraordinary item:

a) Unusual nature-the event or transaction possesses a high degree of abnormality and is of a type clearly unrelated to, or only incidentally related to the ordinary and typical activities of the credit union, taking into account the environment in which the credit union operates.

b) Infrequency of occurrence-the event or transaction is a type that would not reasonably be expected to recur in the foreseeable future.

Examples of extraordinary losses might be a loss resulting from a major casualty such as a flood, earthquake, or hailstorm in a locality where the event would be extremely rare.

Entries in Journal and Cash Record

All entries to this account should be made to the "Miscellaneous Debit" or "Miscellaneous Credit" columns of the Journal and Cash Record based upon Cash Received or Journal Vouchers prepared for each individual transaction.

Illustrative Entries

---

a) To record the net loss sustained from a flood that destroyed the credit union's office furniture and equipment (inclusive of a new sophisticated electronic accounting machine) that occurred in a locale where a flood has never been experienced.

Dr. - Extraordinary Gains and Losses (Acct. No. 446) ……	$40,000	
Dr. - Allowance for Depreciation of Furniture and Equipment (Acct. No. 775)……	500	
Cr. - Furniture and Equipment (Acct. No. 774) ……		$40,500

Detailed Transactions

Credit:

a) With extraordinary gains resulting from an unusual event or transaction of an infrequent nature.

Debit:

a) With extraordinary losses resulting from an unusual event or transaction of an infrequent nature.

4050.4 ASSET ACCOUNTS (700 SERIES)

700-LOANS TO MEMBERS

This series of accounts represents the total amount outstanding in loans to members. Each account in the 701-718 series is a summarization of all the individual loan ledgers for that particular type of loan. Totals of the balances of the individual loan ledgers must be taken at the end of each month to insure that they are in balance with these General Ledger control accounts.

Particular attention should be given to the discussion and requirements of Section 701.21 of the NCUA Rules and Regulations.

Entries in Journal and Cash Record

The accounting for all types of loans in this series of accounts is basically the same. However, more detailed information on each type of loan is given later in this section as well as in Section 6000 of this manual.

Debit these accounts in the "Loans-Loaned" column of the Journal and Cash Record with the full amount of new or refinanced loans made to each member. Credit these accounts in the "Loans-Repaid" column with the total of cash payments made by borrowers and endorsers, the balance of old loans included in new or refinanced loans, the application of shares to loans, and the charge off of uncollectible loans.

Entries canceling loan principal payments because of dishonored checks should be recorded in the "Loans-Repaid" column as deductions by entering the amounts involved in red figures or parentheses.

Posting to General Ledger

Debits and credits to these accounts in the General Ledger are made at the end of each month by posting the totals of the "Loans" columns from the Journal and Cash Record.

Posting to Members' Accounts

The items which are accumulated in the "Loans Loaned" column of the Journal and Cash Record for monthly postings to the General Ledger Loan accounts are also recorded in the Individual Share and Loan Ledger and in the Member's Passbook or Statement of Account. Credit entries for payments made on the loans are posted in these records from the Cash Received Vouchers or equivalents; other credit entries are posted from the "Loans-Repaid" column of the Journal and Cash Record.

Entries showing the charge off of a loss loan should be identified as such in the member's account in the Individual Share and Loan Ledger. Recoveries on loans charged off should be recorded as memorandum information on the member's account, or on a work sheet.

The total of the individual loan accounts as shown in the Individual Share and Loan Ledgers needs to be proved with the total of the loans in the 701-718 account series at least monthly and the listing (adding machine or computerized trial balance) retained in the files.

Illustrative Entries

---

a) When a loan is made to a member:

Dr. - Loans (Acct. No. 701) ……	$100.00	
Cr. - Cash (Acct. No. 731) ……		$100.00

b) When an installment on a loan is paid and interest and late charges are collected:

Dr. - Cash (Acct. No. 731)	$11.20	
Cr. - Loans (Acct. No. 701)		$10.00
Cr. - Interest on Loans (Acct. No. 111)		1.00
Cr. - Fees and Charges (Acct. No. 131)		.20

c) When a member having a note outstanding with an unpaid balance of $10.00 gives a new note for $50.00 and receives a check for $40.00 and his old note:

Dr. - Loans (Acct. No. 701)	$11.20	
Cr. - Cash (Acct. No. 731)		$40.00
Cr. - Loans (Acct. No. 701)		10.00

NOTE: If a Journal Voucher is used, the new loan should be entered as a debit for the gross amount, the old loan balance as a credit item, and the voucher should indicate the net cash paid in the space opposite "Amount" in the lower left side of the form.

d) When a member authorizes the credit union to apply his shares to his indebtedness:

Dr. - Shares (Acct. No. 901)	$50.00	
Cr. - Loans (Acct. No. 701)		$49.00
Cr. - Interest on Loans (Act. No. 111)		1.00

e) The board of directors determines the loan to the member may be a potential loss due to announced bankruptcy proceedings. The Allowance for Loan Losses Account is increased to provide for full and fair disclosure requirements of Section 702.3 of the NCUA Rules and Regulations.

Dr. - Provisions for Loan Losses (Acct. No. 301)	$25.00	
Cr. - Allowance for Loan Losses (Acct. No. 719)		$25.00

f) When the board of directors determines that further collection cannot be effected on a loan and authorizes charging off the loan:

Dr. - Allowance for Loan Losses (Acct. No. 719)	$25.00	
Cr. - Loans (Acct. No. 701)		$25.00

NOTE: Only the unpaid principal should be charged off. If the member has any shares, the shares should be applied to the loan before the charge off, provided the credit union has obtained the proper statutory liens in court.

Detailed Transactions

Debit:

a) With total principal amount of new and refinanced loans made to members.Credit:

a) With cash payments of principal made by borrowers and endorsers.

b) With unpaid principal balances of loans included in new and refinanced loans.

c) With amounts of shares applied to principal of loans.

d) With the unpaid balance of loans transferred to "Loans-Collateral in Process of Liquidation" (Account No. 707).

e) With the charge off of loss loans.

701 -LOANS

This account represents total loans outstanding to members which are not included in the other 702-718 Account No. series. This account should be used to record loans to members for most consumer type expenditures such as vehicles, household goods, medical expenses, vacations, taxes, etc., and should also include special loan plans such as "revolving credit" if the plans are not true lines of credit. It should also include any other loans for which no classification has been provided.

The credit union needs to keep detailed subsidiary records of individual loans granted and/or outstanding by loan types. The subsidiary records should be subtotaled, the total of the balances should be proved with the balances in this account at least monthly, and the listings retained in the files.

701.1-COMMERCIAL LOANS

Commercial or business loans are generally defined as having the following characteristics: (1) repayment will be made from business revenue, (2) the security is a business asset, (3) the purpose is to obtain a business or business asset, or (4) the proceeds will be used to finance a business operation. Specific requirements have been established in Section 701.21(h) of the NCUA Rules and Regulations. A federal credit union may make business loans only in accordance with all the provisions of Section 701.21. The credit union staff must have the expertise required to protect against losses which could result. Since most business loans are larger, the risk of losses is much greater. With this type of loan, the emphasis on underwriting such loans shifts from the individuals, as in a regular consumer loan, to the financial soundness of the business requesting the loan.

The loan should be supported by commercial credit reports, analysis of income and expense statements, cash flow and balance sheet analysis. Cash flow is often a problem for most small businesses. Considering the high percentage of new business that fail, additional collateral should be considered in financing a new business by the credit union. If inventory is taken as collateral, it should be recognized that upon forced sale, the value of that inventory may only be a fraction of the value of this finished product.

701.2-AGRICULTURE LOANS

The same specific requirements for business loans contained in Section 701.21 of the NCUA Rules and Regulations are required for agriculture loans. A credit union making agricultural loans must take into account various factors that may not be present in considering urban real estate as security on loans. Loans are made not on the acreage alone, but upon the productivity of those acres. Erosion and wastage as well as fertility must be studied since the loan may be repaid over a long period of time. Productivity of the farm over a series of years as a source of repayment must be considered since it must first provide a living for its owners. The lender must be sure there will be funds to pay taxes and operating expenses, including reasonable allowances to maintain the productivity of the land, and still leave a balance to amortize the loan. The applicant must be able to demonstrate managerial efficiency.

Accounting records are needed to supply information on the ability of the borrower to repay. Net worth should be used in determining borrowing capacity, but only cash can repay the debt. Income statements are more useful in measuring debt repayment capacity. Tax returns are also essential to determine information on the potential borrower. If crop loans are made, inspections of the growing crops are essential as well as monitoring of disbursements to assure that the proceeds are channeled into the farmer's operation. Livestock loans need inspections at the inception of credit as well as periodically throughout the life of the loan, and the inspections should be documented in the loan files. For example, a loan for a dairy herd purchase would need a detailed written inspection periodically to determine if the cattle are healthy and productive at all times. The inspection would determine if the value of the cattle is adequate to repay the outstanding loan based on market conditions. Likewise, a loan to finance a calf feeder operation would also need periodic inspections to determine that all the livestock purchased were healthy and increasing in value to repay the loan at maturity. These inspections will take expertise which may or might not be readily available in the individual credit union.

701.3-CONSUMER LOANS

This account includes loans made to members for consumer type expenditures such as automobiles, trucks, motorcycles, recreational vehicles, household goods, home improvements, revolving credit, medical expenses, vacations, taxes and similar items. Revolving credit loans would also be included in this account. Many credit unions, through use of their computer systems, are able to keep records on the various types or purposes of loans to reflect the number and balances outstanding in each category for comparison purposes.

701.4-OTHER MEMBER LOANS

This account contains various loans to members which do not fit other groupings listed. Included in this account may be investment loans, student loans, and other loans as needed.

701.5-HOME EQUITY LOANS

A loan gaining wide acceptance in credit unions is the Home Equity loan. These loans may offer a tax benefit to members who itemize deductions for tax purposes. This type of loan plan allows the borrower to use the portion of equity in his/her residence to increase borrowing capacity. These loans can either be first or second mortgage loans.

Although credit unions should employ the same procedures and evaluation of creditworthiness and collateral as in other real estate lending, home equity loans are often different since they may be open-end loans. Advances can be generated in a variety of ways as in any open-end plan.

Credit unions need to develop extensive policies when engaging in home equity lending and should have similar procedures as with traditional real estate loans. A policy on the maximum percentage of appraised value that will be loaned (including unpaid value of the first mortgage plus the maximum loan limit on the second mortgage), proper and accurate written appraisals of the collateral, and detailed evaluation of the applicant's ability to repay are all needed. The loan must comply with provisions contained in Section 701.21 of the NCUA Rules and Regulations as well as other legal requirements where the credit union is located. It is extremely important that legal counsel be consulted so that any problems detected in the loan documents can be alleviated. An attorney's opinion should be on Me stating the forms meet all applicable federal, state, and local requirements. Even with the opinion letter from the vendor's attorney, it would be wise to obtain an independent attorney's opinion from an individual who Species in state law.

Advantages of these types of loans are that the loans are often granted at variable interest rates and are secured by collateral that can often appreciate rather than depreciate. Also, they can be made with relative ease of disbursement after all initial documents have been prepared and can be modified depending on external factors such as the loan demand.

Disadvantages include the fact that real estate market values may decrease in value, or the property value may decline due to poor maintenance. Also, if this type of lending is not controlled, it could have the impact of overextending the borrower to possible bankruptcy. This type of loan also contributes to a lower loan turnover rate and must be managed from a liquidity and funds management standpoint.

701.8-NET COMMITMENT FEES-LOANS TO MEMBERS

This account should be used to record net commitment fees when the commitment is ex and the fees are required to be accounted for as an adjustment of yield using the interest method. This account should be credited and Account No. 894, "Defended Credits-Net Commitment Fees-Loans to Members" should be debited. A detailed discussion of the application of the interest method can be found under Account No. 703.1.

Commitment fees are fees charged for entering into an agreement that obligates the enterprise to make or acquire a loan or to satisfy an obligation of the other party under a specified condition. The term includes fees for letters of credit and obligations to purchase a loan or group of loans and pass-through certificates. Available lines of credit under credit card and similar charge card arrangements are loan commitments. Fees collected in connection with such cards (credit card fees) are viewed as being loan commitment fees.

701.9-NET ORIGINATION FEES (COSTS)-LOANS TO MEMBERS

For term loans, the net origination fees (costs), if material, should be deferred and amortized over the life of the loan by the interest method as an adjustment to yield (see discussion under Account No. 703.1). If immaterial, net origination fees (costs) should be accounted for as discussed below. Net origination fees (costs) that are related to lines of credit should be accounted for as discussed in Account No. 890, Deferred Credits-Net Origination Fees (Costs)-Lines of Credit to Members.

Origination fees are those fees charged to the borrower in connection with the process of originating, refinancing, or restructuring a loan. This term includes, but is not limited to points, management, arrangement, placement, application, underwriting, and other fees pursuant to a lending or leasing transaction and also includes syndication and participation fees to the extent they are associated with the portion of the loan retained by the lender.

Credit unions in recent years have started charging a nominal, nonrefundable loan application fee on loans to members, i.e., business, agricultural, and consumer loans. The purpose of the fee is to increase income and offset the cost of credit reports. The fees charged to borrowers should be deferred and amortized over the life of the loan. Direct costs incurred with respect to the particular transaction should also be deferred and amortized over the life of the loan. The fees and direct costs are netted and amortization is calculated based on the interest method.

The net origination fees (costs) on these types of transactions should not be considered material if the following criteria are met:

a) The application fee is nominal;

b) The direct costs incurred are nominal; and

c) The maturity of these type transactions are short in nature.

If immaterial loan application fees may be credited directly to income and the associated direct costs expensed as incurred. Should the application fees taken on an individual basis or on an aggregate basis be determined to be material in relation to the direct cost incurred, then compare with FASB Statement No. 91 would be required. Likewise, should the direct costs incurred be considered material in relation to the application fees charged, FASB Statement No. 91 would require the deferral of direct costs as an adjustment to yield. An extensive discussion of the interest method can be found under Account No. 703. 1.

702-LINES OF CREDIT TO MEMBERS

This account represents line of credit loans granted under provisions of Section 107(5)(B) of the Federal Credit Union Act and Section 701.21 of the NCUA Rules and Regulations. A line of credit is a fixed amount which may be drawn upon from time to time and may be replenished by amounts previously drawn. The t between the credit union and the borrower specifies the amounts which may be borrowed and conditions of the agreement. Advances are preapproved under a line of credit but it may be canceled upon notice by either party.

702.1-LINES OF CREDIT TO MEMBERS CREDIT CARDS

This account is used to record loans originating from credit card transactions involving posted Cash Advances and purchases. Credit cards are similar to loan drafts except a plastic card is used instead of a check. Credit unions usually enter into an agreement with another financial institution to issue the plastic cards to their members for processing against the member's line of credit. This account should be accompanied by the necessary subsidiary individual loan ledgers that are balanced monthly to the General Ledger balance of the account. Refer to Section 6000 for further information and the illustrative Journal and Cash Record entries.

702.2-LINES OF CREDIT-CASH ADVANCES IN PROCESS

This account is used to record credit card cash advances that have been paid out but have not been posted to the member's account by the credit cards processor. When the processor has posted the transaction to the cardholder's account, the entry should be reversed. Refer to Section 6000 for illustrative Journal and Cash Record entries.

702.3-NET ORIGINATION FEES (COSTS)-LINES OF CREDIT

This account is used to accumulate the origination fees and costs relating to lines of credit loans to members.

The accounting for origination fees for lines of credit parallels that discussed under Account Number 703.1, Net Origination Fees (Costs)-Real Estate Loans over 12 Years.

702.4-NET COMMITMENT FEES (COSTS)-LINES OF CREDIT

This account is used to accumulate the commitment fees and costs relating to lines of credit loans to members. A detailed description of commitment fees can be found in Account No. 701.8, "Net Commitment Fees-Loans to Members."

The accounting for Periodic fees is discussed in Account No. 884, "Deferred Credits-Credit Card Commitment Fees."

703-REAL ESTATE LOANS OVER 12 YEARS

This account represents total outstanding balances of real estate loans having maturities over 12 years but not exceeding 40 years. These loans to members are granted in accordance with Section 701.21(o and (g) of the NCUA Rules and Regulations. Real estate loans having a maturity of 12 years or less should be included in Account No. 704.

703.1-NET ORIGINATION FEES (COSTS)-REAL ESTATE LOANS OVER 12 YEARS

Origination fees are nonrefundable fees charged to the borrower in connection with the originating, refinancing or restructuring of a loan. Examples include points, management, arrangement, placement, application, underwriting, and other fees related to a lending transaction. Points charged to sellers shall be considered origination fees.

Direct loan origination costs include the following:

a) Incremental direct costs incurred in transactions with third parties, and

b) Certain costs relating to specific activities performed by the lender for that particular loan. The specific activities are:

    1) Evaluating the applicant's financial condition;

    2) Evaluating and recording guarantees, collateral and security arrangements;
    3) Negotiating loan terms;

    4) Preparing and processing loan documents; and

    5) Closing the transaction.

These costs should include only that portion of the employees total compensation and payroll related fringe benefits for the time spent on a particular loan and other costs related to those activities on a particular loan. All other lending related costs should be expensed as incurred. Administration costs such as rent, depreciation, etc., are considered indirect costs and should be expensed as incurred. Also, direct costs do not include transactions with third parties billed directly to the applicant.

Loan origination fees should be deferred and recognized over the fife of the loan as an adjustment of yield. Likewise, direct loan origination costs should be deferred and recognized over the life of the loan as a reduction in yield. The fees and costs should be offset against each other and only the net amount should be deferred and amortized. The netting of fees and costs should be applied on an individual loan basis. The net amount should be deferred and amortized using the interest method. The objective of the interest method is to arrive at periodic interest income at a constant effective yield on the net investment (carrying value). The difference between the periodic interest income so determined and the stated interest on the outstanding principal balance is the amount of periodic amortization.

Entries in the Journal and Cash Record

Net fees (costs) and their subsequent amortization should be recorded in the miscellaneous columns of the Journal and Cash Record. The unamortized balance of the net fees (costs) should be reported as part of the loan balance to which it relates. The periodic amortization should be reported on the income statement as interest income.

Assume that a $75,000 real estate loan is made 1/01/X1 at 10% interest. The loan is to be paid back in 15 annual installments. The credit union charges points of 3%. Direct costs were $250.

Step 1-Determine the carrying amount of the loan:

Principal Balance of Loan	$75,000
Less: Fees Charged	(2,250)
Plus Direct Costs	250
Carrying Amount	$73,000

Step 2-Determine the unamortized net fees:

Fees Charged	$2,250
Less: Direct Costs	(250)
Unamortized Net Fees	$2,000

Step 3-Determine the yearly payment on the amount of the loan. (NOTE: A pocket calculator with present value/annuity capability can be used to determine the yearly value payment). In this case, the yearly payment is $9,861.

Step 4-Determine the constant effective yield on the carrying amount, $73,000. (NOTE: Again this can be done using a pocket calculator with present value capability). In this example, the constant effective yield based on the carrying amount is 10.4782 percent.

Step 5-Determine the amount of periodic amortization.

Year 1

- Stated interest based on the outstanding principal balance = $75,000, ($75,000 x 10%).
- Interest income based on the carrying amount and the constant effective yield = $7,649, ($73,000 x .104782).
- Amount of amortization for year 1 = $149, ($7,649 - $7,500).
- Total interest income for year 1 = $7,649, ($7,500 + $149).
  ($73,000 x .104782).
- Outstanding principal balance at the end of year 1 = $72,639, ($75,000 - $9,861 + $7,500).
- Carrying amount at the end of year 1 = $70,788, ($72,639 - $2,000 + $149).
- Net unamortized fees (costs) would be $1,851, ($2,000 - $149).

Year 2

- Stated interest based on the outstanding principal balance = $7,264, ($72,639 x 10%).
- Interest income based on the carrying amount and constant effective yield = $7,417, ($70,788 x .104782).
- Amount of amortization for year 2 = $153, ($7,417 - $7,264).
- Total interest income for year 2 = $7,417, ($7,264 + $153).
- Outstanding Principal balance at the end of year 2 = $70,042, ($72,639 - $9,861 + $7,264).
- Carrying amount at the end of year 2 = $68,344, ($70,042 - $1,851 + $153).
- Net unamortized fees (costs) would be $1,698, ($1,851 - $153).

Figure 4-4: Illustration of an Amortization Table

	(1) Cash (Out) Inflow	(2) Stated Interest	(3) Amortization	(4) Interest Amount	(5) Remaining Principal	(6) Unamortized Net Fees	(7) Carrying Amount
	($73,000)				$75,000	$2,000	$73,000
1	9,861	$7,500	$149	$7,649	72,639	1,851	70,788
2	9,861	7,264	153	7,417	70,042	1,698	68,344
3	9,861	7,004	157	7,161	67,185	1,541	65,644
4	9,861	6,719	159	6,878	64,043	1,382	62,661
5	9,861	6,404	162	6,566	60,586	1,220	59,366
6	9,861	6,059	161	6,220	56,784	1,059	55,725
7	9,861	5,678	161	5,839	52,601	898	51,703
8	9,861	5,260	158	5,418	48,000	740	47,260
9	9,861	4,800	152	4,952	42,939	588	42,351
10	9,861	4,294	144	4,438	37,372	444	36,928
11	9,861	3,737	132	3,869	31,248	312	30,936
12	9,861	3,125	117	3,242	24,512	195	24,317
13	9,861	2,451	97	2,548	17,102	98	17,004
14	9,861	1,710	72	1,782	8,951	26	8,925
15	9,861	910*	26	936	-0-	-0-	-0-
		895*		935*			
		$15 Diff Due to Rounding*		$1.00 Diff. Due to Rounding*			

Each succeeding year's computations would be calculated exactly the same as years 1 and 2. Should the borrower make a full prepayment of the outstanding principal balance, any net unamortized fees (costs) would be taken directly into interest income.

a) To record the net origination fees (costs) per the above example.

Dr. - Cash (Acct. No. 731) $2,000
Cr. - Net Origination Fees
(Costs)-Real Estate Loans Over
12 years (Acct. No. 703.1) $2,000

b) To record the amortization of the net origination fees (costs) when the first scheduled payment is made.

Dr. - Real Estate Loans Over 12
Years-Net Origination Fees
(Costs)-(Acct. No. 703.1) $149.00
Cr. - Interest on Real Estate
Loans (Acct. No. 114) $149.00

c) To record the amortization of the net origination fees (costs) when the second scheduled payment is made.

Dr. - Real Estate Loans Over 12
Years-Net Origination Fees
(Costs)-(Acct. No. 703.1) $153.00
Cr. - Interest on Real Estate
Loans (Acct. No. 114) $153.00

d) To record the transaction as it pertains to the net unamortized fees (costs) should the borrower make a full prepayment when the third scheduled payment is due.

Dr. - Real Estate Loans Over 12
Years-Net Origination Fees
(Costs)-(Acct. No. 703.1) $1,698.00
Cr. - Interest on Real Estate
Loans (Acct. No. 114) $1,698.00

NOTE: When the stated rate of interest changes during the term of the loan the interest method is applied as follows:

a) Should the stated interest rate increase during the term of the loan so that the interest accrued under the interest method in early periods would exceed interest at the stated rate, interest income shall not be recognized to the extent that the net investment in the loan would increase to an amount greater than the outstanding balance of the loan. In such a case, the amortization of the net fees calculated by subtracting the stated interest from the interest income based on the net investment would exceed the total unamortized fees. Therefore, the interest income is limited to the stated interest plus the unamortized net fees (costs).

b) Should the stated rate decrease during the term of the loan, the stated interest calculated early in the term of the loan would exceed interest income based on the net investment. In such a case the excess is deferred and added to the unamortized net fees thereby increasing the net investment in the loan.

c) If the loan's stated rate varies based on an independent index or rate, the calculation of the constant effective yield shall be based either on the rate in effect at the inception of the loan or on the factor as it changes over the life of the loan.

If the constant effective yield is based on the rate in effect at the loan's inception, then the amortization of the net fees (costs) would be the same as if the rate had not changed. Therefore, the interest income equals the stated interest plus the amortization of the net fees (costs) on the terms of the loan at inception.

If the constant effective yield is based on the factor as it changes over the life of the loan, then a new constant effective rate would be computed when the rate changes.

Problems also can be encountered when the scheduled payment and/or payment dates are not met. Therefore, it is essential in such cases that professional assistance be consulted and that the software necessary to amortize the net fees (costs) be obtained.

If a credit union has a large number of similar loans for which prepayments are probable and the timing and amount of the prepayments can be reasonably estimated, the credit union may consider estimates of future principal payments in the calculation of the constant effective yield. If this approach is taken and a difference arises between the prepayments received and the prepayments anticipated, the effective yield should be recalculated to reflect actual payments to date and anticipated future payments. The net investment in the loans shall be adjusted to the amount that would have existed had the new effective yield been applied since the acquisition of the loans. The investment in the loans shall be adjusted to the new balance with a corresponding charge or credit to interest income. Credit unions that anticipate prepayments shall disclose that policy and the significant assumptions underlying the prepayment estimates. Detailed examples are not provided due to the complexity of the subject matter. Professional assistance should be consulted if this procedure is being contemplated.

When a borrower refinances or restructures a loan and the terms are at least as favorable to the lender as the terms for comparable loans to other members with similar collection risks who are not refinancing or restructuring, the refinanced loan should be accounted for as a new loan. Any unamortized net fees (costs) from the original loan shall be recognized as interest income when the new loan is granted.

If the refinancing does not meet the conditions discussed in the preceding paragraph, then the net fees (costs) from the original loan shall be carried forward as a part of the net investment in the new loan.

Detailed Transactions

Debit:

a) With the amount of direct loan costs incurred.

b) With the amount of periodic amortization of the net fees.

Credit:

a) With the amount of loan origination fees received.

b) With the amount of periodic amortization of the net costs.

704-REAL ESTATE LOANS 12 YEARS OR LESS

This account includes all real estate loans which are granted to members having an original maturity of 12 years or less. It is the summarization of all the individual loan ledger accounts for those real estate loans. The total of the balances in the individual real estate loan accounts is usually taken at the end of the month and should equal the debit balance of the account as of the same date.

704.1-NET ORIGINATION FEES (COSTS)-REAL ESTATE LOANS 12 YEARS OR LESS

Refer to the discussion under Account No. 703. 1, "Net Origination Fees (Costs)-Real Estate Loans Over 12 Years." The principles discussed for the netting of fees and costs and the deferral of net fees over the life of the loan as an adjustment to yield using the interest method are applicable here as well. Account No. 704.1 should replace Account No. 703.1 in the illustrative entries where real estate loans are 12 years or less.

705-MOBILE HOME LOANS

This account includes loans to finance the purchase of mobile homes which are secured by a first lien on the mobile home. Section 701.21(f) of the NCUA Rules and Regulations allows maturities of up to 15 years in the case of a loan to finance the purchase of a mobile home if the mobile home will be used as the member borrower's residence and the loan is secured by a first lien on the mobile home.

705.1-NET ORIGINATION FEES (COSTS)-MOBILE HOME LOANS

Net origination fees (costs) should be accounted for as discussed under Account No. 703. 1. Account No. 705.1 should replace Account No. 703.1 in the illustrative entries where real estate loans are 12 years or less.

706-SHARE SECURED/INSURED LOANS

For share secured loans, the account represents only that class of loans that had pledged shares equal to the amount of the loan granted, and still has I pledged shares equal to the outstanding loan balance.

Also included in this account are loans secured by the insurance or guarantee of, or with an advance commitment to purchase the loan by, the Federal Government, a state government, or any agency of either. As reflected in Section 701-21(e) of the NCUA Rules and Regulations, these loans may be made for the maturity and under the 4 and conditions, including the rate of interest, specified in the law, regulations, or program under which the insurance, guarantee, or commitment is provided.

707-LOANS-COLLATERAL IN PROCESS OF LIQUIDATION

The account reflects the total unpaid principal balances of all loans for which the credit union has taken possession of collateral, by legal process or otherwise, and for which the obligation of the borrower has not been canceled. Transfer of the unpaid balance of the particular loans secured by the acquired collateral should be made to this account. If the borrower has other loans outstanding, notations should be made on all his ledger cards to indicate the transfer to this account, but loans of the borrowers not related to the acquired collateral should remain in "Loans", (Account No. 701).

The purpose of the transfer to this account is to segregate the loan balances for control and accountability and to permit realistic financial analysis of these loans. This account may include costs incurred in acquisition or disposal of collateral related to loans in this account if the hen instrument or other written agreement allows the credit union to add such costs to the borrower's loan balance.

When the borrower's obligation to the credit union has been canceled, by legal requirement in some jurisdictions or by some action of the board of directors, the assets in possession of the credit union should be accounted for in Account No. 798, "Assets Acquired in Liquidation of Loans."

Illustrative Entries

---

a) To record the transfer of the unpaid principal balance of loans for which assets have been acquired by the credit union:

Dr. - Loans - Collateral in Process
of Liquidation (Acct. No. 707) …… $350.00
Cr. - Loans (Acct. No. 701) ……$350.00

b) When the borrower's obligation the credit union is canceled, to transfer the value of the assets to Assets Acquired in Liquidation of Loans:

Dr.-Assets Acquired in Liquidation of Loans (Acct. No. 789) …… $300.00
Cr. - Loans - Collateral in Process
of Liquidation (Acct. No. 707) ……$300.00

c) The $50.00 remaining in Account No. 707 may be charged off to Allowance for Loan Losses at this time with authorization of the board of directors. If the board of directors had not previously established the $50 in the Allowance for Loan Losses Account, it should be authorized at the time of the charge off of the designated loss amount.

Dr.-Allowance for Loan Losses
(Acct. No. 719)……$50.00
Cr. - Loans - Collateral in Process
of Liquidation (Acct. No. 707) …… $50.00

Detailed Transactions

Debit:

a) With the principal balance of loans secured by collateral acquired by the credit union.

b) With costs incurred in acquisition or disposal of collateral when such costs are legally proper for charge to the borrower's loan balance.

Credit:

a) With cash payments of principal made by borrowers or endorsers.

b) With the amounts of shares applied to principal balances.

c) With the unpaid balances of such loans when the value of the collateral is recorded in "Assets Acquired in Liquidation of Loans", (Account No. 798).

d) With charge offs of loss loans.

710-OTHER LOANS

711-NOTES AND CONTRACTS RECEIVABLE

This account reflects notes or contracts receivable obtained in connection with the sale of credit union assets or the unpaid principal amount due the credit union on notes and contracts accepted in lieu of cash upon sale of assets acquired in liquidation of loans. For sales of property under a note or contract, any gain on the sales should be deferred over the period of the contract by crediting the amount of the gain to "Deferred Gains on Liquidation of Loans", (Account No. 883).

This account should be credited with collections of principal amounts of the notes or contracts receivable, and interest earned on such receivables should be credited to "Other Miscellaneous Operating Income", (Account No. 151).

Notes and contracts receivable which are determined by the board of directors to be uncorrectible should be charged off to the "Allowance for Loan Losses" (Account No. 719), after offsetting, when applicable, related amounts of deferred income in Account No. 883.

Detailed subsidiary records should be established for each note and contract receivable to support this General Ledger control account.

Illustrative Entries

---

a) To record acceptance of a note or contract of $400 for the sale of assets where the carrying value of the assets was $325, and it becomes necessary to establish the gain of $75.00 as deferred income:

Dr.-Notes and Contracts Receivable (Acct. No. 711)	$400.00	
Cr.-Assets Acquired in Liquidation of Loans (Acct. No. 798)		$325.00
Cr.-Deferred Gain on Liquidation of Loans (Acct. No. 883)		75.00

b) To record collections on notes and contracts receivable:

Dr.-Cash (Acct. No. 731)	$40.00	
Cr.-Notes and Contracts Receivable (Acct. No. 711)		$37.50
Cr.-Other Miscellaneous Operating Income (Acct. No. 151)		2.50

c) To record transfer to income from Account No. 883 when the related note or contract receivable is paid in full:

Dr.-Deferred Gain on Liquidation of Loans (Acct. No. 883)	$75.00	
Cr.-Other Miscellaneous Operating Income (Acct. No. 151)		75.00

d) To record charge off of the uncollectible balance of notes and contracts receivable when authorized by the board of directors; assume a balance of $300.00 is uncollectible but a deferred gain of $50.00 is shown in Account Number 883:

Dr.-Deferred Gain on Liquidation of Loans (Acct. No. 883)	$50.00	
Dr.-Allowance for Loan Losses (Acct. No. 719)	250.00	
Cr. - Notes and Contracts Receivable (Acct. No. 711)		$300.00

Detailed Transactions

Debit:

a) With the face amount of notes and contracts receivable obtained from the sale of acquired collateral of credit union assets.

Credit:

a) With principal amounts repaid on notes and contracts receivable.

b) With unpaid principal amounts of notes or contracts when authorized for charge off by the board of directors: offsetting debit for this entry should be to Account No. 883, to the extent of the deferred income relating to the charged-off receivable, and to "Allowance for Loan Losses", (Account No. 719) for any excess.

712-LOANS PURCHASED FROM LIQUIDATING CREDIT UNIONS

This account represents the total principal amount outstanding in loans purchased from liquidating credit unions. It is a summarization of all Individual Loan Purchased Ledgers where the credit union is the sole purchaser of loans of a liquidating credit union. The total of the balances of the Individual Loan Purchased Ledgers must be proved with the balances in this account at least monthly and the listings must be retained in the files. Where loans are purchased from more than one credit union, the same monthly proof should be made for all loans purchased.

When the credit union participates with one or more other credit unions in the purchase of an undivided interest in the loans of a liquidating credit union, a single Individual Loan Purchased Ledger should be established for the full amount of the principal of the credit union's undivided interest in the loans purchased.

All income on loans purchased from liquidating credit unions should be recorded in "Income from Loans of Liquidating Credit Unions", (Account No. 113), and the final charge-off of uncollectible balances of loans purchased should be made to the "Allowance for Loan Losses", (Account No. 719) after offsetting the amount carried in "Discount on Loans Purchased from Liquidating Credit Unions", (Account No. 712.1). The discount on loans purchased should be amortized as an adjustment to yield using the interest method. See write up under Account No. 712.1.

A federal credit union which purchases the loans of a liquidating credit union may offer full membership rights and services to the borrowers whose loans it has purchased. Accordingly, the purchasing federal credit union must apply for and obtain an appropriate amendment to Section 5 of its charter.

Entries in the Journal and Cash Record

Transactions related to this account should be recorded in the Journal and Cash Record either in the Miscellaneous columns or, if the volume warrants, in separate columns designated for this purpose. The entries should be supported by daily summary Cash Received Vouchers or Journal Vouchers.

Posting to Subsidiary Accounts

Detailed transactions recorded in summary form in the Journal and Cash Record or otherwise should be posted individually to the Individual Loan Purchased Ledgers and to the borrower's passbook or statement of account. Credit entries for payments made on the loans are posted from the individual Credit Received Vouchers (or its equivalents). Other credit entries are posted from the Journal and Cash Record or from Journal Vouchers (or its equivalent).

Illustrative Entries

---

a) When a block of loans is purchased:

Dr.-Loans Purchased from Liquidating Credit Unions (Acct. No. 712)	$6,000.00	
Cr.-Cash (Acct. No. 731)		$4,500.00
Cr.-Discounts on Loans Purchased from Liquidating Credit Unions (Acct. No. 712.1)		1,500.00

b) When an installment on a purchased loan is repaid and interest of $10.00 and late charges of 50 cents are collected:

Dr.-Cash (Acct. No. 731)	$34.50	
Cr.-Loans Purchased from Liquidating Credit Unions (Acct. No. 712)		$24.00
Cr.-Income from Loans of Liquidating Credit Unions (Acct. No. 113)		10.50

c) When discounts on loans purchased are earned by the credit union:

Dr.-Discounts on Loans Purchased from Liquidating Credit Unions (Acct. No. 712.1)	$560.00	
Cr.-Income from Loans of Liquidating Credit Unions (Acct. No. 113)		$560.00

d) When the board of directors authorizes the unpaid balance of a loan purchased to be charged off:

Dr.-Allowance for Loan Losses	
(Acct. No. 719) ……	$450.00
Cr.-Loans Purchased from	
Liquidating Credit Unions	
(Acct. No. 712) ……	$450.00

Detailed Transactions

Debit:

a) With the total unpaid principal balances of loans purchased from a liquidating credit union; this may represent an undivided interest in the loan portfolio of a liquidating credit union.

Credit:

a) With cash payments of principal.

b) With unpaid principal of loans purchased transferred to "Loans Purchased from Liquidating Credit Unions-Collateral in Process of Liquidation", (Account No. 713).

c) With the charge off of loans purchased as authorized by the board of directors. (NOTE: Before the entry is made, this account should be credited with the amount carried for the loans to be charged off in "Discounts on Loans Purchased from Liquidating Credit Unions", (Account No. 712.1).

712.1-DISCOUNTS ON LOANS PURCHASED FROM LIQUIDATING CREDIT UNIONS

When loans are purchased from liquidating credit unions at less than the face amount, the discount (difference between face amount and cost) should be recorded in this account. The discount includes any fees paid less fees received. The discount should be amortized over the life of the loans as an adjustment to yield using the interest method. The interest method may be applied to the individual loans or to the group of loans in the aggregate. Professional assistance should be consulted due to the complexity of applying the interest method. A discussion of the interest method can be found under Account No. 703.1.

713-LOANS PURCHASED FROM LIQUIDATING CREDIT UNIONS COLLATERAL IN PROCESS OF LIQUIDATION

This account reflects the total unpaid balances of loans purchased from other credit unions for which the purchasing credit union has taken possession of the collateral by legal process or otherwise and for which the obligation of the borrower has not been canceled. When the borrower's obligation to the credit union has been canceled, by legal requirements in some jurisdictions or by action of the board of directors, the assets in possession of the credit union should be accounted for in Account No. 798-"Assets Acquired in Liquidation of Loans".

Subsequent to the board of directors' approval, the unpaid balance of the particular loans secured by acquired collateral should be charged off. If the borrower has other loans, notation should be made on all of his loans to indicate the charge off of one (or more) loans. Loans of the borrower not related to the acquired collateral should remain in the applicable loan asset account.

Illustrative Entries

---

a) To record the transfer of the unpaid balance of loans purchased from liquidating credit unions for which assets have been acquired by the credit union:

Dr.-Loans Purchased from Liquidating Credit Unions - Collateral in Process of Liquidation (Acct. No. 713)	$450.00	
Cr.-Loans Purchased from Liquidating Credit Unions (Acct. No. 712)		$450.00

b) When the borrower's obligation to the credit union is canceled, to record the charge off of the loan balance to the "Allowance for Loan Losses", (Account No. 719).

Dr.-Allowance for Loan Losses (Acct. No. 719)	$400.00	
Cr.-Loans Purchased from Liquidating Credit Unions - Collateral in Process of Liquidation (Acct. No. 713)		$400.00

Detailed Transactions

Provided this lien instrument or other written agreement allows the credit union to add such costs to the borrower's loan balance.

Debit:

a) With the principal balances of loans purchased from liquidating credit unions for which the collateral has been acquired but the borrower's indebtedness has not been canceled.

b) With costs incurred in acquisition or disposal of collateral when such costs are legally proper for charge to the borrower's loan balance.

Credit:

a) With cash payments of principal made by borrowers. and endorsers.

b) With the value of assets transferred to "Assets Acquired in Liquidation of Loans", (Account No. 798).

c) With charge off of bad loans as determined by the board of directors, with offsetting debit to Account No. 719, "Allowance for Loan Losses."

NOTE: An alternative method may be used in lieu of Account No. 713 similar to that identified in the footnote following Account No. 707.

714-LOANS OR OTHER OBLIGATIONS PURCHASED

This account represents loans purchased by the credit union to which it has full title (seller has assigned the note and supporting documents to the credit union). Reference should be made to Section 6000 for sample accounting entries for this account and the related premium or discount accounts that are listed below.

714.1-PREMIUM ON LOANS PURCHASED

This account includes the amount paid in excess of the face amount for loans or other obligations purchased. The premium is to be amortized over the life of the loans using the interest method. The interest method may be applied to the individual loans or to the group of loans in the aggregate. Professional assistance should be consulted due to the complexity of applying the interest method. A discussion of the interest method can be found under Account No. 703.1.

714.2-DISCOUNT ON LOANS PURCHASED

When loans are purchased at less than the face amount, the discount (difference between face amount and cost) should be recorded in this account. The discount includes fees paid less any fees received. The discount is to be amortized over the life of the loans using the interest method. The interest method may be applied to the individual loans or to the group of loans in the aggregate. Professional assistance should be consulted due to the complexity of applying the interest method. A discussion of the interest method can be found under Account No. 703.1.

715-LOAN PARTICIPATIONS PURCHASED

This account includes the face value of the credit union's interest in loans purchased. In this situation, the seller retains title to the accounts. A further discussion of this account and the premium and discount accounts detailed below can be found in Section 6000.

715.1-PREMIUM ON LOAN PARTICIPATIONS PURCHASED

This account represents the amount paid in excess of the face value of the credit union's portion of the loans purchased. The amount paid includes any fees paid less any fees received.

The premium on the loan participations purchased may be allocated to the individual loans purchased or accounted for in the aggregate. The premium should be recognized as a reduction of yield using the interest method. Professional assistance should be obtained due to the complexity of applying the interest method. A detailed discussion of the interest method can be found in Account No. 703.1.

715.2-DISCOUNT ON LOAN PARTICIPATIONS PURCHASED

The difference between the face value of the interest in the loans that were purchased, and the cost that was below the face value, should be recorded in this account. The cost includes any fees paid less any fees received.

The discount on the loan participations purchased may be allocated to the individual loans purchased or accounted for in the aggregate. The discount should be recognized as interest income using the interest method. Professional assistance should be obtained due to the complexity of applying this interest method. A detailed discussion of the interest method can be found in Account No. 703.l.

716-LOAN PARTICIPATIONS SOLD

This account represents a shifting of loans in a participation sale. The FCU (seller) continues to retain full title to the loans that remain in its possession. The account is established by transferring the applicable percentage of the loans sold from "Loans to Members", (Account Nos. 701 through 707) to this account. Refer to Section 6000.

716.1-LOAN PARTICIPATIONS SOLD (CONTRA-ASSET ACCOUNT)

This account is established with the amount received from the sale of loan participations. This account serves as a contra asset account. As payments are disbursed to the buyer, this account is debited with the amount of principal included in this disbursement. When the posting is completed, the balance of this contra account must reflect the required participation ratio when compared to the individual loan ledger balance for the loan control account. Refer to Section 6000 for additional information.

Assuming that this account reflects only one sale of loan participations, the balance of the account should be eliminated when it has been credited with the last loan principal payment.

717-OTHER MISCELLANEOUS NONMEMBER LOANS

This account contains loans to nonmembers not included in other loan accounts. For example, a federal credit union may permit a nonmember to assume a member's mortgage loan in conjunction with purchasing a member's principal residence, provided that:

a) The nonmember assumes only the remaining unpaid balance of the loan (no new money or refinancing);

b) There is no extension of the original maturity date beyond that specified in the loan agreement to the member;

c) The original loan was not made to the member with the underlying intent of having the nonmember immediately, or soon thereafter, assume the loan; and

d) The terms of the assumption are consistent with the loan agreement and in compliance with the Federal Credit Union Act, NCUA Rules and Regulations, and other applicable law.

718-LOANS SUBJECT TO REPURCHASE AGREEMENTS

This account is for loan-type repurchase transactions with credit union members. A loan-type repurchase transaction is any repurchase transaction that does not qualify as an investment-type repurchase transaction. It is a lending transaction that consists of a credit union agreeing to make a loan to a credit union member. The loan is evidenced by a note that is supported by a documentation of the collateral. When such a loan is granted it should be charged to this account. Reference should be made to Section 6000 for further information.

719-ALLOWANCE FOR LOAN LOSSES

This credit balance account reflects amounts set aside by the credit union through charges against operating income. Its purpose is to provide a cushion to absorb losses from both current and delinquent loans.

This account balance represents a valuation allowance showing management's judgment as to probable losses which may be incurred in the normal payoff of outstanding loans, both current and delinquent, and other loan derived assets, (700-718 series of general ledger accounts). Thus, the balance of this account should be treated on periodic Statements of Financial Condition (Balance Sheets) as a deduction from the total carrying value of loans and loan derived assets to reflect these assets at their fair value.

The timely charge-off of loss loans is a key factor in funding and maintaining the "Allowance for Loan Losses" account. A charge-off policy, adopted by the board of directors, must provide the "triggering" guidelines ensuring that nonperforming assets are charged off in a timely manner.

Any credit union may at its option establish separate "Allowance for Loan Loss" accounts for each of its various categories of loans, i.e., "Allowance for Loan Losses-Consumer Loans" and "Allowance for Loan Losses-Lines of Credit", etc.

At least quarterly or at the end of each regular share account dividend period, or more often as required, the balance in these accounts should be adjusted to provide a credit balance at least equal to the credit union's best estimate of probable losses inherent in the total portfolio. The amount of periodic adjustments should be determined by each credit union after all charge offs and recoveries applicable to the period have been recorded.

There is no one method that is guaranteed consistently, in all instances and under every circumstance, to ensure that the allowance for loan losses (ALL) is adequate and in compliance with GAAP. The AICPA audit guide, "Audits of Credit Unions, " states, "More important than the method credit union management uses to determine the ALL amount, is adequacy of the ALL as a whole.

> "There are various methods by which management can estimate its ALL; no single method is preferable… the method used should be consistent, comprehensive, logical, and relevant to the institution's particular circumstances, and … the calculation should be comprehensive, taking into account the risks inherent in the various types of lending."

The AICPA audit and accounting guide referenced above indicates that the ALL should typically include estimated amounts to cover loan losses as follows:

a) A specific portion to cover specifically identified doubtful or troubled loans.

b) A specific portion for pools of classified loans.

c) A specific portion for pools of loans.

d) A general portion for all other loans and credit instruments.

"Normally, a range of loss or an estimated loss percentage is associated with each component … The percentage is then applied to the components … to determine the estimated loss for each. Tests should be performed to provide reasonable assurance that loans are not excluded from a component or segment. The estimated losses assimilated with the individual components are then accumulated to obtain the total (ALL).

"The amounts provided for individual loans and pools of loans should be supplemented by a general portion for inherent losses. That amount should be based on judgments regarding risk of misstatement in the specific ALL for individual loans and pools of loans, exposures existing in the loan portfolio, and other relevant factors.

"Where appropriate, management should use analytical methods to evaluate the ALL. Analytical methods alone generally do not produce acceptable results, therefore, management may wish to perform detailed loan reviews. (For example, an evaluation of real estate loans and business loans normally requires a more detailed review than consumer loans because the amount of individual loans is generally large and the types of borrowers and the purposes of the loans may be dissimilar.) In evaluating the amount or range of loss associated with an individual loan, management should review the expected sources of repayment and the apparent ability of the borrower to generate such repayment.

Management Considerations. Loan underwriting should be strongest, and the need for a substantial ALL least likely, when management has:

a) A good understanding of the lending environment and approximates the value of credit strategy and credit risk including: collateral risk, concentration risk, management risk, operations risk, and fraud or insider abuse risk.

b) Established a good system of lending policies, procedures and internal controls to guide loan origination and disbursement: credit initiation, credit investigation, loan approval documentation of credit, perfection of collateral interest, disbursement of loan proceeds, credit monitoring, collection, and internal loan review.

Timely review of all outstanding loans is needed to ensure the "Allowance for Loan Losses" account is always adequate for potential needs. Monthly action to adjust the account is recommended, since the collection staff is usually aware of potential losses on a continuing basis. By monitoring the account monthly, large additions should not be required in the Provision for Loan Losses account, since the

account is being adjusted more frequently. By adjusting the account monthly, the financial statement should always present the true value of the credit union's loan portfolio. Reference is also made to Section 702.3 of the NCUA Rules and Regulations which discusses the matter of full and fair disclosure of the credit union's financial condition.

Accounting Treatment

The "Allowance for Loan Losses" should be charged with the amount of uncollectible loans and loan derived assets (Account Nos. 701-718) which have been authorized for write-off by the board of directors. Likewise, recoveries on loans charged off should be credited to this account.

The balance carried in the "Allowance for Loan Losses" represents a general provision for losses on loans and related assets, and may not specifically apply to any particular loan. When charge offs are required, they are charged against the "Allowance for Loan Losses," regardless of whether or not the particular loan to be written off was previously considered a potential loss.

When charges to the "Allowance for Loan Losses" account seriously deplete the account so that it does not represent a fair current estimate of probable loan losses from both the current and the delinquent loans outstanding, a review of loans is required. Based on the review, a debit or credit adjustment is made to the "Allowance for Loan Losses" account. As previously noted, the resulting balance of the "Allowance for Loan Losses" must fairly reflect all potential losses from the current loan portfolio and current estimated loan losses from delinquent loans.

Prior Period Adjustments-Allowance for Loan Losses Account

Sometimes it is necessary to adjust the credit union's books to reflect a prior period understatement of the Allowance for Loan Losses. (NOTE: This discussion does not relate to the routine adjustment of the Allowance for Loan Losses during the examination process.) If the adjustment clearly relates to a prior period, as that term is understood by independent accountants, the adjustment should be accounted for and reported as a prior period adjustment and excluded from the determination of net income for the current period. Prior period adjustments to the Allowance for Loan Losses should only occur in relation to the correction of an error in financial statements of a prior period, e.g., an error in the Allowance for Loan Losses in December 31, 1987 financial statements discovered during the March 1989 audit of December 31, 1988 financial statements. Such adjustment should be rare.

Entries in the Journal and Cash Record

All entries to this account should be made from the Miscellaneous-Credit or Miscellaneous-Debit columns of the Journal and Cash Record. The entries should be supported by Journal Vouchers showing full explanations of the individual transactions.

Posting to Individual Ledger

Entries showing the charge off of a loan should be identified as such in the Individual Loan Ledger of the borrower. It is suggested that the individual ledgers for all loans charged off be separated from the other ledgers.

When recoveries are made, a memorandum record may be made on the Individual Loan Ledger to show: (1) the gross amount paid by the borrower, (2) collection costs, if any, deducted by or paid to an outside collection agency, (3) interest credited to the appropriate "Interest on Loans", (Account Nos. 110-118), (4) the net remittance received by the credit union, and (5) the amount credited to this account. Because of varying practices and agreements with collection agencies, memorandum entries should be adapted to fit the needs of each credit union.

Illustrative Entries

---

a) To establish or increase the credit balance, and to eliminate a debit balance, in this account:

Dr.-Provision for Loan Losses		
(Acct. No. 301)	$1,000.00	
Cr.-Allowance for Loan Losses		
(Acct. No. 719)		$1,000.00

b) To decrease the credit balance in this account:

Dr.-Allowance for Loan Losses		
(Acct. No. 719)	$400.00	
Cr. - Provision for Loan Losses		
(Acct. No. 301)		$400.00

c) To record the charge off of loans when authorized by the board of directors:

Dr.-Allowance for Loan Losses		
(Acct. No. 719)	$350.00	
Cr. - Loans (Acct. No. 701)		$350.00

NOTE: The credit for this entry may involve any account in the 700-710 series depending on the particular loan or loan derived asset authorized for charge off.

d) To record recoveries realized on loans charged off:

Dr.-Cash (Acct. No. 731)	$30.00	
Cr. - Allowance for Loan Losses		
(Acct. No. 719)		$30.00

e) When recovery is made on a loan previously charged off which has been placed in the hands of an outside collection agency and the agency withholds its fee from the amount remitted to the credit union (paid by borrower, $17.40; fee withheld, 20 percent; remitted $13.92):

Dr.-Cash (Acct. No. 731) ……$13.92
Cr. - Allowance for Loan Losses
(Acct. No. 719) …… $13.92

Detailed Transactions

Credit:

a) With adjusting entries made to establish or increase the credit balance, or to create a debit balance, in these accounts.

b) With recoveries on loans previously charged off.

c) With the amount of cash received or the full amount the borrower paid to a collection agent (collection fee being debited to Collection Expense in Account No. 282).

Debit:

a) With loans and loan derived assets (700-718 series of accounts) charged off with the authorization of the board of directors.

b) With adjusting entries made to decrease the credit balance of these accounts.

Illustrated below are the various types of transactions that would be encountered in using an "Allowance for Loan Losses", (Account No. 719). General Ledger "T" accounts have been used to picture the activity in each General Ledger account. As you progress from transaction no. 1 to transaction no. 4, the "T" accounts will include any previous entries made for transactions involving the same account.

ILLUSTRATED ALLOWANCE FOR LOAN LOSSES ACCOUNTING

a) Periodic transfers to Allowance for Loan Losses. (The reverse entry is made for decreases in the Allowance for Loan Losses)

Expense Account #300 - Provision for Loan Losses		Valuation Allowance Account #719 - Allowance for Loan Losses	
(1) $2,000			(1) $2,000

b) Loans charged off of $300. (Recoveries on charged-off loans are credited to the Allowance for Loan Losses with corresponding debit entry to cash received.)

Asset Account #700 - Loans to Members		Valuation Allowance Account #719 - Allowance for Loan Losses	
	(2) $300	(2) $300	

c) Closing of expense account. (This account should be closed, together with all other expense accounts through the net income (loss) account to the Undivided Earnings account).

Expense Account #300 - Provision for Loan Losses		Equity Account #940 - Undivided Earnings	
(1) $2,000	(3) $2,000	(3) $2,000	

d) The amount expensed to Account No. 300 Provision for Loan Losses during the period is transferred from the Regular Reserve to Undivided Earnings. (The reverse entry would be made if the balance of Account No. 300 were a credit amount.)

Equity Account #931 - Regular Reserve		Equity Account #940 - Undivided Earnings	
(4) $2,000		(3) $2,000	(4) $2,000

720-OTHER RECEIVABLES

The 720 series of accounts are used to record claims of the federal credit union for money, goods, or services from other entities or persons. The primary "trade debtors' accounts" of a federal credit union are evidenced by loans to members and other notes and contracts receivable that are recorded in the 700 and 710 series of accounts. For recordkeeping purposes, Account No. 720 should only be used to record the sum of the 720-series of accounts.

721-PAYABLE DEDUCTIONS RECEIVABLE

This account is used to record payroll receivables from members' employers prior to the credit union's receipt of the funds by check, magnetic or electronic media. A debit balance in this account indicates that an employer's payroll(s) was/were not received on the date(s) agreed upon by the employer and the federal credit union (see Section 5090.3, "Set Date").

Illustrative Entries

Dr.-Payroll Deductions Receivable
(Acct. No. 721) $25,000.00
Cr.-Undistributed Payroll
Deductions or Allotments
(Acct. No. 803 ..... $25,000.00

Detailed Transactions

Debit:

a) With an estimated amount receivable from an employer that has not been received on the "set date."

Credit:

a) With the similar amount when received from the employer.

722-RECEIVABLES FROM OFFICIALS AND EMPLOYEES

This account is used to record accounts receivable due from officials and employees of the credit union. This account is not used to record loans to members. Examples of receivables might include: travel advances outstanding while an employee is at the CUNA management school and issuance of a second (or duplicate) payroll check to an employee after the employee reports that the first check was lost or misplaced.

Illustrative Entries

---

a) To record a travel advance to an employee:

Dr.-Receivables from Officials
and Employees (Acct. No. 722) $500.00
Cr.-Cash (Acct. No. 731) $500.00

b) To record the employee's claim for travel expenses and application of the advance:

Dr.-Employees' Travel and
Conference Expenses
(Acct. No. 231) $555.00
Cr.-Receivables from Officials
and Employees (Acct. No. 722) $500.00
Cr.-Cash (Acct. No. 731) 55.00

Detailed Transactions

Debit:

a) With the amount of a travel advance to an employee attending a credit union related school or conference.

Credit

a) With the actual expenses incurred by an employee attending a credit union related school or conference up to the amount advanced.

723-LEASE PAYMENTS RECEIVABLE

This account reflects the amount of the original lease payments to be received by a lessor under a direct financing type lease. The account should be credited with the periodic lease payments received from the lessee. Reference should be made to Section 6000 for further explanations of a direct financing type lease and its related accounting entries.

724-INSURANCE PREMIUMS RECEIVABLE

This account is used to record the unpaid balance of amounts due from member-borrowers in payment of reimbursable premiums paid out by the credit union for insurance covering property accepted as security for loans and for life insurance protection (borrowers' protection insurance). Only insurance premiums advanced for which the credit union is to be reimbursed by the borrowers are to be recorded in this account.

This account is not to be used for insurance premiums advanced at the time a loan is made to a member. Such advances should be included as a part of the loan and the grand total set forth in the note. If members desire the credit union to advance such insurance premiums they should apply for a loan which should be processed in the same manner as all other loan applications are handled.

In those cases where it is agreed that the borrower shall provide such insurance and continue it in force during the period the loan is unpaid, it is suggested that a written agreement to this effect, containing an authorization for the credit union to advance the premium for continuing the insurance, be obtained at the time the loan is granted. This agreement may be included in the loan application, the lien instrument, or a separate contract. If interest is to be collected on such advances, provision for the interest should be made in the agreement. In the event the hen ms t or other written agreement allows the credit union to add these premium advances to the borrowers' loan balance, the credit union should account for these advances in "Loans", (Account No. 701), rather than Account No. 724. Account No. 724 should also be used to record insurance premium advances made on outstanding Notes and Contracts Receivable.

Since insurance on property accepted as security for loans is obtained primarily for the benefit of the borrower, it is appropriate to require the borrower to furnish such insurance. If he does not pay the premiums thereon when due, the credit union may advance such premiums, charge them to this account, and collect them later, by reimbursement from the borrower in accordance with an agreement.

Amounts charged to this account represent amounts due from borrowers which are advanced by the credit union to continue insurance coverage when the borrower does not pay the premium when they come due. These amounts should not be confused with funds collected, in advance by the credit union, for remittance to the insurance company for the borrower. Such amounts collected in advance are recorded in "Accounts Payable", (Account No. 801).

Entries in Journal and Cash Record

This account is debited in the "Miscellaneous Debit" column when a check is issued in payment of the insurance premium involved. This account is credited in the "Miscellaneous-Credit" column with the amounts of funds received from member/borrowers in payment of insurance premiums, and with the charge off of any uncollected items remaining after the related loans are either charged off or security repossessed.

The charge off of such items remaining in this account should be debited to "Miscellaneous Operating Expenses", (Account No. 370). Entries covering the charge off of insurance premiums receivable should be identified as such in the member's Individual Share and Loan Ledger accounts, and recoveries applicable to such items should be recorded in these accounts as memorandum information showing the amount recovered by the credit union, and the date the recovery was received.

Posting General Ledger

Each entry involving this account is posted individually to the General Ledger from the "Miscellaneous" columns of the Journal and Cash Record. The "Explanatory Remarks" column should show clearly the necessary dates of entries posted to this account such as the name of the individual from whom the amount is receivable. If separate columns are used in the Journal and Cash Record for entries to this account, the total amounts of these columns should be debited and credited respectively to the "Insurance Premiums Receivable" account in the General Ledger at the close of each month.

Posting to Subsidiary Ledger

If the number of these items necessitates a subsidiary ledger, a separate sheet of Form FLU 102 may be kept for each member involved. Appropriate headings identifying the account and person connected should be provided.

Debit entries for amounts received in payment of Premiums due from borrowers are posted from Cash Received Vouchers (Form FLU 105) to the Journal and Cash Record debit column of either the "Miscellaneous" or "Insurance Premium Receivable" columns. Credit entries, such as uncollected amounts charged off, are posted from "Miscellaneous Credit" column or from the "Insurance Premiums Receivable" credit column of the Journal and Cash Record, whichever column is used by the credit union for credit entries to this account.

The total of the balances of the subsidiary accounts should equal the balance of the General Ledger Account No. 724, and should be proved therewith at least monthly. The monthly lists of these balances should be retained as part of the credit union's records.

The credit union may find it advisable to make an entry in the "Memorandum" column of the borrower's individual loan ledger account in order to avoid the possibility of overlooking collection of these premiums from borrowers.

Illustrative Entries

---

a) When a check is issued by the credit union in payment of an insurance premium that is reimbursable by the borrower:

Dr.-Insurance Premiums Receivable (Acct. No. 724)	$50.00	
Cr.-Cash (Acct. No. 731)		$50.00

b) When the member-borrower reimburses the credit union for the insurance premium paid:

Dr.-Cash (Acct. No. 731)	$50.00	
Cr.-Insurance Premiums Receivable (Acct. No. 724)		$50.00

c) When the insurance premium receivable is charged to the member's loan account:

Dr.-Loans (Acct. No. 701)	$50.00	
Cr.-Insurance Premiums Receivable (Acct. No. 724)		$50.00

Detailed Transactions

Debit:

a) With the issuance of a check in payment of an insurance premium that is reimbursable by the borrower.

Credit:

a) With a payment from the borrower to reimburse the credit union for the insurance premium paid.

b) With a charge of the premium payment to the member's share or loan account.

725-ADVANCES FOR TAXES, INSURANCE, AND OTHER CHARGES

This account is used to record advances made for real estate property taxes, insurance and other charges involved in the purchase of real estate loans. Usually, the servicer (institution selling the loans) will handle the processing of escrow accounts for property taxes, insurance and other charges. Thus, no accounting would be needed by the purchasing credit union, unless the borrower's escrow account becomes overdrawn by the servicer's payment of these charges. This account would thus be used to record the amount of reimbursement requested by the servicer. Refer to Section 6000 for an illustrative entry and for additional instructions in the use of this account.

727-U.S. SAVINGS BONDS REDEEMED RECEIVABLE

Section 121 of the Federal Credit Union Act provides that federal credit unions may act as redemption or repurchase agents of the U.S. Treasury Department for the sale of U.S. Savings Bonds. Only those credit unions that have applied to the U.S. Treasury and have been approved as issuing and/or payment agents may engage in savings bonds transactions. Both members and nonmembers of the credit union can participate in these transactions.

This account should reflect amounts due from the U.S. Treasury for U.S. Savings Bonds redeemed. When payments are made to redeem bonds, the amounts disbursed should be debited to Account No. 727. When remittances are received from the Federal Reserve Bank for the value of the bonds transmitted for reimbursement, this account should be credited.

Illustrative Entries

---

a) When U.S. Savings Bonds are redeemed by a member for cash or credit to shares:

Dr.-U.S. Savings Bonds Redeemed Receivable (Acct. No. 727)	$19.75	
Cr.-Cash (Acct. No. 731)		$19.75

or

Cr.-Regular Shares (Acct. No. 901)		$19.75

b) When a remittance is received from the Federal Reserve Bank for the value of redeemed bonds and notes shipped:

Dr.-Cash (Acct. No. 731)	$19.75	
Cr.-U.S. Savings Bonds Redeemed Receivable (Acct. No. 727)		$19.75

Detailed Transactions

Debit:

a) With the payment made to a member for the redemption of a U.S. Savings Bond. The payment could be made from cash or recorded as a deposit to the member's share account.

Credit:

a) With a payment from the Federal Reserve Bank for the value of the redeemed savings bonds.

728-REAL ESTATE LOANS RECEIVABLE

This account is used to record the receivables for disbursements made by the credit union on a real estate loan transaction for which the credit union is to be reimbursed by the buyer, the seller, or some other party. The account should also be used for certain other receivables related to real estate loans such as earnest money or prepayments held by others and payable to the credit union.

Illustrative Entries

---

a) To record payment of the appraisal fee on property, such a fee to be reimbursed to the credit union by the settlement agent:

Dr.-Accounts Receivable - Real Estate
Loans (Acct. No. 728) $300.00
Cr.-Cash (Acct. No. 731) $300.00

b) To record reimbursement for the appraisal fee received from the settlement agent:

Dr.-Cash (Acct. No. 731) $300.00
Cr.-Accounts Receivable - Real
Estate Loans (Acct. No. 728) $300.00

Detailed Transactions

Debit:

a) With amounts disbursed by the credit union on real estate loans, such amounts to be reimbursed to the credit union by another party.

Credit:

a) With the amounts of reimbursement for fees relating to real estate loans received by the credit union from another party.

729-OTHER ACCOUNTS RECEIVABLE

This account reflects the unpaid balance due the credit union for miscellaneous accounts receivable for which no other specific General Ledger account is provided.

This account should include such items as amounts due from an insurance carrier when losses covered by the insurance are sustained; e.g., robbery, physical property damage, etc. The amount of losses should be charged to this account when incurred and the insurance carrier's reimbursement to the credit union should be credited to the account. Differences, if any, between the loss charged and the reimbursement amount should be written off to the proper expense classification.

This account also should include amounts due the credit union resulting from the sale of a fixed asset.

Illustrative Entries

---

a) When a miscellaneous account receivable is established representing property repair costs resulting from windstorm damage reimbursable by the insurance carrier:

Dr.-Other Accounts Receivable
(Acct. No. 729) $300.00
Cr.-Cash (Acct. No. 731) $300.00

b) When a check is received for loss reimbursement from an insurance carrier in the amount of $275.00:

Dr.-Cash (Acct. No. 731) $275.00

Dr.-Maintenance of Building
(Acct. No. 252) $25.00
Cr.-Other Accounts Receivable
(Acct. No. 729) $300.00

Detailed Transactions

Debit:

a) With each accounts receivable due the credit union for which no other specific General Ledger account is provided.

Credit:

a) With payments received in liquidation of receivables charged to this account.

b) With the write-off of uncollectible amounts charged to this account with the approval of the board of directors.

729.1-TIL BOND CLAIM RECEIVABLE

This account reflects the unpaid balance due the credit union for bond claims filed for losses incurred as the result of interest overcharges that were in excess of the provisions of Regulation Z.

Illustrative Entries

---

a) To record potential bond claim due to the credit union from the bonding company to achieve lump sum reimbursement for interest overcharges under Regulation Z:

Dr.-Truth in Lending Bond Claim
Receivable (Acct. No. 729.1) $10,000
Cr.-Shares (Acct. Nos. 901-919) $10,000

or

Cr.-Cash (Acct. No. 731) $10,000

b) To clear the receivable account when the bond claim is paid, assuming the full amount has been received:

Dr.-Cash (Acct. No. 731) $10,000
Cr.-Truth in Lending Bond Claim
Receivable (Acct. No. 729.1) $10,000

Detailed Transactions

Debit:

a) With amounts due the credit union, from interest overcharges under Regulation Z.

Credit:

a) With amounts received in reimbursement of payments made by the credit union.

729.2-TIS BOND CLAIM RECEIVABLE

This account reflects the unpaid balance due the credit union for bond claims filed for losses incurred under the National Credit Union Administration Rules and Regulations, Part 707.

Illustrative Entries

---

a) To record potential bond claim due to the credit union from the bonding company:

Dr.-Truth in Savings Bond Claim
Receivable (Acct. No. 729.2) $10,000
Cr.-Shares (Acct. Nos. 901-919) $10,000

b) To clear the receivable account when the bond claim is paid, assuming the full amount has been received:

Dr.-Cash (Acct. No. 731) …… $10,000
Cr.-Truth in Savings Bond Claim
Receivable (Acct. No. 729.2) ……$10,000

Detailed Transactions

Debit:

a) With amounts due the credit union, from dividend underpayments, overpayments, and/or disclosure errors under Part 707.

Credit:

a) With amounts received in reimbursement of payments made by the credit union.

730-CASH

731-CASH

732-735-CASH (RESERVED FOR ADDITIONAL CASH ACCOUNTS)

These accounts are used to record cash in banks, savings banks, S&L, etc., and cash on hand, "vault" cash, cash in ATM machines, etc. Income-producing accounts (deposits) and certificates of deposits in banks, savings banks, and S&Ls, etc., are not included in the cash accounts. Because cash is the most liquid of assets, and is susceptible to being lost, stolen, and miscounted, federal credit unions should have an effective system of internal control for cash receipts, disbursements, recording, reconciliation, and review (audit).

Recordkeeping for cash transactions is facilitated by maintaining preprinted, standardized forms such as those identified and illustrated in Section 5020 of this manual.

Use of Cash Received Voucher

Cash received is first recorded on the Cash Received Voucher (Form FCU 105 or its equivalent). The total of each day's cash receipts as shown by the daily Summary Cash Received Voucher is entered in the "Cash-Received" column of the Journal and Cash Record (Form FCU 101 or its equivalent). The items on each Cash Received Voucher pertaining to members are posted in the member's account in the Individual Share and Loan Ledger (Form FCU 103 or its equivalent). All cash received should be deposited in the bank account within the time limits established by Article XV of the Federal Credit Union Bylaws (usually daily). The cash of the credit union should be kept separate and apart from all other cash. Personal or other cash of officers and employees should not be commingled with the credit union's cash.

Disbursements

Disbursements should be made by check, except those authorized from petty cash and wire transfers. If the checks used by the credit union do not provide for a duplicate copy and voucher format, a Journal Voucher (Form FCU 106A) or its equivalent, should be prepared for each disbursement. Amounts disbursed are posted to the "Cash-Paid Out" column of the Journal and Cash Record.

The credit union may issue duplicate checks to payees who have lost their original checks. In such cases, a stop payment order to the bank should be issued against the original check. Before a new check is issued, it should be determined from the bank that the original check has not been paid. In doing so, credit unions may require an indemnity bond from the payee if circumstances warrant such action. The issuance of a duplicate check should be recorded in the Journal and Cash Record in "Date", "Account No……. Name of Item", and "Check No." columns with the purpose for its issuance noted in the "Name of Item" column. It is suggested that a cross-reference be made on the line on which the original check was entered.

If a duplicate check is issued in place of an original check still carried as outstanding in the cash amount, no entry of the amount should be recorded in the "Cash-Paid Out" column. If a duplicate check is issued in place of an original check which was transferred to Account No. 801 or Account No. 151, the new check number and the number of the check being replaced must be recorded. The amount of the duplicate check should be credited in the "Cash-Paid Out" column and debited to "Accounts Payable", (Account No. 801) or "Other Income", (Account No. 151), as required. in the "Miscellaneous-Debit" column.

Member's Check and Drafts Returned

When the bank returns a member's check or draft because of insufficient funds or any other reason, an entry should be made debiting "Other Accounts Receivable", (Account No. 729) and crediting "Cash", (Account No. 731) for the amount of the check plus any charges made for returning the check or draft. This entry sets up the check temporarily as an asset or receivable due from the member pending a determination of its collectibility. The member should be contacted immediately and the amount due collected from him. Upon payment by the member of the amount due, a reversing entry should be made debiting the "Cash" account and operating the "Other Accounts Receivable" account.

It is suggested that the amount collected be deposited separately in order that all checks or drafts returned and their subsequent redeposit can be easily traced through the credit union's records. A memorandum notation of the checks or drafts returned should be made on the member's Individual Share and Loan Ledger. The subsequent disposal of the check or draft, either by the member making it good or by charging it back against his account, should also be noted on the member's individual ledger.

The board of directors should determine whether the service charges in connection with returned checks or drafts are to be charged to the members concerned or are to be considered a credit union expense item The amount of the service charge should, therefore, be either a debit to "Other Accounts Receivable" (or to the member's share account if the check or draft is not made good) or to "Bank Service Charges", (Account No. 268), depending upon the policy of the board. A fee may be assessed to members to recover costs involved in processing checks or drafts returned but the fee may not be in the

nature of a penalty. The fee may reflect, but not exceed, the direct and indirect costs involved in processing checks or drafts returned for insufficient funds. If the member does not make good on the returned check within I week following its return by the bank, the credits originally made should be reversed. Assuming the original check covered both shares and a payment on loan and interest, the entry in the Journal and Cash Record to reverse the original credits would be:

Dr.-Shares (Acct. No. 901) $5.00

Dr.-Loans (Acct. No. 701) 24.00

Dr.-Interest on loans (Acct. No. 111) 1.00

Cr.-Other Accounts Receivable
(Acct. No. 729) $30.00

Posting to General Ledger

When the transactions which have been entered in the Journal and Cash Record are posted to the General Ledger accounts, the Cash account is debited with the total of the "Cash-Received" column and credited with the total of the "Cash-Paid Out" column. These totals are usually posted at the end of each month.

Depositing Cash

All cash received should be deposited in the bank account within the time provided by the Federal Credit Union Bylaws. Deposits should ordinarily be made in amounts which exactly equal one or more day's cash collections, as shown on the daily summary vouchers and in the Journal and Cash Record. Summary and deposit of part of a day's receipts is discussed in Section 5010.1.

Illustrative Entries

Receipt of Cash:

a) When entrance fees and payments on shares are received from members:

Dr.-Cash (Acct. No. 731) $10.00
Cr.-Other Fees and Charges
(Acct. No. 131) $2.00
Cr.-Shares (Acct. No. 901)..... 8.00

b) When an installment on a loan is paid and interest and late charges are collected:

Dr.-Cash (Acct. No. 731) $11.20
Cr.-Loans (Acct. No. 701) $10.00
Cr.-Interest on Loans (Acct. No. 111) 1.00
Cr.-Fees and Charges (Acct. No. 113) ..... .20

c) When payment is received for: loan interest of $15.50, legal and collection expenses of $10 deducted by an attorney or collection agency from the payment made by the borrower, and the remaining funds of $72.50 applied to the borrower's loan balance (loan has not been charged off):

Dr.-Cash (Acct. No. 731)	$88.00	
Cr.-Interest on Loans (Acct. No. 111)		$15.50
Cr.-Loans (Acct. No. 701)		72.50

NOTE: References should be made to Section 5100.1.2 for alternative methods that can be used in recording this transaction.

d) When a refund, recovery, or adjustment of an expense is received:

Dr.-Cash (Acct. No. 731)	$2.00	
Cr.-Appropriate Operating Expense Account (200-300 Series)		$2.00

e) When interest or dividends are collected on investments:

Dr.-Cash (Acct. No. 731)	$12.50	
Cr.-Income from Investments (Acct. No. 121)		$12.50

Disbursement of Cash by Check or Bank Charges

Illustrative Entries

---

a) When a member withdraws cash from his share account:

Dr.-Shares (Acct. No. 901)	$20.00	
Cr.-Cash (Acct. No. 731)		$20.00

b) When a loan is made to a member:

Dr.-Loans (Acct. No. 701)	$100.00	
Cr.-Cash (Acct. No. 731)		$100.00

c) When a member having a note outstanding with a balance unpaid of $10.00, gives a net note for $50.00, and receives a $40.00 check and his old note:

Dr.-Loans (Acct. No. 701)	$50.00	
Cr.-Cash (Acct. No. 731)		$40.00
Cr.-Loans (Acct. No. 701)		10.00

NOTE: If the Journal Voucher (Form FCU 106A) is used, the new loan should be entered as a debit for the gross amount, the balance of the old loan as a credit item, and the voucher should show the net cash paid opposite "Amount" on the check.

d) When an expense is incurred and paid upon receipt of bill:

Dr.-Appropriate Expense Account (200-300 series)	$15.00	
Cr.-Cash (Acct. No. 731)		$15.00

e) When a check is drawn on the bank to establish a petty cash fund::

Dr.-Petty Cash (Acct. No. 738)	$10.00	
Cr.-Cash (Acct. No. 731)		$10.00

f) When a loan is made to another credit union on its note, interest to be paid at maturity and check issued:

Dr.-Loans to Other Credit Unions (Acct. No. 747)	$1,000.00	
Cr.-Cash (Acct. No. 731)		$1,000.00

g) When the change fund is set up or increased:

Dr.-Change Fund (Acct. No. 739	$50.00	
Cr.-Cash (Acct. No. 731)		$50.00

h) When a service charge is made by the bank:

Dr.-Bank Service Charges (Acct. No. 269)	$1.75	
Cr.-Cash (Acct. No. 731)		$1.75

Detailed Transactions

Debit:

a) With cash receipts.

b) Bank reconcilement "addition" adjustments to the credit union's book balance.

c) Checks or drafts for insufficient funds when they are redeposited.

Credit:

a) With cash disbursements made by check.

b) With bank services charges assessed by the bank, and other book balance "deduction" adjustments on the bank reconcilement.

c) Checks or drafts returned for insufficient funds.

736-TREASURY TAX AND LOAN REMITTANCE

This account is for use by credit unions eligible to be designated as Treasury Tax and Loan depositories. Authority to become depositories is set forth in Section 701.37-1 of the NCUA Rules and Regulations. Applicable procedures and requirements are set forth in the Department of Treasury Regulations. Reference should be made to Section 6160 for further information.

737-CASH-U.S. BOND INSTALLMENT PAYMENTS

This account should reflect the balance of cash on deposit in a separate bank account established by the credit union for installment payments received on U.S. Savings Bonds.

Section 121 of the Federal Credit Union Act provides that federal credit unions may act as agents for the U.S. Treasury Department for the sale of U.S. Treasury Bonds and Notes. Only those credit unions that have applied to the U.S. Treasury and have been approved as issuing and/or payment agents may engage in savings bonds and savings note transactions. Both members and nonmembers can participate in these transactions. See Section 5195, entitled "Sales and Redemption of U.S Savings Bonds."

When installment payments are received from purchases of U.S. Savings Bonds or Notes, this Account No. 737 or "Cash", (Account No. 731) should be debited and "Accounts Payable-Installment Payments on U.S. Bonds", (Account No. 806), should be credited. When sufficient funds are available for the issuance of a bond for any purchaser or purchasers, the bonds should be issued and liability for installments received should be eliminated by debiting Account No. 806 for the purchase price of the bonds and crediting "Accounts Payable-U.S. Savings Bond Remittances", (Account No. 807).

Illustrative Entries

---

a) To record receipts of installment purchases of U.S. Savings Bonds:

Dr.-Shares - U.S. Bond Installment Payments (Acct. No. 737) ……	$122.50	
Cr.-Accounts Payable - Installment Payment on U.S. Bonds (Acct. No. 806) ……		$122.50

b) To record the issuance of a fully-paid bond:

Dr.-Accounts Payable - Installment
Payment on U.S. Bonds
(Acct. No. 806)..... $150.00
Cr.-Accounts Payable - U.S.
Savings Bond Remittances
(Acct. No. 807)..... $150.00

c) To record the cancellation of a bond authorization and pay the subscriber the balance of the installment contract:

Dr.-Accounts Payable - Installment
Payment on U.S. Bonds
(Acct. No. 806)..... $12.50
Cr.-Cash - U.S. Bond Installment
Payments (Acct. No. 737) $12.50

d) To record remittance made to the Federal Reserve Bank for bonds issued under the installment payment plan:

Dr.-Accounts Payable - U.S.
Savings Bond Remittances
(Acct. No. 807)..... $150.00
Cr.-Cash - U.S. Bond Installment
Payments (Acct. No. 737) $150.00

Detailed Transactions

Debit:

a) With cash received representing payments of installments on the purchase of U.S. Savings Bonds.

Credit:

a) With withdrawals by purchaser of deposits made for the purchase of U.S. Savings Bonds.

b) With remittances to the Federal Reserve Bank to cover the cost of bonds issued to installment purchasers.

738-PETTY CASH

This account is used to record the authorization of a Petty Cash Fund by the board of directors in accordance with Article XV of the Federal Credit Union Bylaws. The purpose of petty cash funds is for making incidental payments such as postage and for defraying other expense items of less than $50.

Payments from the petty cash fund must be evidenced by receipts or signed petty cash vouchers. Payments from the petty cash fund should not be posted to the Journal and Cash Record.

Setting up Petty Cash Fund

Debit this account in the "Miscellaneous-Debit" column of the Journal and Cash Record for the gross amount withdrawn by check from the bank to establish a petty cash fund. No subsequent debits or credits to the account should be made except for the purpose of increasing or decreasing the amount of cash to be maintained in the fund. The amount set up in this fund should not exceed the maximum authorized by the board.

Posting to the General Ledger

Posting to this account in the General Ledger is made from the "Miscellaneous" columns of the Journal and Cash Record.

Payments for Petty Cash Fund

As payments are made out of the fund, receipts or signed petty cash vouchers should be obtained and held with the balance of the cash in the fund so that at all times the actual cash and/or receipts will equal the total amount of the fund. No entry should be made in the Journal and Cash Record for individual petty cash payments.

Replenishment

The petty cash fund should be restored in full prior to the end of each dividend period, and at other times when necessary, in order that expenditures made may be recorded and that the cash in the fund will be equal to the balance in the General Ledger. When replenishment of the fund is necessary, a Journal Voucher (Form FCU 106A or its equivalent) should be prepared and a check drawn in favor of "Petty Cash". Upon cashing the check, actual cash for the total of the fund should be on hand. The receipts, which were received when disbursements were made from the fund, equaling the amount of the check should be attached to the Journal Voucher or filed with other paid bills.

Entry in Journal and Cash Record

When the petty cash fund is replenished, the transaction is entered in the Journal and Cash Record by debiting all of the applicable expense accounts (200-300 series) and crediting the Cash account (Cash-Paid Out). Unless it is applicable, the total cost of the replenishment should not be debited to Miscellaneous Operating Expenses" (Account No. 370). This entry does not affect the Petty Cash account as set up on the books.

Changes in Amount of Fund

If it is decided to reduce the amount of cash in the fund, a Cash Received Voucher (Form FCU 105 or its equivalent) should be prepared and at the end of the day when the cash received transactions are recorded in the Journal and Cash Record, the amount should be entered in the "Miscellaneous-Credit" column as received from "Petty Cash." The amount taken from the fund is then deposited with other cash received that day.

Segregation of Fund

The petty cash fund must at all times be kept physically separate and apart from all other cash. The supervisory committee should verify the balance of the petty cash fund periodically by conducting surprise cash counts.

Illustrative Entries

---

a) To establish the petty cash fund:

Dr.-Petty Cash Fund (Acct. No. 738)	$25.00	
Cr.-Cash (Acct. No. 731)		$25.00

b) To replenish the fund:

Dr.-Various Operating Expense Accounts (200-300 Series)	$16.79	
Cr.-Cash (Acct. No. 731)		$16.79

c) To reduce or eliminate the petty cash fund:

Dr.-Cash (Acct. No. 731	$20.00	
Cr.-Petty Cash Fund (Acct. No. 738)		$20.00

Detailed Transactions

Debit:

a) With amount of cash disbursed to establish the Petty Cash Fund.

b) With amount of cash disbursed to increase the Petty Cash Fund.

Credit:

a) With amount of cash received (or vouchers recorded) representing a decrease in the Petty Cash Fund or creation of the Fund.

739-CHANGE FUND

An FCU's board of directors may authorize the establishment of a Change Fund after it considers whether there is a need for it. This account is provided for those federal credit unions that maintain a cash fund for making change or for cashing checks. Other purposes for which a change fund may be used are to disburse share withdrawals or loans in cash, as discussed in Section 5050.2.2, or for redeeming U.S. Savings Bonds in cash. The board of directors must ensure that adequate safeguards and accountability exist to protect the fund.

This account is also used to reflect increases made to the change fund when to meet temporary demands for cash, such as on member's pay days. Funds involved in these temporary increases to the change fund should be redeposited as soon as the need for them is served. In the event the actual cash (currency and coins) is depleted by members' checks cashed from the fund, such checks should be deposited in the bank with the regular deposit and this account credited with the amount of the checks deposited. The fund should be replenished only by credit union checks which are drawn for the purpose and charged to this account.

Varying procedures for handling change funds may be found in Section 5050.2.2.

Entries in Journal and Cash Record

Debit this account in the "Miscellaneous-Debit" column and credit Cash in the "Cash-Paid-out" column with the amount withdrawn from the bank by check to establish or to increase the fund. Credit this account in the "Miscellaneous-Credit" column and debit Cash in the "Cash-Received" column with the amount of the fund redeposited.

Posting to General Ledger

Entries to this account are posted individually from the " Miscellaneous" columns of the Journal and Cash Record.

Verification of Fund

The amount of the fund should be verified by a count at the end of each business day. When the fund or portions thereof are handled by more than one person, precautionary measures to establish the responsibility of the individuals concerned should be taken.

Illustrative Entries

---

a) When the change fund is set up or increased:

Dr.-Change Fund (Acct. No. 739) ……	$50.00	
Cr.-Cash (Acct. No. 731) ……		$50.00

b) When the change fund is decreased or eliminated:

Dr.-Cash (Acct. No. 731 ……$50.00
Cr.-Change Fund (Acct. No. 739) …… $50.00

Detailed Transactions

Debit:

a) With amount of cash disbursed to establish the Change Fund.

b) With amount of cash disbursed to increase the Change Fund.

Credit:

a) With amount of member's checks cashed from the Change Fund and deposited in the bank with the regular deposit.

b) With amount of cash received representing a decrease or the elimination of the Change Fund.

740 TO 759-INVESTMENTS

Sections 107(7) and 107(8) of the Federal Credit Union Act and Part 703 of the NCUA Rules and Regulations establish and describe the types of securities, deposits, and other obligations in which the federal credit unions can invest. In addition, Section 107(7)(1) of the Federal Credit Union Act and Part 701.27 of NCUA Rules and Regulations establish and describe credit union investments in credit union service organizations. Credit union investments and deposits which earn interest or dividend income should be classified in the appropriate General Ledger account in the 740-750 Series.

741-HELD-TO-MATURITY SECURITIES

741.1-DISCOUNT ON HELD-TO-MATURITY SECURITIES

741.2-PREMIUM ON HELD-TO-MATURITY SECURITIES

These accounts are used to record all securities for which the credit union has the intent and ability to hold to maturity. Types of securities properly recorded in this account include obligations of the United States of America or securities which are fully guaranteed as to both principal and interest thereby:

a) Appreciation type, U.S. Government Obligations are generally purchased at a discount. Income is recorded periodically through accretion of discount (systematic reduction of discount by charge to income) and based on tables of redemption provided by the U.S. Treasury. By the manner in which income is earned, zero coupon bonds are a special class of "appreciation type" obligations.

b) Current income type. The U.S. Government Obligation is purchased at face value (par value) and a uniform interest rate is paid semiannually by check during the life of the savings bond.

c) General type of obligations. These U.S. Government Obligations are purchased on the open market or subscribed for at the time of the original issue. They may be registered with periodic interest checks being sent to the credit union, or interest may be received by cashing coupons which mature at stated intervals.

Also included are so-called "agency" securities and participation certificates as permitted by the Federal Credit Union Act. The "agency" securities are bonds, noted and debentures issued by agencies of the United States Government and secured by collateral owned by these agencies. They are not guaranteed by the United States. Information about "agency" securities can be obtained from banks as well as from dealers in securities. The Federal Reserve bulletin publishes a list of securities outstanding by each agency. "Agency" securities may be purchased on the open market. Information on participation certificates can be obtained by contacting the Government National Mortgage Association or the Federal National Mortgage Association.

When the securities are acquired, each credit union shall assess its intent and ability with regard to its securities holdings. It then must assign its debt and equity securities to the appropriate measurement category: trading, held-to-maturity, or available-for-sale. Not less frequently than the end of each dividend period (i.e., monthly, quarterly, semi-annually, or annually), the appropriateness of the classifications, and the reasonableness and accuracy of the related fair value measurement (trading and available-for-sale), shall be assessed.

Debt securities (not equity) that the enterprise has the positive intent and ability to hold to maturity shall be classified as securities held-to-maturity and reported at amortized cost, i.e., cost adjusted for the amortization of premiums or the accretion of discounts. To qualify as having established intent to hold to maturity, the credit union cannot have an intent to hold the security only for an indefinite period. If the credit union may sell the security due to:

- changes in market interest rates and related
- changes in prepayment risk,
- needs for liquidity,
- changes in funding sources and terms,
- changes in the availability of and the yield on alternative security, etc.,

the credit union has failed to meet the "hold-to-maturity" test. A credit union's alternatives are to classify the security as either *available-for-sale* or in a *trading account*.

Through an established and documented asset-liability management strategy, a credit union may decide that it can accomplish the necessary liquidity, funds management, and management of interest rate risk goals without having all of its debt securities available-for-sale. Measurement standards acknowledge that even though a credit union considers the maturity and repricing characteristics of all of its debt securities as part of its asset-liability management, the credit union may determine that it can carry out

the ongoing adjustments to its asset-liability position without having all of its debt securities *available-for-sale*. In such a situation, the credit union may earmark specific debt securities as unavailable to be sold for purposes of adjusting its asset-liability position. This would enable the earmarked securities to be placed in the *held-to-maturity* category provided the credit union otherwise has the positive intent and ability to hold them to maturity.

A credit union could experience any of the following "changes in circumstances" which may cause a credit union to sell or transfer a *held-to-maturity* security to another classification without raising questions about whether it was appropriate for that security to have been reported previously as *held-to-maturity*:

a) A significant deterioration in the issuer's creditworthiness.

b) A merger, purchase and assumption, or other business combination that necessitates the sale or transfer of *held-to-maturity* securities to maintain the credit union's existing interest-rate risk position or credit risk policy.

c) A change in statutory or regulatory requirements causing the credit union to dispose of a *held-to-maturity* security (e.g., mandated change to risk based capital reserving structure).

d) A significant increase by the regulator in capital requirements that causes the credit union to downsize by selling *held-to-maturity* securities.

Additionally, a credit union can successfully defend the sale of a *held-to-maturity* security, prior to maturity, under either of the two conditions:

a) The sale is so near the maturity date that the security's value is little affected by changes in market interest rates.

b) The sale occurs after the credit union has already collected a substantial portion (e.g., 85 percent or more) of the principal outstanding at acquisition.

Reverse repurchase and repurchase arrangements do not in and of themselves preclude a credit union from placing such securities in the *held-to-maturity* category, provided the credit union otherwise has the positive intent and ability to hold the securities to maturity.

Detailed subsidiary records should be kept of held to maturity securities by type of security, including individual tracking of related cost, discounts and premiums, and fair value. Periodic reconciliation of the subsidiary records to this control account must be made.

Premium and Discounts

Securities may be acquired at a premium, a price in excess of face value, or at a discount, a price less than face value. For example, when a U.S. Government Obligation is purchased, only the par value of the security should be recorded in Account No. 741. Any discount or premium on the purchase should be recorded, respectively, in (Account No. 741.1), "Discount on Held-to-Maturity Securities", or

(Account No. 741.2), "Premium on Held to Maturity Securities." See Illustrative Entries below. For presentation on the Statement of Financial Condition, discounts, (Account No. 741.1) should be deducted from, and premiums, (Account No. 741.2) should be added to Account No. 741, with the net amount being reflected as the balance of "Held-to-Maturity Securities", (Account No. 741) on the financial statement.

If the securities are purchased at a premium, the premium should be amortized over the period from date of acquisition to maturity or an earlier call date. If the securities are purchased at a discount, the discount should be accreted under the theory that the securities normally can be expected to increase in market value over their remaining life.

There are two popular methods of amortizing premiums and accreting discounts: The straight-line method and the interest method. The straight-line method results in equal periodic adjustments to earnings from the time of purchase to the maturity date or earlier call date. This method is simple to compute and affects earnings by the same amount each period. The interest method recognizes an amount in earnings each period that produces a constant yield equal to the market yield at the date of purchase. Under this method, the amount of discount accreted or premium amortized increases or decreases, respectively, each period so that over the course of holding the investment, a level yield on the investment is maintained.

The interest method of accreting discount or amortizing premium should be used unless the results obtained when using the straight-line or other methods of amortization or accretion do not vary materially from those that would be obtained by the interest method.

Posting to the General Ledger

Entries to this account are posted individually from the "Miscellaneous" columns of the Journal and Cash Record.

Identification of Securities

Securities purchased and disposed of should be clearly identified in the "Explanatory Remarks" column of the General Ledger account. It is desirable to have a record of the name of the issue, the interest rate, the maturity and the serial numbers of the securities owned, and sold, so that this account will show the actual holdings of the credit union, and thus make verification easier. If there are several investments, subsidiary ledgers should be used as discussed in Section 5195.2.7.

Illustrative Entries

---

a) Purchase of a U.S. Treasury obligation between interest dates, $100,000 par, at a discount of $6,657.50, paying $95,453.91 which includes accrued interest of $2,111.41. (NOTE: The credit union is charged for the cost of the obligation plus accrued interest income from the last interest date, 6/30/87, to the purchase date, 10/19/87.) Assume the Treasury note has a nominal

rate of 7 percent with a semiannual coupon payment. The annual yield to maturity is 8 percent, or 4 percent per coupon period. Using the interest method to accrete the discount, the accretion table would be as follows:

Period	7% Coupon Interest (a)	8% Effective Interest (b)	Accretion Amount (c)	Carrying Amount (d)	Discount	Par Value
6/30/87				$93,342.50	$6,657.50	$100,000
12/31/87	$3,500	$3,733.70	$233.70	93,576.20	6,423.80	
6/30/88	3,500	3,743.05	243.05	93,819.25	6,180.75	
12/31/88	3,500	3,752.77	252.77	94,072.02	5,927.78	

(a) = 7% divided by 2 periods/year x $100,000.
(b) = 8% divided by 2 periods/year x d.
(c) = (b) - (a).
(d) = Previous (d) balance + (c).

Dr.-Held-to-Maturity Securities
(Acct. No. 741) $100,000.00

Dr.-Accrued Income from
Investments (Acct. No. 782) 2,111.41
Cr.-Cash (Acct. No. 731) $95,453.91
Cr.-Discount on Held-to-Maturity
Securities (Acct. No. 741.1) 6,657.50

b) To record the receipt of interest on 12/31/87 and the accretion of the discount, 10/20/87 through 12/31/87:

Dr.-Cash (Acct. No. 731) $3,500.00

Dr.-Discount on Held-to-Maturity
Securities (Acct. No. 741.1) 92.72**
Cr.-Income from U.S. Government
Obligations (Acct. No. 121) $1,481.31
Cr.-Accrued Income from
Investments (Acct. No. 782) 2,111.41

** - $233.70 (Table above) x $\frac{73}{184}$ days (10/20 - 12/31/87) / days (7/ - 12/31/87)

c) To accrue income and accrete the discount for the period. 1/1/88 through 3/31/88:

Dr.-Discount on Held-to-Maturity
Securities (Acct. No. 741.1) $121.52

Dr.-Accrued Income on
Investments (Acct. No. 782) 1,750.00
Cr.-Income from U.S. Government
Obligations (Acct. No. 121) $1,871.52

d) To record the receipt of interest on 6/30/88 and the accretion of the discount, 4/1/88 through 6/30/88:

Dr.-Cash (Acct. No. 731) $3,500.00

Dr.-Discount on Held-to-Maturity
Securities (Acct. No. 741.1) 121.52
Cr.-Income from U.S. Government
Obligations (Acct. No. 121) $1,871.52
Cr.-Accrued Income from
Investments (Acct. No. 782) 1,750.00

e) To record the sale of the U.S. Treasury Obligations on 9/30/88 @ $94,500.00. (NOTE: Generally, an obligation of this type would be held longer than 11 1/2 months; this example is for illustrative purposes only:)

First, record the interest receivable from 7/1 to 9/30/88 and the associated accretion of the discount:

Dr.-Accrued Income on
Investments (Acct. No. 782) $1,750.00

Dr.-Discount on Held-to-Maturity
Securities (Acct. No. 741.1) 126.38
Cr.-Income from U.S. Government
Obligations (Acct. No. 121) $1,876.38

Next, record the sale entry:

Dr.-Cash (Acct. No. 731) $96,250.00

Dr.-Discount on Held-to-Maturity
Securities (Acct. No. 741.1) 6,054.37
Cr.- Held-to-Maturity
Securities (Acct. No. 741) $100,000.00
Cr.-Accrued Income on
Investments (Acct. No. 782) 1,750.00
Cr.-Gains on Investments
(Acct. No. 420) 554.37

NOTE: The cash received equals the sales price plus accrued interest receivable.

Period	7% Coupon Interest (a)	8% Effective Interest (b)	Accretion Amount (c)	Carrying Amount (d)	Discount	Par Value
6/30/87				$105,444.18	$5,444.18	$100,000
12/31/87	$4,000	$3,690.55	$309.45	105,134.73	5,134.73	
6/30/88	4,000	3,679.71	320.28	104,814.45	4,814.45	
12/31/88	4,000	3668.50	331.49	104,482.96	4,482.96	

(a) = 8% divided by 2 periods/year x $100,000.
(b) = 7% divided by 2 periods/year x (d).
(c) = (a) - (b).
(d) = Previous, balance (d) - (c).

f) Purchase of a U.S. Treasury obligation between interest dates, $100,000 par, at a premium of $5,444.18, paying $107,857.22 which includes accrued interest of $2,413.04. (NOTE: The credit union is charged for the cost of the obligation plus accrued interest income from the last interest date, 6/30/87, to the purchase date, 10/19/87.) Assume the Treasury note has a nominal rate of 8 percent with a semiannual coupon payment. The annual yield to maturity is 7 percent, or 3.5 percent per coupon period. Using the interest method to amortize the premium, the amortization table would be as follows:

Dr.- Held-to-Maturity Securities
(Acct. No. 741) $100,000.00

Dr.-Accrued Income from
Investments (Acct. No. 782) 2,413.04

Dr.-Premium on Held-to-Maturity
Securities (Acct. No. 741.2) 5,444.18
Cr.-Cash (Acct. No. 731) $107,857.22

g) To record the receipt of interest on 12/31/87 and the amortization of the premium, 10/20/87 through 12/31/87:

Dr.-Cash (Acct. No. 731)	$4,000.00	
Cr.-Income from U.S. Government Obligations (Acct. No. 121)		$1,461.19
Cr.-Premium on Held-to-Maturity Securities (Acct. No. 741.2)		122.77*****
Cr.-Accrued Income from Investments (Acct. No. 782)		2,413.04

***** - $309.45 (Table, column (c)) x 73 days (10/20 - 12/31/87)
184 days (7/ - 12/31/87)

h) To accrue income and amortize the premium for the period, 1/1/88 through 3/31/88:

Dr.-Accrued Income on Investments (Acct. No. 782)	$2,000.00	
Cr.-Income from U.S. Government Obligations (Acct. No. 121)		$1,839.86
Cr.-Premium on Held-to-Maturity Securities (Acct. No. 741.2)		160.14

i) To record the receipt of interest on 6/30/88 and the amortization of the premium, 4/1/88 through 6/30/88:

Dr.-Cash (Acct. No. 731)	$4,000.00	
Cr.-Income from U.S. Government Obligations (Acct. No. 121)		$1,839.86
Cr.-Premium on Held-to-Maturity Securities (Acct. No. 741.2)		160.14
Cr.-Accrued Income from Investments (Acct. No. 782)		2,000.00

Journal entries similar to g-i should be made on a continuing basis each dividend period until the U.S. Government Obligations are sold or redeemed.

Additional Illustrative Entries

---

a) When an "agency" security is purchased for investment:

Dr.-Held-to-Maturity Securities (Acct. No. 741)	$1,000.00	
Cr.-Cash (Acct. No. 731)		$1,000.00

b) If an "agency" security purchased at $1,000 is sold for $980, the loss is charged to "Gain (Loss) on Investment" (Account No. 420). For example:

Dr.-Cash (Acct. No. 731) $980.00
Dr.-Gain (Loss on Investments
(Acct. No. 420) 20.00
Cr.-Held-to-Maturity Securities
(Acct. No. 741) $1,000.00

c) To record semiannual amortization of premium paid when securities were acquired. Assume $600 premium paid in connection with purchase of 10%, $10,000 par value of securities with a maturity date 10 years after date of acquisition:

Dr.-Income from Investments
(Acct. No. 121) $30.00
Cr.-Held-to-Maturity Securities
(Acct. No. 741) $30.00

Detailed Entries

Debit:

a) Account No. 741 with par value of the U.S. Government Obligations.

b) Account No. 741.2 with the amount of premium paid on securities purchased.

c) Account No. 741.1 with appreciation in value of securities purchased at a discount.

Credit:

a) Account No. 741.2 with periodic entries required to amortize a premium paid over the period from date of acquisition to maturity.

b) Account No. 741.1 with the amount of discount on securities purchased.

c) Account No. 741 with the par value of the securities sold.

742-TRADING SECURITIES

This account is used to record the purchase, sale, and adjustments of trading securities to fair value.

When securities are acquired, each credit union shall assess its intent and ability with regard to its securities holdings. It then must assign its debt and equity securities to the appropriate measurement category: *trading*, *held-to-maturity*, or *available-for-sale*. Not less frequently than the end of each dividend period, (i.e., monthly, quarterly, semi-annually, or annually), the appropriateness of the classifications, and the reasonableness and accuracy of the related fair value measurement (*trading* and *available-for-sale*), shall be assessed.

Debt and equity securities that are bought and held principally for the purpose of selling them in the near term shall be classified as *trading securities* and reported at fair value through the income statement. Characteristic trading is active and frequent buying and selling, and *trading* securities are generally used with the objective of generating profits on short-term differences in price. Unrealized holding gains and losses for *trading* securities shall be included in the income statement. Dividend and interest income, including amortization of premium and discount, shall continue to be included in the income statement.

Illustrative Entries

---

a) To record purchase of trading securities:

Dr.-Trading Securities
(Acct. No. 742) $150,000
Cr.-Cash (Acct. No. 731) $150,000

b) To record increase in fair value (opposite entry to record decrease in fair value):

Dr.-Trading Securities
(Acct. No. 742) $5,000
Cr.-Trading Profits and Losses
(Acct. No. 170) $5,000

c) To record interest earned on trading securities:

Dr.-Cash (Acct. No. 731) $9,000
Cr.-Interest on Trading Securities
(Acct. No. 124) $9,000

d) To record the sale of the security at fair value:

Dr.-Cash (Acct. No. 731) $155,000
Cr.- Trading Securities
(Acct. No. 742) $155,000

Detailed Transactions

Debit:

a) With the purchase of trading securities.

b) With the periodic write-up of trading securities to fair value.

Credit:

a) With the sale of trading securities.

b) With the periodic write-down of trading securities to fair value.

743-AVAILABLE-FOR-SALE

This account is used to record available-for-sale securities. Securities not classified as *trading* and not meeting the requirements of *held-to-maturity* shall be classified as securities *available-for-sale*.

When securities are acquired, each credit union shall assess its intent and ability with regard to its securities holdings. It then must assign its debt and equity securities to the appropriate measurement category: *trading, held-to-maturity,* or *available-for-sale*. Not less frequently than the end of each dividend period, (i.e., monthly, quarterly, semiannually, or annually), the appropriateness of the classifications, and the reasonableness and accuracy of the related fair value measurement (*trading* and *available-for-sale*), shall be assessed.

Debt and equity securities not classified as either securities *trading* or *held-to-maturity* securities shall be classified as *securities available-for-sale* and reported at fair value through separate component of equity in the balance sheet, *Accumulated Unrealized Gains/Losses on Available-for-sale Securities*.

For credit union boards, in particular, fair value measurement gives them the information they need to oversee their credit unions. If securities in the available-for-sale portfolio drop in fair value below book value, a credit union board will have a ready indicator of this decline in the balance sheet separate equity account. These losses are real losses which are simply unrealized. Fair value measurement is a tool credit union management, credit union boards, and regulatory staff need to ensure the safety and soundness of credit unions, individually and corporately. Adjustments shall be made directly to the investment account. Unrealized holding gains and losses shall be excluded from the income statement and reported as a net amount in a separate component of equity on the balance sheet until realized. Dividend and interest income, including amortization of premium and discount, shall continue to be included in the income statement.

Mutual Funds. Mutual funds are considered to be marketable equity securities. The fair value of a mutual fund investment in readily determinable and published, and is the basis for current transactions. An investment in a mutual fund must be classified in either the *Available-for-Sale or Trading* categories. Adjustments shall be made directly to the investment account.

Illustrative Entries

---

a) When the credit union invests in an available-for-sale security:

Dr.-Available-for-Sale Securities
(Acct. No. 743) $10,000
Cr.-Cash (Acct. No. 731) $10,000

b) When income on an available-for-sale security (say, a mutual fund) is credited by the fund manager to the account of the investing credit union:

Dr.- Available-for-Sale Securities
(Acct. No. 743) $500.00
Cr.-Income from Investments
(Acct. No. 121) $500.00

c) When the credit union marks the investment to $11,500 fair value:

Dr.- Available-for-Sale Securities
(Acct. No. 743) $1,000.00
Cr.-Accumulated Unrealized Gains/
Losses on Available-for-Sale
Securities (Acct. No. 945) $1,000.00

d) When the credit union withdraws its investment in the mutual fund receiving $10,300:

Dr.-Cash (Acct. No. 731) $10,300
Dr.- Accumulated Unrealized
Gains/Losses on Available-for-
Sale Securities (Acct. No. 945) 1,000
Dr.- Gain or Loss on Investments
(Acct. No. 420) 200
Cr.- Available for Sale Securities
(Acct. No. 743) $11,500

Detailed Transactions

Debit:

a) With amounts of each security classified as available-for-sale.

b) With amounts of write-ups to fair value.

c) With income credited to the equity security by the fund manager, based on periodic advices income received from the trust.

Credit:

a) With amounts of write-downs to fair value.

b) With amounts of withdrawals from equity securities.

744-SHARES, DEPOSITS, CERTIFICATES OF CORPORATE CREDIT UNIONS

This account is used to record investments in shares or deposits of any central credit union in which such investments are specifically authorized by the board of directors of the federal credit union making the investment (Section 107(7)(G) of the Federal Credit Union Act). Deposits in corporate credit unions include certificates of deposits, deposits for share draft and credit card settlement accounts, etc. Refer to Section 6000 for illustrative entries and detailed transactions.

745-SHARES, DEPOSITS, CERTIFICATES OF OTHER CREDIT UNIONS

This account is used to record investments in shares, share certificates, or share deposits of federally insured credit unions (Section 107(7)(H) of the Federal Credit Union Act) other than corporate credit unions.

Loans to other credit unions should be recorded in Account No. 747 instead of this account.

Entries in the Journal and Cash Record

This account is debited in the "Miscellaneous Debit" column with the amount of such investments. It is also debited in the "Miscellaneous-Debit" column with the dividends on shares or interest on deposits which are retained in the investment account.

This account is credited in the "Miscellaneous Credit" column with the amount of withdrawals of shares, deposits or certificates in credit unions, including the withdrawal of dividends or interest previously debited to this investment account.

Posting to the General Ledger

Each entry involving this account is posted individually to the General Ledger from the "Miscellaneous" columns of the Journal and Cash Record.

The name and address of the other credit union, the number of the share or deposit account, and any other data necessary to identify the transactions affecting the investment account should be written in the "Explanatory Remarks" column of the General Ledger.

Subsidy of General Ledger Account

If the credit union has investments in two or more credit unions, it is recommended that subsidiary records be maintained to clearly identify transactions with each credit union (see Section 5195.2.7). If subsidiary records are maintained, it should not be necessary to complete the "Explanatory Remarks" column of the General Ledger account.

Illustrative Entries

---

a) When the credit union invests in shares or deposits (including deposits evidenced by certificates of deposit) of another credit union:

Dr.-Shares, Deposits and Certificates of Other Credit Unions (Acct. No. 745) $2,000.00
Cr.-Cash (Acct. No. 731) $2,000.00

b) When dividends on shares or interest on deposits are credited by other credit union to the investing credit union's account:

Dr.-Shares, Deposits and Certificates of Other Credit Unions (Acct. No. 745) $100.00
Cr.-Income from Shares/Deposits/ Certificates of Other Credit Unions (Acct. No. 127) $100.00

c) When the credit union withdraws its investment in the other credit union:

Dr.-Cash (Acct. No. 731) $2,100.00
Cr.-Shares, Deposits and Certificate of Other Credit Unions (Acct. No. 745) $2,100.00

d) When the credit union receives a check from the other credit union in payment of dividends or interest:

Dr.-Cash (Acct. No. 731) $200.00
Cr.-Income from Shares/Deposits/ Certificates of Other Credit Unions (Acct. No. 127) $200.00

Detailed Transactions

Debit:

a) With the principal amounts of investments in shares, share certificates or share deposits in other credit unions (including purchases of certificates of deposit or promissory notes in other credit unions).

b) With interest or dividends credited to the investment account by other credit unions.

Credit:

a) With the principal amounts of withdrawals or redemptions of investments in shares, share certificates or share deposits (including Certificate of deposit or promissory notes) in other credit unions.

ACCRUAL BASIS OF ACCOUNTING

Credit unions using the accrual basis of accounting should record income earned on a monthly basis or, alternatively, at least at the end of each dividend period. The accrued income should be recorded as a debit to "Accrued Income on Investments", (Account No. 782) and a credit to "Income from Shares/ Deposits/Certificates of Other Credit Unions", (Account No. 127). When the credit union receives a check for the interest or statement showing interest credited to the account, the actual interest income should then be recorded as a debit to "Cash", (Account No. 731), and a credit to Account No. 782, "Accrued Income on Investment."

746-OTHER SHARES, DEPOSITS, CERTIFICATES

746.1 -COMMERCIAL BANK DEPOSITS

746.2-SAVINGS & LOAN AND MUTUAL SAVINGS BANK DEPOSITS

These accounts are used to record investments in shares, deposits and certificates of financial institutions other than credit unions. Sections 107(D) and 107(8) of the Federal Credit Union Act authorize such investments including:

a) Shares or accounts of savings and loan associations or mutual savings banks insured by the Federal Savings and Loan Insurance Corporation (FSLIC) or the Federal Deposit Insurance Corporation (FDIC);

b) Deposits in national banks and in state banks, trust companies, and mutual savings banks operating in accordance with the laws of the state in which the federal credit union does business, or in banks or institutions the accounts of which are insured by the FSLIC or FDIC.

Subsidiaries of the General Ledger Accounts

If the credit union has two or more investments in other shares, deposits or certificates, it is recommended that subsidiary records be maintained to clearly identify each investment transaction. (See Section 5195.2.7). If subsidiary records are maintained, it should not be necessary to complete the "Explanatory Remarks" column of the General Ledger account.

Illustrative Entries

---

a) When investments are made in shares or deposits, other than with another credit union:

Dr.-Commercial Bank Deposits
(Acct. No. 746.1) …… $50,000

or

Dr.-Savings & Loan and Mutual
Savings Bank Deposits(Acct. No. 746.2) $50,000
Cr.-Cash (Acct. No. 731) $50,000

b) When investments are withdrawn or redeemed:

Dr.-Cash (Acct. No. 731) $1,000.00
Cr.-Other Shares, Deposits and
Certificates (Acct. No. 746) $1,000.00

c) When income earned on such deposits are automatically reinvested:

Dr.-Commercial Bank Deposits
(Acct. No. 746.1) $1,000

or

Dr.-Savings & Loan and Mutual
Savings Bank Deposits
(Acct. No. 746.2) $1,000
Cr.-Income from Shares/Deposits/
Certificates of Other Credit Unions
(Acct. No. 127) $1,000

d) To record the withdrawal of shares, deposits or certificates:

Dr.-Cash (Acct. No. 731) $25,000
Cr.-Commercial Bank Deposits
(Acct. No. 746.1) $25,000

or

Cr.-Savings & Loan and Mutual
Savings Bank Deposits
(Acct. No. 746.2) $25,000

Additional transactions are illustrated in Section 6000 for credit unions that establish settlement accounts for credit card transactions.

Detailed Transactions

Debit:

a) With deposits and investments in commercial banks, savings & loan associations and mutual savings banks.

b) With income earned on deposits and investments and reinvested in commercial banks, savings & loan associations, or mutual savings banks. (NOTE: This entry assumes that the income is added to the deposit or investment rather than received by separate check.)

Credit:

a) With withdrawals or redemptions of deposits and investments in commercial banks, savings & loan associations, and mutual savings banks.

ACCRUAL BASIS OF ACCOUNTING

Accrual accounting entries for this account are the same as those discussed in "Shares, Deposits and Certificates of Other Credit Unions", (Account No. 745).

746.3-OTHER INVESTMENTS

The account is used to record other investments such as Federal funds, also known as Fed funds, are investments in obligations of financial institutions listed in Section 107(8) of the Federal Credit Union Act. The funds are unsecured and are generally loaned overnight (or over a weekend) at the market rate for Federal funds transactions. Federal fund investments generally represent very liquid funds, and the credit union is able to require repayment at anytime.

Illustrative Entries

---

a) To record investments in Fed funds:

Dr.-Other Investments		
(Acct. No. 746.3) ……	$80,000	
Cr.-Cash (Acct. No. 731)……		$80,000

b) To record the sale of Fed funds:

Dr.-Cash (Acct. No. 731) ……	$40,000	
Cr.-Other Investments		
(Acct. No. 746.3) ……		$40,000

Detailed Transactions

Debit:

a) With investments in Fed funds.

Credit:

a) With sale of Fed fund investments.

747-LOANS TO OTHER CREDIT UNIONS

This account should be used to record outstanding principal balances of all loans made to other credit unions in accordance with Section 107(7)(c) of the Federal Credit Union Act and Part 703 of NCUA's Rules and Regulations. The maximum investment in loans to other credit unions shall not exceed 25% of the investing credit union's paid in and unimpaired capital and surplus. A properly executed note of the borrowing credit union should be obtained at the time that the loan is made.

Entries in Journal and Cash Record

Debit this account in the "Miscellaneous-Debit" column with the amount of new and renewal loans made to other credit unions. Credit this account in the "Miscellaneous-Credit" column with the amounts received in part or in full payment of loans made to other credit unions; also, with the unpaid balance of such loans upon renewal.

Posting to General Ledger

Each entry involving this account is posted individually to the General Ledger from the "Miscellaneous" columns of the Journal and Cash Record.

The names and addresses of credit unions to which loans are made should be clearly shown in the "Explanatory Remarks" column of the General Ledger account. It is also desirable to show the terms of the loan, such as rate of interest and maturity date.

Subsidiary of General Ledger Account

When loans are made to two or more credit unions, it is recommended that subsidiary records be maintained to clearly identify transactions with each credit union. If subsidiary records are maintained, it should not be necessary to complete the "Explanatory Remarks" column of the General Ledger account.

Illustrative Entries

---

a) When a loan is made to another credit union, and a check is issued:

Dr.-Loans to Other Credit Unions		
(Acct. No. 747)	$1,000.00	
Cr.-Cash (Acct. No. 731)		$1,000.00

b) When the above loan to another credit union is repaid with interest:

Dr.-Cash (Acct. No. 731) ……	$1,010.00
Cr.-Loans to Other Credit Unions (Acct. No. 747) ……	$1,000.00
Cr.-Income from Other Investments (Acct. No. 129) ……	10.00

c) When a loan to another credit union is partially paid and renewed at maturity of the loan:

Dr.-Cash (Acct. No. 731) ……	$410.00
Dr.-Loans to Other Credit Unions (Acct. No. 747) ……	600.00
Cr.-Loans to Other Credit Unions (Acct. No. 747) ……	$1,000.00
Cr.-Income from Other Investments (Acct. No. 129) ……	10.00

Detailed Transactions

Debit:

a) With principal amounts of loans made to other credit unions.

Credit:

a) With amounts of principal repayments received on loans to other credit unions.

ACCRUAL BASIS OF ACCOUNTING

Credit unions using the accrual basis should record income earned from these investments on a monthly basis, or alternatively, at least quarterly or at the end of each regular share dividend account period. The accrued income should be recorded by a debit to "Accrued Income from Investments", (Account No. 782). The entry to record interest received should consist of a debit to "Cash", (Account No. 731) and as a credit to "Accrued Income from Investments", (Account No. 782).

748-INVESTMENTS IN CREDIT UNION SERVICE ORGANIZATIONS

748.2-LOANS TO CREDIT UNION SERVICE ORGANIZATIONS

These accounts are used to record investments and loans in credit union service organizations (CUSOS) in accordance with Section 107(7)(1) and 107(5)(D), respectively, of the Federal Credit Union Act and Part 701.27 of the NCUA Rules and Regulations. Additional guidance and accounting procedures for "Investments in CUSOS", (Account No. 748) are found in Section 6000 of this manual.

A federal credit union is authorized to lend 1 % of its paid-in and unimpaired capital and surplus (shares and undivided earnings) to CUSOS. The amount of loans to a CUSO is independent of its investment in the CUSO. The CUSO must be structured as a corporation or limited partnership and provide services and activities identified in Part 701.27 of NCUA Rules and Regulations.

Illustrative Entries

---

a) To record a loan made to a CUSO:

Dr.-Loans to CUSOs
(Acct. No. 748.2) $20,000
Cr.-Cash (Acct. No. 731) $20,000

b) To record a partial repayment of the loan to a CUSO with interest:

Dr.-Cash (Acct. No. 731) $1,100
Cr.-Loans to CUSOs
(Acct. No. 748.2) $1,000
Cr.-Income from Investments
in CUSOs $100

---

751 -INVESTMENT IN THE CENTRAL LIQUIDITY FACILITY

751.1-INVESTMENT IN CLF-MEMBERSHIP STOCK

751.2-INVESTMENT IN CLF-LIQUIDITY CLEARING

These accounts are used to record capital stock purchased in the Central Liquidity Facility (CLF) by regular or agent members. More information on CLF operations and accounting is contained in Section 6000.

One-half of the required subscription amount is paid to the facility at the time the membership application is filed. The other half of the required subscription amount must be held "on-call" and must be invested in prescribed liquid assets.

Dividends are paid on the capital stock of the facility at such times and rates as are determined by the National Credit Union Administration Board and are paid by crediting the share accounts of members.

Entries in the Journal and Cash Record

All entries affecting this account should be recorded in the "Miscellaneous" column of the Journal and Cash Record.

Illustrative Entries

Dr.-Investments in the CLF -
Membership Stock
(Acct. No. 751.1) $1,595.00
Cr.-Cash (Acct. No. 731) $1,595.00

b) To record additional stock in excess of minimum requirements purchased as an investment:

Dr.-Investments in the CLF -
Liquidity Clearing
(Acct. No. 751.2) $500.00
Cr.-Cash (Acct. No. 731) $500.00

c) To record dividends credited to the account:

Dr.-Investments in the CLF -
Liquidity Clearing
(Acct. No. 751.2) $50.00
Cr.-Income from Other Investments
(Acct. No. 129) $50.00

Detailed Transactions

Debit:

a) With required amounts of subscription (Account No. 751.1) and amounts in excess of requirements purchased as an investment (Account No. 751.2).

b) With dividends credited to Account No. 751.2.

Credit:

a) With withdrawals of funds which are in excess of the required subscription amount.

752-INVESTMENT IN NCUA SHARE INSURANCE CAPITALIZATION FUND

This account is used to record deposits into and redistributions from the National Credit Union Share Insurance Fund (NCUSIF). The amount deposited or redistributed is based on the insured shares of a credit union on June 30. NCUSIF deposits normally equal 1% of a credit union's insured shares. NCUA

Forms 1304 and 1305 are provided to federally insured, state-chartered credit unions and federally chartered credit unions respectively each December. These forms itemize amounts due to the NCUSIF on or before the following January 31. NCUA Form 1305 also includes the computation for the annual operating fee. The amount should be classified as a current investment.

Illustrative Entries

---

a) To record payment of the capitalization deposit adjustment or initial deposit:

Dr.-Investments in NCUA Share
Insurance Capitalization Fund
(Acct. No. 752) $1,595.67
Cr.-Cash (Acct. No. 731) $1,595.67

b) To record a redistribution of the NCUSIF equity, i.e., when a credit union's shares decrease from the preceding insurance year:

Dr.-Cash (Acct. No. 731) $75.00
Cr.-Investment in NCUA Share
Insurance Capitalization Fund
(Acct. No. 752) $75.00

Detailed Transactions

Debit:

a) With the amount of payments to the National Credit Union Share Insurance Fund.

Credit:

a) With the amount of a redistribution of NCUSIF equity.

Reference: Rules and Regulations 741.8 and NCUA Form 1305.

753-INVESTMENT IN BRANCH

This account should be used when the main office furnishes cash or pays for purchases and services for the credit union's branch. It is also credited for the cash or assets that are received by the main office from a branch office. Section 6000 includes additional information and Illustrative Journal and Cash Record entries on the use of this account.

755-PURCHASED ACCRUED INTEREST RECEIVABLE

This account is used to record the purchase of accrued interest on loans and investments. The purchased accrued interest accumulates from the date of the last interest payment on the loan or investment to the date of the purchase of the loan or investment. The accrued interest receivable should be recorded when the credit union records the purchase of the loan or investment. Please refer to Section 6000 "Loans Purchased" for illustrative entries.

760-PREPAID EXPENSES AND DEFERRED CHARGES

762-DEFERRED CHARGES-COMMITMENT FEES PAID IN CONNECTION WITH THE ACQUISITION OF BORROWED FUNDS

Commitment fees paid in connection with the acquisition of borrowed funds should be deferred. The treatment of the fees paid depends on the type of contract entered into and whether or not the commitment is exercised:

- If the commitment expires unexercised, the commitment fees paid should be expensed in Account No. 371, "Unexercised Commitment Fees."

- If the borrowed funds will be repaid as a term loan, the commitment fees should be transferred to Account No. 812.1, "Notes Payable-Commitment Fees" and amortized as interest on borrowed funds according to the interest method. See Account No. 703.1 for a detailed discussion of the interest method.

- If the credit union borrows funds under a revolving line of credit, the commitment fees should be amortized based on the straightline method over the life of the contract. Account No. 372, "Commitment Fees" should be used to record this expense.

- If the credit union pays all borrowings under a revolving line of credit and cannot reborrow under the contract, any unamortized fees should be expensed to Account No. 372, "Commitment Fees."

- If the revolving line of credit contains an option to convert to a term loan, the fees should be amortized based on the straightline method over the combined life of the line of credit and term loan. If the option is not exercised and all borrowings are extinguished, any unamortized fees should be expensed.

- If the option to convert to a term loan is exercised, any unamortized fees would be transferred to Account No. 812.1, "Notes Payable-Commitment Fees" and amortized as interest on borrowed funds using the interest method.

a) To defer commitment fees paid in connection with borrowed funds:

Dr.-Deferred Charges-Commitment Fees Paid in Connection with the Acquisition of Borrowed Funds (Acct. No. 762)	$2,200.00	
Cr.-Cash (Acct. No. 731)		$2,200.00

b) If the commitment expires unexercised:

Dr.-Unexercised Commitment Fees (Acct. No. 371)	$2,200.00	
Cr.-Deferred Charges-Commitment Fees Paid in Connection with the Acquisition of Borrowed Funds (Acct. No. 762)		$2,200.00

c) If the borrowed funds will be repaid as a term loan, related commitment fees should be periodically expenses as follows::

Dr.-Commitment Fees on Borrowed Money (Acct. No. 372)	$200.00	
Cr.-Deferred Charges-Commitment Fees Paid in Connection with the Acquisition of Borrowed Funds (Acct. No. 762)		$200.00

d) If the credit union borrows funds under a revolving line of credit and properly amortizes commitment fees using the straight-line method over the life of the contract:

Dr.-Commitment Fees on Borrowed Money (Acct. No. 372)	$220.00	
Cr.-Deferred Charges-Commitment Fees Paid in Connection with the Acquisition of Borrowed Funds (Acct. No. 762)		$220.00

e) If the credit union pays all borrowings under a revolving line of credit and cannot reborrow under the contract, all related unamortized commitment fees should be expensed:

Dr.-Commitment Fees on Borrowed
Money (Acct. No. 372) $2,000.00
Cr.-Deferred Charges-Commit-
ment Fees Paid in Connection
with the Acquisition of
Borrowed Funds (Acct. No. 762) $2,000.00

f) If the revolving line of credit contains an option to convert to a term loan, the fees should be amortized over the combined life of the line of credit and the term loan as in d. above. If the option is not exercised, any unamortized fees should be expensed as in e. above:

g) If the option to convert to a term loan is exercised, deferred fees should be expensed as in c. above.

Detailed Transactions

Debit:

a) With the amount of deferred commitment fees paid.

Credit:

a) With the amount of the periodic amortization of commitment fees or write-off of unamortized commitment fees.

763-DEFERRED CHARGES-COMMITMENT FEES PAID ON LOANS TO BE PURCHASED

Fees paid prior to purchase in connection with the purchase of a loan or group of loans should be deferred. Upon the purchase, this account should be credited. This entry is necessary to determine the premium or discount on the purchase.

Illustrative Entries

Assume that the credit union is buying $100,00 in loans for $102,000. In addition, fees of $10,000 are paid by the credit union prior to actual purchase.

a) To record the fees paid prior to actual purchase of the loans:

Dr.-Deferred Charges-Fees
Paid on Loans to be Purchased
(Acct. No. 763)..... $10,000.00
Cr.-Cash (Acct. No. 731)..... $10,000.0

b) To record the credit union's purchase of loans.:

Dr.-Loans Purchased		
(Acct. No. 714)	$10,000.00	
Dr.-Premium on Loans Purchased		
(Acct. No. 714.1)	$12,000.00	
Cr.-Deferred Charges-Fees		
Paid on Loans to be Purchased		
(Acct. No. 763)		$10,000.00
Cr.-Cash (Acct. No. 731)		102,000.00

Detailed Transactions

Debit:

a) With the amount of fees paid to the seller by the credit union prior to actual purchase of the loan(s).

Credit:

a) With the amount of the fees paid upon actual purchase of the loan(s) to facilitate the calculation of premiums or discounts on the purchase.

764-PREPAID RENT

This account is used to record the prepayment of rent for space occupied by the credit union or for the rental of equipment. The account would also be used to record prepaid rent resulting from below market leasing costs under a sale-and-leaseback arrangement. For example, if the annual leaseback costs per the contract were $225,000, but the annual market rental for the geographic area was $450,000, $225,000 would be recorded as prepaid rent and would receive periodic amortization.

765-PREPAID SHARE INSURANCE

This account represents the value of the unexpired portion of the share insurance premiums which should be charged to expense at a subsequent date.

Under Section 202(c) of the Federal Credit Union Act each insured credit union shall pay into the insurance fund, a premium charge equal to one-twelfth of one per centum of the total amount of the insured shares in such credit union at the close of the preceding insurance year. Normally these premiums are payable in January each year for the insurance coverage for the entire calendar year. Often times, such share insurance premiums are waived by the NCUA Board.

Because of the relative size of this expense amount, credit unions may find it advantageous to prorate the cost over the period to which it applies. Such charges may be made monthly, quarterly, semiannually or annually at the option of credit unions using the Modified Cash basis of accounting. For credit unions using the accrual basis, the charges should be made monthly or, alternatively, at least quarterly or at the end of each regular share account dividend period.

Entries in the Journal and Cash Record

This account should be debited in the "Miscellaneous-Debit" column for the portion of applicable share insurance premiums which is to be amortized over the year and, therefore, not yet charged to expense. It should be credited in the "Miscellaneous Credit" column for the portion of the premium that is charged to expense.

Posting to the General Ledger

All entries in this account should be posted from the "Miscellaneous" columns of the Journal and Cash Record. Each entry should be explained in the "Explanatory Remarks" column of the General Ledger.

Illustrative Entries

---

a) When the share insurance premium is paid and the current month's premium is charged to expense:

Dr.-Prepaid Share Insurance		
(Acct. No. 765)	$220.00	
Dr.-Share Insurance		
(Acct. No. 311)	20.00	
Cr.-Cash (Acct. No. 731)		$240.00

b) An appropriate portion of premium is periodically charged to expense during the year:

Dr.-Share Insurance		
(Acct. No. 311)	$20.00	
Cr.-Prepaid Share Insurance		
(Acct. No. 765)		$20.00

Detailed Transactions

Debit:

a) With amount of share insurance premiums applicable to future periods.

Credit:

a) With pro rata amounts of share insurance premiums charged to expense over the period to which the prepaid expense applies.

766-OTHER PREPAID INSURANCE

This account represents the value of the unexpired or prepaid portion of the surety bond and other insurance premiums, except share insurance.

Because of the savings involved, it may be advantageous to the credit union to purchase insurance coverage on more than a 1-year basis and charge the unexpired or prepaid portion of the premium to this account. Then periodic charges can be made to expense for the period to which the insurance is applicable. Such charges may be made monthly, quarterly, semiannually or annually.

A credit union which closes its books more than once a year and which pays substantial annual premiums for insurance, such as Chattel Lien Nonfiling Insurance, may also use this account to allocate each month's costs as an expense item.

Borrowers' insurance premiums, life-savings insurance premiums and premiums advanced for members in connection with insurance on chattels which have been accepted as security for loans (see "Insurance Premiums Receivable", (Account No. 724)) should not be charged to this account. Likewise, dividends received on borrowers' and life-savings insurance should not be recorded here.

Illustrative Entries

---

a) A 3-year surety bond premium is paid; the current year's premium is charged to expense:

Dr.-Other Prepaid Insurance (Acct. No. 766)	$200.00	
Dr.-Insurance (Acct. No. 265)	100.00	
Cr.-Cash (Acct. No. 731)		$300.00

b) Appropriate portion of premium is charged to expense during the second year:

Dr.-Insurance (Acct. No. 265)	$100.00	
Cr.-Other Prepaid Insurance (Acct. No. 766)		$100.00

Detailed Transactions

Debit:

a) With amount of other insurance premiums applicable to future periods.

Credit:

a) With pro rata amounts of insurance premiums charged to cost over the period to which the prepaid expense applies.

767-DEFERRED PENSION COST

This account consists of unamortized past service pension costs that are amortized for a period of not less than 10 nor more than 40 years. Reference should be made to Section 6000 for illustrated accounting entries.

768-UNAMORTIZED ORGANIZATION COSTS

The purpose of this account is to enable new credit unions to charge the cost of organization and original bookkeeping supplies to the expenses of more than one accounting period.

Use of Account

The "Unamortized Organization Costs" account may be debited with the costs of the credit union's organization and the cost of the original order for bookkeeping supplies. The cost should be debited to this account in every case except when they were donated to the credit union. When the supplies are donated, the cost is debited directly to Account No. 370, "Miscellaneous Operating Expense" and the donation credited to Account No. 440, "Other Nonoperating Income (Expenses)."

This account is an asset account and is shown as such on the Statement of Financial Condition of the credit union. At designated times to be determined by the board of directors, which may be monthly, quarterly, semiannually, or annually, charges to expense to reduce the amount set up as an asset are made as described below. In any event, the entire amount should be written off not later than the end of the second year following the year in which the credit union is chartered. It is recommended that the entire amount be written off as soon as it can be absorbed without appreciably affecting the earnings of the credit union.

Entries of Journal and Cash Record

Debit this account in the "Miscellaneous-Debit" column with the cost of the original order for bookkeeping supplies. Whenever it is decided to write off an amount, debit "Miscellaneous Operating Expenses", (Account No. 370) in the "Operating Expenses (Control)" column and credit this account in the "miscellaneous-Credit" column.

Posting to General Ledger

Entries to this account are posted individually from the "Miscellaneous" columns of the Journal and Cash Record.

Illustrative Entries

---

a) When the invoice is received for the original order for bookkeeping supplies, but the check is not issued in payment until a later date:

Dr.-Unamortized Organization Costs
(Acct. No. 768) $60.00
Cr.-Other Accounts Payable
(Acct. No. 801) $60.00

b) When any part of the entire amount of the Unamortized Organization Cost is written off::

Dr.-Miscellaneous Operating Expenses
Expenses (Acct. No. 370) ……$12.00
Cr.-Unamortized Organization
Costs (Acct. No. 768) …… $12.00

Detailed Transactions

Debit:

a) With the costs of organization and original bookkeeping supplies purchased at the time the credit union is organized.

Credit:

a) With the portion of the balance of this account when written off to expense.

769-OTHER PREPAID EXPENSES AND DEFERRED CHARGES

This account reflects the unamortized balance of prepaid expenses and deferred charges, except those recorded in other accounts in the 760 series, which are to be allocated to subsequent operations.

This account is for use by credit unions following the modified cash basis of accounting as well as those following the accrual basis. Each credit union should determine the particular expense charges to be recorded in this account in order to spread the cost over the periods to be benefited. Examples of items which may be recorded as prepaid expenses or deferred charges include stationery and supplies, association fees, advances for accounting services, and the NCUA operating fee.

Subsidiary ledgers should be maintained for each prepaid and deferred expense reflecting the initial charge to the account, date, complete description of the expense, periodic amortization credits and balance remaining on each item. These subsidiary ledgers should be balanced to the General Ledger control account each month.

Entries in the Journal and Cash Record

Entries to establish prepaid expenses and deferred charges in this account should be recorded in the "Miscellaneous-Debit" column. Entries to write off prepaid expenses and deferred charges should be credited to this account in the "Miscellaneous Credit" column; the offsetting debit to expense should be posted to the "Operating Expenses (Control)" column, and numerical identification of the detailed expense account should be shown in the column headed "Account No."

Illustrative Entries

---

a) To establish a prepaid expense or deferred charge for allocation to future period costs; e.g., if stationery and supplies are purchased which will last for 3 years:

Dr.-Other Prepaid Expenses
and Deferred Charges
(Acct. No. 769) $360.00
Cr.-Cash (Acct. No. 731) $360.00

b) To prorate the expense applicable to each quarter year:

Dr.-Stationery and Supplies
(Acct. No. 264) $30.00
Cr.-Other Prepaid Expenses
and Deferred Charges
(Acct. No. 769) $30.00

NOTE: The cost recorded as other prepaid or deferred expenses may be prorated monthly, quarterly, or at the end of a regular share account dividend period.

Detailed Transactions

Debit:

a) With charges paid or incurred which are to be allocated to future periods.

Credit:

a) With the write-off of prepaid expenses and defended charges to expense over the periods to which they apply.

770-FIXED ASSETS

771-LAND

This account reflects the costs to the credit union of land owned by it, except that any land acquired in connection with the liquidation of loans should be recorded in "Assets Acquired in Liquidation of Loans", (Account No. 798). Under Section 107(4) of the Federal Credit Union Act, credit unions are authorized to purchase, hold and dispose of property necessary or incidental to their operations.

When the credit union purchases land, the cost should be recorded in this account. Cost should include the purchase price plus any incidental costs incurred in order to obtain title to the land and place it in condition for use. In combination purchases where land and buildings) are acquired in a single transaction, the cost of the land should be recorded back on an estimate of its value at the time of acquisition and the balance of the purchase cost should be recorded in "Building", (Account No. 772).

Upon disposition of the land and building, the balances for the property recorded in this account and in "Allowance for Depreciation of Building", (Account No. 773), should be cleared, and any gain or loss credited or debited to "Gain (Loss) on Disposition of Assets", (Account No. 430).

Illustrative Entries

---

a) When land is purchased, record the entry for the cost incurred as follows:

Dr.-Land (Acct. No. 771)	$15,000	
Cr.-Cash (Acct. No. 731)		$15,000

NOTE: If a combined purchase of both land an building is made, the amount charged to this account should be based on an estimate of the portion of the overall cost properly attributable to the value of the land based on fair market value.

b) When land carried at $15,000 is disposed of for an $18,000 sales price:

Dr.-Cash (Acct. No. 731)	$18,000	
Cr.-Land (Acct. No. 771)		$15,000
Cr.-Gain (Loss) on Disposition of Assets (Acct. No. 430)		3,000

c) If a combined sale of land and building is made for $65,000, and the land carrying value is $15,000, and the building carrying value is $60,000, with accumulated depreciation of building of $20,000, the entry would be:

Dr.-Cash (Acct. No. 731)	$65,000	
Dr.-Allowance for Depreciation of Building (Acct. No. 773)	20,000	
Cr.-Land (Acct. No. 771)		$15,000
Cr.-Building (Acct. No. 772)		60,000
Cr.-Gain (Loss) on Disposition of Assets (Acct. No. 430)		10,000

Detailed Transactions

Debit:

a) With purchase cost of land and other charges related to acquisition. (In combined purchase of land and building, debit this account with the estimated fair market value of the land.)

Credit:

a) With book value of land at time of disposition.

772-BUILDING

A federal credit union may purchase or construct a building for its use, provided the building is necessary and incidental to its operation and the purchase is in compliance with Section 701.26 of NCUA Rules and Regulations. Account No. 772 should reflect the cost of the building plus the cost of any additions and improvements of a permanent nature which increase the value of the building.

Depreciation

The following are acceptable useful lives for new buildings based on type of construction:

Type of Construction	Useful Life
Concrete & Steel	30-55 years
Masonry	25-45 years
Wood Frame	20-40 years
Portable Units	15-30 years

In selecting a specific useful life within the above ranges, the board of directors should consider such other factors as anticipated use, climatic conditions, economic conditions within the surrounding area, possible future uses of the building site and the surrounding area, and present and future accessibility of the site for the membership. The credit union's files should contain written documentation and support for the period of depreciable life selected, with attention given to all of these factors.

The remaining useful life of a used building should be a reasonable estimate based on the age and condition of the building at the time of acquisition by the credit union.

Depreciation charges as a minimum should be recorded at least quarterly or at the end of the regular share account dividend period if it is longer than quarterly. Where the dividend period is more frequent than monthly, the depreciation charge may be recorded on a monthly basis. In determining the periodic depreciation charge, the board may select any of the generally accepted methods of depreciation, such as straightline, sum-of-the-years digits, or declining balance methods. The depreciation should be credited to Account No. 773, "Allowance for Depreciation of Building." The balance in Account No. 773 should be deducted from the balance in Account No. 772 and the net reflected as the Building account in the monthly Statement of Financial Condition (Form FCU 109A).

Expenses

Expenses, including depreciation, incurred in maintaining the building should be recorded in the appropriate expense classification under "Office Occupancy Expenses", (Account No. 250). Any incidental income received from the building should be credited to "Other Nonoperating Income (Expense)", (Account No. 440).

Records

All required supporting papers should be kept in the permanent files, including such items as the deed, abstract of title or title insurance policy, and settlement papers. The board of directors must determine that all necessary insurance is purchased, including at least public liability and fire insurance, and should periodically ascertain the need for additional coverage.

Sale of Land and Building

Ordinarily, when a credit union sells its office building, it does so for cash. If, however, as a condition of the sale, the credit union accepts a note for part of the purchase price, the note should be accounted for in "Notes and Contracts Receivable", (Account No. 799), as discussed in the description of that account.

Illustrative Entries

---

a) When a building is acquired, the purchase price (excluding value of land purchased and recorded in Account No. 771) plus incidental expenses related to the acquisition, and any expenditures made immediately following acquisition to place the building in condition for use by the credit union should be recorded:

Dr.-Building (Acct. No. 772)	$350,000	
Cr.-Cash (Acct. No. 731)		$350,000

NOTE: If the acquisition involves borrowing by the credit union secured by a mortgage on the building, the credit should be to "Mortgage Notes Payable", (Account No. 811) instead of to "Cash", (Account No. 731).

Detailed Transactions

Debit:

a) With purchase cost of building plus amount of related costs incidental to acquisition of title.

b) With expenditures made immediately following acquisition to place the building in condition for use by the credit union.

c) With the cost of improvements to the building.

Credit:

a) With the current carrying value of the building at the time of disposition.

773-ALLOWANCE FOR DEPRECIATION OF BUILDING

This account represents the amount provided for depreciation or obsolescence of a building owned by the credit union, exclusive of buildings carried as "Assets Acquired in Liquidation of Loans", (Account No. 798).

The carrying value of the building less estimated eventual salvage value should be depreciated by periodic charges to operating expense over the building's estimated life. The depreciation computation may be made monthly, quarterly, semiannually or annually, but as a minimum, should be made for each regular share account dividend period.

Illustrative Entries

---

a) To record quarterly straight-line depreciation: building carrying value $2,000,000; estimated life is 40 years; and anticipated salvage $200,000. Quarterly depreciation is calculated as $2,000,000 less $200,000 divided by 160, representing the number of quarterly periods, equaling periodic depreciation costs of $11,250:

Dr.-Depreciation of Buildings		
(Acct. No. 254)	$11,250	
Cr.-Allowance for Depreciation		
of Buildings (Acct. No. 773)		$11,250

b) To record sale of building and land see illustrative c. under the description of Account No. 771, "Land."

774-FURNITURE AND EQUIPMENT

This account represents the cost of furniture and equipment. It is recommended that a depreciation policy be established by the board of directors which will reduce the carrying value of these assets in accordance with their expected useful life. Charges for depreciation may be made monthly, quarterly, semiannually, or annually, at the option of the credit union, but as a minimum, should be recorded at the end of each regular share account dividend period. The depreciation may be recorded under either the unit or the composite-life basis of depreciation as described below:

a) Under the unit basis of depreciation, each depreciable fixed asset is depreciated separately based on its estimated useful life less estimated salvage value. When an asset is disposed of, the cost should be eliminated from this account and the accumulated depreciation to date should be cleared (by debit) to "Allowance for Depreciation of Furniture and Equipment", (Account No. 775). The difference between the net carrying value of the asset (the cost less accumulated depreciation to date) and any proceeds of sale received for the asset will represent net gain or

loss and should be recorded in "Gain (Loss) on Disposition of Assets", (Account No. 430). As long as an asset has a salvage or useful value, the depreciation credit to Account No. 775 may not result in the asset being carried on the credit union's books at less than $1.

b) Under the Composite Method of depreciation, groups of similar fixed assets will be depreciated over their estimated average useful lives by periodic charges to expense and credits to "Allowance for Depreciation of Furniture and Equipment", (Account No. 775). When individual items of furniture and equipment are disposed of, this account should be credited for the cost of the assets retired and the same amount less proceeds received (if any) should be charged to the "Allowance for Depreciation of Furniture and Equipment", (Account No. 775). No gain or loss should be recognized in the accounts since the composite rates used contemplate that items in the groups will be retired both before and after the expiration of the estimated average useful life.

An exception may be made and gain or loss recognized under the procedure described in the foregoing paragraph when retirements are abnormal and are material in amount, since the composite rates do not anticipate such retirements. Also, under this depreciation method, the accumulated depreciation allowance account should never be permitted to exceed the fixed asset amount.

To simplify recordkeeping, furniture and equipment items costing less than a fixed amount (e.g., $200) that is established by the board of directors should be expensed by a debit to "Other Office Operations Expenses", (Account No. 269) at the time of purchase.

Entries in the Journal and Cash Record

This account is debited in the "Miscellaneous-Debit" column with the cost of furniture and equipment purchased by the credit union. This account is credited in the "Miscellaneous-Credit" column with the cost of any items disposed of by sale or otherwise.

Posting to the General Ledger

Entries in this account are posted individually from the "Miscellaneous" columns of the Journal and Cash Record. Items recorded in this account should be concisely identified in the "Explanatory Remarks" column. A memorandum notation should be made in the "Explanatory Remarks" column of any item disposed of so this account will provide a record of all furniture and equipment on hand.

Carrying Value of Furniture and Equipment Acquired by Trade

When furniture and equipment are traded for a new item(s), the basis of the newly acquired asset is the carrying value of the asset traded plus the amount of cash paid. If, as a result of this accounting method, the carrying value of the new asset exceeds its reasonable market value, the board of directors should authorize an immediate depreciation charge against the new asset to reduce the carrying value to the assets' market value.

a) When furniture and equipment are acquired:

Dr.-Furniture and Equipment (Acct. No. 774)	$500.00	
Cr.-Cash (Acct. No. 731)		$500.00

b) When furniture and equipment are depreciated:

Dr.-Depreciation of Furniture and Equipment (Acct. No. 266)	$25.00	
Cr.-Allowance for Depreciation of Furniture and Equipment (Acct. No. 775)		$25.00

c) When furniture and equipment is disposed of by sale, where unit basis of depreciation is followed. Assume a typewriter sold for $200; original cost of $1,800; less accumulated depreciation to date of $1,400:

Dr.-Cash (Acct. No. 731)	$200.00	
Dr.-Allowance for Depreciation of Furniture and Equipment (Acct. No. 775)	1,400.00	
Dr.-Gain (Loss) on Disposition of Assets (Acct. No. 430)	200.00	
Cr.-Furniture and Equipment (Acct. No. 774)		$1,800.00

d) When furniture and equipment is disposed of by sale where composite-life basis of depreciation is followed. Assume a typewriter sold for $200; original cost of $1,800 accumulated depreciation to date of $1,400:

Dr.-Cash (Acct. No. 731)	$200.00	
Dr.-Allowance for Depreciation of Furniture and Equipment (Acct. No. 775)	1,600.00	
Cr.-Furniture and Equipment (Acct. No. 774)		$1,800.00

Detailed Transactions

Debit:

a) With cost of such assets purchased.

Credit:

a) With cost of such assets upon sale or other disposition.

775-ALLOWANCE FOR DEPRECIATION OF FURNITURE AND EQUIPMENT

This account reflects the amount provided for depreciation or obsolescence of the respective assets. See description of "Furniture and Equipment", (Account No. 774) for a description of the unit and composite-fife bases of depreciation as well as for the method to be followed when assets are disposed of under each such basis of depreciation. The balance of this account should be deducted from the balance of Account No. 774 when Statements of Financial Condition are prepared.

Illustrative Entries

See description of "Furniture and Equipment", (Account No. 774).

776-LEASEHOLD IMPROVEMENTS

This account represents the cost to the credit union of leasehold improvements which are currently being used in connection with its operations. Leasehold improvements are improvements made to the lessor's property which is occupied or otherwise used by the lessee credit union under a lease or rental agreement. The leasehold improvements are paid by the credit union, but they revert to the lessor upon termination of the lease. Leasehold improvements frequently represent significant payments by the credit union, and for this reason, a separate asset account (Account No. 776) should be established for amortizing these improvements.

Leasehold improvements can arise when property has been leased and additions, improvements, or alterations are made to make the property more usable by the credit union. Funds expended by the credit union to improve or alter buildings provided for the credit union's use on military installations should be recorded as leasehold improvements. This account also may be charged with the cost of renovations (including repair and decoration costs) made when premises are initially occupied for the purpose of making the property usable by the credit union.

Leasehold improvements should be amortized over the period of the lease giving recognition to renewal options or the estimated life of the improvements, whichever period is the shorter. In the case of premises occupied without a formal lease, the amortization should be made over the estimated life of the improvements, unless the directors have a definite basis for determining the period the credit union will occupy the premises. The amortization should be made over the life of the improvements or the estimated period of occupancy, whichever period is the shorter. This requirement is applicable unless the directors have a definite basis for determining the period that the credit union will occupy the premises.

The amortization of leasehold improvements should be made by charging the expense, "Amortization of Leasehold Improvements", (Account No. 255), and crediting "Allowance for Amortization of Leasehold Improvements", (Account No. 777). The later account does not apply to funds expended to construct buildings on Department of Defense installations. Those funds need to be recorded in "Leased Assets", (Account No. 778).

If the credit union does not use the leasehold improvements or abandons the premises prior to complete amortization of leasehold improvements, the accumulated amortization to date should be cleared from Account Nos. 776 and 777 and the difference charged to "Gain (Loss) on Disposition of Assets", Account No. 430.

Entries in the Journal and Cash Record

All entries debiting or crediting this account should be recorded in the "Miscellaneous" columns.

Illustrative Entries

---

a) With the cost of leasehold improvements:

Dr.-Leasehold Improvements		
(Acct. No. 776)	$15,000	
Cr.-Cash (Acct. No. 731)		$15,000

b) With the capitalized value of leasehold improvements when the lease expires; assume $15,000 cost of improvements and amortization previously recorded of $15,000:

Dr.-Allowance for Amortization		
of leasehold Improvements		
(Acct. No. 777)	$15,000	
Cr.-Leasehold Improvements		
(Acct. No. 776)		$15,000

c) If the leased premises are vacated by the credit union before the leasehold improvements are fully amortized; assume $15,000 cost of improvements and amortization to date of $12,000:

Dr.-Gain (Loss) on Disposition		
of Assets (Acct. No. 430)	$3,000	
Dr.-Allowance for Amortization		
of leasehold Improvements		
(Acct. No. 777)	12,000	
Cr.-Leasehold Improvements		
(Acct. No. 776)		$15,000

Detailed Transactions

Debit:

a) With cost of leasehold improvements when incurred.

Credit:

a) With cost of leasehold improvements carried in this account upon termination of the lease, when the premises are vacated by the credit union, or when leasehold improvements are charged off for any other reason.

777-ALLOWANCE FOR AMORTIZATION OF LEASEHOLD IMPROVEMENTS

This account reflects the accumulated allowance for leasehold improvements. The balance of this account should be deducted from the balance of "Leasehold Improvements", (Account No. 776), when statements of financial condition are prepared.

Entries in the Journal and Cash Record

All entries affecting this account should be entered in the "Miscellaneous" columns of the Journal and Cash Record.

Detailed Transactions

Credit:

a) Periodically, with amount necessary to amortize the leasehold improvement asset account over the period of the lease, or the estimated value of the improvements, whichever is shorter.

Debit:

a) With amount of accumulated amortization upon termination of the lease or when leasehold improvements are charged off for any other reason.

778-LEASED ASSETS UNDER CAPITAL LEASE

This account is used to record a credit union's capital lease with a lessor. It should consist of the lesser of the discounted present value of the lessee's minimum lease payments or the fair market value of the asset at the inception of the lease. Refer to section 6000 for an in-depth discussion of lease accounting and illustrative entries.

779-ALLOWANCE FOR DEPRECIATION OF LEASED ASSETS

This account represents the amount provided for the depreciation of a leased asset. Leased assets should be depreciated over the term of each asset's lease. The depreciation should be amortized monthly, quarterly, semiannually, or annually, but as a minimum it should be amortized within each regular share account dividend period.

780-ACCRUED INCOME

The accounts prescribed in this series are designed to apply to credit unions which are following the full accrual basis of accounting. The accounts may be adopted for use by credit unions following the modified cash basis of accounting. Credit unions using these accounts should include in their accounts and financial statements income earned during each month, or other period adopted, instead of including income only sporadically when received in cash. The recording of income on investments under the accrual procedures set forth in "Accrued Income on Investments", (Account No. 782) is particularly recommended for credit unions with substantial investments.

781-ACCRUED INTEREST ON LOANS

For credit unions following the accrual basis of accounting in recording interest on loans, this account reflects the aggregate amount of accrued interest earned but not yet collected on loans outstanding. The accrued interest earned should include the applicable amount of amortization relating to net origination fees. This account also includes accrued interest earned on loans purchased from liquidating credit unions. The accrued interest earned on loans purchased from liquidating credit unions should include the applicable amount of amortization relating to the discount on loans purchased.

At the end of each month the credit union should record in this account, interest earned but not yet received on outstanding loans with an offsetting credit to "Interest on Loans", (Account No. 111) or "Income from Loans of Liquidating Credit Unions", (Account No. 113) as appropriate. The computation of interest earned may be derived through manual computations or from the credit union's data processor's computer totals, if applicable. Reference should be made to Section 4050.1 (Account No. 1 1 1) for sample computations of accruing interest on loans.

Interest should not be accrued on loans 3 months or more delinquent. Accruals of interest on loans should be reversed when the loan is determined to be a loss or when it becomes 12 months delinquent which ever occurs first, by debiting the appropriate income account and crediting the appropriate accrued income account. Accrual of interest may continue, however, if the credit union is receiving substantial payments and expects to receive full payment. Interest collected during the month should be credited to income and the accrual process is then repeated at the next month end. As an alternative to reversing the accrual entry on the first day of the following month, interest collected may be credited to accrued income until that account reaches zero with subsequent interest collections being credited to income.

Adjustments should be made to this account:

- When required based on a periodic verification made to determine actual accrued interest receivable on loans, or on a segment of loans for which a separate subcontrol of accrued interest receivable is maintained.

- For accrued interest charged off with the approval of the board of directors, with offsetting debit to "Allowance for Loan Losses", (Account No. 719).

Recommended procedures for maintaining this account are outlined in Sections 4030.2.4.1, 4030.2.9 and 4050.1.

Entries in the Journal and Cash Record

This account should be debited each month with summary accruals of interest earned based on Journal Voucher entries made in the "Miscellaneous Debit" column. The credits to this account should consist mainly of entries made to the reverse accruals. Other entries to this account should be posted from the "Miscellaneous" columns for adjustments, either debit or credit, made to this account.

Illustrative Entries

a) To record the total interest earned on loans for the month:

Dr.-Accrued Interest on Loans
(Acct. No. 781) $6,500
Cr.-Interest on Loans
(Acct. No. 111) $6,500

b) To record reversal of the accrual entry on the first day of the following month:

Dr.-Interest on Loans
(Acct. No. 111) $6,500
Cr.-Accrued Interest on Loans
(Acct. No. 781) $6,500

c) If the periodic inventory made to determine whether the balance of this account is equal to the actual interest earned but not collected on outstanding loans show that this account balance is overstated by $230.00, the entry to adjust would be:

Dr.-Interest on Loans
(Acct. No. 111) $230.00
Cr.-Accrued Interest on Loans
(Acct. No. 781) $230.00

NOTE: If this account balance is understated, the opposite entry would be made, debiting Account No. 781 and crediting Account No. 111.

Detailed Transactions

Debit:

a) At the end of each month with interest earned on loans outstanding.

b) With adjustments, subject to the approval of the board of directors, when the periodic inventory to verify this account exceeds the balance of this account.

Credit:

a) With interest on loans collected.

b) With adjustments to charge off interest accrued when loans are charged off, subject to the approval of the board of directors.

c) With adjustments, subject to the approval of the board of directors, when the periodic inventory to verify this account is less than the balance of this account.

782-ACCRUED INCOME ON INVESTMENTS

For credit unions using the accrual basis of accounting to record income from investments, this account reflects the total amount of income earned but not yet collected.

Income on investments should be debited to this account in each accrual period (monthly, quarterly, or at the end of a regular share account dividend period) to show the actual amount earned in the period based upon the time the investments are owned or held; the offsetting credit should be to the appropriate investment income account (120 series). When the income is received, or credited to the investment account (common trust or mutual fund investments, investments in savings and loans associations, investments in credit union shares, etc.), this account should be credited. See Section 4030.2.4.2 for a more detailed discussion of the method of accruing income on investments.

Income on U. S. Government Obligations and Federal Agency Securities may be accrued on a 30-day month. Income from other investments normally should be accrued on an actual day (365/366-day year) basis.

Where income is accrued based on estimates (e.g., income on Common Trust or Mutual Fund Investments or shares in savings and loan associations and other credit unions), an appropriate adjustment to the accrual amounts should be made when the actual amounts are known.

Illustrative Entries

---

a) To accrue one month's interest on $12,000 of 5 percent U.S. Government Obligations; semiannual interest amount of $300.00 is divided by 6 to compute amount applicable to each month:

Dr.-Accrued Income on Investments (Acct. No. 782)	$50.00
Cr.-Income from U.S. Government Obligations (Acct. No. 121)	$50.00

b) To estimate and accrue the income on Common Trust or Mutual Fund Investments, apply the effective rate of income shown on the most recent advice of income received to the average balance of the investment for the period; e.g. average investments of $10,000 x 4.8% rate equals $480 for a year, current accrual for 1 month - $480 divided by 12 equals $40.00:

Dr.-Accrued Income on Investments		
(Acct. No. 782)	$40.00	
Cr.-Income from Common Trust		
Investments (Acct. No. 125)		$40.00

c) Building on entry b. above, if the advice of income credited on the Common Trust or Mutual Fund Investments received in the ensuing month shows income credited for the preceding month as $46.00, the following adjustment should be made:

Dr.-Available-for-Sale Securities		
(Acct. No. 743)	$46.00	
Cr.-Accounts from Investments		
(Acct. No. 121)		$6.00
Cr.-Accrued Income on Investments		
(Acct. No. 782)		40.00

d) Upon receipt of interest income from investments:

Dr.-Cash (Acct. No. 731)	$600.00	
Cr.-Accrued Income on Investments		
(Acct. No. 782)		$600.00

e) To accrue income on shares in other credit unions, use the applicable rate for the most recent dividend paid by the credit union in which shares are owned and accrue periodic income as follows:

Dr.-Accrued Income on Investments		
(Acct. No. 782)	$300.00	
Cr.-Income from Shares/Deposits/		
Certificates of Other Credit Unions		
(Acct. No. 127)		$300.00

NOTE: When the actual dividend is received, an adjustment of the accrual should be made for the difference, if any, between the estimated and actual income.

Detailed Transactions

Debit:

a) With income earned applicable to the accrual period on all types of investments.

b) With the amount of accrued interest purchased to the date of acquisition of securities when investments are made in bonds or other securities.

Credit:

a) With interest and dividends collected or added to the investment account(s), as the transactions occur.

NOTE: For credit unions not using the accrual basis for recording income on investments, this account should be charged with the amount of accrued interest purchased to the date of acquisition of ties. The amount debited to this account at time of acquisition should be credited hereto when the first payment is received on the securities, and the remainder of the interest payment should be credited to the applicable investment income account (120 series).

783-ACCRUED CREDIT CARD INCOME

This account is used to record billed interest charges that were calculated by the credit card program's processor and added to the members' statements of account. When the members' payments are posted by the credit card program's processor, the total amount that was posted should be credited to this account. Refer to the illustrative entries in Section 6000 for further guidance in the use of this account.

784-ACCRUED INTEREST-REAL ESTATE LOANS

This account reflects the aggregate amount of accrued interest earned but not collected on outstanding real estate loans at the end of the accounting period for those credit unions following the accrual basis of accounting. The accrued interest earned includes the applicable amount of amortization relating to net origination fees.

Interest should not be accrued on loans 3 or more months delinquent. If the loan is charged-off prior to becoming three months delinquent, the amount of interest accrued should be reversed by debiting " Interest on Real Estate Loans", (Account No. 114) and crediting "Accrued Interest on Real Estate Loans", (Account No. 784).

785-PURCHASED ACCRUED INTEREST RECEIVABLE ON LOANS (100%)

This account is used to record accrued interest that was included in the purchase of loans. The amount of accrued interest purchased would be that amount of interest due on the loans purchased, as of the date of the transaction. The account should be used only when the credit union purchases entire loans and not a participating interest in loans. The account should therefore be debited for the amount of any earned but

unpaid interest on whole loans that were purchased by the credit union. It should be credited as the servicer forwards the borrower's loan payments to the credit union. Once the balance of the account is reduced to zero, the amount of subsequent interest payments should be credited to "Interest on Loans and Other Obligations Purchased", (Account No. 115).

786-ACCRUED INTEREST ON LOAN PARTICIPATIONS PURCHASED

This account is debited with any accrued interest on loans that was included in the purchase of a loan participation(s). A separate General Ledger subsidiary record should be established for each participation package. The total of the balances of each subsidiary record should agree with the balance of this account. The account should be credited with applicable interest payments the servicer makes to the credit union in accordance with the participation agreement. Once the balance of the account is reduced to zero, the amounts applicable to interest payments should be credited to "Interest on Loan Participations Purchased", (Account No. 116). Refer to Section 6000 for a further discussion and illustrative entries with regard to the use of this account.

787-ACCRUED INTEREST-OTHER LINES OF CREDIT TO MEMBERS

Use this account to record accrued (unpaid) interest on "Lines of Credit to Members", (Account No. 702), other than credit cards. It should be used primarily by those credit unions that follow the accrual basis of accounting but may also be used by those credit unions that following the modified cash basis of accounting. The account should include the aggregate amount of interest earned but not yet collected on loans outstanding at the end of each month. This should be accomplished by debiting "Accrued Interest-Other Lines of Credit to Members", (Account No. 787) and crediting "Interest on Lines of Credit", (Account No. 112).

On the first day of the following month, the accrual entry should be reversed by debiting "Interest on Lines of Credit", (Account No. 1 1 2) and crediting "Accrued Interest-Other Lines of Credit to Members", (Account No. 787). As a preferable alternative to reversing the accrual entry, interest collected may be credited to Account No. 787 until its balance reaches zero. Once this occurs, subsequent amounts received should be credited to "Interest on Lines of Credit", (Account No. 112).

Adjustments should be made to reflect any errors made in the determination of actual accrued interest. They will also be needed when accrued interest is charged off against the "Allowance for Loan Losses", (Account No. 719) in accordance with the board of directors' authorization.

Entries in the Journal and Cash Record

This account should be debited each month with summary accruals of interest earned on lines of credit to members, other than credit cards, based on Journal Voucher entries in the "Miscellaneous-Debit" column of the Journal and Cash Record. Other entries to this account should also be posted from the "Miscellaneous" columns for adjustments either debit or credit, made to this account.

Illustrative Entries

---

a) To record the total interest earned on lines of credit for the month:

Dr.-Accrued Income-Other Lines of
Credit to Members
(Acct. No. 787) $13,000
Cr.-Interest on Lines of Credit
(Acct. No. 112) $13,000

b) To record reversal of the entry on the first day of the following month:

Dr.-Interest on Lines of Credit
(Acct. No. 112) $13,000
Cr.-Accrued Interest-Other :Lines
Lines of Credit to Members
(Acct. No. 787) $13,000

c) If a periodic inventory is made to determine whether the balance of this account is equal to the actual interest earned and uncollected on outstanding lines of credit, and it is found that the account balance is overstated by $460.00, the following entry would be recorded:

Dr.-Interest on Lines of Credit
(Acct. No. 112) $460.00
Cr.-Accrued Interest-Other :Lines
Lines of Credit to Members
(Acct. No. 787) $460.00

NOTE: If the account balance was understated, the opposite entry would be recorded.

Detailed Transactions

Debit:

a) At the end of each month with interest earned on outstanding lines of credit balances.

b) With adjustments, subject to the approval of the board of directors, when the periodic inventory to verify this account's balance exceeds the balance of this account.

Credit:

a) With interest on loans collected.

b) With adjustments to charge off interest accrued when loans are charged off, subject to the approval of the board of directors.

c) With adjustments, subject to the approval of the board of directors, when the periodic inventory to verify this account's balance is less than the balance of the account.

788-ACCRUED INCOME ON NCUSIF INVESTMENT

This account should be used to record the redistribution (dividends) of NCUSIF equity to participating credit unions by the NCUA Board as necessary to reduce the NCUSIF to its normal operating level.

NOTE: Accruals should be recorded only after the NCUA Board declares a redistribution from the NCUSIF, not in anticipation of a declaration of dividends.

Illustrative Entries

---

a) To record a declared redistribution from the NCUSIF:

Dr.-Accrued Income on NCUSIF Investment		
(Acct. No. 788)	$450.00	
Cr.-Income from Investment in		
NCUSIF (Acct. No. 123)		$450.00

Reference Rules and Regulations, Part 741.8.

789-OTHER ACCRUED INCOME

This account is used to record earned income not otherwise provided for in other accrued income accounts. This account might be used for rental income, income due from the sale of money orders, travelers checks, or other reimbursements for costs incurred for services that have been furnished to members.

This account should include the total amount of interest earned but not counted for these miscellaneous items. This can be accomplished by debiting "Other Accrued Income", (Account No. 789) and crediting "Other Miscellaneous Operating Income", (Account No. 151) at the end of the month, quarter, or regular share account dividend period. On the following day (i.e., first day of the month), the accrual entry should be reversed by debiting "Other Miscellaneous Operating Income", (Account No. 151) and crediting "Other Accrued Income", (Account No. 789). As a preferable alternative to reversing this accrual entry, interest collected may be credited directly to Account No. 789 until its balance reaches zero. Once this occurs, subsequent amounts received should be credited to "Other Miscellaneous Operating Income", (Account No. 151).

The illustrative entries and detailed transactions for this account will be similar to those previously outlined for "Accrued Income on Investments", (Account No. 782). Therefore, transactions and entries will not be repeated here.

790-ALL OTHER ASSETS

792-INSURANCE PREMIUM STABILIZATION RESERVE

This account may be used by those credit unions participating in risk rating plans for loan protection and life savings insurance. The account should reflect funds advanced to the insurance company or funds retained by the insurance company which would have otherwise been returned to the credit union as a dividend or refund of premium paid. The funds advanced to, or withheld by the insurance company, serve as a reserve from which claims will be paid when previous claims have exceeded a stated portion of premium payments.

Entries in the Journal and Cash Record

All entries affecting this account should be recorded in the "Miscellaneous" column of the Journal and Cash Record.

Illustrative Entries

---

a) To record funds advanced to the insurance company in accordance with the risk rating plan contractual agreement:

Dr.-Insurance Premium
Stabilization Reserve
(Acct. No. 792) $1,000.00
Cr.-Cash (Acct. No. 731) $1,000.00

b) To record a premium refund retained by the insurance company as a reserve for payment of claims:

Dr.-Insurance Premium
Stabilization Reserve
(Acct. No. 792) $500.00
Cr.-Members' Insurance
(Acct. Nos. 312 and/or 313) $500.00

For another method of recording this transaction refer to the Deferred Credit Insurance Premium Stabilization Reserve (Account No. 888).

c) When the credit union is notified of excess claims paid by this insurance company and charged to the reserve:

Dr.-Members' Insurance
(Acct. Nos. 312 and/or 313) $200.00
Cr.-Insurance Premium
Stabilization Reserve
(Acct. No. 792) $200.00

Detailed Transactions

Debit:

a) With funds advanced to, or withheld from premium refunds by the insurance company.

Credit:

a) When notified by the insurance company of excess claims paid and charged to the account.

793-MONETARY CONTROL RESERVE DEPOSITS

This account is used to record monetary reserves held on deposit with the Federal Reserve System against its nonpersonal time deposits. The cash is held at the Federal Reserve in a noninterest bearing account.

Entries in the Journal and Cash Record

This account should be debited for any cash deposits made with the Federal Reserve System in the "Miscellaneous-Debit" column. It should be credited when the funds are withdrawn in the "Miscellaneous-Credit" column.

Illustrative Entries

---

a) When a cash deposit is made into the Federal Reserve System:

Dr.-Monetary Control Reserve Deposits (Acct. No. 793)	$5,450.00	
Cr.-Cash (Acct. No. 731)		$5,450.00

b) When the balance of the fund can be reduced and the funds are withdrawn:

Dr.-Cash (Acct. No. 731)	$1,000.00	
Cr.-Monetary Control Reserve Deposits (Acct. No. 793)		$1,000.00

797-ADVANCE PAYMENTS BY BORROWERS FOR TAXES AND INSURANCE ON SERVICED LOANS

This account is used when loans are sold and the credit union retains the servicing of those loans. At the time of sale, the escrow balances for the loans sold are transferred from "Advances for Taxes, Insurance and Other Charges", (Account No. 725) to this account. This account should thus reflect escrow payments received for loans that have been sold.

798-ASSETS ACQUIRED IN LIQUIDATION OF LOANS

This account reflects the value of assets acquired by the credit union in the liquidation of loans for which the related loan obligation of the borrower has been canceled (see Section 51 10). If postings to this account involve numerous assets where the borrower's loan obligation has been canceled, subsidiary records should be maintained to support the balance in Account No. 798. Assets acquired should initially be recorded in this account at the cost of such assets at foreclosure which is fair value of the asset foreclosed or repossessed. Subsequent to foreclosure, the records should reflect the asset at the lower of (a) fair value minus estimated costs to sell, or (b) cost at the time of foreclosure.

Illustrative Entries

---

a) To record the value of assets acquired when the obligation of the borrower has been canceled:

Dr.-Assets Acquired in Liquidation of Loans		
(Acct. No. 798)	$400.00	
Cr.-Loans (Acct. No. 701)		$400.00

b) To record the cost of acquisition or disposition:

Dr.-Assets Acquired in Liquidation of Loans		
(Acct. No. 798)	$30.00	
Cr.-Cash (Acct. No. 731)		$30.00

c) To record the write-down of the carrying value of assets acquired as authorized by the board:

Dr.-Allowance for Loan Losses		
(Acct. No. 719)	$200.00	
Cr.-Assets Acquired in Liquidation		
of Loans (Acct. No. 798)		$200.00

d) To record the disposition of assets acquired in liquidation of loans-assume assets carried in Account No. 798 for $200.00 are sold for $150.00:

Dr.-Cash (Acct. No. 731)	$150.00	

or

Dr.-Notes and Contracts Receivable		
(Acct. No. 711)	$150.00	
Cr.-Assets Acquired in Liquidation		
of Loans (Acct. No. 798)		$150.00

NOTE: In this case, a balance of $50.00 remaining in Account No. 798 should be charged off to Allowance for Loan Losses (Account No. 719), with the approval of the board of directors

---

799-OTHER ASSETS

This account is used to record transactions involving assets for which there is no specific asset account provided. Among the items which may be included in this account are:

a) Deposits paid on safe deposit box keys or utility services.

b) Collection and court costs advanced on loans.

c) Property owned by the credit union for which no other account is provided.

Posting to General Ledger

Entries to this account are posted individually from the "Miscellaneous" columns of the Journal and Cash Record. Each entry should be adequately explained in the "Explanatory Remarks" column of the General Ledger account.

Detailed Transactions

Debit:

a) With other assets to be entered in this account.

Credit:

a) With amounts recorded in this account when collected or otherwise disposed of.

4050.5 LIABILITY ACCOUNTS (800 SERIES)

800-ACCOUNTS PAYABLE

The accounts in this group (800 to 809, inclusive) are available for needed classification by credit unions for unpaid open account liabilities and other accounts payable transactions.

Every liability account in the 800 series should be supported by subsidiary ledgers for each payable item in the accounts. These subsidiary ledgers should reflect the initial credit to the account, date established, periodic debits and the remaining balance of each item in the particular General Ledger control accounts. These subsidiary ledgers need to be totaled and balanced to the respective General Ledger control accounts each month. For example, assume that "Accrued Expenses", (Account No. 850), has a month-end balance of $4,300 due to the accrual of salary expense not yet paid and employee benefits not yet paid. The subsidiary ledger balance for "Accrued Salaries", (Account No. 851) totals $1,700 and the subsidiary ledger for "Accrued Employee Benefits", (Account No. 852) (for pension fund expense) total $2,600. These subsidiary ledgers, when totaled, balance to the General Ledger control for "Accrued Expenses", (Account No. 850).

801-ACCOUNTS PAYABLE

This account reflects the open account liabilities of the credit union. Examples of such items are shown below. Separate accounts should be established if there is a large number of activity relating to any one item or if outstanding balances are material relating to any one item. The separate accounts would be numbered as Accounts Payable 801.2, 801.3, etc. (Account No. 801.1 is already labeled below.)

Invoices For Which Prompt Payment Will not be Made

An expense item for which prompt payment will not be made may be credited to this account with an offsetting debit to the appropriate expense classification in the 200-300 series of accounts.

Cash Advances

When cash is advanced to the credit union for a specific purpose and such advance is expected to be repaid at some future date, the amount of this advance should be credited to this account with an offsetting debit to "Cash", (Account No. 731).

Unpresented Checks

Checks issued by the credit union which have not been presented for payment after a reasonable period has elapsed (90 days or more) should be credited to this account with an offsetting debit to "Cash", (Account No. 731). The amount disbursed should be retained in this account until the statutory period prescribed for presentation of checks has expired in accordance with state escheat or abandoned property laws except for disbursed share withdrawals and loans. Disbursements of the latter type should be reversed, returning the amount paid to their source accounts. It may then be cleared by debiting this account and crediting "Other Miscellaneous Operating Income", (Account No. 151). In the event, however, that state abandoned property law provides for escheating outstanding checks, such items should be carried in "Accounts Payable", (Account No. 801) until the period provided by such law has expired, after which an amount equivalent to the total of such checks must be turned over to the state.

Most states have enacted an escheat or abandoned property law. Under this law, property which becomes dormant for a certain period of time must be reported and released to the state. Dormant accounts, unpresented checks, and other abandoned items can become escheatable under a state law. State authorities may thus conduct limited inspections of the credit union's records to determine compliance with abandoned property laws. The value of this abandoned property should be carried in "Accounts Payable", (Account No. 801) until reported and released to the state.

Accounts of Deceased or Terminated Members

Amounts in share accounts of deceased or terminated members are transferred to this account. Refer to the Federal Credit Union Bylaws, Article III, Section 5(e), regarding the period of time during which an account for a deceased or terminated member could be kept open until transferred to this account.

Entries in the Journal and Cash Record

This account should be credited in the "Miscellaneous-Credit" column when a liability item is set up. It should be debited in the "Miscellaneous-Debit" column when the item is paid or other disposition is made.

Substantial expense items due and payable should be recorded promptly and at least at the end of a dividend period.

Posting to the General Ledger

The debit and credit items for Accounts Payable in the "Miscellaneous" columns are posted individually to the General Ledger. The "Explanatory Remarks" column should show clearly the necessary details of the entries posted to this account, such as to whom the account is payable and the purpose. In the case of unpresented checks, a notation should be made of the check number, date of the check and the payee.

Illustrative Entries

---

a) When an expense is incurred for purchase of supplies and payment is not immediately made:

Dr.-Stationery and Supplies
(Acct. No. 264) $150.00
Cr.-Accounts Payable
(Acct. No. 801) $150.00

b) When payment is made of liabilities previously recorded in this account:

Dr.-Accounts Payable
(Acct. No. 801) $150.00
Cr.-Cash (Acct. No. 731) $150.00

Detailed Transactions

Credit:

a) With open accounts and other liabilities recorded as Accounts Payable.

b) With credit union checks issued after they have been outstanding a reasonable period (90 days or more).

Debit:

a) With payments made of liabilities recorded in this account.

b) With the amount of unpresented credit union checks upon expiration of the statutory period for presentation of checks (offsetting credit should be to "Other Miscellaneous Operating Income", (Account No. 151), or if escheat to the state as required, to "Cash", (Account No. 731).

801.1-ACCOUNTS PAYABLE TRAVELER'S CHECKS AND MONEY ORDERS SOLD

This account is used when the credit union is acting as an agent for the sale of checks or money orders for another institution or organization. This account shows the liability to the particular vendor or other party for checks and money orders sold. The account must be supported by accurate subsidiary records to identify the specific items sold. See Section 5080 discussing establishment of subsidiary records. Separate accounts payable may be established for each vendor, or each item (traveler's checks or money orders).

Entries in the Journal and Cash Record

This account should be credited in the "Miscellaneous-Credit" column when checks or money orders are sold by the credit union for a third party (an agent). The credit union is only liable for the amount due to the agent, which should include the face amount of the item sold plus fees owed to the agent. Any fees collected by the credit union as part of the transaction should be entered in Account No. 152 as "Miscellaneous Fee Income."

Illustrative Entries

---

a) When a credit union sells a check acting as an agent for the vendor, and fees are collected which are due both to the vendor and the credit union:

Dr.-Cash (Acct. No. 731) ……	$100.50	
Cr.-Accounts Payable Traveler's Checks and Money Orders (Acct. No. 801.1) ……		$100.25
(For $100 face amount of item sold, with a $.50 fee charged, half of which is due to the vendor)		
Cr.-Miscellaneous Fee Income (Acct. No. 152) ……		.25
(The portion of the $.50 fee collected, which is due to the credit union.)		

b) When the funds collected from the sale of an item are remitted to the vendor, including fees due to the vendor:

Dr.-Accounts Payable-Traveler's Checks and Money Orders (Acct. No. 181.1) ……	$100.25	
Cr.-Cash (Acct. No. 731) ……		$100.25

802-ACCOUNTS PAYABLE-UNDISTRIBUTED PAYMENTS

This account is provided for use by credit unions to record payments received when a delay will occur before the amounts of the credits to the particular accounts are determined. The account is specifically established for those credit unions using the "total payment vendor" system.

When the credit union uses a computer or other mechanical equipment to compute interest on loans, this account should be credited with the amount of undistributed loan payments received. When the computer output record (generally the Transaction Register) is received showing the distribution of loan payments to principal and interest, this account should be debited with offsetting credits being made to loans and interest. This account should be used similarly when the distribution of the payments received on shares, loan principal and interest is made by the computer.

Where the credit union's recordkeeping is performed manually and in the event the breakdown of payments received to "Shares", "Loans", "Interest", etc., is not developed in time to provide the distribution to each General Ledger account affected, the total payments may be credited to this account and cleared when the distribution is determined.

Entries in the Journal and Cash Record

Entries affecting this account should be recorded in the "Miscellaneous" columns unless, because of the volume of these entries, the credit union designates separate column(s) for this purpose.

Illustrative Entries

---

a) When loan repayments are received:

Dr.-Cash (Acct. No. 731) ……	$1,525.00	
Cr.-Accounts Payable Undistributed Payments (Acct. No. 802)……		$1,525.00

b) When transaction details have been determined:

Dr.-Accounts Payable-Undistributed Payments (Acct. No. 802)……	$1,525.00	
Cr.-Loans (Acct. No. 701) ……		$1,215.00
Cr.-Interest on Loans (Acct. No. 111) ……		200.00
Cr.-Shares (Acct. No. 901)……		110.00

Detailed Transactions

Credit:

a) With amounts of loan repayments received for which the detailed distribution to particular general ledger accounts has not been determined.

Debit:

a) With amounts of loan repayment transactions applied to the appropriate general ledger accounts affected.

802.1-ACCOUNTS PAYABLE-CREDIT CARD PAYMENTS IN PROCESS

This account is used for credit card transactions when credit card line of credit payments have been received at the credit union office. The amount of the payment is credited to this account until the credit card processor has posted the member's credit card account. When the member's account has been posted, this account should be debited for the amount of the payment. The corresponding credits should be to "Accrued Credit Card Income", (Account No. 783), for the amount of interest due, and "Lines of Credit to Members-Credit Cards" (Account No. 702.1) for the remainder of this payment. Refer to Section 6000 for illustrative Journal and Cash Record entries.

802.2-ACCOUNTS PAYABLE-CREDIT CARD ADJUSTMENTS IN PROCESS

802.3-ACCOUNTS PAYABLE-CREDIT CARD CHARGEBACKS IN PROCESS

These accounts are used when credit union personnel initiate adjustments or chargebacks to a credit cardholder's account. The amount of the adjustment or chargeback is recorded in these accounts until the credit card processor has accepted the adjustment or chargeback and has posted it to the member's account, or has rejected it. At that time, a corresponding entry is made to reverse the amount of the original posting to these General Ledger accounts. Refer to Section 6000 for illustrative Journal and Cash Record entries.

803-ACCOUNTS PAYABLE-UNDISTRIBUTED PAYROLL DEDUCTIONS OR ALLOTMENTS

This account is to be used when the credit union receives payroll deduction checks and the individual deductions have not yet been posted to member accounts.

Truth in Savings (TIS) requires undistributed payroll deductions to be considered part of a member's account balance upon which dividends will be calculated, unless a written contract exists between the member and the credit union. The contract must indicate, the credit union may hold the funds without adding it to the share account balance, and by doing so, the member may forfeit any dividends due them under TIS. If the deduction is for a loan payment, Truth in Lending (TIL) may impact the treatment of these accounts. To avoid any TIL violations, the deduction should be voluntary, and the member should have access to the funds.

Entries in the Journal and Cash Record

Entries affecting this account should be recorded in the "Miscellaneous" columns of the Journal and Cash Record.

Illustrative Entries

---

a) When collections are received representing payroll deductions or allotments:

Dr.-Cash (Acct. No. 731) $4,000.00
Cr.-Accounts Payable
Undistributed Payroll
Deductions or Allotments
(Acct. No. 803) $4,000.00

b) When distribution details have been determined based on computer processing:

Dr.-Accounts Payable-
Undistributed Payrolls
Deductions or Allotments (Acct. No. 803) $4,000.00
Cr.-Loans (Acct. No. 701) $3,300.00
Cr.-Interest on Loans (Acct. No. 111) 300.00
Cr.-Shares (Acct. No. 901) 400.00

Detailed Transactions

Credit:

a) With amounts of undistributed payroll deductions or allotments received which have been or will be sent to the computer for processing.

Debit:

a) With amounts of payroll deductions or allotments processed by the computer and applied to appropriate other accounts affected.

804-ACCOUNTS PAYABLE-CHECK TRANSMITTAL SERVICE

This account is for use only by federal credit unions which provide check transmittal services to their members. The balance in the account should represent the total amount of undistributed members' paychecks payable by the credit union to the members' bank accounts. This account should be cleared by remittances to the members' banks on the day the funds are received by the credit union or as promptly as possible thereafter.

Entries in the Journal and Cash Record

All entries affecting this account should be recorded in the "Miscellaneous" columns unless, because of volume, the credit union assigns a separate column for credits to this account.

Subsidiary Accounts Payable Record

The credit union must establish and maintain subsidiary accounts payable records for each depository bank to which amounts are owed.

Illustrative Entries

---

a) A member presents his paycheck for a loan payment to the credit union with the remainder to be transmitted to his checking account:

Dr.-Cash (Acct. No. 731)	$300.00	
Cr.-Loans (Acct. No. 701)		$45.00
Cr.-Interest on Loans (Acct. No. 111)		5.00
Cr.-Accounts Payable - Check Transmittal Service (Acct. No. 804)		250.00

b) A credit union sends a check to the member's bank checking account to forward the member's net paycheck:

Dr.-Accounts Payable-Check Transmittal Service (Acct. No. 804)	$250.00	
Cr.-Cash (Acct. No. 731)		$250.00

Detailed Transactions

Credit:

a) With amounts due member's depository bank for portion of paychecks not applied to credit union accounts.

Debit:

a) With amounts remitted to depository banks to clear this account.

805-ACCOUNTS PAYABLE-DRAFTS AUTHORIZED

This account represents the liability of the credit union for drafts authorized to be drawn on it, where it has been legally determined that a real liability is created by the authorization. This account should not be used where a liability for drafts authorized does not arise prior to the actual acceptance of the draft by the credit union, since the drafts ordinarily will be paid concurrently with acceptance.

When a legal liability exists upon authorization of drafts, this account should be credited when authority is issued to draw drafts on the credit union: the offsetting debit should be to the appropriate asset account, e.g., "Loans."

Entries in the Journal and Cash Record

All entries affecting this account should be recorded in the "Miscellaneous" columns of the Journal and Cash Record.

Detailed Transactions

Credit:

a) With amounts of drafts authorized for which the credit union has a legal liability.

Debit:

a) With amounts of authorized drafts previously recorded in this account when presented for payment and paid or when the authorization is canceled.

806-ACCOUNTS PAYABLE-INSTALLMENT PAYMENTS ON U.S. BONDS

This account reflects the federal credit union's liability for installment payments received toward the purchases of U.S. Savings Bonds pending sufficient funds being available for issuance of the bonds.

Section 121 of the Federal Credit Union Act provides that federal credit unions may act as agents of the U.S. Treasury Department for the sale of U.S. Savings Bonds. Only those federal credit unions that have applied to the U.S. Treasury and have been approved as issuing and/or paying agents may engage in savings bonds transactions.

When installment payments are received on bond purchases, this account should be credited with the liability for the funds pending issuance of U.S. Savings Bonds to the purchaser. When a bond is fully paid for and is issued, the purchase cost should be cleared from this account and transferred to "Accounts Payable-U.S. Savings Bond Remittance", (Account No. 807).

a) When payments are received on installment purchase of U.S. Savings Bonds:

Dr.-Cash (Acct. No. 731) or Cash-		
U.S. Bond Installment Payments		
(Acct. No. 737)	$122.50	
Cr.-Accounts Payable-Installment		
Payments on U.S. Bonds		
(Acct. No. 806)		$122.50

b) When a bond is fully paid and is issued:

Dr.-Accounts Payable-Installment		
Payments on U.S. Bonds		
(Acct. No. 806)	$150.00	
Cr.-Accounts Payable U.S.		
Savings Bond Remittances		
(Acct. No. 807)		$150.00

c) When an authorization is canceled and a subscriber withdraws the balance on his installment account:

Dr.-Accounts Payable-Installment		
Payments on U.S. Bonds		
(Acct. No. 806)	$12.50	
Cr.-Cash (Acct. No. 731) or		
Cr.-Cash - U.S. Bond Installment		
Payments (Acct. No. 737)		$12.50

d) When remittance is made to the Federal Reserve Bank for bonds issued under the installment payment plan:

Dr.-Accounts Payable-U.S.		
Savings Bonds Remittance		
(Acct. No. 807)	$150.00	
Cr.-Cash (Acct. No. 731) or		
Cr.-Cash - U.S. Bond Installment		
Payments (Acct. No. 737)		$150.00

Detailed Transactions

Credit:

a) With installment payments received.

Debit:

a) With installment payments withdrawn upon cancellation of a subscription.

b) With installment amounts used for bond issuances (transfer liability to "Accounts Payable U.S. Savings Bond Remittances", (Account No. 807)).

807-ACCOUNTS PAYABLE-U.S. SAVINGS BOND REMITTANCES

This account reflects the federal credit union's liability for U.S. Savings Bonds issued pending transmittal of the funds collected to the Federal Reserve Bank.

Section 121 of the Federal Credit Union Act provides that federal credit unions may act as agents of the U.S. Treasury Department for the sale of U.S. Savings Bonds. Only those federal credit unions that have applied to the U.S. Treasury and have been approved as issuing and/or paying agents may engage in savings bonds transactions.

This account should be credited with the cash payments received covering the issue of all U.S. Savings Bonds issued by the credit union. When sufficient funds are available for the issuance of a bond to installment purchasers, the bond issue price should be transferred to this Account No. 807 from "Accounts Payable-Installment Payments on U.S. Bonds", (Account No. 806). Likewise, when cash is received covering the entire purchase of a U.S. Savings Bond or note purchased by installment payments, this account should be credited with the total amount received pending transmittal of the funds to the Federal Reserve Bank. When proceeds from the sales of Savings Bonds are remitted to the Federal Reserve Bank, this account should be debited.

Illustrative Entries

---

a) To record the daily total cash received from the sale of Savings Bonds:

Dr.-Cash (Acct. No. 731) ……	$75.00
Cr.-Accounts Payable-U.S. Savings Bond Remittances (Acct. No. 807) ……	$75.00

b) To record the remittance of savings bond sales to the Federal Reserve Bank:

Dr.-Accounts Payable-U.S.
Savings Bond Remittances
(Acct. No. 807) $75.00
Cr.-Cash (Acct. No. 731) $75.00

808-REAL ESTATE LOANS PAYABLE

Charges in connection with any home purchase transaction which are collected from the borrower or seller and paid out to third parties by the credit union (i.e., appraisal fees, credit report fees, title examination fees, etc.) should be recorded in this account.

This account does not include prepaid escrow funds, or the accumulation of funds from the periodic loan payments which are for the purpose of paying real estate taxes, hazard insurance and the like. Such periodic payments shall be recorded in either "Accounts Payable-Escrow Accounts", (Account No. 809) or "Other Shares", (Account No. 904).

If the amount collected from the borrower exceeds the actual charges incurred, the excess should be accounted for as loan origination fees. Likewise, if less is collected from the borrower than the actual charges, the difference should be accounted for as loan origination costs. The accounting for origination fees and costs is discussed in Account No. 703.1.

809-ESCROW ACCOUNTS

This account is used if a nonmember assumes a member's real estate loan and an escrow account is required. A subsidiary ledger should be established for each nonmember for whom an escrow account is maintained. An escrow account maintained for a nonmember bears interest at a rate equal to the dividend rate paid on regular share accounts. The interest paid on such accounts should be added to the escrow account payable at the end of each accounting period (or more often if desired) by debiting "Other Miscellaneous Operating Expenses", (Account No. 370) and crediting this account. The interest paid should be recorded on each nonmember subsidiary ledger and should be identified as interest.

The escrow account should provide for the accumulation of funds to pay for 1 year's taxes, assessments, insurance premiums, or other charges that could affect the credit union's first lien position.

At the time the account is opened, the nonmember should be asked to sign a blanket withdrawal authorization which permits the FCU to use the funds to make the required payments. The FCU should also arrange with each nonmember for whom an escrow account is maintained to promptly submit to the FCU for payment, any statements received relating to taxes, assessments, insurance premiums and other fees which are to be paid from the escrow account. Any disbursement made from an escrow account should be supported by such documents. Withdrawals of amounts in excess of the amount required to pay the fees for which the account was established are permissible at any time. Other withdrawals, except to pay the fees for which the account was established, should be prohibited.

810-NOTES AND INTEREST PAYABLE 811-MORTGAGE NOTES PAYABLE

811-MORTGAGE NOTES PAYABLE

This account reflects the unpaid principal balance of mortgage loans owed by the credit union and secured by real estate owned by the credit union.

Upon acquisition of real estate, the amount of any mortgage loan should be recorded in this account. As periodic payments are made, this account should be debited for the principal amounts paid.

Entries in the Journal and Cash Record

All entries affecting this account should be entered in the "Miscellaneous" columns of the Journal and Cash Record.

Illustrative Entries

---

a) When real estate is acquired subject to a mortgage loan. Assume the purchase of real estate for $60,000, with land value at $15,000, cash paid of $20,000, and mortgage note payable of $40,000:

Dr.-Land (Acct. No. 771)	$15,000.00	
Dr.-Building (Acct. No. 772)	45,000.00	
Cr.-Cash (Acct. No. 731)		$20,000.00
Cr.-Mortgage Notes Payable (Acct. No. 811)		40,000.00

b) When monthly payments are made in settlement of each mortgage installment:

Dr.-Interest on Borrowed Money (Acct. No. 340)	$275.00	
Dr.-Mortgage Notes Payable (Acct. No. 811)	83.33	
Cr.-Cash (Acct. No. 731)		$358.33

Detailed Transactions

Credit:

a) With principal amount of mortgage notes payable when the liability is incurred.

Debit:

a) With amounts of principal payments to reduce (liquidate) the liability recorded in this account.

812-NOTES PAYABLE-OTHER

This account reflects the liability of the credit union for funds borrowed. Such borrowings must be in accordance with the Federal Credit Union Act.

Entries in the Journal and Cash Record

This account is credited in the "Miscellaneous-Credit" column with the amount of notes payable which have been executed and delivered to creditors, including notes to other credit unions. The account is debited in the "Miscellaneous-Debit" column when the liability is wholly or partially liquidated.

Posting to the General Ledger

The debit and credit items to this account entered in the "Miscellaneous" columns in the Journal and Cash Record are posted individually to the General Ledger. Each note and any payments thereon should be specifically identified in the "Explanatory Remarks" column.

Subsidiary of General Ledger Account

If the credit union borrows funds from two or more sources, it should maintain subsidiary records that clearly identify transactions for each Note Payable. If subsidiary records are maintained, it will not be necessary to complete the "Explanatory Remarks" column of the General Ledger account.

Promissory Notes

Some credit unions borrow money from members or nonmembers and issue promissory notes, formerly called certificates of indebtedness or a similar name. Issuance of promissory notes is governed by Section 701.38 of the NCUA Rules and Regulations. The offering of promissory notes will necessitate the maintenance of a subsidiary ledger. If the note provides for payment of interest less frequently than the credit union's accounting period, consideration should be given to accruing the interest not less frequently than the end of each accounting period so that the cost of the borrowed money can be allocated to the periods during which the expense is incurred. The accruals should be recorded as "Accrued Interest Payable", (Account No. 818). Among the items to be considered for inclusion on the note are:

- Certificate number, prenumbered for control purposes.
- Date of issue.
- Credit union name and location, and name and address of lender.
- Amount of the certificate or space to record the amount.
- Interest rate and method and time of payment of interest. Also, whether there would be any penalty for early redemption and whether interest will continue to accrue after maturity.
- Maturity date. Conditions for early redemption, including but not limited to where and how it may be redeemed.
- Provisions for signature of the treasurer and countersignature of the president.

Retail Repurchase Agreements

Federal credit unions may offer retail repurchase agreements. A retail repurchase agreement is an uninsured borrowing. It involves the transfer of an interest in U.S. Government Securities, usually in denominations of less than $100,000 for a period of less than 90 days. The credit union agrees to repurchase the instrument at the end of that period.

Any rate of interest may be offered on the repos. The repo should be automatically renewed or extended. The instrument should clearly state that the obligation does not represent Shares (savings), that it is not insured, and that it is not guaranteed in any way by the United States Government. The market value of the U.S. Government Security at the time of any purchase of a repo should at least be equal to the aggregate purchase price paid by retail repurchase purchasers secured by that security. All terms of the agreement should be fully and accurately disclosed. Retail repurchase agreements are subject to the borrowing limitations of Section 107 of the Federal Credit Union Act.

Illustrative Entries

---

a) When the credit union executes and delivers a note payable to others:

Dr.-Cash (Acct. No. 731)	$3,000.00	
Cr.- Notes Payable - Other (Acct. No. 812)		$3,000.00

b) To record principal and interest payments made to liquidate notes payable:

Dr.-Notes Payable - Other (Acct. No. 812)	$1,000.00	
Dr.-Interest on Borrowed Money (Acct. No. 340)	30.00	
Cr.-Cash (Acct. No. 731)		$1,030.00

c) When the credit union borrows money on its note and interest is deducted in advance by the creditor (1-year note at 10 percent):

Dr.-Cash (Acct. No. 731)	$900.00	
Dr.-Interest on Borrowed Money (Acct. No. 340)	100.00	
Cr.- Notes Payable - Other (Acct. No. 812)		$1,000.00

Detailed Transactions

Credit:

a) With principal amounts of notes payable issued.

Debit:

a) With principal repayments made to liquidate notes payable.

ACCRUAL BASIS OF ACCOUNTING

Credit unions following the accrual basis should record interest expense accrued on notes payable by a debit to "Interest on Borrowed Money", (Account No. 340), and credit to "Accrued Interest Payable", (Account No. 818). When payments are made, the interest portion should be debited to "Accrued Interest Payable" (Account No. 818) instead of to "Interest on Borrowed Money", (Account No. 340).

812.1-NOTES PAYABLE COMMITMENT FEES

This account should reflect commitment fees paid on term notes. The fees should be amortized based on the interest method. The periodic amortization should be recorded as interest on borrowed funds. See Account No. 703.1 for a detailed discussion of the interest method.

813-FEDERAL FUNDS PAYABLE

This account is used to record borrowed Federal Funds. Federal-fund loans consist of 1-day loans that are in the form of balances at (or checks drawn on) Federal Reserve banks. They are loans of superior money or bank reserves, as compared to the ordinary money or deposits at commercial banks. A credit union's management must be willing, however, to meet the interest rates determined each day by the Federal Funds market.

Total borrowings must not exceed 50 percent of the federal credit union's paid-in and unimpaired capital (Section 107(9) of the Federal Credit Union Act).

Entries in the Journal and Cash Record

This account is credited in the "Miscellaneous-Credit" column with the amount of notes payable which have been executed and delivered to creditors, including notes to other credit unions. The account is debited in the "Miscellaneous-Debit" column when the liability is wholly or partially liquidated.

Posting to the General Ledger

The debit and credit items to this account entered in the "Miscellaneous" columns in the Journal and Cash Record are posted individually to the General Ledger. Each borrowing and any payments thereon should be specifically identified in the "Explanatory Remarks" column.

Illustrative Entries

---

a) To record borrowed Fed Funds:

Dr.-Cash (Acct. No. 731) $50,000
Cr.- Fed Funds Payable
(Acct. No. 813) $50,000

b) To record the repayment of borrowed Fed Funds and one day's interest @ 10%:

Dr.-Fed Funds Payable
(Acct. No. 813) $50,000.00

Dr.-Other Interest on
Borrowed Money
(Acct. No. 342) 13.70
Cr.-Cash (Acct. No. 731) $50,013.70

Detailed Transactions

Credit:

a) With Principal amounts of notes payable issued.

Debit:

a) With principal repayments made to liquidate notes payable.

818-ACCRUED INTEREST PAYABLE

For credit unions following the accrual basis of accounting, this account reflects the accrued unpaid liability of the credit union for interest on borrowed funds. The account is not required for credit unions following the modified cash basis of accounting.

Accruals should be recorded at the close of each accrual period to reflect the interest cost for the period on borrowed funds. When interest payments are made, the amounts paid should be debited to this account and credited to "Cash", (Account No. 731). Interest should be computed on borrowed funds based on the loan interest rate applied to the unpaid principal amounts of the loan liability outstanding during the accrual period. This accrual may be accomplished by applying an appropriate interest factor to the aggregate daily balances of principal outstanding at each effective interest rate.

Entries in the Journal and Cash Record

All entries affecting this account should be entered in the "Miscellaneous" columns of the Journal and Cash Record.

Illustrative Entries

---

a) To accrue interest liability at the close of each accrual period:

Dr.-Interest on Borrowed
Money (Acct. No. 340) $100.00
Cr.-Accrued Interest Payable
(Acct. No. 818) $100.00

b) When interest is paid:

Dr.-Accrued Interest Payable
(Acct. No. 818) $300.00
Cr.-Cash (Acct. No. 731) $300.00

Detailed Transactions

Credit:

a) With interest accrued during the accrual period.

Debit:

a) With interest payments made.

820-DIVIDENDS PAYABLE

820.1-DIVIDENDS PAYABLE ON REGULAR SHARES

820.2-DIVIDENDS PAYABLE ON SHARE DRAFTS

820.3-DIVIDENDS PAYABLE ON CLUB ACCOUNTS

820.4-DIVIDENDS PAYABLE ON IRA/KEOGH SHARE ACCOUNTS

820.5-DIVIDENDS PAYABLE ON IRA/KEOGH CERTIFICATE ACCOUNTS
820.6-DIVIDENDS PAYABLE ON SHARE CERTIFICATES

820.7-DIVIDENDS PAYABLE ON MONEY MARKET ACCOUNTS

820.8-DIVIDENDS PAYABLE ON OTHER ACCOUNTS

Under Article XIV, Dividends, of the standard Federal Credit Union Bylaws, the board of directors is authorized to establish dividend periods and declare dividends permitted by the Federal Credit Union Act, as amended. The dividend periods must be established so that the last dividend period in any calendar yell ends on December 31, unless the cost of dividends is accrued by debiting "Dividends", (Account No. 380) and crediting "Accrued Dividends Payable", (Account No. 854). Dividends may be declared by the board for an established dividend period, from Earnings available after provision for reserves required by the Act and regulations, and after eliminating any existing deficit in undivided Earnings. Dividends may be declared only during the last month of the dividend period or the first month following the close of the period. However, if the dividend period is monthly, dividends may be declared during the month. If the dividend period is more frequent than monthly, the board may declare the dividend during the previous month. See Section 5160 regarding dividend and interest computation procedures.

All dividend declarations shall include the establishment of a date on which such declared dividends will be distributed or posted to the accounts of the members.

Under the requirement that dividends be shown as an element of expense in Statements of Income, it is most important that dividends be recorded as current changes of the fiscal period to which they apply. Thus, when dividends are declared by the board during the first month following the close of the dividend period, they should be recorded as of the close of the applicable dividend period by debit to "Dividends", (Account No. 380) and credit to this Account No. 820. Also, of course, dividends declared in the last month of the dividend period should be recorded in the same manner. The dividends will thus be shown on the Statement of Income prepared for the dividend period to which they apply.

When the dividends liability credited to this account is liquidated, this account should be debited and the offsetting credit should be to "Cash", (Account No. 731), or to the 900 series share accounts.

This account should be used only at the end of dividend periods to reflect the actual or estimated amount of a dividend which is due and payable to the members. Credit unions which accrue dividend expenses on a more frequent basis than the actual dividend period should record the liability in "Accrued Dividends Payable", (Account No. 854). For example, a credit union which declares and pays quarterly dividends but accrues dividend expense monthly would record the liability in Account No. 854 in between actual dividend periods. On financial statements for those months at the end of each dividend period (March, June, September and December) the liability should be transferred from Account No. 854 to this account (Dividends Payable) in those cases where the dividend is not credited to members' accounts until the month following the end of the dividend period. Where the dividend is credited to members' accounts on the last day of the dividend period, the entry should be a debit to Account No. 854 and a credit to "Shares", (Account No. 901) and the financial report for the end of the quarter should have no balance in either Account No. 820 or Account No. 854.

Computation and Distribution of Dividends

The methods for computing dividends applicable to each member and distributing the dividends are explained in Section 5160.

Additional References:

Section 2060.3, contains additional information concerning dividends.

Section 4050.2, explains the dividend expense accounts (380 series)

Entries in the Journal and Cash Record

All entries affecting these accounts should be recorded in the "miscellaneous" columns of the Journal and Cash Record.

Illustrative Entries

---

a) To record the estimated dividend liability for the months of July, August and September when the credit union is on a quarterly dividend period and dividends are credited to members' accounts on the first day of the next dividend period, assuming one class of shares. The following entries would be made at the end of each month::

Dr.-Dividend Expense
Money (Acct. No. 380) $1,000
Cr.-Accrued Dividends Payable
(Acct. No. 854) $1,000

The balance of Account No. 854 would then be $3,000.00 at the end of September.

b) When the dividend is distributed to members' accounts on September 30, and the actual amount of the dividend is $2,900:

Dr.-Accrued Dividends Payable
(Acct. No. 854) $3,000.00
Cr.-Shares (Acct. No. 901) $2,900.00
Cr.-Dividends Expense (Acct. No. 380) 100.00

c) Same example as (a.) above, except that dividends are credited to members' accounts on the first day following the end of the dividend period:

Entries for each month would be the same as (a.) above.

d) To record the dividend payable as of September 30 for example (c.) above:

Dr.-Accrued Dividends Payable
(Acct. No. 854) $3,000.00
Cr.-Dividends Payable
(Acct. No. 820) $3,000

e) When dividend for (c.) and (d.) above is credited to members' accounts on October 1, and the actual dividend amounts to $2,900.00:

Dr.-Dividend Payable
(Acct. No. 820) $3,000.00
Cr.-Shares (Acct. No. 901) $2,900.00
Cr.-Dividends Expense (Acct. No. 380) 100.00

Detailed Transactions

Credit:

a) To record the amount of dividends either declared or estimated during an accounting period.

b) With the excess of actual dividends, if any, over the amount previously recorded.

Debit:

a) To liquidate the amount of dividend liability upon distribution to the shareholder.

b) With the amount or difference, if any, between the accrued amount and the actual amount of dividends payable.

830-INTEREST REFUNDS PAYABLE

Section 701.24 of the NCUA's Rules and Regulations for federal credit unions sets forth the authority for federal credit unions to refund interest to members. Under the requirements of 701.24(g), interest refunds should be shown as a reduction of interest income on the credit union's books. Also, on the credit union's Statement of Income, interest refunds should be recorded as current changes in the fiscal period to which they apply. Thus, when interest refunds are declared by the board during the first month following the close of the dividend period, they should be recorded as of the close of the dividend period by a debit to "Interests Refunds", (Account No. 119), and credit to "Interest Refunds Payable", (Account No. 830).

Interest refunds declared in the last month of the dividend period should be recorded in the same manner. The interest refunds thus will be shown on the Statement of Income prepared at the close of the period to which they apply. When the interest refunds liability credited to this account is liquidated, this account should be debited and the offsetting credit should be to "Shares" (Account No. 901) or "Cash", (Account No. 731).

Computation and Distribution of Interest Refunds

The method of computing interest refunds applicable to each member and related procedures are explained in Section 5070.2.

Entries in the Journal and Cash Record

All entries affecting this account should be recorded in the "Miscellaneous" columns of the Journal and Cash Record.

Illustrative Entries

---

a) To record interest refunds declared:

Dr.-Interest Refunds
(Acct. No. 119) $750.00
Cr.-Interest Refunds Payable
(Acct. No. 830) $750.00

b) To record the liquidation of the interest refunds liability by credits to shares and by cash payments:

Dr.-Interest Refunds Payable
(Acct. No. 830) $750.00
Cr.-Shares (Acct. No. 901) $625.00
Cr.-Cash (Acct. No. 731) 125.00

NOTE: When the amount recorded as an interest refund liability was based on an estimate, the difference between the total actual amount and the estimate originally recorded will require an adjusting entry. If the total actual distribution exceeded the estimate, the difference should be charged as of the liquidation date to "Interest Refunds", (Account No. 119), and credited to "Interest Refunds Payable", (Account No. 830). If the estimate exceeded the total actual amount distributed, the reverse entry should be made as of the liquidation date, debiting the difference to Account No. 830 and crediting Account 119.

Detailed Transactions

Credit:

a) To record the amount of interest refunds declared.

b) For the excess, if any, of actual interest refunds distributed at the authorized rate over the amount recorded in the credit entry above.

Debit:

a) To record the amount of interest refunds distributed to members.

b) For the excess, if any, of interest refunds recorded in the entry above, over the actual interest refunds distributed to members based on the authorized rate.

840-TAXES PAYABLE

841-FEDERAL WITHHOLDING TAXES PAYABLE

842-STATE WITHHOLDING TAXES PAYABLE

845-CITY WITHHOLDING TAXES PAYABLE

Federal credit unions that pay salaries are subject to the withholding provisions of the law relating to federal, state, and local income taxes. If salaries are paid it is essential that the proper forms be obtained from each employee and kept on file. If any taxes are required to be withheld, the instructions issued by the Internal Revenue Service or other taxing authority for reporting and remitting taxes should be carefully followed. The necessary forms and instructions should be obtained from the local Director of Internal Revenue or other taxing authority.

Many states and cities have provisions in their tax laws for the withholding of income taxes similar to the federal income tax law. In these instances, forms and instructions should be obtained from the local tax officials. Where a credit union has employees for which it withholds state or city income taxes residing in more than one state, additional accounts for State Withholding Taxes Payable should be established using Account Nos. 843 and 844, as required. Account Nos. 841 through 845 should reflect the credit union's liability for income taxes withheld.

Each time salaries are paid, the amount of income tax withheld from the salary is credited to this account in the "Miscellaneous Credit" column of the Journal and Cash Record. The account is debited in the "Miscellaneous Debit" column when the amounts withheld are remitted in accordance with instructions. If the credits to this account are numerous, it is suggested that one (or more) of the blank columns of the Journal and Cash Record or the continuation sheet be used to accumulate these entries. If this is done the column(s) should be headed "Federal Withholding Taxes Payable-Cr-" (if state or city taxes are involved the column(s) should be appropriately labeled).

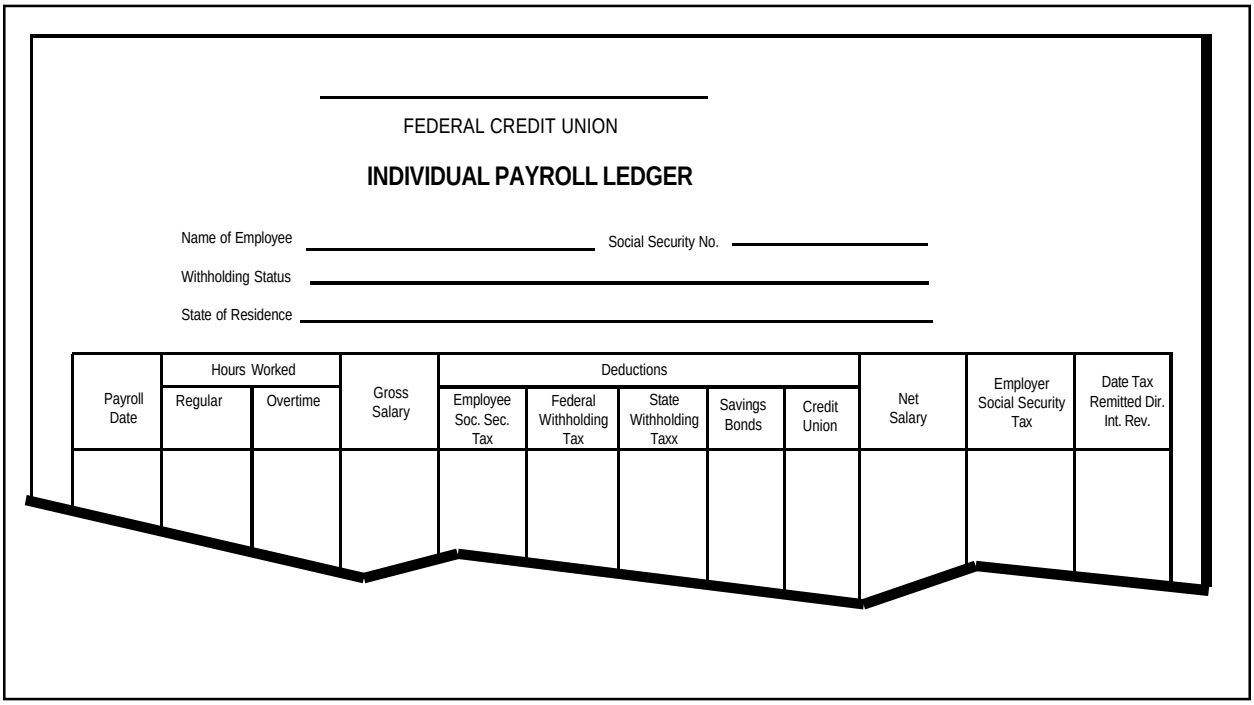
Employees Withholding Exemption Certificate (Form W-4)

At the time the treasurer takes office or an employee is hired, an Employee Withholding Exemption Certificate (Form W-4) should be obtained. Blank copies of Form W-4 may be secured from the local Director of Internal Revenue. This certificate, which should be signed by the employee involved, should indicate the exemptions he is claiming. The deductions made from his salary will be governed by his exemptions. Employees Withholding Exemption Certificates (Form W-4) for each employee should be retained in the files of the credit union. The appropriate Withholding Exemption Certificate should be obtained when state or city income taxes are withheld.

Posting to the General Ledger

The items entered in the "Miscellaneous" columns are posted individually to the General Ledger. In the event one (or more) of the blank Journal and Cash Record columns is used, the total of this column(s) is posted as a credit to the General Ledger at the end of the month.

FIGURE 4-5: Illustration of a Suggested Individual Payroll Ledger



FEDERAL CREDIT UNION

INDIVIDUAL PAYROLL LEDGER

Name of Employee _____ Social Security No. _____

Withholding Status _____

State of Residence _____

Payroll Date	Hours Worked		Gross Salary	Deductions					Net Salary	Employer Social Security Tax	Date Tax Remitted Dir. Int. Rev.
	Regular	Overtime		Employee Soc. Sec. Tax	Federal Withholding Tax	State Withholding Taxx	Savings Bonds	Credit Union			

Illustrative Entries

a) When salaries are paid and social security and federal income taxes are withheld:

Dr.-Salaries (Acct. No. 211) $100.00
Cr.-Cash (Acct. No. 731) $86.37
Cr.-Federal Withholding Taxes
Payable (Acct. No. 841) 10.00
Cr.-Social Security Taxes
Payable (Acct. No. 846) 3.63

b) When federal taxes withheld are remitted in accordance with instructions of the Internal Revenue Service, together with employer's social security tax:

Dr.-Federal Withholding Taxes
Payable (Acct. No. 841) $30.00
Dr.-Social Security Taxes
Payable (Acct. No. 846) 21.78
Cr.-Cash (Acct. No. 731) $51.78

Detailed Transactions

Credit:

a) With amount of income taxes withheld.

Debit:

a) With amount of income taxes remitted to the federal, state or city tax authorities, as applicable for each account.

846-SOCIAL SECURITY TAXES PAYABLE

Federal credit unions are required to withhold social security taxes on certain salaries paid. Information as to the specific requirements and procedures, including the rates currently in effect, can be obtained from the nearest field office of the Social Security Administration or the local Director of Internal Revenue.

Deductions, according to the current rate, should be made from salaries and should be accumulated in "Social Security Taxes Payable", (Account No. 846). Remittances of these deductions, together with the proper amount to cover the employer's (credit union's) tax, should be made in accordance with the instructions. Both the employees' deductions and the credit union's tax liability should be set up in the Social Security Taxes Payable each time salaries are paid. The credit union should apply to the local Director of Internal Revenue for an employer's identification number on Form SS-4. Forms on which to make this application as well as report forms and instructions regarding their use will be supplied by the local Director upon request. The credit union must have a record of the Social Security account numbers of its employees. Any employee who does not have a number should obtain one by applying for the social security number on Form SS-4 at the nearest Social Security Field Office.

A suggested form of individual payroll ledger sheet is illustrated above. This form will help maintain control over both the employee's and employer's social security taxes, as well as deductions or withholdings made from the employee's salary for federal income tax, savings bonds, credit union, etc.

Entries in the Journal and Cash Record

When salaries are paid, the amount of social security tax required is withheld from the salary due each qualifying employee and credited to this account in the "Miscellaneous-Credit" column of the Journal and Cash Record. At the same time, the employer's (credit union's) social security tax on such salaries is charged to "Social Security Taxes (Employer's Share)", (Account No. 222) and credited to this account in the "Miscellaneous Credit" column. When the remittance is made, this account is debited in the "Miscellaneous-Debit" column.

If the credits to this account are numerous, it is suggested that one of the blank columns of the Journal and Cash Record or the continuation sheet be used to accumulate these entries. If this is done, the column should be headed "Social Security Taxes Payable-Cr."

Posting to the General Ledger

The items entered in the "Miscellaneous" columns are posted individually to the General Ledger. In the event one of the blank Journal and Cash Record columns is used, the total of this column should be posted as a credit to the General Ledger at the end of the month.

Illustrative Entries

---

a) When salaries are paid and social security and income taxes are withheld for later remittance to the Director of Internal Revenue:

Dr.-Salaries (Acct. No. 211)	$100.00	
Cr.-Cash (Acct. No. 731)		$86.37
Cr.-Federal Withholding Taxes Payable (Acct. No. 841)		10.00
Cr.-Social Security Taxes Payable (Acct. No. 846)		3.63

b) When salaries are paid, liability for the credit union's portion of social security tax is recorded:

Dr.-Social Security Taxes (Employer's Share) (Acct. No. 222)	$3.63	
Cr.-Social Security Taxes Payable (Acct. No. 846)		$3.63

c) When taxes withheld from salaries are remitted to the Director of Internal Revenue together with employer's social security tax:

Dr.-Federal Withholding Taxes Payable (Acct. No. 841)	$30.00	
Dr.-Social Security Taxes Payable (Acct. No. 846)	21.78	
Cr.-Cash (Acct. No. 731)		$51.78

NOTE: When income tax withholdings affect state or city income taxes all entries should be recorded similar to the credits and debits to Account No. 846, as shown in the first and third entries above, except that the appropriate account number in the series 842 through 845 should be credited or debited.

Detailed Transactions

Credit:

a) With amounts of social security taxes withheld from employees' salaries.

b) With the credit union's share of social security taxes charged to expense "Social Security Taxes (Employer's Share)", (Account No. 222).

Debit:

a) With amount of social security taxes paid (Employees' and Employer's Shares).

847-FEDERAL UNEMPLOYMENT COMPENSATION TAX PAYABLE

848-STATE UNEMPLOYMENT COMPENSATION TAX PAYABLE

These two accounts reflect the amounts of the credit union's unpaid liabilities for federal and state unemployment compensation taxes payable.

The Federal Unemployment Tax Act imposes a tax on employers who employ one or more persons in covered employment on at least one day in each of 20 weeks during the current or preceding calendar year, or who paid wages of at least $1,500 in a calendar quarter in the current or preceding calendar year.

Unemployment compensation insurance coverage is applicable to practically all federal credit unions. Amounts paid for Unemployment Compensation Insurance are expenses to the credit union and are recorded when the liabilities are incurred.

In most states, the full tax is paid by the employer (credit union), however, in a few states the employees also contribute by a deduction from the wages. In these cases, the accounting treatment for Unemployment Compensation Insurance will be similar to that for social security taxes payable as described in Account No. 846.

Report forms and instructions should be obtained from the State Employment Security Agency (State Tax) and Internal Revenue Service (Federal Tax).

Entries in the Journal and Cash Record

Expenses for Unemployment Compensation Insurance may be recorded when paid. However, the expense and the liability may be recorded on a monthly basis for more accurate financial reporting. This can be done by computing the expense monthly and charging it to "Unemployment Compensation Taxes", (Account No. 223), with a corresponding credit to Account Nos. 847 or 848, as appropriate. The expense is computed by applying the required percentage to taxable wages during this month.

Postings to the General Ledger

The items entered in the "Miscellaneous" columns are posted individually to the General Ledger. In the event one of the blank Journal and Cash Record columns is used, the total of this column should be posted as a credit to this account in the General Ledger at the end of the month.

Illustrative Entries

a) At the end of the month when the liability is recorded for unemployment compensation taxes:

Dr.-Unemployment Compensation Taxes (Acct. No. 223)	$6.00	
Cr.-Federal Unemployment Compensation Tax Payable (Acct. No. 847)		$2.00
Cr.-State Unemployment Compensation Tax Payable (Acct. No. 848)		4.00

b) When taxes are remitted to State Employment Security Agency:

Dr.-State Unemployment Compensation Tax Payable (Acct. No. 848)	$4.00	
Cr.-Cash (Acct. No. 731)		$4.00

Detailed Transactions

Credit:

a) With amount for unemployment taxes charged to "Unemployment Compensation Taxes", (Account No. 223).

Debit:

a) With remittances made to pay the total liability for unemployment taxes to the respective taxing authorities.

849-OTHER TAXES PAYABLE

This account reflects the current liability of the credit union for miscellaneous taxes due but unpaid, including real estate taxes, personal property taxes, etc.

Entries in the Journal and Cash Record

All entries affecting this account should be recorded in the "Miscellaneous" columns of the Journal and Cash Record

Illustrative Entries

---

a) To record the liability for real estate taxes which have become due and payable:

Dr.-Real Estate Taxes		
(Acct. No. 256)	$500.00	
Cr.-Other Taxes Payable		
(Acct. No. 849)		$500.00

b) To record payment of taxes for which a liability has been established in this account:

Dr.-Other Taxes Payable		
(Acct. No. 849)	$500.00	
Cr.-Cash (Acct. No. 731)		$500.00

Detailed Transactions

Credit:

a) With the actual liability for miscellaneous unpaid taxes with an offsetting charge to the appropriate operating expense account.

Debit:

a) With miscellaneous taxes previously credited to this account when paid.

850-ACCRUED EXPENSES

Account Numbers 851 through 859 are used to record liabilities for accrued expenses. Amounts recorded in these accounts are not yet due but are so recorded to allocate the expense to the period incurred. The use of the accrual basis of accounting is preferred because it matches expenses to the period incurred, rather than when paid, and income is recorded in the period earned, rather than when received. Even those credit unions using the modified cash basis of accounting should accrue for those expenses that would significantly distort the Statement of Income if they were recorded on the cash basis.

851-ACCRUED SALARIES

The amount of salaries earned but not yet paid may, if material in amount, be recorded in Account 851, "Accrued Salaries", with offsetting charges to the appropriate expense classifications (Account Nos. 211, 222, 223). This accrued liability would be applicable, for example, where salaries are paid on a biweekly basis and the pay period overlaps at month end.

852-ACCRUED EMPLOYEE BENEFITS

When expenses for employee benefits are material in amount, the cost may be accrued by periodic charges to expenses each accrual period with an offsetting credit to "Accrued Employee Benefits", (Account No. 852). An example might be the cost of employee group life insurance where payments of the expense are made at times not conforming to the accrual periods adopted by the credit union.

Accounting for Compensated Absences

A credit union, acting as an employer, should accrue the amount of its liability for employees' compensation of future absences. The accrual need not include compensated leave that would be used in the current calendar year. The accrual should be made when all of the following conditions exist:

a) The credit union is obligated for compensation that is attributable to services that have already been provided by its employees, such as an accumulation of "annual leave";

b) The credit union has an obligation to make payment for the accrued leave or rights to compensation, even though an employee terminates;

c) Payment of the accrued compensation is probable; and

d) The amount can be reasonably estimated.

853-ACCRUED COST OF SPACE OCCUPIED

When the credit union owns its building, the expense for real estate taxes may be accrued periodically by changes to Account No. 256 and credit to "Accrued Cost of Space Occupied", (Account No. 853). Other periodic costs relating to space may be significant and may justify recognition as expenses in each accrual period by periodic charges to expense and credits to Account No. 853.

854-ACCRUED DIVIDENDS PAYABLE

The cost of funds is a material expense for credit unions and should be accrued by periodic changes to expense each accrual period. The accrued expense for dividends should be recorded as a debit to "Dividends", (Account No. 380) and as a credit to "Accrued Dividends Payable", (Account No. 854). Dividends that have been declared and are payable should be recorded by a debit to "Accrued Dividends Payable", (Account No. 854) and a credit to "Dividends Payable", (Account No. 820). See Illustrative Entries under Account No. 820.

855-ACCRUED ACCOUNTING SERVICE COST

This account is used to record unpaid expenses for accounting services that are provided by an outside person or firm. It should also be used to record unpaid expenses incurred in conjunction with a jointly owned accounting service center. The accrual may be necessary if the payment is not remitted to the processor until the middle of the subsequent month. It may also be u@ to accrue the cost of issuing members' quarterly statements so that the costs are evenly distributed during the accounting period.

The illustrative entries, entries in the Journal and Cash Record, and the detailed transactions will be similar to those for "Other Accrued Expenses", (Account No. 859), therefore, reference should be made to that account.

856-ACCRUED LOSS CONTINGENCIES

This account is used to accrue a loss from a loss contingency when both of the following conditions exist:

a) It is probable that an asset has been impaired or a liability has been incurred; and

b) The amount of the loss can be reasonably estimated.

A loss contingency is defined as an existing condition, situation, or group of circumstances that involve uncertainty as to possible gain or loss to a credit union. It is resolved when one or more future events takes place or fails to occur. When the uncertainty is removed, it may confirm the purchase of an asset or the reduction of a liability or the incidence of a loss, impairment of an asset, or a liability. Examples of such contingencies would be:

a) Pending or threatened litigation;

b) Guarantees of indebtedness to others;

c) Risk of loss or damage to credit union property by fire, explosion, flood, or other hazards which are not insurable;

d) Agreements to repurchase loans, property, or other receivables that have been sold;

e) Obligations of credit unions under standby letters of credit; and

f) Actual possible claims and assessments.

Entries in the Journal and Cash Record

The entries to this account are recorded in the "Miscellaneous" columns of the Journal and Cash Record. The offsetting changes to expenses should be recorded in the separate column designated for operating expense debits.

Illustrative Entries

---

a) To record an accrual for a loss contingency that will result from uninsured medical expenses of a credit union member. The member fell on the icy outside steps of the credit union office and has filed a lawsuit against the credit union to recover medical expenses. The credit union's attorney believes that the credit union will incur the loss. The credit union's uninsured portion of the loss will be $10,000. The court case is expected to be finalized in three months. The entry to record estimable or probable loss would be:

Dr.-Miscellaneous Operating		
Expenses (Acct. No. 370) ……	$10,000	
Cr.-Accrued Losses Contingencies		
(Acct. No. 856) ……		$10,000

The above entry would be made as of the balance sheet date.

Detail Transactions

Credit:

a) With amounts of periodic changes to expenses representing unpaid costs in order to allocate such costs over the period to which they apply.

Debit:

a) With the amounts recorded to this account when the losses are paid; adjustments to the accrual amounts should be charged or credited as applicable to this account and the appropriate expense account.

859-OTHER ACCRUED EXPENSES

When a credit union has other types of unpaid expenses of material amounts that should be spread over several accrual periods, they may be allocated to expense in the periods to which they apply with an offsetting credit to "Other Accrued Expense", (Account No. 859).

Entries in the Journal and Cash Record

The entries to these accounts should be made in the "Miscellaneous" columns of the Journal and Cash Record. The offsetting charges to expenses when the accruals are established should be in the separate column designated for operating expense debits.

Illustrative Entries

---

a) To establish the accrual for salaries unpaid at period end:

Dr.-Salaries (Acct. No. 211) ……	$300.00	
Dr.-Social Security Taxes (Employer's Share) (Acct. No. 222) ……	7.50	
Cr.-Accrued Salaries (Acct. No. 851) ……		$307.50

b) To charge real estate taxes to expense monthly during the year based on an annual estimated cost of $600.00:

Dr.-Real Estate Taxes (Acct. No. 256) ……	$50.00	
Cr.-Accrued cost of Space Occupied (Acct. No. 853) ……		$50.00

Detailed Transactions

Credit:

a) With amounts of periodic charges to expense representing unpaid costs in order to allocate such costs over the period to which they apply.

Debit:

a) With amounts recorded in these accounts when the actual expenses are paid. Adjustments to record differences between the accrual amounts and the actual amounts should be charged or credited, as applicable, to current operating expenses.

860-OTHER LIABILITIES

This account reflects miscellaneous liabilities of the credit union for which no specific general ledger account is provided.

Entries in the Journal and Cash Record

All entries affecting this account should be recorded in the "Miscellaneous" columns of the Journal and Cash Record.

Postings to General Ledger

Postings should be made currently as transactions occur to the General Ledger Account. The nature of the liability and the identification of the person or organization to whom the liability is owed and an explanation of all liquidating entries should be written in the "Explanatory Remarks" column of the General Ledger account.

861-LIABILITY UNDER PENSION COST

This account is used to record an accumulated pension liability that occurs when post service pension costs are amortized over a period that is less than the funding period. The liability is eventually eliminated as payments are made to the funding agency following the end of amortization period. Refer to Section 6000 for illustrative Journal and Cash Record entries and a further explanation as to how this account is used.

862-COLLECTIONS ON LOANS AND OTHER OBLIGATIONS SERVICED

When loans are sold to a purchaser and the selling credit union continues to service the sold loans, this account is used to record the collections that are due the purchaser. The activity in this General Ledger account is based on the servicing report that is prepared by the selling credit union. Refer to Section 6000 for a discussion and an illustrative Journal and Cash Record entry for the use of this account.

863-OBLIGATIONS UNDER CAPITAL LEASES

This account is used to record the liability that arises from a lease that is classified as a capital lease. In general, a lease that transfers substantially all the benefits and risks inherent in the ownership of property qualifies as a capital lease. Such leases should be accounted for by the lessee as the acquisition of an asset and the incidence of a liability.

References:

Section 6000 for illustrative journal entries.

864-MONETARY CONTROL PASS DEPOSITS

This account is used to record a corporate central federal credit union's liability to another credit union for that credit union's monetary reserves that are maintained to comply with Regulation D. In order for a corporate central federal credit union to qualify for such a pass-through arrangement, it must maintain its own reserves or qualify for a banker's bank exemption.

a) To record ZYX Corporate Central Federal Credit Union's liability for ABC Federal Credit Union's required Regulation D deposit:

Dr.-Cash (Acct. No. 731) $15,000
Cr.-Monetary Control Pass-
Through Deposits ABC
Federal Credit Union
(Acct. No. 864) $15,000

b) To reduce the amount that ABC Federal Credit Union must retain on deposit in the subsequent month:

Dr.-Monetary Control Pass-
Through Deposits ABC
Federal Credit Union
(Acct. No. 864) $5,000
Cr.-Cash (Acct. No. 731) $5,000

865-MAIN OFFICE

When a credit union maintains branch offices, this account is credited by the branch for all purchases, cash, or other funds provided by the main office. It should be debited for all cash, purchases, or other funds sent by the branch to the main office or other branches. The account is shown in the liability section of the branch's Statement of Financial Condition (FCU 109A). The account shows the main office's net investment in the branch. Refer to the Illustrative Entries in Section 6000.

866-UNDISBURSED LOAN PROCEEDS

This account is used to record the proceeds of loans that have been recorded on the credit union's records, but not yet disbursed.

867-SUBORDINATED CDCU DEBT

This account is used to record the declining scale for its corresponding capital account, Account 925, "Uninsured Secondary Capital." For more information and illustrative entries related to this account, see Account 925, "Uninsured Secondary Capital."

869-OTHER LIABILITIES

This account is used to record other liabilities that are not recorded in account numbers 861.0 through 866.

References:

Section 2020.10, Accounting Basis; Section 2050.1.7.1, Accrued Dividends; Section 2070.2.3, Accrued Expenses; Section 4030.2.6, Accrued Expenses; Section 4050.5, Liability Accounts.

870-UNAPPLIED DATA PROCESSING EXCEPTIONS

The accounts in this series (870-872) are provided for credit unions using computers for the processing of accounting transactions. The accounts are used to show the amount of unprocessed transactions rejected by the computer because of error or invalid input data. Examples are transactions bearing incorrect account numbers or names, an incorrect transaction date, a transaction designated as a loan repayment when no outstanding loan to the member is contained in the computer files, etc.

Two accounts are provided in this series for processing exceptions relating to receipt and disbursement transactions, respectively. As an alternative both unapplied disbursements may be recorded in one account (Account No. 870). Exceptions must be corrected and submitted promptly for posting after a listing of exceptions has been received.

871-UNAPPLIED DATA PROCESSING EXCEPTIONS (RECEIPTS)

This account reflects amounts of transactions rejected by the computer representing receipts which have not yet been applied. When the credit union receives an exception listing, an adjusting entry should be recorded in the Journal and Cash Record. The amount of unapplied receipts should be entered in the Journal and Cash Record as a credit to Account No. 871. The offsetting debit should be to the account(s) to which the rejected transactions were originally credited, which in some cases could be to the "Undistributed" accounts under "Accounts Payable", (Account No. 800).

When the unapplied exception is corrected, the adjustments made upon receipt of the exception listing should be reversed in the Journal and Cash Record as of the date of resubmittal to the computer.

Entries in the Journal and Cash Record

All entries to this account should be recorded in the "Miscellaneous" columns of the Journal and Cash Record unless the credit union establishes separate columns for such transactions because of the volume of debits and credits affecting this account.

Illustrative Entries

---

a) Upon receipt of an exception showing unapplied collections:

Dr.-Loans (Acct. No. 701) ……	$1,400.00	
Dr.-Interest on Loans (Acct. No. 111)……	45.00	……
Cr.-Unapplied Data Processing Exceptions (Receipts) (Acct. No. 871) ……		$1,445.00

NOTE: If the credit union credits items sent to the computer for processing to an "Undistributed" account in the Accounts Payable (800) series, the debit above would be to that account.

b) When exceptions are corrected and resubmitted to the computer, the entry shown above should be reversed.

Detailed Transactions

Credit:

a) With amounts of unprocessed receipt transactions rejected by the computer and shown on exception listings.

Debit:

a) With amounts of rejected receipt transactions resubmitted to the computer for processing.

872-UNAPPLIED DATA PROCESSING EXCEPTIONS (DISBURSEMENTS)

This account is used to record disbursement transactions that were rejected by the computer. When the credit union receives an exception listing, this account, No. 872, is debited and the offsetting credit goes to reverse the original entry or entries. When the unapplied exceptions are corrected, which should be timely, the entries made above should be reversed as of the date resubmitted to the computer.

Entries in the Journal and Cash Record

All entries to this account should be recorded in the "Miscellaneous" columns of the Journal and Cash Record unless the credit union establishes separate column(s) for such transactions because of the volume of transactions affecting this account.

Illustrative Entries

---

a) Upon receipt of an exception listing showing unapplied disbursements:

Dr.-Unapplied Data Processing Exceptions (Disbursements) (Acct. No. 872)	$310.00	
Cr.-Loans (Acct. No. 701)		$250.00
Cr.-Shares (Acct. No. 901)		60.00

b) When exceptions are corrected and resubmitted to the computer, the entry shown above should be reversed.

Detailed Transactions

Debit:

a) With amounts of unprocessed disbursement transactions rejected by the computer and shown on exception listings.

Credit:

a) With amounts of rejected disbursements transactions resubmitted to the computer for processing.

880-DEFERRED CREDITS

This account is the counterpart to deferred charges, and accordingly, is used to carry forward to future accounting periods such items as income received but not yet earned and deferred gains on the disposition of assets.

881-UNEARNED INTEREST ON LOANS

This account represents the balance of discounts established as deferred income when FHA Title I Property Improvement Loans are disbursed by credit unions if the credit union elects to follow FHA policies and procedures in handling such loans. The account should not be used by credit unions electing to provide for the application of an interest rate on the unpaid balance of Title I FHA loans in the conventional credit union manner.

Federal credit unions desiring to do so may adopt the FHA "discount" or "add-on" method for Title I loans. Under this method, the entry to record disbursement of the loan would be as follows ($1,000 disbursed on "$5 discount per $100", loan payable in 24 equal monthly installments):

Dr.-Loans (Acct. No. 701) ……	$1,101.2	
Cr.-Cash (Acct. No. 731) ……		$1,000.00
Cr.-Unearned Interest on Loans (Acct. No. 881) ……		101.22

This account should be adjusted for the following basic conditions, although other adjustments may be needed as circumstances dictate:

a) Periodic transfers, generally monthly, to" Interest on Loans", (Account No. 1 1 1) to record earned interest. Any reasonable and logical method of recording earned interest may be used provided it is based on loan payments received, as opposed to loan payments that should have been received. It would be best if the transfer were based on a computation applied to each Title I loan individually, but if a federal credit union has numerous Title I loans, the earned interest may be computed by grouping all Title I loans. In such a case the federal credit union should keep in mind that if interest refunds are to be made, the earned interest should be recorded individually for each borrower.

b) Prepayment of the loan. Federal credit unions must make a rebate to the extent of the full unearned interest.

c) Charge off of the loan. The unearned interest should be adjusted in both General Ledger Account No. 881 and the individual loan account. The amount that should then be charged off will be the amount remaining in the individual loan account after applying the amount of the interest collected.

Entries in the Journal and Cash Record

All entries affecting this account should be recorded in the "Miscellaneous" columns of the Journal and Cash Record.

Illustrative Entries

---

a) For recording original transaction for disbursing an FHA Title I loan:

Dr.-Loans (Acct. No. 701) ……	$1,101.22	
Cr.-Cash (Acct. No. 731) ……		$1,000.00
Cr.-Unearned Interest on Loans (Acct. No. 881) ……		101.22

b) For transferring unearned interest to income as the interest is earned:

Dr.-Unearned Interest on Loans (Acct. No. 881) ……	$10.00	
Cr.-Interest on Loans (Acct. No. 111) ……		$10.00

Detailed Transactions

Credit:

a) With amounts of unearned interest on FHA loans when loans are disbursed.

Debit:

a) Periodically as interest on FHA loans is earned, with amount transferred to "Interest on Loans", (Account No. 111).
b) With refunds of unearned interest in the case on loan repayments.

c) With unearned interest when a loan is charged off; transfer to "Loans", (Account No. 701), and charge off the net unpaid balance to "Allowance for Loan Losses", (Account No. 719).

882-DEFERRED CREDITS-INSURANCE PREMIUM REBATE

This account represents the amount of dividends on life savings and borrowers' protection insurance applicable to future periods.

When credit union life savings and borrowers' protection insurance policies provide for the payment of dividends at the discretion of the insurance company based on prior years' premiums, the period that benefits is the year after the dividends are earned (i.e., the year in which the dividends are actually received). Since the entire year benefits, it is logical to reason that each of the remaining accounting periods benefit equally. Therefore, a credit union that receives an insurance dividend credit in the first part of the year may distribute this credit evenly over the remaining periods of the year. When dividends are received by the credit union by check, the charge for the entire amount is to "Cash", (Account No. 731) or to "Other Prepaid Insurance", (Account No. 766). Expense accounts such as "Life Savings Insurance", (Account No. 312) and "Borrowers' Insurance", (Account No. 313), or "Other Miscellaneous Operating Income", (Account No. 151) should be credited, as appropriate, with only one-twelfth, one-fourth or one-half of the amount of the dividend, depending upon the frequency of accrual periods, and the remainder of the dividend should be credited to this account. During the subsequent accounting periods in the calendar year, this account should be debited and expenses or other income should be credited for the applicable proportionate parts of the deferred amount.

Entries in Journal and Cash Record

All entries affecting this account should be recorded in the "Miscellaneous" columns of the Journal and Cash Record.

Illustrative Entries

---

a) When advice of dividend credit is received and the credit union decides to spread the credit by monthly entries offsetting expenses over the entire calendar year (assume the dividend is for $600, and 60 percent applies to life savings insurance and 40 percent applies to borrowers' insurance):

Dr.-Other Prepaid Insurance		
(Acct. No. 766)	$600.00	
Cr.-Life Savings Insurance		
(Acct. No. 312)		$30.00
Cr.-Borrowers' Insurance		
(Acct. No. 313)		20.00
Cr.-Deferred Credits -		
Insurance Premium Rebates		
(Acct. No. 882)		550.00

b) Each month, to record the write-off of deferred insurance dividends as offsets to expenses during the year:

Dr.-Deferred Credits -		
Insurance Premium Rebates		
(Acct. No. 882) ……	$50.00	
Cr.-Life Savings Insurance		
(Acct. No. 312) ……		$30.00
Cr.-Borrowers' Insurance		
(Acct. No. 313) ……		20.00

Detailed Transactions

Credit:

a) With the portion of dividend credits received which are to be prorated as offsetting credits to operating expenses for the remainder of the calendar year.

Debit:

a) With periodic entries (monthly, quarterly or semiannually) to prorate the deferred credit over the calendar year.

883-DEFERRED GAIN ON LIQUIDATION OF LOANS

This account reflects the total amount of gains on sales of property acquired in liquidation of loans which have been deferred pending the collection of notes or contracts receivable taken in connection with the sale of the property.

Disposition of the Proceeds from the Liquidation of Collateral in Possession of the Credit Union.

Following is a discussion of the order in which the proceeds of the sale of the collateral should be applied. If the credit union is bound to an agreement for application of the proceeds of the collateral, such agreement should take precedence over the order listed below.

If the sale is for cash or under a note or contract, the proceeds should be debited to the appropriate account; the credits should be applied in the order and to the extent listed below:

To "Assets Acquired in Liquidation of the Loans", (Account No. 798) to the extent that this account has been charged (debited) for costs in connection with the collateral.

To "Allowance for Loan Losses", (Account No. 719) to the extent of charge offs in connection with the loan to which the collateral has been related.

To "Loans-Collateral in Process of Liquidation", (Account No. 707) to the extent of the balance of the loan.

To "Interest on Loans", (Account No. 111) to the extent of any interest due on the loan.

To "Other Miscellaneous Operating Income", (Account No. 151) providing the credit union is to retain such gain. However, if the sale is under a note or contract, any gain on the sale should be deferred by crediting the amount of the gain to "Deferred Gain on Liquidation of Loans", (Account No. 883), until such time as the note or contract is paid in full.

In the absence of a binding agreement or other requirement, statutory or otherwise, the credit union may apply the excess of the proceeds of the sale of the collateral over the amounts that are applied to other accounts to "Other Miscellaneous Operating Income." The board of directors should keep in mind that it is not the function of the credit union to earn income in this manner. Consideration should be given to voluntarily returning the excess to the borrower in those cases where the credit union is not required to do so.

In view of the above, it is apparent that deferred gains should occur only after the application of sales proceeds has been made to offset other charges relating to the original loan. In the case of assets acquired from the liquidation of loans purchased- from other credit unions or from the liquidation of Title I FHA loans, the same principles outlined herein should apply.

Entries in the Journal and Cash Record

All entries affecting this account should be recorded in the "Miscellaneous" columns of the Journal and Cash Record.

Illustrative Entries

---

a) To record the amount of deferred gain on the sale of an asset. Assume an automobile is sold for $1,400 when the original loan was $2,500 and, at the time of sale, the balance due was $800 less shares applied of $50. The assets acquired were established at a carrying value of $750. The purchaser paid $100 in cash and the credit union accepted a note secured by the automobile in the amount of $1,300. The entry to record the sale would be:

Dr.-Cash (Acct. No. 731) ……	$100	
Dr.-Notes and Contracts Receivable (Acct. No. 711)……	1,300	
Cr.-Assets Acquired in Liquidation of Loans (Acct. No. 708) ……		$750
Cr.-Interest on Loans (Acct. No. 111) ……		75
Cr.-Deferred Gain on Liquidation of Loans (Acct. No. 883) ……		575

b) When the note is paid in full:

Dr.-Deferred Gain on Liquidation
of Loans (Acct. No. 883) $575
Cr.-Other Miscellaneous
Operating Income
(Acct. No. 151) $575

NOTE: In cases where it is credit union policy to return to the borrower any overall gain on liquidation of loans, the credit above would be to "Accounts Payable", (Account No. 801) or "Cash", (Account No. 731) instead of to Account No. 151.

Detailed Transactions

Credit:

a) With amount of gain on sale of collateral pending full collection of notes and contracts received in payment thereon.

Debit:

a) With deferred gain on liquidation of loans when notes and contracts receivable have been collected in full.

884-DEFERRED CREDITS-CREDIT CARD COMMITMENTS

Fees that are periodically collected from credit cardholders are considered commitment fees and shall be deferred and amortized to income on a straight-line basis over the period that the fees entitle the cardholder to use the card.

Entries in the Journal and Cash Record

All entries affecting this account should be recorded in the "Miscellaneous" column of the Journal and Cash Record unless separate columns have been added.

Illustrative Entries

---

a) To record receipt of the fees. Assume that fees totaling $10,000 were collected from cardholders. The fees entitle the cardholders to use their cards for the next twelve months:

Dr.-Cash (Acct. No. 731) $10,000
Cr.-Deferred Credits-Credit
Card Commitments
(Acct. No. 884) $10,000

b) To record the monthly recognition of income from credit card commitment fees:

Dr.-Deferred Credits-Credit
Card Commitments
(Acct. No. 884)..... $833.33
Cr.-Service Income on Credit
Card Loans (Acct. No. 162) $833.33

Detailed Transactions

Credit:

a) With the receipt of the credit card commitment fees.

Debit:

a) With periodic recognition of income using the straight-line method of amortization.

885-DEFERRED CREDITS-PREPAID INTEREST-REAL ESTATE LOANS

Generally at settlement the real estate buyer is required to prepay the interest to cover the period between the settlement date and a date which is 1 month prior to the date on which the first payment is due. This prepaid interest should be recorded in this account and should be taken into income as it is earned. Refer to Section 6000 of this manual for illustrative accounting entries.

886-UNAMORTIZED DISCOUNT ON SALE OF ASSETS

This account is used when a sale of assets occurs and the purchaser offers a note as partial payment. When this account is used, the note will generally have an interest rate that is lower than the current rate of interest that would be charged to the purchaser if he or she borrowed the funds elsewhere. The Effective Interest Rate Method (simple interest applied to the unpaid balance) is thus used to discount the interest rate on the note to the current market interest rate for the transaction.

This process is used to determine the amount of recognized gain that can be realized during the current accounting period. The unrecognized gain (Unamortized Discount) is credited to this account and is amortized as income over the note's maturity. Reference should be made to Section 6000 for examples and illustrations as to how the account is used.

887-DEFERRED CREDITS-FEES RECEIVED ON LOANS TO BE PURCHASED

This account includes fees received on loans to be purchased. The account should be debited when the actual purchase takes place.

Entries in the Journal and Cash Record

All entries affecting this account should be recorded in the "Miscellaneous" column of the Journal and Cash Record

a) To record receipt of the fees. Assume that the credit union is purchasing $100,000 in loans for $102,000. The purchasing credit union received a fee of $10,000 prior to the actual purchase:

Dr.-Cash (Acct. No. 731)	$10,000	
Cr.-Deferred Credits-Fees Received on Loans to be Purchased (Acct. No. 887)		$10,000

b) To record the actual purchase of the loans:

Dr.-Loans Purchased (Acct. No. 714)	$100,000	
Dr.-Deferred Credits (Acct. No. 887)	10,000	
Cr.-Cash (Acct. No. 731)		$102,000
Cr.-Discount on Loans Purchased (Acct. No. 714.2)		8,000

888-DEFERRED CREDIT-INSURANCE PREMIUM STABILIZATION RESERVE

This account may be used by credit unions that are participating in risk rating plans for loan protection and life savings insurance. These insurance plans vary greatly.

Normally, when a credit union receives a premium refund, the refund represents a reduction of the premium and it should be treated as such by crediting the appropriate expense account. If the refund is for a prior period and the amount is material, then the financial statements for the prior period should be restated. On the other hand, if the credit memo that is received by the credit union actually represents a prepayment, the "Insurance Premium Stabilization Reserve", (Account No. 792) should be debited with an offsetting credit to this Account No. 888. Periodically, the deferred credit should be amortized to expense over the period benefited. Interest received, if any, on the deposit left with the insurance company should be recorded in "Other Miscellaneous Operating Income", (Account No. 151).

Entries in the Journal and Cash Record

All entries affecting this account should be recorded in the "Miscellaneous" columns of the Journal and Cash Record.

Illustrative Entries

a) When the insurance company advises the credit union of a refund or dividend on past premiums which is to be retained and credited to the credit union's reserve account; assume the dividend is for $600, and 60 percent applies to life savings insurance and 40 percent applies to borrowers' insurance:

Dr.-Insurance Premiums Stabilization
Reserve (Acct. No. 792) …… $600.00
Cr.-Deferred Credits-Insurance
Premium Stabilization Reserve
(Acct. No. 889.2) ……$600.00

b) Each month, to record the write-off of the deferred credit as offsets to expenses:

Dr.-Deferred Credits-Insurance
Premium Stabilization Reserve
(Acct. No. 889.2) ……$50.00
Cr.-Life Savings Insurance
(Acct. No. 312) …… $30.00
Cr.-Borrowers' Insurance
(Acct. No. 313) ……20.00

Detailed Transactions

Credit:

a) With refunds or dividends on past premiums when the refund or dividend is to be retained by the insurance company and credited to the credit union's reserve account.

Debit:

a) With periodic entries (monthly, quarterly or semiannually) to prorate the deferred credit over the calendar year.

889-OTHER DEFERRED CREDITS

This account represents the balance of income deferred by the credit union for which no provision is made in other accounts in this series (Account Nos. 881 through 888).

Entries in the Journal and Cash Record

All entries affecting this account should be recorded in the "Miscellaneous" columns of the Journal and Cash Record.

Detailed Transactions

Credit:

a) With amounts of miscellaneous income determined to be proper for deferred treatment.

b) With deferred income recorded in this account, when transferred to income, or when written off with the approval of the board of directors.

890-DEFERRED CREDITS-NET ORIGINATION FEES (COSTS)-LINES OF CREDIT TO MEMBERS

If the criteria for immateriality outlined in Section 4050.4, Account No. 701.9, "Origination Fees (Costs)-Consumer Credit Transactions", are met, the fees on lines of credit should be taken directly into income and the direct costs expensed as incurred. However, if the criteria are not met, the net fees (costs) should be amortized and recognized as income using the straight-line method of amortization over the life of the credit plan. If the borrower pays all borrowings and cannot reborrow under the contract, any unamortized net fees or costs should be recognized in income upon payment.

If the agreement provides for the option of converting a revolving line of credit to a term loan, the federal credit union should recognize the net fees or costs using the straight-line method over the combined life of the line of credit and the term loan. If the option is exercised, the net unamortized fees (costs) are transferred to the appropriate loan contra account for net origination fees (costs). The net fees (costs) should then be treated as an adjustment of yield using the interest method. If the option is not exercised and the revolving line of credit expires and all borrowings are extinguished, the net unamortized fees (costs) should be recognized as income on the termination date.

Although there are no statutory or regulatory limitations regarding maturity, sound business practice dictates that a termination date should be built into the line of credit loan agreement. A termination date provides the lender an opportunity to reevaluate the borrower's financial position and the borrower, to reassess his or her credit needs. Termination dates establish a point at which the equity line will automatically end. The life of a home equity line of credit should be short (i.e., 5 to 10 years) again to enable the periodic reevaluation of the loan plan and to permit members to reassess their credit needs.

Entries in the Journal and Cash Record

All entries affecting this account should be recorded in the "Miscellaneous" columns of the Journal and Cash Record.

Illustrative Entries

---

a) To record the net origination fees (costs):

Dr.-Cash (Acct. No. 731) ……	$1,000	
Cr.-Deferred Credits-Net Origination Fees (Costs)- Lines of Credit to Members (Acct. No. 890) ……		$1,000

b) To record the monthly amortization at the end of the accounting period:

Dr.-Deferred Credits-Net Origination Fees (Costs)- Lines of Credit to Members (Acct. No. 890) ……	$41.67	
Cr.-Other Miscellaneous Operating Income (Acct. No. 151) ……		$41.67

Detailed Transactions

Credit:

a) With the fees received.

b) With the amortization of net costs.

c) With the unamortized net costs transferred to Account No. 702.1.

Debit:

a) With the direct costs incurred.

b) With the amortization of net fees.

c) With the unamortized net fees transferred to Account No. 702.1.

891 -DEFERRED CREDITS-NET ORIGINATION FEES (COSTS)-LINES OF CREDIT TO MEMBERS-CREDIT CARDS

The net origination fees and costs on credit card lines of credit should be accounted for as discussed in the first paragraph of (Account No. 890), "Deferred Credits-Net Origination Fees (Costs)-Lines of Credit to Members."

892-DEFERRED CREDITS-NET ORIGINATION FEES (COSTS)-HOME EQUITY LINES OF CREDIT

893-DEFERRED CREDITS-NET COMMITMENT FEES (COSTS)-LINES OF CREDIT TO MEMBERS

Fees charged for entering into an agreement to make a loan i.e., letters of credit, should be credited to this account. Direct loan origination costs incurred to make a commitment to originate a loan should be debited to this account. The net commitment fees should be deferred. If the commitment is exercised, the net fees should be amortized into income on a straight-line basis over the life of the contract. Account No. 163, "Service Income-Net Commitment Fees" should be used to recognize this income. If the commitment expires unexercised, the net fees should be recognized in income upon expiration.

If the enterprise's experience with similar arrangements indicates that the likelihood is slight that the commitment will be exercised, the net fees should be recognized over the commitment period on a straight-line basis as service fee income. If the commitment is subsequently exercised, the remaining unamortized fees should be amortized on a straightline basis over the contract period.

If the borrower pays all borrowings and cannot reborrow under the contract, any unamortized net fees should be recognized in income upon payment. If the borrower has the option of converting the fine of credit to a term loan, the straight-line method should be applied to the combined life of the line of credit and term loan. If the option is exercised the unamortized net fees should be transferred to Account No. 701.8, "Net Commitment Fees (Costs)Loans to Members."

Once in the contra account, the net fees should be amortized into income based on the interest method. If the option is not exercised and no borrowings are outstanding, the net fees should be recognized in income.

If the commitment fee is determined retrospectively as a percentage of the line of credit available but unused in a previous period, if that percentage is nominal in relation to the stated interest rate on any related borrowing, and if that borrowing will bear a market interest rate at the date the loan is made, the commitment fee should be recognized as service income as of the determination date.

Entries in the Journal and Cash Record

All entries affecting this account should be recorded in the "Miscellaneous" column of the Journal and Cash Record.

Illustrative Entries

---

a) To record the net commitment fees received from a member:

Dr.-Cash (Acct. No. 731) ……	$1,000	
Cr.-Deferred Credits-Commitment Fees (Costs)-Lines of Credit to Members (Acct. No. 893) ……		$1,000

b) Assuming the commitment is exercised, the periodic amortization would be recorded as follows:

Dr.-Deferred Credits-Commitment Fees (Costs)-Lines of Credit to Members (Acct. No. 893)	$100.00	
Cr.-Service Income-Net Commitment Fees (Costs) (Acct. No. 163)		$100.00

c) Assuming the commitment expires unexercised, the entry would be:

Dr.-Deferred Credits-Commitment Fees (Costs)-Lines of Credit to Members (Acct. No. 893)	$1,000	
Cr.-Service Income-Net Commitment Fees (Costs) (Acct. No. 163)		$1,000

Detailed Transactions

Credit:

a) With the amount of fees received.

Debit:

a) With the amount of direct costs incurred.

b) With the period amortization of net fees.

c) With the amount of net fees when the commitment expires unexercised.

d) With the amount of unamortized net fees when the option to convert to a term loan is exercised.

894-DEFERRED CREDITS-NET COMMITMENT FEES (COSTS)-LOANS TO MEMBERS

Fees charged for entering into an agreement to make a loan should be credited to this account. Direct loan origination costs incurred to make a commitment to originate a loan should be debited to this account. The net commitment fees should be deferred. If the commitment is exercised, this account should be debited and the appropriate loan contra account for net commitment fees should be credited. The net fees should then be recognized as income over the life of the loan using the interest method. If the commitment expires unexercised, the net fees should be recognized as income upon expiration.

If the enterprise's experience with similar arrangements indicates that the likelihood is slight that the commitment will be exercised, the net fees should be recognized over the commitment period on a straight-line basis as service fee income. If the commitment is subsequently exercised, the remaining unamortized fees should be transferred to Account No. 701.8, "Net Commitment Fees (Costs)-Loans to Members" and recognized as income over the life of the loan using the interest method.

4050.6 SAVINGS AND EQUITY ACCOUNTS (900 SERIES)

900-SHARES OF MEMBERS

Federal credit unions are empowered to issue share accounts at varying dividend rates and share certificates at varying dividend rates and maturities, subject to rates, terms, and conditions as established by a credit union's board of directors. The National Credit Union Administration Rules and Regulations provide flexibility to allow each federal credit union to develop a system of share accounts and share certificate accounts of its members.

The following are the account numbers and account titles for the various types of share accounts:

901-Regular Share;
902-Share Draft;
903-Club Accounts;
904-Other Shares;
905-Escrow Accounts;
906-IRA/Keogh Retirement Service Shares;
907-IRA/Keogh Retirement Service Certificates;
908-Share Certificates;
909-Unposted Payroll Deduction Shares;
910-Public Unit Shares;
911-Money Market Shares; and
921-Shares of Nonmembers.

Additional valuations of Regular shares account may be established and assigned the next account member in the sequence, i.e., 901.1, 901.2, etc.

The National Credit Union Administration Rules and Regulations Part 707 address the required disclosures for share accounts.

901-REGULAR SHARES

Federal credit unions must make available to its members a share account which does not require the holder to maintain a minimum balance greater than the stated par value of one share. This account confers ownership rights to the member and provides for continued membership in the credit union. This type of share account is defined as a "Regular Share Account." The board of directors of any

federal credit union may establish Regular Share accounts with carrying dividend rates. Every type of share account need not receive the same dividend rate, and accordingly, federal credit unions are authorized to value the dividend rates on different Regular Share accounts, provided the rates are established and paid in a nondiscriminatory manner. However, all accounts within a participate class must receive identical treatment.

Account No. 901 represents the total of all members' Regular Share accounts as shown on the Individual Share and Loan Ledger (Form FCU 103 or its equivalent).

Entries in the Journal and Cash Record

This account is credited in the "Shares Paid In" column (Form FCU 103) with amounts collected from members as shown on summary vouchers which represent payments on shares, and with dividends and interest refunds credited to members share accounts. This account is debited on the "Shares Withdrawn" column (Form FCU 103) when amounts are withdrawn or applied on amounts due the credit union.

Posting to the General Ledger

Debits and credits to this account in the General Ledger are made by posting the totals of the "Shares" columns from the Journal and Cash Record at the end of each month.

Illustrative Entries

---

a) When payments on shares and entrance fees are received from members:

Dr.-Cash (Acct. No. 731)	$10.00	
Cr.-Regular Shares-		
(Acct. No. 901)		$8.00
Cr.-Fees and Charges		
(Acct. No. 131)		2.00

b) When a member withdraws from his share account:

Dr.-Regular Shares		
(Acct. No. 901)	$20.00	
Cr.-Cash (Acct. No. 731)		$20.00

c) When a member authorizes the credit union to apply his shares to his outstanding loan:

Dr.-Regular Shares		
(Acct. No. 901)	$50.00	
Cr.-Loans (Acct. No. 701)		$49.00
Cr.-Interest on LoanS		
(Acct. No. 111)		1.00

Detailed Transactions

Credit:

a) With amounts received for share purchases.

b) With amounts of dividends and interest refunds applied toward the purchase of shares.

Debit:

a) With amounts of withdrawals from share accounts.

b) With amounts of shares applied on outstanding loans.

Entries in Member's Passbook

All payments on and withdrawals of shares must be entered in the Member's Individual Share Ledger and on the Member's Passbook or Statement of Account at the time of the receipt of the cash or cash disbursement.

Postings to Individual Share and Loan Ledger

The items which are accumulated in the "Shares Withdrawn" column of the Journal and Cash Record are recorded individually in the member's account on the Individual Share and Loan Ledger (Form FCU 103 or its equivalent). "Shares Paid In" entries are made in the Individual Share and Loan Ledger from the Cash Received Voucher (Form FCU 105, or its equivalent).

Balancing Individual Share Accounts

The total of the individual Share account balances as shown in the Individual Share and Loan Ledgers should be balanced with the "Regular Shares", (Account No. 901) in the General Ledger at least monthly and the trial balance listings (adding machine tapes or computer trial balance must be retained). Procedures for balancing the daily postings to these ledgers are found in Section 5060.10.

902-SHARE DRAFTS

Traditionally, a Share Draft account is an account from which the holder is authorized to withdraw shares by means of a negotiable or transferable instrument or other order. In order to facilitate monitoring for reporting purposes, any account that is accessible by draft, except for "Money Market Shares", (Account No. 911) needs to be included in this account classification. The account should represent the total of all individual Share Draft accounts as shown on the separate Individual Share and Loan Ledger subsidiary records (FCU 103 or its equivalent). The board of directors may declare dividends on such accounts as provided in the Federal Credit Union Act.

Entries in the Journal and Cash Record

All entries affecting this account should be recorded in the Journal and Cash Record; unused Journal and Cash Record columns (columns 17 to 20) may be used or the credit union may use the Journal and Cash Record Continuation Sheet (Form 101A).

Posting to the General Ledger

Debits and credits to this account in the General Ledger are made by posting the totals of the Share Draft accounts columns of the Journal and Cash Record at the end of each month.

Posting to Members Accounts

The individual items which are accumulated in the debit column of the Journal and Cash Record for Share Draft accounts for monthly posting to the General Ledger, should also be recorded on the Individual Share and Loan Ledger and in the Member's Passbook or Statement of Account. Credit entries for deposits to the share draft accounts should be recorded from Cash Received Vouchers (Form FCU 105 or its equivalent); other credit entries should be posted from appropriate Journal Vouchers (Form FCU 106A or its equivalent).

Balancing Individual Share Draft Accounts

The total of the individual share draft accounts, as shown in the Individual Share and Loan Ledgers, should be proved with the "Share Draft Accounts", (Account No. 902) in the General Ledger at least monthly and the listings retained in the files.

Illustrative Entries

---

a) When a member opens an account or makes a deposit to a Share Draft account:

Dr.-Cash (Acct. No. 731) $200.00
Cr.-Share Draft Accounts
(Acct. No. 902) $200.00

b) When a transfer is made from another share account to replenish a Share Draft account or to clear an overdraft:

Dr.-Shares (Acct. No. 901) $50.00
Cr.-Share Draft Accounts
(Acct. No. 902) $50.00

c) When an overdraft is cleared through a line of credit:

Dr.-Lines of Credit to Members
(Acct. No. 702) $50.00
Cr.-Share Draft Accounts
(Acct. No. 902) $50.00

d) When a charge is made for issuing drafts to a member:

Dr.-Share Draft Accounts
(Acct. No. 902) $6.00
Cr.- Miscellaneous Fee
Income (Acct. No. 152) $6.00

e) When a Share Draft is cleared and posted to a member's account:

Dr.-Share Draft Accounts
(Acct. No. 902) $75.00
Cr.-Cash-Share Draft Settlement
Account (Acct. in 730 Series) $75.00

Detailed Transactions

Credit:

a) With amounts received from share deposits.

b) With amounts transferred from another share account.

c) With amounts transferred from a line of credit.

d) With amounts of dividends applied.

Debit:

a) With drafts that clear through the Share Draft settlement account.

b) With service charges, such as costs to issue drafts to members.

903-CLUB ACCOUNTS

A credit union may, if the board of directors deems it desirable, permit more than one share account for each member. These additional accounts may be opened for certain purposes such as Christmas savings, vacations, and savings for an educational fund. The member retains full control over his/her Club accounts, as with a Regular Share account, subject to the terms and conditions set by the board of

directors. If club accounts are used, they should be included with the member's Regular account in determining whether the shares held by him have exceeded the limit set by the board of directors. If a member is permitted to establish a club account, it should be indicated on the share trial balance and/or share ledger somewhat as follows:

> "John Jones", Club Share Account. The accounts should either be numbered consecutively such as Club Account No. 1, No. 2, etc., or be titled by the type of account, such as Christmas Savings, Share Account, Vacation Share Account, and so on.

The credit union may segregate the different valuations of Club Accounts in separate General Ledger accounts (i.e., Account No. 903.1 for Christmas Savings and 903.2 for Vacation Savings). The summary record on these accounts should be kept on General Ledger account Form FCU 102. The balances of these segregated Club accounts may be combined with the balance of "Regular Shares", (Account No. 901) for the preparation of the monthly financial reports. The balance of each segregated Club Account must equal the total of the individual accounts for each valuation of Club Account. The balancing should be done at least monthly.

Posting of Payments and Withdrawals of Club Shares

All entries affecting this account should be recorded in the Journal and Cash Record; unused "Journal and Cash Record" (columns 17 to 20) may be used or the credit union may use the Journal and Cash Record Continuation Sheet (Form 101A). Total debits and credits to this account in the General Ledger are made by posting the totals of the "Club Accounts" columns of the Journal and Cash Record at the end of each month. The individual payments on and withdrawals of club shares should also be entered in the member's Individual Share Ledger and on the Member's Passbook or Statement of Account at the time of the receipt or cash disbursement.

904-OTHER SHARES

This account represents the balance of share accounts for which no provision is made in other accounts in this series (Account Nos. 901 through 921).

Examples include the following:

- A notice account is an account which requires the holder to give written notice of the intent to withdraw.

- A minimum balance account is an account which requires the holder to maintain a specified balance in the account for at least an entire dividend period. The board of directors can establish any minimum balance they choose.

- A split rate account is an account which earns dividends at a different rate on the portion of the balance above a certain minimum requirement.

Further valuations may be established. The board of directors may declare dividends on such accounts as provided for in Section 117 of the Federal Credit Union Act.

905-ESCROW ACCOUNTS

If escrow accounts are required and the borrower is a member, the escrow account should be maintained as a special limited withdrawal share account. The escrow account should provide for the accumulation of funds to pay for not more than one year's taxes, assessments, insurance premiums, or other charges that could affect the credit union's first lien position. At the time the account is opened, the member-borrower should be required to sign a blanket withdrawal authorization which permits the FCU to use the funds to make the required payments. The FCU should also arrange with each borrower for whom an escrow account is maintained to promptly submit to the FCU for payment, any statements received by the borrower relating to taxes, assessments, insurance premiums and other fees which are to be paid from the escrow account. Any disbursement made from an escrow account should be supported by such documents.

Shares in escrow accounts may not be pledged as security for loans nor may any such shares be applied to loans which are delinquent. Withdrawals of the amount in excess of that amount required to pay the fees for which the account was established are permissible at any time. Other withdrawals, except to pay the fees for which the account was established are not permissible.

For dividend purposes an escrow account is considered a Regular Share account. This account should represent the total of all individual Share-Escrow Accounts as shown on the separate Individual Share and Loan Ledger subsidiary records (Form FCU 103 or its equivalent). The balance on this account may be combined with the balance of "Regular Shares", (Account No. 901) for the preparation of the monthly financial reports.

Entries in the Journal and Cash Record

All entries affecting this account should be recorded in the "Miscellaneous" columns of the Journal and Cash Record unless, because of volume, the credit union identifies separate columns for the credit and/ or debit activity.

Posting to Members Accounts

All payments to, and withdrawals from escrow accounts should be entered on the Member's Passbook (Form FCU 107) or the member's Statement of Account at the time of the receipt or disbursement of cash.

Posting to the Individual Share and Loan Ledger

All receipts and disbursements on escrow accounts should be recorded individually in the member's account in the Individual Share and Loan Ledger (Form FCU 103, or its equivalent). Shares Paid In entries are made in the member's Passbook or the Member's Statement of Account and the Individual Cash Received Voucher (Form FCU 105 or its equivalent); Shares Withdrawn entries are made from the Journal Voucher (Form FCU 106A, or its equivalent).

Balancing Individual Share Accounts

The total of the individual share accounts for escrow accounts as shown in the separate Individual Share and Loan Ledger should be proved with this t 4 escrow account", (Account No. 905) in the General Ledger at least monthly and the listings retained in the files.

Illustrative Entries for escrow accounts (Account No. 905)

---

a) To record receipt of funds from settlement on real estate loan (hazard insurance-$30; Mortgage insurance-$20; Property Taxes-$317):

Dr.-Cash (Acct. No. 731) $367.00
Cr.-Escrow Accounts
(Acct. No. 905) $367.00

b) To record payment of real estate property taxes from Escrow Account:

Dr.-Escrow Accounts
(Acct. No. 905) $317.00
Cr.-Cash (Acct. No. 731) $317.00

Detailed Transactions

Credit:

a) With amounts received at settlement on real estate loan.

b) With amounts received from a real estate borrower on a periodic basis.

Debit:

a) With amounts for payment of taxes, insurance, etc., for which the Escrow Account was established.

b) With withdrawals of amounts in excess of the amount required to pay fees for which the account was established.

906-IRA/KEOGH RETIREMENT SERVICE SHARES

907-IRA/KEOGH RETIREMENT SERVICE CERTIFICATES

The account represents the total of all individual share accounts established pursuant to Sections 401(d) and 408 of the Internal Revenue Code as shown on the separate Individual Share and Loan ledger subsidiary records (Form 103, or its equivalent). Establishing such accounts are discussed in Section 5150.9 of this manual. Shares in this account may not be pledged as security for loans nor may such shares be applied to loans which are delinquent. Withdrawals from these accounts are subject to restrictions as specified in the individual trust or custodial agreements.

The credit union in its capacity of trustee for these accounts must comply with certain reporting requirements as established by the Internal Revenue Code.

A properly-completed, duly-approved application for membership plus an initial payment into a share account established for retirement purposes under a trust or custodial agreement is sufficient to qualify for membership. A companion Regular Share account (Account No. 901, "Regular Shares"), is not required for membership.

Entries in the Journal and Cash Record

All entries affecting this column should be recorded in the "Miscellaneous" columns of the Journal and Cash Record unless, because of volume, the credit union identifies separate columns for the credit and/ or debit activity.

Postings to Members Accounts

All payments on Retirement Plan Shares and withdrawals should be entered on the member's Passbook or Statement of Account at the time of the receipt or disbursement of cash.

Posting to the Individual Share and Loan Ledger

All payments by members on Retirement Plan Shares should be recorded individually in the member's account in the Individual Share and Loan Ledger (Form FCU 103, or its equivalent). Shares Paid In entries are made in the Share and Loan Ledger from the Cash Received Voucher (Form FCU 105, or its equivalent).

Balancing Individual Share Accounts

The total of the individual share accounts for IRA/Keogh retirement plan shares as shown in the separate Individual Share and Loan ledgers should be proved with Account No. 906 in the General Ledger at least monthly and the listings retained in the files.

Illustrative Entries

---

a) When payments on Retirement Plan Shares are received:

Dr.-Cash (Acct. No. 731) ……	$60.00	
Cr.-Shares-Retirement Plans		
(Acct. No. 906)……		$60.00

b) When dividends are applied to Retirement Plan Shares of members:

Dr.-Dividends Payable		
(Acct. No. 820)……	$5.00	
Cr.-Shares-Retirement Plans		
(Acct. No. 906) ……		$5.00

c) When Retirement Plan Shares are withdrawn (paid to member):

Dr.-Shares-Retirement Plans
(Acct. No. 906) $125.00
Cr.-Cash (Acct. No. 731) $125.00

Detailed Transactions

Credit:

a) With amounts received for share purchases.

b) With amounts of dividends applied toward the purchase of shares.

Debit:

a) With amounts of withdrawals of retirement plan shares.

b) With amounts of fees assessed for trusts or custodial services.

908-SHARE CERTIFICATES

This account represents the total of all individual share certificate accounts as shown on the separate Individual Share and Loan Ledger subsidiary records (Form FCU 103, or its equivalent) established for the share certificates.

Entries in the Journal and Cash Record

All entries affecting this account should be entered in a separate column of the Journal and Cash Record or Form 101A, Journal and Cash Record (Continuation Sheet).

Posting to Members Accounts

All payments on Share Certificates accounts and withdrawals should be entered on the Member's Passbook (Form FCU 107), or the Member's Statement of Account, at this time of the receipt or disbursement of cash.

Posting to the Individual Share and Loan Ledger

All payments and withdrawals by members on Share Certificate accounts should be recorded individually in the member's certificate account in the Individual Share and Loan Ledger (Form FCU 103, or its equivalent). Shares Paid In entries are made in the Individual Share and Loan Ledger from the Cash Received Voucher (Form FCU 105, or its equivalent).

Balancing Individual Share Certificates

The total of the individual share certificate accounts for Share Certificates as shown in the separate Individual Share and Loan Ledger should be proved with Account No. 908 in the General Ledger at least monthly and the listings retained in the files.

Illustrative Entries

---

a) When payments on Share Certificates are received:

Dr.-Cash (Acct. No. 731) ……	$10,000.00	
Cr.-Share Certificates (Acct. No. 908) ……		$10,000.00

b) When dividends are applied to Share Certificates of members:

Dr.-Dividends Payable (Acct. No. 820) ……	$700.00	
Cr.-Share Certificates (Acct. No. 908) ……		$700.00

c) When Share Certificates are withdrawn (paid to member):

Dr.-Share Certificates (Acct. No. 908) ……	$10,700.00	
Cr.-Cash (Acct. No. 731) ……		$10,700.00

Detailed Transactions

Credit:

a) With amounts received for certificates purchase.

b) With amounts of dividends added to the account.

Debit:

a) With amounts of withdrawals from the certificates.

b) With amounts of penalty charges for premature withdrawals.

909-SHARES-UNPOSTED PAYROLL DEDUCTIONS

This account is used only by credit unions under Modified Plan No. 2 (Accumulated Payroll Deduction Plan) for processing payroll deductions made from members' paychecks by their employer(s). See Section 5090.4.2.1 for a description of the Plan. This account should represent the accumulated amount of payroll deductions not yet distributed to "Regular Shares", (Account No. 901); "Loans". (Account No. 701); and "Interest on Loans", (Account No. 111); etc. Any amount in this account at month end should be combined with the amount in "Regular Shares", (Account No. 901) in the monthly financial report.

Entries in the Journal and Cash Record

All entries affecting this account should be recorded in the "Miscellaneous" columns.

Detailed Transactions

Credit:

a) With the total of each periodic payroll deduction received.

Debit:

a) With the total of payroll deductions previously credited to this account when applied to appropriate accounts; e.g., "Regular Shares", (Account No. 901), "Loans", (Account No. 701), "Interest on Loans", (Account No. 111), etc.

910-PUBLIC UNIT SHARES

This account represents the total of all individual Public Unit Share accounts as shown on the separate Individual Share and Loan Ledger subsidiary records (Form FCU 103, or its equivalent) established for such accounts Public unit accounts are defined in Sections 701.37-1 and 701.37-2 of the National Credit Union Administration Rules and Regulations.

Entries in the Journal and Cash Record

All entries affecting this account should be recorded in the "Miscellaneous": columns of the Journal and Cash Record unless, because of volume, the credit union identifies separate columns for the credit and/ or debit activity.

Posting to Members Account

All payments and withdrawals on Public Unit Shares should be entered on the custodian's Passbook (Form FCU 107, or its equivalent) or the Statement of Account at the time of receipt or disbursement of cash.

Posting to the Individual Share and Loan Ledger

All payments by custodians on Public Unit Shares should be recorded individually in the shareholder's account in the Individual Share and Loan Ledger (Form 103, or its equivalent). "Share Paid In" entries are made in the Individual Share and Loan Ledger from the Cash Received Voucher (Form FCU 105, or its equivalent).

Balancing Individual Share Accounts

The total of the individual share accounts for Public Unit Shares as shown in the separate Individual Share and loan ledgers must be proved with this Account No. 910 in the General Ledger at least monthly and the listings retained in the file.

Illustrative Entries

---

a) When payments on Public Unit Shares are received:

Dr.-Cash (Acct. No. 731) $60.00
Cr.-Shares-Public Unit Accounts
(Acct. No. 910) $60.00

b) When dividends are applied to Public Unit Share Accounts:

Dr.-Dividends Payable
(Acct. No. 820) $5.00
Cr.-Shares-Public Unit Accounts
(Acct. No. 910) $5.00

c) When Public Unit Shares are withdrawn (paid to shareholder):

Dr.-Shares-Public Unit Accounts
(Acct. No. 910) $125.00
Cr.-Cash (Acct. No. 731) $125.00

Detailed Transactions

Credit:

a) With amounts received for share purchase.

b) With amounts of dividends applied toward the purchase of shares.

Debit:

a) With amounts of withdrawals of Public Unit Shares.

911-MONEY MARKET SHARES

This account represents the total of all the individual money market share accounts as shown on the separate Individual Share and Loan Ledger subsidiary records (Form FCU 103, or its equivalent) established for money market shares.

Generally, a Money Market Share account is a short-term, draft account designed to pay competitive money market rates.

The specific terms and conditions are determined by the board of directors of the credit union.

Entries in the Journal and Cash Record

All entries affecting this account should be recorded in the Journal and Cash Record columns; unused "Journal and Cash Record" (columns 17 to 20) may be used or the credit union may use the Journal and Cash Record continuation Sheet (Form 101A).

Posting to the General Ledger

Debits and credits to this account in the General Ledger are made by posting the totals of the "Money Market Share Accounts" column of the Journal and Cash Record at the end of the month.

Posting to Members Accounts

The individual items which are accumulated in the debit column of the Journal and Cash Record for Money Market Shares Accounts, for monthly posting to the General Ledger, should also be recorded on the Individual Share and Loan Ledger and in the Member's Passbook or Statement of Account. Credit entries for deposits to the Money Market Share Accounts should be recorded from Cash Received Vouchers (Form FCU 105 or its equivalent); other credit entries should be posted from the appropriate Journal Vouchers (Form FCU 106A or its equivalent).

Balancing Individual Money Market Share Accounts

The total of the individual Money Market Share Accounts as shown in the Individual Share and Loan Ledgers should be proved with the "Money Market Share Accounts", (Account No. 91 1) in the General Ledger at least monthly and the listings retained in the files.

Illustrative Entries

---

a) When payments on Money Market Shares are received:

Dr.-Cash (Acct. No. 731) ……	$10,000	
Cr.-Money Market Shares (Acct. No. 911) ……		$10,000

b) When dividends are applied to member's Money Market Shares earning a daily dividend:

Dr.-Dividends Payable
(Acct. No. 820) $2.00
Cr.-Money Market Shares
(Acct. No. 911) $2.00

c) When a Money Market Share Draft is cleared and posted to a member's account:

Dr.-Money Market Shares
(Acct. No. 911) $502.00
Cr.-Cash-Money Market
Draft Settlement
(Acct. in 730 Series) $502.00

d) When Money Market Shares are withdrawn (paid to the member):

Dr.-Money Market Shares
(Acct. No. 911) $9,500
Cr.-Cash (Acct. No. 731) $9,500

Detailed Transactions

Credit:

a) With amounts received from share deposits.

b) With amounts transferred from another share account.

c) With amounts of dividends added to the account.

Debit:

a) With amounts of withdrawals from the account paid to the member.

b) With amounts of penalties charged if the account is withdrawn under the minimum balance requirement.

c) With drafts that clear through the money market share settlement account.

921-SHARES OF NONMEMBERS

This account is used to record the shareholdings of other federally insured credit unions and, in the case of credit unions serving predominantly low income members, the shareholdings of nonmember individuals or organizations. Each share account must be maintained on an Individual Share Ledger record (Form 103 or its equivalent) and must be kept separate from the member's individual share accounts.

Entries in the Journal Cash Record

Transactions involving this account should be maintained separately from the Regular Share transactions recorded in the "Shares" columns. If there are a number of transactions each month, separate columns should be provided by using two of the blank columns in the Journal and Cash Record. If there are relatively few transactions the "Miscellaneous" columns may be used.

Posting to Members Account

All payments on shares and withdrawals of shares should be entered in the nonmember's passbook (Form FCU 107) or the Statement of Account, at the time of the receipt or disbursement of cash.

Posting to the Individual Ledger

Share withdrawal items recorded in the Journal and Cash Record are also recorded individually in the nonmembers' account in the Individual Share Ledger (Form FCU 103 or its equivalent). Share Paid In entries are made in the nonmember's Individual Share Ledger from the Cash Received Voucher (Form 105 or its equivalent).

Balancing Individual Nonmember Share Accounts

The total of the individual nonmember share accounts as shown in their individual ledgers should be proved with the "Shares of Nonmembers", (Account No. 921) in the General Ledger at least monthly and the listing retained in the files.

Illustrative Entries

---

a) When payments on shares are received from nonmembers:

Dr.-Cash (Acct. No. 731) $300.00
Cr.-Shares of Nonmembers
(Acct. No. 921) $300.00

b) When a nonmember withdraws from his share account:

Dr.-Shares of Nonmembers
(Acct. No. 921) $250.00
Cr.-Cash (Acct. No. 731) $250.00

Detailed Transactions

Credit:

a) With amounts received for share purchases.

b) With amounts of dividends applied toward the purchases of shares of nonmembers.

Debit:

a) With amounts of withdrawals from share accounts by nonmembers.

925-UNINSURED SECONDARY CAPITAL

Federally insured credit unions designated as low-income are permitted to establish secondary capital accounts with certain restrictions. These restrictions are outlined in detail in Section 6180 of this Manual. Uninsured secondary capital accepted from a nonnautral person investor should be recorded as follows:

Entries in the Journal and Cash Record

All entries affecting this account should be recorded in the "Miscellaneous" column of the Journal and Cash Record unless separate columns have been added.

Illustrative Entries

---

a) When a low-income designated credit union accepts a secondary capital account of #100,000 with a 6 year maturity from a nonnatural person investor:

Dr.-Cash (Acct. No. 731) $100,000
Cr.-Uninsured Secondary Capital
(Acct. No. 925) $100,000

b) When the remaining maturity of the above account is between 4 and 5 years the following adjusting entry should be recorded to reflect only 80 percent of the account as secondary capital:

Dr.-Uninsured Secondary Capital
(Acct. 925) $20,000
Cr.-Subordinated CDCU Debt
(Acct. No. 867) $20,000

NOTE: In the event that a low-income credit union has depleted its reserves and undivided earnings and incurs an operating loss, the loss will be distributed pro rata among the current secondary capital account holders. For example, a credit union has 5 secondary capital investors, each depositing $100,000 for total secondary capital of $500,000. The credit union incurs an operating loss of $120,000; each account will be debited for $24,000. The remaining balance in each account will be $76,000, with a total remaining secondary capital of $380,000. A credit union that has funds split between account numbers 925 (Uninsured Secondary Capital) and 867 (Subordinated CDCU Debt) should first absorb any pro rata loss from account 867 (Subordinated CDCU Debt), with any remaining loss carried over to account number 925 (Uninsured Secondary Capital).

If a secondary capital account holder wishes to withdraw the investment at maturity, the credit union must determine losses as of the previous month end and allocate the loss, again on a pro rata basis to all account holders, prior to releasing the funds. Keep in mind that all funds will continue to be at risk to cover losses that exceed reserves and undivided earnings regardless of their capital values based on their final maturities.

926-DEPOSITS

930-RESERVES

931-REGULAR RESERVES

The Federal Credit Union Act requires that federal credit unions establish and maintain a Regular Reserve which sets aside Earnings to absorb losses on uncollectable loans to members and to other credit unions (including unrecovered collection costs). For reserve transfer purposes, gross income is defined in Section 700.1 of the NCUA Rules and Regulations as the total of the operating income accounts. Nonoperating gains and losses, income received from the Central Liquidity Facility, and donations received by the credit union should not be included. Reference should be made to Section 5230 of this manual for further guidance in determining risk assets and adjusted gross income.

The Regular Reserve account should be increased (credited):

a) At the end of the accounting period as follows:

1) A credit union in operation for more than four years and having assets of $500,000 or more shall set aside: (A) 10 percent of gross income until the Regular Reserve shall equal 4 percent of the total outstanding loans and risk assets, and then: (B) 5 percent of gross income until the Regular Reserve shall equal 6 percent of the total outstanding loans and risk assets.

2) A credit union in operation for less than four years or having assets of less than $500,000 shall set aside: (A) 10 percent of gross income until the Regular Reserve shall equal 71/2 percent of the total outstanding loans and risk assets, then; (B) 5 percent of gross income until the Regular reserve shall equal 10 percent of the total outstanding loans and risk assets.

When the Regular Reserve falls below the stated percentages above, it shall be replenished by such amounts that may be needed to maintain the statutory reserve requirements. For the purposes of the above formulas, total Reserves should be determined by adding the General Ledger balances in the "Regular Reserve", (Account No. 931) and "Allowance for Loan Losses", (Account No. 719) reduced by the balance in the "Provision for Loan Losses", (Account No. 301). If there is a credit balance in the "Provision for Loan Losses", that credit balance should be added to Account Nos. 931 and 719. The total of these accounts should be compared to risk assets for the purpose of determining the applicable percentage of gross income to be transferred to the Regular Reserve. Risk Assets are defined in Section 700.1 of the NCUA Rules and Regulations.

The offsetting debit for this entry is to "Undivided Earnings", (Account 940). Corporate Central federal credit unions may eliminate loans to member credit unions from outstanding loans and risk assets when computing the amount that must be maintained in the Regular Reserve.

b) With the credit balance of the "Provision for Loan Losses", (Account No. 301) for the accounting period that was closed to the Net Income (Loss) account; offsetting debit to "Undivided Earnings", (Account No. 940).

c) By the amounts charged to the following accounts to the extent of their credit balances, in the order indicated, to cover a debit balance in Regular Reserve:

   1) Undivided Earnings;

   2) Appropriated Undivided Earnings; and

   3) Reserve for Contingencies and other reserves, exclusive of the Special Reserve for Losses established by order of the NCUA board.

When amounts in excess of the statutory reserve transfers have been credited to this account to offset debit balances therein, such amounts should be 4 6 earmarked" in the "Explanation" section of the General Ledger account. At a later time period, when an adequate balance has accumulated in Account No. 931, the earmarked funds may be returned to Undivided Earnings or other appropriate reserve accounts.

d) By the amount of any remaining debit balance in the Regular Reserve after the above entries have been recorded; this transfer should be made to Undivided Earnings even though this will create a debit balance in that account.

e) By the amounts of any supplementary transfers of Undivided Earnings to the Regular Reserve. Such supplementary transfers from Undivided Earnings can be made only upon the authorization of the board of directors.

f) By amounts transferred from the "Special Reserve for Losses" upon the authorization of the NCUA Board in accordance with Section 702.1 of the NCUA Rules and Regulations.

The Regular Reserve account should be decreased (debited) with.

a) The debit balance of "Provision for Loan Losses", (Account No. 301) charged to expense in the accounting period that was closed to the period; offsetting credit to "Undivided Earnings", (Account No. 940).

b) Other losses provided that each such charge has been approved in advance by the NCUA Board.

Entries in the Journal and Cash Record

All increases and decreases to the Regular Reserve I are credited and debited to the "Miscellaneous" column.

Posting to the General Ledger

All debit and credit entries are posted from the "Miscellaneous" columns of the Journal and Cash Record to the General Ledger. ALL entries must be explained in the "Explanatory Remarks" columns of the General Ledger.

Illustrative Entries

At the close of the accounting period:

a) To transfer the required percentage of gross income to the Regular Reserve:

Dr.-Undivided Earnings
(Acct. No. 940) $800
Cr.-Regular Reserve
(Acct. No. 931) $800

b) To transfer the net amount of loan loss expense to the Regular Reserve (this amount should represent the debit balance of the "Provision for Loan Losses:, (Account No. 301) closed to the Net income (Loss account):

Dr.-Regular Reserve
(Acct. No. 931) $600
Cr.-Undivided Earnings
(Acct. No. 940) $600

NOTE: If Account No. 301 showed a credit balance for the accounting period the reverse entry should be made. If no balance was shown in Account No. 301 for the period, no entry is necessary.

c) If a debit balance develops in Account No. 931, this account should be credited for the amount thereof as required by the credit entries described above.

Dr.-Undivided Earnings
(Acct. No. 940) $500
Cr.-Regular Reserve
(Acct. No. 931) $500

NOTE: A debit balance must not be allowed to remain in this account.

Detailed Transactions

Credit:

At the end of the accounting period:

a) With amount of transfer of gross income for the period as required by Section 116(a) of the Federal Credit Union Act, as amended; offsetting debit to "Undivided Earnings", (Account No. 940).

b) With net recovery on loan losses for the period as shown by the credit balance of "Provision for Loan Losses", (Account No. 301) before closing; offsetting debit to Account No. 940).

c) With amount necessary to eliminate a debit balance in this account at end of period (after recording the first two credit entries above, and the two debit entries below); offsetting debit(s) should be made as described in the credit entries under a. above.

Debit:

At the end of the accounting period:

a) With net loan losses for the period as shown by the debit balance of "Provision for Loan Losses", (Account No. 301) before closing; offsetting credit to Account No. 940.

b) With amount of other losses provided each such charge has been approved by the National Credit Union Administration.

932-SPECIAL RESERVE FOR LOSSES

The "Special Reserve for Losses" account is established when the NCUA Board, under the authority of the Federal Credit Union Act, orders a credit union to establish additional reserves. Specific accounting instructions pertaining to this account are furnished by the National Credit Union Administration when the Special Reserve for Losses is ordered. This account should not be used unless ordered by the National Credit Union Administration.

Entries in the Journal and Cash Record

All entries affecting this account should be recorded in the "Miscellaneous" columns of the Journal and Cash Record.

933-OTHER REVOCABLE RESERVES

934-RESERVE FOR LOSS CONTINGENCIES

The board of directors has the power, after the required Regular Reserve transfer requirements have been set aside, to provide for probable losses by establishing a "Reserve for Loss Contingencies", (Account No. 934). A reserve for loss contingencies may only be established when it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements, future

events will confirm the existence of the loss, and the loss can be reasonably estimated. Contingent losses not otherwise shown on the credit union's records should be recorded for amounts equal to those portions of the probable loss. Since the approximate date of the loss will probably be known, the expense may be accrued prior to the payment of the loss. This is accomplished by debiting the appropriate current period expense account and crediting "Accrued Loss Contingencies", (Account No. 856) for an equivalent amount. The amount of the accrual will need to be adequate enough to allow the accrued liability account to equal the amount of the estimated loss at the time payment is expected to be made. Losses should not be charged directly against the "Reserve for Loss Contingencies", (Account No. 934). After the loss has been paid and charged against the accrued liability account, the designated Reserve for Loss Contingencies balance should be eliminated and "Undivided Earnings", (Account No. 940) credited for a like amount at the end of the dividend period.

This account should also be used in cases where the deductible on the federal credit union's fidelity bond exceeds 10 percent of the federal credit union's Regular Reserve account (Section 701.20(h)(3) of the NCUA Rules and Regulations).

This account should only be increased with amounts necessary to maintain the difference between the deductible and 10 percent of the Regular Reserve Account. The amount of such excess should be credited to this account with an offsetting debit to "Undivided Earnings", (Account No. 940). The account should be eliminated when the deductible becomes less than or equal to 10 percent of federal credit union's Regular Reserve account. This is accomplished by debiting this account and crediting "Undivided Earnings", (Account 940).

Entries in the Journal and Cash Record

All entries affecting this account should be recorded in the "Miscellaneous" columns of the Journal and Cash Record.

Illustrative Entries

---

a) To establish, or increase the balance of, a Reserve for Loss Contingencies when determined necessary by the board of directors:

Dr.-Undivided Earnings
(Acct. No. 940) $5,000.00
Cr.-Reserve for :Loss Contingencies
(Acct. No. 934) $5,000.00

b) To decrease or eliminate the amount of the Reserve for Loss Contingencies when determined necessary by the board of directors:

Dr.-Reserve for Loss Contingencies
(Acct. No. 934) $2,000.00
Cr.-Undivided Earnings
(Acct. No. 940) $2,000.00

c) In the event a debit balance arises in the Regular Reserve in excess of the available credit balance in the Undivided Earnings account, this account would be reduced to eliminate such excess debit balance:

Dr.-Reserve for Loss Contingencies
(Acct. No. 934) $5,000.00
Cr.-Regular Reserve
(Acct. No. 931) $5,000.00

Detailed Transactions

Credit:

a) As authorized by the board of directors with amounts to be established as a Reserve for Loss Contingencies and with authorized increases in this reserve.

Debit:

a) As authorized by the Board of Directors with amounts to decrease the Reserve for Loss Contingencies.

b) With required transfers to eliminate a debit balance in the Regular Reserve after the available credit balance in the Undivided Earnings account has been used to reduce the debit balance of the Regular Reserve.

935-CORPORATE CENTRAL RESERVE

A corporate central federal credit union should establish and maintain a Corporate Central Reserve. At the end of each dividend period (but no more frequently than monthly) and prior to paying dividends, the Corporate Central Reserve should be increased (credited) according to the following schedule:

a) When the credit union's corporate reserves and undivided Earnings are less than 2 percent of assets reduced for CLF stock subscriptions and reverse repurchase transactions with US Central, the credit union should transfer .0015 times average daily assets times the number of days in the transfer period divided by 365, or

b) When the credit union's corporate reserves and undivided Earnings are equal to or greater than 2 percent but less than 4 percent of assets reduced for CLF stock subscriptions and reverse repurchase transactions with US Central, the credit union should transfer .0010 times average daily assets times the number of days in the transfer period by 365.

Increases to the Corporate Central Reserve should be charged against Undivided Earnings by a change to this account.

940-UNDIVIDED EARNINGS

This account is used to show the balance of the accumulated Earnings of the credit union for prior periods and the Earnings of the period just closed which are available for dividends.

The Undivided Earnings account should be increased (credited) with:

a) The net Earnings transferred at the end of each accounting period from the "Net Income (Loss)", (Account No. 960).

b) The net amount of provision for loan losses charged to expense in the accounting period (this represents the debit balance of "Provision for Loan Losses", (Account No. 301) closed to the "Net In. come (Loss)", (Account No. 960) for the period); offsetting debit should be to the "Regular Reserve", (Account No. 931).

c) With the amount transferred from "Special Reserve for Losses", (Account No. 932) when this reserve is reduced or eliminated.

d) The amount transferred from "Reserve for Loss Contingencies", (Account No. 934) when this reserve is reduced or eliminated.

e) The amount transferred from "Appropriated Undivided Earnings", (Account No. 942) when this account is reduced or eliminated.

f) The determined conversion amount for accrued income when converting to the Accrual Basis of Accounting, (the debit side of this entry is to the 780 account series).

The Undivided Earnings account should be reduced (debited) with:

a) The amount of the net loss transferred at the end of the accounting period from the "Net Income (Loss)", (Account No. 960).

b) The net amount of any credit balance in the Provision for Loan Losses at the end of accounting period that was closed to the Net Income (Loss) for the period; the offsetting credit should be to the "Regular Reserve", (Account No. 931).

c) At the end of each accounting period, the required transfer of gross income to the "Regular Reserve", (Account No. 931).

d) The amount of any Special Reserve for Losses which may be required by the NCUA Board.

e) The amount transferred to "Reserve for Losses Contingencies", (Account No. 934).

f) The determined conversion amount for accrued expenses when converting to the Accrual Basis of Accounting (the credit side of this entry is to the 850 account series).

g) The amount transferred to "Appropriated Undivided Earnings", (Account No. 942).

Expenses incurred or paid should not be charged directly to the Undivided Earnings account but must be charged to the appropriate expense accounts during the period they are incurred or paid. Likewise, income should not be credited directly to this account but credited to the appropriate income accounts. Bonuses to employees are not to be charged to this account but are to be considered as expenses. Dividends are also considered as expenses and charged to "Dividends", (Account No. 380). Interest refunds are considered as reductions of income and credited to "Interest Refunds", (Account No. 119).

Entries in the Journal and Cash Record

All of the debit and credit entries to this account should be entered in the "Miscellaneous" columns of the Journal and Cash Record.

Detailed Transactions

Credit:

a) At the end of the accounting period, with the net Earnings transferred from "Net Income (Loss)", (Account No. 960).

b) At the end of the accounting period, with the debit balance of the "Provision for Loan Losses", (Account No. 301) transferred to the "Regular Reserve", (Account No. 931).

c) With transfers to reduce or eliminate the "Special Reserve for Losses" when authorized by the National Credit Union Administration Board.

d) With transfers from the "Reserve for Loss Contingencies" or other reserves when authorized by the board of directors.

e) With the determined conversion amount for accrued income when converting to the Accrual Basis of Accounting immediately following the closing of the books at the end of the dividend period.

Debit:

a) At the end of the accounting period with net loss for the period transferred from "Net Income (Loss)", (Account No. 960).

b) At the end of the accounting period with the net provision for loan losses credited to expense in the accounting period; transfer to the "Regular Reserve", (Account No. 931).

c) With the statutory transfer to the Regular Reserve required by law representing a percentage of gross Earnings for the accounting period.

d) With transfers to establish or increase the "Reserve for Loss Contingencies" (or other reserves) when authorized by the board of directors.

e) With the determined conversion amount for Accrued Expense when converting to the Accrual Basis of Accounting immediately following the closing of the books at the end of the dividend period.

942-APPROPRIATED UNDIVIDED EARNINGS

This account may be established by any credit union, with the approval of the board of directors, for planned expenditures or liabilities, not otherwise shown on the credit union's records. This account should represent a further allocation of Undivided Earnings. It should be included in the equity section of the Statement of Financial Condition. Even though an appropriated undivided Earnings account has been established for a particular liability or expenditure, such as future dividend costs, relocation costs for moving to a new building or costs incurred for parking lot resurfacings, etc., expenditures of this nature should not be charged directly to this account. Rather they should be charged to their respective expense accounts and included in the "Operating Expenses (Control)", (Account No. 200) or the respective General Ledger expense account balance total that is closed to "Undivided Earnings", (Account No. 940). Past Earnings should be transferred from "Appropriated Undivided Earnings", (Account No. 942) to "Undivided Earnings", (Account No. 940) in amounts equal to the appropriated cost charged to the current period expenses during the accounting period. This will eliminate any reduction in Undivided Earnings that would have resulted from the charge to expenses.

Entries in the Journal and Cash Record

All of the debit and credit entries to this account should be entered in the "Miscellaneous" columns of the Journal and Cash Record.

Posting to the General Ledger

Entries to this account in the General Ledger should be posted individually from the "Miscellaneous" columns of the Journal and Cash Record.

Illustrative Entries

---

a) To establish, or increase the balance of, the Appropriated Undivided Earnings account when determined necessary by the board of directors:

Dr.-Undivided Earnings
(Acct. No. 940) $5,000.00
Cr.-Appropriated Undivided Earnings
(Acct. No. 942) $5,000.00

b) To eliminate, or decrease balance of, the Appropriated Undivided Earnings when determined to be necessary by the board of directors or to reimburse Undivided Earnings for planned expenditures or an incurred liability.

Dr.-Appropriated Undivided Earnings
(Acct. No. 942) $2,500.00
Cr.-Undivided Earnings
(Acct. No. 940) $2,500.00

Detailed Transactions

Credit:

a) As authorized by the board of directors with amounts to be established, for a specific expenditure or liability, as Appropriated Undivided Earnings and with authorized increases in this account.

Debit:

a) As authorized by the boiled of directors with amounts of expenditures incurred that were included in operating expenses and resulted in a further reduction of the Appropriated Undivided Earnings Account.

945-ACCUMULATED UNREALIZED GAINS/LOSSES ON AVAILABLE-FOR-SALE SECURITIES

This account is used to record unrealized gains/losses on available-for-sale securities. When available-for-sale securities are written to fair value, an entry is made directly to the investment account with the corresponding debit/credit to this account. This account is a separate component of equity; separate from the regular reserve or undivided earnings. Nonetheless, this separate equity account should be netted against accumulated current and undivided earnings *when assessing a credit union's ability to pay dividends*. Upon disposition of the related security, the portion of this account that relates to the security disposed of is reversed with the gain or loss on disposition of the security recorded through the income statement in Account No. 420. Refer also to Section 6060. *Illustrative entries* are also shown in Section 4050.4, Account No. 743.

950-DONATED EQUITY

When a credit union receives as a gift or donation a tangible fixed asset of material value, the value of such asset should be established by a credit to this account as a separate classification of the credit union's equity. The offsetting debit should be to the appropriate asset account(s) for tangible fixed assets: e.g., furniture and equipment, building, etc.

Donated fixed assets should be recorded in the accounts based on the estimated fair market value of the assets at the date of acquisition. Depreciation of donated fixed assets should be charged to expense in each accounting period over the useful lives of the assets in the same manner as for other fixed assets.

When fixed assets donated to a credit union are not considered of a "material" value, the value of the assets debited to the appropriate fixed asset account(s) should be credited to "Other Nonoperating Income (Expense)", (Account No. 440).

Credit unions following Financial Accounting Standard (FAS) 116, "*Accounting for Contributions Received and Contribution Made,"* should record all contributions received/made in income/expense when received/made. Contributions include many of the donations credit unions receive such as office space, utilities, auditing service, etc. Entries are illistrated in (b) below.

a) When a donated fixed asset of material value is received by the credit union:

Dr.-Furniture and Equipment
(Acct. No. 774) $2,400
Cr.-Donated Equity
(Acct. No. 950) $2,400

b) When the sponsor contributes for payment of utilities on the credit unions behalf:

Dr.-Utilities Expense
(Acct. No. 253) $500
Cr.-Other Miscellaneous Operating Income
(Acct. No.151) $500

c) When depreciation is recorded:

Dr.-Depreciation of Furniture
and Equipment
(Acct. No. 266) $120
Cr.-Allowance for Depreciation
of Furniture and Equipment
(Acct. No. 775) $120

d) If donated equipment is disposed of by sale: assume a donated asset valued at $2,400 with an accumulated allowance for depreciation of $900 is sold for cash of $1,600. The entry is:

Dr.-Cash (Acct. No. 731) $1,600
Dr.-Donated Equity
(Acct. No. 950) 1,500
Dr.-Allowance for Depreciation
of Furniture and Equipment
(Acct. No. 775) 900
Cr.-Furniture and Equipment
(Acct. No. 774) $2,400
Cr.-Gain (Loss) on disposition of
Assets (Acct. No. 430) 1,600

960-NET INCOME (LOSS)

This account is used to accumulate the various income and expense accounts into a single account to determine the net income or loss for the accounting period and to transfer the net income or loss to "Undivided Earnings", (Account No. 940).

This account is credited with:

a) The credit balances of all operating income, operating expense, and nonoperating income (expense) accounts (200, 300 and 400 series of accounts) when the books are closed; offsetting debits should be to these individual General Ledger accounts showing credit balances.

b) The balance of this account, if a debit after All income and expense accounts are closed; offsetting debit should be to "Undivided Earnings", (Account No. 940).

This account is debited with:

a) The debit balances of all operating expense, income and nonoperating income (expense) accounts (200, 300 and 400 series of accounts) when the books are closed; offsetting credits should be to these individual General Ledger accounts showing a debit balance.

b) The balance of this account, if a credit, after all operating and nonoperating (gain) income and expense accounts are closed; offsetting credit should be to "Undivided Earnings", (Account No. 940).

Entries in the Journal and Cash Record

All entries affecting this account should be entered in the "Miscellaneous" columns of the Journal and Cash Record.

Posting to the General Ledger

Entries to this account are posted individually from the "Miscellaneous" columns of the Journal and Cash Record to the General Ledger. The "Explanatory Remarks" column of this account in the General Ledger should be used to indicate the nature of amounts closed into or transferred from this account.

Illustrative Entries

---

a) To close the income and nonoperating gain accounts in the 100 and 400 series with credit balances:

Dr.-Interest on Loans		
(Acct. No. 111)	$6,000	
Dr.-Income from Other Investments		
(Acct. No. 129)	2,000	
Dr.-Fees and Charges		
(Acct. No. 131)	65	
Dr.-Gain (Loss) on Investments		
(Acct. No. 420)	100	
Cr.-Net Income (Loss)		
(Acct. No. 960)		$8,165

b) To close the operating expenses and income accounts in the 100, 200, 300 number series with debit balances:

Dr.-Net Income (Loss)		
(Acct. No. 960)	$6,920	
Cr.-Interest Refunds		
(Acct. No. 119)		$1,800
Cr.-Rent (Acct. No. 251)		1,200
Cr.-Communications		
(Acct. No. 261)		120
Cr.-Provision for Loan Losses		
(Acct. No. 301)		600
Cr.-NCUA Operating Fee		
(Acct. No. 321)		200
Cr.-Dividends (Acct. No. 380)		3,000

c) To transfer net income for the period to Undivided Earnings:

Dr.-Net Income (Loss)		
(Acct. No. 960)	$1,245	
Cr.-Undivided Earnings		
(Acct. No. 940)		$1,245

Detailed Transactions

Credit:

a) When books are closed with the sum of the credit balances of all operating and nonoperating income and expense accounts (100, 200, 300 and 400 series of accounts).

b) With balance of the account, if a debit, after all operating and nonoperating income and expense accounts have been closed; transfer to Undivided Earnings.

Debit:

a) When books are closed with the sum of the debit balances of all operating and nonoperating expense and income accounts (100, 200, 300 and 400 series of accounts).

With balance of the account, if a credit, after all operating and nonoperating income and expense accounts have been closed; transfer to Undivided Earnings.

SECTION 5000

GENERAL ACCOUNTING

TABLE OF CONTENTS

SECTION NO.			PAGE NO.
SUBSECTION NO.			
5010		**ACCOUNTING FOR CASH RECEIPTS AND DISBURSEMENTS** ..	5-1
	.1	Procedure When Cash is Received	5-1
	.2	Procedure When Cash is Disbursed	5-2
	.2.1	Disbursements to be Made by Check	5-2
	.2.2	Countersignatures and Single Signatures	5-2
	.2.3	Journal Voucher Forms to be Used with Disbursements	5-4
5020		**BASIC ACCOUNTING RECORDS**	5-7
	.1	Standard Forms	5-7
5030		**MEMBERSHIP**	5-13
	.1	Procedure When a New Member is Admitted	5-13
	.1.1	Applying for Membership	5-14
	.1.2	Making Initial Payments	5-15
	.1.3	Issuance of a Passbook	5-15
	.1.4	Assigning Account Numbers	5-16
	.1.5	If Member Desires a Joint Account	5-17
	.1.5.1	Termination of a Joint Account	5-18
	.1.6	Membership Officer	5-19
	.1.7	Accounting for Transactions with the Member	5-20

SECTION NO.		PAGE NO.
SUBSECTION NO.		
5040	**PROCESSING BASIC SHARE AND LOAN TRANSACTIONS**	5-20
.1	When Payments on Shares are Received	5-20
.2	When Shares are Withdrawn	5-21
.2.1	Pledge of Shares	5-21
.3	Presenting Passbooks for Transactions	5-23
.4	Entering Member Loans on the Records	5-23
.4.1	Maintaining the Note Record on the Individual Share and Loan Ledger	5-24
.4.2	Maintaining the Delinquency Control on the Individual Share and Loan Ledger	5-24
.5	When Payments on Loans are Received	5-24
.5.1	Collection of Interest	5-24
.5.1.1	365-Day Year Method	5-25
.5.1.2	30-Day Month Method (360-Day Year)	5-25
.5.1.3	Grace Period	5-26
.5.1.4	Accrual of Interest	5-26
.5.2	Methods of Calculating Interest	5-26
.5.2.1	United States Rule-Simple Interest	5-26
.5.2.1.1	Level Payment	5-26
.5.2.1.2	Principal Payment Plus Interest	5-26

SECTION NO. / SUBSECTION NO.		PAGE NO.
.5.2.2	Rule of 78	5-27
.5.2.3	Acturial Method	5-27
.5.2.4	Interest Rates in Relation to Different Classification of Loans	5-27
.5.3	Repayment Plans	5-29
.5.4	When a Loan is Refinanced	5-29
.5.5	When a Loan is Extended	5-30
.5.6	When a Loan is Deferred	5-30
.5.7	Assessment of Late Charges	5-30
.5.8	Regulation G (Securities Credit by Persons Other Than Banks, Brokers or Dealers)	5-30
5045	**TROUBLED DEBT RESTRUCTURING**	5-31
.1	Transfer of Assets In Settlement of the Debts	5-32
.2	Modification of Terms	5-33
.3	Combination Restructuring	5-35
.4	Capitalizing Delinquent Interest	5-35
.5	Legal Fees and Other Direct Costs of Restructuring	5-35
5050	**OTHER METHODS OF ACCOUNTING FOR RECEIPTS AND DISBURSEMENTS**	5-36
.1	Procedures for Cash Receipts	5-36
.1.1	Balancing Out Teller's Funds	5-36
.1.1.1	Reconciling the Cash on Hand	5-39

SECTION NO.		PAGE NO.
SUBSECTION NO.		
.1.1.2	Check Endorsements	5-39
.1.2	Total Payment Vouchers	5-40
.1.3	Mail Receipts	5-40
.1.3.1	When Passbooks are Used	5-40
.1.3.2	When Statements of Account are Used	5-42
.1.4	Coupon Book Plans for Loan Repayments	5-42
.1.5	Balancing Teller's Cash Receipts and Disbursements Using On-Line Computer Terminals	5-43
.1.6	Receipts and Disbursements Using Automatic Transfer Accounts and NOW Accounts	5-43
.2	Procedures for Cash Disbursements	5-46
.2.1	Summary Entries of Disbursements in the Journal and Cash Record	5-46
.2.1.1	Check Register	5-46
.2.1.2	Listed Check Register	5-46
.2.1.3	Voucher Check Register	5-48
.2.2	Disbursing Share Withdrawals and Loans in Cash	5-48
.2.3	Check Signing Machines	5-53
.2.4	Check Protectors	5-54
.2.5	Check Writing Machines	5-54
.2.6	Loan Drafts	5-54

SECTION NO.		PAGE NO.
SUBSECTION NO.		
.2.6.1	Nature of Loan Drafts	5-54
.2.6.2	Liability in Connection with Loan Drafts	5-55
.2.6.3	Records in Connection with Loan Draft Procedures	5-56
.2.6.4	Responsibility for Funds on Hand to Meet Loan Draft Obligations	5-57
.2.7	"Fluctuating" Change Funds	5-57
.2.8	Change Funds and Monetary Reserve Requirements of Regulation D	5-59
5060	**END-OF-MONTH PROCEDURES**	5-59
.1	Ruling and Checking the Journal and Cash Record	5-59
.2	Posting	5-60
.2.1	Places to Which Postings from Journal and Cash Record are Made	5-60
.2.2	Posting to the General Ledger Accounts	5-60
.3	Taking a Trial Balance of the General Ledger	5-61
.4	When the General Ledger Trial Balance Does Not Balance	5-61
.5	Preparing the Bank Reconcilement	5-62
.5.1	Cash Balance per Books of Credit Union	5-63
.5.2	Bank Balance per Bank Statement	5-63
.5.3	Reconciliation-Balancing Procedures	5-64
.6	Taking a Trial Balance of the Individual Share and Loan Ledgers	5-64
.7	Balancing the Individual Share and Loan Ledger	5-66

SECTION NO.		PAGE NO.
SUBSECTION NO.		
.8	Establishing a Systematic Procedure	5-67
.9	Arbitrary Adjustment of Subsidiary Share and Loan Ledger Differences	5-68
.10	Daily Balancing of Postings to Individual Share and Loan Ledgers	5-69
.10.1	Procedures for Proving the Daily Postings	5-69
.11	Preparing the Schedule of Delinquent Loans	5-70
.12	Preparing List of New Members and Those Who Have Withdrawn	5-70
.13	Month-End Financial Statements	5-70
5070	**END OF ACCOUNTING PERIOD**	5-70
.1	Adjusting Entries	5-72
.2	Interest Refunds	5-73
.3	Alternative Interest Refund Procedures	5-76
.3.1	First Alternative	5-76
.3.2	Second Alternative	5-76
.4	Dividends	5-77
.5	Closing Entries	5-77
.5.1	Purpose	5-77
.5.2	Procedures to be Used	5-77
.5.3	Closing Entries in Detail	5-80
.5.4	Closing Procedure Illustrated	5-80

SECTION NO.			PAGE NO.
SUBSECTION NO.			
5080		**SUBSIDIARY RECORDKEEPING**	5-82
	.1	Subcontrols for Individual Share and Loan Ledgers	5-82
	.2	Comments and Recommendations on the Establishment of Subcontrols	5-83
	.3	Posting to Subcontrol Records	5-83
	.4	Balancing the Subcontrols	5-84
	.5	Other Subsidiary Records for Other General Ledger Accounts	5-84
	.6	Reconciling Subsidiary Records	5-93
5090		**PAYROLL PLANS AND PROCEDURES**	5-93
	.1	Payroll Deductions and Allotments	5-93
	.2	Direct Deposit of Federal Recurring Payments	5-94
	.3	Set Date for Posting Payroll Deductions	5-94
	.4	Payroll Deduction Plans	5-94
	.4.1	Plan No. 1	5-95
	.4.2	Plan No. 2	5-95
	.4.2.1	Modification of Plan No. 2 (Accumulated Payroll Deduction Plan)	5-96
	.4.3	Plan No. 3	5-97
	.5	Payroll Deduction Records	5-97
	.5.1	Authorization for Payroll Deductions	5-97

SECTION NO.		PAGE NO.
SUBSECTION NO.		
.5.2	When Credit Union Develops all the Records in Connection with Payroll Deductions	5-98
.5.3	Where the Credit Union Receives a Record of the Payroll Deductions from the Employer	5-98
.5.4	Records of Distribution of Payroll Deductions, and Records of Share to Loan Transfers under Payroll Deduction Plan No. 2	5-99
.6	Entries in the Journal and Cash Record	5-99
.6.1	Entries Under Payroll Deduction Plans 1 and 3, and Entries Under the Share Credit Portion of Payroll Deduction Plan No. 2	5-99
.6.2	Share to Loan Transfers Under Payroll Deduction Plan No. 2	5-100
.7	Statements of Account	5-103
.8	Distribution of Statements of Account	5-103
.8.1	"No Mail" Accounts	5-105
.9	Periodic Statements	5-105
.9.1	Regulation E	5-105
.9.2	Part 707, Truth In Savings	5-109
5100	**RECORDKEEPING FOR COLLECTION BY OUTSIDE SOURCES**	5-109
.1	Collection of Loans by Outside Sources	5-109
.1.1	Nature of Collection Costs and Expenses	5-109
.1.2	Accounting for Recoverable Collection Costs Advanced by the Credit Union	5-109

SECTION NO.		PAGE NO.
SUBSECTION NO.		
.1.2.1	Method of Recordkeeping for Recoverable Collection Costs	5-110
.1.2.2	Uncollectible Collection Costs	5-110
.1.3	Priority in Application of Payments	5-110
.1.4	Records in Connection with Loans Placed with Outside Sources for Collection	5-111
.2	Field Collectors	5-113
.2.1	Accounting Control Procedures over Field Collections	5-114
.2.1.1	Receipt of Funds by the Collector	5-114
.2.1.2	Transmitting Funds and Records to the Credit Union Office	5-114
.2.1.3	Exchange of Records Between Credit Union Office and Field Collector	5-114
.2.1.4	Preparation of Records for Entry in the Journal and Cash Record	5-114
.2.1.5	Entry in the Journal and Cash Record	5-115
.2.1.6	Posting to the Individual Share and Loan Ledger	5-116
.2.1.7	Credit Union Funds in the Possession of Collectors	5-117
5110	**REPOSSESSION AND SALE OF COLLATERAL ON LOANS**	5-117
.1	Nature of Collateral in Process of Liquidation	5-117
.1.1	Loans-Collateral in Process of Liquidation (Account No. 707)	5-117
.1.2	Assets Acquired in Liquidation of Loans (Account No. 798)	5-118

SECTION NO.		PAGE NO.
SUBSECTION NO.		
.1.3	Worksheet Records for General Ledger Account No. 707, Loans-Collateral in Process of Liquidation, and Account No. 798, Assets Acquired in Liquidation of Loans	5-119
.1.4	Notes and Contracts Receivable (Account No. 711)	5-120
.2	Disposition of the Proceeds from the Liquidation of Collateral in Possession of the Credit Union	5-120
.3	Disposition of the Related Accounts After the Collateral Has Been Liquidated	5-121
.4	Uncollectible Notes and Contracts Receivable	5-121
5120	**ASSET VALUATION ALLOWANCE**	5-121
.1	Allowance for Loan Losses	5-122
.2	Allowance for Depreciation of Tangible Fixed Assets	5-125
.2.1	Sample Depreciation Calculation	5-126
.2.1.1	Straight Line	5-126
.2.1.2	Sum-of-Year-Digits	5-127
.2.1.3	Declining Balance	5-127
.2.1.4	Composite Depreciation Method	5-128
.3	Amortization of Computer Hardware Costs	5-128
.4	Amortization of Purchased System Software Costs	5-129
.5	Investments	5-129
.5.1	Allowance for Losses on Investments (Account No. 758)	5-129

SECTION NO.		PAGE NO.
SUBSECTION NO.		
5130	**ACCOUNTING SYSTEM**	5-129
.1	Miscellaneous Procedures and Systems	5-129
.1.1	Posting Board Systems and Forms	5-129
.1.2	Electronic Data Processing Systems and Forms	5-130
.1.3	Substitute Forms	5-130
.1.3.1	General Requirements for Substitute Forms	5-130
.1.3.2	Specific Requirements for Substitute Forms	5-130
.1.3.3	Note Forms	5-135
5140	**INTERNAL CONTROLS**	5-136
.1	Definition of Internal Controls	5-136
.2	Basic Elements of an Internal Control System	5-137
.2.1	Administrative Controls	5-137
.2.2	Accounting Controls	5-138
.3	Internal Control with Limited Staff	5-140
.4	Management Official Interlocks	5-141
.5	Dormant Accounts	5-141
5150	**SHARE, SHARE DRAFT, AND SHARE CERTIFICATE ACCOUNTS**	5-143
.1	Definitions	5-145

SECTION NO.		PAGE NO.
SUBSECTION NO.		
.2	Regular Share Account	5-145
.3	Share, Share Draft, and Share Certificate Accounts	5-145
.3.1	Other Share Accounts	5-146
.4	Share Draft Accounts	5-146
.5	Shares-Escrow	5-147
.6	Share Certificates	5-147
. 6.1	Varieties of Share Certificates	5-147
.6.1.1	Hybrid Varieties of Share Certificates	5-148
.6.1.2	Notice Share Certificates	5-149
.6.2	Upon Maturity	5-149
.6.3	Premature Withdrawal from a Share Certificate Account	5-151
.6.4	Penalty Provisions	5-151
.6.5	Exceptions to the Penalties	5-152
.6.6	Share Certificate Documents	5-152
.7	Disclosures for Share, Share Draft, and Share Certificate Accounts	5-152
.8	Advertising	5-154
.9	Notice Accounts	5-155
.10	Trust Accounts	5-155
.10.1	Deposit Insurance Coverage on Trust Accounts	5-156

SECTION NO.		PAGE NO.
SUBSECTION NO.		
.11	Share Accounts of Minors	5-156
.12	Share Accounts of Terminated or Deceased Members	5-156
.13	Individual Retirement Accounts	5-157
.14	Gifts or Premiums on Savings Accounts	5-158
5160	**DIVIDENDS, ANNUAL PERCENTAGE YIELD (APY), AND ANNUAL PERCENTAGE YIELD EARNED (APYE)**	5-158
.1	Dividends	5-158
.1.1	Two Basic Dividend Principles	5-159
.1.2	Establishing A Dividend Policy	5-159
.1.2.1	Dividend Calculation Methods	5-159
.1.2.2	Dividend Periods	5-164
.1.2.3	Dividend Declaration Dates	5-165
.1.2.4	Compounding Periods	5-165
.1.2.5	Crediting Periods	5-166
.1.2.6	Dividend Distribution Dates	5-166
.1.2.7	Daily Rates	5-166
.1.2.8	Dividend Credit Determination Dates (When A Share Purchase Begins Earning Dividend Credit)	5-167
.1.2.9	Minimum Balances Associated With Dividends	5-167
.1.2.10	Dividend Reductions and Penalties	5-168

SECTION NO.		PAGE NO.
SUBSECTION NO.		
.1.3	Rounding Rules for Dividends	5-169
.1.4	Dividend Entitlement on Closed Accounts	5-169
.1.5	Withdrawal Funds	5-170
.1.6	Dividend Accrual	5-170
.1.7	Term Share Account Dividend Rate	5-174
.1.8	Determining Maximum Dividend Rate	5-174
.1.9	Methods of Distribution And Use of Dividend Record for Hand Posted Credit Unions	5-174
.1.10	Reporting Dividends to Internal Revenue Service	5-175
.2	Annual Percentage Yield (APY)	5-175
.2.1	Dividend Formulas in Determining Dividends Using the APY Calculation	5-175
.2.1.1	Examples of Dividend Calculations in Determining Dividends Used in the APY Calculation	5-176
.2.1.2	Rounding Rules For Dividends Used In The APY Calculation	5-180
.2.2	APY Formula	5-180
.2.3	APY Calculation	5-180
.2.3.1	APY Calculation for a Non-Term Share Account	5-181
.2.3.2	APY Calculation for a Term Share Account	5-181
.2.3.3	Short-Cuts to the APY Calculation	5-182

SECTION NO.		PAGE NO.
SUBSECTION NO.		
.2.3.4	APY Calculation for a Stepped Rate Account	5-184
.2.3.5	APY Calculation for Tiered-Rate Account	5-185
.2.3.6	APY Calculation for a Noncompounding Multi-Year Term Share Account	5-186
.2.4	Rounding and Accuracy Rules for the APY	5-187
.3	Annual Percentage Yield Earned (APYE)	5-188
.3.1	Rounding Rules for Dividends used in the APYE Calculation	5-189
.3.2	APYE Formula	5-189
.3.2.1	Average Daily Balance Calculation	5-189
.3.3	APYE Calculations	5-190
.3.4	Special APYE Formula	5-191
.3.5	Special APYE Calculation	5-192
.3.6	Dividend Period Length Versus Statement Period Length for the APYE	5-192
.3.7	APYE Requirements When the Collected Balance Method is Used to Accrue and Pay Dividends	5-194
.3.8	APYE On Closed Accounts	5-194
.3.9	Rounding and Accuracy Rules for the APYE	5-194
5190	**RECORDS PRESERVATION AND RETENTION**	5-194
.1	Records Preservation Program	5-194
.2	Records Retention	5-195

SECTION NO.	SUBSECTION NO.		PAGE NO.
	.3	Destruction of Obsolete Records	5-196
	.3.1	Microfilming of Records	5-198
	.3.2	Disposal of Data Processing Output Reports	5-198
	.3.3	Microfiched Records	5-199
5193		**SECURITY DEVICES AND PROCEDURES**	5-199
5195		**SALE AND REDEMPTION OF U.S. SAVINGS BONDS**	5-200
	.1	Bond Sale Transactions	5-200
	.1.1	Records	5-201
	.1.2	Cash Received from Sales of U.S. Savings Bonds	5-201
	.1.3	Illustrative Entries	5-202
	.2	Installment Payments	5-202
	.2.1	Payments Received	5-203
	.2.2	Installment Payments Received Over the Counter	5-203
	.2.3	Disbursements	5-203
	.2.4	Liability Account	5-203
	.2.5	Records of Installment Payments	5-204
	.2.6	Subsidiary Ledgers	5-204
	.2.7	Illustrative Entries	5-205

SECTION NO.		PAGE NO.
SUBSECTION NO.		
.3	Savings Bond Redemption Transactions	5-206
.3.1	Payment by Check	5-206
.3.1.1	Illustrative Entries	5-206
.3.2	Payment by Share Credit	5-206
.3.2.1	Illustrative Entry	5-207
.3.3	Payment in Cash	5-207
.3.3.1	Illustrative Entry	5-207
.3.4	Recording Payment Data	5-207
.3.5	Shipment of Paid Bonds	5-208
.3.6	Compensation for Services	5-208
5200	**REIMBURSEMENT FOR SERVICES**	5-208
.1	Definition of Direct and Indirect Costs	5-208
.1.1	Essentials Needed for Offering the Sale of, and Cashing of, Money Orders and Checks	5-209
.2	Reimbursement Fees-Cost of Selling Checks	5-209
.2.1	Separate Bank Account	5-210
.2.2	Checks Sold	5-210
.2.3	Agent	5-210
.2.4	Escheatment-Abandoned Money Orders and Checks	5-210

SECTION NO.		PAGE NO.
SUBSECTION NO.		
.3	Reimbursement Fees-Cost of Cashing Checks	5-211
.4	Reimbursement Fees-Cost of Handling Insurance	5-211
.5	Reimbursement Fees-Cost of Handling Trust Accounts	5-211
.6	Group Purchasing and Insurance Activities	5-211
.6.1	Illustration of a Federal Credit Union Computation of Maximum Reimbursable Costs for Services	5-213
5210	**THIRD PARTY PAYMENTS**	5-213
.1	Electronic Funds Transfer, Automated Clearing House Payments, and Payments by Phone	5-214
.1.2	Electronic Funds Transfer Act	5-215
.1.3	Automated Clearing House	5-216
.2	Federal Recurring Payments	5-217
.3	Check Transmittal Service	5-217
.4	Collection of Utility Bills by Federal Credit Unions	5-218
.4.1	Written Agreement	5-218
.4.2	Procedures for the Collection of Utility Bills	5-218
.4.2.1	Receipts	5-218
.4.2.2	Records	5-219
.4.2.3	Accounting Instructions	5-219
.4.2.4	Illustrative Entries (Journal and Cash Record)	5-219
.5	Operational Guidelines	5-220

SECTION NO.		PAGE NO.
SUBSECTION NO.		
5220	**DELINQUENCY CONTROL**	5-220
.1	Need for Delinquency Control	5-220
.2	Elements of Delinquency Control	5-221
.2.1	Lending Policies	5-221
.2.2	Education of Members	5-222
.2.3	Collection Policies	5-222
.2.4	Selection and Training of Personnel	5-223
.2.5	Identification	5-223
.2.6	Computation of Delinquency	5-223
.2.6.1	Method A	5-223
.2.6.2	Method B	5-225
.2.6.3	Method C	5-226
.2.6.4	Computerized Delinquency Records	5-228
.2.6.5	Open-Ended Loans	5-228
.2.6.6	Method D	5-228
.2.7	Schedule of Delinquent Loans	5-229
.2.8	Charge off of Loans Against Allowance for Loan Losses (Account No. 719)	5-231
.2.9	Supervisory Committee	5-232

SECTION NO.	SUBSECTION NO.		PAGE NO.
5230		**RESERVE REQUIREMENTS**	5-232
	.1	Regular Reserve Transfer	5-232
	.1.1	Computation of Risk Assets	5-233
	.1.2	Computation of Total Regular Reserves	5-233
	.1.3	Determination of the Percentage of Gross Income to Transfer to Total Regular Reserves	5-234
	.1.4	Split-Rate Transfers	5-235
	.1.5	Net Regular Reserve Transfers	5-236
5240		**REGULATION D**	5-237
	.1	Pass-Through Correspondents	5-237
	.2	Regulation D-Transaction Account Reserves	5-237
	.3	Regulation D-Nonpersonal Time Deposit Reserves	5-239
	.4	Regulation D-Accounting Entries	5-240
5250		**FEDERAL FUNDS TRANSACTIONS**	5-240
	.1	Borrowing Federal Funds	5-240
	.2	Sale of Federal Funds	5-240
	.3	General Comments	5-240
	.4	Accounting Entries	5-241
5260		**CREDIT UNION SERVICE CONTRACTS**	5-241

ILLUSTRATIONS:

		PAGE NO.
Figure 5-1:	Illustration of a Completed Cash Received Voucher (Form FCU 105)	5-3
Figure 5-2:	Illustration of Completed Journal Vouchers (Form FCU 106A)	5-5 & 5-6
Figure 5-3:	Illustration of Completed Expense Ledger (Form FCU 106-Rev. 81)	5-10 & 5-11
Figure 5-3A:	Illustration of Completed Expense Ledger (Form FCU 104) Journal and Cash Record (FCU 101) and Statement of Income (FCU 109B) and How They Are Balanced	5-12
Figure 5-4:	Illustration of Completed Application for Membership (Form FCU 150)	5-14
Figure 5-5:	Illustration of Completed Passbook (Form FCU 107)	5-16
Figure 5-6:	VACANT	
Figure 5-7:	Illustration of Completed Joint Share Account Agreement (Form FCU 123)	5-17
Figure 5-7A:	Chart for Determining on What Social Security of Employer I.D. Number Dividends Paid or Credited are Reported	5-19
Figure 5-9:	Illustration of How a Loan is Recorded on the Individual Share and Loan Ledger (Form FCU 103)	5-28
Figure 5-10:	Illustration of a Completed Sample Teller's Daily Cash Sheet	5-38
Figure 5-11:	Illustration of a Completed Sample Cashier's Daily Summary	5-41
Figure 5-12:	Cash Received Vouchers and a Total Payment Receipt and Passbook	5-44
Figure 5-13:	Illustration of a Completed Statement of Account (Form FCU 107G)	5-45
Figure 5-14:	Illustration of Computer Terminal Generated Settlement Form and Audit Tape By-product	5-47
Figure 5-15:	Illustration of a Completed Voucher Check (Original Copy)	5-49
Fig. 5-15A:	Illustration of a Completed Voucher Check (First and/or Second Carbon Copy)	5-50

ILLUSTRATIONS: **PAGE NO.**

Figure 5-16 & 5-16A: Illustration of a Sample Voucher for a Loan Disbursed in Cash 5-52

Figure 5-17: Illustration of a Completed Bank Reconcilement (Form FCU 108) 5-65

Figure 5-18: Illustration as to How Individual Share Ledger Postings for a Day's Business are Balanced with the Share Transactions Posted in the Journal and Cash Record by Netting the Debits and Credits 5-71

Figure 5-19: Illustration of a Completed Record of Interest Refunds (Form FCU 92) . 5-75

Figure 5-20: Illustration of a Sample Bond Ledger (FCU 741) 5-85

Figure 5-21: Illustration of a Subsidiary Record for Shares, Deposits, or Certificates of Other Credit Unions (Form FCU 127) 5-85

Figure 5-22: Illustration of a Completed Subsidiary Record for Other Shares, Deposits and Certificates (Form FCU 124) 5-86

Figure 5-23: Illustration of a Completed Subsidiary Record for Loans to Other Credit Unions (Form FCU 125) 5-86

Figure 5-24: Illustration of a Completed Furniture and Equipment Subsidiary Ledgers (Form FCU 774) 5-87

Figure 5-25: Illustration of a Completed Trial Balance of Furniture and Equipment Subsidiary Ledgers 5-88

Figure 5-26: Illustration of a Completed Notes Payable Subsidiary Record (Form FCU 126) 5-89

Figure 5-27: Illustration of a Completed Subsidiary Record for Federal Agency Securities (Form FCU 742) 5-90

Figure 5-28: Illustration of a Completed Expense Ledger Form FCU 104-Rev. 81 5-91

Figure 5-28: Illustration of a Completed Expense Ledger Form FCU 104-Rev. 81 (Continued) 5-92

Figure 5-29: Illustration of a Completed Record of Payroll Deductions for Period Ended (Form FCU 105D) 5-100

ILLUSTRATIONS: **PAGE NO.**

Figure 5-30:	Illustration of a Completed Record of Payroll Deductions for Period Ended (Form FCU 105B)	5-101
Fig. 5-30A:	Illustration of a Completed Loans Transfer Summary (Form FCU 105C)	5-101
Figure 5-31:	Illustrated Record of Payroll Deductions (Form FCU 105-A)	5-102
Figure 5-32:	Illustration of a Completed Statement of Account (Form FCU 107G)	5-104
Fig. 5-32A:	Illustration of a Share Draft Statement of Account (Form FCU 107G-SD)	5-106
Fig. 5-32B:	Illustration of a Statement of Account for Open-End Credit (Form FCU 107-G OE)	5-107
Figure 5-33:	Illustrations of a Completed List of Cash Collected (Form FCU 250)	5-116
Figure 5-34:	Positions in Federal Credit Unions and Persons Who Are Prohibited From Holding Them	5-142
Figure 5-35:	Illustration of a Share Draft	5-148
Figure 5-36:	Illustration of a Share Draft Statement of Account (Form FCU 107G-SD)	5-150
Figure 5-37:	VACANT	
Figure 5-38:	VACANT	
Figure 5-38:	VACANT	
Figure 5-39:	Illustration of a Joint Ownership Agreement for a Share Certificate Account (FCU 123 CT)	5-153
Figure 5-40:	Dividend Policy for Regular Shares	5-160
Figure 5-41:	Dividend Policy for Share Certificates	5-161
Figure 5-42:	Illustrated Dividend Record (Form FCU 112)	5-171
Figure 5-43:	Example Dividend Work Sheet and Payment Record (Form FCU 112A)	5-172

ILLUSTRATIONS: **PAGE NO.**

Figure 5-44: Illustration of a Record of Dividends (Form FCU 112B) 5-173

Figure 5-45: Illustration of a Computation of Maximum Reimbursable Costs for Services 5-214

Figure 5-46: Illustration of a Completed Schedule of Delinquent Loans (Form FCU 118) 5-230

5000 GENERAL ACCOUNTING AND OPERATING PROCEDURES

5010 ACCOUNTING FOR CASH RECEIPTS AND DISBURSEMENTS

5010.1 PROCEDURE WHEN CASH IS RECEIVED

Whenever cash is received, a Cash Received Voucher (Form FCU 105 or its equivalent) should be prepared. It is recommended that the voucher be filled in by the members for all members' payments to the credit union. The person receiving the cash should enter the amount of the payment and the purpose in the member's Passbook. The Cash Received Voucher serves as a posting medium from which entries are made in the Individual Share and Loan Ledgers. (NOTE: On-line, data processing systems have replaced the need for passbooks and can provide the member with current share and loan balances.)

At the end of each business day the totals of the Cash Received Vouchers for that day should be added. The total of the vouchers should be the same as the total cash received and on hand for that day. If it is not, the "Cash Over and Short" (Account No. 330) should be charged or credited. After the totals of the vouchers are reconciled with the cash on hand and the summary voucher prepared, the amounts appearing on the summary voucher should be entered in the Journal and Cash Record (Form FCU 101 or its equivalent) and the amounts on the individual vouchers should be posted to the Individual Share and Loan Ledgers (Form FCU 103 or its equivalent). The use of total payment vouchers and the handling of mail receipts are discussed under "Other Methods of Accounting for Receipts and Disbursements", Section 5050.

The summary voucher should be attached to the individual vouchers. The totals of the individual amounts paid in on Shares, Share Certificates, Loans, Interest on Loans, Fees and Charges, etc., may be determined by the use of an adding machine. The adding machine tape should be attached to the summary voucher.

Cash received by the credit union must be deposited in the bank promptly as required by Article XV of the Bylaws. Deposits in the bank will ordinarily consist of an entire day's receipts as entered in the Journal and Cash Record. If the amounts are small, more than one day's total receipts may be combined in a single deposit provided that no funds are held for more than the time limits specified in the Bylaws. Credit unions, however, occasionally find it expedient to deposit funds in the bank during the course of a business day and to include in the deposit all receipts up to the time the deposit is prepared in order that comparatively large amounts of cash will not be on hand in the credit union. Usually, such credit unions will prepare two deposits for each day's business, but only one entry in the Journal and Cash Record need be made. The total of the two deposits should agree with the cash receipts for the day as shown by the entry.

Credit unions making more than one bank deposit during a business day may "cut off" the day's business at a certain specified time, usually at the time of the bank deposit. All transactions subsequent to the cut off time are considered as the business of the following day and are so dated. The establishment of a policy by the board of directors for cutting off the day's business should be made known to the members.

In order that cash can be easily traced, the bank deposits should be identifiable with the cash receipts as entered in the Journal and Cash Record. So that the credit union will have a record of the persons who made payments in case the cash receipts are lost or stolen before they have been deposited in the bank, the Cash Received Vouchers should immediately be segregated from the cash. Checks should be promptly endorsed "for deposit only" when they are received to reduce the possibility of their being negotiated if they are stolen. For internal control purposes, the deposit slips should be prepared in duplicate for all bank deposits and the duplicate be retained in the credit union files. Showing bank transit numbers for checks included in the deposit is suggested.

The cash of the credit union must be kept separate and apart from all other cash. Under no circumstances should the personal or other cash of the officers and employees be commingled with the credit union's cash.

Figure 5-1 illustrates a Cash Received Voucher for a member's payment for the entrance fee and the initial payment on shares and also a summary Cash Received Voucher for the day's collections.

5010.2 PROCEDURE WHEN CASH IS DISBURSED

5010.2.1 DISBURSEMENTS TO BE MADE BY CHECK

All disbursements should be made by check, except those from the petty cash fund and disbursements made in cash under the procedures set forth under "Other Methods of Accounting for Receipts and Disbursements", Section xxxx. The canceled checks serve as receipts for money paid out by the credit union. Although no standard form of check is prescribed, there are certain advantages to the use of checks which have the check number, the credit union's name and spaces for signature and countersignature preprinted. Regardless of the form of check used, all checks should be prenumbered.

Spoiled checks should be marked "Void" and filed for audit purposes in their regular numerical order with their applicable bank statements and canceled checks.

5010.2.2 COUNTERSIGNATURES AND SINGLE SIGNATURES

Unless the board of directors has authorized otherwise, all checks should be signed and countersigned. The countersigning provides an additional element of control over the disbursements. The financial officer, assistant financial officers, manager and assistant managers may be authorized to sign checks. The executive officer and the assistant executive officer(s) should be authorized to countersign. The board of directors may resolve that checks can be issued with the signature of only the financial officer, assistant financial officer, manager or assistant manager. Before acting on such a resolution, the board must be sure that adequate internal controls are in effect and that countersignatures are no longer required to insure the satisfactory operation of the credit union.

Figure 5-1: Illustration of Completed Cash Received Vouchers (Form FCU 105)

FORM FCU - 105

Our

FEDERAL CREDIT UNION

CASH RECEIVED VOUCHER

ACCOUNT NO. Summary

DATE June 4, 19 X1

REC'D FROM Summary Voucher

	DOLLARS	CENTS
SHARES	459	00
ENTRANCE FEES	3	00
LATE CHARGES		
INTEREST ON LOANS		
LOANS		
TOTAL	462	00

RECEIVED BY: Ha

POSTED x

MEMBER'S PASSBOOK BALANCES

SHARES $ ...

LOANS $...

FORM FCU - 105

Our

FEDERAL CREDIT UNION

CASH RECEIVED VOUCHER

ACCOUNT NO. 20

DATE June 4, 19 X1

REC'D FROM Henry J. Philips

	DOLLARS	CENTS
SHARES	3	00
ENTRANCE FEES	1	00
LATE CHARGES		
INTEREST ON LOANS		
LOANS		
TOTAL	4	00

RECEIVED BY: Ha

POSTED x

MEMBER'S PASSBOOK BALANCES

SHARES $ 3.00

LOANS $...

Each bank usually has its own resolution form which corporations fill out in connection with the authorization of certain officers to sign and/or countersign checks. For this reason, no standard resolution form is prescribed.

The procedure to follow when a check-signing machine is used may be found under "Other Methods of Accounting for Receipts and Disbursements", Section 5050.

5010.2.3 JOURNAL VOUCHER FORMS TO BE USED WITH DISBURSEMENTS

For each disbursement, a Journal Voucher (Form FCU 106A or its equivalent) be should prepared. This form should be used as a source for all entries in the Journal and Cash Record other than cash receipts. It can also be used for noncash transactions, such as transfers from shares to loans. However, when the form is used for this purpose, it should describe the reason for the entry on the face or reverse side of the form.

The Journal Voucher serves as a convenient medium for posting items to the Individual Share and Loan Ledgers. Spaces are provided on the form to show who approved or authorized the disbursement and the signature of the person receiving the check. Since the member's signature should appear on the canceled check, members do not need to sign the Journal Voucher.

The use of the sample Journal Voucher Form is optional; its use, however, is strongly recommended to standardize and simplify the means for showing authorization of disbursements, transfers and Journal entries and to keep the types of posting media to a minimum. A substitute form can be developed such as a source document for posting using electronic data processing (generally requires carbon copies). However, in order to serve the same needs served by the Journal Voucher, most of the information appearing on the Journal Voucher will need to appear on the substitute form. For electronic data processing (EDP) posting, transaction processing codes should be included.

Each check should be fisted individually in the Journal and Cash Record in numerical order from the information provided on the Journal Voucher form. Entries should also be made in the member's Individual Share and Loan Ledger for all transactions with the member, such as share withdrawals and loans made.

The procedure to follow when summarizing cash disbursements in the Journal and Cash Record is explained under "Other Methods of Accounting for Receipts and Disbursements", Section 5050.

Noncash transactions may be summarized on a Journal Voucher form (or its equivalent). This summary voucher should show the total of the day's noncash transactions and should be attached to the individual vouchers. In such a case, the summary voucher will be the basis for the daily summary entry in the Journal and Cash Record for noncash transactions.

Figure 5-2 serves as an example of several different types of transactions recorded on the Journal Voucher form.

FIGURE 5-2: Illustration of Completed Journal Vouchers (Form FCU 106-A)

JOURNAL VOUCHER Our Federal **C.U.**

ACCT NO. *20* NAME Henry J. Phillips DATE *6-30-X1*

	Debit				Credit	
	20	00	**SHARES**			
			CREDIT		20	00
			LOANS			
			INTEREST			

CHECK NO. 49 AMT $20.00
ENTERED JCR. *x* POSTED *x*
Form FCU 106A

APPROVED OR AUTHORIZED BY
Credit Committee (Shares pledged on Loan)
RECEIVED BY *Henry J. Phillips*

JOURNAL VOUCHER Our Federal **C.U.**

ACCT NO. *3* NAME John Jones DATE *6-7-X1*

	Debit				Credit	
			SHARES			
			CREDIT		42	00
	42	00	**LOANS**			
			INTEREST			

CHECK NO. 2 AMT $42.00
ENTERED JCR. *x* POSTED *x*

APPROVED OR AUTHORIZED BY
Credit Committee
RECEIVED BY *John Jones*

JOURNAL VOUCHER Our Federal **C.U.**

ACCT NO. *3* NAME XYZ Surety Company DATE *6-21-X1*

					Credit	
			SHARES			
			CREDIT		8	00
			LOANS			
			INTEREST			
	8	00*	Operating Expenses (Acct. No. 200)			

CHECK NO. 12 AMT $8.00
ENTERED JCR. *x* POSTED *x*
Form FCU 106A

APPROVED OR AUTHORIZED BY
Board of Directors
RECEIVED BY
(See Invoice Attached)

* This amount would be posted to the Expense Ledger (Form FCU 104) under the Office Operations Expenses (Acct. No. 260) Column. It would be listed as insurance Expense (Acct. No. 265)

FIGURE 5-2: Illustration of Completed Journal Vouchers (Continued)

Loan Renewal:

JOURNAL VOUCHER Our Federal **C.U.**

ACCT NO. *3* NAME *John Jones* DATE 6-21-X1

	Debit				Credit	
			SHARES			
			CASH		116	00
	150	00	**LOANS**		34	00
			INTERESTS			

CHECK NO. 48 AMT $116.00

ENTERED JCR. *x* POSTED *x*

APPROVED OR AUTHORIZED BY Credit Committee

RECEIVED BY ***John Jones***

Application of Shares to Loans and Interest Income on Loans:

JOURNAL VOUCHER Our Federal **C.U.**

ACCT NO. *7* NAME *A.B. Duncan* DATE 6-28-X1

	Debit				Credit	
	10	00	**SHARES**			
			CASH			
			LOANS		9	00
			INTERESTS		1	00

CHECK NO. Transfer AMT -------

ENTERED JCR. *x* POSTED *x*

APPROVED OR AUTHORIZED BY Board of Directors

RECEIVED BY ------

Form FCU-106-A - 11087

5020 BASIC ACCOUNTING RECORDS

5020.1 STANDARD FORMS

Basic, manual recordkeeping forms have been developed as standard accounting forms for federal credit unions. Standard forms are assigned a FCU form number. National Credit Union Administration does not stock or supply these forms. Generally these forms are available from commercial form printers and state credit union league printing activities.

The standard forms have been designed to fit the ordinary operating needs of federal credit unions. There are a few standard forms which may need to be modified to more easily accommodate the requirements of the National Credit Union Administration Rules and Regulations Part 707. Also, specifically developed forms that accommodate the requirements of the National Credit Union Administration Rules and Regulations Part 707 may be purchased from commercial form printers or a state credit union league printing activity. The standard forms that may need modifications to more easily accommodate the National Credit Union Administration Rules and Regulations Part 707 are: 1) the individual share and loan ledger (FCU 103 series), 2) the dividend records (FCU 112 series), and 3) the statement of account forms (FCU 107 series). FCU 103 and FCU 112 series may need additional columns and descriptive headers to document the dividend calculation based on the permissible dividend methods of the National Credit Union Administration Rules and Regulations, *Truth in Savings*, Section 707.7, *Payment of Dividends*. FCU 107 series will need to be reviewed by the board of directors of a federal credit union for compliance with the National Credit Union Administration Rules and Regulations, *Truth in Savings*, Section 707.6, *Statement Disclosures* when the statement of account meets the definition of a periodic statement under the National Credit Union Administration Rules and Regulations, *Truth in Savings*, Section 707.2(t), *Definitions*. Section 5130.1.3.2 *Specific Requirements for Substitute Forms* illustrates additional columns for the individual share and loan ledger in order to calculate the average daily balance for an existing account, a new account, and a closed account.

Form No.	*Name of Form*
90	New and Closed Accounts
92	Record of Interest Refunds
94	Furniture and Equipment Ledger
101	Journal and Cash Record
101A	Journal and Cash Record Continuation Sheet
102	General Ledger
103	Individual Share and Loan Ledger
103A	Individual Share and Loan Ledger
103D	Individual Share and Loan Ledger
103G	Individual Share and Loan Ledger
103H	Individual Share and Loan Ledger
104	Expense Ledger
105	Cash Received Voucher
105A	Record of Payroll Deductions
105B	Record of Payroll Deductions

105C	Loans Transfer Summary
105D	Record of Payroll Deductions
106A	Journal Voucher
107	Member's Passbook
107A	Member's Passbook
107B	Member's Passbook
107G	Statement of Account
107G-SD	Share Draft Statement of Account
107G-OE	Statement of Account for Open End Credit
107H	Statement of Account
108	Bank Reconcilement
109A	Statement of Financial Condition
109B	Statement of Income
109C	Supporting Schedules for Financial Statements
109D	Statement of Changes in Earnings
109E	Statement of Changes in Cash Flows
112	Dividend Record
112A	Dividend Work Sheet and Payment Record
112B	Record of Dividends
115	Extension Agreement
116	Trial Balance of General Ledger Accounts
118	Schedule of Delinquent Loans
118-LC	Schedule of Delinquent Lines of Credit
120	Record of Cash Received from the Sale of US Savings Bonds
123	Joint Share Account Agreement
124	Other Shares, Deposits and Certificates Subsidiary Record
125	Loans to Other Credit Unions Subsidiary Record
126	Notes Payable Subsidiary Record
127	Share Deposits and Certificates of Other Credit Unions Subsidiary Record
150	Application for Membership
150-123 Comb.	Application for Membership and Joint Share Account Agreement
200	Application for Loan
200 Comb.	Application for Loan and Detailed Application Statement
201	Note
250	List of Cash Collected
741	Bond Ledger
742	Federal Agency Securities
774	Furniture and Equipment
2000	Computation of Maximum Reimbursable Costs for Services
6001	Application for Loan

Journal and Cash Record (Form FCU 101)

This record is the book of original entry for all credit union accounting transactions. The Journal and Cash Record is described and illustrated in Section 4010.

General Ledger (Form FCU 102)

This is the book of final entry for all credit union transactions. The General Ledger is described and illustrated in Section 4010.

Expense Ledger (Form FCU 104)

The use of the Expense Ledger (Form FCU 104) is optional if the individual General Ledger expense accounts are included in the General Ledger. The Chart of General Ledger Accounts provides separate General Ledger accounts for each classification of operating expenses in the 200 through 399 number series of General Ledger accounts. At the end of each month these accounts should be individually posted or posted in summary form from the Journal and Cash Record to the individual General Ledger expense accounts. If these individual General Ledger expense accounts are used, the trial balance prepared from the General Ledger, as of the end of each month, will include the total amounts applicable to each category.

A single General Ledger account may be established in lieu of the individual General Ledger accounts. Under this option the credit union would use the Operating Expense (Control) (Account No. 200), as the General Ledger control account for all transactions affecting the 200-399 series of accounts. The expenses applicable to the detailed account numbers in the series of account would be used to designate the particular classifications of expenses incurred on Form FCU 104, Expense Ledger. Form FCU 104 is used to support this control account and to provide a continuing detailed classification of each expense as each transaction occurs. Refer to Figures 5-3 and 5-3A.

Trial Balance of General Ledger Accounts (Form FCU 116)

This form is used at the end of each month to list the debit and credit balances of all General Ledger accounts in separate columns to assure that the accounts are in balance. The form also provides account balances as a source of information for use in preparing period-end financial reports.

Bank Reconcilement (Form FCU 108)

This form is described in Section 5060.5. The Bank Reconcilement form is designed to show the various elements involved in reconciling the credit union's respective cash balance with that shown in the monthly statement received from the depository bank; e.g., list of outstanding checks, list of deposits made by credit union not credited by bank, etc. The Bank Reconcilement provides a permanent record and proves agreement between the bank and the credit union's cash account.

Record of Interest Refunds (Form FCU 92)

This form is for use in computing and showing the disposition made of the interest refund payable to each borrower. The credit union should use Form FCU 92, or a record of the credit union's choice having similar columnar headings.

Figure 5-3: Illustration of a Completed Expense Ledger Form (Form FCU 104)

Page No. 1

MTD = Month to Date
QTD = Quarter to Date
YTD = Year to Date

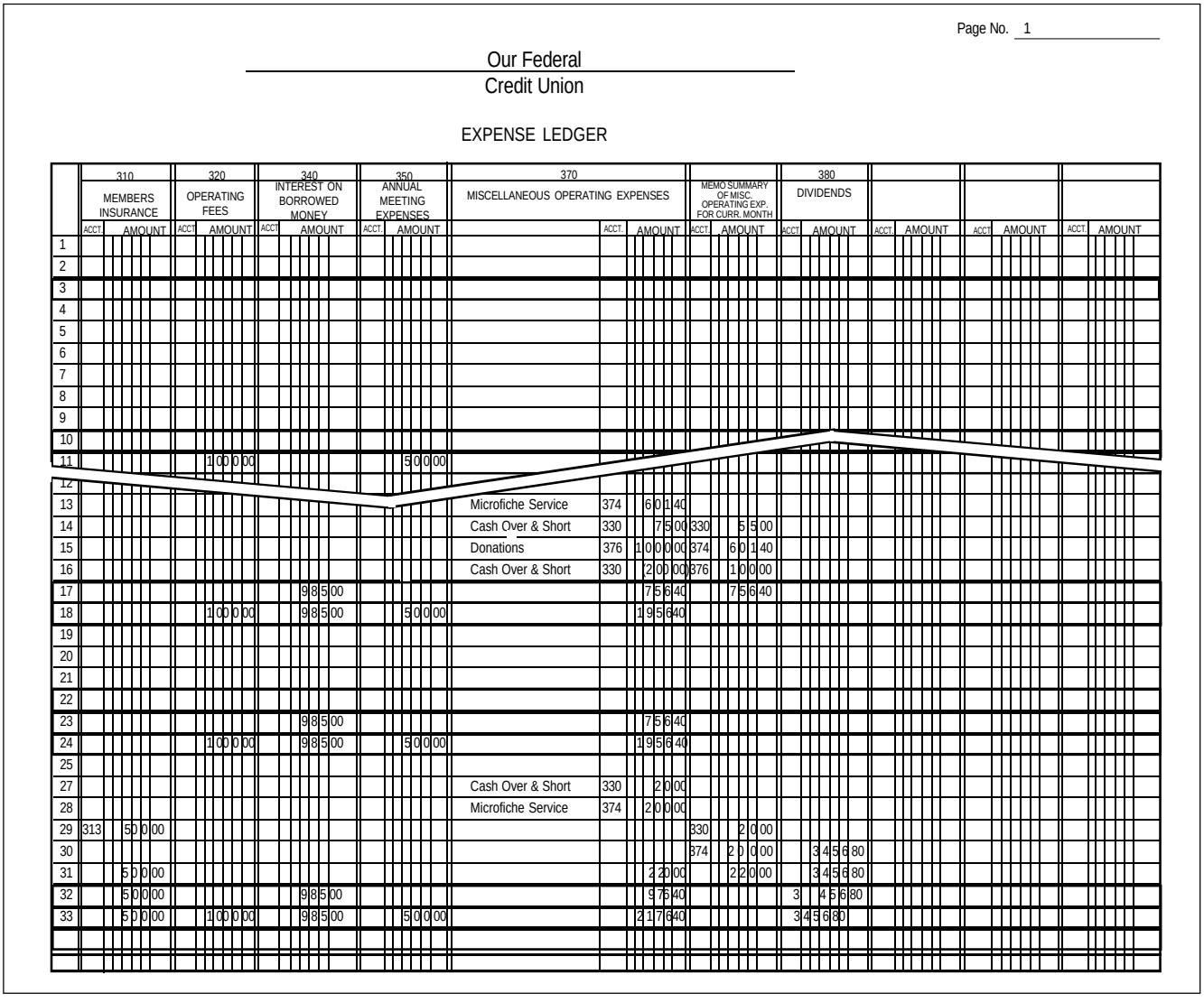
Our Federal
Credit Union

EXPENSE LEDGER

FORM FCU 104 - REV. 81

	DATE 19 X1	FOLIO	200 EXPENSE TOTAL	210 COMPENSATION ACCT	210 COMPENSATION AMOUNT	220 EMPLOYEE BENEFITS ACCT	220 EMPLOYEE BENEFITS AMOUNT	230 TRAVEL & CONFERENCE EXPENSES ACCT	230 TRAVEL & CONFERENCE EXPENSES AMOUNT	240 ASSOC. DUES AMOUNT	250 OFFICE OCCUPANCY EXPENSES ACCT	250 OFFICE OCCUPANCY EXPENSES AMOUNT	260 OFFICE OPERATIONS EXPENSES ACCT	260 OFFICE OPERATIONS EXPENSES AMOUNT	270 EDUCATIONAL & PROMOTIONAL EXPENSES ACCT	270 EDUCATIONAL & PROMOTIONAL EXPENSES AMOUNT	280 LOAN SERVICING EXPENSES ACCT	280 LOAN SERVICING EXPENSES AMOUNT	290 PROFESSIONAL & OUTSIDE SERVICES ACCT	290 PROFESSIONAL & OUTSIDE SERVICES AMOUNT	300 PROVISION FOR LOAN LOSSES ACCT	300 PROVISION FOR LOAN LOSSES AMOUNT
1	6-17	JC1	115.85										264	115.85								
2	21	JC1	108.00										265	105.00								
3	YTD		223.85											223.85								
4	7-5	JC2	100.95										264	100.95								
5	5	JC2	1,201.30	211	1,126.40	222	74.90															
6	9	JC2	806.00								251	806.00										
7	12	JC2	21.50														284	21.50				
8	15	JC3	63.50							63.50												
9	26	JC3	114.57												272	114.57						
10	MTD		2,879.32	211	1,126.40		74.90			63.50		806.00		100.95		114.57		21.50				
11	YTD		4,603.17		1,126.40		74.90			63.50		806.00		324.80		114.57		21.50				
12	10-28	JC6	1,201.30	211	1,126.40	222	74.90															
13	29	JC6	60.40																			
14	30	JC6	75.00																			
15	31	JC6	100.00																			
16	31	JC6	(20.00)																			
17	MTD		648.90		1,126.40		74.90			63.50											290.42	0
18	YTD		19,793.97		5,632.00		374.50			317.50		806.00		324.80		114.57		21.50			490.42	0
19	11-4	JC7	1,201.30	211	1,126.40		74.90															
20	11-7	JC7	400.00												271	400.00						
21	11-30	JC7	1,057.80					232	1,057.80													
22	MTD		2,659.10		1,126.40		74.90		1,057.80							400.00						
23	QTD		9,141.00		2,252.80		149.80		1,057.80	63.50						400.00					290.42	0
24	YTD		22,453.07		6,758.40		449.40		1,057.80	317.50		806.00		324.80		514.57		21.50			490.42	0
25	12-5	JC8	1,201.30	211	1,126.40	222	74.90															
26	12-9	JC8	1,300.00					231	1,300.00													
27	12-13	JC8	20.00																			
28	12-17	JC8	200.00																			
29	12-21	JC8	500.00																			
30	12-30	JC8	345.68																			
31	MTD		6,678.10		1,126.40		74.90		1,300.00													
32	QTD		15,819.10		3,379.50		224.70		2,357.80	63.50						400.00					290.42	0
33	YTD		29,131.17		7,884.80		524.30		2,357.80	317.50		806.00		324.80		514.57		21.50			490.42	0

Figure 5-3: Illustration of a Completed Expense Ledger Form Form FCU 104 - (Continued)



Page No. 1

Our Federal
Credit Union

EXPENSE LEDGER

	310 MEMBERS INSURANCE		320 OPERATING FEES		340 INTEREST ON BORROWED MONEY		350 ANNUAL MEETING EXPENSES		370 MISCELLANEOUS OPERATING EXPENSES			MEMO SUMMARY OF MISC. OPERATING EXP. FOR CURR. MONTH		380 DIVIDENDS						
	ACCT.	AMOUNT	ACCT.	AMOUNT	ACCT.	AMOUNT	ACCT.	AMOUNT		ACCT.	AMOUNT	ACCT.	AMOUNT	ACCT.	AMOUNT	ACCT.	AMOUNT	ACCT.	AMOUNT	ACCT.	AMOUNT
1																				
2																				
3																				
4																				
5																				
6																				
7																				
8																				
9																				
10																				
11				1 0 0 0 0 0					5 0 0 0 0											
12																				
13									Microfiche Service	374	6 0 1 4 0									
14									Cash Over & Short	330	7 5 0 0	330	5 5 0 0							
15									Donations	376	1 0 0 0 0 0 0	374	6 0 1 4 0							
16									Cash Over & Short	330	2 0 0 0 0 0	376	1 0 0 0 0 0							
17						9 8 5 0 0					7 5 6 4 0		7 5 6 4 0							
18				1 0 0 0 0 0		9 8 5 0 0		5 0 0 0 0			1 9 5 6 4 0									
19																				
20																				
21																				
22																				
23						9 8 5 0 0					7 5 6 4 0									
24				1 0 0 0 0 0		9 8 5 0 0		5 0 0 0 0			1 9 5 6 4 0									
25																				
27									Cash Over & Short	330	2 0 0 0									
28									Microfiche Service	374	2 0 0 0 0									
29	313	5 0 0 0 0 0										330	2 0 0 0 0							
30												374	2 0 0 0 0 0		3 4 5 6 8 0					
31		5 0 0 0 0 0									2 2 0 0 0 0		2 2 0 0 0 0		3 4 5 6 8 0					
32		5 0 0 0 0 0				9 8 5 0 0					9 7 6 4 0			3	4 5 6 8 0					
33		5 0 0 0 0 0		1 0 0 0 0 0		9 8 5 0 0		5 0 0 0 0			2 1 7 6 4 0				3 4 5 6 8 0					

FIGURE 5-3a NEEDS TO BE PRINTED ON LONGER PAPER

Dividend Work Sheet and Payment Record (Form FCU 112A)

Record of Dividends (Form FCU 112B)

These forms are used to compute the amount of dividends payable to each member based on the full share or actual dollars represented by the member's Share, Share Draft and/or Share Certificate Accounts for the dividend period, and for showing the method used in distributing the dividend to each member.

Furniture and Equipment Ledger (Form FCU 94)

A suggested form of Furniture and Equipment Ledger is shown in the description of Acct. No. 774, Furniture and Equipment. A subsidiary ledger form, such as that illustrated in the account description, should be kept by the credit union for each individual property item or for groups of identical items whenever the credit union has numerous pieces of furniture and equipment.

Schedule of Delinquent Loans (Form FCU 118)

This form is illustrated and described in Section 5220.2.7. (The form is used to facilitate the aging and control of the delinquent loans. It is a tool that prompts necessary follow-up of past due accounts.) Form FCU 118 LC is used to list and report delinquent Lines of Credit Balances.

Other Share, Deposits and Certificates Subsidiary Record (Form FCU 124)

Loans to Other Credit Unions Subsidiary Record (Form FCU 125)

Notes Payable Subsidiary Record (Form FCU 126)

Shares, Deposits and Certificates of Other Credit Unions Subsidiary Record (Form FCU 127)

Federal Agency Securities (Form FCU 742)

5030 MEMBERSHIP

5030.1 PROCEDURE WHEN A NEW MEMBER IS ADMITTED

Required account disclosures must be provided before an account is opened or a service is provided, whichever is earlier. A service is provided when a fee required to be disclosed under the National Credit Union Administration Rules and Regulations, *Truth in Savings*, Section 707.4, *Account Disclosures* is assessed. See the National Credit Union Administration Rules and Regulations, *Truth in Savings*, Section 707.4, *Account Disclosures* for specific details on required fee disclosures.

5030.1.1 APPLYING FOR MEMBERSHIP

An individual is given an Application for Membership card (Form 150) upon indicating a desire to become a member and after the credit union has positively identified that he/she is within the credit union's field of membership. The applicant must fill in all the information requested, leaving both the top and bottom lines blank to be completed by the credit union.

The Application for Membership card is one of the important records of the credit union. It is used for the following purposes:

a) As a source of information to the board of directors, membership officer, or executive committee in acting on the application for membership.

b) As a permanent record of approved members.

c) As a permanent record of the member's signature which can be used for identification and for comparison with signatures on notes and checks.

d) As a convenient cross reference to locate members' account(s), when filed alphabetically.

e) As a source of information about the members.

FIGURE 5-4: Illustration of a Completed Application for Membership (Form FCU 150)

Account Number: 20

(To be filled in by treasurer): Phillips, Henry J.

I hereby make application for membership in and agree to conform to the By-Laws or any amendments thereof in the Our Federal CREDIT UNION

APPLICANT SIGN HERE Do not print: *Henry J. Phillips*

Soc. Sec. No. or Tax Ident. No.: 455-32-1543

Complete Address: 217 Oak Street, Anytown, Ind. 45367

Date of Birth: 1-14-13

Husband's first name or wife's maiden name: Mary Jones

Employer: Our Products Co.

Dept. or Occupatuion: Driver

Home Phone: 288-0136

This application approved by the : (Check one)
( ) Board ( ) Exec. Committee (X) Membership Officer

Bus. Phone: 587-4382 Ext. 62

Date: 7-2-X1

Signed: *Bernard Frank*
(Person representing approver of application)

FCU 150

Form FCU 150, Application for Membership, is an optional form and a credit union may design a substitute form to fit its special needs. However, in order to provide the basic information concerning the applicant and to provide a record of approval, any substitute form should provide space for at least the following:

a) Account number, name, social security number, address, birth date and signature of the applicant.

b) Date, signature of the authorized person recording approval of the application, and indication of approval by the board, membership officer or executive committee.

c) Date, signature and title (secretary of the board, membership officer or executive committee member) of the authorized person recording approval of the application.

d) The application should contain a statement on the form whereby the applicant agrees to conform with the credit union's bylaws and amendments thereof.

5030.1.2 MAKING INITIAL PAYMENTS

The entrance fee, if any, and the initial payment on shares or share certificates should be collected with each application for membership. A Cash Received Voucher (Form FCU 105) should be prepared for the cash received.

5030.1.3 ISSUANCE OF A PASSBOOK

A passbook (Form FCU 107) bearing the member's share and/or share certificate account number(s) and name can be issued to each member for their share account(s) and/or share certificate account(s). (NOTE: Many credit unions using electronic data processing systems no longer issue passbooks to their members.) The account number(s) should be entered on the Cash Received Voucher and the Application for Membership card. The date and the payments on shares or share certificates and fees made by the new member should be entered in the passbook and initialed by the authorized person receiving the cash. The passbook is then given to the member to be his official receipt and record of all his future business with the credit union.

The member's passbook also serves as a current statement of his account(s). Amounts paid to or received from members should be immediately recorded in the member's passbook and initialed by the person who received or paid out the funds for the credit union. No officer or employee of the credit union should be permitted to keep other members' passbooks. Members should keep their passbooks in their own possession under their control. If a passbook is lost, a duplicate may be issued and the member may be charged a fee in fine with the actual cost of the passbook. When a member closes his/her account, the passbook should be returned to the member after being marked "closed."

For those credit unions operating under a payroll deduction plan, the statement of account system may be adopted in lieu of issuing passbooks, as discussed under "Statements of Account."

Figure 5-5: Illustration of a Completed Passbook (Form FCU 107)

Form FCU 107

SHARES									LOANS									
DATE	PAID IN		WITHDRAWN		BALANCE		FEE LATE CHGS	CASHIER	DATE	LOANED		REPAID		BALANCE		INTEREST	LATE CHARGES	CASHIER
June 4	3	00			3	00	25	Ha	June 15	60	00			60	00			Ha
11	10	00			13	00	25	Ha	22			3	00	57	00	14		Ha
15	10	00			23	00		Ha	29			3	00	54	00	13		Ha
22	1	00			24	00		Ha	July 6			3	00	51	00	13		Ha
30			20	00	4	00		Ha	13			10	00	41	00	12		Ha
July 6	1	00			5	00		Ha	20			3	00	38	00	10		Ha
13	1	00			6	00		Ha	Aug 3			5	00	33	00	18		Ha
20	1	00			7	00		Ha	10			3	00	30	00	08		Ha
Aug 3	1	00			8	00		Ha	17			3	00	27	00	07		Ha
10	1	00			9	00		Ha	24			5	00	22	00	06		Ha
17	1	00			10	00		Ha	31			8	00	14	00	05		Ha
24	1	00			11	00		Ha	Sept.7			5	00	9	00	03		Ha
31	1	00			12	00		Ha	14			6	00	3	00	02		Ha
Sept. 7	7	00			13	00		Ha	21			3	00		----	01		Ha

5030.1.4 ASSIGNING ACCOUNT NUMBERS

Each credit union member should be assigned an account number as a means of identifying their account(s). It is recommended that the account numbers be credit union-assigned numbers and be issued in consecutive order beginning with one. This independent, credit union-controlled account numbering system provides certain elements of important control over the opening of new accounts and the closing of existing accounts, as well as providing a means of identifying the accounts.

Some credit unions prefer to use some other number, in addition to the credit union-assigned number, as a means of day-to-day identification of the account(s). For example, the payroll number assigned by the employer may prove to be a convenient means of identifying the accounts. If payroll deduction lists are received in payroll number order, it may be advantageous for the credit union to file its ledgers in that order to facilitate the posting of the deductions. In these instances, the credit union assigned number(s) should be recorded on the membership card and, if practical, on the member's ledger and statement or passbook forms. In this type of a system, the payroll number will provide the means of day-to-day identification of the account(s), while the credit union-assigned number will provide the control over the issuance and closing of accounts.

The board of directors may decide, however, to use some other means of assigning account numbers. Numbers which have been issued by other organizations, such as Social Security numbers or employer assigned payroll or identification numbers, may be acceptable alternatives. It is important that any other type of numbering system adopted by the board bear reasonable assurance that the numbers assigned will be of a permanent nature and will not later be assigned to other members. The board should bear in mind that numbering systems that do not provide for credit union-assigned consecutive accounting numbers may result in a loss of control over the opening and closing of accounts. In the illustrations mentioned in the paragraph above, some members of the credit union, such as family members, may not have a Social Security number or an employer-assigned number. In these cases, a Social Security number must be obtained.

In addition to the member's basic account number, each share certificate should be assigned its own control number, e.g., 1, 2, , and so on. The share account number or share certificate control number will be assigned to more than one account. When the use of the same basic account number facilitates the posting of accounts for members of the same family (or some other relationship between accounts), some characteristic such as an alphabetic letter should be assigned to each subsequently issued basic account number to distinguish it from the other accounts with the same basic account number, such as 95, 95A, 95B, etc.

Some accounting machines and many data processing systems call for a "check digit" to be added to the account number to assure that postings are made to the proper account.

5030.1.5 IF MEMBER DESIRES A JOINT ACCOUNT

If the member wishes to have a joint account with some other person, a Joint Share Account Agreement (Form FCU 123) should be signed by the persons who are to be the joint owners. Any unused signature spaces on the Joint Share Account Agreement should be lined out as a control procedure. Persons not within the field of membership may become joint owners but may not become members of the credit union. Such persons have no vote and cannot borrow. No entrance fee is charged for joint owners who do not become members. If the joint owner is within the field of membership, that person may become a member by filling out an Application for Membership card (Form FCU 150) and paying the entrance fee, if any. A separate individual account for each joint member is not needed. It is recommended that all applicants for membership be told of the advantages of joint accounts particularly in the event of the death of a member. The Joint Share Account Agreement is not a designation of a beneficiary. The ownership interests in the account and the disposition of the funds upon the death of any owner will depend upon the law of the state in which the credit union is located. If the state law provides for the right of survivorship so that a joint account may be created, the right applies only to the amount in the account at the time of death of one of the joint owners.

FIGURE 5-7: Illustration of a Completed Joint Share Account Agreement (Form FCU 123)

JOINT SHARE ACCOUNT AGREEMENT
NOT TRANSFERABLE

The Our Federal Credit Union is hereby authorized to recognize any of the signatures subscribed hereto in the payment of funds or the transaction of any business for this account. the joint owners of this account, hereby agree with each other and with said Credit Union that all sums now paid in our shares,or heretofore or hereafter paid in on shares by any or all of said joint owners to their credit as such joint owners with all accumulations thereon, are and shall be owned by them jointly, with right of survivorship and be subject to the with-drawal or receipt of any of them, and payment to any of them or the survivor or survivors shall be valid and discharsaid Credit Union from any liability for such payment.

Any or all of said joint owners may pledge all or any part of the shares in this account as collateral to a loan or loans.

The right or authority of the credit union under this agreement shall not be changed or terminated by said owners, or any of them except by written notice to said credit union which shall not affect transaction theretofore made.

Joint Account No. 20 Date July 2 19X1

Soc. Sec. No.	Joint Owner *	Date of Birth
455-32-1543	*Henry J. Phillips*	June 14,1913
084-10-8506	*Mary J. Phillips*	March 3,1918

* Each joint owner should sign

FORM FCU 123 Rev. 6/81

When a joint account has been established, any one of the joint owners may make payments into the account, withdraw funds from the account, or pledge the shares as security for a loan without the signature of the other joint owner(s). A joint owner who is not a member may not borrow from the credit union, nor can he/she continue the share account in the credit union after the member-joint owner dies, except as provided in the instructions relating to share accounts of terminated or deceased members set forth in Section 5150.

5030.1.5.1 TERMINATION OF A JOINT ACCOUNT

State law may govern termination provisions. In the absence of applicable state law, the following three alternatives are available:

a) A joint account may be terminated by the death of all but one of the joint owners. The account must be closed and the funds disbursed if the remaining owner(s) is a nonmember. However, if the nonmember is within the field of membership, he/she may continue the account by immediately joining the credit union.

b) A second method of terminating the account is by the withdrawal of funds by any joint owner. A total withdrawal by any joint owner, whether a member or not, results in the distribution of the funds as a private matter among the joint owners.

c) A third method is by written notice to the credit union by a joint owner. It should be noted that a person requesting deletion from a joint account can only request his own deletion and not that of any other joint owner, whether he is a member or not. The proper method is a written letter with full signature requesting that the terminating joint owner be deleted from the joint account. This letter should be made a part of the credit union's files should disputes arise later. A simple "cross out" of a name and the initials would not be sufficient in the event a dispute does arise. Again, if after such notice only a nonmember joint owner or owners remain, the account must be closed and the funds disbursed unless the nonmember or the members are in the field of membership and join the credit union.

The addition of names to a joint account requires a totally new joint ownership agreement that indicates the approval of the addition of all joint owners. The possibility exists that in a joint account between a nonmember and a member who has left the field of membership (once a member, always a member), the termination of such an account, if it were the only account held by that member, could cause that member to lose his membership status. Therefore, before terminating the joint account, that member should establish another account to guard against the possibility which could result in his losing membership status.

Proceeds of insurance on the lives of owners of joint accounts must be paid to the proper beneficiary in accordance with State law. Advice of an attorney should be obtained to avoid the possibility of loss because of improper payments.

The credit union should obtain the Social Security (or other identifying) number of at least one member of a joint account for use in preparing information returns or statements to the Internal Revenue Service (Form 1099) when these are required to be furnished. Figure 5-7 will assist the credit union in determining the correct social security (or identifying) number to be used for reporting to Internal Revenue. The requirements are based on Section 6109, Federal Tax Regulations.

FIGURE 5-7A: Chart for Determining on What Social Security or Employer I.D. Number Dividends Paid or Credited are Reported

For this type of account:	Furnish SOCIAL SECURITY	For this type of account:	Furnish Employer I.D. of
1. An individual's account	The individual	8. A valid trust, estate, or pension trust	Legal entity (Do not furnish the identifying number of the personal representative or trustee unless the legal entity itself is not designated in the account title.
2. Two or more individuals (joint account)	The actual owner of the account or, if combined funds, any one of the individuals		
3. Husband and wife (joint account)	The actual owner of the account or, if joint funds *either* husband or wife.	9. Corporate credit union account	The corporate credit union
4. Adult and minor (joint account)	The adult or, *if the minor is the only contributor, the minor.*		
5. Custodian account of a minor (Uniform Gifts to Minors Act)	The minor		
6. Account in the name of gaurdian or committee for a designated ward, minor, or incompetent person	The ward, minor, or incompetent person		
7. The usual revocable savings account (grantor is also trustee)	The grantor-trustee		

5030.1.6 MEMBERSHIP OFFICER

A federal credit union may have membership officers. The board of directors may appoint membership officers consisting of any member of the credit union other than the paid officer of the board, the financial board officer, any assistant to the paid officer of the board or the financial officer, any loan officer, or the members of the supervisory committee.

The board of directors may assign the following membership responsibilities to the membership officers:

a) Approve applications for membership under conditions prescribed by the board of directors, the Act and the Federal Credit Union Bylaws.

b) Submit to the board at each monthly meeting a list of approved and pending applications for membership since the previous monthly meeting, as prescribed by the Act.

A membership officer may also be assigned the responsibility of providing the required account disclosures. Required account disclosures must be provided when the account is opened or a service is provided, whichever is earlier. A service is provided when a fee required to be disclosed under the National Credit Union Administration Rules and Regulations, *Truth in Savings*, Section 707.4, *Account Disclosures* is assessed. See the National Credit Union Administration Rules and Regulations, *Truth in Savings*, Section 707.4, *Account Disclosures* for specific details on required account disclosures.

Since the membership officer may only approve membership applications, all applications not approved are considered pending until the board of directors acts upon them.

5030.1.7 ACCOUNTING FOR TRANSACTIONS WITH THE MEMBER

The purpose of the Individual Share and Loan Ledger (Form FCU 103) is to provide a record for the credit union which shows, in chronological order and in detail, the transactions between the credit union and the individual members. This form includes a record of share, share draft and/ or share certificate and loan transactions. In addition it contains a note record and a "Cosigner on Notes of Others" record. The latter record shows the member's indirect liability because of having signed as a comaker or endorser on another member's note. This information need not be shown on the individual ledger if a supplementary record is maintained. When an account is opened, a separate Individual Share or Share Certificate and Loan Ledger is prepared by writing the member's name, address and account number(s) in the spaces provided. The name of the credit union should also be written or stamped on each page. When the front of the sheet has been filled with entries, the account for the same member should be continued on the reverse. It is recommended that the sheets be filed in numerical order by account number although special circumstances, such as payroll deductions, might make it desirable to file them in some other order.

The entrance fee paid by a new member should be entered with the date received in the "Memorandum" column of the Individual Share and Loan Ledger. The payment on shares should be posted to the appropriate columns of the Shares Ledger section.

5040 PROCESSING BASIC SHARE AND LOAN TRANSACTIONS

5040.1 WHEN PAYMENTS ON SHARES ARE RECEIVED

When cash is received for payment on shares or share certificates, a Cash Received Voucher (Form FCU 105 or its equivalent) should be prepared for the date of receipt in the credit union office. The amount to be credited to the member's account(s) is written in the space opposite "Shares". The total cash received is written in the space opposite "Total" and should equal the actual cash received. The person who received the cash for the credit union should initial the voucher in the space opposite "Received by."

After the payment is entered in the member's passbook, the balance shown in the passbook should be entered in the proper spaces under "Member's Passbook Balances" on the Cash Received Voucher. This will serve as a comparison of the member's passbook with the credit union's records when posting to the Individual Share and Loan Ledger and will often disclose errors which may occur, thus saving time in balancing the individual share ledgers with the General Ledger Account No. 901, "Shares", at the end of the month.

When cash is received from a member with an accompanying Cash Received Voucher, the amount received should immediately be entered in the member's passbook which is then returned to the member. No further receipt is necessary.

Each item of cash received which involves a member's share draft and/or share certificate account should be posted individually from the Cash Received Voucher to the "Paid In" column of the member's Individual Share Ledger account. To make posting easier, it is suggested that the Cash Received Vouchers be sorted in numerical order by account number. To assist in keeping track of what accounts have been posted, as each account is posted a check mark can be made in the space provided on the Cash Received Voucher.

5040.2 WHEN SHARES ARE WITHDRAWN

When a member wishes to withdraw some of his/her shares or share certificates, a Journal Voucher (Form FCU 106A or its equivalent) should be prepared. If the shares to be withdrawn are pledged as security on a loan and the shares remaining after the withdrawal would be less than the member's direct or indirect liability to the credit union, or if the member's loan or a loan for which he cosigned is delinquent, the form should be initialed by the chairman or secretary of the credit committee or a loan officer showing approval for the withdrawal. If any person cosigned a loan for which the member's shares are pledged, that person's approval should also be obtained before the shares are released. Otherwise, the cosigner may be relieved of liability on the cosigned loan. The cosigners can indicate their approval by signing on the space "Authorized or Approved By" on the Journal Voucher form. Some written evidence of the comaker's approval is essential.

The date and amount of the withdrawal should be entered in the member's passbook under the applicable headings "Shares", "Date" and "Withdrawn." The amount of withdrawal should be deducted from the balance and the new balance remaining in shares and/or share certificates should be entered in the column "Balance". The entry should be initialed by the person paying out the money for the credit union.

Each item of cash paid out which involves a member's share or share certificate account should be posted individually from the Journal and Cash Record or a Journal Voucher to the Individual Shares Ledger account of the member. A share withdrawal is posted in the "Withdrawn" column in the Shares Ledger and deducted from the previous share or share certificate balance. The new balance is written in the column headed "Balance." See also Section 5140.5 relative to dormant accounts.

5040.2.1 PLEDGE OF SHARES

A valid pledge of shares (specifically authorizing a transfer of shares to loans), whether it is contained in the body of the note form or on a separate agreement, must meet the following requirements:

a) It must contain the borrower's signature acknowledging that he/she is pledging his/her shares or a specific portion thereof.

b) The pledge must meet any requirements set by state law, to the extent that they are not inconsistent with federal law.

c) The pledge of shares must be disclosed to the borrower pursuant to either 226.6(c) or 226.18(m) of Regulation Z. (A Truth-In-Lending violation, however, will not necessar ily render a pledge of shares or statutory lien legally unenforceable.)

Sample wordings for pledging of shares are as follows:

a) "The undersigned do hereby pledge all paid shares and payments on shares which the undersigned have now or hereafter may have in this credit union as security for this loan. The pledge is given to secure payment of this loan and interests and costs that may accrue thereon, and the under signed hereby authorizes the treasurer to apply any and all paid shares and payments on shares to the payment of said loan and interest and costs."

With this wording all shares in excess of the loan liability may be withdrawn without credit committee or loan officer approval.

b) "This loan is secured by $ shares which the undersigned has in this credit union. The undersigned authorize this credit union to apply the shares so pledged to the payment of said loan and interest, late charges, costs or expenses that may accrue thereon."

With this wording the specific amount of shares listed or the amount of the loan balance is pledged, whichever is less. All shares exceeding the lesser of the loan balance or the specified amount of shares may be withdrawn without credit counting or loan officer approval.

c) "Upon default, I/we hereby pledge all paid shares and payments on shares to secure the payment of this loan and interest and costs and authorize the holder of this note to apply any and all such shares and payments on shares to the payment of said loan and interest and costs."

With this wording the pledge only becomes operative in the event of default. As long as the loan is current, shares may be withdrawn without credit committee or loan officer approval.

d) "Upon default or determination by the credit union that there has been substantial adverse effect on the ability to repay of any of the undersigned as a result of a change in status of employment or increase in outstanding obligations, the undersigned hereby pledge all shares and/ or deposits any payments and earnings thereon which I/we then or thereafter may have, whether held jointly, individually, or in trust, as security for any and all moneys advanced under this plan and interest accrued thereon and authorize the credit union, in the case of default, to apply same to payment of said obligation."

With this wording, the pledge again becomes operative in the event of default or adverse effect on the ability to pay. Until such an occurrence, shares may be withdrawn without credit committee or loan officer approval.

Where a valid pledge of shares exists, shares may be applied directly to a loan upon delinquency. Shares so pledged should be "frozen" on both computer and manual systems to minimize the possibility of payout. Where no valid pledge of shares exists, the credit union may prohibit withdrawal of shares only to the extent of any past due portions of a member's loan balance (plus any related charges, and legitimate late charges) in the event of default pursuant to Section 107(11) of the FCU Act. However, in order to apply such shares to the member's delinquent loan, the credit union would have to obtain a court judgment unless appropriate state or local law specifically provides for self-enforcement of such liens.

In order to insure a valid pledge of shares, credit unions should be advised to incorporate procedures and languages along the lines of the above into their loan programs. An FCU should, of course, always obtain advice from its counsel as to compliance with applicable state laws in this regard.

Article III, Section 5(c) of the Federal Credit Union Bylaws requires the written approval of the credit committee or loan officer for the withdrawal of shareholdings "that are pledged as required security" below the shareholder's primary or contingent liability to the credit union. Required security as defined in Article III, Section 5(e) of the Bylaws refers to shares which are in existence at the time the loan is made and specifically required to be pledged as security as part of a secured loan transaction.

Shares pledged through the use of the above sample wordings are not necessarily pledged as "required security" as that term is defined in the Bylaws. The withdrawal of shares which are pledged by the general language of the note form, but which are not pledged as "required security" may not require specific written approval of the credit committee or loan officer, depending upon the credit union's policy.

5040.3 PRESENTING PASSBOOKS FOR TRANSACTIONS

For those credit unions still using passbooks, members should be encouraged to present the passbooks for each transaction. If a transaction is not entered in the member's passbook because the passbook is temporarily not available, a temporary passbook or cash received voucher/receipt should be provided. The member should be instructed to present his passbook for entry as soon as practicable. If the passbook is lost, a duplicate should be issued after the member has provided adequate identification.

5040.4 ENTERING MEMBER LOANS ON THE RECORDS

For each loan made to members a Journal Voucher should be prepared showing the name of the credit union, the member's account number, the date the check is issued, and the name of the borrower. The amount of the loan is shown in the debit column opposite "Loans" and the amount of the check is entered in the credit column opposite "Cash". The notation "credit committee" or "c/c", or the name of the loan officer, is written in the spaces provided. When the check is delivered to the borrower he should, if practical, sign the voucher at the bottom opposite "Received By."

The loan should also be entered in the member's passbook or statement of account. Under the "Loans" section of the passbook, the date of the loan, the amount loaned, and the balance are written and initialed by the authorized credit union official who made the entry. The passbook is then returned to the member with the check.

The loan should be entered in the Journal and Cash Record. The date, borrower's account number, borrower's name, note number, and check number should be entered in the appropriate columns. The amount of cash shown on the check should be entered in the credit column under "Cash-Paid Out." A similar amount should be entered in the debit column under "Loans." If it is a refinanced loan, the amount entered in the debit column should be the amount shown on the check plus the unpaid balance of the loan being refinanced. (See illustration on line 5 of the illustrated Journal and Cash Record in Section 4010.6.1)

Each disbursement for a loan should be posted individually from the Journal and Cash Record or a Journal Voucher to the Individual Loan Ledger of the member. A loan made is entered on a line opposite the date, which has been written in the "Date" column headed "Amount Loaned." The same amount is carried over and entered in the "Balance" column. The note number is entered in the column headed "Note No." Under the column headed "Post Ref" is written the page in the Journal and Cash Record from which the entry is posted, such as "JC l." When the item is posted, a checkmark should be placed in the checkmark column () of the Journal and Cash Record or in the space opposite "Posted" on the Journal Voucher.

The "Cosigner on Notes of Others" section of the Individual Share and Loan Ledger is used to show the member's liability for having signed as a comaker or endorser on another member's note. If there are any comakers on a note who are members of the credit union, it is essential that their liability be recorded. This information need not be shown on the Individual Share and Loan Ledger if a supplementary record is maintained.

When a member has a loan outstanding and is granted a second loan the new loan should be entered on a separate Individual Share and Loan Ledger. A separate Cash Received Voucher should be prepared to reflect repayment on each loan and the voucher should identify the specific loan to which the payment applies.

5040.4.1 MAINTAINING THE NOTE RECORD ON THE INDIVIDUAL SHARE AND LOAN LEDGER

The use of the "Note Record" at the top of the standard Individual Share and Loan Ledger is optional if the "Delinquency Control" or another control record is maintained. It is recommended that each note be recorded here so that it will not be necessary to refer to the note itself to determine the terms of repayment.

5040.4.2 MAINTAINING THE DELINQUENCY CONTROL ON THE INDIVIDUAL SHARE AND LOAN LEDGER

The standard Individual Share and Loan Ledger contains two columns which are designated as "Delinquency Control." Although the maintenance of the "Delinquency Control" is optional if the "Note Record" or another control method is kept, it does provide a method for a quick analysis of the loans for the purpose of determining whether they are delinquent and, if so, the extent of such delinquency.

5040.5 WHEN PAYMENTS ON LOANS ARE RECEIVED

5040.5.1 COLLECTION OF INTEREST

Interest is usually collected at the time a repayment on principal is made. Interest rates and finance charges may not exceed the maximum rate permitted by the Federal Credit Union Act.

Interest may be calculated and collected on either a 360- or 365-day basis per year. Further information on these two bases of computing interest is presented in the following paragraphs. Applied uniformly, the true annual interest rate is 15 percent for the interest charge of 1.25 percent per month on the unpaid balance, whether the 365-day year or a 360-day year (30-day month) method is used. Whichever method is used it must be used exclusively.

A mixture of the two methods on a loan between disclosure and actual entered collection *could* result in an improper interest charge (i.e., 365 day computation of interest for disclosure purposes and a 360-day computation for the note and actual collection of interest). Under the 360-Day Method, if a month such as February has only 28 days, the borrower is charged 30 days of interest. Because of the increased accuracy of 365-Day Method, it is recommended that this method be used in calculating interest charges and repayment amounts.

5040.5.1.1 365-DAY YEAR METHOD

Interest charges based upon a 365-day year can be applied to all repayment contracts, whether written for weekly, biweekly, semimonthly, monthly or other terms. Interest should be computed on the basis of the actual number of days elapsed since the last date through which interest was previously paid or if it is the first payment, since the date the loan was granted. If daily interest factors are developed to aid in computing interest, they must be based upon a 365-day year.

5040.5.1.2 30-DAY MONTH METHOD (360-DAY YEAR)

This method may be advantageous for those credit unions which make loans based upon monthly repayment terms, or fractions or multiples of monthly repayment terms. The most popular of these repayment terms is the loan calling for payments on the same date each month; other terms call for payments semimonthly or annually. If factors are developed to aid in computing interest on the basis of a 30-day month, they must be based on 360 days (30 days times 12 months).

When applying the 30-day month method, each month is considered to have 30 days regardless of the actual number of days in the month. For instance, under this method March is considered to have 30 days even though it actually has 31 days. If payments are made on the same date each month, one month's interest charged regardless of whether the month that has elapsed actually had 28, 29, 30, or 31 days.

When payment is made before a full month has elapsed, interest is charged for the exact number of days (based on the 30-day month). As an example, if a payment was made on March 12 and the next payment is made on April 5, interest would be charged for 23 days (23/30ths) (31st of March is not counted).

When more than one full month has elapsed since the previous payment, interest is charged for the full month(s), plus the additional days (computed similar to the instructions in the previous paragraph). As an example, if payment on a loan was made on March 29 and the next payment is made on June 4, interest would be charged for two full months (March 30 to May 29), plus 5 days (May 30, June 1, 2, 3, 4) (31st of May not counted) or (65/30ths).

5040.5.1.3 GRACE PERIOD

To ease the task of computing interest, the board of directors may permit a grace period of up to seven days following the due date of each payment. No late charges or additional interest charges are assessed if the payment due is received during that period. For a grace period for credit card, refer to Section 6000.

5040.5.1.4 ACCRUAL OF INTEREST

Iterest on a loan should begin to accrue upon the disbursement of the loan proceeds. Where the borrower's principal residence (or property which is expected to be used as the borrower's principle residence) is to serve as security for a loan (except for related first mortgage loans), the loan proceeds should not be disbursed until it is determined that the borrower does not intend to rescind that transaction as provided by Section 226.15 of Regulation Z. When loan drafts are involved, the question arises whether a credit union incurs a liability at the time authorization is issued for a draft to be drawn upon it or whether no liability exists until the draft is accepted. The influencing factors are of a legal nature and may vary in different jurisdictions; the credit union is advised to seek advice from its attorney in determining when the draft becomes a loan and when the interest begins to accrue.

5040.5.2 METHODS OF CALCULATING INTEREST

5040.5.2.1 UNITED STATES RULE-SIMPLE INTEREST

Under the United States Rule, a loan payment must be applied to the accumulated interest up to the date of the payment. Any remainder is then credited as a deduction from the principal; successive interest is computed from a declining unpaid balance each time a loan payment is made. If a payment is not sufficient to meet the simple interest which has accrued during the elapsed payment period, such shortfall of interest will be met from subsequent payment or repayments. If a loan payment is insufficient to cover the interest due, the balance of the interest is not added to the principal so as to produce interest.

5040.5.2.1.1 LEVEL PAYMENT

This method of repaying a loan involves payment of equal installments that consist of principal and interest over the life of the loan. As the loan matures, payments to principal become greater as interest charges become smaller.

5040.5.2.1.2 PRINCIPAL PAYMENT PLUS INTEREST

Repayment of a loan following this method involves equal payments to principal while interest payments are larger during the early stages of the loan and become smaller as the principal balance declines. An advantage of principal plus interest is its ease in the computation of delinquency. A possible disadvantage is that the total loan payment differs from one payment to the next.

5040.5.2.2 RULE OF 78

Federal credit unions are not allowed to charge a penalty for the early payoff of a loan. (See Federal Credit Union Act, Section 107(5).) Since the use of the Rule of 78 may result in a penalty being charged to the member, the computation of loan interest using the Rule of 78 is not permissible.

5040.5.2.3 ACTUARIAL METHOD

The actuarial method involves the compounding of interest when a loan payment is greater than a unit period (the period established in the contract for regular payments). The actuarial method requires the addition to the outstanding principal balance any shortfall of interest which occurs at a payment period.

5040.5.2.4 INTEREST RATES IN RELATION TO DIFFERENT CLASSIFICATION OF LOANS

The board of directors has the power to establish interest rates for loans (including lines of credit) based on written classifications established by the board. Classifications should be based upon factors that achieve a sound and legitimate business practice. Examples of lending policies which achieve this are illustrated below:

a) REAL ESTATE LOANS

A federal credit union with a large field of membership is granting real estate loans to members located in different areas of the United States. The board of directors could establish a policy to achieve competitive interest rates within local real estate markets. Example policy: Conventional long-term real estate loans originated in city A will be granted at X % and in city B, at Y %.

b) AMOUNT OF THE LOAN

The board of directors desires to establish interest rates based on the amount of the loan. Example policy: all unsecured loans with balances not exceeding a specific amount will be granted at X% and all unsecured loans exceeding the specified amount will be granted at Y%.

c) MATURITY OF THE LOAN

A board of directors may desire to match loan maturities/interest rates to corresponding share certificate maturities/dividend rates. The board of directors could establish the following policy. Example policy: All loans with maturities not exceeding 6 months will be granted at X% and all loans with maturities exceeding 6 months will be granted at Y%.

d) METHOD OF PAYMENT

A board of directors of a federal credit union which has documented cost evidence of an administrative savings for loans repaid via payroll deduction, direct deposit, or transfer from a share account may establish a policy to pass this savings on to the borrowers. Example policy: All loans repaid via voluntary payroll deduction will be granted at X% and all loans repaid by other means will be granted at Y%.

Figure 5-9: Illustration of How a Loan is Recorded on the Individual Share and Loan Ledger (Form FCU 103)

ACCT NO. 20
SOC. SEC. NO } 455-32-1543
TAX IDENT. NO

Our
Federal Credit Union

INDIVIDUAL SHARE AND LOAN LEDGER

NAME Henry J. Phillips and/or Mary J. Phillips (Joint Owners) ADDRESS 217 Oak Street, Anytown, Indiana 45367 DATE OF BIRTH Jan. 14, 19XX

NOTE RECORD										COSIGNER ON NOTES OF OTHERS				
NOTE NUMBER	DATE LOANED	AMOUNT	DATE OF 1ST PAYMENT	AMOUNT OF INSTALLMENTS	INSTALLMENT DUE EACH	CO MAKERS ACC'T NO.	CO MAKERS NAME	OTHER SECURITY	DATE	ACC'T NO.	NOTE NO.	AMOUNT	DATE PD.
5	6-15-X1	$ 60 00	6-22-X1	$ 3 00	Week				7-13-X1	62	95	$ 300 00	

DATE	POST REF.	SHARES LEDGER PAID IN	SHARES LEDGER WITHDRAWN	SHARES LEDGER BALANCE	SHARES LEDGER FULL SHARES	FINES	LOANS LEDGER NOTE NO.	LOANS LEDGER AMOUNT LOANED	LOANS LEDGER INT. PAID	LOANS LEDGER PRINCIPAL PAID	LOANS LEDGER BALANCE	DELINQUENCY CONTROL BALANCE SHOULD BE	DELINQUENCY CONTROL ON DATE 19X1	MEMORANDUM
June 4		3 00		3 00										
11		10 00		13 00										
15		10 00		23 00										
15	JC1			23 00			5	60 00			60 00			
22		1 00		24 00					14	3 00	57 00	57.00	6/22	
29				24 00					13	3 00	54 00	54.00	6/29	
30	JC1		20 00	4 00							54 00	51.00	7/6	
July 6		1 00		5 00					13	3 00	51 00	48.00	7/13	

Note
These columns should be completed in pencil

ENTRANCE FEES COLLECTED
DATE 6-4-X1 AMT. $1.00
6-11-X1 $1.00

NOTE: This example of the individual share and loan ledger does not provide sufficient columns to adequately document the dividend calculation based on the permissible dividend methods of the National Credit Union Administration Rules and Regulations Section 707.7, *Payment of Dividends*.

e) SOUND SOCIAL POLICY (COOPERATIVE SPIRIT)

A board of directors could establish a policy to promote energy conservation. Example policy: All loans secured by automobiles which have an EPA estimated miles per gallon rating of 25 or more will be granted at X% and other loans secured by automobiles will be granted at Y%.

Any interest rate established within a loan classification should be consistent with cooperative principles and existing laws and regulations. Proper use of this power could reduce the operating cost to the credit union and allow the board of directors to better manage the loan portfolio. In addition, the borrower can benefit from the varying interest rates.

5040.5.3 REPAYMENT PLANS

There are a number of repayment plans, any of which a credit union may use. The most common loan repayment plans are weekly, biweekly, semimonthly, and monthly. It may be convenient for some credit unions, such as educational groups to offer a skip payment plan. The terms of repayment and APR must be properly disclosed. Credit unions are also authorized to offer single payment loans; specific requirements are contained in the NCUA Rules and Regulations.

5040.5.4 WHEN A LOAN IS REFINANCED

A loan is refinanced as the result of a new transaction whereby a former loan is replaced by a new loan under the parties' contract and applicable law. The refinanced loan may involve the consolidation of several existing loans, disbursement of new money to the borrower on the borrower's behalf, or the rescheduling of payments under the existing loan. In any form, the new loan must completely replace the prior one in order to be considered a refinanced loan. The mere addition of the accrued interest to the outstanding balance of any existing loan balance would not in itself constitute a refinancing. Loans should not be refinanced or extended for the purpose of eliminating them from the delinquent list. See Section 5045 of this manual for a discussion of the accounting treatment for Troubled Debt Restructuring.

When a loan is to be refinanced, application should be made in an amount sufficient to repay in full the balance of the outstanding loan plus the additional amount of cash desired by the member. The proper entry is illustrated in the third illustrative entry in the description of Account No. 701, "Loans." Payment of interest is not shown in this entry since the collection of accrued interest due from the member can be handled by one of the following alternatives: (a) correct the interest due in cash as a separate transaction; (b) include it in the amount of the new loan, or (c) defer it until the time of the first payment under the new obligation interest to be paid in conjunction with the first payment and not deducted from it. Under alternatives (a) and (c), no Truth in Lending disclosures are required for accrued interest payments; alternative (b) requires Truth in Lending disclosure in the normal manner (as part of the loan proceeds). The accrued interest in alternative (b) must also be disclosed in the note form (contract).

5040.5.5 WHEN A LOAN IS EXTENDED

Extension means amending or supplementing the terms of the original note to achieve a reduction in the original contracted note's scheduled or systematic repayments without supplying additional money. The change in the original terms of the loan would not be subject to disclosure requirements of Truth in Lending Regulation Z.

An extension agreement should be treated in the same fashion as a note. It should be typed or prepared in ink (signed by the borrower in ink). If an error is made on the agreement, a new one must be prepared. Regulations of the Federal Housing Administration prohibit the extension of the maturity of an insured Title I Property Improvement Loan.

5040.5.6 WHEN A LOAN IS DEFERRED

Deferral means a temporary interruption of the established systematic repayment schedule which involves one or more full payments with no change in the existing terms of the loan, and in which no charge is made other than the additional interest which would accrue on the unpaid balance. The interest is calculated by applying a stated percentage to the unpaid monthly loan balance. A deferral, as defined, will not require additional disclosures under Regulation Z. A deferral must be supported by a written acknowledgment obtained from the member; it must be approved by the credit committee or loan officer and all coapplicants and/or comakers.

5040.5.7 ASSESSMENT OF LATE CHARGES

Article XI I of the Standard Federal Credit Union Bylaws provides for the assessment of late charges. Subject to the limitations of applicable law and regulations, any member whose loan is delinquent may be required by the board to pay a late charge.

In the event a periodic late charge is waived, the credit union can only assess a late charge on that portion of the total outstanding interest that represents the interest that has accrued since the last payment was made. It cannot assess a late charge based on a percentage of the total outstanding interest.

5040.5.8 REGULATION G (SECURITIES CREDIT BY PERSONS OTHER THAN BANKS, BROKERS OR DEALERS)

Credit unions that have loans secured by securities are subject to the provisions of Regulation G. The purpose of the regulation is to monitor the credit extended to individuals secured by margin securities and to curb excessive credit in the securities markets.

Regulation G stipulates, in part, that any credit union which extends credit of $100,000 or more during a quarter (or has total credit outstanding at any time during the quarter of $500,000 or more) which is secured directly or indirectly, in whole or in part, by collateral that includes any margin security (regardless of the purpose of such loans), must register by filing a Federal Reserve Form G-1 with the District Federal Reserve Bank. Margin securities are defined in Section 207.2(d) of Regulation G, and generally include:

a) Securities listed on a national securities exchange;

b) Securities that appear on the Board's List of over-the-counter Margin Stocks;

c) Securities convertible into the foregoing; and

d) Shares of most mutual funds.

A credit union currently registered which has not extended any credit secured by margin securities during any 6-month period and which does not have more than $200,000 of such credit outstanding during that period will become eligible for deregistration. Federal Reserve Form G-2 (Deregistration Request) should be used for this purpose. If the credit union did not register with the Federal Reserve Bank because its margin security collateral loans did not exceed the amount specified in the regulation, but was subsequently required to do so for having granted the stipulated amount of such loans within a quarter or carried at the end of a quarter, the loans granted prior to the credit union becoming subject to registration will not be subject to the reporting requirements.

All credit unions that are registered with the Federal Reserve are required to file Federal Reserve Form G-4 on an annual basis as prescribed by this regulation.

Once a credit union becomes subject to the registration requirements, Federal Reserve Form G-3 (purpose statements) must be executed on all loans secured by margin securities. The statement is designed to prevent borrowers from obtaining funds for the purchase of margin securities on the basis of presenting a false purpose statement. The lender is required to countersign Form G-3 after being satisfied that the borrower's statement of purpose can be accepted in good faith.

If a member obtains credit with margin securities as collateral from an overseas office of a credit union, the credit union should advise the borrower that Federal Reserve Form X-1 must be completed at the time the loan is made.

5045 TROUBLED DEBT RESTRUCTURING

Troubled debt restructuring results when the credit union grants concessions to the member that would not ordinarily be granted in light of the member's financial condition. Restructuring often involves a reduced interest rate, payment amount, or principal amount; or increased collateral requirements. Routine changes in debt terms and loan deferrals (temporary interruption of payments which change only the maturity date) are not considered troubled debt restructurings.

There are two primary types of restructuring: (a) a transfer of assets from a member to the credit union in settlement of a debt and (b) a modification of terms. Whatever the form of concession granted, the object is to increase the probability of recovering the loan. In this regard, the credit committee and loan officers should fully understand the member's needs and financial condition before approving actions to modify loan terms. Some credit unions may require that members make several payments in accordance with the proposed loan terms to assure they will be able to comply with these new terms. During this interim period, the loan should remain delinquent. After several payments are made in accordance with the proposed modified loan terms, proper actions can be taken based on a complete evaluation of the member's financial condition and collateral.

In addition to evaluating the member's financial condition, the credit committee or loan officer should determine the current value of any collateral securing the loan. The credit committee or loan officer must determine that the restructured loan maturity is not extended beyond the useful life of the collateral and that additional collateral is obtained if needed.

5045.1 TRANSFER OF ASSETS IN SETTLEMENT OF THE DEBT

A credit union may accept assets from the member in partial or full satisfaction of a debt, such as in the case of a repossession or foreclosure. If receipt of the asset is considered full satisfaction of the debt, the credit union should record the asset at fair value, reducing the balance of the debt accordingly. If the fair value of the asset is less than the balance of the loan, the excess should be charged off to the *Allowance for Loan Losses* account. After restructuring the debt, the credit union should account for the assets as if they had been acquired for cash. If the assets are subsequently sold at a gain, the credit union may record a recovery in the *Allowance for Loan Losses* account to the extent of the previously recorded charge off. Gains on sale exceeding the charged off amount and all losses on sale should be recorded on the current period income statement.

Illustrative Entries

---

a) If the asset value exceeds the balance of the troubled loan:

Current principal balance	$7,397
Delinquent interest (10 months)	103
Fair value of asset	8,000

The restructuring would be recorded as follows:

Dr. - Assets Acquired (Acct. No. 798)	$8,000	
Cr. - Loans (Acct. No. 701)		$7,397
Cr. - Income from Loans (Acct. No. 110)		103
Cr. - Other Misc. Operating Income (Acct. No. 151)		500

b) If the balance of the troubled loan exceeds the asset value:

Current principal balance	$7,397
Delinquent interest (10 months)	103
Collateral value	6,000

The restructuring would be recorded as follows:

Dr. - Assets Acquired (Acct. No. 798)	$6,000
Dr. - Allowance for Loan Losses (Acct. No. 719)	1,397
Cr. - Loans (Acct. No. 701)	$7,397

Note: Neither current nor deferred income is recognized in this case.

c) If the asset were later sold for $8,000 cash:

Dr. - Cash (Acct. No. 730)	$8,000
Cr. - Assets Acquired (Acct. No. 798)	$6,000
Cr. - Allowance for Loan Losses (Acct. No. 719)	1,397
Cr. - Gain on Disposition of Assets (Acct. No. 430)	603

d) If the asset were later sold for $5,000 cash:

Dr. - Cash (Acct. No. 730)	$5,000
Dr. - Loss on Disposition of Assets	1,000
Cr. - Assets Acquired (Acct. No. 798)	$6,000

5045.2 MODIFICATION OF TERMS

A modification of terms may consist of any or all of the following:

- Reduction (absolute or contingent) of the stated interest rate for the remaining original life of the debt;
- Extension of the maturity date at a stated interest rate lower than the current market rate for new debt with similar risk;
- Reduction (absolute or contingent) of the principal amount or maturity amount of the debt; or
- Reduction (absolute or contingent) of accrued interest.

The result of restructuring through modification of terms is essentially a replacement of the old loan on the books. No special accounting is required unless the total future cash receipts specified by the new terms of the loan (including both interest receipts and principal receipts), are less than the recorded receivable before restructuring. In this case, the recorded balance should be reduced with the excess amount charged off as a loss.

Illustrative Entries

---

a) Suppose the present value of future cash receipts equals the current principal balance plus delinquent interest:

Current principal balance $7,397
Delinquent interest (10 months) 103

New loan terms:
Payment $260
Interest 15%
Term ..... 36 months
Present Value $7,500

The new loan would be recorded as follows:

Dr. - Loans (Acct. No. 701) $7,500
Cr. - Loans (Acct. No. 701) $7,397
Cr. - Accrued Interest on Loans (Acct. No. 781) 31
Cr. - Allowance for Loan Losses (Acct. No. 719) 72

This entry records the new loan principal balance of $7,500 which equals the old loan principal balance plus delinquent interest. This entry also reverses the accrual of income (assuming the permissible accrual equal to three months of the delinquent interest ($103 times 3/10 equals $31)) and reduces the amount of loan provision (bad debt expense) necessary for the period by increasing the *Allowance for Loan Losses* by the balance of the remaining delinquent interest ($103 minus $31 equals $72) to be recognized over the remaining life of the loan. The present value of the future loan payments equals the new loan balance; therefore, no adjustment to the new loan balance is required.

b) Suppose the present value of future cash receipts is less than the current principal balance:

New loan terms:
Payment $250
Interest 15%
Term ..... 36 months
Present Value $7,212

Because the present value of these future cash payments ($7,212) is less than the current principal balance ($7,397), the difference ($185) must be charged off as a loss, and no current or deferred income would be recognized. In addition, the three months of permissible accrued interest on a delinquent loan (assuming it had been booked) must be charged-off:

Dr. - Loans (Acct. No. 701)	$7,212	
Dr. - Allowance for Loan Losses (Acct. No. 719)	216	
Cr. - Loans (Acct. No. 701)		$7,397
Cr. - Accrued Interest on Loans (Acct. No. 781)		31

5045.3 COMBINATION RESTRUCTURING

If the restructuring involves a receipt of assets in partial settlement and a modification of terms, the loan is first reduced by the fair value of the assets received as described in Section 5045.1, then the new loan is recorded in accordance with Section 5045.2. No loss is recognized unless the balance after recording the fair value of the asset exceeds the present value of future cash receipts under the modified loan terms.

5045.4 CAPITALIZING DELINQUENT INTEREST

Troubled loans are likely to have delinquent interest at the time of restructuring. In these cases, assuming the credit union has accrued and recognized the permissible three-months interest, a credit union must reverse the interest accrual at the time of restructuring. Delinquent interest in excess of three months is also capitalized as part of the loan asset but must also be credited to the *Allowance for Loan Losses*, thereby reducing the amount of provision (bad debt expense) necessary for the period.

Continuing the first example from Section 5045.2, the following entry would be made for the first month following restructuring of the loan:

Dr. - Cash (Acct. No. 730)	$260	
Cr. - Loans (Acct. No. 701)		$166.25
Cr. - Income from Loans (Acct. No. 110)		93.75

5045.5 LEGAL FEES AND OTHER DIRECT COSTS OF RESTRUCTURING

Legal fees and other direct costs, including direct loan origination costs, incurred by the credit union in the process of restructuring should be recognized as expense in the period incurred.

5050 OTHER METHODS OF ACCOUNTING FOR RECEIPTS AND DISBURSEMENTS

5050.1 PROCEDURES FOR CASH RECEIPTS

With credit union growth and expanded activities, the cash procedures needed to properly serve the members sometimes become more complex. In this section and the next section on "Special Procedures for Disbursements" some of the procedures and forms pertinent to the larger credit unions are discussed.

Credit union personnel who have direct supervision over accounting operations should keep in mind that the handling of cash is an aspect of operations that is particularly in need of good internal control.

5050.1.1 BALANCING OUT TELLER'S FUNDS

At the close of business each day, each teller should balance the receipts and disbursements for the day to the cash count. This should be accomplished by completing a "Teller's Daily Cash Sheet" such as the one illustrated in Figure 5-10. This form is basic, and should be amplified and adopted to fit the particular needs of the credit union.

In balancing the receipts/disbursements to the cash count the following steps should be followed:

a) Cash Count

   1) Count all cash (bills and coins) in the cash drawer and enter the amounts on the form and total.

   2) List and count the checks and share drafts received. At the time they are received, share drafts should be stamped "paid" or "canceled" to prevent their being removed from the daily work and presented for payment again. If only a few have been received, they can be entered separately in the cash count section. If a large number are received, an adding machine tape can be prepared or a separate listing can be attached to the form. No matter what method is used, the teller should identify each item. If a separate listing of the checks/share drafts is prepared only the total amount of the items need be shown in the cash count section.

   3) Add the cash on hand and checks and share drafts received to arrive at the total for the cash count.

b) Change Fund

   1) Determine the closing change fund amount. This can be determined by taking the opening change fund and adjusting it for increases in funds received or decreases in funds for the day. For each increase or decrease to the change fund, the teller should have a signed receipt showing the transfer of the funds to or from another teller or the Head Teller.

2) Enter the opening change fund and any increases to the change fund in the receipts column. These figures should be shown separately.

3) Enter all decreases to the change fund in the disbursements column.

c) Receipts[1] *

1) Prepare a Summary Cash Received Voucher. This is accomplished by adding each total on the individual cash received vouchers. The total of these items should then be entered on the Daily Cash Sheet under the appropriate heading.

2) Add separately the amounts for payments on shares, entrance fees, late charges, interest on loans and loans. Total. This total should also appear on the Summary Cash Received Voucher.

3) In the space provided on the form, identify and include any miscellaneous receipts.

4) Total the receipts from members and miscellaneous receipts to arrive at the total cash receipts.

d) Disbursements*

1) Prepare Summary Journal Voucher for the items disbursed in cash. This would include cash share withdrawals (including cash withdrawals from a share draft account), loans or advances on lines-of credit and savings bond redemptions. The total of each item and the grand total should then be entered on the Daily Cash Sheet under the appropriate headings.

2) In the space provided on the form ("Other Disbursements in Cash") identify and include any miscellaneous cash disbursements.

3) Total the items described in (1) and (2) above to arrive at total cash disbursements for the day.

e) Balancing

1) Add total cash receipts, opening change fund and any increases to the change fund to arrive at total cash.

2) Add total disbursements in cash and any decreases to the change fund to arrive at total dis bursements.

3) Subtract the total of disbursements and change fund decreases from the total cash receipts to arrive at the closing change fund balance. This figure should agree with the total of the cash count. If the figures do not agree, all figures should be rechecked for errors. If the difference cannot be located after extensive double checking, and it is not material, the difference may be entered as "Cash Over or (Short)" on the form.

1 *Credit unions which have an on-line data processing system may not have to prepare Summary Vouchers for receipts and disbursements. The credit union's Electronic Data Processing (EDP) system may be able to generate the totals for each teller. See Figure 5-14

FIGURE 5-10: Illustration of a Completed Sample
Teller's Daily Cash Sheet

Our

FEDERAL CREDIT UNION

TELLER'S DAILY CASH SHEET

Teller *Jil Jones #1* **Date** *August 21, 19X1*

RECEIPTS:				**CASH COUNT**		
Shares			500 00	**Bills:**		
Entrance Fees			2 00	100's		
Late Charges				50's		
Interest on Loans			16 00	20's	700	00
Loans			400 00	10's	100	00
Total receipts from members			918 00	5's	100	00
				1's	55	00
Miscellaneous						
Income from investments				Coin	1	00
Other income				Halves	15	00
Other (list below)				Quarters	24	60
				Dimes	5	40
				Pennies	5	00
				Total Money	1006	00
Total cash receipts			918 00	Checks and Share Drafts		
				Myer	9	00
Opening change fund				*Syevens*	40	00
Change fund increase			500 00	*LaCoste*	60	00
Total cash			1418 00	*Tota	1115	00
DISBURSEMENTS:				**CHANGE FUND RECONCILIATION**		
				Opening change fund	500	00
Can share withdrawals	150	00				
Share Drafts Cashed	150	00		Increase:		
Cash loan payments					500	00
Bonds redeemed						
Other (list below)						
				Decrease:		
Total cash disbursed	300	00				
Change fund decrease	XXXX	XX				
Total disbursements			300 00			
Change fund and net cash proceeds			1118 00	Closing balance	500	00
Cash over (or short) *cash short*			3 00	Change fund cash inc\ventory	500	00
				Needed for replenishment		
***Adjusted balance**			1115 00	Authorized change fundl	500	00

Receipt of the total amount shown in the Cash Count column is hereby acknowledged.

Mary Mann
Cashier

***Balances must agree**

4) Depending on the nature of the cash difference, add or subtract the amount from net cash proceeds to arrive at an adjusted balance. The adjusted balance should agree with the total of the cash count.

5) Reconcile the teller's change fund. If the teller is assigned a specific amount to be maintained in the change fund and the disbursements for the day exceed receipts, the change fund will need to be replenished. The change fund does not have to be replenished if the credit union uses a fluctuating change fund.

5050.1.1.1 RECONCILING THE CASH ON HAND

After the individual tellers have balanced out their daily business, the cashier (Head Teller) should consolidate all teller activity on the Cashier's Daily Summary which is illustrated in Figure 5-11. This procedure is necessary so that the bank deposit can be prepared and the cashier can determine if the change fund will be adequate to begin operation the next day. The consolidated totals for each item are also needed for posting the daily activity to the Journal and Cash Record. Again, this form may be adapted to suit the particular needs of the credit union.

The use of these forms, or their equivalent, will assist management by providing summarization and records for reconciling and controlling funds on hand.

5050.1.1.2 CHECK ENDORSEMENTS

There are three kinds of endorsements that are generally presented to a credit union on a check or draft. These three endorsements are:

a) Blank Endorsement-This consists of the endorser's name written on the instrument or the paper firmly affixed thereto for that purpose. If an instrument has been drawn payable to "cash" and is endorsed in blank, it becomes payable to bearer and may be negotiated by delivery, without endorsement. For example, if a check is made payable to "John Doe or Cash" and signed by John Doe, as bearer, it would not have to be signed on the reverse side by him because it becomes a blank endorsement. Nevertheless, it is a sound policy to require the member to sign these checks.

b) Special Endorsement-This endorsement specifies the person to whom or to whose order it makes the instrument payable. Any check specifically endorsed becomes payable only to the person whose name appears on the instrument and can only be paid when that person's endorsement is affixed to the back of the instrument. If John Doe writes a check, "Payable To The Order Of Bill Smith", the check cannot be honored until Bill Smith endorses the check on the back.

c) Restrictive Endorsement-A person who endorses an instrument may impose certain restrictions upon his endorsement. An endorsement is restrictive which either:

   1) Is conditional;

   2) Purports to prohibit further transfer of the instrument;

3) Includes the words “for collection”, “for deposit”, “Pay any bank”, or the terms signifying a purpose of deposit or collection; or

4) Otherwise states that it is for the benefit or use of the endorser or other persons.

5050.1.2 TOTAL PAYMENT VOUCHERS

A Total Payment Voucher may be used as a means of speeding up window activity. This is particularly useful where level-payment methods are used for collecting loan and interest payments and where members’ individual accounts are not posted at the window. Where this method is used, the total payments must be distributed to shares, loan principal and interest, etc., for entry into the Journal and Cash Record and for posting into the individual accounts. The information needed for the distribution may be obtained from the individual accounts in the course of posting them. When machine posting or electronic data processing furnishes the distribution totals, they may be used for entry in the Journal and Cash Record. However, when the individual accounts are hand posted or when the accounting machine is not capable of furnishing the necessary totals, the distribution ordinarily will be shown on the individual vouchers. The vouchers should then be totaled to furnish the entries for the Journal and Cash Record.

In the event that the breakdown of Shares, Loans, Interest, etc., is not developed in time to provide the credit entries for the total payments, the amount of the total payments should be credited to “Accounts Payable, Undistributed Payments”, Account No. 802. When the breakdown of the total payments has been determined, the amount in Account No. 802 should be cleared by debiting that account and crediting Shares, Loans, Interest, etc.

Since the benefits of the total payment plan will be derived only if used in conjunction with a total payment receipt or a total payment passbook, a statement of account must be furnished to the members. Suggested forms for total-payment vouchers and total payment receipt and passbook are illustrated in Figure 5-12.

On either the front or back cover of the total payment passbook, there should be printed, an explanation of the total payment procedure including an indication to the member that he will receive a statement of account showing all his share and loan balances and a detailed breakdown of the credits to his accounts.

5050.1.3 MAIL RECEIPTS

5050.1.3.1 WHEN PASSBOOKS ARE USED

Postings to the passbook represent the member’s official record of transactions. Therefore, the credit union should require the members to submit the passbooks with mail payments so that the proper postings can be made upon receipt and the passbooks can be promptly returned to the members. If any mail payments are received without the passbooks, the credit union should mail back temporary receipts accompanied by instructions to mail or bring in the passbooks so that they can be brought up to date.

Figure 5-11: Illustration of a Completed Sample Cashier's Daily Summary

Our

FEDERAL CREDIT UNION

CASHIER'S DAILY SUMMARY

DATE *August 21* **19** *X1*

	TELLERS					
	TOTAL	**1**	**2**	**3**	**4**	**5**
RECEIPTS:						
Shares	625.00	500.00	125.00			
Entrance Fees	13.00	2.00	11.00			
Late Charges	216.00	16.00	200.00			
Interest on Loans	1018.00	400.00	618.00			
Loans						
Miscellaneous						
Income from investments						
Other income	1.00		1.00			
Other						
Total receipts	1873.00	918.00	955.00			
DISBURSEMENTS:						
Can share withdrawals	1200.00	150.00	1050.00			
Share Drafts Cashed	158.00	150.00	8.00			
Cash loan payments						
Bonds redeemed						
Other disbursements in cash						
Total disbursements in cash	1358.00	300.00	1058.00			
Cash receipts less disbursements in cash	515.00	618.00	(103.00)			
Less: Cash short	3.00	3.00	-------			
Plus: Cash Over	2.00	-------	2.00			
Adjusted net cash receipts	514.00	615.00	(101.00)			
Add: Closing change fund balance	1000.00	500.00	500.00			
* Total Closing cash	1514.00	1115.00	399.00			
Teller's closing change fund inventory	899.00	500.00	399.00			
Needed for replenishment	101.00	-------	101.00			
Teller's authorized change fund	1000.00	500.00	500.00			

BANK DEPOSIT ANALYSIS:

Total receipts	1873.00
Plus: Cash over	2.00
Less: Cash short	(3.00)
Amount of deposit	1872.00

CHANGE FUND ANALYSIS

Unissued inventory	500.00
Issued to tellers	1000.00
Total change fund inventory	1500.00

CHANGE FUND RECONCILIATION

Opening balance		1500.00
Add: Increase		-----
Less: Decrease	--------	-----
Total Change Fund Inventory		1500.00

B. Bergange

(Cashier)

* Must agree with teller's cash count.

For members who mail in their payments, the credit union may arrange to return their passbooks to them in a special envelope, enclosed in which there would also be a Cash Received Voucher for the next payment. If the envelope has a window opening and the member's name and current address is so positioned on the passbook, the need for addressing the envelope to the member will be eliminated.

Enclosing a return envelope, pre-addressed to the credit union, with the passbook will also facilitate payment. A variation of the plan discussed above would be to use an ordinary window envelope to return the passbook to the member, enclosing a preaddressed return envelope on the flap of which the Cash Received Voucher is printed.

5050.1.3.2 WHEN STATEMENTS OF ACCOUNT ARE USED

Under all circumstances, members should receive a receipt for his/her payment. However, Article IV of the Federal Credit Union Bylaws, specifies that when a statement of account plan is used, the member's official permanent record for transactions shall be the statement of account. The member will thus be able to compare the payments shown on his/her periodic statement of account with his/her canceled checks, money order stubs, or other evidence of his payments that he/she retained after the payments were made. The board of directors could decide to eliminate receipts when mail payments are made by check or money order. For the proper protection of the members and the credit union, receipts should be mailed to any member who sends cash (coin or currency) through the mail even when a statement of account plan is used. Because of the hazards involved, the credit union should discourage sending cash through the mail. Due to the nature of mail receipts, credit union management must ensure that proper internal controls are established for the handling of mail receipts, i.e., opening mail receipts under dual control, posting receipts separately by teller number, etc.

5050.1.4 COUPON BOOK PLANS FOR LOAN REPAYMENTS

A coupon book method for loan and interest repayments has the advantage of eliminating the need for preparation of Cash Received Vouchers and the calculation of interest at the window when loan payments are made on schedule. Furthermore, since coupon books are feasible only when the interest and loan are set up on a level-payment plan, the exact amount due from the member at each payment date is known. Coupon books are advantageous to those credit unions where a large proportion of the membership pays its loans by mail.

The amount of the payments and the member's account number may be perforated through all the coupons in a book by means of a perforating machine. The coupons are prenumbered consecutively as to payment number, beginning with No. 1 for the first payment. Coupon books may be prepared with any number of coupons to be used with loans of varying maturities.

In addition to showing the amount of the payment and identification of the member, the coupon must show the due date. It should also provided space for the member to show the distribution of any payments made in addition to those shown on the prerecorded portion of the coupon-such as payments to shares. The coupon can be so designed that it will serve as an effective Cash Received Voucher, thereby eliminating the need for the credit union to prepare a voucher when each coupon is received. The date on the voucher portion of each coupon or on the separate Cash Received Voucher should be the date of receipt of the funds by the credit union.

The front or back cover of the coupon book may be used for instructions to the member in making payments or such instructions may be printed on the face of each coupon.

In using a coupon book plan the board of directors may adopt a grace period following the due date of each payment in order to ease the task of computing interest.

5050.1.5 BALANCING TELLER'S CASH RECEIPTS AND DISBURSEMENTS USING ON-LINE COMPUTER TERMINALS

Suggested procedures and form for balancing teller's funds, when the credit union uses an on-fine computer system, are illustrated below. This form may need to be adapted to fit a particular credit union's system. The following procedures or their equivalent should be used by each teller in balancing his/her assigned funds:

a) Obtain computer terminal Teller Totals for the days transactions.

b) Keep all miscellaneous receipts, both vouchers and money, separate from share and loan receipts.

c) Prepare adding machine tape of all checks, share drafts and money orders, etc., in the cash drawer that were received.

d) Count the cash.

e) Compare total of checks and cash to the ending balance of the Teller Totals.

f) Prepare adding machine tape of all check disbursement vouchers.

g) Compare the tape total to the total amount of checks issued.

h) Determine that any cash over or short amounts are recorded. Adjust the ending cash balance, if applicable.

i) After balancing has been accomplished, the head teller should clear the teller terminal totals.

When the above procedures are followed, the teller's cash on hand should balance to the appropriate computer totals. The cashier, after receiving all funds from the tellers, should prepare the Cashier's Daily Summary (or its equivalent). This form is illustrated in Figure 5-11 of this section. Modifications in this form may be required, as determined by the particular computer system being used.

5050.1.6 RECEIPTS AND DISBURSEMENTS USING AUTOMATIC TRANSFER ACCOUNTS AND NOW ACCOUNTS

With the passage of the Depository Institution Deregulation and Monetary Control Act of 1980, banks and savings and loans were given the authority to offer Automatic Transfer Accounts and Negotiable Order of Withdrawal Accounts (NOW), respectively. Federal credit unions may use these accounts for disbursing credit union funds as long as the account is with an institution which meets the criteria of Section 107(7) or

FIGURE 5-12: Cash Received Vouchers and a Total Payment Receipt and Passbook

TOTAL PAYMENT CASH RECEIVED VOUCHERS

FEDERAL CREDIT UNION

CASH RECEIVED VOUCHER

Recieved from _____

Account No _____

Date _____

Enter Amount Paid

	Dollars	Cents
Total Payment		

Received by _____

Posted _____

FEDERAL CREDIT UNION

CASH RECEIVED VOUCHER

Account No _____ Date _____ 19 _____

Received from _____

ENTER ONLY TOTAL AMOUNT PAID

	Dollars	Cents
Total Payment		

ENTER ONLY TOTAL AMOUNT PAID

Shares		
Entrance Fees		
Late Charges		
Interest on Loans		
Loans		
Total		

Received by _____ Posted _____

TOTAL PAYMENT RECEIPT AND PASSBOOK

RECEIPT

FEDERAL CREDIT UNION

TOTAL PAYMENT PASSBOOK

Recieved from _____

Account No _____ Date _____ 19 _____

Date _____

	Dollars	Cents
Total Payment		

Received by _____

KEEP THIS RECEIPT UNTIL YOU RECEIVE YOUR STATEMENT OF ACCOUNT

PASSBOOK

Front Cover — Open

FEDERAL CREDIT UNION

TOTAL PAYMENT PASSBOOK

Name _____

Account No. _____

(This space may be used to show office hours, messages to members, etc.)

PAYMENTS RECEIVED

Name _____ Account No. _____

Date	Amount	Rec'd By	Date	Amount	Rec'd By

Figure 5-13: Illustration of a Completed Statement of Account (Form FCU 107G)

ACCOUNT NO. 216

Our

FEDERAL CREDIT UNION

STATEMENT OF ACCOUNT

IF THIS STATEMENT IS IN ERROR, NOTIFY THE SUPERVISORY COMMITTEE CHAIRMAN AT ONCE AND FURNISH THE INFORMATION NECESSARY TO EFFECT CORRECTION

FORM FCU 107G

		SHARES ACCOUNT						LOANS ACCOUNT									
DATE	POST REF	PAID IN		WITHDRAWN		BALANCE		FULL SHARES	NOTE NO.	AMOUNT LOANED		INTEREST PAID		PRINCIPAL PAID		BALANCE		LATE CHARGE	
Sept. 6		3	00			3	00												*fee .25*
13		1	00			4	00												
14	JC6					4	00		212	60	00					60	00		
20			50			4	50						14	3	00	57	00		
28			50			5	00						13	3	00	54	00		

Bill Mc Culgan
7401 Chase Street
Marigold, Indiana 45358

ANNUAL PERCENTAGE RATE

RETAIN THIS STATEMENT AS A PART OF YOUR PERMANENT RECORDS

(8) of the Federal Credit Union Act. Since this account is similar to a checking account, it can be used in place of a regular checking account by the credit union. Before a decision is made to use one of these accounts, the board of directors must assure themselves that it will be in the credit union's best interest. The board should review the cost involved and the effects it will have on the credit union operation. These accounts have some of the same features as a share draft account in that the account earns interest/ dividends and that the checks/drafts are usually truncated (meaning the canceled checks/drafts might not be returned to the credit union).

If the checks/drafts are truncated, the credit union must be sure that it will be able to obtain a copy of the canceled check or draft. Furthermore, although these accounts will earn interest/dividends, many of the programs developed have service charges which are not associated with a regular checking account. Requirements imposed on these accounts differ widely among financial institutions; therefore, the board should study several programs before making a final decision.

5050.2 PROCEDURES FOR CASH DISBURSEMENTS

5050.2.1 SUMMARY ENTRIES OF DISBURSEMENTS IN THE JOURNAL AND CASH RECORD

5050.2.1.1 CHECK REGISTER

A savings of time and effort may be realized by the use of a check register. A check register is a record used to record individual checks drawn. The information from the check register is totaled each day and entered in summary entry form in the Journal and Cash Record. Beginning and ending check numbers and note numbers should be shown in the appropriate columns.

A check register should provide the following minimum information to insure proper internal controls:

- Date of payment:
- Name of the payee;
- Account number of the member, when applicable;
- Check number in numerical sequence;
- Note number, if applicable;
- Amount of the disbursement;
- Purpose of the disbursement; and
- Amounts extended to the respective General Ledger Account(s).

Journal Vouchers designed or adapted to provide the above minimum items of information can be used as a check register. Two other types of commonly used check registers are discussed below.

5050.2.1.2 LISTED CHECK REGISTER

A check register may show a listing of each individual check on a form designed to fit the credit union's needs, but care should be exercised to include at least the minimum information listed above. The purpose of the disbursement can be shown in columnar form with the columnar headings designating the purpose, such as a column headed "Shares" in which the amounts of share withdrawals are shown on the horizontal line with the appropriate check number and other information.

When accounting machines are being used, the machine by-product (proof sheet, journal sheet, etc.), may be used as a check register. The information that is typed on the check is reproduced on the machine by-product. Other minimum information is typed directly on the machine by-product.

As a means of eliminating the use of Journal Vouchers, or its equivalent disbursement vouchers, with a listed check register, additional columns can be provided for showing information that appears on the voucher form, such as approval or authorization for the disbursement, and acknowledgment of receipt of the check by the member. if applicable, and the related journal entry.

Figure 5-14: Illustration of a Computer Terminal Generated Settlement Form and Audit Tape By-product

AUDIT TAPE:

BEGINNING BALANCE	.00
PAYMT RECD-SHARES	1,000.00
PAYMT RECD-LOANS	21,543.10
CASH PAID OUT	10,250.00-
TO-FROM BANK	65.00
CASH OVER (SHORT)	15.16
ENDING BALANCE	12,373.26
TRANSACTIONS	180
CHECKS ISSUED	18
TOTAL AMOUNT OF CHECKS ISSUED	15,997.80-

TELLER SETTLEMENT FORM

TELLER NAME AND ID	
Gloria Counter	**A**

TODAY'S DATE		
8	**7**	**x1**

DESCRIPTION	AMOUNT
BEGINNING BALANCE	.00
PAYMT RECD-SHARES	1,000.00
PAYMT RECD-LOANS	21,543.10
CASH PAID OUT	10,250.00-
TO-FROM BANK	65.00
CASH OVER (SHORT	15.16
ENDING BALANCE	12,373.26

TRANSACTIONS	180
CHECKS ISSUED	18
TOTAL AMOUNT OF CHECKS ISSUED	15,997.80-

TELLER'S INITIALS

Receipt of Total Amount Shown as Ending Balance is Hereby Acknowledged.

CASHIER

OUR FEDERAL CREDIT UNION
Anytown, U.S.A.

(A) Cash Share Withdrawals and Loans disbursed in Cash.

(B) "To Bank" or to credit a teller's drawer by depositing some or all, of its contents in the bank (transferred to an armored car, head cashier's vault, or another teller's cash drawer)

(C) "From Bank" or to debit a teller's cash drawer for cash received from the bank, an armored car, the head cashier's vault or another teller's drawer.

5050.2.1.3 VOUCHER CHECK REGISTER

In a voucher check arrangement, the check and one or two copies are prepared simultaneously. These copies can serve as a journal voucher and/or as a check register. Under the voucher check arrangement, the check is given to the payee, and the copy(ies) are retained by the credit union.

Either a duplicate or triplicate voucher arrangement is acceptable. Under a triplicate system, the first copies are sorted into account number order for posting to the members accounts. A Journal Voucher (or its equivalent) should be attached to these copies, summarizing the transactions for the entry of the day's disbursements in the Journal and Cash Record, thus eliminating the necessity of entering each check individually. The last copies of the checks are sorted in check number order and become the check register. If a duplicate voucher check arrangement is used, only one copy of the check is prepared. These copies are first sorted in account number order for posting to the members' accounts. After the posting is accomplished, the copies should be sorted in check number order to become a check register. The summary voucher for that day's disbursements should be attached to the copy of the first or last check number written for the day.

The copies of the voucher checks must provide space for all of the information needed for journal vouchers, as shown in Section 5010.2.3. Space will also be provided for the note number. The check register copies will need to provide the minimum information needed for check registers outlined in Section 5050.2.1.1.

Voucher checks will usually be obtained in loose form; therefore, extra care must be exercised in storing these because the loss of these checks may not be noticed as readily as when bound books are used. All unused voucher check stock must be placed under the control of one employee. This employee will be responsible for determining that all usage is accounted for, by check numbers on a daily basis.

Voucher check forms will be designed to meet the needs of the credit union. To maintain the confidential relationship required by the Federal Credit Union Bylaws, the purpose of the disbursement must not appear either on the face or reverse side of the check. Illustrated in Figure 5-15 and 5-15A is an example of a voucher check arrangement.

5050.2.2 DISBURSING SHARE WITHDRAWALS AND LOANS IN CASH

Generally, federal credit unions find that they can operate efficiently making disbursements for share withdrawals and loans by check. However, when the volume of checks issued for these purposes becomes burdensome, the board of directors may want to authorize the payment of either share withdrawals or loans, or both, in cash. In its authorization, the board should set a limit on the amount of cash that may be disbursed with each transaction.

Making payments in cash will undoubtedly increase the credit union's change fund needs. When authorizing disbursements in cash, the directors should also consider whether the size of the change fund needs to be increased and whether surety bond coverage is adequate (refer to Section 701.20 of the National Credit Union Administration Rules and Regulations) and authorize any necessary adjustments.

Figure 5-15: Illustration of a Completed Voucher Check (Original Copy)

Bank of Service
Anytown, Indiana

OUR FEDERAL CREDIT UNION

No. 14372

Anytown, Indiana *August 8* **19** *X1* 00.0 / 000

Pay *Eight hundred sixty and no /100* $ *860.00*

to the order of *William Law*

OUR FEDERAL CREDIT UNION

Chester Hines
(Signature)

Robert Prosek
(Counter Signature)

Detach Before Negotiating

ACCOUNT	DEBIT		CREDIT	
Shares	40	00		
Loans	1050	00	227	00
Interest on Loans			3	00
Expense Control				
Cash			860	00
Totals	1090	00	1090	00

Check No. 14372

Date *8-8-X1* **Account No.** *419*

Note No. *1712*

(Original)

Figure 5-15A: Illustration of a Completed Voucher Check (First and/or Second Carbon Copy)

Bank of Service
Anytown, Indiana

OUR FEDERAL CREDIT UNION

No. 14372

Anytown, Indiana *August 8* **19** *X1* 00.0 / 000

Pay *Eight hundred sixty and no /100* $ *860.00*

to the order of *William Law*

OUR FEDERAL CREDIT UNION

NON-NEGOTIABLE

(Signature)

(Counter Signature)

ACCOUNT	DEBIT	CREDIT
Shares	40 00	
Loans	1050 00	227 00
Interest on Loans		3 00
Expense Control		
Cash		860 00
Totals	1090 00	1090 00

Check No. 14372

Date *8-8-X1* **Account No.** *419*

Note No. *1712* **Posted** *X*

X *William Law*
(Received By)

Steve Stone, Loan Officer
(Approved or Authorized By)

(First and/or Second Carbon Copy)

Disbursements in cash should be made to members and joint owners only in person, and only for the purposes and within the conditions stipulated by the board. Forms used for disbursing cash to members may not serve as authorization for payments to third parties. Disbursements in cash may be made for share and loan transactions only and may not be extended to other types of disbursements, except for disbursements out of Petty Cash. If the credit union is an authorized agent for the redemption of U. S. Savings Bonds, the board may authorize redemption of the bonds in cash in accordance with the procedures in Section 5195, "Sale and Redemption of U.S. Savings Bonds".

The Journal Voucher (Form FCU 106A) forms used for disbursements by check are usually not suitable for disbursements in cash. The significant features of a form to be used for disbursements in cash are: (1) the form must provide information about the transaction so that it may be used as a source document to support the entry in the Journal and Cash Record and the posting to the member's ledger, (2) the form must provide space so that it may serve as a receipt, or acknowledgment, from the member signifying that he has received the cash, and (3) the form must provide space for the signature or identification of the person making the disbursement. Sample forms for disbursements are illustrated in Figure 5-16 and Figure 5-16A. Separate forms have been illustrated for disbursement of shares and of loans. If a credit union disburses both shares and loans in cash, it may design a combined form for this purpose.

It is preferable for control purposes that separate forms be used for disbursements in cash and disbursements by check. However, if it is desired that one form be used to accomplish both purposes, the form must provide space for clear identification of whether the disbursement was made by cash or by check, the check number, the signatures of the person who paid the cash, and the person who received the cash, as well as the other information about the transaction so that the voucher can serve as a source document.

Effective control must be established for disbursements in cash. For example, when shares have been pledged as security for a loan, procedures must be established to prevent the disbursement of the pledged shares. Before cash is disbursed as loan proceeds, the disbursing official or employee must make certain that all of the required loan papers are properly completed, including an approved loan application, a note signed by the borrower and all collateral and security documents and all the required comakers, and the collateral security documents.

The following are accounting procedures for disbursing share withdrawals and loans in cash. The cash disbursement forms should be totaled daily and a summary prepared on a Journal Voucher, Form FCU 106A, or its equivalent. From this summary voucher a summary entry should be made daily in the Journal and Cash Record to reflect the debits to Shares and Loans. The corresponding credit will be to Cash and should represent the check drawn to replenish the change fund for the disbursements in cash for the day. The number of the check issued to replenish the change fund must be entered on the summary Journal Voucher. If summary entries for disbursements by check are made in the Journal and Cash Record, the check issued to replenish the change fund will be included in the summary entry.

If the checks are entered individually in the Journal and Cash Record, the entry therein for the disbursements in cash will reflect the issuance of the check for the change fund replenishment.

Postings to the member's ledgers should be made from the cash disbursement forms. These forms and the summary Journal Voucher should be retained in the same manner as other source documents.

Figure 5-16: Illustration of a Sample Voucher for a Loan Disbursed in Cash

Our **F**EDERAL CREDIT UNION

VOUCHER FOR LOAN DISBURSED IN CASH

Account No. *1012* Name *Paul Hennig* Date *Aug. 4* 19 *X1*

New Loan Balance (Note No. *1617*)			*500*	*00*
Deduct: Previous Loan Balance	*242*	*18*		
Interest on Loans	*1*	*72*		
Total Deduction	*243*	*90*	*243*	*90*
Amount Distributed in Cash			*256*	*10*

. . . . . *Two hundred fifty-six and 10/100* Dollars

Approved or Authorized by *Credit Committee*

Paid by *Willie Brown*

Posted *X*

Receipt is acknowledged of the amount disbursed in cash above

(Member's Signature)

Figure 5-16A: Illustration of a Sample Voucher for a Share Withdrawal Disbursed in Cash

Our **F**EDERAL CREDIT UNION

VOUCHER FOR SHARE WITHDRAWAL DISBURSED IN CASH

Account No. *423* Name *Karen Lintz* Date *Aug. 5* 19 *X1*

Pay to myself and charge my share accout $ *50.00*

. . . . . *Fifty and no/100* Dollars

Approved or Authorized by ____

Paid by *Willie Brown*

Posted *X*

Receipt is acknowledged of the amount disbursed in cash above

Karen Lintz

(Member's Signature)

5050.2.3 CHECK SIGNING MACHINES

If a large volume of checks are issued, the use of a check-signing machine may be warranted. Desirable safeguards in using a check-signing machine are that:

a) The plate bearing the signer's facsimile signature needs to be used under his/her exclusive control at all times.

b) The signer whose plate is being used in the machine should be present at the time his/her signature is being impressed on checks.

Circumstances may be such that a credit union may not be able to arrange for use of a check-signing machine with the signature plate of an authorized employee or official who will always be in a position to control his/her signature plate or be present when his plate is being used. Under such circumstances, the following safeguards should be established:

a) The board of directors and the official or employee whose signature plate is being used in his/her absence should authorize certain other persons to use such plate.

b) The board of directors should determine that the individual whose signature plate is being used in his absence recognizes and takes full responsibility for all checks issued with his/her signature on them.

c) The board of directors should ensure that the following controls are established and maintained to protect against improper use of the machine:

    1) The check-signing machine should have a counter to record or count each check inserted for signature, and this counter device should be under lock with the key in the possession of someone other than those who operate the machine.

    2) A register or control record should be maintained which will show the check number, the date and initials or signature of the person who operated the machine. If numerous checks are signed at one time, and since checks are issued in straight numerical sequence, only the number of the first and last checks so processed need be listed in the register, or control record, along with the date and initials or signature.

    3) The number shown on the counter device on the machine should be entered at the end of each day in the register or control record. The number of checks issued for the day as shown by the counter device will thus correspond with the number of checks listed in the register or control record. Any discrepancies in such numbers must be accounted for or explained in the register or control record.

d) Facts are given to the surety company concerning the proposed plan in order that the surety can indicate whether full bond coverage will continue in effect.

e) Facts pertaining to the plan are also given to the credit union's bank.

5050.2.4 CHECK PROTECTORS

Machines which will indelibly imprint the amount of the check, commonly known as “check protectors,” are also available. In some versions, these machines are equipped with registers which accumulate the number and amount of checks run through the machine. It is possible to obtain a combination check signing and protecting machine in a single unit.

5050.2.5 CHECK WRITING MACHINES

Various computing equipment which will write the complete check are available. These machines are usually programmed to operate independently or to produce a computer-generated output. They will perform certain or all functions in writing a check with minimal input from a teller or other employee. At least the following controls must be established and maintained in order to protect against improper machine usage:

a) The check-writing machine should have a counter to record or count each check written. This counter device shall be under lock with the key in the possession of someone other than those who operate the machine.

b) A register or control record should be maintained (some machines prepare this at the time the check is written) which will show the date and initials or other identifying symbol of the person who used the machine.

c) Daily balancing of the number of checks written to the number of blank checks used should be performed.

d) The surety company should be notified of the proposed machine usage in order that surety can indicate whether full bond coverage will continue in force.

e) If the check-writing machine also signs checks, the control procedures for the signature plate, as discussed under check-signing machines, Section 5050.2.3 should be followed.

5050.2.6 LOAN DRAFTS

5050.2.6.1 NATURE OF LOAN DRAFTS

A draft, sometimes referred to as a bill of exchange, may be defined as follows:

> A draft is a formal written order directing the payment of money by a specified party to another party, who may or may not be the maker or drawer of the instrument.

Relating the above definition to a draft transaction as it might be handled by a credit union, the maker or drawer of the draft instrument would be the credit union itself. The draft will ordinarily be made out to either the member or to a vendor such as an automobile dealer from whom the member desires to purchase some goods to be paid for by the proceeds of the draft. The "specified party" is the credit union's bank since the draft is actually drawn upon it.

There are many different types of drafts, or bills of exchange, all of which serve a definite purpose under certain conditions or circumstances. A common type is a check. An important feature of the type of draft generally used by credit unions, which is also true of most types of drafts or bills of exchange, is that the instrument must be honored or accepted by the party upon whom it is drawn.

There may be diversification of the use of draft procedures by federal credit unions. There are many complexities involved in the effective use of drafts. Generally these complexities develop because of local laws and customs. As a result, a credit union must be certain that it is equipped to legally and effectively carry out the responsibilities connected with the use of drafts.

Some credit unions may find that the use of drafts facilitates loan transactions with its members, especially with members located at a point distant from the credit union. Drafts can be used by credit unions in connection with any loan transaction, but they are perhaps most commonly used with automobile loans.

5050.2.6.2 LIABILITY IN CONNECTION WITH LOAN DRAFTS

An important question arises as to whether the credit union incurs a liability at the time authorization is issued for a draft to be drawn upon it, or whether no liability exists until the draft is accepted. A number of factors influence the answer to this question since these factors are of a legal nature, based upon the nature of the draft documents and procedures, and since these factors will vary in different jurisdictions, the credit union must be guided by the advice of its attorney in determining whether it incurs a liability upon authorization of a draft.

If it is determined that the credit union incurs a liability when a draft is authorized, "Accounts Payable-Drafts Authorized", (Account No. 805), should be credited for the amount authorized. Account No. 805 should be debited when the draft is paid by check, or when the authorization is voided.

Drafts issued by the credit union which have not been presented for payment after a reasonable period has elapsed (90 days or more) should be transferred to Account Number 801, "Accounts Payable." The following entry should be used to transfer those old drafts:

Dr.-Accounts Payable - Drafts
Authorized (Account No. 805)
Cr.-Accounts Payable (Account No. 801)

If the credit union determines that it has no actual liability until the draft is accepted, it would then have a contingent liability upon authorization of a draft to be drawn. Although no record in the formal books of account is necessary, a contingent liability must be disclosed on the credit union's financial statements in order to permit valid analysis of the credit union's financial condition. Accordingly, the contingent liability should be shown on the Statement of Financial Condition (FCU 109A, or its equivalent) as a note, to read as follows:

As of (Date) , the credit union has authorized drafts to be drawn upon it in the amount of

$ _____ which have not been presented for acceptance.

5050.2.6.3 RECORDS IN CONNECTION WITH LOAN DRAFT PROCEDURES

Management of the credit union has a definite responsibility to prepare and maintain complete and accurate records of draft transactions. Draft authorization copies and other papers relating to the transaction should be filed in a separate folder for each transaction until the draft is accepted and paid. This will provide a greater measure of control over the outstanding items than if the papers were filed in the normal fashion.

Further control over outstanding draft authorizations will be provided by a draft register or daily record of draft transactions. The draft register should be in columnar form and provide information necessary for control over the operation, depending on the nature of the credit union's procedure. Suggested columnar headings are listed below:

a) Date authorized. (This should also be the date of entry in the draft register.)

b) Draft number or authorization number. If the credit union furnishes the draft instruments to the potential drawers of the drafts, the draft instruments should be numbered consecutively in the same manner as checks are numbered. The draft authorizations should be similarly numbered. The best control would be achieved if the draft form and the draft authorization for the same transaction bore the same number.

c) Name. The drawer's name should be shown. If the drawer is an individual, such as an automobile vendor, other than the member involved in the transaction, both his name and the member's name should be shown in this column.

d) Account number of the member.

e) Amount authorized.

f) Date paid. (Date the draft is paid by the credit union.)

g) Check number of check used to pay the credit union's bank.

h) Date voided, if such occurs.

i) Reason for voiding.

Amounts shown in column e. above, which are not followed by entries in columns f. and g., represent the outstanding draft authorizations. The total of these amounts can be checked against the total of the outstanding authorizations, copies of which should be filed in separate folders as indicated above. The register can serve as a subsidiary to the General Ledger control, "Accounts Payable-Drafts Authorized", (Account No. 805), and the total of the outstanding authorization (open amounts in column e.) should agree with the balance in that account. Likewise, the total of the open amounts in column e. will be the amount of any contingent liability, if applicable.

5050.2.6.4 RESPONSIBILITY FOR FUNDS ON HAND TO MEET LOAN DRAFT OBLIGATIONS

Credit union management has a very profound responsibility in connection with draft procedures to assure that the credit union has funds on hand to meet the total amount of cash required for drafts authorized. A credit union maintaining a draft register similar to the one described above will have no difficulty in determining on a current basis the amount of funds needed to satisfy obligations for drafts authorized.

5050.2.7 "FLUCTUATING" CHANGE FUNDS

The recordkeeping procedures in connection with Change Funds discussed in the description of Change Funds (Account No. 739) will prove suitable for credit unions with normal change fund activity. However, some credit unions may feel a need to adopt what is commonly referred to as "fluctuating" change funds. By "fluctuating" it is meant that the amount of cash in the fund will vary from time to time as a result of normal operations, and the fund will not be promptly replenished. In the interest of reducing the hazards in connection with cash handling, a "fluctuating" change fund can be authorized in order to:

a) Avoid the hazards of transporting currency to the bank.

b) Avoid the hazards of retaining more currency in the credit union office than is necessary for immediate needs.

The need for transporting currency to the bank is lessened by the practice of depositing checks instead of currency, whenever possible. In many cases, change fund currency is depleted through cashing members' checks, share drafts, or through making change for members' payments made by check. Frequently, this will result in the total of the checks and share drafts on hand at the end of the day being greater than the total of the vouchers representing payments to the credit union. If the credit union, in such a case, has no immediate need for replenishing the change fund, only the checks and share drafts need be deposited and the change fund can be reduced by the amount that the checks exceed the receipts for the day. Assuming that the receipts total $800 and the checks total $1,200, the entry should be:

Example 1:

Dr.-Cash (Acct. No. 731)	$1,200.00	
Cr.-Shares (Acct. No. 901)		$580.00
Cr.-Consumer Loans (Acct. No. 701.3)		200.00
Cr.-Interest on Loans (Acct. No. 111)		20.00
Cr.-Change Fund (Acct. No. 739)		400.00

In instances where the cash receipts for the day exceed the amount of the checks and share drafts, the entire amount of cash receipts must be deposited as provided in Section XV of the Federal Credit Union Bylaws. However, if a change fund is in use, a credit union desiring to deposit only checks and share drafts (as a safety measure) may do so by increasing the change fund by the amount of the currency in the day's receipts. This can be accomplished by drawing a credit union check in the amount of the currency received during the day.

Assuming that receipts totaled $900 of which $800 is in the form of checks and share drafts, the entries would be:

Example 2:

Entry (a)

Dr.-Change Fund		
(Acct. No. 739)	$100.00	
Cr.-Cash (Acct. No. 731)		$100.00

Entry (b)

Dr.- Cash (Acct. No. 731)	$900.00	
Cr.-Shares (Acct. Nos. 901 and 902)		$680.00
Cr.-Consumer Loans		
(Acct. No. 701.3)		200.00
Cr.-Interest on Loans		
(Acct. No. 111)		20.00

Entry (a) records the credit union check drawn in the amount of the currency. This check is deposited along with the checks received in the day's business to make up the debit to cash in Entry (b).

As discussed in Section 5050.2.2 credit unions may disburse share withdrawals or loans, or both, in cash. In the interest of reducing hazards, replenishment of the change fund may be delayed and if the officials so desire, the change fund can be reduced by the amount of the cash share and loan disbursements. Assuming that cash share and loan disbursements on any day amounted to $500, the entry would be:

Example 3:

Dr.-Shares (Acct. No. 901)	$200.00	
Dr.- Consumer Loans		
(Acct. No. 701.3)	300.00	
Cr.- Change Fund		
(Acct. No. 739)		$500.00

To avoid a complex entry in the Journal and Cash Record, which could result from combining the above entry with other entries involving change funds, the above should be a separate entry. It should be supported by the cash disbursement vouchers which should be summarized on a Journal Voucher, Form FCU 106A, or its equivalent.

By way of summary, fluctuation in the change fund that results from normal operations may occur as follows:

a) Change fund will be reduced:

- By excess of checks and members' share drafts over cash receipts (example 1).
- By cash share and loan disbursements (example 3).

b) Change fund will be increased:

- By replenishment checks drawn on the credit union's depository and cashed at the bank.
- By replenishment checks cashed from credit union receipts (example 2).

Regardless of the manner in which the change fund may fluctuate, change fund cash must be verified each day and cash over and short recorded, if applicable.

It is possible that some credit unions may have change funds of such a large amount that continual fluctuations occur without the need arising to replenish the fund with reasonable regularity, or to deposit excess currency. In such a situation, the change fund does not serve its intended purpose. Accordingly, the officials should relate the size of the change fund with the needs of the credit union and its surety bond coverage and, if necessary, reduce the amount of the change fund.

5050.2.8 CHANGE FUNDS AND MONETARY RESERVE REQUIREMENTS OF REGULATION D

Change funds can contribute to satisfying Regulation D's monetary reserve requirement for "vault cash". Vault cash consists of United States currency and coin, and does not include securities or earning assets of any type. In addition, all silver and gold coin and other currency and coin whose numismatic or bullion value is substantially in excess of face value should not be regarded as vault cash.

Reference: 12 CFR 204.3b, page 82.

5060 END-OF-MONTH PROCEDURES

5060.1 RULING AND CHECKING THE JOURNAL AND CASH RECORD

At the end of the month, a single inked line is ruled across the Journal and Cash Record immediately under the last entry made. The totals, or footings, of the debit and credit columns are written in pencil and in small figures immediately below this line. The amount of the penciled items in the debit columns across each line in the Journal and Cash Record must equal the amount of the items in the credit columns across the same line. The debit columns are marked "Dr." and the credit columns are marked "Cr.".

Before the total of each special column is finalized and posted from the Journal and Cash Record to the respective account in the General Ledger, the grand total of all debit columns should be compared with the grand total of all the credit columns in order to prove that equal debits and credits have been entered in the Journal and Cash Record. Any differences should be located and corrected. When the month's final debit and credit totals have been balanced they should be recorded under footings in ink and underscored by a double line across each page of the Journal and Cash Record. The totals can then be posted to the respective General Ledger control accounts as discussed below.

5060.2 POSTING

5060.2.1 PLACES TO WHICH POSTING FROM JOURNAL AND CASH RECORD ARE MADE

The totals of the Journal and Cash Record are carried forward from one page to another during the month, but in no event from one month to another. All entries in the Journal and Cash Record arising from one month's operations should be posted to the General Ledger promptly at the end of each month. Footing each page of the Journal and Cash Record during the month and carrying these totals forward will prove the accuracy of each page and may save time at the end of the month.

At the end of the month after the Journal and Cash Record has been ruled and balanced, the totals of the debit and credit columns for "Cash", "Shares", and "Loans" should be posted to the appropriate General Ledger accounts. Also the totals of the "Interest on Loans", "Fees and Charges", and "Recoveries" columns should be posted to the credit of Account Nos. 111, 131 and 719, respectively. If the "Operating Expenses (Control)" column is used for all transactions affecting accounts in the 200 through 399 number series of General Ledger accounts, the total of this column should be posted to Operating Expenses (Control) (Account No. 200), (normally a debit).

Posting of each item recorded in the "Operating Expenses (Control)" column is also made separately to the Expense Ledger (Form FCU 104 if used), and to each of the subsidiary expense accounts involved. The total of items entered in the "Expense Total" column must be equal to the amounts of classified expense items entered in one or more columns on the same line.

Posting of each item in the "Shares-Withdrawn" and "Loans-Loaned" columns is made to the accounts of the members involved in the Individual Share and Loan Ledger. Also, those items in the "Shares-Paid in..... Loans-Repaid," "Interest on Loans," "Fees and Charges" and "Recoveries" columns which have not been previously posted from Cash Received Vouchers are posted to the Individual Share and Loan Ledgers. Posting should be done promptly to avoid the possibility of share overdrafts and to reduce the time necessary to close the books at the end of the month.

5060.2.2 POSTING TO THE GENERAL LEDGER ACCOUNTS

Entries in the General Ledger are posted (transferred) only from the Journal and Cash Record. No entries shall be made in the General Ledger without their first having been made in the Journal and Cash Record. The total of each debit and each credit column in the Journal and Cash Record, other than the "Miscellaneous" columns, should be posted to the proper account in the General Ledger promptly after the close of the month's business. The last day of the month as well as the month and year are entered in the date column of the General Ledger; the page number of the Journal and Cash Record is entered in the folio

column; and the debit or credit amount is entered in the proper amount column. The same procedure is followed in posting each item from the "Miscellaneous" columns except that the date posted in the date column in the General Ledger should be the same as the date of the entry in the "Miscellaneous" columns. The totals of these two "Miscellaneous" columns should not be posted. A notation should be made in the "Explanatory Remarks" column to the General Ledger of any item posted which requires description. As entries are posted to an account, the balance of the account should be extended in the proper debit balance or credit column.

5060.3 TAKING A TRIAL BALANCE OF THE GENERAL LEDGER

After all items in the Journal and Cash Record for the month have been posted to the General Ledger accounts, it is important to make sure that the accounts are in balance. The Trial Balance of General Ledger Accounts (Form FCU 116) is a form which can be used to list separately the debit and credit balances of each account in the General Ledger. The debit or credit balance of each account is entered in the appropriate column on the line with the account number and title. After all debit and credit balances have been recorded, the "Debit Balance" and "Credit Balance" columns should be added. The total of each column must agree. Adding machine tapes may be used in place of Form FCU 116 provided they indicate the General Ledger Account No. and balance.

5060.4 WHEN THE GENERAL LEDGER TRIAL BALANCE DOES NOT BALANCE

If the General Ledger's debit balance totals on the General Ledger Trial Balance do not agree with the debit totals, an error has been made. The procedures in finding this error are outlined below:

a) The items comprising the trial balance should be checked against the balances of the accounts to determine that the correct amounts were recorded. If this results in corrections, the trial balance should again be added.

b) If the trial balance still does not balance, determine if the balance of each General Ledger account has been correctly computed and extended on the basis of the items posted to the account. Perhaps a mistake has been made in adding and subtracting the debit and credit items in arriving at the new balance of the account. If there is an error, a single fine should be drawn through the balance shown in the account and the correct balance should be entered in ink immediately above. The necessary corrections should also be made in the General Ledger trial balance.

c) If the General Ledger trial balance stir does not balance, determine whether the total debit items equal the total credit items posted to the General Ledger accounts from the Journal and Cash Record.

d) If the total debit and credit items posted to the General Ledger do not agree, then a check should be made of the postings from the Journal and Cash Record to the General Ledger accounts. This can be accomplished by adding all debit postings and then all credit postings for the month in the Journal and Cash Record; the totals of which should agree. If they agree, most likely one or more errors or omissions have been made in posting entries to the General Ledger. If they agree, a check should be made to determine whether the correct amounts have been posted from the

Journal and Cash Record to the correct debit or credit side of the accounts. Any incorrect entries should be fined out and replaced with the correct entries. This will require the respective month end General Ledger account balances to be recomputed and extended in the General Ledger and on the Trial Balance. The debit and credit columns of the General Ledger Trial Balance should be totaled again to verify the accuracy of the totals.

e) If the totals of these columns do not agree, then the column totals of the Journal and Cash Record should be verified by adding them again. After this has been done and if the debit and credit items have not agreed, each line of the month's Journal and Cash Record should be balanced to deter mine that the debits equal the credits. Each transaction or a group of similar transactions for one day (such as cash receipts) should be entered on a single line of the Journal and Cash Record. The amount of the debit items in the debit columns across each line should equal the amount of the credit items across the same line. In other words, the total debits of the entry representing each transaction or group of transactions should equal the total credits. If one or more day's transac tions do not balance, that day's entries should be checked back to its supporting documents to determine what the correct entries should be. When the entries have been corrected, the totals of the Journal and Cash Record and the postings and extensions of the General Ledger balances should be adjusted.

A detailed check of the individual entries in the Journal and Cash Record, explained in step e. should locate any errors that may exist in the General Ledger Trial Balance. The error should be corrected neatly in ink without the use of "white-out" correction fluid, eraser or any other method to obliterate the error. After all the necessary adjustments have been made, the General Ledger should be in balance.

5060.5 PREPARING THE BANK RECONCILEMENT

Federal credit unions should reconcile the bank account every month, promptly upon receipt of the bank statement and canceled checks, in order to be certain that no errors have been made either by the bank or by credit union operating personnel. It is suggested that Bank Reconcilement Form FCU 108 or its equivalent be used for this purpose since it is designed for credit union use and lends itself for formal, permanent filing. Space is provided at the top of the form to record the name and location of the bank, the bank account number and the date of reconcilement (the last day of the particular month involved). Credit unions having multiple checking accounts should maintain separate General Ledger sub-accounts in the 730 account number series for each checking account and prepare a monthly bank reconcilement for each individual checking account.

Similar reconcilements should be prepared for settlement accounts maintained with corporate credit unions or any other institutions which the FCU uses as a settlement point for credit card or share draft clearings, or other EFT payments.

5060.5.1 CASH BALANCE PER BOOKS OF CREDIT UNION

The cash balance as shown on the books of the credit union in "Cash" (Account No. 731) is recorded on the first line. Under the heading "Additions" any items which have been added to the credit union's bank account by the bank but not entered in the books of the credit union are itemized in detail with the date, reason for the adjustment and amount of the adjustment. The total of these items are added to the first amount entered to determine the figure show-n as the "subtotal."

Any items, such as charges for service, exchange, etc., deducted by the bank but not yet entered on the books of the credit union are written in detail (date, reason for the adjustment and amount of the adjustment) in the spaces under the heading "Deductions." The total of the deductions is entered and subtracted from the subtotal to determine the adjusted total, which is then entered opposite "Adjusted Total." The resulting adjusted total cash balance is the true cash amount (or portion thereof when there are more than one cash account) which should be reflected on the credit union's financial statements.

Any transactions shown as "Additions" or "Deductions" not previously recorded should be entered in the Journal and Cash Record under the current date when the bank statement is received. AU adjustments made on the bank reconcilement should be fully detailed. At a minimum, the credit union should document the need for the adjustment, check number, date of error, all amounts involved and the member's account number, if applicable.

5060.5.2 BANK BALANCE PER BANK STATEMENT

The bank balance as shown by the bank statement is written on the first line on the right side of the form. Checks issued by the credit union but not yet paid by the bank should be entered by number and amount in the spaces under "Deductions-Outstanding Checks." If there are more outstanding checks than spaces provided, an adding machine tape listing of the outstanding checks can be prepared and stapled to this space. The check number should be placed opposite each amount on the tape. On some calculators and adding machines this can be done using the non-add key. Each outstanding check column should be subtracted as indicated on the sample reconcilement. The grand total of outstanding checks is written in the farthest right column, across from the title "Outstanding Checks-Grand Total of All Columns", under the bank balance according to the bank statement. It is then subtracted from the bank balance to determine the "Subtotal." Checks outstanding and as yet unpaid 6 or more months should be canceled and the amount transferred to accounts payable.

Any items, such as undeposited cash receipts (deposits in transit), added by the credit union on its books but not yet entered on the bank's records should be itemized in the spaces under "Additions". These items should then be totaled and added to the "Subtotal" to obtain the adjusted total. Items in this section will usually be the deposits in transit on the last day of the month but not deposited until the first day of the following month. The credit union should list the date the cash was received, the date deposited and the individual amounts of each deposit in-transit on the bank reconcilement.

5060.5.3 RECONCILIATION BALANCING PROCEDURES

The amount shown for "Adjusted Total" on the left side of the reconcilement should be the same as the amount shown for "Adjusted Total" on the right side of the reconcilement. If these adjusted totals are not in agreement, it indicates that an error exists in the credit union's records, or in the bank statement, or in the bank reconcilement. To locate such errors the following steps should be taken:

a) Check cash receipts entered in the Journal and Cash Record against amounts shown as deposits on the bank statement. Add the Cash Received debit column of the Journal and Cash Record verifying the accuracy of that total.

b) Check the amount of each check charged on the bank statement against the check itself and the entry of such check in the Journal and Cash Record. If disbursements are summarized, total the amount of the canceled checks and outstanding checks for each day's disbursements. This total should agree with the amount of the disbursement summary recorded in the Journal and Cash Record. Prove the total of the cash "paid out" credit column of the Journal and Cash Record. To prove the outstanding check list, add the previous month's outstanding check total and the total dollar amount of checks written during the current month less the total of all checks that have cleared the current bank statement. This amount should equal the total of the outstanding list or tape.

c) If any items remain unchecked on either the credit union records or the bank statements, determine the reason therefor, and record the proper adjustments on the bank reconcilement.

5060.6 TAKING A TRIAL BALANCE OF THE INDIVIDUAL SHARE AND LOAN LEDGERS

A complete trial balance of the members' Individual Share and Loan Ledgers should be taken at least once each month. The trial balance can be taken on any day during the month; however, the General Ledger should be posted as of the same date and a trial balance of the General Ledger taken. The ideal time for taking the trial balance of the member's accounts is as of the last day of each month since the General Ledger is posted as of that date, a financial report is prepared as of that date, and the cash account is also reconciled as of that date.

Credit unions which maintain subcontrols may balance different blocks of the Individual Share and Loan Ledger accounts with their respective subcontrols monthly as of dates other than the month-end. When this is done all of the subcontrols should be posted through the date that a trial balance is taken of one or more of the different blocks of the subcontrols. When this method of taking trial balances is followed, all of the different blocks should be balanced with subcontrols simultaneously as of a month-end, at least once each quarter. The totals of the subcontrols should be balanced with the General Ledger Share and Loan control accounts not less frequently than as of each month end.

Credit unions which maintain subcontrols may elect to take a trial balance of all the subcontrols simultaneously on any date during the month provided that the subcontrols and General Ledger are posted to that date, and a General Ledger trial balance is taken. When these conditions are met, it is not required to also complete the month-end trial balance once each quarter.

OUR

FEDERAL CREDIT UNION

First National Bank (NAME OF BANK) | 032-11180 (BANK ACCOUNT NUMBER) | Anytown (CITY) | Indiana (STATE)

BANK RECONCILEMENT

DATE 07-31-X1

BANK BALANCE PER BOOKS $1,143.67

ADDITIONS

Items added by Bank but not yet entered on books of Credit Union.

Check No. 523 entered as $54.00 on 7/15/X1 actually written for and cleared bank as $45.00	$9	00

TOTAL ADDITIONS 9. 00

SUB-TOTAL $1,152. 67

DEDUCTIONS

Items deducted by Bank but not yet entered on books of Credit Union.

Bank Service Charge 07-14-X1	$1	25

TOTAL ADDITIONS 1. 25

SUB-TOTAL $1,152. 42

BANK BALANCE PER BANK STATEMENT $1,029.24

DEDUCTIONS

OUTSTANDING CHECKS

CHECK NO.	AMOUNT	CHECK NO.	AMOUNT	CHECK NO.	AMOUNT	CHECK NO.	AMOUNT
79	$ 8 00						
167	105 75						
536	5 00						
537	17 68						
538	11 32						
539	10 00						
540	50 00						
541	40 00						
542	70 00						
543	30 00						
544	100 00						
545	200 00						
546	400 00						
547	2,500 00						
548	5 25						
549	25 00						
550	45 00						
551	30 00						
552	40 00						
553	60 00						
554	100 00						
555	VOID						
556	300 00						
557	VOID						
Subtotal	4,153 00	Subtotal		Subtotal		Subtotal	

OUTSTANDING CHECKS - Grand Total of All Columns 4,153. 00

(3,123 76)

ADDITIONS

Items added by Credit Union but not yet entered on the Bank's records. **Deposits in Transit:**

Cash Receipts 7-30	Deposited 8-1-X1	2750	00
Cash Receipts 7-30	Deposited 8-1-X1	275	18
Cash Receipts 7-31	Deposited 8-1-X1	1,250	00

TOTAL ADDITIONS 4,275. 18

ADJUSTED TOTAL $1,151. 42

FORM FCU 108

Figure 5-17: Illustration of a Completed Bank Reconcilement (Form FCU 108)

The trial balance of the Individual Share and Loan Ledgers is obtained by listing the individual balances of the members' share accounts and the individual balances of the members loan accounts on an adding machine tape. The total of the share trial balances should agree with the balances shown in the General Ledger Account Nos. 900 to 919 for Shares. The total of the loan trial balances should agree with the balances shown in General Ledger Account Nos. 700 to 709, loans. The adding machine trial balances tapes should be properly identified and kept in the credit union files.

If the totals of the individual balances for shares and loans do not agree with the General Ledger Shares and Loans accounts, the errors should be promptly located and corrected.

5060.7 BALANCING THE INDIVIDUAL SHARE AND LOAN LEDGER

The total amounts received for shares and loans should be recorded in the Shares and Loans accounts in the General Ledger (by entering daffy in the Journal and Cash Record, and then posting the totals at the end of this month) while the payments made by the individual members should be recorded in the Individual Share and Loan Ledgers. The total postings to the Individual Share Ledgers should, therefore, equal the amount recorded in the Shares account in the General Ledger. Likewise, the postings to the Individual Loan Ledgers should equal the amount entered in the General Ledger Loans account.

In order to prove the accuracy of the postings to the Individual Share and Loan Ledgers, a trial balance of the individual accounts should be taken at least monthly and checked against the General Ledger control accounts-"Shares" and "Loans." If the trial balance of the individual share accounts does not agree with the General Ledger Share account and/or if the trial balance of the individual loans accounts does not agree with the General Ledger Loan account, an error has been made. Since the balances must agree, if accurate records are to be maintained, a check should promptly be made to locate the errors.

The following procedure is suggested for locating these errors. This procedure is also adaptable for locating errors in a group of ledgers comprising a subcontrol.

a) Check back to ascertain that the trial balance for the previous month is correct, and that a difference has not been overlooked.

b) Be sure that the General Ledger control accounts are correct.

c) Check back the amounts appearing on the adding machine tape trial balance of the Individual Share and Loan Ledgers to the individual accounts for the purpose of determining that the correct amounts were picked up.

d) Recompute the balance of each individual account on the basis of the items posted to the ac count since the last trial balance was taken.

e) Check the distribution to the Share and Loan columns in the Journal and Cash Record from the summary vouchers. The summary vouchers may be correct, but a distribution to a Share column may have been made to a Loan column in error, and vice versa.

f) By use of an adding machine, separately total the debits and credits to Shares and Loans as posted for the period to the Individual Share and Loan Ledgers. These totals must agree with the respective totals of the Share and Loan debit and credit columns in the Journal and Cash record for the same period.

g) Check in detail the postings from the individual vouchers to the Individual Share and Loan Ledgers.

5060.8 ESTABLISHING A SYSTEMATIC PROCEDURE

In making the several verifications and checks that have been discussed, and in adjusting the errors, a systematic procedure should be followed. This should be done in order that assurance can be given that all errors have been located when the verification work is completed. The following points should be considered in establishing such a procedure:

a) If the records have been out of balance for several months, an attempt should not be made to balance all of the work at one time. Instead, each month's work should be balanced individually starting with the first month following the last date upon which the books were in balance. By checking and balancing month by month, it can be determined that all of the errors for a particu lar month have been found before going on to the next month. If several months are checked at one time and all of the errors are not found, it might be necessary to recheck the entire work, since it could not be determined in what month or months the errors were made that were not located by the first check.

b) A check mark, preferably with a colored pencil, should be placed beside each entry on the voucher and/or in the Journal and Cash Record, and beside the postings to the individual ac counts as each item is verified.

c) Postings not made in the individual accounts for which there are entries on the voucher and/or in the Journal and Cash Record should be listed on a worksheet in order that they may be recorded.

d) Postings that have been made to the individual accounts for which there are no entries on the vouchers and/or in the Journal and Cash Record can be found by an inspection of the individual ledgers for missing check marks described in item b. above. These unchecked postings should also be listed on a worksheet for correction later.

After they have been properly entered in the account, the adjustments mentioned in paragraphs (c) and (d) above should be sufficient to bring the Individual Share and Loan Ledgers into agreement with the General Ledger control accounts.

The subsidiary ledgers and the control accounts should be in balance or should be brought into balance from the records retained by the credit union, since the information shown in both is derived from the same sources. The differences should, therefore, not be charged off to Expense or Income, since they were caused by errors and can be located by following a systematic procedure of verification or checking.

In searching for the past differences, it is essential to maintain the present records up to date and in balance. When the checking necessary to locate the errors may take considerable time, a pencil notation of the amount of the differences should be made in the explanation column of the control account at the end of the month in which the differences were found to exist. This amount should be taken into consideration when the control accounts are balanced with the individual accounts at the end of each subsequent month until the errors have been located and corrected. The differences between the control accounts and the individual accounts should remain constant each month until the errors have been found and the necessary correcting entries made. If the differences do not remain constant, it is an indication that errors have been made in the current month's work and steps should be taken at once to locate them.

5060.9 ARBITRARY ADJUSTMENT OF SUBSIDIARY SHARE AND LOAN LEDGER DIFFERENCES

Rarely, if ever, should it be necessary to arbitrarily adjust differences between the subsidiary share and loan ledgers and their respective General Ledger control accounts. Where, after having carefully considered all factors, the board of directors with the concurrence of the supervisory committee authorizes such as adjustment, this action should be taken under the following conditions:

a) The board and supervisory committee have determined that the differences are apparently not the result of improper acts.

b) The differences have been kept constant for at least 3 months and steps have been taken to assure that the ledgers should be maintained in balance in the future.

c) The approval of the board of directors and the supervisory committee has been recorded in the director's minutes.

d) Where the adjustment results in a material loss to the credit union, the board has informed the surety company in writing of the loss and has obtained its written assurance that bond coverage will continue for the credit union and/or the employees or officials responsible.

e) The arbitrary adjustment should be recorded by debiting or crediting the General Ledger Shares or Loans account and crediting or debiting Account No. 440, "Other Nonoperating Income (Expenses)."

   The entry in the Journal and Cash Record should be supported by a full explanation, including the date of approval by the board of directors and the supervisory committee.

f) During the next verification of members' accounts, the supervisory committee should be alert to any reported differences which may be involved in the arbitrary adjustment.

5060.10 DAILY BALANCING OF POSTINGS TO INDIVIDUAL SHARE AND LOAN LEDGERS

Credit unions experiencing difficulty in balancing the totals of the Individual Share and Loan Ledgers to the Share and Loan control accounts in the General Ledger may find the following procedures helpful. These procedures will enable a credit union to prove the accuracy of the postings to the Individual Share and Loan Ledgers on a daily basis. These methods should not only assist a credit union in maintaining a balanced set of records, but should also help in pinpointing the types of errors that are being made. Once the type of error(s) being made has been discovered, the credit union employees should take special precautions to guard against making similar errors in the future.

5060.10.1 PROCEDURES FOR PROVING THE DAILY POSTINGS

The procedures for proving the daily postings of share and loan transactions to the Individual Share and Loan Ledgers are described in the steps listed below:

a) Hold aside ledgers for members who transacted business on the current day. After postings for the current day's transactions have been made to the Individual Share and Loan Ledgers and the balances extended, the ledgers should be held aside or otherwise appropriately marked.

b) Determine the total current Individual Share and Loan Ledger balances. After the day's transac tions have been posted, an adding machine tape should be prepared of the current share and loan balances of the Individual Share and Loan Ledgers that have been held aside.

c) Determine the total previous Individual Share and Loan Ledger balances prior to the day's postings. Adding machine tapes should be prepared of the share balances and the loan balances as of the date of the previous share or loan transaction (the share or loan balance prior to the current posting) on the same Individual Share and Loan Ledgers.

d) Determine the net Share and Loan changes in the ledgers. The total of the adding machine tapes prepared in step (c) should be subtracted from the total of the adding machine tapes prepared in step (b).

e) Find the net Share and Loan changes in the Journal and Cash Record. The Share and Loan debits should be subtracted from the Share and Loan credits entered in the Journal and Cash Record for the current day's business.

f) The result in step d. should then be compared to the result in step (e).

If the resulting figures are the same, the Individual Share and Loan Ledgers should be in balance and no other proving of the postings should be needed.

If a difference exists as a result of step f., the day's business (share and loan totals of source documents; i.e., cash received vouchers and journal vouchers, entries into the Journal and Cash Record and postings to the Individual Share and Loan Ledgers) should be checked and the extended balances proved until the errors are found.

Figure 5-18 on the next page depicts the steps involved in proving the share postings for July 15.

5060.11 PREPARING THE SCHEDULE OF DELINQUENT LOANS

A Schedule of Delinquent Loans (Form FCU 118, or equivalent) should be prepared at the end of each month. All loans that are 2 months or more delinquent should be listed. A sample form and computation of delinquency is contained in Section 5220.27 under the heading, "Schedule of Delinquent Loans."

FCU Form 118 LC or equivalent should also be used to report delinquent account activity for lines of credit. Reference should be made to Section 6000 regarding its preparation.

5060.12 PREPARING LIST OF NEW MEMBERS AND THOSE WHO HAVE WITHDRAWN

Promptly at the close of each month, a fist of all new accounts opened and all accounts closed during the month should be prepared. The original of the list should be submitted to the president for the use of the board of directors. The duplicate copy should be given to the chairman of the supervisory committee, with the triplicate copy retained as part of the treasurer's records. Credit unions which are on a data processing system can usually have this list prepared by the data processor. Before presenting this list to the board of directors, it should be verified for accuracy. The member's account number, name and share and loan balances at the end of the month should be shown for all new accounts. The member's account number, name and share and loan balances just prior to the withdrawal or transfer from shares to loans which resulted in the closing of the account should be shown for all closed accounts.

It is recommended that the share and loan balances be shown on the list for control purposes. However, if the board of directors feels that the inclusion of the balances is burdensome, the balances may be eliminated.

5060.13 MONTH-END FINANCIAL STATEMENTS

The following financial statements should be prepared as of the close of each month:

a) Statement of Financial Condition (Form FCU 109)

b) Statement of Income and Expense (Form FCU 109B)

5070 END OF ACCOUNTING PERIOD

All federal credit unions must close their books at the end of the calendar year, December 31. Credit unions pay dividends at intervals ranging from daily to annually, as provided in the Federal Credit Union Act. Credit unions paying dividends more often than annually close their books as often as monthly in order to determine the net gain (loss) for the period's operations. The procedures for closing the books are the same whether they are closed once a year or more often.

FIGURE 5-18: Illustration as to How Individual Share Ledger Postings for a Day's Business are Balanced with the Share Transactions Posted in the Journal and Cash Record by Netting the Debits and Credits

Individual Share Ledger
Account #1

Date	Paid In	Withdrawn	Balance
April 12		5.00	15.00
July 15	40.00		55.00

Individual Share Ledger
Account #17

Date	Paid In	Withdrawn	Balance
July 6	5.00		80.00
July 8	20.00		100.00
July 15		75.00	25.00

Individual Share Ledger
Account #35

Date	Paid In	Withdrawn	Balance
March 5	22.00		140.00
July 15		100.00	55.00

Individual Share Ledger
Account #64

Date	Paid In	Withdrawn	Balance
July 2	17.00		25.00
July 15	60.00		85.00

Individual Share Ledger
Account #92

Date	Paid In	Withdrawn	Balance
June 8		3.00	10.00
July 15	150.00		160.00

JOURNAL and CASH RECORD

Date	SHARES Debit	SHARES Credit
July 14	75.00	180.00
July 15	175.00	250.00

Step 1 - Hold aside Ledgers for members who transacted business July 15 -Accounts 1, 17, 35,64, and 92.

Step 2 - Find total current Individual Share balances.

Account	Balance
1	$ 55.00
17	25.00
35	40.00
64	85.00
92	160.00
Total	$ 365.00

Step 3 - Find total previous Individual Share balances.

Account	Balance
1	$ 15.00
17	100.00
35	140.00
64	25.00
92	10.00
Total	$ 290.00

Step 4 - Find Net Share change in the Ledgers.

Total Step 2	$ 365.00
Less Total Step 3	290.00
Difference	$ 75.00

Step 5 - Find Net Share change in Journal and Cash Record.

Credit	$ 250.00
Less Debit	175.00
Difference	$ 75.00

Step 6 - Prove the postings.

Step 4 difference of $75.00 equals

Step 5 difference of $75.00 proving postings are correct.

(The procedures described above involve the "netting" of debits and credits both in the Journal and Cash Record and in the Individual Share and Loan Ledgers. Some credit unions may not want to use "netted" figures, but may instead want to prove individual debit and credit entries in the Journal and Cash Record to debit an credit postings to the Individual Share and Loan Ledgers.)

As an alternative, any credit union may elect (with the exception of the period ending December 31) not to close its books at the end of each dividend period. However, in this event financial statements prepared at the end of such interim dividend periods must give effect to all adjustments normally required when the books are closed; including, but not limited to, expensing the Provision for Loan Losses to increase the balance of the Allowance for Loan Losses, transferring from the Undivided Earnings account to the Regular Reserve the required percentage of gross income and transferring an amount equivalent to the Provision for Loan Losses expense from Regular Reserve to the Undivided Earnings, etc. These interim adjustments may be accomplished by using a work sheet closing for the interim dividend period.

While the Federal Credit Union Act only requires the books to be closed once a year, on December 31st, it is strongly urged that the books be closed at the end of each dividend period. If dividends are paid daily or monthly, the recommended frequency of closing would be monthly.

Interim Financial Reporting

Each interim period should be viewed as an integral part of an annual period. Thus, the results for each interim period should be based on the accounting principles and practices of the latest annual financial statements, except when a change in accounting practice or policy has been adopted during the current year. This applies to income from operations and costs associated with producing income from basic functions. Costs and expenses that are not associated with the credit union's basic services, thus being incidental in nature, should be: (a) charged to income during interim periods as incurred, (b) allocated among interim periods as incurred, or (c) allocated among interim periods based on the time elapsed, benefit received, or activity associated with the periods. Those costs and expenses that cannot be identified as being attributable to other interim periods should be charged to income when incurred. Those costs should be disclosed in the notes to the Statement of Income.

Examples of the allocation of other costs and expenses are: annual major maintenance repairs to buildings and equipment; early payoff discounts on loans, property taxes and advertising, and member education costs. If adjustments to costs are usually made at year-end, they should be estimated and then allocated to the interim periods. Examples of such costs would be the Allowance for Loan Losses, bonuses for employees and allowances for any loan discounts.

Each interim financial report should indicate any change in accounting principles or practices from those applied in (a) an interim period of a prior annual period, (b) the preceding interim periods in the current annual period, or (c) the prior annual report.

The effect of a change in an accounting estimate should be accounted for in the period within which it was made. The effect on earnings should be disclosed in subsequent interim periods, if material in relation to any other past periods presented, for as many periods as are necessary to avoid misleading comparisons.

5070.1 ADJUSTING ENTRIES

Before closing the income and expense accounts at the end of a dividend period, it may be necessary to adjust some of the accounts to properly reflect the credit union's financial condition. Adjusting entries for such items as the depreciation on furniture and equipment, accrual of income and expenses, amortization of prepaid and deferred expenses, and amortization of investment premiums or discounts applicable to the period, etc., are often necessary. The following will serve as an example. The board of directors

has directed that the computer equipment be depreciated monthly using a 5-year life. The board of directors has also estimated that the allowance for loan loss account needs to be increased by $450. The prepaid surety bond expense is being amortized monthly. The entries in the Journal and Cash Record to record these transactions follow:

Dr.-Depreciation of Furniture and
Equipment (Acct. No. 266) $45.00
Cr.-Allowance for Depreciation
of Furniture and Equipment
(Acct. No. 775) $45.00

Explanation: To record 1-month depreciation on the computer equipment.

Dr.-Provision for Loan Losses
(Acct. No. 300) $450.00
Cr.-Allowance for Loan
Losses (Acct. No. 719) $450.00

Explanation: To adjust the valuation allowance account as approved by the board of directors:

Dr.-Insurance (Acct. No. 265) $125.00
Cr.-Other Prepaid Expenses
and Deferred Charges
(Acct. No. 769) $125.00

Explanation: To record 1-month amortization of the prepaid surety bond expense.

5070.2 INTEREST REFUNDS

In accordance with Section 701.24 of the National Credit Union Administration Rules and Regulations, the board of directors may authorize an interest refund to members who paid interest to the credit union during any regular share account dividend period and who were members of record at the close of business on the last day of such dividend period. The National Credit Union Administration Rules and Regulations, Part 701.24, should be reviewed carefully prior to the declaration of an interest refund.

The following is a summary of the major factors involved when an interest refund is considered or authorized by the officials:

a) An interest refund can be made at the end of a dividend period only if dividends are declared and paid for that period. Only members of record at the close of business on the last day of the dividend period will be eligible for a refund of interest.

b) The interest refund shall be determined as a percentage of the total interest paid by the member. The board of directors may determine that certain loan categories, which have not made signifi cant contributions to interest income, may be excluded from the refund. An exclusion of the refund on loans that are delinquent 2 or more months is also permitted.

The board will need to determine the rate of the refund. This should depend on the amount of funds available as well as the reserve position of the credit union. The interest refund percentage can be determined by dividing the amount available for refund by the total interest paid by eligible borrowers. For example, if $ 1 00,000 in interest income has been collected, and $10,000 is available for the refund (after consideration of dividends, other operating and nonop erating expenses, required reserve transfers, and any other additions to reserves), the interest refund rate is 10 percent ($10,000 divided by $100,000 = .10 or 10 percent).

When the board determines that certain loan classifications are not considered eligible for receiving a refund, the interest refund is calculated by subtracting income earned by those loans from total income earned. The same would apply when the board of directors has determined that various loan categories will receive interest refunds at different rates. The interest income must be broken down into categories based on the different loan categories in order to determine the total interest refund.

In any case, interest income should be adjusted to delete income from borrowers who cease to be members before the close of business on the last day of the dividend period when the refund is declared. However, borrowers who have paid off their loans, but are still members, must be considered in the determination of an interest refund.

c) The refund of interest cannot be made unless it is authorized at the end of the period where a dividend on shares has also been declared and paid. But at that time, the refund can be authorized for prior periods where dividends were declared and paid but interest refunds were not declared. This prior period authorization may only be within the calendar year.

d) After the procedures for refunding interest have been established (a. - c. above), Form FCU 92 may be used to record the total amounts of loan interest paid as determined from the members' individual share and loan ledgers. This should include interest paid by current members who paid off a loan in the period included in the interest refund authorization.

The amount of interest recorded on Form FCU 92 is multiplied by the applicable interest refund rate, as approved by the board. The amount should either be credited to the members' savings accounts, paid by check, or a combination of both. The form, FCU 92, provides for either situation. It is suggested that the interest refund calculation worksheet (FCU 92) be filed with the dividend record.

e) Make the appropriate entries in the Journal and Cash Record according to accounting procedures described in Section 4000 of this Accounting Manual regarding "Account No. 830," "Interest Refunds Payable" and Account No. 119, "Interest Refunds."

The following entries should be made in the Journal and Cash Record before the books are closed:

To record the liability for the interest refund declared:

Dr.-Interest Refunds
(Acct. No. 119) $125.00
Cr.-Interest Refunds Payable
(Acct. No. 830) $125.00

Figure 5-19: Illustration of a Completed Record of Intrest Refunds (Form FCU 92)

Form FCU 92 Rev. 8/68

Our
Federal Credit Union

RECORD OF INTEREST REFUNDS

At Rate of 10 % Date Refund Paid *December 31, 19x1* For period ending *Dec 31, 19x1*

				Method of Payment			
				Credit to Shares		Paid by Check	
Member's Account No.	Name of Borrower	Total Interest Paid For Period	Amt. of Interest Refund	Posted to Shares Ledger	Posted to Pass-book	Check Number	Amount of Check
1	*Leroy Baxter*	*10 72*	*1 07*			*703*	*1 07*
7		*50 41*	*5 04*	*5 04*	*x*		
8		*80 19*	*8 02*	*8 02*	*x*		
15	*Mary Hall*	*6 71*	*x 67*			*704*	*x 67*
46	*John Williams*	*17 32*	*1 73*			*721*	*1 73*
47		*100 00*	*10 00*	*10 00*	*x*		
	TOTALS	*542 28*	*54 23*	*35 23*			*19 00*

When the interest refunds are credited to shares:

Dr.-Interest Refunds Payable
(Acct. No. 830) $125.00
Cr.-Shares (Acct. No. 901) $125.00

If the interest refunds are paid by check:

Dr.-Interest Refunds Payable
(Acct. No. 830) $125.00
Cr.-Cash (Acct. No. 731) $125.00

If refunds are made partly by cash and partly by credit to Shares, the entry will be a combination of the two foregoing entries.

5070.3 ALTERNATIVE INTEREST REFUND PROCEDURES

Federal credit unions that pay dividends more frequently than annually may wish to employ one of the following alternatives in recording and paying interest refunds. Interest refunds may be authorized for a specific regular share account dividend period, but the payment of the interest refunds may be deferred and paid in conjunction with the closing of a regular share account dividend period later in the year. It is at that time that the board of directors decides whether the anticipated interest refunds are to be authorized and paid based upon available earnings. If so, the amount in interest refunds payable (Account No. 830) should be cleared at this time.

A credit union paying dividends quarterly or semiannually, but wishing to pay interest refunds only one time a year for all regular share account dividend periods during the year, may do so by following one of the following alternatives.

5070.3.1 FIRST ALTERNATIVE

At the end of each regular share account dividend period during the year, the board of directors may authorize a refund of interest for that dividend period to be paid later in the year. The interest refund should be set up in the liability account, "Interest Refunds Payable", (Account No. 830). The corresponding debit should be to "Interest Refunds", (Account No. 119) for the entire amount of interest to be refunded. If the exact amount of interest to be refunded is not known, an estimate can be determined by multiplying the total interest received during the accounting period by the percentage figure selected by the board of directors to be refunded. The result obtained from this calculation will be the maximum amount of interest that can be refunded and this amount should be set up in the account, "Interest Refunds Payable", (Account No. 830). By authorizing the interest refund, the board of directors has gone on record that an interest refund for that dividend period will be paid. In its resolution, the board should also designate the date upon which the interest refund is to be paid to the members or credited to their accounts.

5070.3.2 SECOND ALTERNATIVE

The second alternative involves the anticipation of the payment of an interest refund. For example, the board of directors may set aside earnings at the end of a regular share account dividend period which would be earmarked for the possible payment of interest refunds at a later date in the year. In this case, the amount of the anticipated interest refund would be recorded as a debit to "Interest Refunds", (Account No. 119) and a credit to "Interest Refunds Payable", (Account No. 830).

5070.4 DIVIDENDS

The board of directors may declare dividends subject to the limitations of the Federal Credit Union Act and the bylaws. Dividends shall be paid only from current income, after providing for required transfers to the statutory reserves, plus any available balances in Undivided Earnings. Any deficit in Undivided Earnings will reduce the amount of the income available for dividends by the amount of the deficit. In order for the board of directors to declare a dividend rate it must have data on the estimated cost of dividends at various dividend rates in order to reach a decision on the appropriate rate.

5070.5 CLOSING ENTRIES

5070.5.1 PURPOSE

The balances in the income and expense accounts (accounts in the 100, 200, 300, and 400 numbers series of the General Ledger Accounts) should be closed to the summary account, "Net Income (Loss)", (Account No. 960). The net income (loss) for the period is then posted to the Undivided Earnings account, (Account No. 940).

After closing the net income to the Undivided Earnings account there are two additional closing entries which may be needed. They are:

a) Transfer the required percentage of the gross income to the Regular Reserve account from the Undivided Earnings account. See Section 5230 of the Accounting Manual and Section 116(a) of the Federal Credit Union Act for details in computing the amount of the required transfer.

b) Recover the Provision of Loan Losses expense (Account No. 300) for the accounting period by transferring from the Regular Reserve account to the Undivided Earnings account. The entry is a debit to Regular Reserve and a credit to Undivided Earnings. NOTE: If the provision for loan loss account has a credit balance for the accounting period, the above entry is reversed. The purpose of this entry is to conform the accounting with the requirements of Section 116(a) of the Federal Credit Union Act which requires that loan losses be charged to the Regular Reserve.

5070.5.2 PROCEDURES TO BE USED

There are four basic entries in closing the books of a credit union at the end of an accounting period. Those entries are:

a) Closing income and expense accounts into Account 960, "Net Income (Loss)";

b) Closing Account 960, "Net Income (Loss)" into the Undivided Earnings account;

c) Adjusting the retained earnings accounts due to a provision for loan losses;

d) Making the required statutory reserve transfer. These entries are illustrated as follows:

1) Normally income accounts have credit balances and expense accounts have debit balances, but this may not always be the case. In any event the following rules should be followed when closing any income or expense accounts:

If the account has a *credit* balance, then that account is debited with an amount equal to the credit balance. The offsetting credit is posted to the Net Income (Loss) account. To illustrate: Assume that at the end of the calendar year, Account No. 111, "Interest on Loans", has a credit balance of $110,000. The entry to close that account is:

Dr.-Interest on Loans
(Acct. No. 111) $110,000
Cr.-Net Income (Loss)
(Acct. No. 960) $110,000

If the account has a *debit* balance, then that account is credited with an amount equal to the debit balance. The offsetting debit is posted to the Net Income (Loss) account. To illustrate: Assume that at the end of the calendar year Account No. 253, "Utilities", has a debit balance of $2,000. The entry to close that account is:

Dr.-Net Income (Loss)
(Acct. No. 960) $2,000
Cr.-Utilities (Acct. No. 251) $2,000

After these entries have been made, all accounts with account numbers 100 through 440 should have a zero balance. The balance in Account No. 960, "Net Income (Loss)", should be equal to the net income for the period prior to reserve transfers. If it does not, then an error has been made and must be located.

2) At this point, the balance in the Net Income (Loss) should be transferred into the "Undivided Earnings", (Acct. No. 940). There are two possible entries to record the closing of Account No. 960, depending on whether the credit union has a loss or a profit for the period.

Assume that the balance in Account No. 960 is a credit balance of $12,000. The net income should be transferred into Undivided Earnings as follows:

Dr.-Net Income (Loss)
(Acct. No. 960) $12,000
Cr.-Undivided Earnings
(Acct. No. 940) $12,000

Assume that the balance in Account 960 is a debit balance of $3,500. The net loss should be transferred into Undivided Earnings as follows:

Dr.-Undivided Earnings
(Acct. No. 940) $3,500
Cr.-Net Income (Loss)
(Acct. No. 960) $3,500

3) If Account No. 300, "Provision for Loan Losses", had a debit balance prior to making the above closing entries, then the credit union may record the following entry. (If the credit union elects not to make this entry, then the board of directors must authorize this election.)

Assume that the credit union had a debit balance of $4,000 in the Provision for Loan Loss account prior to the closing entries being posted:

Dr.-Regular Reserve
(Acct. No. 931) $4,000
Cr.-Undivided Earnings
(Acct. No. 940) $4,000

If Account No. 300, "Provision for Loan Losses" account had a credit balance prior to the closing entries being posted, then the following entry should be made.

Assume that the credit union had a credit balance of $17,000 in the "Provision for Loan Losses" account prior to the closing entries being posted:

Dr.-Undivided Earnings
(Acct. No. 940) $17,000
Cr.-Regular Reserve
(Acct. No. 931) $17,000

(Failure to make this entry, if Account Number 300 had a credit balance prior to closing, would result in an unauthorized reduction in statutory reserves).

4) Section 5230 of this Manual explains when a reserve transfer is required and explains how to compute the amount of that transfer. Once that amount has been determined, then the following entry must be made: Assume that the required transfer is $20,000.

Dr.-Undivided Earnings
(Acct. No. 940) $20,000
Cr.-Regular Reserve
(Acct. No. 931) $20,000

5070.5.3 CLOSING ENTRIES IN DETAIL

In order to facilitate closing of the books at the end of the accounting period, two trial balances of the General Ledger accounts should be prepared as of the closing date. The first trial balance should be prepared prior to making any adjustments and closing entries. This trial balance will serve to determine that the General Ledger accounts are in balance and is known as the "Pre-closing Trial Balance." A second trial balance of the General Ledger accounts should be prepared after the adjusting and closing entries have been posted to the General Ledger. This trial balance will verify that the General Ledger accounts are in balance after posting the adjusting and closing entries. It will also provide the basis for preparation of the closing date Statement of Financial Condition since it will contain the adjusted balances of the Regular Reserve, the Undivided Earnings, and any other reserve accounts. This trial balance is known as the "Post-closing Trial Balance." Form FCU 116 may be used for both trial balances. The words "Pre-closing" or "Post-closing" should be written before the title of the form for proper identification.

5070.5.4 CLOSING PROCEDURE ILLUSTRATED

To provide a better understanding of these closing procedures, illustrative closing entries have been provided. It was assumed that on September 30 the credit union had balances in certain commonly used General Ledger accounts.

A list of the account balances has been provided for illustrative purposes only. These are the balances after the adjusting entries have been made but before the closing entries have been recorded.

Account No.	Name of Account	Debit Balance	Credit Balance
111	Interest on Loans		$46,153.00
121	Income from Investments		$12,710.00
131	Fees and Charges		7,060.00
200	Operating Expenses (Control)*[2]	$61,894.00	
701	Consumer Loans	1,516,230.00	
719	Allowance for Loan Losses		25,642.00
731	Cash	351,794.00	
744	Shares/Deposits & Certificates of Corporate CUs	256,731.00	
746.2	Savings & Loans	495,000.00	
752	Investment in NCUA Share Insurance Fund	24,335.00	
770	Fixed Assets	57,178.00	
790	Other Assets	4,025.00	
801	Accounts Payable		8,196.00
901	Regular Shares		2,046,540.00
902	Share Drafts		544,939.00
931	Regular Reserves		38,525.00
940	Undivided Earnings		37,422.00
	Totals.	$2,767,187.00	$2,767,187.00

*[2] Assume this account contains a debit amount of $2,000 representing the "Provision for Loan Losses," (Account No. 301).

Illustrative Closing Entries

a) Explanation: To close "Interest on Loans" into "Net Income (Loss)."

Dr.-Interest on Loans
(Acct. No. 111) $46,153.00
Cr.-Net Income (Loss
(Acct. No. 960) $46,153.00

b) Explanation: To close "Income from Investments" into "Net Income (Loss)."

Dr.-Income from Investment
(120 Series) $12,710.00
Cr.-Net Income (Loss)
(Acct. No. 960) $12,710.00

c) Explanation: To close "Fees and Charges" into "Net Income (Loss)."

Dr.-Fees and Charges
(Acct. No. 131) $7,060.00
Cr.-Net Income (Loss)
(Acct. No. 960) $7,060.00

d) Explanation: To close "Expense Control" into "Net Income (Loss)."

Dr.-Net Income (Loss)
(Acct. No. 960) $61,894.00
Cr.-Operating Expense (Control)
(Acct. No. 200) $61,894.00

e) Explanation: To close "Net Income (Loss)" into "Undivided Earnings."

Dr.-Net Income (Loss)
(Acct. No. 960) $4,029.00
Cr.-Undivided Earnings
(Acct. No. 940) $4,029.00

f) Explanation: To transfer 5 percent of gross income to the Regular Reserve.

Dr.-Undivided Earnings
(Acct. No. 940) $3,296.15
Cr.-Regular Reserve
(Acct. No. 931) $3,296.15

g) Explanation: To transfer Provision for Loan Loss expense from the Regular Reserve.

Dr.-Regular Reserve
(Acct. No. 931) $2,000.00
Cr.-Undivided Earnings
(Acct. No. 940) $2,000.00

NOTE: If after recording the regular closing entries the balance of the Regular Reserve were a debit, a further entry for the amount of such debit would be required to credit the Regular Reserve and debit Undivided Earnings in order to close out such debit balance in the Regular Reserve.

5080 SUBSIDIARY RECORDKEEPING

The purpose of maintaining subsidiary ledgers is to provide additional detail in support of General Ledger balances on the Statement of Financial Condition or the Statement of Income.

Individual postings to subsidiary accounts should be made directly from source documents such as cash received, disbursement and formal entry vouchers. Copies of the source documents are then batched together (assembled and summarized) and used to post directly to the appropriate General Ledger controlling accounts as well as to the other accounts affected in the General Ledger. If postings to the subsidiary records and to the controlling accounts are made accurately, the sum of the detail in a subsidiary record will agree with the balance of the General Ledger controlling account.

The use of subsidiary records results in a number of advantages as follows:

- The number of accounts in the General Ledger is reduced, thus making the General Ledger more useful as a basis for preparing reports.
- Errors in the General Ledger are minimized because of fewer postings.
- The accuracy of the posting to a large number of subsidiary accounts may be tested by comparing the total of the balances of the accounts with the balance of the one account in the General Ledger.
- Totals relating to the various items are readily obtained.
- Specialization of bookkeeping duties and individual bookkeeping responsibilities is made possible.
- Daily posting is facilitated for accounts that must be kept up to date such as member and creditor accounts.

5080.1 SUBCONTROLS FOR INDIVIDUAL SHARE AND LOAN LEDGERS

Because of the number of individual share and loan accounts maintained, some federal credit unions have found it difficult to locate errors disclosed by comparing the totals of the balances of the Individual Share and/or Loan Ledgers with their respective General Ledger accounts.

The function of subcontrols is to aid in localizing errors. Subcontrols divide the entire group of ledgers into smaller groups each of which is controlled by group control ledger total(s). The totals of these control ledgers should balance to their overall General Ledger totals for Shares and Loans.

The sum of the Individual Share and/or Loan Ledgers in each group should balance to the General Ledger subcontrols (group ledgers) for that group. If it does not balance, the burden of locating the error will be minimized. Only the smaller group of ledgers needs to be checked for posting, mathematical and trial balance pickup errors.

5080.2 COMMENTS AND RECOMMENDATIONS ON THE ESTABLISHMENT OF SUBCONTROLS

The groupings of Individual Share and/or Loan Ledgers should be nearly equal in the number of accounts as possible. For example, if a total of 600 individual accounts are involved, they might be divided into groups of 200 each. Sometimes ledger accounts of related significance might form a subcontrol, such as Christmas Savings Share accounts, or dormant accounts.

The subcontrols should be physically separated and identified in some manner. Where ledger sheets are used, tab markers might serve the purpose; with ledger cards, card dividers might prove useful. Each subcontrol record should identify the control account it supports and the group of ledgers it represents; i.e., "Shares-Accts. 1-999." The subcontrol record may be on General Ledger pages (Form FCU 102, or equivalent), or it may be on any other record suitable to the credit union's needs. Some credit unions may find it convenient to maintain subcontrols on Individual Share and Loan Ledger forms (Form FCU 103 or equivalent).

5080.3 POSTING TO SUBCONTROL RECORDS

Postings should be made to the records of the total share and loan debits and credits representing the activity of the group of members whose ledgers are contained in the subcontrol. The primary method of posting to subcontrol records is to divide the vouchers for each day's type of activity into groups corresponding to the group subcontrols of the individual ledgers. Each group of vouchers, so divided, should be totaled. The subdivided separate summaries serve only to provide a basis for posting to the subcontrol records. Where vouchers are summarized, the summary for the entire type of activity for that day (such as the summary Cash Received Voucher) should be entered in the Journal and Cash Record. The subdivided summaries should, of course. agree in total with the overall summary.

Posting the totals of each day's transactions on a daily basis is recommended. If postings to the subcontrols are not made each day, the data on subdivided summaries should be entered on a worksheet or retained in a memorandum record each day. An effective record for this purpose is the Journal and Cash Record (Continuation Sheet) (Form FCU 101A). If this form is used, two columns (one for debits, the other for credits) should be used for each share subcontrol, and two for each loan subcontrol.

The subdivided summary data can be entered on the same line as for the overall summary data within the "Loans" and "Shares" columns of the Journal and Cash Record. If transactions are entered individually in the Journal and Cash Record, the postings subcontrols should be recorded individually (and on the same line) on Form FCU 101A, or equivalent. If the basis for entry in the Journal and Cash Record is the machine by product of posting to the members' ledgers (such as posting payroll deductions), the machine

should be totaled at the end of posting each group of ledgers in order to provide totals for entry in Form FCU 101A, or equivalent. Under such a plan of posting only periodically to the subcontrols, it is recommended that the totals of the various columns be posted to the subcontrol records at least at the end of the month, or at a more frequent trial balance period. Balances of shares and loans should be extended on the subcontrol records as postings are made.

5080.4 BALANCING THE SUBCONTROLS

When the trial balances of the members' ledgers are taken, the total of the share and/or loan balances for each ledger in the group should agree with the balances for shares and for loans on the subcontrol records for the group. The total of the share and/or loan balances on the combined subcontrol records should agree with the balances shown on the General Ledger control accounts, "Shares", (Account No. 901) and "Loans", (Account No. 701).

5080.5 OTHER SUBSIDIARY RECORDS FOR OTHER GENERAL LEDGER ACCOUNTS

Subsidiary records must be maintained for all General Ledger accounts which consist of two or more separate items. These subsidiary records should provide a complete description and should clearly identify the transactions relating to their origin, changes and closing. A partial list of accounts which could require subsidiary records are as follows:

a) Investments - Account Nos. 741 through 759.

b) "Notes Payable-Other", (Account No. 812) (includes "Promissory Notes" offered under the provisions of Section 701.38 of the National Credit Union Administration Rules and Regulations).

c) Accounts Payable-Account Nos. 800 through 809.

d) "Furniture and Equipment," (Account No. 774).

e) "Operating Expenses (Control)", (Account No. 200).

f) "Allowance for Loan Losses", (Account No. 719).

g) Prepaid and Deferred Charges (Account Nos. 760-769).

Figure 5-20: Illustration of a Sample Bond Ledger (FCU 741)

Suggested Subsidiary Bond Ledger

_____
(Months to record interest)

_____ **Federal Credit Union**

BOND LEDGER

Description of bonds _____

Maturity date _____ Maturity value $ _____ Interest rate _____

Date purchased _____ Purchase price $ _____ Date authorized _____

Date redeemed _____ Redemption price $ _____ Date authorized _____

Premium paid $ _____ Acc. Int. purchased $ _____ Acc. Int. sold $ _____

Where held or pledged _____

Date	Explanation	Bond Interest	Debit	Credit	Balance

Figure 5-21: Illustration of a Subsidiary Record for Shares, Deposits, or Certificates Of Other Credit Unions (Form FCU 127)

FCU 127 (Rev. 75)

_____ Credit Union

SHARES, DEPOSITS, OR CERTIFICATES OF OTHER CREDIT UNIONS

SUSIDIARY RECORD

NAME _____ Credit Union

ADDRESS _____ DIVIDEND OR INTEREST DUE DATES

DATE	SHARE, DEPOSIT OR CERTIFICATE ACCOUNT NO.	DIVIDEND OR INTEREST RATE %	DIVIDEND OR INTEREST AMOUNT REC'D	DEBIT	CREDIT	BALANCE

Figure 5-22: Illustration of a Completed
Subsidiary for Other Shares,
Deposits and Certificated (Form FCU 124)

FCU 124

Our Federal Credit Union

OTHER SHARES, DEPOSITS AND CERTIFICATES
SUBSIDIARY RECORD

NAME *Farmland Federal Savings and Loan Association*

ADDRESS *2105 Balkoa Ave.*

Crackerville, California 91018

DIVIDEND DUE DATES *June 30*

December 31

DATE	SHARE, DEPOSIT OR CERTIFICATE ACCOUNT NO.	DIVIDEND OR INTEREST RATE %	DIVIDEND OR INTEREST AMOUNT REC'D	DEBIT	CREDIT	BALANCE
1-1-x1	A 409			1 0 0 0 0 00		1 0 0 0 0 00
6-30-x1		4.75	2 3 7 50			

Figure 5-23: Illustration of a Completed Subsidiary Record for Loans to Other Credit Unions

FCU 125

Our Federal Credit Union

LOANS TO OTHER CREDIT UNIONS
SUBSIDIARY RECORD

Name: *A.B.C. Federal* Credit Union

Address: *813 Northwest Dr.*

Anytown, Indiana 45367

Terms: *Interest: 10% Due Quarterly* *Due 6-30-X1*

DATE	INTEREST RATE %	INTEREST AMOUNT REC'D	DEBIT	CREDIT	BALANCE
6-30-X0			1 0 0 0 0 00		1 0 0 0 0 00
9-30-X0	10%	2 5 0 00			
12-31-X0	10%	2 5 0 00			
Interest YTD		5 0 0 00			
3-31-X1	10%	2 5 0 00			
6-30-X1	10%	2 5 0 00		1 0 0 0 0 00	00
Interest YTD		5 0 0 00			

Figure 5-24: Illustration of a Completed Furniture and Equipment Subsidiary Ledgers (Form FCU 774)

Our
Federal Credit Union

FURNITURE AND EQUIPMENT LEDGER

Description of item *Safe* Stock number *774-1*
Depreciation schedule *Ten (10) Year Life: $ 30 Per Quarterly Period*
Method: Straight Line Depreciation
Date purchased *2-1-x0* Purchase price $ *1,200.00* Date authorized *1-15-x0*
Date sold _____ Sales price $ _____ Date authorized _____
Where located *Manager's Office*

Date	Explanation	Debit	Credit	Balance
2-1-x0	*Purchased Safe*	*$1,200.00*		*$1,200.00*
3-31-x0	*Depreciation for 2 Months*		*$20.00*	*$1,180.00*
6-30-x0	*Depreciation for 3 Months*		*$30.00*	*$1,150.00*
9-30-x0	*Depreciation for 3 Months*		*$30.00*	*$1,120.00*
12-31-x0	*Depreciation for 3 Months*		*$30.00*	*$1,090.00*

Our
Federal Credit Union

FURNITURE AND EQUIPMENT LEDGER

Description of item *Executive Desk* Stock number *774-2*
Depreciation schedule *Five (5) Year Life: $ 12.00 Per Quarterly Period*
Method: Straight Line Depreciation
Date purchased *9-1-x0* Purchase price $ *240.00* Date authorized *6-30-x0*
Date sold _____ Sales price $ _____ Date authorized _____
Where located *Manager's Office*

Date	Explanation	Debit	Credit	Balance
9-1-x0	*Purchased Desk*	*$240.00*		*$ 240.00*
9-30-x0	*Depreciation for 1 Months*		*$4.00*	*$ 236.00*
12-31-x0	*Depreciation for 3 Months*		*$12.00*	*$ 224.00*
3-31-*x0*	*Depreciation for 3 Months*		*$12.00*	*$ 212.00*
6-30-x0	*Depreciation for 3 Months*		*$12.00*	*$ 200.00*
9-30-x0	*Depreciation for 3 Months*		*$12.00*	*$ 188.00*
12-31-x0	*Depreciation for 3 Months*		*$12.00*	*$ 176.00*

Our
Federal Credit Union

FURNITURE AND EQUIPMENT LEDGER

Description of item *Calculator* Stock number *774-3*
Depreciation schedule *Five (5) Year Life: $ 6.00 Per Quartely Period*
Method: Straight Line Depreciation
Date purchased *3-1-x0* Purchase price $ *120.00* Date authorized *2-28-x0*
Date sold _____ Sales price $ _____ Date authorized _____
Where located *Loan Officer's Office*

Date	Explanation	Debit	Credit	Balance
3-1-x0	*Purchased Calculator*	*$ 120.00*		*$ 120.00*
3-31-x0	*Depreciation for 2 Months*		*$2.00*	*$ 118.00*
6-30-x0	*Depreciation for 3 Months*		*$6.00*	*$ 112.00*
9-30-x0	*Depreciation for 3 Months*		*$6.00*	*$ 106.00*
12-31-x0	*Depreciation for 3 Months*		*$6.00*	*$ 100.00*

FIGURE 5-25: Illustration of a Completed Trial Balance of Furniture and Equipment Subsidiary Ledgers

FURNITURE AND EQUIPMENT (ACCOUNT 774)
TRIAL BALANCE
December 31, 19X0

ASSET STOCK NO.	DESCRIPTION	AMOUNT OF BALANCE
774-1	Safe	$ 1,090
774-2	Executive Desk	176
774-3	Calculator	100
12/31/X0 Balance		$ 1,366 **

** Net of accumlated depreciation

This is how the trial balance of Furniture and Equipment (Account No. 774) would appear as of December 31, 19X0. The total of $1,366 must agree with the balance in the General Ledger account (Account No. 774) when it is net of the depreciation in the Allowance for Depreciation of Furniture and Equipment (Account No. 775).

FIGURE 5-26: Illustration of a Completed Notes Payable Subsidiary Record (Form FCU 126)

FCU 126

Our Federal Credit Union

NOTES PAYABLE SUBSIDIARY RECORD

Name: *A.B.C. Federal Credit Union*

Address: *718 Third St.*
Anytown, Indiana 45367

Terms: *Interest: 10% Payable Quarterly (Basis: 365 days) Maturity 12-15-x0*

DATE	INTEREST RATE %	INTEREST AMOUNT PAID	DEBIT	CREDIT	BALANCE
2-16-X0				1,000.00	1,000.00
3-31-X0	10%	1,17.81			
6-30-X0	10%	2,49.32			
Interest YTD		*6,19.18*			
9-30-X0	10%	2,52.05			
Interest YTD		*8,71.23*			
12-15-X0	10%	2,08.22	1,000.00		00
Interest YTD (12-31-X0)		*1,07,945*			

Figure 5-27: Illustration of a Completed Subsidiary Record for Federal Agency Securities (Form FCU 742)

FORM FCU 742 (6/81)

Our Federal Credit Union

Federal Agency Securities (Account No. 742)
Subsidiary Record

Description of the Investment: *GMA*

Maturity Date: *09-03-09* Maturity Value$: *100,000* Interest Rate: *12%*

Date Purchased: *11-15-X0* Purchase Price$: *112,000* Date Authorized: *10-20-X0*

Date Redeemed: _____ Redemption Price$: _____ Date Authorized: _____

Premium Paid $: *12,000* Acc. Int. Purchased $: *500.00* Acc. Int. Sold $: _____

Where Held: *ABC National Bank*

Certificate No.: *1000* Pool Number: *2000* Par Value $: *100,000*

Discount Formula (Accretion): _____

Premium Formula (Amortization): *1/360 x 12,000 = $33.33 per month*

DATE	AMOUNT OF PREMIUM OR DISCOUNT	BALANCE OF PREMIUM OR DISCOUNT	INTEREST INCOME	INTEREST INCOME YEAR TO DATE	PRINCIPAL PAYMENTS	INVESTMENT BALANCE
10-15-X0		12,000.00	(500.00)	(500.00)		100,000.00
11-01-X0	33.33		1,000.00	500.00	28.67	99,971.33
12-01-X0	33.33		999.71	1,499.71	28.90	99,942.43
01-01-X1	33.33		999.42	2,499.13	29.19	99,913.30

**** Note:**
The balances shown represent a stream of steady level payments each month. In practice the monthly reports recieved on a GNMA will reflect irregular amounts of principal repayments since it is based on collection of mortgage loan payments that are tied into the pool.

Figure 5-28: Illustration of a Completed Expense Ledger For FCU 104

Page No. 1

MTD = Month to Date
QTD = Quarter to Date
YTD = Year to Date

Our Federal
Credit Union

EXPENSE LEDGER

FORM FCU 104 - REV. 81

	DATE 19 X1	FOLIO	200 EXPENSE TOTAL	210 COMPENSATION ACCT	210 COMPENSATION AMOUNT	220 EMPLOYEE BENEFITS ACCT	220 EMPLOYEE BENEFITS AMOUNT	230 TRAVEL & CONFERENCE EXPENSES ACCT	230 TRAVEL & CONFERENCE EXPENSES AMOUNT	240 ASSOC. DUES AMOUNT	250 OFFICE OCCUPANCY EXPENSES ACCT	250 OFFICE OCCUPANCY EXPENSES AMOUNT	260 OFFICE OPERATIONS EXPENSES ACCT	260 OFFICE OPERATIONS EXPENSES AMOUNT	270 EDUCATIONAL & PROMOTIONAL EXPENSES ACCT	270 EDUCATIONAL & PROMOTIONAL EXPENSES AMOUNT	280 LOAN SERVICING EXPENSES ACCT	280 LOAN SERVICING EXPENSES AMOUNT	290 PROFESSIONAL & OUTSIDE SERVICES ACCT	290 PROFESSIONAL & OUTSIDE SERVICES AMOUNT	300 PROVISION FOR LOAN LOSSES ACCT	300 PROVISION FOR LOAN LOSSES AMOUNT
1	6-17	JC1	1,158.50										264	1,158.50								
2	21	JC1	1,080.00										265	1,050.00								
3	YTD		2,238.50											2,238.50								
4	7-5	JC2	1,000.95										264	1,000.95								
5	5	JC2	1,201.30	211	1,126.40	222	74.90															
6	9	JC2	806.00								251	806.00										
7	12	JC2	21.50														284	21.50				
8	15	JC3	635.00							635.00												
9	26	JC3	1,114.57												272	1,114.57						
10	MTD		2,457.32	211	1,126.40		74.90			635.00		806.00		1,000.95		1,114.57		21.50				
11	YTD		4,603.17		1,126.40		74.90			635.00		806.00		3,239.45		1,114.57		21.50				
12	10-28	JC6	1,201.30	211	1,126.40	222	74.90															
13	29	JC6	601.40																			
14	30	JC6	75.00																			
15	31	JC6	1,000.00																			
16	31	JC6	(200.00)																			
17	MTD		6,484.90		1,126.40		74.90			635.00												4,904.20
18	YTD		16,793.97		5,632.00		374.50			3,175.00		806.00		3,239.45		1,114.57		21.50				4,904.20
19	11-4	JC7	1,201.30	211	1,126.40		74.90															
20	11-7	JC7	400.00												271	400.00						
21	11-30	JC7	1,057.80					232	1,057.80													
22	MTD		2,659.10		1,126.40		74.90		1,057.80							400.00						
23	QTD		9,141.00		2,252.80		149.80		1,057.80	635.00						400.00						4,904.20
24	YTD		24,453.07		6,758.40		449.40		1,057.80	3,175.00		806.00		3,239.45		1,514.57		21.50				4,904.20
25	12-5	JC8	1,201.30	211	1,126.40	222	74.90															
26	12-9	JC8	1,300.00					231	1,300.00													
27	12-13	JC8	200.00																			
28	12-17	JC8	200.00																			
29	12-21	JC8	500.00																			
30	12-30	JC8	346.80																			
31	MTD		6,678.10		1,126.40		74.90		1,300.00													
32	QTD		15,819.10		3,379.20		224.70		2,357.80	635.00						400.00						4,904.20
33	YTD		25,131.17		7,884.80		524.30		2,357.80	3,175.00		806.00		3,239.45		1,514.57		21.50				4,904.20

Figure 5-28: Illustration of a Completed Expense Ledger Form FCU 104 - (Continued)

Page No. 1

Our Federal
Credit Union

EXPENSE LEDGER

	310 MEMBERS INSURANCE		320 OPERATING FEES		340 INTEREST ON BORROWED MONEY		350 ANNUAL MEETING EXPENSES		370 MISCELLANEOUS OPERATING EXPENSES			MEMO SUMMARY OF MISC. OPERATING EXP. FOR CURR. MONTH		380 DIVIDENDS					
	ACCT.	AMOUNT	ACCT.	AMOUNT	ACCT.	AMOUNT	ACCT.	AMOUNT		ACCT.	AMOUNT	ACCT.	AMOUNT	ACCT.	AMOUNT	ACCT.	AMOUNT	ACCT.	AMOUNT
1																			
2																			
3																			
4																			
5																			
6																			
7																			
8																			
9																			
10																			
11			1000 00					500 00											
12																			
13									Microfiche Service	374	60 1 40								
14									Cash Over & Short	330	7 5 00	330	5 5 00						
15									Donations	376	1000 00	374	60 1 40						
16									Cash Over & Short	330	2 00 00	376	1000 00						
17					985 00						75 6 40		75 6 40						
18			1000 00		985 00			500 00			195 6 40								
19																			
20																			
21																			
22																			
23					985 00						75 6 40								
24			1000 00		985 00			500 00			195 6 40								
25																			
27									Cash Over & Short	330	20 00								
28									Microfiche Service	374	2000 00								
29	313	50 0 00										330	2 0 00						
30												374	2 0 0 00		345 6 80				
31		500 00									220 00		220 00		345 6 80				
32		500 00			985 00						976 40				345 6 80				
33		500 00		1000 00		985 00		500 00			2176 40				345 6 80				

The suggested forms for maintaining subsidiary records are illustrated below and can be modified to suit individual credit union requirements.

Form Description	Account Number	Form No.
Bond Ledger	741	FCU 741
Shares, Deposits, or Certificates of Other Credit Unions	745	FCU 127
Other Shares, Deposits and Certificates	746	FCU 124
Loans to Other Credit Unions	747	FCU 125
Furniture & Equipment Ledger	774	FCU 774
Notes Payable	812	FCU 126
Expense Ledger	200	FCU 104
Federal Agency Security	742	FCU 742

5080.6 RECONCILING SUBSIDIARY RECORDS

The trial balance of subsidiary records must agree with their respective General Ledger control accounts. The frequency of trial balances will depend on the activity in the account. Where there is monthly activity, the trial balances should be taken monthly. Where there is infrequent activity, the trial balance should be taken at least quarterly.

5090 PAYROLL PLANS AND PROCEDURES

5090.1 PAYROLL DEDUCTIONS AND ALLOTMENTS

Many employers recognize the benefits derived by their employees from credit union membership. To encourage participation these employers will deduct credit union payments from their employee's salary or wages due, when authorized by the employee. This is known as "payroll deductions." Military allotments may be handled in the same manner as payroll deductions, depending upon Defense Department regulations.

Payroll deductions can be an aid to the promotion and operation of the credit union as well as facilitate services to the members. Since it is a privilege granted by the employer, the operation of the plan must relate to the employer's needs and payroll accounting system. Deductions from the member's wages may be made on a weekly, biweekly, semimonthly, or monthly basis, depending on the employer's payroll policy. Ordinarily, either the member or the employer can discontinue the payroll deductions at any time.

Under a payroll deduction plan, the employer is serving as an agent of the members. The credit union is not responsible for the deductions until they are actually received from the employer. Therefore, payroll deductions should not be posted to the Individual Share and Loan Ledgers or entered in the Journal and Cash Record until the funds are actually received by the credit union.

5090.2 DIRECT DEPOSIT OF FEDERAL RECURRING PAYMENTS

Credit unions whose members are participating in the Direct Deposit of Federal Recurring Payments Program, may wish to establish a fixed date for crediting to members' accounts, funds received on their behalf through the direct deposit program. The date for crediting members' accounts with such funds should be selected to coincide with the date on which the receipt of funds is expected. In those cases where the funds are received prior to the preselected date, members accounts should be credited as of the date of receipt.

Payments received under this program must be credited to shares; direct application of such funds to an outstanding debt instrument of the beneficiary is not permissible. An exception to this rule is provided for military personnel who may allot their pay for repayment of a mortgage or residential mobile home loan.

5090.3 SET DATE FOR POSTING PAYROLL DEDUCTIONS

A federal credit union may find it expedient to select a set date on which to post payroll deductions. The set date must be established by the board of directors and should follow reasonably close to the date on which it is anticipated that the payroll deduction check will be received. Payroll deduction checks must be accounted for immediately upon receipt by debiting "Cash" and crediting "Accounts Payable Undistributed Payroll Deductions on Allotments", (Account No. 803). When the payroll is posted on the set date, the amount in "Accounts Payable-Undistributed Payroll Deductions or Allotments" should be cleared by crediting "Shares", "Loans", "Interest", etc., as appropriate. In the event the payroll deduction check is not received until after the set date, the postings should be made as of the date of receipt of the check and not the set date.

If this plan is used, this members should be made aware of its operations. Members requesting withdrawal of unencumbered shares included in the unposted payroll deductions for which the check has been received should be paid. In this case, the payroll deduction of the member should be posted to the Individual Share and Loan Ledger as of the date the withdrawal is made.

5090.4 PAYROLL DEDUCTION PLANS

In order that payroll deductions can be implemented efficiently, there are three plans under which payroll deduction recordkeeping and procedures can be carried out. The board of directors may select any one of these plans. It is permissible for a credit union to use, for example, one plan for one group of members and another plan for another group of members. However, it is not possible to combine the features of more than one plan as applied to any one member's account.

Considering the implications of some payroll deduction plans it would be advisable for credit union officials and employers to apprise credit union members as to:

a) Whether payroll deductions are optional or required;

b) How often payroll deductions will be withheld from the member's check;

c) How often and when the funds will be posted to the member's account(s);

d) To which account(s) the funds will be posted;

e) Whether the member will have access to the funds until they are applied to the loan account; and

f) The fact that the funds are not insured by the National Credit Union Share Insurance Fund until posted to the member's share account.

To illustrate the importance of such a disclosure, assume a member authorizes a weekly payroll deduction of $100 to repay a monthly loan payment of $250 with the remainder to be applied to shares. Also assume that the federal credit union is operating under payroll deduction modified plan 2, discussed in Section 5090.4.2, and posts the accumulated payroll deductions on the last day of each month. Further assume that the federal credit union does not make funds available to the member until they are posted to his or her share account. In such a case, a member could have from $100 to $400 withdrawn and held from his or her pay; the funds would not be available for withdrawal by the member; the funds would not earn dividend credit; nor would the funds be insured. An example disclosure that can be provided when payroll deductions are voluntary would be:

_____ I understand that payroll deductions are not required as a condition of this loan.

_____ I do not want payroll deductions.

_____ I want payroll deductions.

_____ X _____

Date Signature

5090.4.1 PLAN NO. 1

This plan applies to periodic deductions when the amount deducted for each member is credited to "Shares", "Loans", "Interest on Loans", "Late Charges", or "Fees" immediately upon receipt of the payroll deduction funds by the credit union. The terms of the note may be written to coincide with loan and interest payments upon the receipt of payroll deduction funds or the terms of the note could call for monthly payments. This applies to both closedend and open-end (line-of-credit) loans.

5090.4.2 PLAN NO. 2

This plan applies to periodic deductions during the month (generally weekly) where the amount deducted for each member is credited to "Shares" immediately upon receipt of the payroll deduction funds by the credit union and, in the case of borrowers, transferred from "Shares" to either "Loans", "Interest on Loans", or "Late Charges" on a monthly or more frequent basis. Loans are repayable monthly or on a more frequent basis and interest charges are computed using either the 360-day or 365-day methods of computing interest.

When this plan is used, the credit union officials should be certain that borrowers fully understand the workings of the plan and particularly that payroll deductions will be applied to shares, and transferred under the terms of the note as loan and interest payments at a later date. Reference should be made to Regulation Z with regard to Truth-in-Lending disclosure problems that can result from using Plan No. 2.

5090.4.2.1 MODIFICATION OF PLAN NO. 2 (ACCUMULATED PAYROLL DEDUCTION PLAN)

A modification of Plan No. 2 can be used provided the procedures set forth below are followed. As each periodic payroll deduction is received (generally either weekly or semimonthly), supported by a listing of the deductions or one developed by the credit union, the entire amount of the deduction is credited to, "Unposted Payroll Deductions-Shares", (Account No. 909). The listings of the deductions should be held or accumulated for no more than a month and the distribution should be posted to the Individual Share and Loan Ledgers as of a set date each month. This posting date will need to be such that the members will receive proper dividend credits each month for share payments.

On the date of the month end posting to the members' accounts, an entry should be made in the Journal and Cash Record debiting "Unposted Payroll Deductions-Shares", (Account No. 909) and crediting the appropriate amounts to "Shares", "Loans", "Interest on Loans", etc. This entry will clear the balance in Account No. 909. Any balance in this account at each month end should be combined with the "Regular Shares", (Account No. 901) balance on the monthly Statement of Financial Condition (FCU 109A).

Under this plan no change or modification is made in the method of handling loans. All loans will be repayable monthly and interest charges will be computed on a monthly basis (using a 360- or a 365-day method of interest computation since the date of the last interest payment).

The credit union should have a record of all payments made by the members, although between posting dates, the record will consist of the payroll deduction listings in addition to the individual ledgers. In order to determine a member's balance during the month, both the unposted payroll deduction listings and the member's individual ledger will need to be checked. Each non-payroll deduction transaction should be posted to the individual ledgers as of the date of the transaction.

Between the dates of actual posting of the accumulated payroll deduction transactions, some payroll deductions will be received which will not have been posted to the members accounts. Members may wish to withdraw these payroll deductions before they are posted. A member's current balance can be determined by checking both the member's individual ledger and the payroll deduction listings received since the last posting of such deductions. For this reason, the board of directors may not want to exercise the option of restricting the withdrawal of unposted share payments, as provided in Article III, Section 5(b) of the Federal Credit Union Bylaws. In this event, the unposted deductions would need to be posted to the member's ledger prior to posting the withdrawal. When the modification of Plan No. 2 is used, the members should be made fully aware of the plan and its limitations, as is the case with the other payroll deduction plans.

5090.4.3 PLAN NO. 3

This plan involves periodic payroll deductions made during the month (generally weekly) where the company retains the amounts deducted during the month until the end of the month. All loans are repayable monthly, and interest is computed on a monthly basis. The amounts deducted during the month are recorded in the Journal and Cash Record and Individual Share and Loan Ledgers as a monthly total as of the date of receipt of the check by the credit union. Journal and Cash Record entries for these transactions are discussed below.

If the employer desires to make advances of funds to the credit union periodically during the month, the advances should be established on the credit union's books as a liability by a credit to "Other Accounts Payable", (Account No. 801). Advances from the company to provide working capital will normally be in even dollar amounts not related to the amounts of one or more of the periodic payroll deductions during the month. If a credit union receives an advance in the exact amount of one or more of the periodic payroll deductions during the month and also receives the payroll deduction listing(s) equal to the amount of the advance, the credit union then has a responsibility to credit the members' accounts as of the date the funds are received. In such a case, Plan No. 3 cannot be used, and the credit union must use either Plan No. 1 or Plan No. 2. The working capital advance should be cleared as a liability at the end of the month when the credit union receives the balance of the funds withheld from the employees' payroll along with the payroll deduction list. At that time, "Cash", (Account No. 731) should be debited for the final funds received; "Accounts Payable", (Account No. 801) is debited to clear the liability for the advance; the corresponding credits should be to "Shares", "Loans", "Interest on Loans", "Late Charges", or "Fees" for distribution of the payroll deductions.

Although the following precaution applies to the other payroll deduction plans as well, it should receive particular emphasis under this plan. The members must clearly understand that the employer is acting as their agent in deducting, retaining, and transmitting funds to the credit union. The member must be willing to cooperate with the credit union because he/she cannot withdraw funds which have been deducted from his/her pay but not yet received from the employer nor can such funds be considered as security in granting loans.

5090.5 PAYROLL DEDUCTION RECORDS

5090.5.1 AUTHORIZATION FOR PAYROLL DEDUCTIONS

The form used to authorize payroll deductions should be consistent with the needs of the employer. It must be signed by the member authorizing the employer to make the payroll deductions. The form should provide for a stated amount to be deducted from the member's pay each period.

5090.5.2 WHEN CREDIT UNION DEVELOPS ALL THE RECORDS IN CONNECTION WITH PAYROLL DEDUCTIONS

In some cases, the credit union will develop the records needed by the member's employer for deducting stated amounts from the member's pay. Generally, copies of these records will be forwarded to the appropriate employer's facility for processing of the payroll deductions. When the funds are received, the credit union should extend these records to show the appropriate distribution of the payroll deductions. One or more of Forms FCU 105A, FCU 105B, FCU 105C, and FCU 105D, or its equivalent forms, should be used by the credit union as the basic records of payroll deductions. The representative entries on the illustrated forms portray the recording and distribution of payroll deductions.

5090.5.3 WHERE CREDIT UNION RECEIVES A RECORD OF THE PAYROLL DEDUCTIONS FROM THE EMPLOYER

Such a record or listing received from the employer must, as a minimum, identify the member by name or account number (both is preferable), amount of deduction, and date of deduction. (The date of the deduction may be for identification only. As indicated earlier, the significant date to the credit union is the date of receipt of the funds.)

The credit union may receive what is commonly known as a "short" or "exception" list instead of a full listing of payroll deductions. The "short" or " exception" list is one that reflects only the additions, deletions and changes in payroll deductions made since the previous payroll deduction. When a "short" or "exception" list is used, a master record must be maintained of payroll deductions to which the exceptions can be applied. The overriding principle, however, is that the adjusted master record will provide an audit trail-the means to, at some later date to trace the payroll deduction postings from the master record to the member's Individual Share and Loan Ledgers. Examples of the formats of master records are discussed below.

Periodically, the credit union prepares a listing of the current payroll deductions. This listing should include at least the identification of the member and the amount of his payroll deduction. This listing is then reproduced into a number of copies. Each time payroll deductions are received, a copy of the listing is adjusted to reflect the current payroll deductions for each member. Postings to the Individual Share and Loan Ledgers are made from this adjusted listing which can then be attached to the Cash Received Voucher showing receipt of the payroll deduction check. When adjustments to the master record become numerous, the credit union may want to develop a new master record listing.

Each time the above listing is adjusted, it can be photocopied and the copy will serve as the master record to which the exceptions of the next payroll deduction are applied.

A card file showing the identification of the member, amount of deduction and date of the deduction may also be used. As exception lists to the payroll deductions are received, they should be posted to the appropriate cards.

The date of the payroll to which the exception is applied is entered alongside the exception posting. Postings to the Individual Share and Loan Ledgers can then be made directly from the card file. Open and closed master record cards will need to be carefully controlled and maintained so that the audit trail will not be destroyed.

In all cases, the master record should be totaled and proved to the current payroll deduction check. The adding machine tape supporting the total should be attached to the Cash Received Voucher evidencing receipt of the payroll deduction check.

5090.5.4 RECORDS OF DISTRIBUTION OF PAYROLL DEDUCTIONS, AND RECORDS OF SHARE TO LOAN TRANSFERS UNDER PAYROLL DEDUCTION PLAN NO. 2.

In a manual system such records can be on any of Forms FCU 105A, FCU 105B, FCU 105C or FCU 105D, or its equivalent. (The columns headed "Deductions for Week Ended" on Form FCU 105D would not be used if the credit union receives a listing showing the total of the deductions for the month.)

When a computer is used, the computer printout of the posting to the members' accounts can be used as a record of payroll deduction distribution or a record of transfers under Payroll Deduction Plan No. The printout must show the date, identify the member, and show the credits for each member's account and the totals credited to each General Ledger account.

5090.6 ENTRIES IN THE JOURNAL AND CASH RECORD

The entries in the Journal and Cash Record for advances by the sponsor to the credit union under Payroll Deduction Plan No. 3 are described above.

5090.6.1 ENTRIES UNDER PAYROLL DEDUCTIONS PLANS 1 AND 3, AND ENTRIES UNDER THE SHARE CREDIT PORTION OF PAYROLL DEDUCTION PLAN NO. 2

The debit to "Cash" should be made in an amount equal to the funds received from the employer. The funds received must agree with the total of the list of payroll deductions and with the overall total of the distribution of the payroll deductions.

The basis for the credit portion of the entry will be from the totals of the distribution of the payroll deductions to "Shares", "Loans", "Interest on Loans", etc., as shown by Form FCU 105A, FCU 105B (Shares only), FCU 105D, or its equivalent. The distribution totals on the computer printout of posting to the members' accounts may be used as the basis for credit portions of the entry in the Journal and Cash Record if the forms mentioned above are not used.

In the event that the breakdown of "Shares", "Loans", "Interest", etc., is not developed in time to provide the credit entries for the payroll deduction funds, the amount of the payroll deduction funds, the amount of the payroll deduction should be credited to "Accounts Payable-Undistributed Payroll Deductions or Allotments", (Account No. 803). When the breakdown of the payroll deduction has been determined, the amount in Account No. 803 should be cleared by debiting that account and crediting "Shares", "Loans", "Interest", etc.

5090.6.2 SHARE TO LOAN TRANSFERS UNDER PAYROLL DEDUCTION PLAN NO. 2

The basis for the entry will be on Form FCU 105C, or its equivalent, or the basis for the entry can be the total of the share debits and the distribution totals on the computer printout posting to the members' accounts.

Substitutes for Cash Received Vouchers and Journal Vouchers

If Forms FCU 105A, FCU 105B or FCU 105D are used, or its equivalent forms providing for the same information, these forms can substitute for the Cash Received Voucher. If a computer printout is used as the basis for entry in the Journal and Cash Record, the totals on the computer printout record must support the summary entry in the Journal and Cash Record.

Figure 5-29: Illustration of a Completed Record of Payroll Deductions for Period Ended (Form FCU 105D)

Our
Federal Credit Union

RECORD OF PAYROLE DEDUCTIONS FOR PERIOD ENDED JULY 27 . 19 X1

DATE CASH RECEIVED JULY 29 19 X1 RECEIVED BY HA POSTED BY HA

PAYROLL NO.	ACCT. NO.	NAME	DEDUCTIONS FOR WEEK ENDED 7/6 (DATE)	7/13 (DATE)	7/20 (DATE)	7/27 (DATE)	(DATE)	TOTAL DEDUCTIONS (CASH DR.)	DISTRIBUTION SHARES CR.	INT. CR.	LOANS CR.	LATE CHGS. CR.	FEES CR.	✓	REMARKS
053-27-4165	3	John Jones	5 00	5 00	5 00	5 00		20 00	3 38	4 62	12 00			X	
111-46-2798	7	A. B. Duncan	8 00	8 00	8 00	8 00		32 00	1 12	6 88	24 00			X	
145-73-9142	14	Charles Hathaway	4 00	4 00	4 00	4 00		16 00	2 85	1 15	12 00			X	
227-11-4312	15	James K. Evans	7 00	7 00	7 00	7 00		28 00	3 90	4 10	20 00			X	
311-22-3210	17	Hary Jones	5 00	5 00	5 00	5 00		20 00	3 95	3 28	12 00	76		X	
455-32-1543	20	Herry J. Phillips	2 00	2 00	2 00			6 00	6 00					X	Sick week 7/27
527-64-7185	23	John Smith	1 00	1 00	1 00	1 00		4 00	4 00					X	
527-69-1372	27	William Bell				1 25		1 25	1 00				25	X	
		TOTALS	32 00	32 00	32 00	31 25		127 25	26 20	20 04	80 00	76	25	X	

Figure 5-30: Illustration of a Completed Record of Payroll Deductions for Period Ended (Form FCU 105B)

FORM FCU.105B REV.

Our
Federal Credit Union

RECORD OF PAYROLE DEDUCTIONS FOR PERIOD ENDED JULY 13 . 19 X1

DATE CASH RECEIVED JULY 15 19 X1 RECEIVED BY HA POSTED BY HA

PAYROLL NO.	ACCT. NO.	NAME	TOTAL DEDUCTIONS (CASH DR.)		✓	REMARKS
053-27-4165	3	John Jones	5	00	X	
111-46-2798	7	A. B. Duncan	8	00	X	
145-73-9142	14	Charles Hathaway	4	00	X	
227-11-4312	15	James K. Evans	7	00	X	
311-22-3210	17	Hary Jones	5	00	X	
455-32-1543	20	Herry J. Phillips	2	00	X	
527-64-7185	23	John Smith	1	00	X	
527-69-1372	27	William Bell	1	25	X	
		TOTALS	33	25		

Figure 5-30A: Illustration of a Completed Loans Transfer Summary (Form FCU 105 C)

FORM FCU.105C REV.

Our Federal
Credit Union

LOANS TRANSFER SUMMARY

DATE CASH RECEIVED JULY 30 19 X1 POSTED BY HA

PAYROLL NO.	ACCT. NO.	NAME	TOTAL DEDUCTIONS (CASH DR.)		DISTRIBUTION						✓	REMARKS
					INT. CR.		LOANS CR.		LATE CHARGES			
053-27-4165	3	John Jones	16	62	4	62	12	00			X	
111-46-2798	7	A.B. Duncan	30	00	6	88	24	00			X	
145-73-9142	14	Charles Hathaway	15	15	1	15	12	00			X	
227-11-4312	15	James K Evans	24	10	4	10	20	00			X	
311-22-3210	17	Mary Jones	16	05	3	29	12	00		76	X	
		TOTAL	100	80	20	04	80	00		76	X	

Figure 5-31: Illustrated Record of Payroll Deductions (Form FCU 105-A)

Form FCU 105:-A

OUR
FEDERAL CREDIT UNION

RECORD OF PAYROLL DEDUCTIONS FOR PERIOD ENDED JULY 13, 19 X1.

DATE CASH RECEIVED JULY 15, 19 XI RECEIVED BY Ha POSTED BY Ha.

PAYROLL NO	ACCOUNT NO	NAME	TOTAL DEDUCTION (CASH DR.)	DISTRIBUTION SHARES CR.	INT. CR.	LOANS CR.	LATE CHARGE	FEES CR.	✓	REMARKS
053-27-4165	3	John Jones	5 00	92	1 08	3 00			x	
111-46-2798	7	A. B. Duncan	8 00	43	1 57	6 00			x	
145-73-9142	14	Charles Hathaway	4 00	75	25	3 00			x	
227-11-4312	15	James K. Evans	7 00	1 05	95	5 00			x	
311-22-3210	17	Mary Jones	5 00	1 00	76	3 00	24		x	
455-35-1543	20	Henry J. Philips	2 00	2 00					x	
527-64-7185	23	John Smith	1 00	1 00					x	
527-69-1372	27	William Bell	1 25	1 00				25	x	
		TOTALS	3 25	8 15	4 61	20 00	24	25	x	

If Form FCU 105C or its equivalent is used, it can serve as an acceptable Journal Voucher for the summary entry in the Journal and Cash Record. If the computer printout is used as a basis for entry of share to loan transfers under Payroll Deduction Plan No. 2, the totals on the computer printout must support the summary entry.

5090.7 STATEMENTS OF ACCOUNT

Credit unions operating under a payroll deduction plan will undoubtedly find it difficult to obtain a passbook, Form FCU 107, or its equivalent, from the members to bring the postings up to date on a current basis. Instead, credit unions will find that it is necessary to use a statement of account rather than a passbook. In using a statement of account under a payroll deduction plan, the statement should be issued to the member as his official receipt, as provided by Article IV of the Federal Credit Union Bylaws. For any nonpayroll deduction payment, the member should be given a temporary receipt pending the issuance of a periodic statement of account.

Although a statement of account plan is particularly adaptable to payroll deduction operations, it may be used by credit unions which do not have payroll deductions available.

A statement of account should set forth a complete record of all transactions which the member had with the credit union during the period covered by the statement. If used in connection with open-end credit, disclosure requirements for Regulation Z must also be shown. Since a statement of account contains essentially the same information as the member's Individual Share and Loan Ledger, it is frequently prepared as a duplicate of the member's ledger. The Statement of Account (Form FCU 107G) is illustrated below as Figure 5-32.

Credit unions using a combination ledger and statement form should consider retaining the original for the credit union's record. If the officials intend to retain the carbon copy for the credit union's records, they should make certain that it is a legible copy.

In some credit unions only a portion of the members should have access to payroll deductions. When payroll deduction facilities have been made available even to a portion of the members, the credit union's board of directors need to adopt a statement of account for all members. Members who are not on payroll deductions and make cash payments should be issued receipts for such payments to the credit union. The alternative, which is undesirable, is to have what amounts to a dual system of maintaining members' accounts i.e., nonpayroll deduction members are issued passbooks, while members on payroll deduction should receive statements of account. This type of arrangement upsets the uniformity of office procedures to ensure that a passbook is presented and posted, where applicable, or that a receipt is issued and a statement distributed where applicable.

5090.8 DISTRIBUTION OF STATEMENTS OF ACCOUNT

Except as provided below and by Regulation E (discussed in Section 5090.9), statements for share, share draft and share certificate accounts should be issued at least quarterly. If a member's account has had no transactions, except for dividends earned, during the quarter, no statement need be distributed for that quarter.

A statement of account must be distributed at least once each year to all inactive share, share draft, and share certificate account holders. Issuance of statements for share, share draft, and share certificate accounts on at least a quarterly basis is more desirable since it provides the members with reasonably current information about their transactions with their credit union. However, a credit union may issue statements at 4-month intervals or semiannually as long as the following conditions continue to be met:

a) A member should be given a current statement of his/her share, share draft or share certificate account if he/she requests such a statement between the dates of the regular issuance of statements.

b) One issuance of the statements each year should be sent to all members under controlled conditions by the supervisory committee or outside accountants contracted by the supervisory committee. "Controlled conditions" are specified in the *Supervisory Committee Guide for Federal Credit Unions* (Expected Revision January 1997).

c) The accounts of members who have no transactions recorded on their statements of account because of inactivity in the account, should be confirmed by the supervisory committee by appropriate verification card, letter, or by issuance of a statement.

d) Reasonable and satisfactory internal office controls should be established and maintained.

Figure 5-32: Illustration of a Completed Statement of Account (From FCU 107G)

ACCOUNT NO. 216

Our
Federal CREDIT UNION
STATEMENT OF ACCOUNT

IF THIS STATEMENT IS IN ERROR NOTIFY THE SUPERVISORY COMMITTEE CHAIRMAN
AT ONCE AND FURNISH THE INFORMATION NECESSARY TO EFFECT CORRECTION

		SHARES ACCOUNT							LOANS ACCOUNT										
DATE	POST REF	PAID IN		WITHDRAWN		BALANCE		FULL SHARES	NOTE NO	AMOUNT LOANED		INTEREST PAID		PRINCIPAL PAID		BALANCE		LATE CHARGE	
Sept 6		*3*	*00*			*3*	*00*												*fee .25*
13		*1*	*00*			*4*	*00*												
14	*JC6*					*4*	*00*		*212*	*60*	*00*					*60*	*00*		
20			*50*			*4*	*50*						*14*	*3*	*00*	*57*	*00*		
28			*50*			*5*	*00*						*13*	*3*	*00*	*54*	*00*		

ANNUAL PERCENTAGE RATE

Bill Mc Culgan
7401 Chase Street
Marigold, Indiana 45358

RETAIN THIS STATEMENT AS A PART OF YOUR PERMANENT RECORDS

* Note: A statement of account that meets the definition of a periodic statement under the National Credit Union Administration Rules and Regulations, Truth in Savings, Section 707.2(t), Definitions, must contain the required statement disclosures. See the national Credit Union Administration Rules and Regulations, Truth in Savings, Section 707.2(t), Definitions and Section 707.6, Statement Disclosures, for specific details on the definition of a periodic statement and the required statement disclosures.

Although not required, it is strongly recommended that Statements of Account be issued monthly for Share Draft Account.

NOTE: The release of the statements by the supervisory committee under the controlled conditions mentioned in items b. and c. above, meets the requirements of Section 115 of the Federal Credit Union Act for the verification of accounts by the committee.

5090.8.1 "NO MAIL" ACCOUNTS

Federal credit unions accepting "no mail" accounts should inform applicants for such accounts of the legal requirement for verification of all accounts and should require applicants to designate alternative means of contact for verification. Possible alternatives include telephoning, mailing forms to the member's business address, turning in passbooks at annual members' meetings, or making the verification when transactions are made at the credit union.

To prevent any possible liability for breach of contract or invasion of privacy, federal credit unions accepting "no mail" accounts should require that applicants for such accounts sign an agreement stating that in the event the federal credit union is unable to verify the account through alternative means designated, it may mail the verification to the account holder's home in two consecutive mailings. Present holders of "no mail" accounts should be asked to sign a similar agreement at the next verification of their account.

5090.9 PERIODIC STATEMENTS

5090.9.1 REGULATION E

If an account may be accessed by means of an Electronic Fund Transfer, then periodic statements must be sent monthly if an Electronic Funds Transfer (EFT) has occurred, or quarterly if no EFT has occurred. Briefly, an EFT is a transfer of funds initiated through an electronic terminal, telephone, or computer that instructs a financial institution to either credit or debit an asset account. An asset account is a share account, share draft account and/or share certificate account established by the member primarily for personal or household use. For additional information refer to the Regulation E. If an account cannot be accessed by an EFT other than preauthorized transfers, only quarterly statements need be sent. For each EFT made during the cycle, the statement should include:

a) The amount of transfer (if a charge was added through use of an electronic terminal that charge may be included in the amount);

b) The posting date of each transaction;

c) The type of transfer and type of account;

Figure 5-32A: Illustration of a Share Draft Statement of Account (Form FCU 107G-SD)

ACCOUNT NO. [redacted]

CREDIT UNION
STATEMENT OF ACCOUNT

FORM FCU 107G SD

DATE	DRAFT NO.	DRAFT AMOUNT		DRAFT NO.	DRAFT AMOUNT		DRAFT NO.	DRAFT AMOUNT		CREDITS, DEPOSITS	BALANCE

"RETAIN THIS STATEMENT AS A PART OF YOUR PERMANENT RECORDS"

NOTES:

MEMBER AGREEMENT:

☐ **OVERDRAFT LOAN-NOTE NO.** _____
REMAINING LIMIT$ _____
☐ **OVERDRAFT SHARE TRANSFER**
☐ **NEITHER**

*** SERVICE CHARGES**

SC-1 STOP PAYMENT REQUEST
SC-2 STOP PAYMENT RETURN
SC-3 DRAFT RETURN FEE
SC-4 TRANSFER FROM SHARES
SC-5 MICROFILM COPY
SC-6 DRAFT PRINTING
SC-7 _____

*** OTHER TRANSACTIONS**

D DIVIDENDS
EC - ERROR CORRECTION
OR OVERDRAFT RETURNED
OL OVERDRAFT LOAN
OS OVERDRAFT SHARE TRANSFER

* Note: A statement of account that meets the definition of a periodic statement under the National Credit Union Administration Rules and Regulations, Truth in Savings, Section 707.2(t), *Definitions*, must contain the required statement disclosures. See Section 707.2(t), Definitions and Section 707.6, Statement Disclosures, for specific details on the definition of a periodic statement and the required Statement Disclosures, for specific details on the definition of a periodic statement and the required statement disclosures.

Figure 5-32B: Illustration of a Statement of Account for Open-End Credit (Form FCU 107G-OE)

MEMBER'S PERIODIC STATEMENT OF ACCOUNT

ACCOUNT NO.

SEND INQUIRIES TO: ______________________
CREDIT UNION
____
ADDRESS
____

FORM FCU 107-G OE Rev. 10/80

DATE	POST REF. (CODE)	SHARES (NOT TRANSFERABLE) PAID IN	WITHDRAWN	BALANCE	FULL SHARES	LOANS ACCOUNT NOTE NO.	ADVANCES AMOUNT LOANED	FINANCE CHARGE	PAYMENTS AND CREDITS (PRINCIPAL)	UNPAID BALANCE	LATE CHARGE

FINANCE CHARGE YEAR TO DATE

PREVIOUS BALANCE		NEW BALANCE		CLOSING DATE		MINIMUM PAYMENT DUE
1ST PERIOD		1ST PERIOD		1ST PERIOD		
2ND PERIOD		2ND PERIOD		2ND PERIOD		
3RD PERIOD		3RD PERIOD		3RD PERIOD		
4TH PERIOD		4TH PERIOD		4TH PERIOD		

NOTICE: See reverse side for important information regarding your rights to dispute billing (statement) errors.

"RETAIN THIS STATEMENT AS A PART OF YOUR PERMANENT RECORDS"

1 as defined in 12 CFR Part 204

A loan marked * is open-end credit. The **FINANCE CHARGE** is computed by the "Periodic Rate" of ________% per ____________________ for the actual time the balance remains outstanding which is an **ANNUAL PERCENTAGE RATE** of ______% applied to the unpaid balance at the time of the loan payment. Transaction dates shown are the dates amounts were debited or credited to your account(s).

EXPLANATION OF DESCRIPTIVE SYMBOLS

AD — ADJUSTMENT	CS — CASH	FE — FEE	NB — NO BOOK	PY — PAYMENT	RF — REFINANCE
CB — CREDIT BALANCE	DP — DUPLICATE ENTRY	FI — LATE CHARGES	NL — NEW LOAN	PD — PAYROLL DEDUCTION	TR — TRANSFER
CR — CREDIT	DV — DIVIDEND	MF — MEMBERSHIP FEE	OD — OVER DRAFT LOAN	RE — REBATE	

* Note: A statement of account that meets the definition of a periodic statement under the National Credit Union Administration Rules and Regulations, Truth in Savings, Section 707.2(t), *Definitions,* must contain the required statement disclosures. See Section 707.2(t), Definitions and Section 707.6, Statement Disclosures, for specific details on the definition of a periodic statement and the required Statement Disclosures, for specific details on the definition of a periodic statement and the required statement disclosures.

d) For each transfer initiated at an electronic terminal, the location that appeared on the receipt. If an identification code was used, that identification code must be given with one of the following descriptions:

   1) The street address of the terminal;

   2) A generally accepted name for the location of the terminal (such as an airport, shopping center, or branch of a financial institution); or

   3) The name of the entity at whose place of business the terminal is located (such as a store) and the city, state, or foreign country.

(NOTE: The deposits of cash, checks, drafts or other similar paper instruments are exempted from the location disclosure requirement on periodic statements.)

e) The name of any third party to or from whom funds are transferred. (If the transfer was initiated by the consumer at an electronic terminal and a code was used on the receipt to identify the party, the statement must include the code and name of the third party.)

The statement should also include:

a) The account number(s) for which the statement is issued;

b) The total amount of any fees or charges, other than a finance charge as defined in Regulation Z, assessed during the period for making EFTS, for the right to make EFTs or for account maintenance;

c) The beginning and ending balances of each account;

d) The address and telephone number to be used by the consumer to make inquiries or give notice of errors (if the credit union has elected to send the shorter error notice with every periodic statement, the address and telephone number may appear on that device); and

e) If the credit union has provided a telephone number which the consumer can use to determine whether or not a preauthorized transfer has taken place, that telephone number should be given on the statement.

Commonly accepted abbreviations may be used in complying with the disclosure requirements for periodic statements.

Credit unions operating certain cash-dispensing terminals (Automated Teller Machines or ATMS) that have the characteristics defined in Section 205.9(f)(1) of Regulation E may mail or deliver a written terminal receipt to the consumer on the next business day after the transfer is initiated.

If a consumer has a passbook account and that account may not be accessed by an EFT other than preauthorized transfers, a periodic statement need not be sent provided that the credit union updates the consumer's passbook or provides the required documentation on a separate document at the consumer's request. To update the passbook, the amount and date of each EFT made since the passbook was last presented should be listed.

5090.9.2 PART 707, TRUTH IN SAVINGS

The definition of a periodic statement under the National Credit Union Administration Rules and Regulations, Truth in Savings, Section 707.2(t), *Definitions*, is a statement setting forth information about an account (other than a term share account) that is provided to a member on a regular basis four or more times a year. See the National Credit Union Administration Rules and Regulations, Truth in Savings, Section 707.6, *Statement Disclosures*, for specific details on the required periodic statement disclosures.

5100 RECORDKEEEPING FOR COLLECTION BY OUTSIDE SOURCES

5100.1 COLLECTION OF LOANS BY OUTSIDE SOURCES

5100.1.1 NATURE OF COLLECTION COSTS AND EXPENSES

Expenses of credit union officials and employees incurred in connection with efforts to correct loans, whether or not placed with outside sources, are operating expenses and should be charged to "Collection Expense", (Account No. 282). Generally, such expenses involved communicating with the delinquent borrower. This type of expense is usually not chargeable to the borrower.

Credit unions may also incur costs directly related to loans that are placed with outside sources, attorneys or collection agencies, for collection. Such costs can include court costs and other legal expenses. These costs may be recoverable from the borrower in accordance with the terms of the note, the judgment, or other agreement with the borrower (subject to applicable law). The board should consult with an attorney to determine what costs are legally recoverable from the borrower.

5100.1.2 ACCOUNTING FOR RECOVERABLE COLLECTION COSTS ADVANCED BY THE CREDIT UNION

5100.1.2.1 METHOD OF RECORDKEEPING FOR RECOVERABLE COLLECTION COSTS

There are alternative methods of recordkeeping in connection with costs paid by the credit union that may be recovered from the borrower (recoverable collection costs are those that are collectible within the terms of the note). The method selected for accounting for recoverable costs should be the one that best fits the circumstances and the particular needs of the credit union. Collection costs that cannot be legally collected from the borrower should be recorded according to method (a), below. The methods for accounting for recoverable collections costs are:

a) *Debit "Collection Expense",* (Account No. 282). If the costs are not recovered they become an operating expense of the credit union. Under this method, no portion of the cost is charged to the "Allowance for Loan Losses", (Account No. 719) thereby avoiding a reduction in the credit union's valuation allowance.

b) *Debit "Other Accounts Receivable"* (Account No. 729). This method establishes a receivable for the amount recoverable from the borrower. Subsidiary records should be maintained of amounts charged to Account No. 729 which provide the details of the recoverable amounts.

c) *Debit "Consumer Loans"* (Account No. 701.3). This method increases the individual loan balances of the delinquent borrowers. A proper notation should be made on the individual loan ledger of the amount of the recoverable collection costs added to the loan balance so that interest will not be computed on the amount added, unless the credit union has legal right to collect such interest. In that event, the credit union's right to collect the interest and the interest rate should be noted on the individual loan ledger.

5100.1.2.2 UNCOLLECTIBLE COLLECTION COSTS

If the collection costs which have been established under methods (b) and (c), of Section 5100.1.2.1 are deemed to be uncollectible, they may be charged to the "Allowance for Loan Losses", (Account No. 719). The unrecoverable collection costs may be transferred to "Collection Expenses", (Account No. 282), as discussed under method (a) of that section. Collection costs incurred after a loan has been charged off should be charged to Account No. 282 rather than the allowance account.

5100.1.3 PRIORITY IN APPLICATION OF PAYMENTS

Priority in application of funds received by the credit union in connection with loans placed with outside sources for collection will be governed by the terms of the note or judgment, or other legal process involved in collection of the loan. Agreements with collection sources, attorneys or collection agencies, will also be determining factors in priority of applying payments.

In the absence of binding agreements that provide for specific application of all or a portion of payments received in connection with loans placed with outside sources for collection, such payments may generally be applied in the manner that is most advantageous to the credit union. Prime consideration in determining the application of payments is in avoiding charges to the "Allowance for Loan Losses", (Account No. 719) that can be applied to operating expenses. A suggested order of priority of application of payments is listed below:

a) Establish in "Accounts Payable", (Account No. 801) any funds paid by the borrower and received by the credit union that are due the outside collection source by virtue of the agreement between the credit union and the collection source. The account payable should be cleared as promptly as possible.

b) Credit "Other Accounts Receivable", (Account No. 729) to the extent that collection costs advanced have been debited to that account, as a receivable from the borrower.

c) Credit "Allowance for Loan Losses", (Account No. 719) to the extent that any charge offs have been made relating to the loan for which the payment has been received (including unrecovered collection costs).

d) Credit "Loans", (Account No. 701) to the extent of the entire loan principal balance. In other words the loans principal balance (including recoverable collection costs that may have been added to the loan) should be recovered before payments are applied to recovery of operating costs, or to income.

e) Credit "Collection Expense", (Account No. 282) to the extent that recoverable collection costs have been charged to that account.

f) Credit "Fees and Charges", (Account No. 131) to the extent of any late charges authorized by the board of directors.

5100.1.4 RECORDS IN CONNECTION WITH LOANS PLACED WITH OUTSIDE SOURCES FOR COLLECTION

Detailed worksheet records should be maintained of loans placed with outside sources for collection. These worksheet records are necessary to: (a) provide control of the disposition of the loan: (b) provide, on one source, all the information necessary to expedite collection of the loan: and (c) provide the information necessary to evaluate the effectiveness of the outside collection source.

The separate worksheet record for each loan should contain, as a minimum, the following information:

- Identification of the borrower.
- Details of the loan: date granted, original amount, terms, and collateral, if any, and its disposition.
- Authorizations by the board of directors in connection with the loan.
- Identification of the outside collection source, and the agreements made with this source.
- Details of any suit, or other legal process, against the borrower, including disposition of costs advanced by the credit union.

The remainder of the worksheet record should be in columnar form with columnar headings somewhat as follows, to fit the particular situation. This portion of the worksheet record is designed to show activity in each account after the loan has been placed with an outside collection source. Some of the columns will not be needed for each loan, depending upon whether the loan balance has been charged off. Other columns may not be needed in individual situations. Entries should be made in the appropriate columns as payments are made, or as other activity occurs in relation to the loan. Items which should be included on the worksheet are:

a) Date.

b) Explanation.

c) Gross Amount Paid by Borrower.

d) Collection Fee (withheld by or due the outside collection source).

e) Allowance for Loan Losses. The beginning balance in this column should reflect the amount of the loan charged off which has not been recovered.

f) Loan Balance. The beginning balance should be the balance at the time the loan is placed with an outside collection source. This balance will be reduced as payments are applied to loan principal. The balance in this column should agree with the corresponding balance on this member's Individual Share and Loan Ledger.

g) Interest Due. Since interest will not be immediately taken into income in some cases, this column will serve to provide a record of interest due. The beginning amount in the column should be the interest due at the time the loan is placed with an outside source for collection. The amount should be increased as interest due is computed on a periodic basis to the extent that the credit union can legally collect interest. The amount should be reduced as amounts are applied to the column that is titled, "Interest on Loans" and to "Interest on Loans", (Account No. 111) in the General Ledger Account and to the Individual Share and Loan Ledger.

h) Interest on Loans. The amount of the payment credited to "Interest on Loans", (Account No. 111).

i) Late Charges Due. This column should be used if late charges are assessed in the manner similar to the column "Interest Due."

j) Late Charges. The amount of the payment representing late charges and credited to "Fees and Charges", (Account No. 131).

k) Amount Recoverable. The beginning amount in this column should be the amount recoverable from the borrower at the time the loan is placed with an outside source for collection. It will normally include recoverable costs advanced by the credit union, and such other costs as speci fied by the note of judgment. Generally, the beginning amount in this column will not agree - ,with the beginning balance in either the "Allowance for Loan Losses" or "Loan Balance" columns. The amount in this column will generally be reduced by entries made in the column, "Gross Amount Paid by Borrower," and adjusted by increases or decreases made in the "Interest Due" and "Late Charges Due" columns.

If the loan has not been charged off, transaction activity should be posted to the Individual Share and Loan Ledger. However, the worksheet record described above should be maintained since it provides additional information pertinent to collection of the loan. It also provides a record for recording activity that will not be posted to the Individual Share and Loan Ledger.

If the loan has been charged off, the worksheet record should serve a similar purpose of providing a source for recording information that does not appear in the General Ledger account. If subsidiary control accounts for the Allowance for Loan Losses have been established, this worksheet record will serve as a subsidiary to the General Ledger control account for loans charged off and recoveries.

5100.2 FIELD COLLECTORS

Under certain conditions it may be necessary or advantageous to have cash collections performed by field collectors. Field collectors are employees of the credit union (whether or not they receive compensation) who perform the function of serving members at points other than the credit union office. Field collectors may perform various credit union services for the members and for the credit union office staff. One of the primary functions is to receive payments from members.

Rigid control procedures should be established, and supplemented by a systematic method of recordkeeping in order to properly provide accountability for funds received by field collectors. Rigid procedures and records will work to the advantage of both the credit union office staff and the field collectors.

Procedures and records should provide the following:

a) The establishment and maintenance of records and receipting procedures which will prove or disprove whether funds representing any transactions were received by the credit union from the collector.

b) Accurate and proper control over funds in the credit union and their flow to the bank as required by the Federal Credit Union Bylaws.

c) Adequate information in the Journal and Cash Record and in the Individual Share and Loan Ledgers which, at any later date, can be analyzed to identify the various individual ledger postings with the appropriate summary entry in the Journal and Cash Record.

5100.2.1 ACCOUNTING CONTROL PROCEDURES OVER FIELD COLLECTIONS

The following procedures are designed to implement the three basic areas of accountability listed above.

5100.2.1.1 RECEIPT OF FUNDS BY THE COLLECTOR

Field collectors should prepare a Cash Received Voucher (Form FCU 105), or its equivalent, for payments received. If passbooks are used, the collector should post and initial the member's passbook and complete the "Member's Passbook Balances" section of the voucher. If passbooks are not used, the collector should be equipped to issue a receipt to the member.

5100.2.1.2 TRANSMITTING FUNDS AND RECORDS TO THE CREDIT UNION OFFICE

a) At the end of each day, each collector should prepare a record in duplicate showing collections for the day. The Cash Received Vouchers supporting the collection sheet and the cash should be turned over to the responsible credit union official or employee. Instead of submitting cash each day, arrangements may be made for the collector to exchange the cash for a money order (collector will be reimbursed for the fees) or to deposit collections in a credit union bank account. If funds are deposited in a bank, a duplicate deposit slip should be transmitted with the vouchers.

b) Form FCU 250 (Figure 5-33), or its equivalent, should be used as a record showing collections of the day. Note that the form provides for showing only the amount collected from each member and not the distribution of the amount.

5100.2.1.3 EXCHANGE OF RECORDS BETWEEN CREDIT UNION OFFICE AND FIELD COLLECTOR

Form FCU 250, or its equivalent serves the dual function of providing the credit union with a record of cash collected, and also providing the collector with a receipt for the documents and funds turned over to the credit union office. Use of a form of this nature works to the advantage of both the credit union and the collector.

5100.2.1.4 PREPARATION OF RECORDS FOR ENTRY IN THE JOURNAL AND CASH RECORD

To facilitate the checking at some later date of each individual Cash Received Voucher to the appropriate entry in the Journal and Cash Record, the date of receipt in the credit union office of the vouchers and funds should be stamped on each of the vouchers in a space other than the usual space used by the collector to show the date of collection from the member.

5100.2.1.5 ENTRY IN THE JOURNAL AND CASH RECORD

The date of summary entry in the Journal and Cash Record for collections made each day by collectors will be the date such collections are received in the credit union office. If the collector has deposited his collections directly to a bank account of the credit union, the date of entry in the Journal and Cash Record should be date of deposit in the bank as shown by the duplicate deposit slip accompanying the Cash Received Vouchers.

When the date of receipt of funds and vouchers in the credit union office is a date subsequent to the date of collection, it will be necessary to show dual dates in the Journal and Cash Record. For example, if collections of Friday (5th of March) reach the credit union office (or bank, if deposited directly by the collector) on Monday, March 8th, the "date" column in the Journal and Cash Record will show dual dates in this manner: March 8/5. The first date designates the date of receipt by the credit union office; the second date shows the day of collection of the funds by the field collector.

When the federal credit union's date of receipt or bank deposit slip and vouchers is in the month following the date of collection, the "date" of the Journal and Cash Record will be recorded in this manner: 4/8-3/31, signifying that collections of March 31 were received in the credit union office on April 8.

It is necessary to show dual dates under the conditions mentioned in the previous paragraphs in order to permit identification of the posting in the Individual Share and Loan Ledger with the appropriate entry in the Journal and Cash Record. In the absence of dual dates, the traditional audit trail (i.e., the ability to trace from the ledger through the Journal and Cash Record to the source of the transaction, the voucher) will be obscured since the date on the ledger would not correspond with the date of the summary.

Form FCU 250, or its equivalent, can be helpful in identifying a posting in the ledger to the appropriate entry in the Journal and Cash Record. The forms should be filed chronologically by the date collected by the collector. This date corresponds with the date of posting to the individual ledger. The date (on Form FCU 250) of receipt of funds in the credit union office corresponds with the date of entry in the Journal and Cash Record. If collections are deposited in a bank by the collector, the date of deposit should be stamped or written on the face of the Form FCU 250, since the date of deposit is the date of entry in the Journal and Cash Record.

If the credit union feels it can do so effectively, Form FCU 250, or equivalent, may be used as the means of tracing postings from ledgers to the source document without the need for showing dual dates in the Journal and Cash Record.

If dual dates are shown in the Journal and Cash Record, it may be helpful to make a separate summary entry for collections made each day by each collector. This would confine the number of days' collections that would appear in one summary to one. If collectors' receipts are combined and included with vouchers for other receipts it may be possible that collections on different days from different collectors will be included in the summary. For example, if Collector A made his collections on the 5th of March, Collector B on the 6th, and Collector C on the 7th, and if the entry for these collections were made in the Journal and Cash Record on the 8th, the dates would appear as follows: March 8/5-6-7. Each collector should only have 1 day's collections in each summary.

Figure 5-33: Illustration of a Completed list of Cash Collected (Form FCU 250)

Form FCU 250

Our

Federal Credit Union

LIST OF CASH COLLECTED

By Frank Lee (Signed) _____ Field Collector

ON July 13, 19 x 1

Fill out in DUPLICATE - one copy to be retained by Collector, other by Treasurer.

ACCOUNT NUMBER	AMOUNT COLLECTED
36	6 57
39	10 00
75	2 5
TOTAL	42 07

Receipt is hereby acknowledged of the above-listed items in the total amount of $42.07

ON July 13, 19 x 1

Harry Ames (Signed) _____ Treasurer

5100.2.1.6 POSTING TO THE INDIVIDUAL SHARE AND LOAN LEDGER

The date used in posting to the Individual Share and Loan should be the date of collection from the member by the collector, not the date of receipt by the credit union office.

If collections of one month are received in the credit union office in the following month it win be necessary to identify two dates in the Individual Share and Loan Ledgers. Dual dates are necessary in this instance to identify which account balances should be listed when the monthend share and loan balances are proved against the General Ledger. In order to effect this identification, the date of entry in the Journal and Cash Record should be written or machine printed on the same line in the member's ledger in an appropriate available space as close to the posting date as possible. A symbol can also be used for this purpose.

5100.2.1.7 CREDIT UNION FUNDS IN THE POSSESSION OF COLLECTORS

When the situation warrants, a credit union may issue to field collectors a portion of the change fund in order to facilitate their services to the members. A petty cash fund may also be issued to collectors to defray minor expenses, such as the cost of purchasing money orders to transmit funds to the credit union office.

Use of collectors' funds must be strictly supervised by the credit union office. Collectors should be carefully trained to properly safeguard all monies in their possession, and to properly account for these funds while in their possession. This includes assigned funds (change funds or petty cash funds) and payments received from members. As a means of carrying out supervisory functions over field collectors, responsible credit union officials or employees should, at frequent intervals, count and reconcile funds in the possession of the collectors. Frequent surprise" cash counts will be most effective.

5110 REPOSSESSION AND SALE OF COLLATERAL ON LOANS

5110.1 NATURE OF COLLATERAL IN PROCESS OF LIQUIDATION

The procedures in this section are designed primarily to provide a basis for control and accountability over physical and tangible property accepted as collateral for loans to members and which has come into the possession of the credit union for liquidation, generally because of nonpayment by the borrower of his/her obligation. It makes no difference whether the credit union is in possession of the collateral by virtue of legal process, or whether possession results from voluntary action by the borrower (or comakers). In either event, the credit union is responsible for the collateral and has a responsibility to liquidate or dispose of this collateral as promptly as possible consistent with the best interests of both the credit union and the borrower (or comakers). It is not intended that these procedures apply to cases where the credit union is holding collateral pledged as security for a loan and the credit union has no intention of disposing of the collateral, i.e., the borrower has not defaulted on his obligation.

5110.1.1 LOANS-COLLATERAL IN PROCESS OF LIQUIDATION (ACCOUNT NO. 707)

When the credit union takes possession of collateral, any remaining principal balance of the loan should be transferred from the appropriate loan account to "Loans-Collateral in Process of Liquidation", (Account No. 707). If the borrower's obligation to the credit union has been canceled, (by legal requirement in some jurisdictions or by some action of the board of directors), such assets in possession of the credit union should be accounted for in the General Ledger Account, "Assets Acquired in Liquidation of Loans", (Account No. 798). (See Section 5110.1.2.) If the borrower has two or more loans, notations should be made on all his ledger cards but only the loan balances pertaining to the collateral in possession of the credit union should be transferred.

The purpose of the transfer to Account No. 707 is to segregate the loan balances for control and accountability, and to permit realistic financial analysis of these loans. The transfer does not in any way create an asset different from loans to members. It merely represents a separation of the General Ledger control accounts for loans into two segments. The transfer entry affects the General Ledger control account only, and should not be reflected on the Individual Share and Loan Ledger. However, after the transfer is made, any further transaction activity relating to a transferred loan balance should be posted to General Ledger Account No. 707 and to the Individual Share and Loan Ledger. The Individual Share and Loan

Ledgers representing loans transferred to Account No. 707 should be physically separated, for control purposes, from the other members' ledgers. When trial balances of the individual loan balances are taken, the total of the loan balances on the ledgers transferred to Account No. 707 must agree with the balance of General Ledger Control Account No. 707.

Since the transfer to Account No. 707 has no effect other than to separate loan balances, all procedures in connection with loan balances remain the same. In particular, loan delinquency included in Account No. 707 should be computed and classified along with and in the same manner as other loans. These loans should also be considered in determining the adequacy of the "Allowance for Loan Losses", (Account No. 719).

5110.1.2 ASSETS ACQUIRED IN LIQUIDATION OF LOANS (ACCOUNT NO. 798)

When the credit union takes possession of collateral and the borrower's obligation to the credit union has been canceled, (by legal requirement in some jurisdictions or by some action of the board of directors), then any remaining principal balance of the loan should be transferred to Account No. 798. If the borrower remains liable to the credit union for any of the principal, interest, and/or other costs, then the loan balance should be transferred into Account No. 707, "Loans-Collateral in Process of Liquidation", instead of Account No. 798. (See Section 5110.1.1.)

Subsequent to foreclosure, the property held for sale should be carried at the lower of (a) fair value minus estimated costs to sell, or (b) cost. Generally accepted accounting principles require that... such determination should be made on an individual asset basis. If the fair value of the asset minus the estimated costs to sell the asset is less than the cost of the asset, the deficiency should be recognized as a valuation allowance. If the fair value of the asset exceeds the estimated costs to sell the asset subsequently increases and the fair value of the asset minus the estimated costs to sell the asset is more than its carrying amount, the valuation allowance should be reduced, but not below zero. Increases or decreases in the valuation allowance should be charged or credited to income.

"The amount of any senior debt (principal and accrued interest) to which the asset is subject should be reported as a liability at the time of foreclosure and not be deducted from the carrying amount of the asset; payments on such debt should be charged to the liability. Interest that accrues after foreclosure should be recognized as interest expense."

If the number of loans that has been transferred to this account exceeds one, then it is necessary to establish a subsidiary account for control purposes. The value of each item should be adjusted to the lower of (a) fair value minus estimated costs to sell, or (b) cost.

Even though the loan has been reclassified from a loan to an other asset, it is stir classified as a risk asset and must be considered when the credit union makes reserve transfers. (See NCUA Rules and Regulations, Section 700.1(i).)

If any income is derived (expenses incurred) from the property while the collateral property is in the possession or under the control of the credit union, the net of such revenues and expenses related to operating or holding foreclosed assets held for sale should be credited or charged to income as a gain or loss on holding the assets. Credit union officials must keep in mind that these repossessed assets are to be held only temporarily. Maintaining such property permanently in an income-producing manner is beyond the permitted powers of a federal credit union.

Although not required, it is a good procedure to forward to the member a brief accounting record of the loan reflecting sale and application of the collateral. Such a procedure can minimize unnecessary questions and possible lawsuits arising from misunderstandings with members.

5110.1.3 WORKSHEET RECORDS FOR GENERAL LEDGER ACCOUNT NO. 707, LOANS COLLATERAL IN PROCESS OF LIQUIDATION, AND ACCOUNT NO. 798, ASSETS ACQUIRED IN LIQUIDATION OF LOANS

The Individual Share and Loan Ledgers serve as subsidiary records to the appropriate General Ledger loan account, and "Loans-Collateral in Process of Liquidation", (Account No. 707). Since "Assets Acquired in Liquidation of Loans", (Account No. 798), will contain charges that relate to individual canceled loans, it is necessary to develop worksheet records designed to show complete information about the status of the canceled loan. These worksheet records will also serve to provide pertinent information about the collateral in the credit union's possession for liquidation.

The form used for the worksheet record should be designed to fit the credit union's particular needs. It is suggested that Form FCU 102, General Ledger, may be adapted for this purpose. The upper portion of each form should contain as a minimum the following information:

- Identification of the member.
- Date and description of the collateral taken over.
- Location of collateral.
- Board of directors' authorizations in connection with the collateral.
- Information about the details of acquisition, and the efforts to dispose of the property.
- Information about insurance obtained and other protective measures in connection with the property.
- Details of disposition of the property.

- Net realizable forced sale value of the asset and the information as to how it was determined.
- Outstanding loan balance when the obligation was canceled.

If information about the collateral is expected to be of such a volume that it is not readily adaptable for Form FCU 102, a card with this information on it can be attached to Form FCU 102.

The lower portion of Form FCU 102 can be used to record transaction activity pertaining to the asset, as well as the costs that have been posted to "Assets Acquired in Liquidation of Loans," (Account No. 798). The beginning balance shown on the form should be the cost of such assets at foreclosure which is fair value of the asset foreclosed or repossessed. Subsequent to foreclosure, the records should reflect the asset at the lower of (a) fair value minus estimated costs to sell, or (b) cost at the time of foreclosure. Balances should be extended as entries are made on the worksheet. Each entry should be adequately described in the "explanation" column.

By maintaining worksheet records in the manner described above, the credit union will have a working record of all transaction activity and other pertinent information relating to the assets the credit union has acquired. The total of the balances shown on these worksheet records must equal the monthly balance of General Ledger Account No. 798.

5110.1.4 NOTES AND CONTRACTS RECEIVABLE (ACCOUNT NO. 711)

When collateral property is disposed of it is generally favorable if the property is sold for cash. If need be, the credit union may accept a note for all or part of the proceeds of the sale, or it may enter into some other kind of contractual agreement with the purchaser for the payment of the purchase price over a reasonable period of time. The amount due the credit union should be established in Account No. 71 1, whether the sale is to a member or a nonmember. The details of the note or contract should be described in the General Ledger. If notes or contracts are numerous, subsidiary records should be established for each note or contract to support the General Ledger control account. Interest income on a note or contract receivable should be credited to "Miscellaneous Operating Income", (Account No. 151).

5110.2 DISPOSITION OF THE PROCEEDS FROM THE LIQUIDATION OF COLLATERAL IN POSSESSION OF THE CREDIT UNION

Following is the order in which the proceeds of the sale of the collateral should be applied. If the credit union is bound to an agreement for application of the proceeds of the collateral, or any law exists to the contrary, such agreement or law will take precedence over the order listed below.

If the sale is for cash or under a note or contract, the proceeds should be debited to the appropriate account, and the credits should be applied in the order and to the extent listed below:

a) To "Assets Acquired in Liquidation of Loans", (Account No. 798) to the extent that this account has been charged (debited) for costs in connection with the collateral.

b) To "Loans-Collateral in Process of Liquidation", (Account No. 707) to the extent of the balance of the loan.

c) To "Allowance for Loan Losses", (Account No. 719) to the extent that charge offs have been made in connection with the loan to which the collateral has been related.

d) To "Interest on Loans", (Account No. I 1 1) to the extent of any interest due on the loan.

e) To “Other Miscellaneous Operating Income”, (Account No. 151) providing the credit union is to retain such gain. However, if the sale is under a note or contract, any gain on the sale should be deferred by crediting the amount of the gain to “Deferred Gain on Liquidation of Loans”, (Account No. 883). This gain should be amortized and absorbed as income over the remaining term of the note or contract.

As shown above, in the absence of a binding agreement or other requirement, statutory or otherwise, the credit union should apply to “Miscellaneous Operating Income”, Account No. 1.51, the excess of the proceeds of the sale of the collateral over the amounts that are applied to other accounts. The board of directors should keep in mind that it is not the function of the credit union to earn income in this manner. Consideration should be given to voluntarily returning the excess to the borrower even in those cases where the credit union is not required to do so.

5110.3 DISPOSITION OF THE RELATED ACCOUNTS AFTER THE COLLATERAL HAS BEEN LIQUIDATED

After the proceeds of the collateral have been distributed, either in accordance with an agreement or other requirement, or in accordance with the order listed previously, the related accounts should be charged off to “Allowance for Loan Losses.”

5110.4 UNCOLLECTIBLE NOTES AND CONTRACTS RECEIVABLE

In the event the board of directors determines that a Note or Contract Receivable is uncollectible, the remaining balance should be charged to the “Allowance for Loan Losses”, (Account No. 719).

5120 ASSET VALUATION ALLOWANCE

Asset valuation allowances are contra asset accounts established for the purpose of disclosing more information about assets, such as recognizing in accounting records and financial reports estimated probable losses. Asset valuation allowances are treated as reductions to asset amounts in financial statements. The reductions are modifications of the gross valuation of the asset. They are not liabilities. Asset valuation allowances provide for the net presentation of asset amounts without actually writing off estimated losses or expenses.

The use of asset valuation allowances should be limited to prevent material distortions within the financial statements. A widespread use of asset valuation allowance can cause the financial statements to be misleading.

5120.1 ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses (ALL) should result in a fair presentation of the financial statements in conformity with generally accepted accounting principles (GAAP) and meet regulatory requirements for full and fair disclosure. Historically, financial institutions, including credit unions, have established an ALL based strictly on nonperforming or delinquent loans. Recognizing that while the GAAP governing the establishment of an ALL have remained constant, there has grown in accounting practice a greater emphasis on the ALL representing inherent losses in the entire portfolio. It is our intent that the ALL will be within the framework established by GAAP and, therefore, within the requirements of full and fair disclosure.

Policy. Federal credit unions should be determining an adequate and reasonable ALL. The ALL must result in the fair presentation of financial statements in accordance with GAAP, and thereby, meet the requirements for full and fair disclosure. The ALL should be sufficient to cover estimated losses inherent in the total loan portfolio-both the current and delinquent portions. In practice, many credit unions have limited that coverage to only the delinquent loans. In fine with NCUA's continued efforts to develop credit union accounting policies and guidelines which adhere to GAAP, federal credit unions are expected to include an estimate of probable losses in both the current, as well as the delinquent loan portfolios when establishing/replenishing the allowance for loan losses.

GAAP. The primary authoritative standard on accounting and reporting of loan losses is Statement of Financial Accounting Standard No. 5, Accounting for Contingencies. The key provision of this standard is..... an estimated loss from a loss contingency should be accrued by a charge to income if both of the following conditions are met:

- Information available prior to issuance of the financial statements indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements.
- The amount of the loss can be reasonably estimated."

Accordingly, the AICPA has indicated:

> "The ALL should be adequate to cover specifically identified loans, as well as estimated losses inherent in the loan portfolio, such as loans and pools of loans for which losses are probable but not identifiable on a specific loan-by-loan basis."

Management's Responsibility. Credit union management is responsible for determining an adequate and reasonable ALL. The AICPA guide referenced above further indicates:

> "(Credit union) management is responsible for determining a reasonable ALL applicable to all categories of loans through periodic charges to operating expenses. The propriety of the accounting treatment should be judged by considering the adequacy of the allowance, not the provision charged against income. Loans should be charged off against the allowance in the period in which the loans or portions thereof are determined to be uncollectible.

> "Determination of an adequate ALL requires substantial judgment and, therefore, to a large degree, is subjective. Because the allowance and related provision for losses are key elements of the financial statements, it is critical that credit union management exercise those judgments in a disciplined manner that is based on detailed analyses of the loan portfolio. (Credit union) management should employ a systematic methodology each period and clearly document the rationale supporting each period's determination."

Credit unions should review the adequacy of the ALL at least quarterly, or at the end of each regular share account dividend period, or more often as required. It is also critical that credit union management practice the timely charge-off of "loss loans." Charge-off policies must clearly identify charge-off criteria. Monthly board minutes should reflect the discussion and recognition of identified loan losses.

Adequacy of the ALL. There is no one method that is guaranteed consistently, in all instances and under every circumstance, to ensure that the ALL is adequate and in compliance with GAAP. The AICPA guide states, "*More important than the method credit union management uses to determine the ALL amount, is adequacy of the ALL as a whole*.

> "There are various methods by which management can estimate its ALL; no single method is preferable ... the method used should be consistent, comprehensive, logical, and relevant to the institution's particular circumstances, and ... the calculation should be comprehensive, taking into account the risks inherent in the various types of lending."

The AICPA audit and accounting guide, *"Audits of Credit Unions "* referenced above indicates that the ALL should typically include estimated amounts to cover loan losses as follows:

a) A specific portion to cover specifically identified doubtful or troubled loans.

b) A specific portion for pools of classified loans.

c) A specific portion for pools of loans.

d) A general portion for all other loans and credit instruments.

"Normally, a range of loss or an estimated loss percentage is associated with each component... The percentage is then applied to the components... to determine the estimated loss for each. Tests should be performed to provide reasonable assurance that loans are not excluded from a component or segment. The estimated losses associated with the individual components are then accumulated to obtain the total (ALL).

The amounts provided for individual loans and pools of loans should be supplemented by a general portion for inherent losses. That amount should be based on judgments regarding risk of misstatement in the specific ALL for individual loans and pools of loans, exposures existing in the loan portfolio, and other relevant factors.

Where appropriate, management should use analytical methods to evaluate the ALL. Analytical methods alone generally do not produce acceptable results, therefore, management may wish to perform detailed loan reviews. (For example, an evaluation of real estate loans and business loans normally requires a

more detailed review than consumer loans because the amount of individual loans is generally large and the types of borrowers and the purposes of the loans may be dissimilar.) In evaluating the amount or range of loss associated with an individual loan, management should review the expected sources of repayment and the apparent ability of the borrower to generate such repayment."

Management Considerations. Loan underwriting should be strongest, and the need for a substantial ALL least likely, when management has:

a) A good understanding of the lending environment and appreciates the value of credit strategy and credit risk including: collateral risk, concentration risk, management risk, operations risk, and fraud or insider abuse risk.

b) Established a good system of lending policies, procedures and internal controls to guide loan origination and (disbursement: credit initiation, credit investigation, loan approval, documentation of credit, perfection of collateral interest, disbursement of loan proceeds, credit monitoring, collection, and internal loan review.

Examination Testing. While credit unions are responsible for determining an adequate ALL and adopting a reasonable methodology for doing so; NCUA is responsible for testing the adequacy of the ALL credit union management has so determined, during, and within the limitations of, the annual examination. NCUA examiners will check the adequacy of the ALL by using the following test as a guideline. While this method may produce results that approximate an acceptable ALL under GAAP, it tends to be conservative, and care must be taken in interpreting the results.

1) Review each delinquent or nonperforming loan and selected large loans and determine the amounts that are losses or doubtful of collection (Adjustment Method). Refinancing and extension agreements without an adequate payment history would be considered nonperforming. Add the anticipated loss amount for each loan.

2) Compute the credit union's 5-year average loss ratio (Experience Method). *Determine whether this is a reasonable ratio to apply to the balance of the loan portfolio in light of current economic conditions and unusually high or low charge-offs in prior periods*. Multiply this ratio by total loans outstanding less loan balances for loans which have been individually classified and reserved for per step (1). For those credit unions which maintain sufficient detail, computing a loss ratio for each loan category (i.e., auto, real estate, business, etc.) would be appropriate.

(Note: *Examiners have been instructed to use their judgment. The analysis and estimate of probable losses in the ALL, especially in step (2), should be tempered by economic realities, i.e., it may be appropriate to shorten the historical time period during periods of significant economic expansion or contraction to more accurately reflect loss expedience in the current economic climate. Recent real estate problems in the southwest and New England do prove that real estate values can plummet. Also, the loss ratio may be adjusted upward or downward based on the asset quality cycle (i.e., stable, declining or improving.*

3) The sum of steps (1) and (2) above should be compared to the existing ALL account balance and the balance adjusted if it is materially inaccurate. *If the credit union does not currently use step (2) above, the initial set-up entry for the step (2) portion of the ALL adjustment may be made to the beginning balance of undivided earnings. Subsequent entries must flow through the income statement*. If you receive an opinion audit, please consult with your CPA as to the appropriate entries.

Additional Guidance. Additional guidance can be found in the appropriate section of the AICPA's Audit and Accounting Guide, *"Audits of Credit Unions."* If you have any problems or questions, please call your examiner, your CPA, your NCUA regional office, or your state regulator.

Definitions Contingency. An existing condition, situation, or set of circumstances involving uncertainty as to possible gain (a gain contingency) or loss (a loss contingency) to an enterprise that will ultimately be resolved when one or more future events occur or fail to occur. (SFAS 5, paragraph 1)

5120.2 ALLOWANCE FOR DEPRECIATION OF TANGIBLE FIXED ASSETS

Tangible fixed assets owned by federal credit unions, such as furniture, equipment automobiles and buildings depreciate over their useful lives. To recognize their decrease in value, a valuation allowance for each asset or class of fixed assets owned should be established. The amount of depreciation credited to the valuation allowance each fiscal period should be charged to a depreciation expense account in order to spread the cost of the asset over the period of time that it is used. See Section 6000 for an explanation of acceptable depreciation methods.

The description of "Furniture and Equipment", (Account No. 774) in Section 4050.4 describes the unit-life basis and the composite-life basis of depreciation. For larger assets, such as a building, the unit life basis should be used; however, for furniture and equipment, either basis may be used.

Where the unit-life depreciation is used, gains or losses on disposition of assets represent the difference between the net carrying value of the assets and the proceeds of sale; this difference should be charged or credited to "Gain (Loss) on Disposition of Assets", (Account No. 430).

Outlined below are acceptable depreciation ranges expressed as a lower limit, a generally accepted period, and an upper limit for certain types of assets.

DEPRECIATION AMORTIZATION PERIODS

	Lower Limit	Generally Accepted Period	Upper Limit
OFFICE FURNITURE, FIXTURES & EQUIPMENT: Includes furniture, fixtures and equipment which are not a structural component of a building, i.e., desks, files, safes, and communication systems	8	10	12

DEPRECIATION AMORTIZATION PERIODS (Continued)

	Lower Limit	Generally Accepted Period	Upper Limit
INFORMATION SYSTEMS: Includes computers and their peripheral equipment used in administering normal business transactions and the maintenance of records, their retrieval and analysis	5	6	7
DATA HANDLING EQUIPMENT EXCEPT COMPUTERS: Includes typewriters, calculators, accounting machines, copiers, and other duplicating equipment, automated teller machines, etc	5	6	7
COMPUTER SOFTWARE COSTS	5	5	5
AUTOMOBILES & VANS	2.5	3	4
BUSES	7	9	11
LIGHT GENERAL PURPOSE TRUCKS (Less than 13,000 lbs.)	3	4	5
HEAVY GENERAL PURPOSE TRUCKS	5	6	7
LAND IMPROVEMENTS: Includes sidewalks, parking lot surfacing, drainage facilities, sewers, fences and landscaping shrubbery		20	

5120.2.1 SAMPLE DEPRECIATION CALCULATION

5120.2.1.1 STRAIGHT LINE

This is the simplest method to apply. Salvage value is deducted from the cost. The result is divided by the estimated life of the asset to obtain the annual depreciation rate. Assume an electric typewriter is purchased for $700, the estimated salvage value is $100, and the estimated economic life is 6 years. The annual depreciation is thus determined to be $100. If the credit union were on quarterly dividend periods, the required depreciation charge would be $25/quarter, or if desired, $8.33/month.

5120.2.1.2 SUM-OF-YEAR-DIGITS

The net cost is multiplied by a different fraction each year. The denominator (bottom number) in the fraction remains constant and is determined by the sum of each of the years of useful life. For example, in the above situation the denominator for an estimated life of 6 years would be 21. This is the sum of 1 + 2 + 3 + 4 + 5 + 6. The numerator (top number) of the fraction changes each year to represent the years of useful life remaining at the beginning of the year for which the computation is made. In this example, the fraction and resulting annual charge to depreciate would be as follows:

(a) Depreciation Base	(b) Fraction	(a) x (b) Annual Depreciation
($700-100)		
$600	6/21	$171.43
$600	5/21	142.86
$600	4/21	114.29
$600	3/21	85.71
$600	2/21	57.14
$600	1/21	28.57
TOTAL DEPRECIATION		$600.00

5120.2.1.3 DECLINING BALANCE

Under this method, the depreciation taken each year is subtracted from the cost (salvage value is not taken into consideration) before computing the next year's depreciation. The same rate applies to a smaller or declining balance each year. Assume a 150% d g balance rate is selected by the board, (this rate was selected because it will produce a net book value equivalent to the asset's fair market value), the original cost is $500, and the estimated useful life is 5 years. The annual depreciation and the book value at the end of each year would be as follows:

End of Year	Computation	Annual Depreciation	Book Value
0			$500.00
1	($500/5 = $100 x 150%)	$150.00	350.00
2	($150/500 = 30% x $350)	105.00	245.00
3	(30% x $245)	73.50	171.50
4	(30% x $171.50)	51.45	120.05
5	(30% x 120.05)	36.02	84.03

No further depreciation is taken beyond reasonable salvage value.

5120.2.1.4 COMPOSITE DEPRECIATION METHOD

This method allows economic lives to be applied to broad classes of assets rather than to detailed items of depreciable property. Composite or group depreciation is a process of averaging the economic lives of a number of property units and taking depreciation on the entire group as if it were a unit. The depreciation rate is computed determining the depreciation for one year for each item or each group of similar items, and dividing the total depreciation thus obtained by the total cost or other basis of the assets. This average rate is to be used as long as later additions, requirements, or replacements do not substantially alter the relative proportions of different types of assets in the accounts. An example of the computation of a composite rate under the straight-line method follows:

On January 2, a desk was bought for $500. It has an estimated useful life of 10 years. A calculator was also purchased for $500. The life was 5 years. Estimated salvage value was 20% of cost on both items. The average rate of depreciation is computed as follows:

Asset	Date Acquired	Original Cost	Residual Value	Estimated to be Depreciated	Amount Economic Life	Annual Annual Depr
Desk	1/2	$500	$100	$400	10	$40
Calculator	1/2	500	100	400	5	80
		$1,000	$200	$800	15	$120

Average rate of depreciation ($120/$1,000) = 12%

5120.3 AMORTIZATION OF COMPUTER HARDWARE COSTS

Credit unions should base their depreciation on the true economic life of the computer hardware. There is no established maximum useful life for computer hardware. The desire to avoid timing differences arising from variances due to book versus tax methods has prompted financial institutions to use identical useful lives for book and tax purposes where the two are not materially different.

The Economic Recovery Tax Act of 1981 established the Accelerated Cost Recovery System (ACRS) for property placed in service after 1980. Computer hardware fares in the 5-year property class of recovery property for ACRS deductions (depreciation). At the option of the taxpayer, an ACRS election for straightline deductions may be made for periods of 5, 12 or 25 years. The Tax Reform Act of 1986 generally changed the accelerated cost recovery system (ACRS) of depreciation for tangible property placed in service after 1986. The new system is referred to as the Modified Accelerated Cost Recovery System (MACRS) to distinguish it from ACRS. Computers and peripheral equipment also fall in the 5-year property call under this method. The depreciation system that applies to a particular piece of property is determined by the type of property and when it was placed in service. These provisions establish “lives” for tax purposes only, and should not necessarily be used by credit unions in determining economic lives for computer hardware.

The former class life asset depreciation range (ADR) for information systems, including computers and their peripheral equipment (class 00.12), set an asset guideline period of 6 years as the useful life, with lower and upper limits of 5 and 7 years, respectively. Therefore, for credit unions, the economic life of computer hardware should range between 5 to 7 years.

5120.4 AMORTIZATION OF PURCHASED SYSTEM SOFTWARE COSTS

Purchased system software costs should be amortized over the useful life of the system's hardware if the cost of the former is not separately stated. If it is separately stated, the cost should be amortized over a 5 year period or a shorter period as appropriate.

5120.5 INVESTMENTS

Section 6000 of this Accounting Manual discusses investments. Under certain circumstances, it is necessary to establish on the books of the credit union an allowance account to properly account for investments.

5120.5.1 ALLOWANCE FOR LOSSES ON INVESTMENTS (ACCOUNT NO. 758)

The "Allowance for Losses on Investments" should be used to record the decline in value of an investment that is other than temporary, for instance, if management intends to dispose of a part of the investment portfolio in the foreseeable future or the credit union is unable to hold a portion of its portfolio to maturity. (Refer to the AICPAs industry audit guide, "Audits of Credit Unions", pages 21 and 22.) This account should not be used to record the decline in value of, (a) mutual funds or common trusts (that allowance account is 743.2), or (b) trading securities (such declines are recorded directly to Account No. 759). It should be used for the decline in the value, below cost, of investment securities. (See Section 6000.)

5130 ACCOUNTING SYSTEMS

5130.1 MISCELLANEOUS PROCEDURES AND SYSTEMS

5130.1.1 POSTING BOARD SYSTEMS AND FORMS

A number of posting board or pegboard accounting systems and their accompanying forms are still in use by some federal credit unions. These systems are geared to reducing the amount of work needed to maintain accounting records and to improve their accuracy. The requirements for substitute forms covered later in this section apply to such systems.

5130.1.2 ELECTRONIC DATA PROCESSING SYSTEMS AND FORMS

Federal credit unions contemplating converting to a computerized or a unit record accounting system and those currently using such systems, should obtain adequate written information from the contractor to become fully familiar with the system. If the credit union enters credit union service contracts with another credit union or organization or invests in or makes loans to Credit Union Service Organizations, special consideration should be given to the provisions of Sections 701.26 and 701.27 of the National Credit Union Administration Rules and Regulations.

5130.1.3 SUBSTITUTE FORMS

Officials may find that a standard form does not fully meet the credit union's specific needs. In such a case, a substitute form may be developed and used without the specific approval of the National Credit Union Administration, provided, the substitute form meets the general and specific requirements discussed below. These general and specific requirements do not apply to forms used in conjunction with data processing or unit record systems.

5130.1.3.1 GENERAL REQUIREMENTS FOR SUBSTITUTE FORMS

The substitute form should be substantially similar to the corresponding standard form. Changes in the size and format of the form and in the style of printing may be made as desired. Any substitute form, however, should include the following, if provided for in the standard form:

a) The name of the credit union exactly as it appears in the charter.

b) Space for the name of the member, and his account number.

c) Provision for member's signature, appropriate credit union official's authorization and signature, and initials and symbols evidencing the credit union employee's receipt for monies received.

d) Wording on substitute forms which are basically similar to that appearing on the corresponding standard forms. Any deviation from the standard wording should not alter the intent of the use of the standard form, and the wording should not be contrary to the requirements of law and regulation.

5130.1.3.2 SPECIFIC REQUIREMENTS FOR SUBSTITUTE FORMS

a) *Standard Form FCU 102, General Ledger*

Because of the simple nature of this form, changes will probably not be desired. However, credit unions wishing to do so may eliminate some of the columns by providing for one column (debit or credit) for transactions and one column (debit or credit) for balances. If this is done, contra items, for example debit transactions in accounts that normally have credit balances, should be clearly identified.

b) *Standard Forms FCU 103, Individual Share and Loan Ledger; Form 102A, (Optional) Individual Share and Loan Ledger and FCU 103G, (Optional) Individual Share and Loan Ledger*

1) The arrangements of the columns may be changed from those on the standard forms. The columnar headings, however, adequately describe the basic federal credit union transactions and little variation should be needed. If columns are used for more than one type of transaction, the different types of transactions should be identified by symbol or otherwise.

2) Columns may be added and descriptively headed. Examples of additional columns might be those for Total Cash Received, Proof, Account Number, Employee Number (payroll number, badge number, etc.), codes, and special share accounts such as Christmas and Vacation.

Also, columns and descriptive headers may be added to document the dividend calculation based on the permissible dividend methods of the National Credit Union Administration Rules and Regulations, *Truth in Savings*, Section 707.7, *Payment of Dividends*. A minimum of two columns could be added to document the average daily balance. The average daily balance would be used: (1) to calculate dividends when the dividend calculation method is the average daily balance method, and (2) to calculate the annual percentage yield earned when the statement of account meets the definition of a periodic Statement. Entries are illustrated below on how the average daily balance would be calculated for an existing account, a new account, and a closed account.

Illustrative Entries:

a) To calculate the average daily balance for an existing account:

Date	Paid In	Withdrawn	Balance	Days	Total
7/1			600	0	0
7/1	100		700	7	4,900
7/8	100		800	6	4,800
7/14		50	750	1	750
7/15	100		850	7	5,950
7/22	100		950	7	6,650
7/29	100		1050	3	3,150
7/31	**Dividends**	**Total**		**3**	**26,200**

The dividend period is monthly. The average daily balance for this period is $845.16 ($26,200/31).

b) To calculate the average daily balance for a new account:

Date	Paid In	Withdrawn	Balance	Days	Total
7/10			100	4	400
7/14		50	50	1	50
7/15	100		150		1,050
7/22	100	50	250	7	1,750
7/29	100		350	3	1,050
7/31		**Dividends**	**Total**	**22**	**4,300**

The dividend period is monthly. The average daily balance for this period is $195.45 ($4,300/22)

c) To calculate the average daily balance for a closed account:

Date	Paid In	Withdrawn	Balance	Days	Total
7/1			600	0	0
7/1	100		700	7	4,900
7/8	100		800	6	4,800
7/14	100	50	750	1	750
7/15		750	0	3	0
7/31		**Dividends**	**Total**	**14**	**10,450**

The dividend period is monthly. The average daily balance for this period is $746.43 ($10,450/14)

3) The "Note Record" and "Cosigner on Notes of Others" sections need not appear on the form provided the credit union maintains other types of records that give the same information.

4) The "Delinquency Control" columns may be eliminated if the credit union uses other records or methods to determine delinquency.

5) The "Posting Reference" and "Memorandum" columns and the column for recording Share Dollars (or Share Months) are optional columns.

6) Some credit unions may wish to distribute members' statements which are reproductions of the Individual Share and Loan Ledgers. If this is done, the Individual Share and Loan Ledger may be titled either as a ledger or statement form (see Standard Form FCU 107G, Statements of Account, below) and should contain the supervisory committee message, etc. If credit unions wish to prepare combination forms for simultaneous or repeat posting to the Individual Share and Loan Ledger and statement form, and if they find that excessive expenses will be incurred by printing two different forms, one form may be used. This form will then be used both as a statement and as an Individual Share and Loan Ledger.

c) *Standard Form FCU 105, Cash Received Voucher*

1) The accounts most frequently affected by receipt of cash are “Shares,” “Loans,” and “Interest on Loans.” These accounts should be printed on the form. Blank lines should be provided for writing in the names and number of the other accounts which are affected by cash received transactions.

2) The use of “prenumbered” or “press-numbered” vouchers is encouraged. The numbers which are preprinted on the voucher in consecutive order serve as a basis for controlling the disposition of cash received vouchers, thereby facilitating internal control in connection with cash operations. Credit unions which adopt this procedure should be certain that the system pertaining to control of the prenumbered vouchers is carefully developed and closely carried out; otherwise the advantages of prenumbered vouchers will be defeated.

3) The section “Member’s Passbook Balances” may be eliminated if passbooks are not issued to the members.

4) Cash Received vouchers may be prepared as single forms or in sets of two or more copies. They may also be prepared for use in register dispensers.

5) A Total Payment Cash Received Voucher may be assigned to suit the credit union’s needs. It should contain essentially the same information as those illustrated in “Special Procedures for Cash Receipts.”

6) Provisions may be added to Cash Received Vouchers that will facilitate handling and controlling of payments to the credit union, such as space for recording the amount of cash presented by the member, the amount of the payment, and the amount of change returned to the member. Another example is space to show whether the payment was made in currency and coin, check, money order, etc.

7) Cash received transactions may be listed on a sheet rather than recorded on individual vouchers. The sheet used for this purpose should be in columnar form. Columns should be provided f(-.r member’s account number, name, and for the various transactions involved in the receipt of cash. Provision should also be made on the sheet for the other information shown on the standard form. A new sheet should be prepared for each day’s business. A separate sheet should be prepared for each teller or collector.

d) *Standard Form FCU 107, Members’ Passbook*

1) Substitute passbooks should contain essentially the same information as that printed on the inside front cover and first page of the standard form. Additional instructions or other information may also be printed on the form as needed.

2) The “Note Record” and the “Collateral Record” printed in the rear of the standard passbook form are optional records.

3) Columnar arrangements may be changed and columns added in a similar manner to that discussed in Items (3)(a) and (b), above, regarding the Individual Share and Loan Ledger.

4) A substitute passbook need not be a multiple form. An example of a single sheet form is a card which can be folded into book shape.

5) Substitute forms should provide for identification by initials, symbols, or otherwise, of the person who received or paid out funds or who posted or authorized posting of any transaction in the passbook.

6) If columns in the substitute passbook are used for more than one type of transaction, the different types of transactions should be identified by symbol or otherwise in a manner that is clearly understandable to the member. This may require a separate printed section in the passbook for explanation of symbols.

7) Reference to "Late Charges" may be eliminated if the credit union does not assess late charges.

8) If Total Payment Cash Received Vouchers are used, the credit union may design a Total Payment Passbook similar to that illustrated in Section 5050.1.3.

e) *Standard Form FCU 107G, Statement of Account*

1) The discussion in Items 3 (a), (b), and (c) above, pertaining to the Individual Share and Loan Ledger are applicable to a substitute statement form as well.

2) A message should appear on the substitute form similar in intent to the message on the standard form pertaining to notification to the supervisory committee. By arrangement with the supervisory committee this message may be expanded to include, for example, the name and address or post office box number of the committee member(s) whom the members should contact in the event of a difference in their accounts.

3) The "Posting Reference" and "Share Dollars" columns are optional.

4) If codes or symbols are used to identify transactions, the meaning of the codes or symbols should be fully described on the form.

5) A statement of account that meets the definition of a periodic statement under the National Credit Union Administration Rules and Regulations, *Truth in Savings*, Section 707.2(t), *Definitions*, must contain the required statement disclosures. The definition of a periodic statement under the National Credit Union Administration Rules and Regulations, *Truth in Savings*, Section 707.2(t), *Definitions*, is a statement setting forth information about an account (other than a term share account) that is provided to a member on a regular basis four or more times a year. See Section 707.6 *Statement Disclosures*, for specific details on the required periodic statement disclosures.

f) *Standard Form FCU 108, Bank Reconcilement*

Variations may be made to suit the credit union's needs. For example, those credit unions that consistently attach to the form a separate listing of the number and amount of outstanding checks would not need all the space provided on the standard form for outstanding checks.

g) *Standard Form FCU 109A Statement of Financial Condition*

Standard Form FCU 109B, Statement of Income

Standard Form FCU 109C, Supporting Schedules for Financial Statements

Standard Form FCU 109D, Statement of Changes in Equity

Standard Form FCU 109E, Statement of Cash Flow

These standard forms are discussed in Section 3000 of this manual. Changes or variations to any of these forms should conform to the specifications noted in that section.

h) *Standard Form FCU 112, Dividend Record*

Columns may be arranged or eliminated to suit the credit union's needs. For example, if passbooks are not issued to the members, the column "Posted to Passbook" may be eliminated. As another example, if dividends are not paid by check, the columns headed "Payment by Check" may also be omitted.

5130.1.3.3 NOTE FORMS

A standard promissory note form has not been prescribed for use by federal credit unions because of the many variations in different states and other jurisdiction requirements. Form FCU 201 has been developed to incorporate the general requirements for notes. In a number of states special note forms have been prepared which meet the special legal requirements in those states.

Note forms which differ from Form FCU 201 or from the special form in a particular state may be used by an individual federal credit union if the following requirements are met:

a) Any additions, deletions, or changes to Form FCU 201 or to the special note form for the State may be made as are required by State laws or court decisions, or as may be considered advantageous to the credit union.

b) The credit union must obtain an opinion from an attorney that the special note form meets the requirements of the Federal Credit Union Act and State law.

c) The legal opinion should be in the files of the credit union and available to federal credit union examiners for review.

5140 INTERNAL CONTROLS

Section 113 of the Federal Credit Union Act states that the board of directors shall have the general direction and control of the affairs of the credit union. The board is responsible for the proper and profitable conduct of credit union operations, the safety of credit union assets, and the accuracy and adequacy of financial statements. The directors themselves cannot normally perform the work resulting from these responsibilities, so they retain employees to act for them. However, since the board of directors still retains overall responsibility for the affairs of the credit union, they must establish adequate internal controls for the operation of the credit union.

5140.1 DEFINITION OF INTERNAL CONTROL

Internal Controls comprise the plans of organization and operating procedures and measures within the credit union to: safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to the prescribed managerial policies. Such plans and procedures are commonly referred to as internal controls and need to be committed to writing. Internal controls can be divided into two components: Administrative Controls and Accounting Controls.

a) *Administrative controls* include, but are not limited to, the plan of organization and the procedures and records that are concerned with the decision processes leading to management's authorization of transactions. Such authorization is a management function directly associated with the responsibility for achieving the objectives of the organization and is the starting point for establishing accounting control of transactions.

b) *Accounting controls* comprise the plan of organization and the procedures and records that are concerned with the safeguarding of assets and the reliability of financial records and consequently are designed to provide reasonable assurance that:

   1) Transactions are executed in accordance with management's general or specific authorization.

   2) Transactions must be documented and recorded promptly.

      - To permit preparation of financial statements in accordance with generally accepted accounting principles or any other criteria applicable to such statements; and

      - To maintain accountability for assets.

   3) Access to assets is permitted only in accordance with management's authorization.

   4) The recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

5140.2 BASIC ELEMENTS OF AN INTERNAL CONTROL SYSTEM

Each credit union is unique and no one set of internal procedures can be prescribed for all cases. There are, however, certain underlying principles and procedures that should be found in all internal control systems.

5140.2.1 ADMINISTRATIVE CONTROLS

A credit union's administration of its organizational plan and operating procedures must have the approval of the board of directors, establish clear lines of authority and responsibility, segregate the operating and recording functions, and provide employees qualified to perform their assignments. From an administration viewpoint, an internal control system should include the following as a minimum:

a) *Accounting System*

An accounting system must be adopted that is flexible in its capacity, and rigid in its controls and standards. The system should promote accuracy, efficiency and be cost effective. The cost of the system should, therefore, not exceed the benefits to be derived.

b) *Directors' Approvals*

The credit union's lending, investing, borrowing, and operating expense policies must be documented in the board of director's minutes and must clearly establish stations and authority. Formal income and expense and cash budgets should be reviewed and adopted by the board of directors. This control feature must provide for a reporting system which will keep the directors informed regarding delinquent loans, share and line of credit overdrafts, investment transactions, statements of condition, and income, expense and cash flow reports.

c) *Access to Assets*

Cash Control. The amounts of the permanent and temporary change funds must be authorized by the board. Each teller needs to have sole access to his/her cash. Common cash funds should not be used and relief tellers should be provided with their own funds.

Joint Custody Dual Control. This feature is established when at least two keys or combinations under the control of at least two different individuals are required to obtain access to vaults, files or other storage devices. It is essential, if dual control is to be effective, that each person exercising control guards his/her key or combination carefully. If this is done, only collusion can bypass this important control feature. Reserve cash, negotiable collateral, investment securities, safekeeping items, reserve supply of checks, unissued traveler's checks, unissued credit cards, unissued Series EE Bonds, unissued money orders, the night depository, dormant share accounts, safe deposit spare locks and keys, and spare keys to teller's cash boxes are examples of items that should be under effective dual control.

d) *Segregation of Duties*

The participation of two or more persons or departments in a transaction causes the work of one to serve as proof of the accuracy of the work of another. When two or more persons are involved in a transaction, the possibilities of fraud and the incidence of undetected error diminish considerably. Duties should be arranged so that no one person dominates any transaction from inception to termination. For example, a person handling cash should not post ledgers; a loan officer should not be allowed to disburse the loan proceeds that he or she has approved and those having authority to sign checks should not be assigned to reconcile bank accounts.

e) *Sound Personnel Policies*

The previous employment references of prospective employees should be checked by management. The facilities of the Federal Bureau of Investigation are available to check the fingerprints of employees and prospective employees of credit unions and to supply such institutions with the criminal records, if any, of those whose fingerprints are submitted. Credit unions should pay adequate sums and provide competitive fringe benefits. An official should be appointed to discuss personal financial problems with employees, and an atmosphere should be created in which employees feel free to discuss these problems. Written position descriptions should be in effect for each position which define duties and responsibilities. Annual evaluations should be completed for each employee.

f) *Rotation of Personnel*

Planned and unannounced rotation of duties of employees is an important principle of internal control. The rotation should be of sufficient duration to be effective. Rotation of personnel, besides being an effective internal check, can be a valuable aid in the credit union's overall training program.

g) *Mandatory Vacations*

All credit unions should have an annual vacation policy which provides that each employee be absent from his/her duties for an uninterrupted period of not less than 1 week. Under no circumstances should an employee be given extra pay in lieu of a paid vacation. The indispensable employee is a myth. Too much stress cannot be placed on this subject. It is a well known fact that perpetration of an embezzlement of any substantial size usually requires the presence of the embezzler in order to manipulate the books, respond to inquiries from members or other employees and otherwise prevent detection.

5140.2.2 ACCOUNTING CONTROLS

An efficient credit union operation cannot be conducted without a recordkeeping system that is capable of generating a wide variety of internal information and reports. Such a system is necessary if a credit union's board of directors is to be kept well informed and if maximum managerial effectiveness is to be achieved.

Forms, records, and systems will differ from credit union to credit union in varying degrees. However, the books of every federal credit union must be kept in accordance with this *Accounting Manual for Federal Credit Unions* or generally accepted accounting principles (GAAP). In each instance, a credit union's records and accounts must reflect its actual financial condition, structure, and accurate results of operations. The following characteristics must be found in a credit union's accounts and records:

a) *Operating Responsibilities*

The accounting system must be designed to gather information in such a way as to facilitate the preparation of internal reports which correspond with the responsibilities of individual supervisors and key employees.

b) *Accounting Manual*

Transactions must be recorded in accordance with the *Accounting Manual for Federal Credit Unions* or generally accepted accounting principles (GAAP) and standards. Transactions must be applied uniformly during each accounting period. Expenses cannot be deferred nor income accelerated in order to increase earnings improperly.

c) *Prenumbered Documents*

Sequentially numbered instruments should be used for items such as checks and share certificates. This will aid in providing, reconciling and controlling used and unused items. Number controls should be policed by a person who is detached from the particular operation. For example, accounting for consecutive numbers on checks should be done by a person who does not prepare and issue the checks. Unissued, prenumbered instruments that could be used to obtain funds should be maintained under dual control.

d) *Current Records*

Records should be posted daffy to reflect each day's activities and to keep them separate and distinct from another day's work. The records should show the credit union's financial condition and structure as of the given date. Each account on the credit union's General Ledger should be individually proved and balanced at least monthly.

e) *Subsidiary Control Accounts*

Subsidiary records, such as share ledgers, loan ledgers and investment registers should be kept in balance with General Ledger control figures.

f) *Audit Trail*

The records and systems should be designed to enable the tracing of any given item as it passes through the credit union's books. Some of the more prevalent recordkeeping deficiencies encountered during audits include:

1) General Ledger entries which fail to contain an adequate description of the transaction.

2) Lack of permanent and satisfactory records pertaining to cash items and overdrafts.

3) Tellers' cash sheets which do not contain adequate details.

4) Investment registers which fail to list all necessary information.

5) Reconcilement records of bank accounts which are not kept current and/or fail to reflect the description and disposition of outstanding items.

6) Inadequate details concerning debits and credits to the cash over and short account.

7) Use of erasers in correcting errors.

8) Failure to keep accounts and records posted on a current basis.

9) Inadequate control over subsidiary records relating to lines of credit outstanding.

g) *Audit*

Every credit union should have an adequate audit program under the oversight of the supervisory committee. Ideally, such a program would consist of a full-time, continuous program of internal auditing as well as an annual outside audit by a firm of independent public accountants.

Of course, many credit unions may not be able to afford a full-time internal auditor. However, the supervisory committee can perform auditing procedures such as bank reconcilements, cash counts, review of officials' and employees' loans and expenses on a continuing basis. Supervisory committees should refer to the NCUA's Supervisory Committee Guide for assistance in this area.

Outside audits by independent accountants are highly desirable and should be encouraged. Many supervisory committees of larger credit unions engage the services of an outside auditor because the operations are too complex and voluminous for them to effectively audit.

h) *Budget*

Budgeting is only one step in the budgetary process. The final and most important steps are measuring results against the budget, seeking explanations for variances, and evaluating the performance of the persons responsible for carrying out delegated duties and responsibilities.

5140.3 INTERNAL CONTROL WITH LIMITED STAFF

It is all too common for many people to take the position that application of the principles of internal control presumes a relatively large staff of employees. Such is not the case. In credit union operations it is, of necessity, the common situation whereby accounting operations are performed by a relatively few, or even by one individual. A situation of this nature does not call for abandonment of the important concept of internal control. It merely places greater demands upon the planning capabilities and the ingenuity of credit union management. The accounting system, and related procedures, prescribed by the board of directors should use to the fullest extent, the "built-in" checks and balances of the Federal Credit Union Act and the Bylaws. Figure 5-34 describes the internal control safeguards relating to organization. These control features should be augmented by additional procedures designed to substitute for the

inability to entirely separate certain functions. Generally, the additional procedures will take the form of assignment of responsibilities, and perhaps functions, to officials who would not normally be involved in accounting or related operations, maximum practicable use of mechanical aids and safeguards, and close surveillance by the board, or others assigned by the board, of the accounting system and surrounding operations.

5140.4 MANAGEMENT OFFICIAL INTERLOCKS

The general purpose of the Depository Institution Management Interlocks Act is to foster competition by generally prohibiting a management official of a depository institution or depository holding company from also serving as a management official of another depository institution or depository holding company if the two organizations: (1) are not affiliated, and (2) are very large, or (3) are located in the same local area. These prohibitions are further explained in Section 711.3 of the National Credit Union Administration Rules and Regulations. A management official is defined as an employee or officer with management functions (including a branch manager), a director or any person who has a representative or nominee serving in such a capacity.

The Interlock Act and regulations affect federally insured credit unions differently, in some respects, than other depository institutions. First, the prohibitions on management official interlocks do not apply to a credit union being served by a management official of another credit union. Therefore, the Act will only affect credit unions when a management official of a credit union serves in a management capacity with another type of depository institution, or depository holding company, or with an affiliate of either such institution. Second, because each credit union member, regardless of the number of shares owned, has only one vote, a credit union will never be subject to the control of any one individual or holding company. An affiliate relationship based on common ownership by one or more individuals of two corporations will, therefore, never exist in the case of a credit union.

The management official of a federally insured credit union may apply for the National Credit Union Administration Board's prior approval to enter into a relationship involving another depository institution that would otherwise be prohibited. When the relationship involves another federal supervisory agency, the management official must also obtain the prior approval of that other agency. Exceptions to the Interlock Act are explained in Section 711.4 of the National Credit Union Administration Rules and Regulations.

A person whose interlocking service in a position as a management official of two or more depository organizations began prior to November 10, 1978, and was not immediately prior to that date in violation of Section 8 of the Clayton Act (15 U.S.C. 19) is not prohibited from continuing to serve in such interlocking positions until November 10, 1988, except as provided in Section 711.6(a) of the National Credit Union Administration Rules and Regulations. This relationship is considered a "Grandfather Interlock".

5140.5 DORMANT ACCOUNTS

In an operation such as that of a federal credit union, the proper control of dormant accounts is of such significance that it is singled out for special mention in this discussion of internal controls.

Figure 5-34: POSITIONS IN FEDERAL CREDIT UNIONS AND PERSONS WHO ARE PROHIBITED FORM HOLDING THEM

Position	Prohibited by Law, Regulation, or Bylaw	Prohibited by Principles of Sound Internal Control
Chief executive officer	Vice President, secretary or assistant secretary, treasurer, manager, assistant treasurer or manager, membership officer (if the president contersigns checks).	Member of the supervisory committee or supervisory committee assistant, credit union employee
Assistant executive officer	President, secretary or assistant secretary, treasurer, manager, assistant treasurer or manager, membership officer (if the vice president countersigns checks).	Member of the supervisory committee or supervisory committee assistant, credit union employee
Recording officer	President, vic president, manager or assitant manager	Member of the supervisory committee or supervisory committee assistant, credit union employee.
Financial officer	President, vice president, member of the supervisory committee or supervisory committee assistant, membership officer, assistant secretary	Member of credit committee
Director	Manager or assistant manager; only one director may be a member of the supervisory committee	Credit union employee
Executive committee member	Any officer or employee other than a director	Credit or Supervisory committee members, employees, membership officer
Credit committee member	Member of the supervisory committee or supervisory committee assistant; only one credit committee member may be appointed a loan officer	Treasurer, manager
Supervisory committee member	Member of the credit committee, credit union employee (including manager and assistant manager), treasurer; only one board member may be appointed to this committee	Loan officer, membership officer, assistant treasurer, president, vice president, secretary
Loan officer	Membership officer; only one credit committee may be appointed a loan officer	Member of the suervisory committee or supervisory committee assistant
Membership officer	Treasurer assistant treasurer, loan officer, manager, assistant manager, president, or vice president if checks are to be contersigned	Member of the supervisory committee or supervisory committee assistant
Manager	Member of the board of directors except by bylaw provision, president, vice-president, member of the supervisory committee or supervisory committee assistant, membership officer	Relative of any official, member of the credit committee
Assistant treasurer	President, vice president, membership officer	Member of the supervisory committee or supervisory committee assistant
Assistant secretary	President , vice president, treasurer	
Assistant manager	Member of the board of directors, member of the supervisory committee or supervisory committee assistant, membership officer,	Relative of any official
Supervisory committee assistant	Treasurer, assistant treasurer, manager, assistant manager, members of the credit committee, credit union employee	Loan officer, membership officer, relative of any official or employee, assistant treasurer, president, vice president, secretary
Credit union employee	Member of the supervisroy committee or supervisory committee assistant	Relative of any official, member of the board of directors

A suggested definition of a dormant account is a share, share draft or share certificate account in which there has been no activity for 12 months or more. Dormant accounts, by their very nature, lend themselves to misuse with less likelihood of prompt discovery than active accounts. It is, therefore, essential not only that the accounts be balanced at least monthly, but that changes in the accounts be scrutinized by a managing employee with great care.

The dormant accounts may be segregated on EDP systems by instituting controls with a supervisory override key or in manual systems in a special ledger or separate section of the individual ledgers with a separate subcontrol. An acceptable alternative procedure is to remove the dormant accounts entirely from the individual ledgers and place them in the custody of a managing employee who does not work on the individual accounts, restaffing in the individual ledgers a single memorandum control card listing the accounts which have been segregated and their balances. None of the segregated accounts would be released by their custodian until it was determined that the release is proper.

Dormant accounts cannot be placed in "Accounts Payable", (Account No. 801) unless the account owner is no longer a member of the credit union. It must be further noted that the credit union has a responsibility in complying with state escheat or abandoned property laws.

In accordance with Article XIX, Section 7 of the *Federal Credit Union Bylaws*, each member is required to keep the credit union informed of his current address. In the event a member fails to do this, a charge may be made to the member's savings account for the actual cost of necessary locator service incurred for locating the member. The charge may not exceed $5 annually, unless the board of directors has adopted the standard bylaw amendment for this provision. If it has been adopted, the amount of the fee is at the discretion of the board of directors. The charge can only be made for amounts paid to a person or concern that is normally engaged in providing a locator service. The charge is made against the member and thus cannot be made more than once in a 12-month period, even through the member may have several savings accounts.

5150 SHARE, SHARE DRAFT, AND SHARE CERTIFICATE ACCOUNTS

Section 701.35 of the National Credit Union Administration Rules and Regulations provides each board of directors with total flexibility in determining the types of share accounts and share certificate accounts that the credit union may offer. There are many factors the board should carefully consider before making any decisions on new share accounts or share certificate accounts and their applicable dividend rates. The board should consider the needs of the credit union's members as well as the credit union's economic and operational capabilities and its economic and operational capabilities and its economic competitive environment such as the savings policies of competitive financial institutions. Final decisions in this area will not be easy and thus decisions should be based upon careful consideration of all facts and resulting events that might be involved in adopting these varying accounts. Consideration also should be given to the following:

a) Amount of existing shares that will roll over into the new type of account.

b) Amount of new share capital that may be generated.

c) Cost of printing the certificates and agreements, disclosure forms and educational material.

d) Increased cost of dividends.

e) Increased time by office staff needed to operate the program.

f) Impact due to compliance with Truth In Savings.

g) Other items as determined by the board of directors.

Decisions of this magnitude should be based on detailed short-and long-range operating income and cash flow budgets that consider seasonal fluctuations. Using historical data and projections of income and cash flow, the board should be able to establish operating policies that will provide the needed income to offset expenses and the cash inflows that will be needed to satisfy the members' and the credit union's needs while investing surplus funds at optimum interest rates. In so doing, earnings can be provided for dividends and credit union reserve requirements. As a minimum, the board of directors should prepare long-range budgets for the longest-term share accounts or share certificate accounts offered.

In the past, boards of directors had to give special consideration to the impact of offering promissory notes that paid a higher interest or dividend rate than the regular share account. It was quite common for members to convert their regular share account holdings to promissory notes and thus, the offering significantly increased operating costs and provided no new inflows of cash contrary to its primary purpose. Boards of directors dealt with the problem by establishing qualification requirements for purchasing promissory notes such as requiring a minimum balance in a regular share account.

For the present, similar considerations should be taken into account when offering varying share and share certificate accounts. The potential interaction of share and dividend policies should be reviewed in terms of the goals of the overall operating plan and budgets.

Even with penalties, the establishment of liberal maturities and time requirements for certificates and share accounts may not result in the desired effect. Thus, policies which are too liberal may only result in the shifting of regular shares to other share accounts and certificates, with a resultant increase in operating costs and no benefits for the credit union.

OPERATIONAL CAPABILITY. Credit unions wishing to issue new share accounts or certificates may be limited by either their own personnel or accounting systems. Credit unions can expect an increased workload when issuing certificates and should consider the time and costs involved in new accounts or certificates, necessary disclosures and advertising.

Each credit union can also expect additional labor requirements in computing dividends and penalties, if applicable, unless the individual accounts are on computer. Before making a final decision to issue new accounts or certificates, a federal credit union board should be certain that its personnel and accounting system will be able to keep up with daily requirements.

IMPLEMENTING POLICIES. If a board decides to implement the new savings authorities, it should clearly state in its minutes the purpose and goals for issuing the new accounts and certificates. It should also establish policies to assure that the new program is carried out properly. The board can only judge the success of the program by measuring its achievements periodically.

If the board has not already done so, it should amend Article XIV, Sections 2 and 3 of the Federal Credit Union Bylaws to permit greater latitude in the declaration and payment of dividends. This can be accomplished by adopting the re Federal Credit Union Bylaws (Revised 12/87) or specific amendments requested from the regional director.

5150.1 DEFINITIONS

Share Account-refers to a regular share account and any other account that is not a share certificate account. A regular share account is an account that does not require a holder to maintain a balance greater than the par value and one that does not require notice of intent to withdraw, except as may be imposed in accordance with the Federal Credit Union Bylaws, and that qualifies for a dividend.

Share Draft Account-means an account from which the holder is authorized to withdraw shares by means of a negotiable or transferable instrument or other order.

Share Certificate Account-refers to an account that will earn dividends at a specified rate for a specified period of time, if held to maturity, upon which a penalty may be assessed for premature withdrawal prior to maturity.

Premature Withdrawal-refers to an early withdrawal of all or any portion of the principal amount of a share or share certificate account prior to its maturity. It also refers to the withdrawal of all or any portion of the principal amount prior to providing any required notice of withdrawal.

Truncation-means the original negotiable or transferable instrument is not returned to the drawer.

5150.2 REGULAR SHARE ACCOUNT

This is the traditional share account that credit unions have offered for many years. It should be made available to all members, either as a separate account or in combination with other account features adopted by the board. A regular share account does not have to be established in order for a person to become a member of a credit union. The board of directors of each federal credit union decides what is best for the characteristics of its own membership. For example, the board of directors may decide that membership qualification can be accomplished by the establishment of a regular, notice, split-rate, minimum balance, share draft, or share certificate account.

5150.3 SHARE, SHARE DRAFT, AND SHARE CERTIFICATE ACCOUNTS

Share, share draft and share certificate accounts offered should be made available to all members on an equal basis. Special share certificate accounts may be established for funds deposited to the credit of, or in which the entire beneficial interest is held by, an individual pursuant to an Individual Retirement Account Agreement or Self-Employed Retirement Plan. Such special share certificate accounts should be made

available on an equal basis to all members who qualify. No officer, director, member of the credit or supervisory committees, employee, or other official appointed or elected, shall be holder of a share, share draft or any type of share certificate account unless all qualifying members of the credit union are given an equal opportunity to become holders of such accounts.

5150.3.1 OTHER SHARE ACCOUNTS

As indicated, a federal credit union may establish other share or share draft accounts that are neither a regular share nor share draft account nor a share certificate account. There is a variety of other share accounts that the board of directors may wish to consider. Some of the more common accounts are:

a) A *notice account* requires the holder to give written notice of the intent to withdraw.

b) A *minimum balance account* requires the holder to maintain a specified balance in the account for at least an entire dividend period.

c) A *split-rate account* earns dividends at a different rate on this portion of the balance above a certain minimum requirement.

d) A *public unit account* represents share deposits made by a governmental unit, e.g., city, county and so on. These accounts could be regular share, share draft, or share certificate accounts. Normally, these accounts are of a highly volatile nature and the credit union needs to use caution in managing them.

e) A *nonmember share account* represents the shareholdings of other federally insured credit unions and, in the case of credit unions serving predominantly low-income members, the shareholdings of nonmember individuals or organizations. Refer to Part 701.32 of the NCUA Rules and Regulations.

5150.4 SHARE DRAFT ACCOUNTS

Federal credit unions may offer to their members share draft accounts, subject to operational feasibility and reasonable disapproval criteria. A more detailed discussion on share draft programs is contained in Section 6000 of this manual.

Certain classifications of share draft accounts are necessary. A regular share account accessed by share drafts would not preclude the establishment of a type of account incorporating share drafts and elements of split-rate accounts. For example, a federal credit union could fashion a traditional regular share account (with a $5 par requirement), but only allow access to that account by means of share drafts, when the balance in the account was greater than $200. No minimum balance would be required to establish this account or to maintain it and no notice to withdraw it would be required. When the balance is below $200, access would have to be accomplished by another method, such as withdrawal in person or by telephone.

When the balance exceeded $200, a share draft could be used. A federal credit union could also establish a share draft account that simply requires $200 for purposes of establishing the account and for which a penalty would be assessed when the balance was below that minimum. Access by share draft would be permitted only over a certain balance and $200 would be required to establish the account. If a federal credit union required separate accounts for share draft purposes, that would not change the nature of the account.

Each board of directors should evaluate the need for a share draft program. It should consider the credit union's financial condition and managerial ability to operate a share draft program. Sample copies of a share draft and the share draft statement are shown in Figure 5-35 and Figure 5-36.

5150.5 SHARES-ESCROW

A "Shares-Escrow" account is normally established in conjunction with real estate loans and it is a limited access share account. The escrow account can provide for the accumulation of funds to pay for not more than 1 year's taxes, assessments, insurance premiums, or other charges that could affect the credit union's first lien position on the real estate taken as security.

At the time the account is opened, the member borrower should be required to sign a blanket withdrawal authorization which permits the FCU to use the funds to make the required payments. The FCU should also arrange with each borrower, for whom an escrow account is maintained, to promptly submit to the FCU for payment any statements received by the borrower relating to taxes, assessments, insurance premiums and other fees which are to be paid from the escrow account. Any disbursement made from an escrow account should be supported by such documents.

Shares in escrow accounts should not be pledged as security for loans nor should such shares be applied to loans which are delinquent. Withdrawals of amounts in excess of the amount required to pay the fees for which the account was established should be permitted. These accounts do provide the FCU with additional protection, with a minimum of additional recordkeeping.

5150.6 SHARE CERTIFICATES

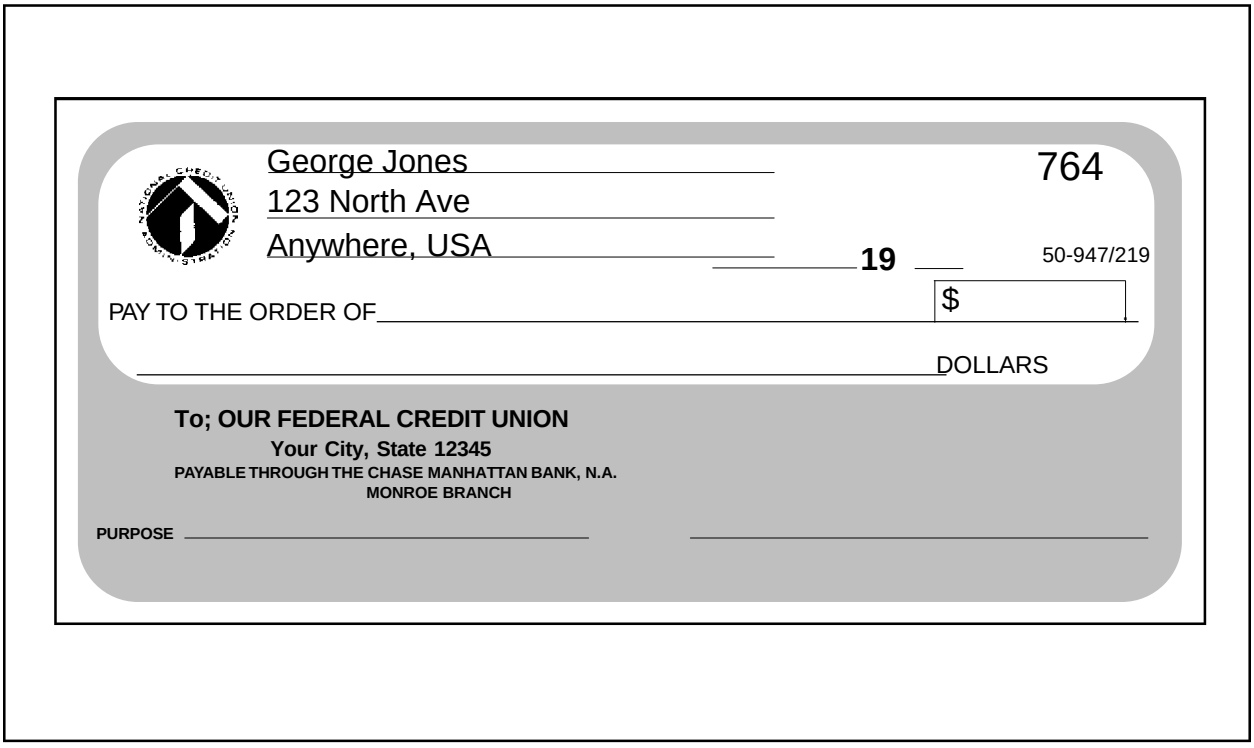
Share certificate accounts were defined in Section 5150.1. Their minimum qualifying periods. if any, are prescribed by the board of directors.

5150.6.1 VARIETIES OF SHARE CERTIFICATES

Share certificates can be of any variety. The general types are the basic share certificate and the share certificate that represents an investment of retirement funds.

5150.6.1.1 HYBRID VARIETIES OF SHARE CERTIFICATES

Other hybrid varieties of the share certificate accounts that are in use in other financial institutions might be found in credit unions. These include the Jumbo Share Certificate, the Money Market Certificate, the 2-1/2 year Minimum Deposit Share Certificate, the 91-day Certificate, and the Notice Share Certificate. The Jumbo Share Certificate usually requires a deposit of $100,000 or more while the Money Market Certificate generally requires a minimum deposit of $2,500 or $1,000. Their interest rate maximums are usually subject to existing market conditions. The Minimum Deposit Share Certificate usually carries a maturity of 2-1/2 years and a minimum $500 deposit requirement. It was designed so that the small saver could derive benefit from higher dividend rates. The 91-day Certificate usually involves a minimum deposit and a 91-day maturity. Notice Share Certificates often require a notice of withdrawal and regular additions to the account; all in accordance with a written agreement. All of these certificates are subject to any minimum qualifying periods and any penalty provisions for share certificates that may be required by the board of directors.



5150.6.1.2 NOTICE SHARE CERTIFICATES

The Notice Share Certificate is similar to a regular notice account. The notice share certificate, however, usually goes one step beyond requiring that a minimum notice must be given in order to withdraw without being penalized. In usually requires a written agreement between the member and the credit union whereby the member agrees to make additions to the account on a regular basis. The agreement usually contains the essential elements the credit union considers necessary to protect itself and to make proper disclosures to the member. One caveat should be kept in mind. While the credit union can tailor the savings plans to meet the needs of each member, it should be done on a nondiscrimination basis.

An agreement usually answers the following major questions:

a) What penalty, if any, will be imposed for failure to meet periodic savings requirements? How many missed payments will constitute default?

b) Will the credit union allow periodic payments in excess of the required amount to receive the premium dividend rate? If so, will the credit union limit such excess amount? Will additions to the account, after notice is provided, be permitted? The contract should contain the frequency and minimum amount of required payments that are to be deposited into the notice share certificate account. Additions to the account after notice is provided usually earn the premium rate if the additions are made pursuant to a written savings plan.

c) What is the minimum notice period and when must notice be provided?

d) What is the term or qualifying period? That is, how long must the member make regular payments to the account? For example, if the credit union requires additions to the account for 2 years, 2 years is the qualifying period. It should be noted that a withdrawal of funds below any minimum amount requirement established may result in the imposition of a penalty even though it may not affect the contractual arrangements.

e) Will notice of withdrawal require that a specific dollar amount be given? Will only a minimum amount have to be given or, perhaps, a range of probable withdrawal amounts?

It cannot be stressed too strongly that the underlying contract is the crux of the notice share certificate account. Federal credit unions are urged to consider carefully all terms and conditions that affect the relationship between itself and the member and incorporate them into contract form prior to implementing a program. Lack of contract specificity and incomplete coverage of terms and conditions win result in a myraid of problems for all parties. Failure to eradicate such problem areas by a thorough agreement could result in unnecessary litigation.

5150.6.2 UPON MATURITY

Upon maturity, share certificate accounts can be automatically renewed under the same terms and conditions as initially issued, or as may be otherwise provided for in accordance with a written commitment between the holder and the credit union. Notice of any such renewal, changes in the terms and conditions, or expiration of the qualifying period should be provided 10 days prior to the expiration of the qualifying period.

Figure 5-36: Illustration of a Share Draft Statement of Account (Form FCU 107G-SD)

ACCOUNT NO. [redacted]

CREDIT UNION
STATEMENT OF ACCOUNT

FORM FCU 107G SD

DATE	DRAFT NO.	DRAFT AMOUNT		DRAFT NO.	DRAFT AMOUNT		DRAFT NO.	DRAFT AMOUNT		CREDITS, DEPOSITS	BALANCE

"RETAIN THIS STATEMENT AS A PART OF YOUR PERMANENT RECORDS"

NOTES:

MEMBER AGREEMENT:

☐ OVERDRAFT LOAN-NOTE NO. _____
REMAINING LIMIT$ _____

☐ OVERDRAFT SHARE TRANSFER

☐ NEITHER

* SERVICE CHARGES

SC-1 STOP PAYMENT REQUEST
SC-2 STOP PAYMENT RETURN
SC-3 DRAFT RETURN FEE
SC-4 TRANSFER FROM SHARES
SC-5 MICROFILM COPY
SC-6 DRAFT PRINTING
SC-7 _____

* OTHER TRANSACTIONS

D DIVIDENDS
EC - ERROR CORRECTION
OR OVERDRAFT RETURNED
OL OVERDRAFT LOAN
OS OVERDRAFT SHARE TRANSFER

The Share certificate account agreement usually provides for the payment of dividends on withdrawals made within 7 days after the maturity date. The agreement usually states that the dividends during this 7 day period will be paid at the originally stated rate, or at a lower rate.

Some certificates allow members to add additional funds to their certificate accounts whenever they desire. The additions do not extend the maturity of the certificate. Any additions, however, are usually subject to premature withdrawal penalties. if it is the board of director's policy to impose such penalties.

5150.6.3 PREMATURE WITHDRAWAL FROM A SHARE CERTIFICATE ACCOUNT

Subject to the board of directors policies, a premature withdrawal of the principal amount, which reduces the balance below any required amount, may cause an account to be canceled. A penalty may be imposed either upon the entire amount evidenced by the share certificate amount or the amount withdrawn. If a required minimum continues to be met, a penalty may be imposed on the amount withdrawn. Am appropriate notation should be made on the account indicating the amount and date of the withdrawal and the remaining balance. The account could be cancled and a new accout issued. Penalties should be recorded as a credit to "Dividend Expense", (380 Series) and as a debit to the share account on the FCU's records (or dividends payable, if the dividend has not yet been paid).

A share certificate account holder should be permitted to withdrawn any and all dividends previously paid on the share certificate account without incurring a penalty. If the share certificate account is automatically renewed under the same terms and conditions (including the dame dividend rate), a federal credit union could permit a share certificate account holder to withdraw dividends paid during the preceding qualifying period or periods at any time during the renewal period, unless the share certiticate agreement account at the commencement of the renewal period should be treated as principal and be subject to any penalty provisions for early withdrawal. Any amendment to a share certificate account that results in an increase in the dividend rate or a reduction in the qualifying period could constitute a payment of the account before maturity.

5150.6.4 PENALTY PROVISIONS

Penalties may be imposed in accordance with the prolicies of the board of directors. Penalties are usually imposed on the actual dividends earned, or on the dividends for the amount withdrawn, or on the principal amount held in a share account or share certificate account. In assessing any applicable penalty, the amount of the penalty is usually deducted form the principal amount if the dividends upon which the penalty is assessed have been previously withdrawn.

The board of directors may establish a penalty to be imposed for failure to comply with any terms or conditions of a share, share draft, or share certificate account.

5150.6.5 EXCEPTIONS TO THE PENALTIES

Penalties are usually not applied if the withdrawal is made subsequent to the death of any owner of the share account or share certificate account or is made pursuant to Article III. Section 5(e) of the Federal Credit Union Bylaws; the share account or share certificate account is part of a pension plan which qualifies or qualified for specific tax treatment under Section 401(d) or 408 of the Internal Revenue Code and withdrawal is made following the participant's death or disability or upon attaining not less than 59-1/2 years of age: or such withdrawal is made as a result of the voluntary or involuntary liquidation of the federal credit union issuing the account.

5150.6.6 SHARE CERTIFICATE DOCUMENTS

When the credit union has determined that this program is viable and affordable the share certificate forms, agreements and disclosures can be printed. The credit union may combine any of these forms into one, provided all requirements of state law and Part 701.35 of the NCUA Rules and Regulations are met. The credit union must obtain an attorney's opinion indicating the validity of all forms and compliance with applicable law and regulations.

5150.7 DISCLOSURES FOR SHARE, SHARE DRAFT, AND SHARE CERTIFICATE ACCOUNTS

Section 701.35, *Shares, Share Draft, and Share Certificate Accounts* and Part 707, address disclosure requirements for share accounts, i.e.; regular shares, share draft, IRA, shares, share certificate, IRA shares, etc. A federal credit union must accurately represent the terms and condition of its share accounts in account disclosures, subsequent disclosures, and statement disclosures, whether written or oral. The following sections of the National Credit Union Administration Rules and Regulations, Truth in Savings, Part 707, specifically address areas of required disclosure:

- Section 707.3, General Disclosure requirements
- Section 707.4, Account Disclosure requirements
- Section 707.5, Subsequent Disclosure requirements
- Section 707.6, State Disclosure requirements

General disclosure requirements require disclosures to be in a form that can be permanently retained, and to be clearly and conspicuously in writing. There are no design or format requirements and disclosures may be provided in other languages as long as the disclosures are available in English. Regulation E disclosures are available in English. Regulation E disclosures that are also required by Part 707, may be used so long as given at the same time as other disclosures of Part 707, are given. For more information on general disclosure requirements, see the National Credit Union Administration Rules and Regulations, Truth in Savings, Section 707.3, *General Disclosure*.

Figure 5-39: Illustration of a Joint Ownership Agreement for a Share Certificate Account (FCU 123 CT)

JOINT OWNERSHIP AGREEMENT

The Owners and Credit Union named on this certificate agree with each other that all the shares in this account, including all deposits and dividends added to the account, are owned by the listed Owners as joint owners with full rights of survivorship. This means that if any of the listed Owner(s) die, that the remaining Owner(s) will own the entire account.

The Owners and the CreditUnion also agree:

1. That any joint owner may present this certificate for payment at maturity or make withdrawals prior to maturity.

2. That any joint owner may pledge this certificate as collateral for a loan from the Credit Union providing he or she is a member of the Credit Union. No pledge will be permitted if this certificate is part of a Keogh Plan or Individual Retirement Trust.

3. That when any joint owner makes a withdrawal from this account, whether before or after the death of any other joint owner, the Credit Union will have no further obligations with respect to the amount withdrawn.

4. That a joint owner must give written notice in the Credit Union in order to modify the rights and duties of the Credit Union under this joint ownership agreement. Any written notice will not affect the validity of the transactions made before the Credit Union has received the written notice.

Dated _____ _____

_____ **Joint Owners**

_____

(To be filled out by C.U. staff when cerfiticate is surrendered)

This certificate surrendered for payment _____ , 19 _____

by _____

Address: _____

Soc. Sec. No. _____

_____

Staff Initials

Account disclosure requirements require account disclosure to be provided before a new account is opened and upon a request. The content of account disclosures address the areas of 1) rate information (annual percentage yield), 2) compounding and crediting, 3) balance information, 4) fees, 5) transactions limitations, 6) bonuses, 7) nature of dividends, and 8) term share accounts (also referred to as certificates of deposit). For more information on general account disclosure requirements, see the National Credit Union Administration Rules and Regulations, Truth in Savings, Section 707.4, *Account Disclosures*. Also, see Section 5160, *Dividends, Annual Percentage Yield (APY), and Annual Percentage Yield Earned (APYE)* of this manual for information on the annual percentage yield formula and calculation.

Subsequent disclosure requirements require than an advance notice (at least 30 calendar days) be provided when a change in an item, required to be disclosed under the National Credit Union Administration Rules and Regulations, Truth in Savings, Section 707.4, *Account Disclosures*, may adversely affect the member. This section also covers notices to term share accounts that renew automatically and do not renew automatically. For more information on subsequent disclosure requirements, see the National Credit Union Administration Rules and Regulations, Truth in Savings, Section 707.5, *Subsequent Disclosures*.

Statement disclosure requirements apply to statement of accounts sent four or more times a year (which is termed a periodic statement). A periodic statement must disclose 1) the annual percentage yield earned as calculated in Appendix A of Part 707, 2) the dollar amount of dividends earned, 3) the fees required to be disclosed under the National Credit Union Administration Rules and Regulations , Truth in Savings, Section 707.4, *Account Disclosures*, that were imposed on the account during the statement period, and 4) the total number of days in the statement period. For more information on statement disclosure requirements see the National Credit Union Administration Rules and Regulations, Truth in Savings, Section 707.6, *Statement Disclosures*. Also, see Section 5160, *Dividends, Annual Percentage Yield (APY), and Annual Percentage Yield Earnest (APYE)* of this manual for information on the annual percentage yield earned formula and calculation.

5150.8 ADVERTISING

Part 740, Advertising and Part 707, address advertising requirements. The National Credit Union Administration Rules and Regulations, Truth in Savings, Section 707.8, *Advertising*, addresses advertising disclosure requirements for share accounts, i.e.; regular shares, share draft, IRA shares, share certificates, IRA shares, etc. Whether written or oral, advertisements cannot be misleading or inaccurate and cannot misrepresent an account's contract. If a rate of return is stated, the rate must be stated as an annual percentage yield and additional disclosures are required. These additional disclosures address the areas of 1) variable rate accounts, 2) interest-bearing and dividend-bearing term share accounts, 3) dividend bearing accounts other than term share accounts, 4) minimum balance, 5) minimum opening balance, 6) fees, 7) terms on term share accounts, and 8) early withdrawal penalties on term share accounts. For more information on advertising disclosure requirements, see the National Credit Union Administration Rules and Regulations, Truth in Savings, Section 707.8, *Advertising*. Also, see Section 5160, *Dividends, Annual Percentage Yield (APY), and Annual Percentage Yield Earned (APYE)* of this manual for information on the annual percentage yield formula and calculation.

5150.9 NOTICE ACCOUNTS

A member holding this type of account or certificate must specify when a withdrawal will be effected. If a penalty for premature withdrawal is to be imposed it will be assessed in accordance with the policies of the board of directors. In addition, a grace period can be permitted following the specified date to allow for any unexpected problems.

5150.10 TRUST ACCOUNTS

In accordance with the Federal Credit Union Act and Bylaws, federal credit unions may permit the establishment of share accounts in trust. Because of the various difficulties which may be involved, the credit union board of directors may, if it so wishes, decline to handle accounts in trust for its members. In considering whether to accept trust accounts, the advice of an attorney should be obtained.

In the event trust accounts are permitted, some form of written declaration of trust or trust agreement should be provided by the parties desirous of the trust. It is essential in all cases, except for a Totten trust (payable upon death) account. Model trust and custodial agreements are available from the Internal Revenue Service for individual retirement accounts. If model trust agreements are not suitable, such other trust agreements should be drawn up by the member's attorney. Copies of all trust agreements should be kept by the credit union for its records and for its information as to the exact provisions of the trust. These provisions must be complied with fully.

When shares are issued in a revocable trust, the settler (the individuals establishing the trust) must be a member of the credit union in his own right, and the name of the beneficiary must be stated.

When shares are issued in an irrevocable trust, the settler.- (the individual establishing the trust) or the beneficiary must be a member of the credit union in his own right, and the name of the beneficiary must be stated.

When the credit union acts as a trustee for trust or custodial accounts established pursuant to a pension or profit sharing plan described under Section 401(d) or 408 of the Internal Revenue Code, it incurs certain reporting responsibilities. This is with regard to Individual Retirement Accounts and Self-Employed Retirement Plans. The credit union must ensure that it complies with all applicable laws and rules and regulations of any federal or state authority exercising jurisdiction over such plans. It should be noted that except for IRA and Self Employment Retirement Plans, credit unions have no authority to act as a trustee over any trust accounts.

Trust accounts other than individual retirement account (IRAs) and simplified employee pension (SEP) accounts are not subject to the requirements of Part 707).

Opening the Individual Trust Account-In setting up a trust account the name of the trustee and the name of the beneficiary should be written on the Individual Share and Loan Ledger (Form FCU 103) as follows:

a) If only one trustee: "John Doe, as trustee for Dorothy Doe",

b) If more than one trustee: "John Doe and Mary Doe as trustees for Dorothy Doe."

Loans to Trustee and Pledge of Shares-The trustee or trustees may not borrow from the trust account unless the terms or nature of the trust permit such actions. It is the trust instrument that will delineate the scope of permissible interaction between the trustee of an account and the credit union. For example, where the trustee is a member in his own right, the trust instrument should disclose whether he may pledge the trust account to secure a personal loan. In the case of share accounts established for retirement purposes under Sections 401(d) or 408 of the Internal Revenue Code, the pledging of shares is considered as a premature withdrawal and subject to severe tax penalties.

5150.10.1 DEPOSIT INSURANCE COVERAGE ON TRUST ACCOUNTS

One unique characteristic of trust accounts concerns separate insurance coverage for deposits insured by the National Credit Union Administration Share Insurance Fund (NCUSIF). Al trust accounts, for the same beneficiary, deposited and established pursuant to valid trust agreements that are created by the same settlor (grantor) must be added together and insured up to the permissible maximum in the aggregate under the NCUSIF. This is separate from other deposit or share accounts of the trustee of such trust funds or the settlor or beneficiary of such trust arrangements.

5150.11 SHARE ACCOUNTS OF MINORS

Minors within the field of membership may hold shares in their own names either individually or as co-owners (for example, as joint tenants). In the absence of limitations agreed to in writing by the parent or guardian of the minor and the credit union at the time the account is opened, the minor may make payments into and withdrawals from his share account as if he were an adult member.

Trust accounts for minor are usually limited to those chases where the minors are of such tender years as to be unable to transact business in their own right. Even under such circumstances the establishment of trust accounts should not be widespread or generally encouraged because of the legal complications which might be involved. A trust account constitutes a solemn fiduciary relationship that is always carefully scrutinized by the courts if any dispute arises. In some jurisdictions tentative or Totten (payable upon death) trusts may be established.

If, under the terms of the trust agreement, the beneficiary becomes entitled to the shares during his minority, they may be transferred to an account in the minor's name, if he is or becomes a member. Otherwise, the shares may be withdrawn only with the written consent of the minor's parent or guardian. If the shares are not transferred to a new share account or withdrawn by the close of the dividend period in which the minor became entitled to them, they should be transferred to "Accounts Payable", (Account No. 801), from which payment will be made only with the written consent of the parent or guardian.

5150.12 SHARE ACCOUNTS OF TERMINATED OR DECEASED MEMBERS

The provisions of Article II, Section 5 of the Federal Credit Union Bylaws apply to the continuing membership of a member who has left the field of membership. When the membership of a member has been terminated in accordance with these provisions of the bylaws, the share account of the terminated member may be retained, at the option of the owner, in the credit union until the close of the current dividend period. After the close of the dividend period, the share account will be closed and the amount

transferred to the General Ledger "Accounts Payable" (Account No. 801), if the owner has not voluntarily withdrawn the funds. However, the borrower's rights to withdraw the share are limited if: (a) the shares in the account are pledged as security on a loan at the credit union; (b) the member is delinquent on the loan at the credit union; or (c) the member has cosigned a loan that is delinquent. If one or more of the above conditions exist then the amount of shares below the owner's direct or indirect liability to the credit union may not be withdrawn without the approval of the credit committee or a loan officer. At the option of the owner, such funds may remain in a share account until the close of the dividend period in which his liability to the credit union is terminated.

The same withdrawal and transfer procedures apply to joint share accounts whether the member-joint owner dies and the surviving joint owner(s) is not a member of the credit union. In this case, the shares may be paid to the surviving joint owner(s) without the necessity of probate proceedings. Local laws, however, relating to notice by the credit union to state officials in connection with inheritance taxes must be observed. Share accounts of deceased members that are not joint accounts are also under the same transfer and withdrawal limitations described above. The proceeds of these accounts may be paid as described below.

For a single ownership account, the Federal Credit Union Act does not provide for the designation of a beneficiary who may receive the shareholdings of a member of a credit union upon the death of the member. In case of the death of a member, any funds held in his name should be paid to the administrator or executor appointed by the court if there is an administration of the estate of the decedent. A credit union is absolutely protected in paying over the shareholdings of a deceased member only when such payment is made to an executor or administrator upon administration of the assets of the deceased estate in the proper court.

Credit unions will have cases, however, in which the decedent will leave no will and in which it will be an undue hardship to require that the widow or children go to the expense of court action for the administration of the estate. This is especially true in any case in which the deceased member has very little property to administer and only a small amount of shareholdings in the credit union. In such a situation, the credit union may take proper steps to assure itself that it will not be required to pay out the shareholdings of the deceased member twice and may pay to the widow or children or other next of kin upon proper assurance that all debts, including funeral expenses, have been paid. Whenever possible, it is suggested that the credit union obtain some form of nonrecourse security for the payment of money of a deceased member where there is no administration of the estate of the decedent. The approval of the board of directors designating payment to certain person(s) must also be obtained prior to the payment of any money in such cases.

5150.13 INDIVIDUAL RETIREMENT ACCOUNTS

Federal credit unions are free to design Individual Retirement Accounts (IRA) in any manner they choose, without any maturity or dividend ceiling restrictions. Members may be permitted to convert any share, share certificate, or share draft account to an IRA without penalty. Any taxpayer can open an IRA account.

The members should be advised to consult their tax advisers to determine the deductibility of their contributions. The credit union should refrain from offering tax advice.

5150.14 GIFTS OR PREMIUMS ON SAVINGS ACCOUNTS

Federal credit unions may offer premiums of reasonable amounts (e.g., $10 or $20), depending on the size of the share purchase, for attracting share accounts and deposits. It is anticipated that a premium of $20 or more would not be paid for share accounts or deposits of less than $5,000. Such premiums are considered promotional expenses and should be recorded in "Publicity and Promotions Expense", (Account No. 272).

Dependent upon the type and amount of the gift or premium, the gift or premium may be considered a "bonus" under Part 707. The definition of a bonus under the National Credit Union Administration Rules and Regulations, *Truth in Savings*, Section 707.2(f), *Definitions*, is a premium, gift, aware, or other consideration worth more than $10 (whether in the form of cash, credit, merchandise, or any equivalent), given or offered to a member during a year in exchange for opening, maintaining, or renewing an account, or increasing an account balance. The term does not include dividends, or other consideration worth $10 or less given during the year, the waiver or reduction of a fee, the absorption of expenses, non-dividend membership benefits, or extraordinary dividends.

5160 DIVIDENDS, ANNUAL PERCENTAGE YIELD (APY), AND ANNUAL PERCENTAGE YIELD EARNED (APYE)

This section provides guidance on formulas and calculations for dividends, the annual percentage yield (APY), and the annual percentage yield earned (APYE) consistent with the National Credit Union Administration (NCUA) Rules and Regulations (R&Rs), Part 701.35. *Shares, Share Drafts, and Share Certificate Accounts*, and Part 707, Truth in Savings.

5160.1 DIVIDENDS

Dividends are payable from current income and available earnings that are allocated to members based on a prorata distribution determined by the board of directors.

Long-range and short-range need for funds should be reviewed periodically. Based upon this review, the board of directors will need to determine what types of share accounts best meet those needs. The board of directors should exercise caution in establishing requirements and conditions when instituting a new type of account particularly if the proposed account will have a rate of return that is higher than the current or past return on existing accounts. Instituting new types of accounts normally will result in attracting new funds or in retaining funds that would otherwise be lost.

5160.1.1 TWO BASIC DIVIDEND PRINCIPLES

There are two basic dividend principles that are addressed in NCUA R&Rs Part 707, *Truth in Savings*. These two basic principles are:

- dividends must be calculated on the full amount of principal in the account each day, and
- one of two permissible dividend calculation methods must be used; 1) the daily balance method, or 2) the average daily balance method.

5160.1.2 ESTABLISHING A DIVIDEND POLICY

Before the board of directors establishes a dividend policy, the board of directors will need to become familiar with the NCUA R&Rs, Part 701.35, *Shares, Share Drafts, and Share Certificate Accounts,* and Part 707, *Truth In Savings*.

In developing an overall policy, the board of directors needs to establish for each type of account offered:

- Dividend calculation method (see Section 5160.1.2.1),
- Dividend period (see Section 5160.1.2.2),
- Dividend declaration date (see Section 5160.1.2.3),
- Compounding period (see Section 5160.1.2.4),
- Crediting period (see Section 5160.1.2.5),
- Dividend distribution date (see Section 5160.1.2.6),
- Daily rate (see Section 5160.1.2.7),
- Dividend credit determination date, when a share purchase begins earning dividend credit (see Section 5160.1.2.8),
- Minimum balance associated with dividends, if applicable (see Section 5160.1.2.9), and
- Dividend reduction and penalty, if applicable (see Section 5160.1.2.10).

5160.1.2.1 DIVIDEND CALCULATION METHODS

The dividend calculation method is the method by which dividends are determined. The NCUA R&Rs Part 707, *Truth In Savings,* allows two dividend calculation methods; 1) the daily balance method, and 2) the average daily balance method. Section 707.2(d) and (h), *Definitions,* defines both methods.

Figure 5-40: Dividend Policy for Regular Shares

			Dividend Declaration				Computation Method					Interim Withdrawls		
Type of Acct.	Dividend Period (7)	Dividend Credit Determination	Previous Month	Curent Month	Following Month	Dividend Distribution	Daily Balance	Avg. Daily Balance	Share * Dollars	Share* Months	Rate of Returne is Compunded	Dividend Forfit	Dividend Reduced	Penalty Assessed
Regular Shares	Daily	Day in to day out	X	X	(1)	Daily to Annually	X	X	_	_	Daily or upon	No	N/A	No
	Weekly	Day in to day out. Day in to end of period	X	X	(1)	Weekly to Annually	X --	X -	_ X	_ X	Weekly or upon distribution	No Yes	N/A	No
	Monthly	Day in to day out. Day in to end of Period Grace period to end of month*	X --	X X	(1) X	Monthly to Annually	X --	X --	_ X	_ X	Monthly or upon distribution	No Yes	N/A	No
	Quarterly	Day in to day out(2) Day in to end of Period Grace period to end of period * Grace Period to end of month *	_	Final Month	X	Quarterly to Annually	X _	X _	_ X	_ X	Quarterly or upon distribution	No Yes (8)	N/A	No
	Semi-annually	Day in to day out(2) Day in to end of period Grace Period to end of period * Grace period to end of month *	_	Final Month	X	Semi-annually to Quarterly	X _	X _	_ X	_ X	Semi-annually or upon distribution	No Yes (8)	N/A	N0
	Annually	Day in to day out(2) Day in to end of period Grace period to end of period * Grace period to end of month *	_	Final Month	X	Annually	X _	X _	_ X	_ X	Annually	No Yes (8)	N/A	No

*Only credit unions exempt from Truth-in-Savings may use this method

Figure 5-41: Dividend Policy for Share Certifcates

			Dividend Declaration				Computation Method					Interim Withdrawls		
Type of Acct.	Dividend Period (7)	Dividend Credit Determination	Previous Month	Curent Month	Following Month	Dividend Distribution	Daily Balance	Avg. Daily Balance	Share * Dollars	Share* Months	Rate of Returne is Compunded	Dividend Forfit	Dividend Reduced	Penalty Assessed
Share Certifi-cate	Daily (3)	Day in to day out(4)	X	X	(1)	Daily to Quarterly	X	X	_	_	Daily or upon distribution	No	(5)	(6)
	Weekly (3)					Weekly to quarterly					Weekly or upon distribution			
	Monthly					Monthly to quarterly					Monthly or upon distribution			
	Quarterly		_	Final Month	X	Quarterly					Upon distribution			
	Semi-annually					Semi-annually					Semi-annually			
	Annually					Annually					Annually			

*Only credit unions exempt from Truth-in-Savings may use this method.

Examples of each method are provided using account activity for a month based on the “end of day” balance in the account. The dividend calculation must be based on a point in time for determining the balance in the account; such as “beginning of day balance”, “end of day balance”, and “close of business day balance”.

			BALANCE
Balance:	December 31, 19X4		$1,000
Deposit:	January 1, 19X5	200	1,200
Withdrawal:	January 2, 19X5	100	1,100
Withdrawal:	January 10, 19X5	400	700
Deposit:	January 15, 19X5	200	900
Withdrawal:	January 16, 19X5	1,000	-100
Deposit:	January 18, 19X5	300	200
Deposit:	January 21, 19X5	700	900
Withdrawal:	January 31, 19X5	100	800

EXAMPLE 1

The daily balance method is the application of a daily dividend rate to the full amount of principal in the account each day. For the days the account is overdrawn, a zero balance should be used to calculate dividends.

Assume a dividend rate of 5.00%, a daily rate of 1/365, a monthly compounding period, and a monthly crediting period. The daily dividend rate would be .00013698630 (.05*(1/365)). (See Section 5160.1.2.7 for the daily dividend rate formula). Dividends would be calculated as follows:

	BALANCE x RATE x NUMBER OF DAYS		DIVIDEND AMOUNT
1/1/X5	$1,200 x .00013698630 x	1	$0.164383562
1/2/X5 to 1/9/X5	1,100 x .00013698630 x	8	1.205479452
1/10/X5 to 1/14/X5	700 x .00013698630 x	5	0.479452055
1/15/X5	900 x .00013698630 x	1	0.123287671
1/16/X5 to 1/17/X5	0 x .00013698630 x	2	0.000000000
1/18/X5 to 1/20/X5	200 x .00013698630 x	3	0.082191781
1/21/X5 to 1/30/X5	900 x .00013698630 x	10	1.232876712
1/31/X5	800 x .00013698630 x	1	0.109589041
TOTAL		31	3.397260274

For the month of January, 19X5, using the daily balance method to calculate dividends, a dividend amount of $3.40 would be credited to the member’s account. If the compounding period was daily, there would be 31 (the number of days in the compounding period) separate dividend calculations performed. The first day’s accrued but uncredited dividends of $0,164383562 would be considered in the second day’s balance of $1,100 (and every day’s balance thereafter) to determine the second day’s dividend (and every day’s dividend thereafter).

Notes to Figures 5-40 and 5-41.

1) Declaring the dividend in the following month would not allow payment of dividend due when an account is closed during the period. This complicates recordkeeping and is, therefore, not recommended.

2) A "day in to day out" dividend credit method would require payment of a dividend to all accounts which closed during the period. Since the dividend would not be declared until the final month of the period at the earliest, it would not be possible to compute and pay the dividend on the day an account is closed is closed earlier in the period. For this reason "day in to day out" is not recommended for dividend periods longer than monthly.

3) Daily and weekly dividend periods are not recommended since share certificates cannot be issued for such short terms.

4) Since certificates will mature between periods, a dividend credit determination other than "day in to day out" would result in loss of a dividend for the period during which the certificate matures.

5) The dividend may be reduced on the amount withdrawn. If the withdrawal reduces the remaining balance below any required minimum balance then the dividend on the entire account should be reduced to the regular share rate.

6) A minimum penalty may be assessed depending on the qualifying period.

7) Although not shown in the table, dividend periods of biweekly or semimonthly may be established with the criteria similar to that shown for weekly periods. Bimonthly and "every 4 months" periods, if established, would have criteria similar to that shown for quarterly periods.

EXAMPLE 2:

The average daily balance method is the application of a periodic dividend rate to the average daily balance in the account for the period. The average daily balance is determined by adding the full amount of principal in the account for each day of the period and dividing that figure by the number of days in the period.

Assume a dividend rate of 5.00%, a daily rate of 1/365, a monthly compounding period, and a monthly crediting period. The periodic dividend rate would be .00424657534 ((.05*(1/365))*31). (See Section 5160.1.2.7 for the periodic dividend rate formula). Dividends would be calculated as follows:

BALANCE x NUMBER OF DAYS	ACCUMULATED BALANCE		
1/1/X5	$1,200 x	1	$1,200
1/2/X5 to 1/9/X5	1,100 x	8	8,800
1/10/X5 to 1/14/X5	700 x	5	3,500
1/15/X5	900 x	1	900
1/16/X5 to 1/17/X5	0 x	2	0
1/18/X5 to 1/20/X5	200 x	3	600
1/21/X5 to 1/30/X5	900 x	10	9,000
1/31/X5	800 x	1	800
TOTAL			24,800

Dividing the accumulated “end of day” balances of $24, 800 by 31 (the total number of days in the dividend period), the average daily balance is $800.00000. The average daily balance should be rounded to five or more decimals. As an example, an average daily balance of $800.12345678 would be rounded to no less than $800.12345678 is a “6”, thereby the fifth decimal palce would be rounded up for “5” to “6”.

The periodic dividend rate times the average daily balance results in a dividend amount of $4.497260274. For the month of January, 19X5, using the average daily blance method to calculate dividends, a dividend amount of $3.40 would be credited to the member’s account. (See Section 5160.2.1.2 for rounding rules for the dividend amount.)

If the compounding period was daily, there would be 31 (the number of days in the compounding period) separate divdend calculations performed. However, a daily dividend rate instead of the periodic dividend rate would be used to calculaate each day’s dividend. The first day’s accrued but uncredited dividends of $0.109589041 ((.05*(1/365))*$800) would be considered in the second day’s average daily balance of $800 (and every day’s balance thereafter) to determine the second day’s dividend (and every day’s dividend thereafter). Although daily compounding is not commonly used when the average daily balance dividend calculation method is used, it is permissible. The NCUA R&Rs Part 707, *Truth In Savings*, allows any frequency of compounding to be used (regardless of the dividend calculation method used).

5160.1.2.2 DIVIDEND PERIODS

The dividend period is the span of time established by the board of directors at the end of which shares in a member’s account earn dividends are earned dividend credit. In other words, a dividend period is the frequency with which accrued but uncredited dividends are earned by the member. As an example, assume dividend rates are declared quarterly and the board of directors has established the dividend period as monthly.

A member closing their account during the second month of the quarter would be entitled to the first month’s accrued but uncredited dividends but not to the second month’s accrued but uncredited dividends. If the board of directors had established the dividend period as quarterly, the member would not be entitled to any accrued but uncredited dividends. Although a dividend period is commonly established at the same frequency wiht which dividends are credited or at the frequency with which dividend rates are declared by the board of directors, a dividend period may be at any frequency; i.e., daily, weekly, bi-weekly, monthly, semi-monthly, quarterly, semi-annually, annually, etc. The dividend period may be different for each type of share account but each type of share account must have a dividend period.

Dividend periods need not agree with calendar periods. As an example; a monthly dividend period could begin March 15 and end April 14. However, if the last dividend period in any calendar year does not end on December 31, the cost of the dividends accrued but uncredited must be reflected on the financial statements; by debiting “Dividends Expense”, (Account NO. 380) and crediting a payable.

5160.1.2.3 DIVIDEND DECLARATION DATES

The dividend declaration date is the date that the board of directors declares a dividend for the preceding dividend period. For credit unions with bi-monthly or longer dividend periods (such as quarterly, semiannually, or annually) the dividend rate must be determined: 1) during the last month of the dividend period, or 2) during the first month following the close of the dividend period. If the dividend rate is determined prior to the end of the dividend period (during the last month of the dividend period), the dividend rate is not declared but rather anticipated (projected or prospective) contingent upon current income and available earnings, after required transfers to statutory reserves. Upon the board of directors determining that current income and available earnings exists after required transfers to statutory reserves, the board of directors should ratify the dividend rate(s) (more than likely the anticipated (projected of prospective) dividend rate(s)). The day the dividend rate is ratified is the dividend declaration date.

If a credit union has established dividend periods which are monthly or more frequently (such as daily or weekely dividend periods) the board of directors may determine the dividend rate: 1) during the preceding month, 2) during the last month of the dividend period, or 3) during the month following the month in which the dividend period(s) ended. Again, if the dividend rate is determined prior to the end of the dividend period (during the preceding month or during the last month of the dividend period), the dividend rate is not declared but rather anticipated (projected or prospetive) contingent upon current income and available earnings, after required transfers to statutory reserves. The board of directors must ratify a dividend rate once current income and available earnings, after required transfers to statutory reserves, are determined to exist.

An anticipated (projected or prospective) dividend rate contingent upon current income and available earnings after required transfers to statutory reserves should be disclosed as such and not as the dividend rate for the last dividend declaration date.

If the board of directors does not declare a dividend for certain dividend periods (perhaps because of the lack of sufficient earnings), it may not, at a latter date, declare a dividend for the dividend periods missed. Alternatives in this situation might be to establish a lengthier dividend period (by a change-in-terms notice under Section 707.5(a)) in anticipation that sufficient earnings could be generated to pay a dividend for the extended dividend period or to declare an extraordinary dividend. Extraordinary dividends are most commonly referred to as “bonus dividends”. NCUA R&Rs Part 707.2(m), Definitions, defines extraordinary dividends as a nonrepetitive dividend paid at an irregular time form funds legally available for such distribution.

5160.1.2.4 COMPOUNDING PERIODS

The compounding period is the frequency that earned dividends are added to the principal in the account on which dividends then accrue. The compounding period can be based on any frequency; i.e., daily (a.k.a. “continously”), weekly, bi-weekly, monthly, semi-monthly, quarterly, semi-annually, annually, none (“no compounding” or “at maturity”), etc. The compounding period may be different for each type of share account but each type of share account must have a compounding period.

5160.1.2.5 CREDITING PERIODS

The crediting period is the frequency that earned dividends are posted or paid to the account, or provided to the member by check or transfer to another account. The crediting period can be based on any frequency; i.e., daily, weekly, bi-weekly, monthly, semi-monthly, quarterly, semi-annually, annually, at maturity, etc. The crediting period may be different for each type of share account but each type of share account must have a crediting period. Only declared dividends may be posted to an account, not anticipated (projected or prospective) dividends.

5160.1.2.6 DIVIDEND DISTRIBUTION DATES

The dividend distribution date is the date the dividend is made available by credit to the account, or provided to the member by check or transfer to another account. The dividend distribution date for non-term share accounts is usually the last day of or the day following the crediting period. As an example, if the crediting period is monthly, January 31st could be the dividend distribution date (last day of) or February 1st could be the dividend distribution date (the day following). For term share accounts, the dividend distribution date may be on the anniversary dates (such as the 17th of each month). The dividend distribution date may be different for each type of share account but each type of share account must have a dividend distribution date. Regardless of the dividend distribution date, the date dividends are posted or paid is the date dividends must be available to the members. As an example, a dividend cannot be posted to a member's account on December 31st if it cannot be withdrawn until January 1st.

5160.1.2.7 DAILY RATES

Permissible daily rates for a 365 day year are 1/360 and 1/365. Permissible daily rates for a 366 day year (leap year) are 1/360, 1/365, and 1/366. If a daily rate of 1/366 is used, the account must earn dividends for February 29. The daily rate may be different for each type of share account but each type of share account must have a daily rate. The daily rate is used in the daily dividend rate formula, the periodic rate formula, and the periodic dividend rate formula. Each formula is as follows:

Daily Dividend Rate = Daily Rate x Nominal Rate
Periodic Rate = Daily Rate x Number of Days in the Compounding Period.

Periodic Dividend Rate = Periodic Rate (Daily Rate = Number of Days in the Compounding Period) x Nominal Rate

The nominal rate is the dividend rate (expressed as a percent) divided by 100 or the dividend rate expressed as a decimal. As an example, the nominal rate is .0525 for a dividend rate of 5.25%.

A credit union should round the daily rate to five or more decimals. A 1/365 daily rate of .002739726 would be rounded to no less than .00274. The fifth decimal place should be rounded up if the sixth decimal place is five or more. The sixth decimal place of .002739726 is a "9", thereby the fifth decimal place would be rounded up from "3" to "4".

5160.1.2.8 DIVIDEND CREDIT DETERMINATION DATES (WHEN A SHARE PURCHASE BEGINS EARNING DIVIDEND CREDIT)

The dividend credit determination date is the date dividends begin to accrue. Section 707.7(c) requires dividends to begin accruing no later than the day specified in section 606 of the *Expedited Funds Availability Act* and its implementing *Regulation CC*. Therefore, a credit union could use either the collected balance method or the ledger balance method.

An illustration of the collected balance method is as follows: Assume a member makes a $5,100 non local check deposit on April 7, 19X5. When the collected balance method is used to accrue or pay dividends, the time frames as to when funds are available for withdrawal by the member are different than the time frames for accruing dividends. Based on the availability for withdrawal by the member, the first $100 must be made available the next day (April 8, 19X5). At least $4,900 must be made available no later than the fifth business day following the banking day on which funds were deposited (April 12, 19X5). Due to the deposit being over $5,000 (a large deposit) an extension of up to six business days (April 18, 19X5) may be placed on the remaining $100. See *Regulation CC, Notice of Exception,* if no longer extensions are allowed by the credit union's policy.

Section 229.14, *Payment of Interest in Regulation CC* requires dividends to begin accruing on dividend-bearing accounts no later than the day on which the credit union receives credit for the funds deposited. It may be difficult for a credit union to track which day it receives credit for specific checks in order to accrue dividends properly on the account to which the check is deposited. Therefore, for the purpose of the dividend-accrual requirement, a credit union may rely on an availability schedule from its correspondent to determine when it receives credit. As an example, if a credit union receives credit on 20 percent of the funds deposited in the credit union by check as of the business day of deposit, 70 percent as of the business day following deposit, and 10 percent on the second business day following deposit, the credit union can apply these percentages to determine the day dividends must begin to accrue on check deposits to all dividend-bearing accounts.

An illustration of the ledger balance method is as follows: dividends would begin to accrue on the full $5,100 the date of deposit (April 7, 19X5). Assume the board of directors established that dividends would be accrued and paid based on a "close of business day" balance, i.e., 3:00 p.m. If the deposit was made after 3:00 p.m., dividends would begin to accrue on the full $5,100 the day following the date of deposit (April 8, 19X5).

Dividends must begin to accrue on payroll deductions share deposits when the member is entitled to receive the funds. When a credit union receives the detailed distribution of share payments, a member's account must be credited immediately and dividends begin to accrue. If a crediting delay occurs for any reason other than not having the detailed distribution of share payments, the credit union should ensure dividends begin to accrue based on when the member was entitled to receive the funds.

5169.1.2.9 MINIMUM BALANCES ASSOCIATED WITH DIVIDENDS

A minimum balance can be required before an account earns dividends. The method used to determine the minimum balance to earn dividends must be the same method used to determine the balance on which dividends are calculated. As an example, if the daily balance method is used to determine dividends, then the daily balance method must also be used to determine the minimum balance. As alternative method may be used if it is unequivocally beneficial to the member. As an example, a credit union using the daily

balance method to calculate dividends and requiring a $500 minimum daily balance could choose to pay dividends on the account for those days of the month that did not meet the $500 minimum daily balance provided the member maintained an average daily balance throughout the month of $400. Other minimum balance requirements, such as to open an account, to avoid a fee, etc., can be based on any method.

Section 707.7, *Payment of Dividends*, identifies several restrictions regarding minimum balances to earn dividends:

- A credit union cannot require that both a daily minimum balance and an average daily balance be maintained to earn dividends.

- A credit union cannot pay dividends only on the balance portion over the minimum balance. As an example, if the member has $500 and the required minimum balance is $200, dividends cannot be paid only on $300 (the amount over the minimum balance of $200).

- A credit union cannot require a minimum balance to be maintained for the entire period to earn dividends for that period.

5160.1.2.10 DIVIDEND REDUCTIONS AND PENALTIES

Penalties may be issued by the board of directors according to its prescribed policies. The board of directors may impose a penalty on any share account or term share account for failure of the member to comply with any terms or conditions of the account. One of the most common penalties used is the early withdrawal penalty. An early withdrawal penalty can be assessed when the member withdraws his/her funds from an account prior to the account's maturity. There are no requirements as to the method in which an early withdrawal penalty can be determined. The most commonly used early withdrawal penalties are: 1) the forfeiture of accrued dividends, or 2) a percentage of the amount withdrawn. NCUA R&Rs Part 707, also considers a withdrawal of some funds to trigger a change in the account's dividend rate and APY that is paid, or a change in the compounding or crediting frequency that those terms must be disclosed as early withdrawal penalties.

Early withdrawal penalties are most often associated with term share accounts. Term share accounts are most commonly referred to as "share certificates" or "certificates of deposit". Section 707.2(x), *Definitions*, defines term share accounts as being any share certificate, certificate of deposit, or other account with a maturity of at least seven days in which the member generally does not have the right to make withdrawals for six days after the account is opened, or the account is subject to an early withdrawal penalty of at least seven days dividends on amounts withdrawn. A term share account could also include a club account; such as Christmas Club Account, Vacation Club Account, Youth Club Account, etc. If the terms of the club account meet the definition of a term share account (even if the account does not have a stated maturity but instead has a disbursement date), the club account must be treated as a term share account. Any early withdrawal penalties must be disclosed as such, and subsequent disclosure requirements would have to be followed.

5160.1.3 ROUNDING RULES FOR DIVIDENDS

For details on rounding rules for dividends, see Section 5160.2.1.2 and Section 5160.3.1 Section 5160.2.1.2 provides rounding rules for dividends concerning the APY calculation. Section 5160.3.1 provides rounding rules for dividends concerning the APYE calculation.

5160.1.4 DIVIDEND ENTITLEMENT ON CLOSED ACCOUNTS

NCUA R&Rs Part 707, *Truth In Savings*, permits accrued but uncredited dividends to be forfeited if the account is closed. If this is permitted by the credit union's policy, Section 707.4, *Account Disclosures*, requires the forfeiture of dividends to be disclosed.

Members who close their accounts prior to the dividend distribution date (or the end of the crediting period) are entitled to dividends up until the end of the last dividend period. However, the credit union may delay the payment of these dividends until the scheduled dividend distribution date. The following examples are based on dividend periods which are monthly or more frequently. (See Section 5160.1.2.3 for determining dividend rates (anticipated (projected or prospective) or declared) based on the length of the dividend period). Example 1 typifies the situation when the dividend rate is anticipated (projected or prospective) during the preceding month and would be ratified by the board of directors at the close of the dividend period contingent upon current income and available earnings, after required transfers to statutory reserves. Example 2 typifies the situation when the dividend rate is declared during the month following the month in which the dividend period ended.

EXAMPLE 1:

Assume the board of directors credits dividends monthly and the dividend period is semimonthly. The dividend rate for the semi-monthly periods are anticipated (projected or prospective) during the preceding month. If a member closes his/her account on January 22, 19X5, he/she would be entitled to dividends for 7 days (the days after the last dividend period of January 15, 19X5). On January 22, the amount of dividends due this former member may be paid to him/her, or remain (in the form of a credit union liability) as a dividend payable to a former member. Since the dividend rate is anticipated (projected or prospective) in the preceding month it may, with proper wording in the account disclosures, be posted to the account at the time the account is closed. When the dividend rate is anticipated (projected or prospective) in the preceding month, the credit union's policy should require that written projections be on file to illustrate the existence of current income, undivided earnings, and required transfers to reserves to the end of the month for which the dividend rate is anticipated (projected or prospective). This is necessary to comply with the provision for the required transfers to statutory reserves. In other words, the projected information will support that funds are/will be available to meet the reserve transfer requirement and pay the anticipated (projected or prospective) dividend (that which the board of directors will ratify at the close of the dividend period); closing the books prior to the dividend distribution date will fulfill the "projection" requirement.

EXAMPLE 2:

Assume the board of directors credits dividends quarterly and the dividend period is monthly. The dividend rate for the monthly periods are declared during the month (on the 5th) following the month in which the dividend period(s) ended. If a member on January 22, 19X5 closes his/her account of $5,000 with accrued but uncredited dividends of $15.07, on January 22 the credit union can disburse the member's principal of $5,000, but cannot post or disburse the accrued but uncredited dividends of $15.07 until the board of directors declares on February 5th the dividend rate for the month of January.

No dividend can be paid in excess of available current income and prior earnings without the written approval of the NCUA Board.

5160.1.5 WITHDRAWAL FUNDS

Dividends must accrue up to the day funds are withdrawn. As an example, assume dividends are accrued and paid based on the ledger balance method and the "end of day" balance. (See Section 5160.1.2.8 for discussion on the ledger balance method). The ending balance of January 1, 19X5 is $1,000. A withdrawal of $500 is made on January 5, 19X5, a deposit of $200 is made on January 7, 19X5, and no other withdrawals or deposits are made for the month. Dividends must be accrued on $1,000 from January 1, 19X5 to January 4, 19X5 (4 days), on $500 from January 5, 19X5 to January 6, 19X5 (2 days), and on $700 from January 7, 19X5 to January 31, 19X5 (25 days).

Instead, assume the member closed the account on January 10, 19X5 and accrued but uncredited dividends are not forfeited. Dividends would accrue the same as above up until January 6, 19X5. From January 7, 19X5 to January 9, 19X5 (3 days) dividends would accrue on $700. Also, the average daily balance used in the APYE formula would be based only on the number of days the account was open (9 days).

5160.1.6 DIVIDEND ACCRUAL

Whenever a dividend rate on any type of account is specified in advance (whether the dividend rate is as of the last dividend declaration date or an anticipated (projected or prospective) dividend rate for non-term share accounts, or within the most recent seven calendar days for term share accounts), dividend expense should be accrued monthly or at the end of the shortest dividend period if all dividend periods are longer than monthly. Dividend accruals may be based on either the collected balance method or the ledger balance method. Illustrations of the collected balance method and ledger balance are contained in Section 5160.1.2.8. The balance method used in dividend accruals should be the balance method used in paying dividends. If the collected balance method is used, see Section 5160.3.6 for information regarding the average daily balance used in the APYE formula.

Figure 5-42: Illustrated Dividend Record (Form FCU 112)

OUR

FEDERAL CREDIT UNION

DIVIDEND RECORD (ANNUAL)

Declared on Members' Shares for the Period Ending December 31 **19** X1 **Rate** 7 **%**

MEMBERS' ACCT NO	NAME	SHARE DOLLARS	AMT. OF DIVIDEND	PAYMENT BY CHECK NUMBER	PAYMENT BY CHECK AMOUNT			POSTED TO SHARES LEDGER		POSTED TO PASS-BOOK	
1	Leroy Baxter	855	4 98	667	4	98	X				
2	Randy Moore	50	29				X		29	X	
3	John Jones	230	1 34				X	1	34	X	
4	Shares Withdrawn	—	—								
46	John Williams	1710	9 97	690	9	97	X				
47	Judith Hull	100	58				X		58	X	
	TOTALS	51,300	299 25		156	60		142	65		

Figure 5-43: Example Dividend Work Sheet and Payment Record (Form FCU 112A)

____________________ CREDIT UNION

DIVIDEND WORK SHEET AND PAYMENT RECORD

Declared on Members' Shares for the Period Ending ____________ 19__ Rate ____

Dollar Equivalent or Share $'s Held Continuously to End of Div. Period

MEMBERS' ACCT NO	NAME	JAN	FEB	MAR	APRIL	MAY	JUNE	JULY	AUGUST	SEPT	OCT	NOV	DEC	SHARE DOLLARS	AMT OF DIVIDEND	PAYMENT BY CHECK NUMBER	PAYMENT BY CHECK AMOUNT	POSTED TO SHARES LEDGER	POSTED TO PASS-BOOK	
	TOTALS																			

Figure 5-44: Illustration of a Record of Dividends (Form FCU 112B)

FORM FCU 112B

______________ CREDIT UNION

RECORD OF DIVIDENDS

DECLARED ON MEMBERS' SHARES FOR THE PERIOD ENDING:

	19 ___ RATE ___ %			19 ___ RATE ___ %			19 ___ RATE ___ %			19 ___ RATE ___ %			
MEMBERS' ACCT NO	SHARE DOLLARS	AMT. OF DIVIDEND	POSTED	SHARE DOLLARS	AMT. OF DIVIDEND	POSTED	SHARE DOLLARS	AMT. OF DIVIDEND	POSTED	SHARE DOLLARS	AMT. OF DIVIDEND	POSTED	TOTAL DIVIDENDS PAID
TOTALS													

5160.1.7 TERM SHARE ACCOUNT DIVIDEND RATE

A federal credit union may make, in advance, an agreement to pay a specific dividend rate on a term share account. Since a federal credit union cannot honor a dividend rate promised in advance if current income and available earnings are insufficient, it is recommended that officials exercise extreme caution before making an agreement to pay a specific dividend rate. Any agreed upon rate should be evidenced by a signed written contract between the federal credit union and the member.

Agreeing to pay a dividend rate which cannot be met can cause members to lose faith in their credit union as well as civil liability for implied contracts. When credibility is lost, an outflow of shares is almost a certainty. For this reason, it is recommended that agreed upon dividend rates be restricted to term share accounts. Advance agreement for a dividend rate does not eliminate the need for a formal declaration of dividends by the board of directors.

5160.1.8 DETERMINING MAXIMUM DIVIDEND RATE

The maximum dividend rate can be determined by:

a. Dividing the amount available for dividends by the total shares for all members that are eligible for the dividend amount; then

b. Multiplying the above result by the number of periods in a year. The number of periods in a year are determined by the number of periods the divided amount is available for, i.e., a month, a quarter, etc.

As an example, assume the amount available for dividends for the period is $3,280. The total of shares for all members that are eligible for the $3,280 dividend amount is $384,000. Dividing $3,280 by $384,000 equals .008541667. Multiply .008541667 by 12 (if the period is monthly) and by 4 (if the period is quarterly) to determine the maximum dividend rate. The maximum dividend rate which would be paid for a monthly period is 10.25% annually and for a quarterly period is 3.42%.

5160.1.9 METHODS OF DISTRIBUTION AND USE OF DIVIDEND RECORD FOR HAND POSTED CREDIT UNIONS

Credit of dividends to the share accounts of the members: Under this method the amount need not be entered in "Posted to Share Ledger" column of the *Dividend Record* (Form FCU 112) since a record of the amount has already been entered in the "Amt. of Dividend" column. A check mark is placed in the "Posted to Shares Ledger" column as each share account is posted for the dividend. A check mark or the poster's initials should also be placed in the "Posted to Passbook" column when the amounts are posted to the passbooks of the members. This column should be left blank by those credit unions using statements of account in lieu of passbooks. The last column shows passbooks in which dividends have not been recorded. The date reflecting the posting to the individual account and the passbooks should be the date on which the dividend is payable. This date is established by the board of directors.

Payment by individual check to each member: The name of the member is entered in the "Name" column of the *Dividend Record* (Form FCU 112) and the number of each check issued in the "Number" column under the "Payment by Check" section. The amount of each check need not be entered unless dividends are paid to some members by check and to others by credit to shares. The return of checks by the bank when paid may be noted in the "Check Mark" column of the Record. If dividends are paid by check to each member, no entries are made in the Individual Share Loan Ledgers and the passbooks or statements of account.

Payment may not be made in cash or by drawing one check for the entire amount and disbursing the amounts due members in cash.

Payment in part by check and in part by credit to share accounts of the members: This procedure may be followed, for example, when the credit union desires to avoid writing checks of less than $1.00 and therefore decides to credit all dividends of less than $1.00 to the share accounts and to issue individual checks to members for dividends of $1.00 or more. When this procedure is followed, the member's name is entered in the "Name" column of the *Dividend Record* for each check issued. The check number and the amount of each check are entered in the "Number" and "Amount" columns, respectively. When the credits to shares are posted to the members' accounts in the Individual Share and Loan Ledger as of the date established by the directors, the amounts are checked in the "Check Mark" column.

As indicated for the first method, the "Posted to Passbook" column is either initialed or checked when the members passbook is posted, as of the established date, with the amount of the dividend credited to shares. The total of the "Amount" column in the "Payment by Check" section and the amounts in the "Posted to Shares Ledger" column should agree with the total of the "Amt. of Dividend" column.

5160.1.10 REPORTING DIVIDENDS TO INTERNAL REVENUE SERVICE

The required forms to report dividends paid and some bonuses to members on non term share accounts and term share accounts are available from the Internal Revenue Service or a local supplier. Any questions about the reporting requirements or procedures should be directed to the local Director of Internal Revenue.

5160.2 ANNUAL PERCENTAGE YIELD (APY)

NCUA R&Rs Appendix A, Part I of Part 707, *Truth In Savings*, provides the APY formula that is to be used in account disclosures and for advertising purposes. The APY is based on a hypothetical situation and does not take into consideration fluctuations during the period, such as deposits and withdrawals.

5160.2.1 DIVIDEND FORMULAS IN DETERMINING DIVIDENDS USING THE APY CALCULATION

There are two simple dividend formulas that can be used to determine dividends on an account. These two formulas should provide the same result as a credit union's automated system. The formulas and examples of dividend calculations are provided to assist in calculating the APY.

FORMULA 1:

Dividends = Principal * [(1 + Nominal Rate/Compounding Period) $^{(\text{Compounding Periods in Term})}$ - 1]

- *Nominal rate* is determined by dividing the dividend rate (not expressed as a percent) by 100 or the dividend rate expressed as a decimal.

- *Compounding Period* stands for compounding period. Use the following based on the compounding period: Daily - 360, 365, and 366 in a leap year if dividends will be earned February 29; Weekly - 52; Bi-Weekly - 26; Semi-Monthly - 24; Monthly - 12; Quarterly - 4; Semi-annually - 2; Annually - 1.

- *Compounding Periods in Term* stands for compounding periods in term. If a daily compounding period is used; the term is expressed in the number of days. If a compounding period other than daily is used, the term is expressed as the same number that was expressed for the compounding period: Weekly - 52; Bi-Weekly - 26; Semi-Monthly - 24; Monthly - 12; Quarterly - 4; Semi-annually - 2; Annually - 1.

- Principal is the amount of funds assumed to have been deposited at the beginning of the account.

FORMULA 2:

Dividends = Principal * Daily Dividend Rate * Days in Term

- *Principal* is the amount of funds assumed to have been deposited at the beginning the account.

- *Daily Dividend Rate* is the nominal rate (dividend rate (not expressed as a percent) divided by 100 or the dividend rate expressed as a decimal) times the daily rate of 1/360, 1/365, or 1/366 for a 366 day year (leap years) if the account will earn dividends for February 29th. A daily rate of 1/360 has to be applied to 365 days a year and 366 days a year for leap years.

- *Days in Term* is the number of days in the compounding period.

5160.2.1.1 EXAMPLES OF DIVIDEND CALCULATIONS IN DETERMINING DIVIDENDS USED IN THE APY CALCULATION

The dividend amounts from the examples provided in this section have been used in the APY calculation examples provided in Section 5160.2.3. The dividend calculation examples are based on a non-term share account and a term share account.

EXAMPLE 1 - Using Dividend Calculation Formula 1:

Assume the account is a non-term share account; a regular share account with no stated maturity. Principal is $1,000. The credit union compounds monthly. The dividend rate is 5.00%. The daily rate is 1/365. Placing the numbers in Formula 1 of the dividend calculation, the dividend amount for the year is $51.16190. (See Section 5160.2.3.1, for the APY calculation).

Dividends = Principal * [(1 + Nominal Rate/Compounding Period) $^{\text{(Compounding Periods in Term)}}$ - 1]

Step 1:	5.00 divided by 100	Result:	.05
Step 2:	.05 divided by 12	Result:	.004166667
Step 3:	.004166667 plus 1	Result:	1.004166667
Step 4:	1.004166667 raised to the exponent of 12	Result:	1.051161898
Step 5:	1.051161898 minus 1	Result:	.051161898
Step 6:	.051161898 times $1,000	Result:	$51.161898
Step 7:	Round $51.161898	Result:	$51.16190

(See Section 5160.2.1.2 for rounding rules for the dividend amount).

Formula 2 of the dividend calculation method could also be used for this example. However, to calculate the yearly dividend amount, the dividend amount for each compounding period in a year will have to be calculated. In this example, the number of compounding periods in a year is 12. Therefore, the dividend amount will have to be calculated 12 times. Each dividend amount will need to be added to the principal to arrive at the next month's principal. If two conditions are met, the APY calculation based on a single compounding period could be used. (See Section 5160.2.3.2, Short-Cut Illustration 2).

EXAMPLE 2 - Using Dividend Calculation Formula 2:

Assume the account is a term share account; a 6 month share certificate for $1,000. The credit union compounds monthly. The actual number of days in the share certificate is 184 (from March 1, 19X5 to August 31, 19X5). The number of days for any actual sequence of 6 months ranges from 181 to 184. The dividend rate is 5.00%. The daily rate is 1/365. Placing the numbers in Formula 2 of the dividend calculation, the dividend amount for the year is $25.47167. (See Section 5160.2.3.2, for the APY calculation).

Dividends = Principal * Daily Dividend Rate * Days in Term

Month of March, 19X5

Step 1:	5.00 divided by 100	Result:	.05
Step 2:	.05 times 1/365	Result:	.000136986
Step 3:	.000136986 times 31	Result:	.004246575
Step 4:	.004246575 times $1,000	Result:	$4.246575342
Step 5:	Round $4.246575342	Result:	$4.24658
Step 6:	$4.24658 plus $1,000	Result:	$1,004.24658

Month of April, 19X5

Step 1:	5.00 divided by 100	Result:	.05
Step 2:	.05 times 1/365	Result:	.000136986
Step 3:	.000136986 times 30	Result:	.004109589
Step 4:	.004109589 times $1,004.24658	Result:	$4.127040740
Step 5:	Round $4.127040740	Result:	$4.12704
Step 6:	$4.12704 plus $1,004.24658	Result:	$1,008.37362

Month of May, 19X5

Step 1:	5.00 divided by 100	Result:	.05
Step 2:	.05 times 1/365	Result:	.000136986
Step 3:	.000136986 times 31	Result:	.004246575
Step 4:	.00446575 times $1,008.37362	Result:	$4.282134551
Step 5:	Round $4.282134551	Result:	$4.28213
Step 6:	$4.28213 plus $1,008.37362	Result:	$1,012.65575

Month of June, 19X5

Step 1:	5.00 divided by 100	Result:	.05
Step 2:	.05 times 1/365	Result:	.000136986
Step 3:	.000136986 times 30	Result:	.004109589
Step 4:	.004109589 times $1,012.65575	Result:	$4.161598973
Step 5:	Round $4.161598973	Result:	$4.16160
Step 6:	$4.16160 plus $1,012.65575	Result:	$1,016.81735

Month of July, 19X5

Step 1:	5.00 divided by 100	Result:	.05
Step 2:	.05 times 1/365	Result:	.000136986
Step 3:	.000136986 times 31	Result:	.004246575
Step 4:	.004246575 times $1,016.81735	Result:	$4.317991486
Step 5:	Round $4.317991486	Result:	$4.31799
Step 6:	$4.31799 plus $1,016.81735	Result:	$1,021.13534

Month of August, 19X5

Step 1:	5.00 divided by 100	Result:	.05
Step 2:	.05 times 1/365	Result:	.000136986
Step 3:	.000136986 times 31	Result:	.004246575
Step 4:	.004246575 times $1,021.13534	Result:	$4.336328156
Step 5:	Round $4.336328156	Result:	$4.33633
Step 6:	$4.33633 plus $1,021.13534	Result:	$1,025.47167

(See Section 5160.2.1.2 for rounding rules for the dividend amounts).

Another way of calculating dividends on this 6 month share certificate is by assuming each compounding period has an equal number of days, except the last period which has enough days to account for the remaining term of the share certificate. As an example, assume month 1 through month 5 has 30 days (for a total of 150 days) and month 6 has 34 days (the actual number of days of 184 minus 150). If two conditions are met, the APY calculation based on a single compounding period could be used. (See Section 5160.2.3.3, Short-Cut Illustration 2).

Formula 1 of the dividend calculation method could not be used for this example. Using Formula 1 of the dividend calculation method would result in an erroneous APY since the compounding period for this example is monthly and the term is less than a year. *Formula 1 of the dividend calculation method for term share accounts less than a year can only be used when the compounding period is daily*.

EXAMPLE 3 - Using Dividend Calculation Formula 2:

Assume the same facts in Example 1 of this section: the account is a regular share account with no stated maturity. Principal is $1,000. The credit union compounds monthly. The dividend rate is 5.00%. The daily rate is 1/365. The days in the month are 31 days. Placing the numbers in Formula 2 of the dividend calculation, the dividend amount for a single month in the year is $4.24658. (See Section 5160.2.3.3, Short-Cut Illustration 2, Example 1 for the APY calculation).

Dividends = Principal * Daily Dividend Rate * Days in Term

Month with 31 days

Step 1:	5.00 divided by 100	Result:	.05
Step 2:	.05 times 1/365	Result:	.000136986
Step 3:	.000136986 times 31	Result:	.004246575
Step 4:	.004246575 times $1,000	Result:	$4.246575342
Step 5:	Round $4.246575342	Result:	$4.24658

(See Section 5160.2.1.2 for rounding rules for the dividend amount).

EXAMPLE 4 - Using Dividend Calculation Formula 2:

Assume the same facts in Example 2 of this section: a 6 month share certificate for $1,000. The credit union compounds monthly. The dividend rate is 5.00%. The days in the month are 31 days. Placing the numbers in Formula 2 of the dividend calculation, the dividend amount for a single month in the 6 month term share certificate is $4,24658 (as in Example 3 of this section). (See Section 5160.2.3.3, Share-Cut Illustration 2, Example 1 for the APY calculation).

5160.2.1.2 ROUNDING RULES FOR DIVIDENDS USED IN THE APY CALCULATION

A credit union should round dividends to five or more decimals. As an example, yearly dividends earned of $51.161897920 (5.00% for a 1/365 daily rate on $1,000, compounded monthly) would be rounded to no less than $51.16190 in determining the APY calculation. The fifth decimal place should be rounded up if the sixth decimal place is five or more. To illustrate, the sixth decimal place of $51.161897920 is a "7", thereby the fourth and fifth decimal place were rounded up from "89" to "90".

The dividend amount of $51.16190 would be used in calculating the APY. (See Section 5160.2.1.1, Example 1, and the example in Section 5160.2.3.1 for the use of this dividend amount).

5160.2.2 APY FORMULA

Section 707.2(c), *Definitions*, defines the APY as a percentage rate that reflects the total amount of dividends paid on an account, based on the dividend rate and frequency of compounding for a 365-day period and calculated according to the rules in Appendix A, Part I of Part 707, *Truth In Savings*. The APY formula is as follows:

$$APY = 100[(1 + Dividends/Principal)^{(365/Days\ in\ Term)} - 1]$$

- *Dividends* are the total dollar amount of dividends earned on the Principal for the term of the account.
- *Principal* is the amount of funds assumed to have been deposited at the beginning of the account.
- *Days in Term* are the actual number of days in the term of the account.

5160.2.3 APY CALCULATION

The dividend amounts from the examples provided in Section 5160.2.1.1 have been used in the APY examples provided in this section. APY examples have been provided for a non-term share account, a term share account, a stepped-rate account, a tiered-rate account, and a noncompounding multi-year term share account. Also provided are illustrations and examples of APY short-cuts.

5160.2.3.1 APY CALCULATION FOR A NON-TERM SHARE ACCOUNT

EXAMPLE:

Assume the same facts of Example 1 in Section 5160.2.1.1: the account is a regular share account with no stated maturity. Principal is $1,000. The credit union compounds monthly. The dividend rate is 5.00%. Dividend amount for the year is $51.16190. (See Section 5160.2.1.1, Example 1 for the dividend calculation.) Placing the numbers in the APY formula, the APY is 5.12%.

$APY = 100[(1 + Dividends/Principal)^{(365/Days\ in\ Term)} - 1]$

Step 1:	$51.16190 divided by $1,000	Result:	.05116190
Step 2:	.05116190 plus 1	Result:	1.05116190
Step 3:	1.05116190 raised to the exponent of 365 divided by 365	Result:	1.05116190
Step 4:	1.05116190 minus 1	Result:	.05116190
Step 5:	.05116190 times 100	Result:	5.116190
Step 6:	Round 5.116190	Result:	5.12%

Step 3 may be omitted if the "Days in Term" are 365. In other words, if the term is one year or the account has not stated maturity; such as regular shares, share drafts, etc., step 3 may be omitted. If step 3 is required, the calculating equipment, i.e., calculator, must have an exponent function as illustrated below. (See Section 5160.2.4 for rounding rules for APY).

EXPONENT FUNCTION: Y^x

The APY reflects only dividends and does not include the value of any bonus and it excludes any amounts that are determined by circumstances that may or may not occur. The APY can be calculated using an anticipated (projected or prospective) dividend rate or the dividend rate at the last dividend declaration date. If an APY is based on anticipated (projected or prospective) dividends, this must be disclosed as such in the account disclosures and advertisements.

5160.2.3.2 APY CALCULATION FOR A TERM SHARE ACCOUNT

The APY for term share accounts may be based on either the actual number of days during the applicable period, or the number of days that would occur for any actual sequence of that many calendar months. However, the same number of days, "Days in Term", used to calculate the dividend amount must also be used to calculate the APY.

EXAMPLE:

Assume the same facts of Example 2 in Section 5160.2.1.1: a 6 month share certificate for $1,000. The credit union compounds monthly. The actual number of days in the share certificate is 184 (from March 1, 19X5 to August 31, 19X5). The number of days for any actual sequence of 6 months ranges from 181 to 184. The dividend rate is 5.00%. The dividend amount for 6 months on 184 days (actual number of days) is $25.47167. (See Section 5160.2.1.1, Example 3 for the dividend calculation.) Placing the

numbers in the APY formula, the APY is 5.12%.

$APY = 100[(1 + Dividends/Principal)^{(365/Days\ in\ Term)}-1]$

Step 1:	$25.47267 divided by $1,000	Result:	..02547167
Step 2:	.02547167 plus 1	Result:	1.02547167
Step 3:	1.02547167 raised to the exponent of 365 divided by 184	Result:	1.051160979
Step 4:	1.051160979 minus 1	Result:	.051160979
Step 5:	.051160979 times 100	Result:	5.1160979
Step 6:	Round 5.1160979	Result:	5.12%

In step 3, 365 is divided by 184 (actual number of days) versus 181, 182, or 183 (the number of days for actual sequence of 6 months) because the dividend amount of $25.47 is based on 184 days. If the dividend amount was based on 181 days, step 3 would be 365 divided by 181. (See Section 5160.2.4 for rounding rules for the APY).

The illustrations above are shown per the definition of the APY; dividends are based on the term of the account. The term for the regular share account, in Section 5160.2.3.1, is 365 days since non-term share accounts are assigned a "term" of 365. The term for the 6 month share certificate, in the example of this section can be 181, 182, 183, or 184 days. However, since both examples were of monthly compounding, the APY results were the same: 5.12%.

5160.2.3.3 SHORT-CUTS TO THE APY CALCULATION

Short-Cut Illustration 1:

A short-cut for calculating the APY without first calculating the dividend amount can be used on accounts with a single dividend rate (no stepped-rate accounts or pure/split-rate tiered-rate accounts) and a 365-day term or no term, i.e., regular share accounts and share draft accounts. This short-cut formula cannot be used in a leap year.

The short-cut is Formula 1 of the dividend calculation method with one difference: "Principal" is replaced by 100 in the formula. (See Section 5160.2.2 for Formula 1 of the dividend calculation method).

$APY = 100 * [(1 + (Comp'ding\ Periods\ Term)^{(Nominal\ Rate/Comp'ding\ Period)}-1]$

- *Nominal rate* is determined by dividing the dividend rate (not expressed as a percentage) by 100 or the dividend rate expressed as a decimal.

- *Comp'ding Period* stands for a compounding period. Use the following based on the compounding period: Daily - 360 or 365, Weekly - 52, Bi-Weekly - 26, Semi-Monthly - 24, Monthly - 12, Quarterly - 4, Semi-annually - 2, Annually - 1.

- *Comp'ding Periods in Term* stands for compounding periods in term. If a daily compounding period is used, i.e., 360 or 365, the term is expressed in the number of days: 365. If a compounding period other than daily is used, the term is expressed as the same number that was expressed for the compounding period: Weekly - 52, Bi-Weekly - 26, Semi-Monthly - 24, Monthly - 12, Quarterly - 4, Semi-annually - 2, Annually - 1.

Short-Cut Illustration 2:

A short-cut where the dividend amount used in the APY calculation can be based on a single compounding period within the term or year can be used if two conditions are met. The two conditions are; 1) the same dividend rate is applicable to all the periods within the year/step (for non-term share accounts and stepped-rate accounts), or within the term (for term share accounts) (no pure/split-rate tiered-rate accounts), and 2) if a term share account is greater than a year, the compounding period is other than none (no compounding or at maturity).

If different dividend rates exist within a term/step or a year, or the compounding period is none (no compounding or at maturity) for a term share account that is greater than one year the APY calculation must be based on dividends for the full term or year of the account rather than on a single compounding period within the term or year of the account.

This short-cut can be used when the dividend rate is 10.00% or less without an erroneous APY resulting. However, since the higher dividend rates may result in an erroneous APY when this short-cut is used, this short-cut should not be used when the dividend rate is greater than 10.00% (the APY calculation must be based on dividends for the full term or year of the account).

EXAMPLE 1:

Assume the same facts of Example 1 in Section 5160.2.1.1, except that the dividend amount is $4.24658 which is based on a single month in the year. The days in the month are 31 days. (See Section 5160.2.1.1, Example 3 for the dividend calculation). Placing the numbers in the formula, the APY is 5.12%.

$APY = 100[(1 + Dividends/Principal)^{(365/Days\ in\ Term)} - 1]$

Step 1:	$4.24658 divided by $1,000	Result:	.00424658
Step 2:	.00424658 plus 1	Result:	1.00424658
Step 3:	1.00424658 raised to the exponent of 365 divided by 31	Result:	11.05119867
Step 4:	1.051159867 minus 1	Result:	.051159867
Step 5:	.051159867 times 100	Result:	5.1159867
Step 6:	Round 5.1159867	Result:	5.12%

(See Section 5160.2.4 for rounding rules for the APY).

EXAMPLE 2:

Assume the same facts of Example 2 in Section 5160.2.1.1, except that the dividend amount is $4.24658 which is based on a single month in the 6 month share certificate. The days in the month are 31 days. Placing the numbers in the APY formula, the APY is 5.12%. The illustration of the APY calculation in Example 1 of this section is the same illustration that would be used for this example.

5160.2.3.4 APY CALCULATION FOR A STEPPED RATE ACCOUNT

Section 707.2(w), *Definitions*, defines a stepped-rate account as an account that has two or more dividend rates that take effect in a succeeding period and are known when the account is opened. For stepped-rate accounts a single composite APY must be disclosed.

EXAMPLE:

Assume the dividend rate for the first month of a 6-month share certificate if 5.00% and the dividend rate for the remaining 5 months is 4.75%. The compounding period is monthly. The principal amount is $1,000. Since both conditions of Short-Cut Illustration 2 of Section 5160.2.3.3 are met, the APY for the two steps can be based on a single compounding period. Placing the numbers in Formula 2 of the dividend calculation, the dividend amount for the first step's first month of 31 days is $4.24658 and the dividend amount for the second step's first month of 28 days is $3.65931.

Dividends = Principal * Daily Dividend Rate * Days in Term

Month with 31 days

Step 1:	5.00 divided by 100	Result:	.05
Step 2:	.05 times 1/365	Result:	.000136986
Step 3:	.000136986 times 31	Result:	.004246575
Step 4:	.004246575 times $1,000	Result:	$4.246575342
Step 5:	Round $4.246575342	Result:	$4.24658

Month with 28 days

Step 1:	4.75 divided by 100	Result:	.0475
Step 2:	.0475 times 1/365	Result:	.000130137
Step 3:	.000130137 times 28	Result:	.003643836
Step 4:	.003843836 times $1,004.24658	Result:	$3.659309456
Step 5:	Round $3.659309456	Result:	$3.65931

(See Section 5160.2.1.2 for rounding rules for the dividend amounts).

Placing the numbers in the APY formula, the composite APY is 4.99%.

$APY = 100[(1 + Dividends/Principal)^{(365/Days\ in\ Term)}-1]$

Step 1:	$4.24658 + $3.65931	Result:	$7.90589
Step 2:	.00790589 + 1	Result:	1.00790589
Step 3:	1.00790589 raised to the exponent of 365 divided by 59	Result:	1.04988522
Step 4:	1.04988522 minus 1	Result:	04988522
Step 5:	.04988522 times 100	Result:	4.988522
Step 6:	Round to 2 decimal places	Result:	4.99

(See Section 5160.2.4 for rounding rules for the APYs).

5160.2.3.5 APY CALCULATION FOR TIERED-RATE ACCOUNT

Section 707.2(y), *Definitions*, defines a tiered-rate account as an account that has two or more dividend rates that are applicable to specific balances. There are two types of tiered-rate accounts: pure/split-rate and the hybrid/plateau tiered-rate account. Example 1 is based on a pure/split-rate tiered-rate account where the dividend rate is paid only on the portion of the share account balance that falls within each tier. Example 2 is a hybrid/plateau tiered-rate account where a dividend rate is paid based on the entire amount in the account.

EXAMPLE 2: Pure/Split-rate Tiered-rate Account

Assume the dividend rate for amounts from $0.1 to $2,500 is 5.00%, for amounts from $2,500.01 to $10,000 is 5.25%, and for amounts from $10,000.01 and greater is 5.50%. If a member has $11,000 on deposit; a dividend rate of 5.00% would be applied to $2,500, a dividend rate of 5.25% would be applied to $1,000 ($11,000 minus $10,000). For pure/split-rate tiered-rate accounts, two APYs must be disclosed for each tier except for the first tier. Therefore a total of five APYs would be disclosed; one APY for the first tier (dividend rate of 5.00%), two APYs for the second tier (dividend rate of 5.25%), and two APYs for the third tier (dividend rate of 5.50%). The two APYs disclosed in the second and third tiers are based on the tier's lower limit ($2,500.01 for the second tier and $10,000.01 for the third tier) and the tier's higher limit ($10,000 for the second tier and $100,000 for the third tier). If the board of directors has not determined a maximum amount for the third tier's higher limit, it is recommended that the insured limit of $100,000 be used.

The APY for the first tier would be based on a principal amount of $2,500 at 5.00%. The APYs for the second and third tiers are based on two different principal amounts; a principal amount that meets the tier's lower limit and a principal amount that meets the tier's higher limit. Illustrations of the principal amounts and the dividend calculations are as follows:

Second Tier's:

- Lower Limit - Principal amount is $2,500.01. Multiply $2,500 by 5.00% and multiply $.01 by 5.25%. Add up the two dividend amounts and place it in the APY formula. The result will be the APY for the second tier's lower limit.

- Higher Limit - Principal amount is $10,000. Multiply $2,500 by 5.00% and multiply $7,500 ($10,000 minus $2,500) by 5.25%. Add up the two dividend amounts and place it in the APY formula. The result will be the APY for the second tier's higher limit.

Third Tier's:

- Lower Limit - Principal amount is 10,000.01. Multiply $2,500 by 5.00%, multiply $7,500 ($10,000 minus $2,500) by 5.25%, and multiply $.01 by 5.50%. Add up the three dividend amounts and place it in the APY formula. The result will be the APY for the third tier's lower limit.

- Higher Limit - Principal amount is $100,000. Multiply $2,500 by 5.00%, multiply $7,500 by 5.25%, and multiply $90,000 by 5.50%. Add up the three dividend amounts and place it in the APY formula. The result will be the APY for the third tier's higher limit.

EXAMPLE 1: Hybrid/Plateau Tiered-rate Account

Assume the same facts of Example 1 of this section: the dividend for amounts from $.01 to $2,500 is 5.00%, for amounts from $2,500.01 to $10,000 is 5.25%, and for amounts from $10,000.01 and greater is 5.50%. If a member has $5,050.00 on deposit, a dividend rate of 5.25% would be applied to $5,050.00. If a member has $11,000 on deposit, a dividend rate of 5.50% would be applied to $11,000.

5160.2.3.6 APY CALCULATION FOR A NONCOMPOUNDING MULTI-YEAR TERM SHARE ACCOUNT

This section provides guidance on calculating the APY on term share accounts with a maturity greater than one year. Term share accounts with a maturity greater than one year that do not compound "no compounding or at maturity" will result in an APY that seems anomalous. For term share accounts with terms less than one year, the APY formula results in a rate greater than the dividend rate, even for accounts that do not compound. That's because the formula assumes that dividends are compounded at maturity, and the results are "annualized". As can be illustrated, the APY for a non-compounding term share account with terms less than one year is the same APY that would result if the term was equated to a compounding period. The APY for a 3 month non-compounding share certificate at a %5 dividend rate is 5.09%. The APY for a 12 month, quarterly compounding share certificate at a %5 dividend rate is 5.09%. Equating the 3-month term to quarterly compounding, the APY result is the same.

For term share accounts with maturities longer than one year that do not compound at least annually, the APY is less than the dividend rate. That's because these accounts are also annualized.

EXAMPLE 1:

Assume a two year (730-day) non-compounding share certificate for $1,000. The dividend rate is 5.00%. The daily rate is 1/365. The dividend amount over the two year term is $100 (.05*(1/365)*$1,000). Placing the numbers in the APY formula, the APY is 4.88%.

$APY = 100[(1 + Dividends/Principal)^{(365/Days\ in\ Term)}-1]$

Step 1:	$100 divided by $1,000	Result:	.1
Step 2:	.1 plus 1	Result:	1.1
Step 3:	1.1 raised to the exponent of 365 divided by 730	Result:	1.048808848
Step 4:	1.04880884 minus 1	Result:	.048808848
Step 5:	.048808848 times 100	Result:	4.8808848
Step 6:	Round 4.8808848	Result:	4.88%

(See Section 5160.2.4 for rounding rules for the APY).

EXAMPLE 2:

To understand how the APY on a two-year (730-day) non-compounding share certificate is less than the dividend rate of 5.00%, assume the following: a member opened a one-year annual compounding share certificate with a dividend rate of 4.88088% (should be expressed to five decimal places) and then rolled the principal and dividends into another identical one-year annual compounding share certificate with a dividend rate of 4.88088% (When expressed to five decimal places). The dividend amount for the two years is the same: $100.00

Year One			
Step 1:	4.88088 divided by 100	Result:	.0488088
Step 2:	$1,000 times .0488088	Result:	$48.8088
Step 3:	Round $48.8088	Result:	$48.81
Year 2			
Step 4:	$1,000 plus $48.81	Result:	$1,048.81
Step 5:	$1,048.81 times .0488088	Result:	$51.191157528
Step 6:	$51.191157528 plus $1,048.81	Result:	$1,100.00115753
Step 7:	$1,100.001157543 minus $1,000	Result:	$100.00115753
Step 8:	Round $100.0015753	Result:	$100.00

Thereby, terms being equal, the dividend rate of an annual compounding term share account is equivalent to the APY of a multi-year non-compounding term share account. (See Section 5160.2.1.2 for rounding rules for the dividend amount.)

5160.2.4 ROUNDING AND ACCURACY RULES FOR THE APY

Section 707.3, General Disclosure Requirements, outlines the rounding and accuracy requirements for the APY.

Rounding rules require APYs to be rounded to the nearest 1/100 of 1% (.01% or .0001) and expressed to two decimal places. As an example, an APY of 5.116% would be rounded to 5.12%. The second decimal place should be rounded up if the third decimal place is five or more. To illustrate, the third decimal place of 5.116 is "6", thereby the second decimal place would be rounded up from a "1" to a "2".

The tolerance rate for APY accuracy is not more than 1/20 of 1% (.05% or .0005) above or below the APY as determined in Appendix A, Part I of Part 707, *Truth In Savings*.

5160.3 ANNUAL PERCENTAGE YIELD EARNED (APYE)

Appendix A, Part II of Part 707, *Truth In Savings*, provides the APYE formula that is to be used in periodic statements. Section 707.2(t), Definitions, defines periodic statements as statements that set forth information about an account (other than a term share account or passbook account) and are provided to a member on a regular basis four or more times a year. Section 5090.9.1, Periodic Statement, Regulation E, and Section 5090.8, Distribution of Statement of Accounts, identifies when statements must be provided and when they need not be provided if certain conditions are met. There are no APYE disclosure requirements for passbook accounts or term share accounts. Section 707.2(s), Definitions, defines passbook accounts as accounts in which the member retains a book or other document in which the credit union records transactions on the account. Section 707.2, Definitions, defines term share accounts as being any share certificate, certificate of deposit, or other account with a maturity of at least seven days in which the member generally does not have the right to make withdrawals for six days after the account is opened, or the account is subject to an early withdrawal penalty of at least seven days dividends on amounts withdrawn. A term share account could also include a club account, i.e., Christmas Club Account, Vacation Club Account, Youth Club Account, etc., if the terms of the club account meet the definition of a term share account.

The APYE is member specific and thereby takes into account an account's fluctuations during the period, such as deposits and withdrawals. The APYE is similar to the APY in that both calculations show the relationship of dividends to a balance, for purposes of comparing an account's yield. However, the two calculations are different; among the differences are:

- The APYE looks backward instead of forward. The APYE formula uses dividends actually earned, not dividends projected to be earned.

- The APYE uses the average daily balance of an account during the period, instead of an initial principal amount, i.e., $1,000.

Because of these differences, an APYE disclosed on a member's periodic statement will not necessarily equal the APY that was disclosed to the member when the account was opened, even if the dividend rate remains the same over that period.

5160.3.1 ROUNDING RULES FOR DIVIDENDS USED IN THE APYE CALCULATION

Dividends should be rounded to two decimals for calculating the APYE. For boards of directors that elect to disclose an anticipated (projected or prospective) dividend amount and APYE on statements sent more frequently than the crediting period, the credit union does not have to round accrued anticipated (projected or prospective) dividends to two decimals for calculating the anticipated (projected or prospective) APYE on the statements that are sent more frequently than the crediting period. However, for the statement that is sent at the end of the crediting period, the dividend earned figure must reflect the amount actually paid. As an example, if dividends earned for the statement that is send at the end of the crediting period is $15.08717 and the credit union pays the member $15.09, the credit union must use $15.09 (not $15.08717 to calculate the APYE.

5160.3.2 APYE FORMULA

The APYE formula is in Appendix A, Part II of Part 707, Truth In Savings. The APYE formula is as follows:

$$APY = 100[(1 + \text{Dividends earned}/\text{Balance})^{(365/\text{Days in Term})}-1]$$

- *Dividends* earned is the actual amount of dividends accrued or paid and credited to the account for the period.
- *Balance* is the average daily balance in the account for the period.
- *Days in Period* is the actual number of days over which the dividends disclosed on the statement were earned.

Fees, bonuses, interest refunds, and extraordinary dividends are not included in the dividend figure for the APYE calculation. If an extraordinary dividend is declared, a separate dividend amount must be calculated and disclosed. An APYE based on the extraordinary dividends may be calculated and disclosed.

5160.3.2.1 AVERAGE DAILY BALANCE CALCULATION

The "balance" in the APYE calculation is defined as the average daily balance in the account for the period. The following illustration of a member's account activity for a month is from Section 5160.1.2.1:

		BALANCE
Balance: December 31, 19X		$1,000
Deposit: January 1, 19X5	200	1,200
Withdrawal: January 2, 19X5	100	1,100
Withdrawal: January 10, 19X5	400	700
Deposit: January 15, 19X5	200	900
Withdrawal: January 16, 19X5	1,000	-100
Deposit: January 18, 19X5	300	200
Deposit: January 21, 19X5	700	900
Withdrawal: January 31, 19X5	100	800

EXAMPLE 1:

The following illustrates how the average daily balance is determined based on the member's account activity:

	BALANCE x NUMBER OF DAYS	ACCUMULATED BALANCE
1/1/X5	$1,200 x 1	$1,200
1/2/X to 1/9/X5	1,100 x 8	8,800
1/10/X5 to 1/14/X5	700 x 5	3,500
1/15/X5	900 x 1	900
1/16/X5 to 1/17/X5	0 x 2	0
1/18/X5 to 1/20/X5	200 x 3	600
1/21/X5 to 1/30/X5	900 x 10	9,000
1/31/X5	800 x 1	800
TOTAL	31	24,800

Dividing the accumulated "end of day" balances of $24,800 by 31 (the total number of days in the dividend period), the average daily balance is $800.00000. For overdrawn accounts, use zero as the balance. Negative balances cannot be used in determining the average daily balance.

A credit union should round the average daily balance to five or more decimals. An average daily balance of $800.12345678 would be rounded to no less than $800.12346. The fifth decimal place should be rounded up if the sixth decimal place is five or more. The sixth decimal place of $800.12345678 is a "6", thereby the fifth decimal place would be rounded up from "5" to "6".

5160.3.3 APYE CALCULATIONS

EXAMPLE 1:

Assume that $3.40 of dividends is earned during the period using the daily balance method. The dividend rate is 5.00% using a daily rate of 1/365. The compounding period is monthly. The crediting period is monthly. The statement period is monthly. The account activity is from Section 5160.3.2.1.

	BALANCE x RATE x NUMBER OF DAYS	DIVIDEND AMOUNT
1/1/X5	$1,200 x .00013698630 x 1	$0.164383562
1/2/X to 1/9/X5	1,100 x .00013698630 x 8	.205479452
1/10/X5 to 1/14/X5	700 x .00013698630 x 5	.479452055
1/15/X5	900 x .00013698630 x 1	.123287671
1/16/X5 to 1/17/X5	0 x .00013698630 x 2	0.000000000
1/18/X5 to 1/20/X5	200 x .00013698630 x 3	0.082191781
1/21/X5 to 1/30/X5	900 x .00013698630 x 10	1.232876712
1/31/X5	800 x .00013698630 x 1	0.109589041
TOTAL	31	3.397260274

Placing the numbers in the APYE formula, the APYE is 5.12%. The "balance" (average daily balance) of $800.00 is based on Example 1 of Section 5160.3.2.1.

$APY = 100[(1 + \text{Dividends earned/Balance})^{(365/\text{Days in Term})}-1]$

Step 1:	Round $3.397260274	Result:	$3.40
Step 2:	$3.40 divided by $800.00000	Result:	.004250000
Step 3:	.004250000 plus 1	Result:	1.004250000
Step 4:	1.004250000 raised to the exponent of 365 divided by 31	Result:	1.051202017
Step 5:	1.051202017 minus 1	Result:	.051202017
Step 6:	.051202017 times 100	Result:	5.120201670
Step 7:	Round 5.120201670	Result:	5.12

In this example, since the dividend earned figure is the amount actually paid (statements are not sent more frequently than dividends are credited or compounded), the credit union must round the dividends to two decimals for calculating the APYE. (See Section 5160.3.1 for rounding rules for the dividend amount used in the APYE formula and see Section 5160.3.9 for rounding rules for the APYE).

5160.3.4 SPECIAL APYE FORMULA

The special formula is used when a credit union using the daily balance method to accrue dividends sends periodic statements more often than the period for which dividends are compounded. As an example, an account that receives quarterly statements (since the compounding period is quarterly) and is subject to Regulation E's rule (calling for monthly statements when an electronic fund transfer has occurred). A credit union may, but need not, use this formula to calculate the APYE for the quarterly statement when no monthly statements are issued for the quarter. However, this special APYE formula must be used to calculate an APYE that is disclosed on the monthly statements issued for the quarter. Also, if the dividend period is monthly, the dividend amount and APYE (that is based on the special APYE formula) will be "earned but uncredited". If the dividend period is quarterly, the dividend amount and APYE (that is based on the special APYE formula) will be an anticipated (projected or prospective) dividend amount and APYE. The special APYE formula in Appendix A, Part II (B) of Part 707, *Truth In Savings* is:

$$APYE = 100\left[\left\{1+\frac{\text{Dividends earned/Balance}}{\text{Days in Period (Compounding)}}\right\}^{(365/\text{Compounding})}-1\right]$$

- *Dividends earned* is the actual amount of dividends accrued or paid and credited to the account for the period.
- *Balance* is the average daily balance in the account for the period.
- *Days in Period* is the actual number of days over which the dividends disclosed on the statement were earned.

- *Compounding* is the actual number of days in each compounding period.

5160.3.5 SPECIAL APYE CALCULATION

Assume the same facts as in Section 5160.3.2.1 and in Example 1 of Section 5160.3.3, except the account compounds quarterly. Also, assume dividends are credited quarterly, this is the first month of the quarter, there are 31 days in the fist month, and 91 days in the quarter. Placing the numbers in the special APYE formula, the anticipated APYE is 5.09%.

$$APYE = 100\left[\left\{1+\frac{\text{Dividends earned/Balance}}{\text{Days in Period (Compounding)}}\right\}^{(365/\text{Compounding})}-1\right]$$

Step 1:	Round to five, $3.397260274	Result:	$3.39726
Step 2:	Round to five, $800.00000	Result:	$800.00000
Step 3:	3.39726 divided by $800.00000	Result:	.004246575
Step 4:	.004246575 divided by 31	Result:	.000136986
Step 5:	.000136986 times 91	Result:	.012465752
Step 6:	.012465752 plus 1	Result:	1.012465752
Step 7:	1.012465752 raised to the exponent of 365 divided by 91	Result:	1.050946264
Step 8:	1.050946264 minus 1	Result:	.050946218
Step 9:	.050946218 times 100	Result:	5.094621775
Step 10:	Round 5.094621775	Result:	5.09%

Since the compounding and crediting period is quarterly, if a monthly statement is sent, the credit union does not have to round accrued dividends to two decimals for calculating the anticipated (projected or prospective) APYE for the months that statements are sent more frequently than dividends are compounded (the first monthly statement and the second monthly statement issued during the quarter). However, on the quarterly statement, the dividends earned figure used in the APYE formula must reflect the amount actually paid. As an example, if dividends earned for a statement period is $15.08717 and the credit union pays the member $15.09, the credit union must use $15.09 (not $15.08717) to calculate the APYE.

5160.3.6 DIVIDEND PERIOD LENGTH VERSUS STATEMENT PERIOD LENGTH FOR THE APYE

A credit union can choose to disclose APYEs based n the length of the dividend period. As an example, a credit union that compounds and credits dividends monthly but issues quarterly statements can show on the quarterly statement a single APYE for the entire quarter, or three APYEs (one for each crediting period in the statement period). Generally speaking, other things being equal, the APYE will be higher (or at least no lower) if the credit union chooses to disclose for a shorter period.

EXAMPLE 1:

The following illustrates three monthly APYEs and one quarterly APYE. The dividend calculation method is based on the average daily balance.

	January	February	March
Dividend Rate	5.00%	5.00%	5.00%
Dividends	$4.2	$3.85	$4.28
Average daily balance	1,000.00	1,004.25	1,008.10
Days in Period	31	28	31
APYE	5.12%	5.11%	5.11%

If instead, the credit union based the APYE on the entire quarter, the result would be:

Dividends	$12.38
Average daily balance	1,000.00
Days in Period	90
APYE	5.11%

EXAMPLE 2:

Assume the same facts as in Example 1 of this section, except the dividend rates are different for each month.

	January	February	March
Dividend Rate	5.00%	5.25%	5.50%
Dividends	$4.25	$4.04	$4.71
Average daily balance	1,000.00	1,004.25	1,008.29
Days in Period	31	28	31
APYE	5.12%	5.37%	5.64%

If instead, the credit union based the APYE on the entire quarter, the result would be:

Dividends	$13.00
Average daily balance	1,000.00
Days in Period	90
APYE	5.38%

5160.3.7 APYE REQUIREMENTS WHEN THE COLLECTED BALANCE METHOD IS USED TO ACCRUE AND PAY DIVIDENDS

Credit unions that accrue or pay dividends on non-cash items; such as checks, must base the balance in the APYE calculation on the same balance method used to calculate dividends. As an example, a credit union that accrues or pays dividends on non-cash items using the collected balance must use the collected balance to calculate the "average daily balance" in the APYE formula.

The choice of accruing or paying dividends on the "collected" balance versus the "ledger" balance may affect a member's dividend amount. Other things being equal, a credit union that pays on the ledger balance will pay more in dividends than a credit union that pays on the collected balance (since the ledger balance is at least as large as the collected balance). Therefore, in order to accurately reflect the APYE and provide useful information to the member, the "balance" (average daily balance) used to calculate the APYE must be the same balance method that was used to calculate dividends.

5160.3.8 APYE ON CLOSED ACCOUNTS

When members close their accounts during a dividend period and contractually forfeit their accrued dividends, those forfeited dividends should not be included in the APYE calculation for the period nor in the anticipated (projected or prospective) APYE calculation for the period (where statements are sent more frequent than dividends are credited). When members close their accounts during the dividend period and do not forfeit their accrued dividends, and when members open an account during the dividend period, the "balance" (average daily balance) used in the APYE calculation should only reflect the number of days the account was open versus the number of days in the period.

5160.3.9 ROUNDING AND ACCURACY RULES FOR THE APYE

Section 707.3, *General Disclosure Requirements*, outline the rounding and accuracy requirements for APYE.

Rounding rules require the APYE to be rounded to the nearest 1/100 of 1% (.01%) and expressed to two decimal places. As an example, an APYE of 5.116% would be rounded to 5.12%. The second decimal should be rounded up if the third decimal is five or more. To illustrate, the third decimal of 5.11<u>6</u> is a "6", thereby the second decimal would be rounded up from a "1" to a "2".

The tolerance range for APYE accuracy is no more than 1/20 of 1% (.05%) above or below the APYE as determined in *Truth In Savings*, Appendix A, Part II of Part 707.

5190 RECORDS PRESERVATION AND RETENTION

5190.1 RECORDS PRESERVATION PROGRAM

All federally insured credit unions are required to maintain a records preservation program to identify, store and reconstruct vital records in the event that the credit union's records are destroyed. The treasurer of the credit union is responsible for storing duplicate vital records; the responsibility may be delegated.

The Records Preservation Program must be operational within 6 months after the credit union's insurance certificate is issued. Records must then be stored every 3 months, within 30 days after the end of the 3-month period. Previously stored records may be destroyed when the current records are stored. A records preservation log is to be maintained showing what records were stored, their location, the date of storage and the person responsible for their storage. Credit unions that have some or all of records maintained by an off-site data processor are considered to be in compliance for the storage of those records.

A vital records preservation center should be established at any location that is far enough from the credit union's office to avoid the simultaneous loss of both sets of records in the event of a disaster. Stored records may be in any format which can be used to reconstruct the credit union's records. Formats include paper originals, machine copies, microfilm or microfiche, magnetic tape, etc. The vital records to be stored are (as of the most recent month end):

a. A list of share and/or deposit and loan balances for each member's account. Each balance of the list is to be identified by an account name or number. Multiple balances of either loans or shares to one account need to be listed separately.

b. A financial report (Statement of Financial Condition) which lists all of the credit union's assets and liability accounts. If the statement is for a period other than the end of an accounting period in which the income and expense accounts have been closed to Net Income, the statement should include a Statement of Income and Expense for the current period to date.

c. A listing of the credit union's banks, insurance policies, and investments. The information can be marked "permanent" and be updated only when changes are made. Also helpful, but not required would be a machine copy of the credit union's charter, insurance certificate, and most recent amendments to the field of membership.

d. Credit unions that have in-house data processing capabilities need to make provision to safe guard the backup of electronic data on a continuous basis.

5190.2 RECORDS RETENTION

After a period of years, a credit union's files become crowded and the question arises whether certain records are any longer of value. Material which occupies space unnecessarily is costly and hampers the finding of essential material. Efficiency requires that all records that are no longer useful be discarded just as both efficiency and safety require that useful records be preserved and kept readily available.

The destruction of any record of a federal credit union, regardless of how inconsequential it may seem or how old it may have become, is a matter requiring careful consideration. Subject to the minimum time within which records discussed below may not be destroyed, the retention period for the records should be determined and authorized by the board of directors in compliance with the requirements of the statute of limitations established by the political subdivision of the credit union location.

The board of directors may approve a schedule authorizing the disposal of certain records on a continuing basis upon expiration of specified retention periods. Such a schedule provides a means for systematic disposal of records under a continuing authority from the board. This will eliminate the necessity for the board to give repeated consideration to dispose of the same types of records created at different time periods.

As records are destroyed by authorization of the board of directors, an appropriate listing of such records should be prepared and retained permanently. Destruction of such records should ordinarily be carried out by at least two persons whose signatures, attesting to the fact that such records were actually destroyed, should be affixed to the listing.

5190.3 DESTRUCTION OF OBSOLETE RECORDS

Minimum *Retention Time*

A record should not be destroyed which pertains to any member's account until the account has been appropriately verified by the supervisory committee; however, Individual Share and Loan Ledgers (Form 103 or its equivalent) should not be destroyed. Records, for a particular period, should not be destroyed until both a comprehensive annual audit by the supervisory committee and a supervisory examination by the National Credit Union Administration have been made for that period.

Records that would support a credit union's position in actions before the courts, or other claims should be retained for the minimum period prescribed by the statute of limitations jurisdiction of the political subdivision(s) where the credit union does business.

A legal opinion, from a local attorney, with respect to the application of the statute of limitations is necessary for a full consideration of the subject.

Permanent Retention Records

Records which are of an official nature significant to the continuing operations of the credit union should be retained permanently. Such records are:

a) Charter, bylaws, and amendments.

b) Certificates or licenses to operate under programs of various government agencies, such as a certificate to act as issuing agent for the sale of U. S. Savings Bonds.

c) Current manuals, circular letters and other official instructions of a permanent character received from the National Credit Union Administration and other appropriate governmental agencies.

Key records which reflect the operation of the credit union, and particularly records which reflect transactions with the members or former members, should be retained permanently, unless, as stated below, such records have been microfilmed. Such records are:

a) Minutes of meetings of the membership, board of directors, credit committee, and supervisory committee.

b) One copy of each semiannual and annual (June 30 and December 31) financial report NCUA 5300 and/or their equivalents.

c) One copy of each Supervisory Committee Comprehensive Annual Audit Report (Form 701) and attachments.

d) Supervisory Committee record of account verification (SCG 30 or its equivalent.)

e) Applications for Membership and Joint Share Account Agreements (Forms FCU 150 and 123 or their equivalents).

f) Journal and Cash Record (Form FCU 101 or its equivalent).

g) General Ledger (Form FCU 102 or its equivalent).

h) Copies of the Periodic Statements of Members, or the Individual Share and Loan Ledger (Form FCU 103 or its equivalent). (A complete record of the account needs to be kept permanently.)

i) Bank Reconcilements (Form SCG 10 or its equivalent).

j) Listing of records destroyed.

Any record not described above may be periodically destroyed. Care should be taken to conform to retention requirements of the various consumer-type regulations as further discussed in Section 5190.3.1 below. Records that may be periodically destroyed include at least:

a) Applications of paid off loans.

b) Paid notes.

c) Various consumer disclosure forms.

d) Cash Received Vouchers

e) Journal Vouchers.

f) Canceled Checks.

g) Bank Statements.

h) Outdated manuals, canceled instructions, and nonpayment correspondence from the National Credit Union Administration and other governmental agencies.

5190.3.1 MICROFILMING OF RECORDS

Federal credit unions may microfilm records as desired, including the listed permanent key records. There will probably be more interest in microfilming the bulkier of the records that should be retained permanently, although in many cases a board of directors may want to microfilm nonpermanent records such as voided and canceled checks, Cash Received Vouchers, Journal Vouchers, etc.

Before a decision is made to microfilm records, legal advice should be obtained on applicable laws in the jurisdiction to determine whether microfilm will support the credit union's claims in a court of law in which the credit union is located. If a credit union decides to microfilm records, not only should adequate equipment be used to properly microfilm, but equipment must be readily available for reading and making prints of the film, as needed.

Another important consideration when contemplating microfilming of records is the timing of audits and/or regulatory examinations. Records which have been microfilmed, although convenient from the storage viewpoint, can present problems for the auditor and examiner in terms of accessibility and time. It is therefore suggested that microfilming of records required at audits and examinations be delayed until the audits and examinations are completed.

All original loan documents should be retained until the loan is satisfied and the requirements for retention in Regulations Z, B, C, the Real Estate Settlement Procedures Act, Flood Disaster Protection Act and the Fair Credit Reporting Act, the Bank Secrecy Act, or any other applicable law or regulation are satisfied. They may then be microfilmed. The credit union may wish to destroy the original records after those original records have been microfilmed. This should only be done after obtaining competent legal advice that the credit union will be in compliance with applicable state and federal laws, if such original records are destroyed.

After the records have been microfilmed, those original records may be destroyed following the next examination by the National Credit Union Administration and the next comprehensive annual audit by the supervisory committee, provided the Individual Share and Loan Ledgers are in balance with the General Ledger Control accounts. If any of the records pertain to discrepancies or shortages that have been discovered, such records should not be destroyed until the discrepancies or shortages have been cleared.

5190.3.2 DISPOSAL OF DATA PROCESSING OUTPUT REPORTS

The previous instructions pertaining to the disposal of records also apply to output reports produced by a data processing system as well as those records used with a conventional accounting system. Output reports that substitute for standard conventional records or that provide the only support for entries in the Journal and Cash Record should be retained for the minimum period specified. In the case of one output report completely duplicating the information shown on another record, only one of the records needs to be maintained. Output records may be microfilmed subject to the conditions listed previously.

5190.3.3 MICROFICHED RECORDS

Credit unions may also use microfiche for the storage of records. As with microfilm, this is a convenient way to store records but it can present the same problems for auditors and examiners in terms of accessibility. If records are stored on microfilm or microfiche, the credit union needs to be able to produce, within 5 working days, a hard copy of the records for the period in which the audit or examination is being done. In addition, the credit union on a continuing basis should retain a hard copy of the previous month-end trial balance of the Individual Share and Loan Ledgers until the next output report is received.

The credit union should also consider having, on the premises, equipment to read and make prints of the microfiche. Many data processing firms now produce the credit union's copy of the statement of accounts on microfilm or microfiche. Since the need arises quite frequently to reproduce statements, a reader/printer would be valuable to the credit union's operations.

5193 SECURITY DEVICES AND PROCEDURES

The following security devices and procedures should be used by a federally insured credit union:

a) Tamper-resistant locks should be installed on functional exterior doors and windows in all credit union offices not owned by the credit union unless the building owner objects to the installation of these devices;

b) Vital records should be stored in a fire-resistant vault or container prior to the closing of the office or building each day;

c) A decal should be displayed in a conspicuous place which states that the Federal Bureau of Investigation has jurisdiction to investigate felonies committed against a federally insured credit union, unless the credit union's board of directors determines that display of the decal would identify a credit union office which otherwise is undistinguished from its surroundings.

d) All currency and negotiable securities should be placed in a locked safe or vault at times other than regular business hours. If a credit union cannot afford to purchase a vault or safe, or if the construction of the building or office will not support a safe or vault, then funds and negotiable securities in excess of $500 should be deposited daily in an authorized depository.

e) The area around the vault or safe should be illuminated at night if the vault or safe is visible from outside the office; and

f) If a credit union has a change fund, the currency at each teller's window, or place where funds are disbursed or received, should include bait money. Bait money is defined as Federal Reserve Notes, of which the denominations, the banks of issue, serial numbers and series year are recorded on paper, verified by a second employee or officer, and kept in a safe place apart from the bait money and any other cash.

Additional security devices and procedures, such as robbery and/or burglary alarms, and surveillance equipment, should be used when appropriate for the circumstances of the credit union based on the following factors:

a) The incidence of crime in the area in which the office is located;

b) The location of the nearest law enforcement offices, guards, or security personnel and the time required for such personnel to arrive at the office;

c) The amount of currency or other valuables exposed to robbery, burglary or larceny;

d) The cost of security devices;

e) Other security measures in effect at the office or within the area, such as the office being located on the premises of a business with security, within the compound of a military installation, etc.;

f) The physical characteristics of the office structure and its surroundings; and

g) The size of the credit union and number of its employees.

Credit union officials should consult with law enforcement officers, other specialists in the security field, and their bonding company when implementing or revising security programs.

5195 SALE AND REDEMPTION OF U.S. SAVINGS BONDS

Section 121 of the Federal Credit Union Act provides that federal credit unions may act as agents of the U.S. Treasury Department for the sale of U.S. Savings Bonds. Only those federal credit unions that have been approved as issuing and/or paying agents by the United States Treasury may engage in savings bonds transactions. Both members and nonmembers of the credit union may participate in these transactions.

Federal credit unions must properly account for . the receipt, sale, and remittance of the proceeds of all bonds sold and for all bonds redeemed.

Federal credit unions engaged in U.S. Savings Bonds transactions will be dealing with both the U.S. Treasury Department and the regional Federal Reserve Bank. Pertinent instructions from both agencies will need to be followed. Adequate safekeeping facilities for the stock of unissued bonds must be provided.

5195.1 BOND SALE TRANSACTIONS

5195.1.1 RECORDS

The invoices received from the Federal Reserve Bank may be used as a record of the U.S. Savings Bonds received. The bonds received should be compared with these invoices for correctness of quantity, serial numbers, and denominations. A record of the serial numbers and denominations of spoiled bonds returned to the Federal Reserve Bank must be attached to the advices received from the Federal Reserve Bank acknowledging the receipt of the spoiled bonds. Both the invoices and the advices must be retained as a part of the records of the credit union.

The accounting discussion and illustrations below refer to the use of two accounts: (1) Account No. 807, "Accounts Payable, U.S. Savings Bonds Remittances", which is for use in recording the liability where the full purchase price has been received and bonds issued, but funds have not yet been remitted to the Federal Reserve Bank; and (2) Account No. 806, Accounts Payable, Installment Payments on U.S. Bonds, to record the installment payments received toward the purchase of bonds, where the full purchase price has not yet been received and/or the bonds have not been issued.

Separate accounts may be established for each type of bonds purchased. It is essential that accurate subsidiary records be kept to support the individual purchases or installment payments made by each individual and the bonds issued to these individuals.

5195.1.2 CASH RECEIVED FROM SALES OF U.S. SAVINGS BONDS

A Treasury Department form "Application for United States Savings Bonds" which is furnished by the Federal Reserve Bank, should be used to record cash received from each sale of bonds, and this form may be used in place of the Cash Received Voucher (Form FCU 105) if desired.

Form FCU 120, "Record of Cash Received from Sales of U.S. Savings Bonds," provides a memorandum record of each savings bond sold. It also serves as a detailed record in support of the credit balance of "Accounts Payable-U.S. Savings Bond Remittances", (Account No. 807). This account will reflect the liability of the credit union as an issuing agent for the proceeds received from sales of U.S. Savings Bonds. The credit balance of the account represents the total amount received from sales of bonds which have been issued but on which the funds have not been remitted to the Federal Reserve Bank.

The copy of the registration stub may be used as a substitute for form FCU 120, provided that such stubs are filed in a manner which will provide adequate information to prove the credit union's accountability for bonds received and that all cash for bonds sold has been remitted to the Federal Reserve Bank.

The total of the amounts received, as shown on form FCU 120 or by the unremitted registration stubs (amounts received from sales of bonds issued but which have not been remitted to the Federal Reserve Bank), should equal the credit balance of "Accounts Payable-U.S. Savings Bond Remittances", (Account No. 807). The total of these amounts should be proved with the balance of this account at the close of each month in the same manner as the Individual Share and Loan Ledger accounts are proved with their control accounts in the General Ledger. The monthly lists of these amounts should be retained.

If a credit union desires to develop its own record of U.S. Savings Bonds sold, the record should contain the following minimum information:

- Date of receipt of cash.
- Name of purchaser.
- Maturity value of bond and bond serial number.
- Amount of proceeds received from each purchaser.
- Date proceeds remitted to Federal Reserve Bank.

5195.1.3 ILLUSTRATIVE ENTRIES

a) When the daily total of cash received from sales of fully purchased and issued savings bonds is entered in the Journal and Cash Record (see Section 5195.2 for installment purchases of savings bonds):

Dr.-Cash (Acct. No. 731) $75.00
Cr.-Accounts Payable - U.S.
Savings Bonds Remittances
(Acct. No. 807) $75.00

b) When proceeds received from sales of savings bonds are remitted to the Federal Reserve Bank:

Dr.-Accounts Payable - U.S.
Savings Bonds Remittances
(Acct. No. 807) $75.00
Cr.-Cash (Acct. No. 731) $75.00

5195.2 INSTALLMENT PAYMENTS

Federal credit unions, as issuing agents, may accept installment payments toward the purchase of bonds. Installment payment funds received should be recorded as “Cash”, (Account No. 731). If desired, a separate bank account may be opened for handling the installment payments and remittances. If this is done, installment payments received should be recorded in one of the available Cash accounts not presently used by the credit union in the 730 account series. In either event, the liability for installment payments received should be recorded in “Accounts Payable-Installment Payments on U.S. Bonds”, (Account No. 806).

5195.2.1 PAYMENTS RECEIVED

As a posting medium for entries in the individual accounts and in the Journal and Cash Record, either payroll deduction forms or cash received vouchers may be used. In those credit unions that receive installment payments through payroll deductions, provision may be made on the records already in use to show the deductions applicable toward the purchase of bonds.

Cash received vouchers bearing an appropriate notation of the nature of the collection should be prepared when installment payments are received in cash. If a separate cash account is used for bond installment payments received, the appropriate Cash account column should be used to record the entry in the Journal and Cash Record.

5195.2.2 INSTALLMENT PAYMENTS RECEIVED OVER THE COUNTER

Those credit unions collecting installment payments in cash over the counter should provide a receipt for each payment received. The form of receipt may be a duplicate cash received voucher. An installment payment record folder can also be prepared for recording the payments. If memorandum entries have been made in the folder, a notation should be made therein of the date the bond was issued and the amount thereof. If receipts have been given for the installment payments, they should be turned over to the credit union when the bond is issued.

The record of deductions from salaries or wages as furnished by the company to its employees may be regarded as sufficient receipt until such time as the bond is issued.

The credit union should be prepared to furnish any subscriber a statement of installment payments received, if one is requested.

5195.2.3 DISBURSEMENTS

The disbursements should be made by check and should be limited to remittances for bonds issued and to withdrawals by subscribers of installments paid. A person should only be permitted to withdraw these payments prior to their reaching the amount agreed upon for the issuance of a bond, and only then upon termination of employment or the cancellation of the authorization for purchase of bonds either by the person or the credit union. In such an event, the amount of the accumulated payments may be returned and the individual account closed. A receipt should be obtained from the person receiving the accumulated funds. A Journal Voucher (Form FCU 106A or equivalent) may be used for this purpose. This credit union should also obtain for its files a release from the subscribers when authorizations for payroll deductions applicable to bond purchases are canceled.

5195.2.4 LIABILITY ACCOUNT

“Accounts Payable-Installment Payments on U.S. Bonds”, (Account No. 806) should show the liability of the credit union for installment payments received for application toward the purchase of U.S. Savings Bonds. The credit balance of the account should represent the total of such payments received and not yet applied to the purchase of bonds.

The installment payments on U.S. Savings Bonds are not the equivalent of payments on shares and no interest or dividends will be paid thereon. Furthermore, these payments are not to be considered as security for loans and the approval of the credit committee or loan officer for withdrawals is not necessary. This account will be credited with the total of cash received as installment payments on U.S. Savings Bonds as shown by cash summary vouchers or payroll deductions records.

Bonds are issued whenever the installment payments by a subscriber or group of subscribers reach the designated purchase price. Upon issuance of bonds, this account should be debited with the total amount of the sale and "Accounts Payable U.S. Savings Bonds Remittances", (Account No. 807) should be credited. Entries for bonds issued should also be made in the Record of Cash Received from Sales of U. S. Savings Bonds, Form FCU 120, or a substitute form used to record issuance of bonds.

5195.2.5 RECORDS OF INSTALLMENT PAYMENTS

Credit unions that receive installment payments on bonds through payroll deductions should obtain from the subscribers an authorization for such deductions and for application thereof to the purchase of bonds. The authorization should be addressed to both the employer and the credit union.

The U.S. Treasury issues a standard card form, Payroll Authorization for Purchase of Savings Bonds, which may be used in this connection. Certain changes in the form are necessary to include the credit union as a party to the agreement.

Credit unions receiving installment payments direct from subscribers should, likewise, have an authorization for application of the payments to the purchase of bonds. The U.S. Treasury form will be of assistance in preparing the authorization.

5195.2.6 SUBSIDIARY LEDGERS

Subsidiary ledgers should be established to account for the installment payments received from each person. The individual accounts for installment payment will ordinarily be sold separately from the Individual Share and Loan Ledgers. Postings from the payroll deduction records or cash received vouchers to the individual installment accounts should be made in the same manner as postings to the Individual Share and Loan Ledgers. The individual installment account balances should be totaled at least at the end of each month and balanced with the total shown in General Ledger "Accounts Payable-Installment Payments on U.S. Bonds", (Account No. 806). The monthly trial balance tapes of the individual accounts should be kept for audit purposes. The ledger forms used should provide the following information:

- Name and address of subscriber.
- Date and amount of payments received.
- Date and amount of withdrawals or amounts applied to issuance of bonds.
- Balance to credit of subscriber.

5195.2.7 ILLUSTRATIVE ENTRIES

a) When payments are received for installment purchases of U.S. Savings Bonds:

Dr.-Cash (Acct. No. 731 or other appropriate Cash Account) $122.50
Cr.-Accounts Payable Installment Payments on U.S. Bonds (Acct. No. 806) $122.50

b) When a bond is fury paid for and is issued:

Dr.-Accounts Payable - Installment Payments on U.S. Bonds (Acct. No. 806) $150.00
Cr.-Accounts Payable - U.S. Savings Bonds Remittances (Acct. No. 807) $150.00

c) When an authorization is canceled and the subscriber withdraws the balance of his installment account:

Dr.-Accounts Payable - Installment Payments on U.S. Bonds (Acct. No. 806) $12.50
Cr.-Cash (Acct. No. 731 or. Other appropriate Cash Account) $12.50

d) When remittance is made to the Federal Reserve Bank for Bonds issued under the installment payment plan:

Dr.-Accounts Payable - U.S. Savings Bonds Remittances (Acct. No. 807) $150.00
Cr.-Cash (Acct. No. 731 or. Other appropriate Cash Account) $150.00

5195.3 SAVINGS BOND REDEMPTION TRANSACTIONS

Credit unions, as paying agents, may redeem savings bonds by check, cash, or by crediting the member's share account. Amounts receivable from the Federal Reserve Bank for such redemptions should be charged to "Accounts Receivable-U.S. Savings Bonds Redeemed", (Account No. 727).

5195.3.1 PAYMENT BY CHECK

Debits to "Accounts Receivable-U.S. Savings Bonds Redeemed", (Account No. 727), should be made when checks are issued in payment of bonds. Credits should be made when a remittance is received from the Federal Reserve Bank for the value of the various shipments of bonds.

If it is anticipated that bond payments will be handled in volume, or if a volume of such transactions develops, blank columns of the Journal and Cash Record may be used to record the debits and credits of Account No. 727.

A Journal Voucher (Form FCU 106A or its equivalent) should be prepared in connection with each payment of a bond(s) by check. This voucher should show the usual information and, in addition, should show the serial number of the bond(s) paid.

5195.3.1.1 ILLUSTRATIVE ENTRIES

When a check is issued in payment of a savings bond of $50 denomination and having a current redemption value of $25:

Dr.-Accounts Payable - U.S.
Savings Bonds Redeemed
(Acct. No. 727) $25.00
Cr.-Cash (Acct. No. 731) $25.00

When a remittance is received from the Federal Reserve Bank for the value of paid bonds and notes shipped:

Dr.-Cash (Acct. No. 731) $175.00
Cr.-Accounts Receivable -
U.S. Savings Bonds
Redeemed (Acct. No. 727) $175.00

5195.3.2 PAYMENT BY SHARE CREDIT

A Journal Voucher (Form FCU 106A or its equivalent) should be used to record the redemption of a bond(s) by share credit. This voucher should show the usual information and, in addition, show the serial number of the bond(s) paid. All such Journal Vouchers involving share credits for the redemptions may be combined daily on a summary voucher for entry into the Journal and Cash Record.

Account No. 727, "Accounts Receivable-U.S. Savings Bonds Redeemed", should be debited for the value of any bonds paid by credit to shares. Posting of the share credit should be made to the member's Individual Share Ledger.

5195.3.2.1 ILLUSTRATIVE ENTRY

To record payment by the credit union of a savings bond of $50 denomination and having a current redemption value of $25, by crediting the member's share account:

Dr.-Accounts Receivable - U.S.
Savings Bonds Redeemed
(Acct. No. 727) $25.00
Cr.-Shares (Acct. No. 901) $25.00

5195.3.3 PAYMENT IN CASH

Payment of bonds may be made in cash if the board of directors of the credit union desires to do so. If the board decides to make these disbursements in cash, it may, by recorded resolution, exercise this option of the standard bylaws.

A journal voucher should be prepared, indicating among other things the person to whom the funds were paid, the amount paid, and the serial number of the bond(s). The fact that the disbursement was made in cash should also be noted and the payee should sign the voucher in the usual manner. The journal voucher should be held with the bond pending its withdrawal from the change fund. The journal vouchers attached to the bonds withdrawn from the change fund should be detached and summarized to support the entry in the Journal and Cash Record to replenish the change fund.

5195.3.3.1 ILLUSTRATIVE ENTRY

To record check drawn in replenishment of change fund for bonds paid in cash:

Dr.-Accounts Receivable - U.S.
Savings Bonds Redeemed
(Acct. No. 727) $381.00
Cr.-Cash (Acct. No. 731) $381.00

5195.3.4 RECORDING PAYMENT DATA

Credit unions will be required to record certain payment information on the face of bonds paid. Among the required items are the amount paid, the paying agent's name, the date of payment, and who approved or made payment. The method of payment, such as cash or check (include check no.), share credit and any other pertinent information can be noted on the back of the bond.

5195.3.5 SHIPMENT OF PAID BONDS

Shipment of paid bonds to the Federal Reserve Bank should be supported by letters of transmittal in accordance with instructions from the bank. It will be preferable for purposes of identification and balancing of accounts to have the shipments include all bonds paid on one or more business days.

The debit balance in "Accounts Receivable-U.S. Savings Bonds Redeemed", (Account No. 727), at any given date should represent that total value of redeemed bonds on hand plus the value of bonds shipped to the Federal Reserve Bank for which remittance has not been received.

Copies of letters transmitting shipments of bonds should be retained and filed. One file should include copies of letters on shipments for which remittance has been received and another file should include letters covering shipments for which payment has not been made by the bank. The file on shipments not paid for and the redeemed bonds on hand pending shipment will constitute the support for the General Ledger Account No. 727.

5195.3.6 COMPENSATION FOR SERVICES

The compensation received by the credit union for serving as a paying agent should be credited to "Other Operating Income", (Account No. 151). This credit should be made at the time the remittance is received.

5200 REIMBURSEMENT FOR SERVICES

Section 107(12) of the Federal Credit Union Act permits federal credit unions to obtain reimbursement for services performed for members. These include the sale of checks and money orders, the cashing of checks and money orders, processing of member's nonsufficient funds (NSF) checks, and the administering of share draft or credit card programs. Parts 701.30 and 721 of the National Credit Union Administration Rules and Regulations authorize safe deposit box service, voluntary purchase of various types of insurance, group purchasing and the collection of utility bills.

5200.1 DEFINITION OF DIRECT AND INDIRECT COSTS

"Direct costs" are defined as those elements of cost which can be specifically identified on a consistent and logical basis with the service provided. Such costs are: (a) supplies directly required for the service, and (b) direct labor costs.

In determining "direct costs", only those supplies which are required to perform the service may be considered. Salaries of personnel who directly perform the service may be considered. Salaries of personnel who directly perform the service rendered on a part-time basis may be prorated on the basis of either the units of work performed during a period of not less than 1 month, or the percentage of time spent in directly performing the service. Determination of such percentage should cover a period not less than 1 month.

"Indirect costs" are defined as those costs incurred for the benefit of more than one activity, a portion of which can be identified as being related to the service and activity for which a reimbursement charge is made. Such costs may be allocated or apportioned to the service, using a reasonable method of allocation, and included with "direct costs" in determining the amount of reimbursement which may be obtained. "Indirect costs" may be determined and prorated either on the basis of total units of work produced by the credit union, or the percentage of time spent by employees who directly perform the service.

Complete documentation of the methods used and the costs involved should be retained. Measurements are to be taken not less frequently than annually, and a full explanation of the methods used and decisions reached are to be recorded in the minutes of the board of directors.

5200.1.1 ESSENTIALS NEEDED FOR OFFERING THE SALE OF, AND CASHING OF, MONEY ORDERS AND CHECKS

A board of directors of a federal credit union needs to provide for the following when it authorizes the sale of checks and money orders:

a) Adequate physical facilities to handle and safeguard the cash funds to be used in connection therewith;

b) Adequate internal controls for the handling of and accounting for the cash funds and fees to be received and charged;

c) Adequate policies covering the kinds of negotiable checks (including travelers' checks) and money orders, and the maximum amounts thereof that it will sell or issue to members, and the enforcement thereof,

d) Adequate rules and procedures to assure that the service will be provided only to members of the credit union, including the identification of any member who requests the service; and

e) Adequate surety bond and insurance coverage that would be required.

5200.2 REIMBURSEMENT FEES-COST OF SELLING CHECKS

The credit union may collect fees from members in connection with the sale to them of negotiable checks, travelers' checks and money orders. Fee income should be recorded in Account No. 151, "Miscellaneous Operating Income."

A federal credit union is not required to sell such checks. If such checks are sold, the board should decide on the amount of the fee, if any, to be charged.

5200.2.1 SEPARATE BANK ACCOUNT

If a credit union sells its own checks or money orders, a separate bank account, properly identified, should be used for this purpose. A separate General Ledger cash account with an appropriate descriptive title should be used. For this purpose the additional cash, general ledger account should be assigned one of the unused numbers in the series 732 through 736. Sufficient funds should be kept in the bank account to pay all checks or money orders drawn on it. The checks or money orders issued under such an arrangement should be readily distinguishable from the credit union's regular checks.

5200.2.2 CHECKS SOLD

An adequate record or register in chronological order of all checks sold should be maintained. Although no standard form of record or register has been prescribed, it should provide for at least the following: (a) date, (b) member's name or account number, (c) check number, (d) amount of the check, and (e) amount of fee collected for the sale of the check. If voucher checks are used, the duplicate or triplicate copy can be prepared so that it will serve as the register. If a record or register separate from the Journal and Cash Record is used, a daily summary entry, showing the inclusive number of checks issued, should be made in the Journal and Cash Record. The checks issued as shown by the record or register should be reconciled at the end of each month with the bank's records.

5200.2.3 AGENT

The credit union may act as an agent for the sale of checks or money orders for another institution or organization. The credit union should maintain adequate records to: (a) control the supply of checks which are offered for sale, and (b) to permit proper recording of the credit union's income from fees collected, and its liability to remit funds to the institution or organization for whom the credit union is acting as agent. A suggested record for this purpose can be the register described above under "Checks Sold." An additional column should be added to show the liability to the institution or organization for each check sold.

5200.2.4 ESCHEATMENT-ABANDONED MONEY ORDERS AND CHECKS

Where negotiable checks or money orders issued by a federal credit union have been presumed to be abandoned and where the federal credit union is directly liable for payment:

a) The state in which such negotiable checks or money orders were purchased shall be entitled to escheat under its own laws; or

b) If the laws of the state in which such negotiable checks or money orders were purchased do not provide for the escheat, then the state in which the federal credit union has its principal place of business shall be entitled to escheat or take custody of such funds.

5200.3 REIMBURSEMENT FEES-COST OF CASHING CHECKS

Fees collected from members for cashing checks or money orders should also be recorded in Account No. 151, "Miscellaneous Operating Income." Fees may not be charged to a member for the cashing of a check or money order when such check or money order is applied in its entirety for payment of a loan, interest, obligation to the credit union, or purchase of shares. Nor should any fee be charged to the member for the cashing of a check or money order drawn by the credit union on its own bank account and issued to the member in connection with a share withdrawal or disbursement of a loan. The change fund, which is discussed in the description of "Change Fund", (Account No. 739), should be used in cashing checks or money orders.

5200.4 REIMBURSEMENT FEES-COST OF HANDLING INSURANCE

Reimbursement fees may be received from insurance companies when the credit union has undertaken to facilitate the members' voluntary purchase of insurance. Part 721 of the National Credit Union Administration Rules and Regulations govern to what extent a credit union may become involved in this activity and the extent of reimbursement. The amounts of such fees collected should be entered in "Miscellaneous Operating Income", (Account No. 151).

5200.5 REIMBURSEMENT FEES-COST OF HANDLING TRUST ACCOUNTS

Federal credit unions may act as trustees or custodians for pension plans in accordance with Part 724 of the National Credit Union Administration Rules and Regulations. If a fee is charged for this service, the right to assess such a fee should be contained in the written trust agreement. Such fees shag not exceed the direct and indirect costs incident to administering the trust account.

5200.6 GROUP PURCHASING AND INSURANCE ACTIVITIES

As provided in Part 721 of the National Credit Union Administration Rules and Regulations, a federal credit union may be reimbursed only for an amount not exceeding the direct and indirect costs to the credit union of any administrative functions performed on behalf of the vendor. In order to ensure that only costs associated with the activity are being reimbursed, documentation of the costs is necessary.

Several alternatives are available to document costs:

a) The credit union can track direct and indirect costs of the activity through its standard accounting system.

b) The credit union can establish a formal cost accounting system to track costs.

c) The credit union can continuously track direct costs related to the activity and allocate relevant indirect costs on a rational basis.

d) The credit union can determine the direct and indirect costs on a sampling basis and use the results of the sample to determine reimbursable direct and/or indirect costs.

To provide some guidance as to what the National Credit Union Administration deems an acceptable method of determining reimbursable costs, the following three-step procedure is offered:

a) A federal credit union, through intermittent sampling or continuous tracking, should determine the direct costs related to an activity.

b) A computation should be made of the ratio of total indirect costs to total direct costs. Figure 5-45 is a sample form for computing this ratio.

c) Using the ratio developed on Form FCU 2000, the federal credit union should determine the amount of indirect costs which can be allocated to that activity.

d) Any one time costs for studies and/or special analyses can also be reimbursed.

The left side of Figure 5-45 outlines the historical data for direct and indirect expenses. As previously stated direct expenses are costs that apply to a specific service, department, operation, segment or unit of output within a credit union. These are sometimes referred to as traceable, specific, or separable costs. For example, salaries of credit union employees assigned to insurance or group purchasing activities would be considered direct costs. Indirect or allocated costs are incurred as a part of an entire building, section, or division, and allocated within the respective service, subdivision, or subsection. They cannot be traced to individual departments, operations, segments or units of output. For example, costs for building depreciation, rent, insurance, electricity, etc., are indirect costs. Indirect costs are often referred to as nontraceable, common, general, or joint costs.

The Statement of Income (Form FCU 109B), lists certain known direct and indirect expenses. Space for capturing those costs are on Figure 5-45, Federal Credit Union Computation for Reimbursable Costs for Services. Such costs could be applicable to an insurance or group purchasing activity. Additional space has been provided on the sample format for listing any other direct and indirect annual historical costs relating to such activities. Once the ratio of indirect versus direct expenses is established for the previous calendar year, it can be multiplied by the amount of actual direct operating expenses for the current period to arrive at indirect costs. The direct and indirect costs are summed and added to the amount of the one time costs, studies, and/or investigations incurred by an activity. That total is the amount of reimbursable expenses for the current period. (NOTE: The ratio of indirect to direct costs should be reviewed annually.)

5200.6.1 ILLUSTRATION OF A FEDERAL CREDIT UNION COMPUTATION OF MAXIMUM REIMBURSABLE COSTS FOR SERVICES

Assume that DMR Federal Credit Union began to provide a group purchasing service for consumer goods on January 1, 19X1. A credit union employee is assigned to provide the service 4 hours a day every Monday, Wednesday, and Friday of each week. Direct labor costs are allocated by labor hour costs devoted to providing the service. The one assigned employee earn $6.45 per hour and is employed 40 hours per week. The direct compensation costs of providing the service as of June 30, 19X2, were as follows:

Direct Compensation Costs to service x wage cost per hour	=	No. Hours devoted
	or	
Direct Compensation Costs	=	624 Hours x $6.45
Direct Compensation Costs	=	$4,024.80

The computation of the maximum reimbursable costs for services is shown on Figure 5-45.

5210 THIRD PARTY PAYMENTS

The National Credit Union Administration has determined that federal credit unions may receive payments from or make payments to third parties upon written authorization being established by the member in advance of the completion of the payment transfer. These receipts and payments may be by electronic funds transfer (EFT) or by use of conventional checks, drafts, money orders, etc. Electronic Fund Transfers as defined by the Federal Reserve Board's Regulation E, 12 CFR 205. Some examples of third party payment arrangements are:

a) Preauthorized payments to a member's share or loan account from the member's employer (Payroll Deduction Plan).

b) Direct deposit of Federal Recurring Payments, such as Social Security, Civil Service annuities, and Railroad, Veterans' Administration, Army, Navy and Air Force retirement payments.

c) Check transmittal services in which the credit union accepts a member's paycheck for transactions with the credit union, then sends a check for the remainder of the paycheck to the member's bank for deposit to the member's account.

d) Payment of members' utility bills from members' share accounts.

e) Preauthorized payment plans from the members' share accounts to pay other recurring items such as insurance premiums and mortgages or rent payments.

Figure 5-45: Illustration of a Computation of Maximum Reimbursable Costs for Services

Charter Number 70165 A

OUR FEDERAL CREDIT UNION
COMPUTATION OF MAXIMUM REIMBURS ABLE COSTS FOR SERVICES

FINANCIAL DATA		As of 12/31/x1
Acct. No.	Acct. Title	
	Direct Expenses:	
210	Compensation	$ 1,000,000
___	Other Direct Expenses	
___		
___		
(1)	Total Direct Expenses	$1,000,000
	Indirect Expenses:	
250	Office Occupancy	$ 400,000
260	Office Operations	460,000
270	Educational and Promotional	
290	Professional and Outside Service	150,000
320	Operating Fees	
360	Miscellaneous Operating Expenses	20,000
	Sub-total	$1,030,000
	Other Inderect Expenses (list):	
___		
___		
___		
(2)	Total Direct Expenses	$1,030,000
(3)	Ratio of Indirect Versus Direct Expenses = (2) / (1) =	1.03

COMPUTATION OF THE MAXIMUM REIMBURSABLE EXPENSES:	
(4) Total Actual Direct Operating Expenses: (As of: 6/30/x2)	$ 4,024.80
(5) Ratio of Indirect Versus the Direct Expenses (3) = 1.03 x amount of (4)	$ 4,145.54
(6) Amount of Reimbursable Expenses for Providing the Services [(4) + (5) = (6)]	$ 8,170.34
Plus:	
(7) One Time Cost of Studies and/or Investigation (list):	
_____	$
_____	
_____	
_____	$
Total	
(8) Total Amount of Reimbursable expenses [(6) + (7)]	$ 8,170.34

Note: Use the reverse side of this form to explain the method that was used to determine the amount of current direct costs that were incurred in providing this service.

5210.1 ELECTRONIC FUNDS TRANSFER, AUTOMATED CLEARING HOUSE PAYMENTS, AND PAYMENTS BY PHONE

Credit union members may instruct employers and others making regular payments to them to have funds deposited directly into their accounts. This service may be used for depositing wages, social security benefits, dividends, and other types of income payments. In a direct deposit arrangement, the originator of the payment (employer, etc.) directs its financial institutions to transfer funds electronically, through an automated clearing house (a computer system used to sort transactions and forward them to the appropriate receiving institution), to the financial institution designated in a preauthorized agreement by the person receiving the payment. Upon receipt of the electronic advice of credit, the credit union deposits funds in the appropriate member's account.

Two types of electronic funds transfer services may be used by a credit union member to pay bills. First, the member may preauthorize merchants and creditors to draw funds from his or her account. Under this arrangement, the member would direct, in writing, a merchant or other party to draw funds from his or her account on a given date in an amount sufficient to pay the bill. This arrangement is normally used only for recurring bills of a fixed amount such as insurance premiums, mortgage payments or rent. Secondly, the member by written agreement may direct the credit union to pay bills. Under this agreement, the member usually receives an identification code from the credit union to charge the member's account in order to pay a bill. Normally a written agreement is completed only once and from that point on the instructions to pay the bill are given verbally over the telephone using a prearranged coding procedure.

5210.1.2 ELECTRONIC FUNDS TRANSFER ACT

The Electronic Funds' Transfer Act provides a basic framework establishing the rights, liabilities and responsibilities of participants in electronic funds transfer systems. The Act has civil and criminal liabilities for violations of its provisions.

An Electronic Funds Transfer (EFT) is a transfer of funds initiated through an electrical terminal, telephone or computer that instructs a financial institution to either credit or debit an asset account. For this purpose, an asset account is a share account, share draft account, and/or share certificate account established by the consumer primarily for personal or household use.

Examples of covered transactions are:

a) Electronic terminals-Any transaction affecting a share account completed through an electronic terminal is a covered transaction. An electronic terminal is a machine, usually activated by a plastic card and/or code, which allows consumers to transact routine business, i.e., deposits or withdrawals to or from any share account.

b) Direct deposits-AR common forms of credits to a consumer's account, such as payroll, payroll deduction, military allotments and other Federal recurring payments, such as social security, VA benefits, military payroll, etc., are covered if settled electronically.

c) Preauthorized payments-Any debit or credit affecting a consumer's account on a regularly recurring basis such as insurance or loan payments, bill payments, and dividend and annuity payments, are covered if settled electronically.

(Electronically initiated settlement-If settlement occurs without a paper check, it is a covered transaction. Settlement means the actual cash transfer to or from the credit union's bank account for debit or credit to a member's share account. Electronic settlement occurs when the cash transfer to or from your credit union's bank account is via an electronic message instead of a paper check.)

There are electronic funds transfers which are exempted from Regulation E. These exemptions are listed below. This listing is not all inclusive.

a) Check guarantee or authorization services that do not directly result in a debit or credit to the consumer's account;

b) Wire transfers (The Fedwire, bankwire, and similar transfer networks are used primarily for transfers between financial institutions or for business. While they are fully electronic, they are exempt from Regulation E since their primary purpose is to carry nonconsumer transactions. Automated Clearing House (ACH) transactions are not exempt, however, when settled electronically, because these transactions affect consumer asset accounts);

c) Transactions from the credit union into a consumer's account, such as the crediting of dividends to a share account. (However, the credit union is subject to the provisions of the Act covering civil and criminal liability and the compulsory use of EFTS);

d) Transactions from a consumer's account to the credit union, such as a loan payment. (However, the credit union is subject to the provisions of the Act covering civil and criminal liability and the compulsory use of EFTS);

e) Any transfer of funds initiated by a telephone conversation that is not pursuant to a prearranged plan and in which periodic and recurring transfers are not contemplated; and

f) Any transfer between an individual's own account, such as a transfer from a share to a share draft account.

Credit unions that have transfers which are EFTs must comply with the requirements of Regulation E which deals with:

a) Disclosures to members concerning the terms and conditions;

b) Control over issuance of access devices;

c) Frequency of periodic statements and required information included on the statement;

d) Documentation of transfers initiated at an electronic terminal;

e) Procedures for handling preauthorized transfers;

f) Procedures for resolution of errors; and

g) Liabilities for authorized use.

5210.1.3 AUTOMATED CLEARING HOUSE

Because of the increasing number of checks that are physically passed through the bank clearing houses, Automated Clearing Houses (ACH) were established. The purpose of the ACH is to eliminate the unnecessary handling and rehandling of checks.

Credit unions can become members of an Automated Clearing House so that they will be able to receive direct deposits of Federal recurring payments such as members' social security checks or payroll checks. Instead of having the U.S. Government prepare checks for each individual, a magnetic tape is prepared and sent to the ACH. The ACH then sorts the tape and credits each financial institution's account for the funds.

5210.2 FEDERAL RECURRING PAYMENTS

Federal credit unions are encouraged to participate in the Federal Recurring Payments Direct Deposit Program. AR financial institutions in the United States have been provided with copies of "The Green Book" prepared by the Department of the Treasury. This publication covers all Federally Recurring Payments and provides information on all aspects of the Direct Deposit Program. Additional copies of the publication can be obtained from:

U.S. Department of the Treasury
Financial Management Service
401 14th Street, SW, 3rd Floor
Washington, DC 20227
(202) 287-0467

Federal credit unions participating in the Federal Recurring Payments Direct Deposit Programs have the option of crediting members' accounts on the due dates of the Federal payments regardless of actual receipt of funds under this program.

5210.3 CHECK TRANSMITTAL SERVICE

A federal credit union desiring to do so may provide a check transmittal service to its members. Under this system, members present their paychecks for transactions with the credit union. After deducting the amount of the transaction from the amount of the check presented, the credit union sends a check for the remainder of the member's paycheck amount to the member's bank for deposit to his account. This plan may be especially helpful in reducing the amount of cash that a credit union must have on hand for members' payday activities.

When a member presents his paycheck for a transaction, the credit union records his share, loan and interest transactions on a Cash Received Voucher in the normal manner. The total cash received to be shown on the voucher should be the total amount of the check which the member presents. The difference between the amount of the credit union transactions and the total amount of the check should be entered on a blank line on the Cash Received Voucher and identified as "Accounts Payable-Check Transmittal Service" as a credit. The corresponding debit for cash disbursed to the members' banks should be to "Accounts Payable Check Transmittal Service", thereby closing out the balance in that account. The name of the member's bank and his checking account number should also be shown on a Cash Received Voucher. The standard Cash Received Voucher should be used, or a special voucher may be designed to record this type of transaction.

Any checks received under this system should be deposited in the credit union's checking account with the other receipts of the day. In summarizing the day's cash receipts, it will be necessary to determine the amount of funds which are to be sent to each bank for credit to the members' accounts. This information should appear on the Summary Cash Received Voucher or on a separate listing which will be attached to the voucher.

In order that the members receive prompt credit to their checking accounts, the credit union should forward its check(s) to the bank(s) on the same day it receives the funds, or as promptly as possible thereafter. If two or more members designate the same bank, the credit union may issue one check for the total amount to be sent to that bank. The credit union's check should be accompanied by a transmittal sheet, identifying the members, their bank account numbers and the amount to be credited to each member's accounts. The wording of the transmittal should indicate that the credit union is carrying out the transactions of the member and, in doing so, incurs no liability to the bank. A copy of each transmittal should be retained in the credit union office. Please refer to Chapter 4, Account Number 804 of this manual for illustrative entries.

5210.4 COLLECTION OF UTILITY BILLS BY FEDERAL CREDIT UNIONS

A federal credit union may make utility bill collection service available to its members. It may also receive a fee from the utility company for extending the service providing the fee is limited to the direct and indirect costs incurred.

5210.4.1 WRITTEN AGREEMENT

A written agreement should be executed between the credit union and the utility company in which the responsibilities and liabilities of the credit union are fully explained. The credit union should have its attorney's written assurance that the agreement conforms with pertinent state or local laws, with the Federal Credit Union Act, bylaws and regulations and that the interests of the credit union are adequately protected.

5210.4.2 PROCEDURES FOR THE COLLECTION OF UTILITY BILLS

5210.4.2.1 RECEIPTS

a) A member paying his utility bill should be given a receipt for his payments. This may be either the utility bill stub stamped "paid" or a special receipt (depending on company policy) and/or a cash received voucher.

b) Utility bill receipts may be kept in the same drawer with regular receipts unless the credit union desires to separate the proceeds.

c) At the end of the day, or more frequently if that is the credit union's custom, the proceeds should be accounted for and reconciled with the portions of the utility bill to be forwarded to the utility company and with the credit union's record of the transactions (vouchers or log).

d) It is intended that all utility bill payments from members be entered on the credit union's books. Therefore, members' payments should be made by cash or by check made payable to the credit union. However, it would be permissible for the credit union to accept checks made payable to the utility company if the checks were stamped with a special endorsement so they could be deposited with the credit union's checking account. This arrangement must have the written approval of the utility company.

5210.4.2.2 RECORDS

The credit union should have its own record of the transaction. This would be a cash received voucher. If this method is used, a duplicate voucher form could be used, one copy of which should be given to the member as explained previously. Another method would be to record utility bill receipts in a daily log designed for the purpose or, if appropriate, a form provided by the utility company.

5210.4.2.3 ACCOUNTING INSTRUCTIONS

All receipts and disbursements must be handled through Cash (Account No. 731). The credit union's liability for the funds received will be recorded in Accounts Payable (Account No. 801). Reimbursed fees received from the utility company will be recorded in Miscellaneous Operating Income (Account No. 151).

5210.4.2.4 ILLUSTRATIVE ENTRIES (JOURNAL AND CASH RECORD)

a) When the credit union's utility bill collections are accounted for at the end of the day (or more frequently if that is the credit union's custom).

Dr.-Cash (Acct. No. 731)	$500.00	
Cr.-Accounts Payable -		
(Name of Utility)		
(Acct. No. 801)		$500.00

b) When the utility bill collections are remitted to the utility company.

Dr.-Accounts Payable		
(Acct. No. 801)	$500.00	
Cr.-Cash (Acct. No. 731)		$500.00

c) When the credit union receives the reimbursement fees from the utility company.

Dr.-Cash (Acct. No. 731)	$5.00	
Cr.-Miscellaneous		
Operating Income		
(Acct. No. 151)		$5.00

d) When the credit union deducts the fees from the utility bill remittances.

Dr.-Accounts Payable		
(Acct. No. 801)	$500.00	
Cr.-Cash (Acct. No. 731)		$495.00
Cr.-Miscellaneous		
Operating Income		
(Acct. No. 151)		5.00

e) Payment of Utility Bills by Share Withdrawal.

A member may authorize his credit union to pay his utility bill by share withdrawal. The Journal and Cash Record entry should be:

Dr.-Shares (Acct. No. 901) $10.00
Cr.-Accounts Payable
(Acct. No. 801) $10.00

5210.5 OPERATIONAL GUIDELINES

The following guidelines should be observed for all preauthorized payment transfer plans:

a) The service should be available to all members.

b) The authorization form signed by the member should state that the federal credit union will not be responsible or liable to remit payments to third parties if a member does not have sufficient funds in his account to make a payment. The authorization form should also include the member's agreement to the release of information necessary to facilitate the withdrawal of his funds through the program.

c) All preauthorizations should be in writing and should indicate the party to whom payment is to be made. Changes to the member's authorization should also be in writing, and should be retained in the credit union's file.

d) Adequate internal controls should be established to avoid overdrafting of members' share accounts and to avoid unauthorized withdrawals from one member's account to pay another member's creditors.

e) When making preauthorized payments to third parties, the board of directors of a federal credit union may establish service charges to cover the cost of providing the service. The charge imposed for this service should not exceed the federal credit union's direct and indirect cost of providing the service.

5220 DELINQUENCY CONTROL

5220.1 NEED FOR DELINQUENCY CONTROL

The numbers and amounts of bad debts are increasing in many financial institutions. Laws have been enacted which are designed to protect the debtor and, in the process, make it more difficult for lending institutions to recover collateral and overdue payments.

Effective collection procedures and the resulting low delinquency, are one of the best means of sustaining a sound financial condition and continuing quality of member services. This applies to any size credit union which is staffed by volunteers or a paid professional staff. Some of the positive benefits of effective collection procedures include:

a) Maximum cash flow will be maintained and funds will be provided to make additional loans and to improve member services.

b) Maximum income will be derived as a high level of interest income will be maintained.

c) The financial condition will remain sound because reserves and earnings will not be drained to offset collection problem loans.

It is easier to control delinquency within a field of membership where members repay their debts promptly.

5220.2 ELEMENTS OF DELINQUENCY CONTROL

Delinquency control requires a comprehensive program involving all officials, employees and members. It encompasses many phases of the credit union's operations from lending policies to supervisory committee audits. The essential elements of delinquency control are:

(1) Lending Policies
(2) Education of Members
(3) Collection Policies
(4) Selection and Training of Personnel
(5) Identification
(6) Computation of Delinquency
(7) Schedule of Delinquent Loans
(8) Collection Procedures
(9) Documentation
(10) Control

5220.2.1 LENDING POLICIES

Section 701.21 of the National Credit Union Administration Rules and Regulations requires that the board of directors establish written policies for loans and lines of credit consistent with the relevant provisions of the Federal Credit Union Act, NCUA Rules and Regulations, and other applicable laws and regulations. Effective delinquency control actually begins with good lending policies and the key role played by those acting on loans in implementing these policies. The policies should be designed with the objective of providing adequate service to the credit union members. Credit committees and loan officers with lending policies which discourage all but a select few from applying for loans will minimize collection problem loans; however, this is too high a price to pay. It is preferable that a few delinquencies occur occasionally while serving the members. The lending policies should also establish criteria for conditions whereby collateral is required. A complete set of lending policies should include at least the following:

a) The types of loans to be granted;

b) The maximum amount to be loaned on each type of loan to an individual or regarding a specific loan category in the aggregate;

c) The maturity limits on each type of loan;

d) The collateral requirements on each type of secured loan; and

e) The interest rates to be charged on each type of loan.

In addition, procedures for processing each type of loan should be developed and provided to responsible parties.

The credit committee and/or loan officers can minimize collection problems by granting loans which meet the needs of the members both in amount and repayment terms. The most successful loan departments demonstrate that "a loan well made is a loan repaid." This can only be done if the credit committee or loan officer has all the pertinent facts such as:

a) Purpose-not required but recommended. For example, loan personnel would do well to question a request for a $5,000 vacation loan to be repaid in 5 years.

b) Source and amount of disposable income.

c) Other obligations and required monthly repayment schedules.

d) Prior loan record.

e) Prior credit history-in some states the applicant's approval is required before requesting credit history from an outside source.

f) The value of any collateral offered as security when a comaker is offered as security he/she should have the same or better ability to repay the loan in the event the borrower defaults.

With the above information the credit committee or loan officer can determine whether the amount requested actually meets the member's requirements and whether the proposed repayment schedule is realistic in terms of their income. An important function at this point is financial counseling of the members.

5220.2.2 EDUCATION OF MEMBERS

At the time a loan is granted, the member and comaker (if applicable) should be reminded of their obligation to repay the loan in accordance with terms of the note and the fact that they are borrowing money belonging to the members. Members should be instructed that it's to their benefit to notify the credit union immediately if the situation arises where the member will have problems meeting the repayment schedule.

5220.2.3 COLLECTION POLICIES

Article VII Section 5(c) of the Federal Credit Union Bylaws requires the board of directors to establish and supervise a loan collection program. Definitive policies should be established in writing which define the objectives, personnel involved, procedures, means of measurement and control.

5220.2.4 SELECTION AND TRAINING OF PERSONNEL

The collection policy should define who is responsible for collections. This is necessary for credit unions of any size and can range from a single part-time volunteer to a large professional staff. Very often a director is appointed as delinquency control officer and will either perform the work or have a staff person report the results of collection efforts to him/her.

5220.2.5 IDENTIFICATION

The first step in any collection program is the computation of delinquency and identification of the delinquent borrowers by means of a special report. Data processing systems and some accounting machines automatically calculate delinquency and generate reports which provide an aged history of delinquent accounts. All other credit unions must compute the amount of delinquency and prepare a schedule manually.

5220.2.6 COMPUTATION OF DELINQUENCY

There are several methods available for computing delinquent loans. The discussions on the computation of delinquency which follow fall into two broad categories. If the "Delinquency Control" section of the Individual Share and Loan Ledger is completed as described in Section 5040.4.3.2, the discussion under Method A will apply whether the loan is written for level payments or for terms calling for principal plus interest due. If the "Delinquency Control" section is not completed, delinquency computations for loans calling for principal plus interest due are made in accordance with Method C, and level payment loans are computed in accordance with Method B.

5220.2.6.1 METHOD A

This method may be used by those credit unions that complete the "Delinquency Control" section of the Individual Share and Loan Ledgers. It may be used for both level payment and non-level payment loans. The following procedures should be followed:

- Sight-check to compare the unpaid balance of the loan with what the balance should be as shown for the specified date in the "Delinquency Control" section. Only those loans which have an unpaid balance in excess of the amount shown in the "Delinquency Control" section should be considered for further delinquency computation.

- Determine the amount in arrears. Subtract the amount shown in the "Delinquency Control" section for the specified date from the unpaid balance of the loan.

- Determine the number of delinquent installments. The amount in arrears should be divided by the amount of the scheduled monthly payment to determine the number of delinquent installments missed. A part of an installment missed is considered to be a whole installment missed.
- An installment is not delinquent until after its due date, therefore, with a loan repayable monthly, the actual number of full months delinquent is one less than the number of delinquent installments. The same principle applies to loans with repayment terms more frequent than monthly.

As an example the following two illustrations are to be analyzed for delinquency as of June 30, 1988.

Illustration 1-Level Payment

$800 loan with payments of $57.70 per month beginning October 10, 1987. Actual loan balance as of June 30, 1988 = $622.86. APR. = 12%.

Delinquency Control	
Balance Should Be	On Date
	10/10/87
	11/10/87
	12/10/87
	1/10/88
	2/10/88
	3/10/88
	4/10/88
	5/10/88
	6/10/88
	7/10/88

Step 1-Sight-check shows that unpaid balance of $622.86 exceeds what the balance should be or the amount of $334.36 as of June 30, 1988.

Step 2-Determine the date through which the loan is paid, e.g., the unpaid balance of $622.86 falls between 12/10/87 ($649.40) and 1/10/88 ($598.19).

Step 3-Determine the number of delinquent installments. The six installments for January through June are delinquent.

Step 4-Four months delinquency is one less than the number of delinquent installments 6 - 1 = 5 months delinquent. This loan is 5 months delinquent and would be shown in the 2 to less than 6 months delinquent classification.

Illustration 2

$500 loan with payments of $20 per month on principal, plus interest due, beginning October 10, 1987. APR. = 12%. Unpaid balance as of June 30, 1988
= $475.00.

Delinquency Control	
Balance Should Be	On Date
$480	10/10/87
460	11/10/87
440	12/10/87
420	1/10/88
400	2/10/88
380	3/10/88
360	4/10/88
340	5/10/88
320	6/10/88
300	7/10/88

Step 1-Sight-check shows that the unpaid balance of $475 exceeds what the balance should be or the amount of $320 as of June 30.

Step 2-Unpaid Balance	$475.00
Less: What Balance Should be	320.00
Amount in Arrears (Result to Step 3)	$155.00

Step 3-Determine the number of delinquent installments. $155.00 (amount in arrears) divided by $20 (scheduled principal payments) = (equals) 7.75 delinquent installments. A part of an installment missed is considered to be a whole installment missed (7.75 = 8 delinquent installments).

Step 4-A full month's delinquency is one less than the number of delinquent installments 8 - 1 = 7 months delinquent. This loan is 7 months delinquent and would be shown in the 6 to less than 12 months delinquency classification.

5220.2.6.2 METHOD B

This method allows precision in calculating delinquency without the completion of the Delinquency Control section of the Individual Share and Loan Ledgers. Under this method, the following procedures are followed:

a) Determine what the unpaid principal loan balance should be, assuming that the number and amount of contracted payments had been made on schedule (this determination recognizes the time value of money).

b) Subtract the assumed unpaid principal balance from the actual loan balance to determine the amount of principal in arrears.

c) Add the interest due to the loan principal in arrears.

d) Divide the loan principal in arrears plus interest due by the scheduled payment amount to arrive at the number of months in arrears.

e) If the loan balance is outstanding after the maturity date, the number of months in arrears should be increased for each month the balance remains outstanding.

Illustration 1

Date of Loan	6/17/85
Original Amount of Loan	$2,614.62
Maturity of Loan	24 months
Interest Rate	18% per annum
First Payment Date	7/16/85
Monthly Payment	$130.53
Remaining Balance	$2,581.94

Assume the member makes payments from 7/16/85 to 6/20/88. Over this period, the member paid a total of $1,014.68 in principal and interest. Since payments were made so intermittently, many payments were for interest only. The last principal payment was made 7/27/87. On 6/30/88, we want to determine the degree of delinquency on this loan.

Step 1-Since 36 months have elapsed, 0% of the principal balance, or $0 should remain.

Step 2-This means that $2,581.94 of the principal is in arrears ($2,581.94 - $0).

Step 3-Approximately 11 months or $429.89 of interest is due, for a total of $3,011.83 in arrears.

Step 4-The amount in arrears divided by the monthly payment ($3,011.83/$130.53) equals 23.07 months in arrears.

Step 5-Since 36 months have elapsed, 12 months more than the loan contract period of 24 months, the months in arrears should be increased by 12 months for a total delinquency period of 35 months in arrears.

5220.2.6.3 METHOD C

This method may be used for non-level payment loans for which the "Delinquency Control" section of the Individual Share and Loan Ledger is not maintained. Repayment is made by principal plus interest due. To compute delinquency, the repayment schedule should be determined from the note itself or from the "Note Record" section of the Individual Loan Ledger. The following method is then used:

- Determine the number of installments due from the due date of the first installment to the current date (month-end).

- Determine the actual installments paid. This can be done by subtracting the current balance (month-end) from the original amount of the loan and dividing the remainder by the amount of each installment.

- Subtract the number of installments paid from the number of installments due. The difference will be the number of delinquent installments.

- An installment is not delinquent until after its due date. Therefore, on a loan repayable monthly the actual number of four months of delinquency is one less than the number of delinquent installments. The same principle applies to loans with repayment terms more frequent than monthly. A partial installment which is delinquent is considered a whole delinquent installment.

As an example, the following two illustrations are to be analyzed for delinquency as of the close of business on October 31. APR. = 12%.

Illustration l.-Terms: $10 per month beginning July 31:

Date	Amount Loaned	Principal Paid	Balance
June 26	$60.00		$60.00
July 31		$10.00	50.00
Oct. 31			50.00

Step 1-Number of installments due: 7/31 to 10/31 (incl.) = 4 installments due.

Step 2-Actual installments paid: $60 - $50 = $10.00/10 = 1 installment paid.

Step 3-Number of delinquent installments: 4 1 = 3 delinquent installments.

Step 4-A full month of delinquency is one less than the number of delinquent installments: 3 - 1 = 2 months delinquent.

The loan, therefore, will be classified in the 2 to less than 6 months delinquent classification.

Illustration 2.-Terms: $10 per month beginning July 15:

Date	Amount Loaned	Principal Paid	Balance
May 26	$60.00		$60.00
July 15		$10.00	50.00
Aug. 25		5.00	45.00
Sept. 15		2.00	43.00
Oct. 28		10.00	33.00

Step 1-Number of installments due: 7/15 to 10/31 (incl.) = 4 installments due.

Step 2-Actual installments paid: $60 - $33 =$27; $27/$10 = 2 installments paid (a partial delinquent installment is considered a whole delinquent installment).

Step 3-Number of delinquent installments: 4 2 = 2 delinquent installments.

Step 4-A full month of delinquency is one less than the number of delinquent installments: 2 - 1 = I month delinquent.

The loan is only 1 month delinquent and, therefore, will not be listed on the Schedule of Delinquent Loans (Form FCU 118).

5220.2.6.4 COMPUTERIZED DELINQUENCY RECORDS

It is necessary to adopt one of the above three methods to compute delinquency even though the delinquency is computed by computers. It is the responsibility of the board of directors to ensure that delinquency is properly computed. It is not proper to rely on suppliers to ensure proper computation.

5220.2.6.5 OPEN-ENDED LOANS

Delinquency on open-ended loans, such as home equity lines of credit, should be computed consistent with the terms of loan contract using one of the three acceptable delinquency calculation methods discussed above. The time value of money (interest) must be considered in any allowable calculation of delinquency.

In many jurisdictions it is not proper, when determining delinquency to "pay ahead" an open-ended loan. If the contract cause for a minimum payment each month, then that minimum payment must be paid *each* month. To illustrate:

Assume an open-ended contract calls for a minimum payment each month. For a certain borrower, that amount is computed as $30. Assume that for the month of April, the borrower pays $ 1 00 to the credit union. If the borrower is allowed to pay ahead, then there would be no additional payments required until July. But, since the contract calls for minimum payments each month, then the borrower must pay at least $30 in May and subsequently, each month until the loan is paid off or the minimum payment is recomputed.

This section does not prohibit a borrower from paying more than the minimum. A borrower must always have the right to pay more than the minimum required amount.

5220.2.6.6 METHOD D

Method D calculates delinquency simply by comparing the number of payments required to the number of payments made. This method does not consider the time value of money, and as a result often understates delinquency.

Under Method D, a member can miss several payments on a loan and then make a lump sum "catch-up" payment that totals the sum of the missed payments and not be considered delinquent. Under other delinquency calculation methods that consider the time value of money, the member would be considered delinquent until a catch-up payment was made that included the related accrued interest. Although the differences are often immaterial for smaller loans, they can be substantial for longer term, larger loans such as mortgages.

For this reason, Method D is acceptable only for loans with maturities of 15 years or less. Additionally, the credit union must ensure that all delinquency computations fully comply with disclosed loan terms.

Method D calculates delinquency using the following steps:

1) Determine the number of payments due from the due date of the first payment to the current date (month end).

2) Determine the actual number of payments made. This can be done by adding the total amount paid by the member and dividing it by the payment amount shown on the note.

3) Subtract the number of payments made from the number of payments due. The difference will be the number of delinquent payments.

NOTE: A payment is not delinquent until after its due date. Therefore, on a loan repayable monthly, the actual number of full months of delinquency is one less then the number of delinquent payments. The same principle applies to loans with repayment terms more frequently than monthly. A partial payment which is delinquent is considered a whole delinquent payment.

5220.2.7 SCHEDULE OF DELINQUENT LOANS

After computing the delinquency, a monthly report should be prepared for the board of directors on Form FCU 118, Schedule of Delinquent Loans. It should provide sufficient information to classify delinquent loans on the monthly Statement of Income and will serve as a report to the directors in their work of implementing an effective loan collection program. A copy of the monthly schedule should be kept on file. The credit union may design an expanded form as it provides the information shown on Form FCU 118. An equivalent machine generated or EDP form may also be substituted as long as it meets with board approval. In this case, it is possible to reduce and copy the form for distribution to all board members. For a Schedule of Delinquent Loans for Credit Card initiated loans, refer to Section 6000.

To prepare the Schedule of Delinquent Loans, an analysis of all members' loan accounts is necessary. However, only those that are delinquent 2 months or more are entered on the schedule. Loans less than two months delinquent may be listed. Their balances, however, should be listed in a separate column on the right-hand side of the form. The account number, name of the borrower, date of the loan, original amount of the loan, and date of last payment (excluding share transfers) should be entered in the designated columns for each delinquent loan. The outstanding balance of each delinquent loan is entered in the column which indicates the age of the delinquency as determined by one of the methods described earlier. The amount shown as the unpaid balance of each loan is the total unpaid principal. A column without a heading is provided on the form for any purposes which the credit union might find helpful.

FORM FCU 118

Our

Federal Credit Union

SCHEDULE OF DELINQUENT LOANS

AS OF December 31, 1980

SUMMARY		
DELINQUENT CATEGORIES	NUMBER	UNPAID BALANCES
2 TO LESS THAN 6 MONTHS	4	387 50
6 TO LESS THAN 12 MONTHS	1	563 30
12 MONTHS AND OVER	1	1,058 20
TOTALS	6	2,009 00

ACCOUNT NUMBER	NAME OF BORROWER	DATE OF LOAN	ORIGINAL AMOUNT OF LOAN	UNPAID BALANCES OF LOANS DELINQUENT			DATE OF LAST PAYMENT	SHARE BALANCES	COMMENTS
				2 TO LESS THAN 6 MONTHS	6 TO LESS THAN 12 MONTHS	12 MONTHS AND OVER			
13	Mary Jones	6/7/80	200 00	125 00			12/20/80		Sick-now pays weekly
133	Lawrence Hart	6/15/80	200 00	90 00			11/15/80		Promised Paymt. 1/15/81
220	Stanley Mark	2/2/79	750 00		563 30		8/20/80		Out of city
241	Bill Burns	6/15/78	1,200 00			1,058 20	6/12/80		Sick - Have contact
297	W.A. Giles	2/21/79	300 00	130 00			11/23/80		Slow pay
369	Peter McKinley	8/23/79	50 00	42 50			12/17/80		Will catch up next week
				387 50	563 30	1,058 20			
TOTAL UNPAID BALANCES OF DELINQUENT LOANS									
TOTAL NUMBER OF DELINQUENT LOANS				4	1	1			

Figure 5-46: Illustration of a Completed Schedule of Delinquent Loans (Form FCU 118)

Although the schedule does not provide for scheduling of loans delinquent less than 2 months, provisions should be made for their follow up as soon as one payment is missed. Initial proper follow up on these loans will reduce the number of delinquent loans entering the 2-6 months delinquency category.

A complete and accurate delinquent loan schedule, which recognizes delinquency promptly, is one of the most effective tools in controlling delinquency. It provides a sound basis upon which to make managerial decisions.

5220.2.8 CHARGE OFF OF LOANS AGAINST ALLOWANCE FOR LOAN LOSSES (ACCOUNT NO. 719)

The board of directors of every credit union should establish and adopt a written loan chargeoff policy. The purpose of such a policy is: (a) to assure that the credit union is timely recognizing and adjusting for nonperforming assets, and (b) to provide full and fair disclosure of the statutory reserves (i.e., Allowance for Loan Losses and Regular Reserve) on the periodic financial statements. The lack of timely recognition of loan losses has the result of overstating the statutory reserves and distorting the total reserve position of the credit union. A sample charge-off policy below defines some characteristics of nonperforming loans/assets to be referred to the board of directors for charge off action.

Sample Charge Off Policy

All loans which reach the following status should be referred to the board of directors, when:

a) The loan has been discharged in Chapter 7 Bankruptcy.

b) The loan is under the protection of Chapter 1 or Chapter 13 Bankruptcy and no payment has been received for 6 consecutive months.

c) The loan has been assigned to a collection agency or attorney.

d) The borrower has been deemed to be a “skip” and there has been no contact for 90 days.

e) The loan has become 6 months delinquent and no payments have been received for 3 consecutive months. Transfers from shares and proceeds from the sale of collateral should not be considered as “payments” for this determination.

f) The loan is a noncollateral loan and no payment has been received for 5 consecutive months.

g) The loan is a deficiency balance and no payment has been received and no possible course of action has become apparent.

h) The loan has been determined to be uncollectible regardless of the number of months delinquent.

Any loan meeting these criteria that is not authorized from charge off by the board of directors should have the reason for noncharge-off noted in the board of directors’ minutes.

Charging off a loan does not mean that the account should be forgotten. The loan is still an asset of the credit union even though it is not so reflected on the books because of its doubtful value. The majority of charged off loans (except bankruptcies) should be assigned to a collection agency or other legal means of collection upon charge off authorization. Charged off loans should be reviewed from time to time (including those loans assigned to a collection agency for assessing outside efforts for possible recoveries) to determine whether any change in the circumstances of the borrower or other party responsible for payment may make repayment possible.

5220.2.9 SUPERVISORY COMMITTEE

The supervisory committee is appointed by the board and is responsible to the board. It has the responsibility for determining and reporting on the manner in which the officers, directors, and credit committee members perform their duties, including the control of delinquent loans. The committee reports annually to the members, and board of directors.

Experience has shown that there are a number of special reasons why the supervisory committee should carefully scrutinize and evaluate local collection procedures each time they make an audit. These include the following:

1) If delinquent loans are neglected, the interests of the members, including those who are permitted to continue in a delinquent status, are not being protected by the management of the credit union.

2) If the procedures for controlling delinquency used by the credit union are improper or too stringent, the best interests of the members are not being served.

3) In a few instances, where internal controls are weak, loans shown as delinquent in the records and reports of the credit union have been fictitious accounts and represented discrepancies.

5230 RESERVE REQUIREMENTS

5230.1 REGULAR RESERVE TRANSFER

Section 4050.6 defines the Regular Reserve account and explains the requirements for legal transfers to it at the end of each accounting period. Sample accounting entries are shown in that section. Additional examples are shown in this section demonstrating the calculations and considerations required in making the legal transfer.

A clear understanding of the terms “risk assets” and “gross income” is required before proceeding with the calculations.

5230.1.1 COMPUTATION OF RISK ASSETS

Risk assets are defined in Section 700.1(i) of the National Credit Union Administration Rules and Regulations by listing those assets that are excluded from the calculations of risk assets. Effectively, an asset is a risk asset unless it is specifically excluded by Section 701.1(i) of the NCUA Rules and Regulations. A typical calculation of risk assets is shown below.

Investment in Central Liquidity Facility		$ 35,000
Leasehold Improvements		25,000
Total Outstanding Loans		690,000
Accrued Interest on Loans		25,000
Total Assets		$775,000
Less:		
Loans Fully Secured by Shares	$50,000	
FHA Insured Loans	10,000	
Insured Student Loans	5,000	
Leasehold Improvements	25,000	
Investment in Central Liquidity Facility	35,000	125,000
TOTAL RISK ASSETS		$650,000

NOTE: The items excluded above from the calculation of risk assets are a partial listing of excludable items. See Section 700.1(i) of the NCUA Rules and Regulations for a complete list.

Gross Income-As stated in Section 700.1(i) of the NCUA Rules and Regulations, defined as all income received except for the following:

- Non-operating Income,
- Income from Investment in Central Liquidity Facility,
- Contributions made to credit union.

5230.1.2 COMPUTATION OF TOTAL REGULAR RESERVES

After determining the amounts of risk assets and gross income, the next step is to compute Total Regular Reserves. For the purposes of this section, Total Regular Reserves are defined as the totals of the allowance for loan losses, the allowances for investment losses and the regular reserve, less certain reductions mentioned below.

The amount of Total Regular Reserves is computed by adding the General Ledger balances in the "Regular Reserve," (Account No. 931), and the "Allowance for Loan Losses".

This total is in turn reduced by the debit balance in the "Provision for Loan Losses," (Account No. 301) and a portion of the "Provision for Investment Losses" (the portion of the debit balance associated with Account No. 758). If there is a credit balance in the "Provision for Loan Losses," (Account No. 301) it is added to Account Nos. 931 and 719 for purposes of determining Total Regular Reserves.

5230.1.3 DETERMINATION OF THE PERCENTAGE OF GROSS INCOME TO TRANSFER TO TOTAL REGULAR RESERVES

Once the risk assets and Total Regular Reserve are computed, the Total-Regular-Reserve-To-Risk Asset percentage is calculated by dividing the risk assets into the Total Regular Reserve and multiplying the result by 100 to convert the ratio to a percentage. Using this percentage and the following charts, the percentage of gross income (Gross Regular Reserve Transfer amount) to be transferred to the Regular Reserve (Account No. 931) can be determined.

Chart No. 1

FCU's with Assets Over $500,000 and in Operation More Than 4 Years

Percentage of Total Regular Reserve to Risk Assets	Percentage of Gross Income to be Transferred to Regular Reserve
Less than 4%	10%
4% or more but less than 6%	5%
6% or more	No Transfer Required

Chart No. 2

FCU's with Assets Less Than $500,000 or in Operation Less Than 4 Years

Percentage of Total Regular Reserve to Risk Assets	Percentage of Gross Income to be Transferred to Regular Reserve
Less than 7-1/2%	10%
7-1/2% or more but less than 10%	5%
10% or more	No Transfer Required

Sample Calculations

Example No. 1, Assume the following:

Risk Assets	$650,000
Gross Income	70,000
Total Regular Reserve (as defined above)	70,000
FCU in Operation	2 years

The Total-Regular-Reserves-To-Risk-Asset percentage exceeds 10%. Using the charts above it is determined that no transfer is required. Since the ratio exceeds 10%, the period of operation does not make any difference in the above example.

Example No. 2, Assume the following:

Risk Assets	$650,000
Gross Income	70,000
Total Regular Reserve (as defined above)	27,300
FCU in Operation	5 years

$$\frac{\text{Total Regular Reserve}}{\text{Risk Assets}} = \frac{\$\ 27{,}300}{\$650{,}000} \times 100 = 4.2\%$$

Using Chart No. 1, it is determined that the required gross transfer is 5% of gross income. In this situation the gross transfer would be $3,500 (.05 x $70,000). If the FCU had been in operation only three years, the required gross transfer would be 10% or $7,000.

NOTE: See section 5230.1.5 for further calculations to determine the **NET** Regular Reserve transfer amount. Also see section 5040.6 for accounting entries.

5230.1.4 SPLIT-RATE TRANSFERS

There are occasions when it would be appropriate to base transfers on a combination of rates, as shown below.

Example No. 1

Assume the same facts as in the Example No. 2 in 5230.1.3 above, except that Total Regular Reserve equals $38,000.

$$\frac{\text{Total Regular Reserve}}{\text{Risk Assets}} = \frac{\$\ 38{,}000}{\$650{,}000} \times 100 = 5.84\%$$

According to Chart No. 1, a 5 % gross transfer of $3,500 would be required. However, Total Regular Reserves are only $1,000 less than 6% of $625,000, or $39,000, the point where no additional transfers are required. Therefore, it would be acceptable to transfer only $1,000, the difference between the two figures.

NOTE: See section 5230.1.5 for further calculations to determine the **NET** Regular Reserve transfer amount. Also see section 5040.6 for accounting entries.

Example No. 2:

Risk Assets	$650,000
Gross Income	70,000
Irrevocable Reserve (as defined above)	25,000
FCU in Operation	10 years

a) Determine the Total Regular Reserves-To-Risk-Asset ratio.

$$\frac{\text{Total Regular Reserve}}{\text{Risk Assets}} = \frac{\$\ 25{,}000}{\$650{,}000} \times 100 = 3.85\%$$

b) Determine the amount of additional Total Regular Reserves needed to equal 4 percent of risk assets:

.04 x $650,000	$26,000
or	
Current balance in irrevocable reserves	25,000
Required transfer to equal 4%	$1,000

c) Determine the portion of gross income to be transferred at 5% and the amount of the transfer.

.05 x [$70,000-($1,000)/.10)]	3,000

d) Add the two amounts to determine the total gross Regular Reserve Transfer amount.

Total Gross Transfer to Regular Reserve	$4,000

Use of the split-rate transfer method enables the credit union to transfer to Total Regular Reserve from $7,000 to $4,000.

NOTE: It should be remembered that the board of directors can, at any time, decide to transfer an amount in excess of the legal requirement. Such decisions require formal Board fiction and are to be recorded in the minutes of the Board's meetings.

NOTE: See section 5230.1.5 for further calculations to determine the NET Regular Reserve transfer amount. Also see section 5040.6 for accounting entries.

5230.1.5 NET REGULAR RESERVE TRANSFERS

After calculating the gross Regular Reserve transfer amount, it is necessary to determine the amount to be netted against the gross transfer to arrive at the net transfer amount.

The gross amount of the transfer should be recorded in the accounts, and the offsetting amount to reduce the gross transfer to net should be entered separately, as a partially offsetting entry.

The offsetting, or reducing, amount is the amount closed to the Net Income/(Loss) account from the Provision for Loan Losses (Account-t No. 301) and that portion of the Provision for Investment Losses debit balance closed to the Net Income/(Loss) account associated with Account No. 758. These accounts are mentioned above in section 5030.1.2 when calculating irrevocable reserves.

The offsetting entry, as explained in section 4050.6, debits the Regular Reserve and credits Undivided Earnings.

5240 REGULATION D

The Monetary Control Act of 1980 imposes federal reserve requirements on depository institutions that maintain transaction accounts or nonpersonal time deposits. Included in the definition of depository institutions are all credit unions that are insured by the National Credit Union Administration and all credit unions that are eligible to become insured. Credit unions within this definition that have transaction accounts and/or nonpersonal time deposits will be required to report on such accounts and maintain reserves against these accounts either directly with a Federal Reserve Bank or indirectly through one of the various pass-through arrangements.

5240.1 PASS-THROUGH CORRESPONDENTS

Corporate centrals, other credit unions and other depository institutions can act as pass-through correspondents if they maintain reserves or qualify for the bankers' "bank" exemption. A corporate central can qualify for this exemption if 75 percent of its capital is owned by credit unions. A corporate central which qualifies for the exemption can be a pass-through correspondent only if it meets the minimum standards established by the National Credit Union Administration.

5240.2 REGULATION D-TRANSACTION ACCOUNT RESERVES

Each federal credit union and federally insured state chartered credit union must maintain monetary reserves against its transaction accounts in the ratio of:

CATEGORY	RESERVE REQUIREMENT
Net Transactional Accounts:	
$0 to $52.0 million	3 percent
Over $52.0 million	$1,560,000 plus 10 percent of amount over $52.0 million
Nonpersonal Time Deposits	0 percent
Eurocurrency Liabilities	0 percent

Regulation D exempts the first $4.3 million in reservable liabilities from reserve requirements. This exemption and reserve requirements are revised annually by the Federal Reserve Board.

The Federal Reserve Board may impose supplementary monetary reserve requirements upon federal credit unions and federally insured state-chartered credit unions of not more than 4 percent of its total transaction accounts.

The Monetary Control Act defines a transaction account as share deposits or accounts on which the depositor or account holder is permitted to make withdrawals by negotiable or transferable instruments, payment orders of withdrawals, telephone transfers, or other similar items for the purpose of making payments or transfers to third persons or others.

The following accounts in credit unions will be regarded as transaction accounts:

a) Share draft accounts.

b) Accounts that permit third party payments through automated teller machines (ATMS) or remote service units.

c) Accounts that permit third party payments through the use of drafts, negotiable instruments or debit cards.

d) Accounts that permit more than three transfers per calendar month by telephone, preauthorized transfer or instruction when:

    1) Payments or transfers are to third parties.

    2) Transfers to another account of the depositor or to another depositor (family member account) are at the same institution.

    3) Transfers to an account are at another depository institution.

The following accounts will not be considered transactions accounts if:

a) The share account is permitted more than three transfers a month if the transfers are to the credit union itself for loan repayment, including associated expenses such as insurance and escrow requirements.

b) Withdrawals from the accounts are paid directly to the member. These withdrawals can be authorized by telephone or preauthorization but the proceeds must be mailed to or picked up by the depositor.

c) The account permits three or less telephone or preauthorized payments or transfers to third parties or to other accounts.

d) The account is permitted transfer to other accounts of the depositor at the same institution through ATMs of remote service units.

Nonpersonal time deposits are defined as a transferable time deposit or account or a time deposit or account representing funds deposited to the credit of, or in which any beneficial interest is held by, a depositor who is not a natural person.

5240.3 REGULATION D-NONPERSONAL TIME DEPOSIT RESERVES

Each federal credit union and federally insured state-chartered credit union (as specified in the regulation) must maintain monetary reserves against its nonpersonal time deposits. The Federal Reserve Board can change this ratio to a minimum of zero percent or up to a maximum of 9 percent.

Nonpersonal time deposits in the credit union are of three types:

a) Share certificates issued to nonnatural persons, or to natural persons if they are transferable (or does not state that they are not transferable).

b) Promissory Notes to nonnatural persons as in a. above, except for promissory notes representing borrowing from other credit unions (including centrals) or depository institutions or from government lenders-(CLF/NCUA 208 assistance).

c) Ordinary share accounts held by nonnatural persons, unless they are transaction accounts.

Time deposits issued to natural persons prior to October 1, 1980, are exempt from the reserve requirements on nonpersonal time deposits regardless of their transferability. Furthermore, the Federal Reserve Board will not consider a time deposit issued after this date as transferable simply because it can be pledged as collateral for a loan from any lender, or because it can be transferred in circumstances arising from death, bankruptcy, divorce. marriage, incompetence, attachment or otherwise by operations of laws. Also, the reissuance of a time deposit by a depository institution in the name of another or the addition or subtraction of names on the time deposit will not be deemed a transfer.

For a time deposit not to be considered transferable, it must contain a statement on the certificate that it is not transferable. Acceptable terminology would be: “Not transferable”, “Nontransferable”, “Not transferable except on the books of the depository institution”, or “Not transferable except as pledged.” The words “not negotiable” or “nonnegotiable” will not satisfy the requirement.

The amount to be maintained in the reserve will be specified by the Federal Reserve Board. Monetary reserves can be held in vault cash or if vault cash is not sufficient to satisfy reserve requirements, reserve balances must be maintained with the Federal Reserve System either to act as a pass-through correspondent. Vault cash consists of United States currency and coin, and does not include securities or earning assets of any type. The cash held by the Federal Reserve System will be in a noninterest bearing account. As stated previously, the amount to be maintained in the monetary reserve will be specified by the Federal Reserve Board.

5240.4 REGULATION D-ACCOUNTING ENTRIES

For accounting purposes, reserves maintained with the Federal Reserve System should be recorded as a debit to Account No. 793, "Monetary Control Reserves Deposits." If the reserves are maintained in vault cash, the financial statement should be so noted. The amount being maintained as the reserve should also be shown.

When a corporate central federal credit union serves as a Pass-through correspondent, it should record deposits received as a debit to "Cash", (Account No. 731) and as a credit to "Monetary Control Pass Through Deposits", (Account No. 864).

5250 FEDERAL FUNDS TRANSACTIONS

5250.1 BORROWING FEDERAL FUNDS

Another source of funds for a Federal credit union is the borrowing of Federal Funds. Federal fund loans are one-day loans that are in the form of balances at (or checks drawn on) Federal Reserve banks. These are loans of superior money or bank reserves, as compared to the ordinary money or deposits at commercial banks. A Federal credit union can borrow (or "buy") Federal Funds on a daily basis and use the Federal Funds market as a continuous source of funds. To do so, a credit union's management must be able and willing to meet the interest rates determined each day by the Federal Funds market.

A purchase of Federal Funds is considered a borrowing transaction. It would be subject to the limitations of Section 107(9) of the Federal Credit Union Act.

5250.2 SALE OF FEDERAL FUNDS

A sale of Federal Funds occurs when a Federal credit union transfers immediately available funds to a bank and the bank agrees to repay the funds to the Federal credit union one or more business days later. The funds may be transferred to the bank by any method, including from an account maintained at the bank by the credit union. The agreement to repay may have a specific maturity date or may be open-ended. An open-ended agreement has no specific maturity date. It requires, however, repayment on any date that is specified by either the Federal credit union or the bank. A sale is considered as a deposit which can be made in accordance with Section 107(8) of the Act.

5250.3 GENERAL COMMENTS

In order that sales of Federal Funds are conducted in a safe and sound manner: (1) the credit union itself should transfer the funds to the bank; and (2) consideration should not be received from a third party. A Federal funds transaction is not subject to Regulation Q limitations or to the Regulation D reserve requirements.

5250.4 ACCOUNTING ENTRIES

A sale of Federal Funds will be recorded as a deposit in "Other Shares, Deposits and Certificates", (Account No. 746), which is a debit balance account. A purchase of Federal Funds will be recorded as a credit in "Federal Funds Payable", (Account No. 813).

5260 CREDIT UNION SERVICE CONTRACTS

A Federal credit union may enter into a contractual agreement with one or more credit unions or vendors for sharing, utilizing, renting, leasing, purchasing, suing, and/or for the joint ownership of fixed assets or for operational functions. The contractual agreement should be in writing and in compliance with Federal and/or state laws. It should provide for at least the following:

1) The individual identity of the parties involved;

2) Preservation of confidentiality over credit union members' transactions;

3) The types of operational functions or services that are to be provided, any limitations, and their costs;

4) The immediate availability and possession of the Federal credit union's books and records, and any system controls related to the maintenance thereof, for purposes of examination by authorized employees of the National Credit Union Administration; and

5) Storage of specific information concerning the procedures to be used by the contracting parties;

A Federal credit union that enters into such a contractual agreement should notify its surety company and obtain written assurance therefrom that coverage will extend to any contracted operational functions and any losses resulting from the contractual agreement.

Credit unions that make advance payments for such contacts to cover more than 90 days of service need to account for the advance payment as an investment in a credit union service corporation. Reference should be made to Section 6050 for this purpose. Advance payments for service of less than 90 days should be recorded in "Other Assets", (Account No. 799).

SECTION 6000

SPECIALIZED ACCOUNTING

TABLE OF CONTENTS

SECTION NO.			PAGE NO.
SUBSECTION NO.			
6010		**LENDING ACTIVITIES**	6-1
	.1	Nonrefundable Loan Origination Fees and Costs	6-1
	.1.1	Under the Modified Cash Basis	6-2
	.1.2	Under the Full Accrual Basis	6-2
	.2	Loan Origination Fees	6-2
	.3	Commitment Fees	6-3
	.4	Demand Loans	6-3
	.5	Revolving Lines of Credit	6-3
	.6	Purchase of a Loan or Group of Loans	6-3
	.7	Aggregation of Similar Loans	6-4
	.8	Definitions	6-4
	.9	Accounting Entries and the Interest Method	6-5
6020		**ACCOUNTING GUIDELINES FOR REAL ESTATE LENDING**	6-5
	.1	General	6-5
	.1.1	Types of Real Estate Mortgage Loans	6-5
	.2	Affected Accounts	6-7
	.3	Sample Accounting Entries	6-8
	.4	Recomputation for Rebate	6-12

SECTION NO. **PAGE NO.**

SUBSECTION NO.

.5 Flood Insurance 6-16

.6 Regulation C-Home Mortgage Disclosure Act 6-17

6030 PURCHASE, SALE, AND PLEDGE OF ELIGIBLE OBLIGATIONS 6-17

.1 Definitions Relating to Purchase, Sale or Pledge of Eligible Obligations 6-18
.1.1 Definitions Concerning the Purchase, Sale or Pledge of Eligible Obligations 6-18
.1.2 Accounting for Fees Generated From the Purchase, Sale, or Pledge of Eligible Obligations 6-19

.2 Purchase of Eligible Member Obligations 6-19
.2.1 Five Percent Limitation On Eligible Obligation Purchases 6-19
.2.2 Ten Percent Limitation 6-20

.3 Student Loans 6-20

.4 Real Estate Loans 6-20

.5 Sale of Eligible Member Obligations 6-21
.5.1 Sale Without Recourse 6-21
.5.2 Sale With Recourse 6-22
.5.2.1 Recourse Sale Recorded as a Sale 6-22
.5.2.2 Recourse Sale Recorded as a Liability 6-23
.5.2.3 Disclosure Requirements 6-24

.6 Pledge of Eligible Member Obligations as Security 6-25

.7 Accounting for the Purchase, Sale, and Pledge of Eligible Obligations 6-25
.7.1 Loans Purchased 6-25
.7.1.1 Subsidiary Records 6-27
.7.1.2 Escrow Accounts 6-28
.7.2 Loans Sold (Servicing Retained) 6-28
.7.2.1 Loans Sold At a Premium 6-30

SUBSECTION NO.

.7.2.2 Loans Sold At a Discount 6-30

.8 Participation Loans 6-32

.9 Loan Participations Sold 6-33

.10 Gains and Losses on the Sale of Participations 6-35
.10.1 Determining the Gain or Loss 6-35
.10.2 Determination of Market Price 6-36
.10.3 Discounting the Gross Gain or Loss 6-36
.10.4 Additional Consideration in Discounting the Gross Gain or Loss 6-37

.11 Credit Unions As SBA Guaranteed Loan Originators 6-38

.12 Sale of Assets Other Than Loans Involving a Note As Payment 6-38

.13 Accounting for Profit Recognition on Sales of Real Estate 6-40

.14 Methods of Recognizing Profit on the Sale of Real Estate 6-43

6040 MORTGAGE BANKING ACTIVITIES 6-43

.1 Long-Term Servicing 6-44
.1.1 Definitions 6-44
.1.2 Servicing Internally Generated Loans 6-44
.1.3 Servicing Purchased Loans 6-46

6050 CREDIT CARDS 6-47

.1 Interest Computation 6-50

.2 Accounting and Operational Policy 6-50

.3 Accounting for Credit Card Transactions 6-53
.3.1 Illustrative Entries 6-54

.4 Trial Balance 6-59

.5 Internal Controls 6-60

SECTION NO. **PAGE NO.**

SUBSECTION NO.

6060 INVESTMENTS 6-60

.1 Method of Recording Investments 6-60
.1.1 Held-To-Maturity 6-61
.1.2 Trading 6-63
.1.3 Available-for-Sale 6-63
.1.4 Transfers Between Categories 6-63
.1.5 Impairment of Securities 6-64

.2 Definitions 6-64

.3 Authorized Investment Activities 6-66
.3.1 Cash-Investment Purchase 6-66
.3.2 Cash Forward Agreements 6-67
.3.3 Cash Forward Agreement To Sell Securities 6-67
.3.4 Investment-Type Repurchase Transactions 6-68
.3.5 Financial Institution-Type Repurchase Transaction 6-70
.3.6 Loan-Type Repurchase Transaction 6-70
.3.7 Reverse Repurchase Transaction 6-71

.4 Unauthorized Investment Transactions and Activities 6-72
.4.1 Adjusted Trading 6-73
.4.2 Yield Maintenance Contract 6-73
.4.3 Pair-Off Transaction 6-74

.5 Permissible Investment Activities and Transactions Subject to Specified Conditions 6-74
.5.1 Dollar Price Repurchase Agreement (Dollar Price Repo) 6-74

.6 Mortgage-Backed Securities 6-75
.6.1 Mortgage Pass-Through Securities 6-75
.6.2 Collateralized Mortgage Obligations (CMOs) 6-77
.6.3 Stripped Mortgage-Backed Securities (IO's/PO's) 6-80

.7 Zero Coupon Securities 6-81

.8.1 Accounting for Mutual Funds and Unit Investment Trusts 6-82
.8.1.1 Accounting for Mutual Funds 6-82

SUBSECTION NO.

.8.2	Accounting for Unit Investment Trusts	6-84
.9	Put Options	6-85
.10	Objectionable Investment Practices	6-86
.11	Investment Trading Policies	6-87
6061	**INVESTMENT CONSIDERATIONS**	6-88
.1	Responsibility	6-88
.2	Special Considerations	6-89
.2.1	Liquidity	6-90
.2.2	Safety	6-90
.2.3	Yield	6-90
.3	Authorized Broker/Dealers	6-91
.4	Reporting Requirements	6-91
.5	Internal Controls	6-91
.5.1	Surety Aspects	6-91
.5.2	Safekeeping	6-91
.6	Periodic Review Policy	6-92
6070	**FIXED ASSETS**	6-92
.1	FCU Ownership of Fixed Assets	6-92
.2	Amount of Investments in Fixed Assets	6-92
.3	Premises	6-94
.4	Prohibited Transactions	6-94

SECTION NO.		PAGE NO.
SUBSECTION NO.		
.5	Furniture, Fixtures and Equipment	6-95
.6	Depreciation of Fixed Assets	6-95
.6.1	Straight Line	6-95
.6.2	Sum of the Years Digits	6-96
.6.3	Declining Balance	6-98
.6.4	Comparison of Three Methods	6-99
.6.5	Gain or Loss in the Year of Sale of an Asset	6-99
.6.6	Trade-In	6-100
.6.7	Composite Depreciation Method	6-101
6080	**LEASES**	6-102
.1	Definitions	6-102
.2	Lease Classifications for Lessees	6-102
.2.1	Capital Leases	6-102
.2.2	Accounting Procedures - Capital Leases	6-103
.2.3	Required Disclosures - Capital Leases	6-105
.3	Operating Leases	6-105
.3.1	Accounting Procedures - Operating Leases	6-105
.3.2	Required Disclosures - Operating Leases	6-106
.4	Lease Classifications for Lessors	6-106
.5	Sales-Type Leases	6-106
.5.1	Accounting Procedures Sales-Type Leases	6-107
.6	Direct Financing Leases	6-107
.6.1	Accounting Procedures - Direct Financing Leases	6-107
.7	Leveraged Leases	6-110
.8	Operating Leases	6-110
.9	Required Disclosures - Lessors	6-110

SUBSECTION NO.

.10 Leases Involving Real Estate 6-111
.10.1 Criteria for Classifying Real Estate Leases 6-111
.10.2 Leases Involving Land Only 6-112
.10.3 Leases Involving Land and Building 6-112
.10.4 Leases Involving Real Estate and Equipment 6-114
.10.5 Leases Involving Only Part of a Building 6-114

.11 Sale and Leaseback Transactions 6-114
.11.1 Accounting Treatment for Sale and Leaseback Transactions for Seller-Lessees 6-115
.11.1.1 Accounting Treatment for Non-Real Estate Sale and Leaseback Transactions for Seller-Lessees 6-115
.11.1.2 Accounting Treatment for Real Estate Sale and Leaseback Transactions for Seller-Lessees 6-116
.11.1.3 Financial Statement Presentation and Disclosure for Sale and Leaseback Transactions for Seller-Lessees 6-118
.11.2 Accounting Treatment for Sale and Leaseback Transactions for Buyer-Lessors 6-118

.12 Accounting For Subleases and Similar Transactions 6-118
.12.1 Accounting for Subleases and Similar Transactions for the Original Lessor 6-119
.12.2 Accounting for Subleases and Similar Transactions for the Original Lessee 6-119
.12.3 Accounting for Subleases and Similar Transactions for the New Lessee 6-119

.13 Accounting for Lease Changes, Renewals, Extensions and Early Terminations 6-120
.13.1 Accounting for Changes to Lease Provisions 6-120
.13.2 Accounting for Renewals of or Extensions to Lease Provisions 6-120
.13.3 Accounting for Early Terminations of Lease Provisions 6-120

6090 MEMBERSHIP IN CENTRAL LIQUIDITY FACILITY 6-121

.1 Purpose of the Central Liquidity Facility 6-121

.2 Availability of Membership in the Facility 6-121

SECTION NO.		PAGE NO.
SUBSECTION NO.		
.3	Required Stock Subscription	6-121
.4	Computing the Amount of the Stock Subscription	6-122
.5	Accounting Entries for CLF Transactions Membership and Dividends	6-123
.6	Extension of Credit to Members	6-123
.7	Illustrative Entries	6-123
6110	**CREDIT UNION SERVICE ORGANIZATION**	6-125
.1	Accounting Procedures	6-125
.1.1	Investments In and Loans to Credit Union Service Organizations	6-126
.2	Accounting Entries	6-126
.2.1	Equity Method	6-127
.2.1.1	Special Accounting Treatment	6-128
.2.1.2	Cost in Excess of Carrying Value	6-129
.2.1.3	Cost Less Than Carrying Value	6-129
.2.2	Cost Method	6-129
.2.2.1	Permanent Impairment and Services of Credit Union Services Corporation Are No Longer Used	6-131
.2.2.2	Permanent Impairment and Services of Credit Union Service Corporation Are Being Used	6-131
.3	Financial Statement Presentation	6-132
.4	Loans to a Credit Union Service Organization	6-134
.4.1	Accounting Procedures	6-135
.4.2	Collection Procedures	6-135
6120	**SPECIAL ACCOUNTING AND OPERATING PROCEDURES FOR FEDERAL CREDIT UNIONS MAINTAINING BRANCH OPERATIONS**	6-135
.1	Branches	6-136

SUBSECTION NO.

.2	Centralized Operations	6-136
.2.1	Cash Receipts	6-136
.2.2	Disbursements	6-137
.2.3	Cash Accounts	6-137
.2.4	Processing of Loans	6-137
.2.5	Records at a Branch	6-137
.2.6	Staffing of a Branch	6-138
.2.7	Surety Bond and Other Insurance Coverage	6-138
.2.8	Supervisory Committee	6-138
.2.9	Membership Applications	6-138
.2.10	Security	6-138
.2.11	Records Preservation	6-139
.2.12	Service	6-139
.2.13	Overseas Branches	6-139
.3	Decentralized Operations	6-139
.4	Accounting System for a Branch	6-139
.4.1	Reciprocal Accounts	6-140
.4.2	Investment in Branch Account	6-140
.5	Financial Statements for the Branch	6-140
.6	Financial Statement for the Main Office and the Branch	6-140
.7	Illustrative Journal and Cash Record Entries	6-141
.7.1	Descriptions of the Transactions	6-141
.7.2	Reciprocal Account in Main Office General Ledger	6-143
.7.3	Reciprocal Account in Branch Ledger	6-143
6125	**SPECIAL ACCOUNTING AND OPERATING PROCEDURES FOR FEDERAL CREDIT UNIONS MAINTAINING OFFICES OVERSEAS**	6-144
.1	Accounting and Operating Procedures	6-144
.2	Special Considerations	6-144

SECTION NO. **PAGE NO.**

SUBSECTION NO.

.2.1 Responsibility for Operations 6-145
.2.2 Allotments 6-145
.2.3 Foreign Currency Transactions 6-145

.3 Overseas Procedures 6-145
.3.1 Records 6-145
.3.1.1 Minimum Records to be Maintained At Overseas Office 6-146
.3.1.2 Records and Information to be Transmitted by the Overseas Office to the Main Office 6-146
.3.2 Operations 6-147
.3.2.1 Receipts 6-147
.3.2.2 Deposits Made By an Overseas Branch 6-147
.3.2.3 Disbursements 6-147
.3.2.4 Daily Log 6-148
.3.2.5 Allotments 6-148
.3.2.6 Records of Loans Made 6-148
.3.2.7 Loans to Purchase Securities 6-148

.4 Main Office Procedures 6-148
.4.1 Records 6-149
.4.1.1 Records to be Maintained at the Main Office 6-149
. 4.1.2 Individual Share and Loan Ledgers (Duplicates) 6-149
.4.1.3 Journal and Cash Record and General Ledger 6-149
.4.1.4 Schedule of Delinquent Loans 6-150
.4.1.5 Statement of Account 6-150
.4.1.6 Supervisory Committee 6-150
.4.1.7 Other Accounting Entries 6-150

.5 Illustrative Operational Entries 6-151
.5.1 Illustrative Entries for the End of the Accounting Period 6-152

6128 CREDIT UNION OFFICE FACILITIES ON DEPARTMENT OF DEFENSE INSTALLATIONS 6-154

.1 Government-Owned Facility 6-154

.2 Office Facilities Constructed by Federal Credit Unions 6-154

SUBSECTION NO.

.3	Off-Site Office Facility	6-155
.4	Risk Assets	6-155
6130	**CORPORATE CENTRAL CREDIT UNIONS**	6-155
6140	**PENSIONS**	6-156
.1	Definitions	6-158
.2	Accounting for Pension Costs	6-160
.2.1	Determination of Net Periodic Pension Cost	6-161
.2.2	Illustration of Net Periodic Pension Cost Computation	6-162
.2.3	Provision for Vested Benefits	6-162
.3	Actuarial Gains and Losses	6-163
.4	Recording Pension Assets and Liabilities	6-163
.5	Illustrative Journal Entries	6-163
.6	Required Disclosure for Post Employment Health Care and Life Insurance Benefits	6-164
.7	Deferred Compensation Contracts/Agreements	6-165
.7.1	Accounting Procedures for Deferred Compensation Contracts/ Agreements	6-165
.7.2	Required Disclosures for Deferred Compensation Contracts/Agreements	6-165
.8	The Employee Retirement Income Security Act of 1974	6-166
.9	Defined Contribution Plans	6-168
.10	Presentation of Pension Plans in Financial Statements	6-168
.11	Settlements and Curtailments of Pension Plans and Termination Benefits	6-170
.11.1	Accounting for Settlements of Defined Benefit Pension Plans	6-170

SECTION NO. **PAGE NO.**

SUBSECTION NO.

.11.2 Accounting for Defined Benefit Plan Curtailments 6-171
.11.3 Disclosure and Financial Statement Presentation for Settlements and Curtailments of Pension Benefits and Termination Benefits 6-171
.11.4 Termination Benefits 6-171

6150 SHARE DRAFTS 6-172

.1 Definitions 6-172

.2 Establishing a Share Draft Program 6-172
.2.1 Experimental Share Draft Program 6-173

.3 Guidelines on the Use of Payable-Through Share Drafts in a Federal Credit Union's General Description of Operational Flow 6-173

.4 Description of a Share Draft Under a Payable-Through System 6-174

.5 Share Draft Agreement 6-174

.6 Share Draft Account 6-175

.7 Share Draft Account Overdrafts 6-175

.8 Draft Verification Procedures 6-176

.9 Settlement Account 6-177

.10 Stop Payment Procedures 6-177

.11 Draft Cashing Programs 6-177

.12 Service Charges and Fees 6-177

.13 Internal Share Draft Account 6-177

.14 Use of Share Drafts 6-178

SUBSECTION NO.

.15 Needed Opinions of Legal Counsel 6-178

.16 Federal Reserve Regulation D 6-178

.17 Federal Reserve Regulation CC 6-178

6160 TREASURY TAX AND LOAN ACCOUNTS 6-179

6170 PUBLIC UNIT ACCOUNTS 6-180

6180 SECONDARY CAPITAL ACCOUNTS FOR LOW INCOME CREDIT UNIONS 6-180

6000 SPECIALIZED ACCOUNTING

Federal credit union financial transactions have become increasingly more diverse and complex because of a larger variety of services offered, expanded authorities in a deregulated environment, mergers of credit unions, and growth in their fields of membership. Many federal credit unions have expanded their services through programs such as mortgage and commercial lending, share drafts or credit cards, or involved in activities such as establishing a branch operation has been increasing. This section of the accounting manual is therefore intended for all those federal credit unions in need of these additional guidelines in specialized accounting areas.

6010 LENDING ACTIVITIES

This section sets forth the regulatory accounting requirements for Federal credit unions in accounting for nonrefundable fees and costs associated with originating and acquiring loans. Originating and acquiring loans includes lending, committing to lend, or purchasing a loan or group of loans.

This section applies to all types of loans extended by credit unions: consumer loans, mortgage loans, commercial and agricultural loans.

The policy set forth in this section is an exception to generally accepted accounting principles as to credit unions using the modified cash basis of accounting.

6010.1 NONREFUNDABLE LOAN ORIGINATION FEES AND COSTS

Credit unions following a modified cash basis of accounting may apply, at their option, the rules set forth in Section 6010.1.2 below for credit unions using the full accrual basis of accounting or they are required, at a minimum, to amortize loan origination fees over the life of the loan or ten years, whichever period is shorter (see Section 6010.1.1).

Credit unions following the full accrual basis of accounting should fury adopt the provisions set forth in 6010.1.2 below. The section requires that:

- Loan origination fees be recognized over the life of the related loan as adjustment of yield.
- Direct loan origination costs be recognized over the life of the related loan as a reduction of the loan's yield.
- Loan commitment fees be deferred except for certain specified fees.
- The adjustment of yield generally be by the interest method.

6010.1.1 UNDER THE MODIFIED CASH BASIS

Credit unions using a modified cash basis of accounting may or may not apply the provisions of Section 6010.1.2, at their option. If a credit union chooses not to follow Section 6010.1.2, they are required, at a minimum, to amortized loan fees over 10 years or the life of the loan, whichever period is shorter. The deferral of income recognition and the method of amortization should be as discussed below for credit unions using the full accrual basis of accounting.

6010.1.2 UNDER THE FULL ACCRUAL BASIS

The application of the provisions of this section is clearly not required where reporting differences between application and nonapplication of these provisions are not material. The main area of applicability for federal credit unions is expected to be in the areas of real estate and commercial lending.

The provisions of this section were established by the Financial Accounting Standards Board (FASB) in Statement of Financial Accounting Standard (SFAS) No. 91 (copies available through the FASB). Federal credit unions should seek the assistance of an independent accountant if they do not have the expertise to implement SFAS No. 91.

6010.2 LOAN ORIGINATION FEES

Loan origination fees charged a member and the related direct loan origination costs incurred for a given loan should be offset and the net amount deferred and recognized over the life of the loan as an adjustment of yield using the interest method. The netting of fees and costs should be applied on an individual loan basis although aggregation of similar loans is permissible under certain conditions. The practice of recognizing loan origination fees as income in the period earned/received and expensing related costs when incurred or in the period the loan is granted is no longer acceptable. The objective of the interest method is to arrive at periodic interest income at a constant effective yield on the net investment (carrying value).

Examples of the types of loan origination costs a federal credit union should defer include costs related to evaluating the prospective borrower's financial condition; evaluating and recording guarantees, collateral and other such arrangements, negotiating loan terms, preparing and processing loan documents and closing the transaction. The federal credit union should only defer that portion of the employee's total compensation and payroll related fringe benefits directly related to time spent performing those activities for that loan and other related costs that would not have been incurred but for that loan.

All other lending related costs, including costs related to activities performed by the lender for advertising, soliciting potential borrowers, servicing existing loans, and other ancillary activities related to establishing and monitoring credit policies, supervision, and administration, should be charged to expense as incurred. Employees' compensation and fringe benefits related to those activities, unsuccessful loan origination efforts, and idle time should be charged to expense as incurred. Administrative costs, rent, depreciation, and all other occupancy and equipment costs are considered indirect costs and should be charged to expense as incurred.

Amounts of loan origination, commitment and other fees and costs recognized as an adjustment of yield should be reported as part of interest income. The unamortized balance of loan origination, commitment and other fees and costs recognized as an adjustment of yield should be reported on the federal credit union's balance sheet as part of the loan balance to which it relates.

6010.3 COMMITMENT FEES

Generally, fees received for a commitment to originate or purchase a loan or a group of loans should be offset with direct loan origination costs to make a commitment and deferred. If the commitment is exercised, the net fees should be recognized over the life of the loan as an adjustment of yield or, if the commitment expires unexercised, recognized in income upon expiration of the commitment. If the likelihood that the commitment will be exercised is remote, the commitment fee should be recognized over the commitment period on a straight-line b is as service fee income. If the commitment is subsequently exercised during the commitment period, the remaining unamortized commitment fee at the time of exercise should be recognized over the life of the loan as an adjustment of yield.

If material, fees that are periodically charged to cardholders should be deferred and recognized on a straight-line basis over the period the fee entitles the cardholder (member) to use the card.

6010.4 DEMAND LOANS

For a loan that is payable at the lender's demand, any net fees or costs may be recognized as an adjustment of yield on a straight-line basis over a period that is consistent with (1) the understanding between the borrower and lender or (2) if no understanding exists, the lender's estimate of the period of time over which the loan will remain outstanding. Any unamortized amount should be recognized when the loan is paid in full.

6010.5 REVOLVING LINES OF CREDIT

For revolving lines of credit (or such loan arrangements), the net fees or costs should be recognized in income on a straight-line basis over the period the revolving line of credit is active, assuming that borrowings are outstanding for the maximum term provided in the loan contract. If the borrower pays all borrowings and cannot borrow again under the contract, any unamortized net fees or costs should be recognized in income upon payment. The interest method should be applied to recognize not unamortized fees or costs when the loan agreement provides a schedule for payment and no additional borrowings are provided for under the agreement.

6010.6 PURCHASE OF A LOAN OR GROUP OF LOANS

The initial investment in a purchased loan or group of loans should include the amount paid to the seller plus any fees paid or less any fees received. The initial investment frequently differs from the related loan's principal amount at the date of purchase. This difference should be recognized as an adjustment of yield over the life of the loan. All other costs incurred in connection with acquiring purchased loans or committing to purchase loans should be charged to expense as incurred.

The purchaser may allocate the initial investment to the individual loans or may account for the initial investment in the aggregate. The cost flows provided by the underlying loan contracts should be used to apply the interest method. If prepayments are not anticipated and prepayments occur or a portion of the purchased loans are sold, a proportionate amount of the related deferred fees and purchase premium or discount should be recognized in income so that the effective interest rate on the remaining portion of loans continues unchanged.

6010.7 AGGREGATION OF SIMILAR LOANS

If the federal credit union holds a large number of similar loans for which prepayments are probable and the timing and amount of prepayments can be reasonably estimated, the federal credit union may consider estimates of future principal prepayments in the calculation of the constant effective yield necessary to apply the interest method.

If the federal credit union anticipates prepayments in applying the interest method and a difference arises between the prepayments anticipated and actual prepayments received, the federal credit union should calculate the effective yield to reflect actual payments to date and anticipated future payments. The net investment in the loans should be adjusted to the amount that would have existed had the new effective yield been applied since the acquisition of the loans. The investment in the loans should be adjusted to the new balance with a corresponding charge or credit to interest income.

Federal credit unions that anticipate prepayments should disclose that policy and significant assumptions underlying the prepayment estimates. The practice of recognizing net fees over the estimated average life of a group of loans is no longer acceptable.

6010.8 DEFINITIONS

Commitment Fees. Fees charged for entering into an agreement that obligates the Federal credit union to make or acquire a loan or satisfy an obligation of the other party under a specified condition. Commitment fees include fees for letters of credit and obligations to purchase a loan or group of loans and pass-through certificates.

Credit Card Fees. The periodic uniform fees that entitle cardholders to use credit cards including fees received in similar arrangements, such as charge card and cash card fees.

Incremental Direct Costs. Costs to originate a loan that (1) result directly from and are essential to the lending transaction and (2) would not have been incurred by the lender had the lending transaction not occurred.

Lending Activities. Lending, committing to lend, refinancing or restructuring loans, arranging standby letters of credit, syndication and participation fees to the extent they are associated with the portion of the loan retained by the lender.

Origination Fees. Fees charged to the borrower in connection with the process of originating, refinancing, or restructuring a loan including points, management, arrangement, placement, application, underwriting and also syndication and participation fees to the extent they are associated with the portion of the loan retained by the lender.

6010.9 ACCOUNTING ENTRIES AND THE INTEREST METHOD

The Illustrative Entries on pages 4-51 through 4-53 of Section 4050.4, Account No. 703.1, give a good example of the accounting entries for a loan and the corresponding amortization/accretion using the interest method. We have not repeated the illustration here but refer you to that section of the manual.

6020 ACCOUNTING GUIDELINES FOR REAL ESTATE LENDING

6020.1 GENERAL

The provisions of Section 107 of the Federal Credit Union Act, and Section 701.21 of the NCUA Rules and Regulations, allows federal credit unions to make loans with maturities up to 40 years on residential real property. The regulation contains certain restrictions on the types of property which can be financed, prescribes various forms, limits, and discusses due on-sale clauses.

The degree of risk in a real estate loan depends on the amount loaned, interest rate, value of the property, ability of the borrower to repay, local economic climate, and other special terms.

The effective rate of interest, inclusive of all finance charges is limited by the Rules and Regulations. In the event of early repayment of any real estate loan where finance charges are assessed, a recomputation is required and a refund must be made if the sum of the interest paid plus the finance charges paid exceeds the maximum permitted by the Rules and Regulations. The liability and responsibility to refund such excess finance charges remains with the FCU in the event the loan is sold, unless the contract specifically provides that the responsibility flows to any subsequent purchase of the obligation. (See Section 6020.4 for a discussion of the Recomputation for Rebate.)

6020.1.1 TYPES OF REAL ESTATE MORTGAGE LOANS

Fixed Rate Mortgage Loans

Fixed rate mortgage loans refer to loans that have maturities from 12 years on up to and including 40 years and interest rates that remain the same from the time of their origination. Such loans are rated to the finance or refinancing of a one-to-four family dwelling, including an individual cooperative unit, which will be used for the principal residence of the federal credit union member.

Variable Rate Mortgage Loans

Variable rate loans are tied to an index agreed upon by the borrower and the credit union. The board of directors establishes the variable rate mortgage loan's lending policies as it deems appropriate. The policies must be in writing and consistent with cooperative principles and existing laws and regulations. Variable rate loans provide an effective method for the credit union to pass on to the borrower the risk of increases in the market interest rates for loans. Movement in the index results in an increase or decrease in the interest rate which is implemented through changes in the monthly payment, changes in the loan maturity, or through a combination of these methods. In the case of a long-term real estate loan, the credit union is prohibited from using its own funds as an index. If the principal interest rate is adjusted, the payment of the loan must be adjusted at least every five years to an amount sufficient to fully amortize the loan at maturity. If the adjustment in the interest rate is implemented through an extension of the maturity, the adjustment may not cause the maturity to exceed 40 years.

From a funds management point of view, a credit union's own costs of funds would be an ideal index. There is concern, however, over the ability of a credit union to enforce a contract in which the key terms are uncertain or not definable. The following are some of the more common indices:

a) The average contract interest rate charged by all lenders on mortgage loans for previously occupied homes as published by the Federal Home Loan Bank Board in its Journal.

b) The average monthly yield on 26 week United States Treasury securities as published in the *Federal Reserve Bulletin.*

c) The average monthly yield on the United States Treasury Securities adjusted to a constant maturity of 3 years based on the daily closing bid prices as published in the *Federal Reserve Bulletin.*

d) The average monthly yield on the United States Treasury securities adjusted to a constant maturity of 5 years based on daily closing bid prices as published in the *Federal Reserve Bulletin*

e) The average of "prime lending rate" as published by specific banks or newspapers.

A variable rate loan to a person on a fixed income could cause the borrower and the credit union problems since the individual may not be able to afford unanticipated increase in the monthly payment. Additionally, when the variable rate loans are adjusted through addition of unpaid interest to the principal balance, the result may be that large final payments are required. This is potentially risky and dangerous to liquidity, earnings, depreciated collateral, and default in the same ways as would occur in balloon type loans. The credit union is required to prepare disclosures for variable rate loans according to Regulation Z. Members should be provided with "worst case" situations so they will fully understand the potential problems which could occur due to rate changes.

Participation Mortgage Loans

A participation loan is a loan that is made in participation with one or more eligible organization where the written commitment to participate in the loan precedes final disbursement. Section 701.22 of the NCUA Rules and Regulations contains additional information. A federal credit union's interest in a participation loan may not exceed 10 percent of its unimpaired capital and surplus.

Secondary Market

One method in which a federal credit union can serve the home financing needs of its members is through the secondary market. The secondary market refers to investors who purchase mortgage loans either for their own portfolio or for the assembly of mortgage backed securities. This would include Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association. The secondary market also includes insurance companies, pension funds, mutual savings banks, savings and loan associations, and private investors. Under the secondary market arrangement, the credit union would obtain a commitment from an investor to purchase mortgage loans. The credit unions would then originate mortgage loans according to specifications of the investor, sell the closed mortgage loans to the investor and service the loans for the investor. Servicing involves four major operations:

a) Processing of payments. The net proceeds after retaining taxes, mortgage insurance, hazard insurance, and servicing fees are remitted to the investor. The servicer is expected to handle escrow accounts and to pay taxes and insurance premiums when due.

b) Protection of security. The servicer is expected to periodically inspect the property to make sure it is not being subjected to waste or unusual depreciation.

c) Recordation. When the property changes hands and a new owner assumes the mortgage, a whole series of records must be changed and recorded. In the case of a mortgage insured by the Federal Housing Authority or guaranteed by the Veterans Administration, the proper government agency must be notified and required government forms must be completed.

d) Collection. The servicer is expected to take all collection steps including foreclosures if necessary.

A due-on-sale clause, a type of acceleration clause, gives the credit union the option of calling the loan if the borrower sells or transfers all or part of his or her interest in the property securing the loan. The Federal National Mortgage Association and Federal Home Loan Mortgage Corporation uniform instruments contain the clause. These instruments will facilitate the credit union's entrance into the secondary mortgage market in the event that the loans must be sold.

6020.2 AFFECTED ACCOUNTS

The following are the account numbers and the account titles which will be used by FCUs engaged in real estate lending.

114	Interest of Real Estate Loans
140	Gain (Loss) on Sale of Loans and Other Eligible Obligations
285	Refunds - Real Estate Finance Charges
303	Provision for Loan Losses - Real Estate Loans
703	Real Estate Loans Over 12 Years
703.1	Net Origination Fees (Costs) - Real Estate Loans Over 12 Years
704	Real Estate Loans - 12 Years or Less

704.1	Net Origination Fees (Costs) - Real Estate Loans - 12 Years or Less
719	Allowance for Loan Losses
728	Real Estate Loans Receivable
784	Accrued Interest on Real Estate Loans
808	Real Estate Loans Payable
809	Escrow Accounts
885	Deferred Credits - Prepaid Interest - Real Estate Loans
905	Shares - Escrow Accounts

Account descriptions for the above accounts can be found in the applicable subsections of Section 4000, General Ledger of Accounts, by the account number referenced.

6020.3 SAMPLE ACCOUNTING ENTRIES

To show the interrelation of the various accounts involved in a real estate loan, the following example will be used. The figures shown on the HUD-1 Settlement Statement are used to demonstrate the accounting entries required when the loan is granted and the recomputation which is required when the loan is paid off early. Accounting entries are shown for two different situations. In the first example it is assumed that an attorney performs the closing and handles the disbursement of funds. In the second example it is assumed that the credit union performs the closing and handles the disbursement of all funds. The same Settlement Statement is used for both examples.

Example #1

Assumptions:

a) Attorney, Harry Settlor, handles the closing and makes all disbursements with the exception of the appraisal fee.

b) The FCU retains the appraiser and disburses the appraisal fee after settlement.

c) The FCU's check for the loan proceeds is make payable to the attorney (Harry Settlor) for distribution at settlement.

d) All disbursements (those of the FCU and the attorney) except for the appraisal fee are made on the date of closing, 8/12/XX.

e) Escrow accounts are required for Real Estate loans.

Under these assumptions Harry Settlor would receive $58,000 for the FCU and $8,955.66 from the buyer. These funds would then be disbursed by Harry Settlor to the seller, the previous mortgage holder and to pay various other costs.

Entries in FCU's Records:

a) To record the disbursement of loan proceeds to the settlement agency of the Byer's loan:

Dr. - Real Estate Loans Over 12 Years (Acct. No. 703.1)	$58,000	
Cr. - Cash (Acct. No. 731)		$58,000

b) To record receipt of funds from settlement agency as reimbursement for payment of appraisal fee on the Sellar's property (Byer's loan):

Dr. - Cash (Acct. No. 731)	$265	
Cr. - Real Estate Loans Payable (Acct. No. 808)		$265

c) To record receipt of funds from settlement agent for borrower's points:

Dr. - Cash (Acct. No. 731)	$580	
Cr.-Net Origination Fees (Costs)- Real Estate Loans Over 12 Years (Acct. No. 703.1)		$580

d) To record receipt of funds from settlement agent for loan discount Cellar-Byer Transaction:

Dr. - Cash (Acct. No. 731)	$580	
Cr.-Net Origination Fees (Costs)- Real Estate Loans Over 12 Years (Acct. No. 703.1)		$580

e) To record receipt of funds from settlement agent for loan origination fee:

Dr. - Cash (Acct. No. 731)	$580	
Cr.-Net Origination Fees (Costs)- Real Estate Loans Over 12 Years (Acct. No. 703.1)		$580

f) To record receipt of funds from settlement agent for 19 days prepaid interest on Byer's loan:

Dr. - Cash (Acct. No. 731)	$275.50	
Cr.-Net Origination Fees (Costs)- Real Estate Loans Over 12 Years (Acct. No. 703.1)		$275.50

g) To record receipt of funds from settlement agent for reserves on Byer's loan (Hazard Ins. $22.00, Mortgage Ins. $24.16, and Property Tax $321.40):

Dr. - Cash (Acct. No. 731) $367.56
Cr.-Shares - Escrow
(Acct. No. 905) $367.56

h) To record the payment of the Real Estate appraisal fee on the Cellar's property:

Dr. - Accounts Payable-Real Estate
Loans (Acct. No. 808) $265
Cr.-Cash (Acct. No. 731) $265

Example #2

Assumptions:

a) The FCU handles the closing and makes all disbursements.

b) The FCU has retained an attorney, Harry Settlor, to perform the examination of title, prepare documents, and perform the necessary tasks to record documents and transfer title. The attorney pays the recording and transfer charges and is reimbursed by the FCU.

c) City Realty drew up the sale contract and collected the earnest money.

d) Escrow accounts are required for real estate loans.

e) All disbursements are made within 10 working days of the closing date.

Entries in the FCU's Records at Settlement or closing to record disbursement of loans proceeds on the Byer-Cellar real estate transaction;

1) To record receipt of funds from John & Mary Byer on purchase of the Cellar property:

Dr. - Cash (Acct. No. 731) $8,955.66
Cr.-Net Origination Fees (Costs)-
Real Estate Loans Over 12 Years
(Acct. No. 703.1) $1,435.50
Cr.-Shares - Escrow (Acct. No. 905) 367.56
Cr.-Accounts Payable - Real Estate
Loans (Acct. No. 808) 7,152.60

2)To record the receivable for earnest money deposited by Byer with City Realty:

Dr. - Accounts Receivable - Real Estate Loans (Acct. No. 728)	$2,000	
Cr.-Accounts Payable - Real Estate Loans (Acct. No. 808)		$2,000

3) To record the (Byer) real estate loan and the disbursements of funds to Cellar:

Dr. -Real Estate Loans (Acct. No. 703)	$58,000.00	
Cr.-Net Origination Fees (Costs)- Real Estate Loans Over 12 Years (Acct. No. 703.1)		$580.00
Cr.-Cash (Acct. No. 731)		7,641.46
Cr.-Accounts Payable - Real Estate Loans (Acct. No. 808)		49,778.54

4) To record payment of real estate commissions:

Dr. - Accounts Payable - Real Estate Loans (Acct. No. 808)	$3,960	
Cr.-Accounts Receivable (Acct. No. 728)		$1,980
Cr.-Cash (Acct. No. 731)		1,980

5) To record the payment of fees associated with the purchase:

Dr. - Accounts Payable - Real Estate Loans (Acct. No. 808)	$54,971.14	
Cr.-Cash (Acct. No. 731)		
(James Appraiser)		$265.00
(PMI)		290.00
(Harry Settlor)		631.67
(Title Company)		141.00
(Charles Surveyor)		100.00
(Pest Control)		20.00
(City Mutual)		53,532.47

6020.4 RECOMPUTATION FOR REBATE

The following items from Figure 6-1 "Settlement Statement" are considered finance charges and are subject to refund in accordance with 701.21 of the NCUA Rules and Regulations in the event of early repayment:

Borrower's Points	$580.00
Loan Origination Fee	580.00
Prepaid Interest	275.50
Mortgage Insurance	290.00
Total	$1,725.50

To demonstrate the acceptable method which may be used to compute the required refund, we will assume that the $58,000 loan shown on the foregoing Settlement Statement was granted at the interest rate of 9 1/ 4% per annum for 30 years. Further we will assume that the loan has been paid off 12 months after date of issue. For purposes of this example it is assumed that the maximum permissible interest rate at the time the loan was granted was 12% APR.

The first step in the computation is to determine the present value (PV) of the 12 monthly payments, $6,714.78 ($596.60 monthly payment x 11.2550774735 PV factor). Secondly, compute the present value of the payoff balance, $51,285.21 ($57,789.46 payoff balance x .8874492253 PV factor). The sum of the above two present values should equal the original amount of the loan since the loan in question was written with an interest rate of 1% per month.

PV of the monthly payments	=	$ 6,714.78
PV of the payoff balance	=	51,285.21
TOTAL		$57,999.99

The $.01 difference between the computed present value and the original amount of the loan ($58,000.00) is due to rounding.

A comparison of the present value of the contracted income stream using a 1% per month interest factor with the present value of the income stream if the loan had been written at 12% APR (1%) per month) will disclose the amount of prepaid charges which must be refunded due to early repayment of the loan. Since the present value of this latter income stream (12% APR loan) is always equal to the face amount of the loan, it is sufficient to compare the computed PV of the contracted income stream (using 1% interest factors) with the face amount of the note.

The amount of prepaid charges which are subject to refund is that amount required to make the computed PV equal to the face amount of the note. If the computed PV is greater than the face amount of the note, no refund is required.

The present value of the 12 monthly payments if $5,370.47, ($477.16 monthly payment x 11.2550774735 PV factor). The PV of the payoff balance is $51,137.82 ($57,623.38 x .8874492253). The sum of the above two present values will equal the present values of the total income stream to yield 1% per month.

FIGURE 6-1

A. Settlement Statement

U. S. Department of Housing and Urban Development

OMB No. 2502-0265

B. Type of Loan	6. File Number	7. Loan Number	8. Mortgage Insurance Case Number
1. ☐ FHA 2. ☐ FmHA 3. ☐ Conv. Unins. 4. ☐ VA 5. ☐ Conv. Ins.			

C. Note: This form is furnished to give you a statement of actual settlement costs. Amounts paid to and by the settlement agent are shown. Items marked "9p.o.c.)" were paid outside the closing; they are shown here for Informational purposes and are not Included in the totals.

D. Name and Address of Borrower	E. Name and Address of Seller	F. Name and Address of Lender
John & Mary Byer	Robert & Jane Cellar	Our FCU

G. Property Location	H. Settlement Agent / Place of Settlement	I. Settlement Date
4420 Elm Street Anywhere, USA	Harry Settlor	8/12/x1

J. Summary of Borrower's Transaction		K. Summery of Seller's Transaction	
100. Gross Amount Due From Borrower		400. Gross Amount Due To Seller	
101. Contract sales price	66,000.00	401. Contract sales price	66,000.00
102. Personal property		402. Personal property	
103. Settlement chargee to borrower (line 1400)	3,069.06	403.	
104.		404.	
105.		405.	
Adjustments for Items paid by seller in advance		Adjustments for Items paid by seller in advance	
106. City/town taxes to		406. City/town taxes to	
107. County taxes to		407. County taxes to	
108. Assessments to		408. Assesments to	
109.		409.	
110.		410.	
111.		411.	
112		412.	
120. Gross Amount Due From Borrower	69,069.06	420. Gross Amount Due To Seller	66,000.00
200. Amount Paid By Or in Behalf or Borrower		500. Reductions in Amount Due To Seller	
201. Deposit or earnest money		501. Excess deposit (see Instructions)	4,721.67
202. Principal amount of new loan(s)		502. Settlement charges to seller (line 1400)	
203. Existing loan(s) taken subject to		503. Existing loan(s) taken subject to	
204.		504. Payoff of first mortgage loan 8/26	53,523.47
205.		505. Payoff of second mortgage loan	
206.		506.	
207.		507.	
208.		508.	
209.		509.	
Adjustments for Items unpaid by seller		Adjustments for Items unpaid by seller	
210. City/Town taxes to		510. City/town taxes to	
211. County taxes 7/1 to 8/12	113.40	511. County taxes 7/1 to 8/12	113.45
212. Assessments to		512. Assessments to	
213.		513.	
214.		514.	
215.		515.	
216.		516.	
217.		517.	
218.		518.	
219.		519.	
220. Total Paid By/For Borrower	60,113.40	520. Total Reduction Amount Due Seller	58,358.54
300. Cash At Settlement From/To Borrower		600. Cash At Settlement To/From Seller	
301. Gross Amount due from borrower (line 120)	69,069.06	601. Gross amount due to seller (line 420)	66,000.00
302. Less amounts paid by/for borrower (line 220)	(60,113.40)	602. Less reductions in amt. due seller (line 520)	(58,358.54)
303. Cash ☐From ☐To Borrower	8,955.66	603. Cash ☐To ☐ From Seller	7,641.46

Previous Edition is Obsolete

HUD - 1 (3-86)
RESPA, HB 4305.2

FIGURE 6-1 (Continued)

L. Settlement Charges			Paid From Borrowers Funds at Settlement	Paid From Seller's Funds at Settlement
700. Total Sales/ Broker's Commission based on price $ 66,000 @ 6 % = 3,960				
Division of Comminnion (line 700 as follows:				
701. $ 1,980.00 to City Realty				
702. $ 1,980.00 to Suburban Realty				
				3,960.00
704.				
800. Items Payable In Connection With Loan				
801. Loan Origination Fee %			580.00	
802. Loan Discount 1 % Our FCU				580.00
803. Appraisal Fee to James Appraiser		265.00		
804. Credit Report to				
805. Lender's Inspection Fee				
806. Mortgage Insurance Application Fee to				
807. Assumption Fee				
808. Borrower's points			580.00	
809.				
810.				
811.				
900. Items Required By Lender To Be Paid in Advance				
901. Interest from 8/12 to 8/13 @$ 14.50 iday (19)			275.00	
902. Mortgage Insurance Premium for 12 months to PMI			290.00	
903. Hazard Insurance Premium for years to				
904. years to				
905.				
1000. Reserves Deposited With Lender				
1001. Hazard Insurance 2 months@$ 11.00 per month		22.00		
1002. Mortgage insurance 2 months@$ 12.08 per month		24.16		
1003. City property taxes months@$ per month				
1004. County property taxes 4 months@$ 80.35 per month		321.40		
1005. Annual assessments months@$ per month				
1006. months@$ per month				
1007. months@$ per month				
1008. months@$ per month				
1100. Title Charges				
1101. Settlement or closing fee to Harry Settlor				30.00
1102. Abstract or title search to				
1103. Title examination to Harry Settlor			200.00	
1104. Title Insurance binder to				
1105. Document preperation to Harry Settlor				25.00
1106. Notary fees to				
1107. Attorney's fees to Harry Settlor				30.00
(includes above Items numbers:)				
1108. Title insurance to Title Company			141.00	
(includes above Items numbers:)				
1109. Lender's coverage $ 141.00 - 58,000.00				
1110. Owner's coverage $ 233.00 - 66,000.00				
1111. 92.00 - 8,000.00 OPT.				
1112.				
1113.				
1200. Government Recording and Transfer Charges				
1201. Recording fees: Deed $ 11.00 ; Mortgage $ 11.00 ; Releases $ 10.67		22.00	10.67	
1202. City/county tax/stamps: Deed $ 33.00 ; Mortgage $ 29.00			62.00	
1203. State tax/stamps: Deed $ 99.00 ; Mortgage $ 87.00		186.00		
1204. State Transfer Tax				66.00
1205.				
1300. Additional Settlement Charges				
1301. Survey to Charles Surveyor			100.00	
1302. Pest inspection to Pest Control				20.00
1303.				
1304.				
1305.				
1400. Total Settlement Charges (enter on lines 103, Section J and 502, Section K)		3,069.06	4,721.67	

PV of the monthly payments	=	$ 5,370.47
PV of the payoff balance	=	51,137.82
PV of income stream to yield 1%	=	$56,508.29

The amount of prepaid charges not subject to refund in this example is as follows:

Face Amount of Note	=	$58,000.00
PV of Income Stream	=	56,508.29
Amortized Prepaid Finance Charges	=	$ 1,491.71

The difference between the prepaid finance charges ($1,725.50) and the amortized prepaid finance charges ($1,491.71) are subject to refund. The amount subject to refund in the example is $233.79.

Another method which can be used to compute the refund is to project all payments into the future (to the date of payoff) using future values. Using this method, a short hand computation of the amount of refund is as follows:

1.	PV of Monthly Payments	$ 5,370.47
2.	Plus PV of Payoff Amounts	51,137.83
3.	Plus Prepaid Service Charges	1,725.50
4.	Equals Equivalent PV	58,233.80
5.	Less: Face Amount of Note	58,000.00
6.	Equals" Amount Subject to Refund	$ 233.80
7.	Times FV Factor	1.126825
8.	Equals Amount of Refund	$ 263.45

If item 5 is greater than item 4 no refund is required.

If a credit union distributes excess earnings to borrowers through an interest refund, the effect of such refund must be included in the above recomputation. The present value of an interest refund paid would act to reduce the amount of refund in the above examples. However, this is the amount subject to refund if it had been paid at the time the loan was granted. Since it is being repaid at a time one year later, a larger amount is due the borrower. This larger amount is the equivalent of $233.80 with interest at 12% APR compounded monthly, or $263.45. This value can be determined by using the future value computed as follows: $233.80, amount subject to refund, x 1.1268250301, FV factor, = $263.45.

6020.5 FLOOD INSURANCE

When a credit union is going to make, increase, extend or renew a loan secured by improved real estate or a mobile home, three things must be determined.

a) It must be determined if the improved real property or mobile home securing the loan is or will be located in an area that has special flood hazards, as determined by the Director of the Federal Emergency Management Agency (FEMA).

b) It must be determined if the property is or will be located in a community participating in the National Flood Insurance Program or if it is or will be located in a nonparticipating community.

c) If the property is or will be located in a community participating in the National Flood Insurance Program, it must be determined if the community is participating in the Emergency Program or in the Regular Program.

The credit union must then determine if the property is or will be located both in a special flood hazard area and in a community participating in the National Flood Insurance Rate Map or the current Flood Hazard Boundary Map for the area.

The borrower must buy flood insurance if the improved real property or the mobile home is or will be located both in a special flood hazard area and in a community participating in the National Flood Insurance Program. The borrower may buy flood insurance from any insurance agent or broker licensed to do business in the state where the property is located.

The amount of the insurance must be at least equal to the outstanding balance of the loan or to the maximum amount available under the Flood Disaster Protection Act, whichever is less. The m ‘ m amount of the flood insurance available will vary depending on whether the community is Participating in the Emergency or Regular Program.

The insurance must cover the building or the mobile home and any personal property securing the loan (It need not cover the land). It must remain in effect until the loan is repaid. If the borrower does not buy flood insurance that meets these requirements, a federally insured credit union cannot make, in , extend or renew a loan by the improved real property or mobile home.

Once it has been determined that the improved real property or mobile home is or win be located in a special flood hazard area and before the mortgage or any other notary agreement is signed, a federally insured credit union must give the borrower a written notice of that fact. This notice need not be given if the seller or lessor of the property states in writing that he or she has already given the notice to the borrower and the borrower acknowledges this. In addition, a federally insured credit union must give the borrower a written notice that says whether federal disaster relief assistance will be available if the property is damaged by flooding in a federally declared disaster.

Federal disaster assistance will be available if the property is located in a community participating in the National Flood Insurance Program. Before the loan note is signed, the credit union must also have the borrower acknowledge in writing that he or she received these notices. This acknowledgment has to be kept on file until the loan is repaid.

The credit union must keep records that show how it determined if flood insurance would be required and how it determined whether to give the Federal Disaster Assistance Notice. If a Flood Interest Rate Map or Flood Hazard Boundary Map was used, the address of the property and the number of the Map are all that are necessary.

6020.6 REGULATION C - HOME MORTGAGE DISCLOSURE ACT

The Home Mortgage Disclosure Act is a law which requires depository institutions, including credit unions, to disclose publicly where its mortgage loans have been granted, The purpose of the law is to provide for the development and disclosure of sufficient information for interested persons and public officials to determine whether depository institutions were fulfilling their lending obligations to serve the housing need of all segments of neighborhoods in which they are located. The term most frequently associated with discrimination in mortgage lending is "redefining." This occurs when depository institutions rule out certain residential areas of a city for mortgage credit or discriminates against various groups of residents.

A credit union which meets all three of the following conditions is subject to the Act:

a) It must have over $10 million in assets at the end of its most recent fiscal year.

b) It must maintain an office (main or branch) in one or more SMSA (Standard Metropolitan Statistical Area) as established by the Office of Management and Budget.

c) It must make federally related residential mortgage loans. A federally related mortgage loan is any loan secured by a first lien on residential real property, made by a depository institution regulated or insured by an agency of the Federal Government, or made with the intent of being sold to FNMA or GNMA, etc.

If a credit union meets this criteria, it should refer to the revised Manual of Laws Affecting Federal Credit Unions for instructions on complying with this Act.

6030 PURCHASE, SALE, AND PLEDGE OF ELIGIBLE OBLIGATIONS

Under provisions of Sections 701.22 and 701.23 of the National Credit Union Administration (NCUA) Rules and Regulations, federal credit unions are authorized to:

a) Purchase, sell, or pledge to any source eligible obligations of its members;

b) Purchase eligible obligations of a liquidating credit union's members;

c) Purchase student loans from any source, if they grant this type of loan on an on-going basis, and if the purchase will aid in the packaging of a pool of these loans so that they may be pledged or sold on a secondary market; and

d) Purchase real estate loans from any source, provided they grant real estate loans on an on-going basis in accordance with Section 701.21 of the NCUA Rules and Regulations and the sale will aid in the purchaser's packaging of a pool of these loans so that they may be pledged or sold on the secondary mortgage.

The purpose of this portion of the law is to provide federal credit unions with greater flexibility in satisfying members' requests for loans and share withdrawals while spreading the risk of these needs. Federal credit unions granting these student loans and long-term real estate loans will have an easier access to the respective secondary markets. This will improve the credit union's ability to react quickly and efficiently to satisfy liquidity needs.

6030.1 DEFINITIONS RELATING TO PURCHASE, SALE OR PLEDGE OF ELIGIBLE OBLIGATIONS

Sections 701.22 and 701.23 establish certain definitions and requirements for federal credit unions which elect to participate in the purchase, sale, or pledge of eligible obligations. The requirements established in those regulations are not repeated here. Rather, you are referred to those sections to determine those requirements as applicable to your situation.

6030.1.1 DEFINITIONS CONCERNING THE PURCHASE, SALE, OR PLEDGE OF ELIGIBLE OBLIGATIONS

The definitions are included below.

Credit Union. Any federal or state-chartered credit union.

Credit Union Service Organization. An organization satisfying the requirements of Section 701.27 of NCUA's Rules and Regulations..

Eligible Obligation. A loan or group of loans.

Eligible Organizations. A credit union, a credit union service organization, or a financial institution.

Financial Institution. Any federally chartered or federally insured financial institution.

Net Loans. The gross amount of the loans, including finance and service charges and fees owed by the member, less related unearned finance changes and fees.

Originating Lender. The participant (credit union) with which the member (borrower) contracts.

Participation Loan. A loan made in participation with one or more eligible organizations.

Probable Adjustments. Adjustments for the failure of the members to pay when due (i.e., estimated loan losses and collection costs), the estimated effects of prepayments, and weaknesses in the loan underwriting (i.e., lack of clear title).

Recourse. The right of a buyer of loans to receive payment from the credit union (seller of the loans) for the failure of the member to pay when due, the effects of prepayments, or other reasons for loss.

Student Loan. A loan granted to finance the borrower's attendance at an institution of higher education or at a vocational school, which is secured by and on which payment of the outstanding principal and interest has been deferred in accordance with the insurance or guarantee of the Federal Government, State government, or any agency of either.

6030.1.2 ACCOUNTING FOR FEES GENERATED FROM THE PURCHASE, SALE, OR PLEDGE OF ELIGIBLE OBLIGATIONS

Various types of fees may be generated when loans are purchased, pledged, or sold. There are several methods used to account for these fees. The methods differ, generally, in the timing of recognition of income from syndication, origination, and participation fees.

Discussion of these types of fees and the requirements which determine which type of fee and the corresponding accounting treatment for the fees (and the recognition of the income from these fees) is beyond the scope of this Manual. Federal credit unions which engage in activities which generate such fees are to account for these fees in accordance with FASB 91. Those credit unions which must account for such fees and are unable to adequately implement FASB 91 should consult an independent accountant for assistance and guidance in the proper treatment of such fees.

6030.2 PURCHASE OF ELIGIBLE MEMBER OBLIGATIONS

A federal credit union can purchase a member's loan that it could not grant. Within 60 days from the date of purchase, however, the loan must be refinanced in accordance with the federal credit union's policies. For example, a consumer loan bearing interest at an annual rate of 16 percent could be purchased if the credit union member consents to a refinancing at an interest rate that is in accordance with the board of directors' policies and the Federal Credit Union Act.

In the situation where the loan being purchased is an obligation, or is endorsed by a credit union official of the federal credit union purchasing the loan, board of directors' approval will be required if board approval would have been needed for the officer's endorsement or granting of the loan directly from his or her credit union. Board approval is not required where an official's loan, or a loan, endorsed or guaranteed by the credit union official, is purchased from a liquidating credit union or where the loan is purchased for pooling purposes.

6030.2.1 FIVE PERCENT LIMITATION ON ELIGIBLE OBLIGATION PURCHASES

Except as stated previously, the total unpaid balances of eligible obligations purchased cannot exceed 5 percent of the unimpaired capital and surplus of the purchaser. Student and real estate loans purchased under terms of NCUA Rules and Regulations Section 701.23 shall not be included in considering this 5 percent limitation.

6030.2.2 TEN PERCENT LIMITATION

The total indebtedness owing to any federal credit union by any person (member or nonmember), inclusive of retained and re-acquired interests, shall not exceed 10 percent of the credit union's unimpaired capital and surplus.

6030.3 STUDENT LOANS

Federal credit unions may purchase nonmember student loans from any source for the purpose of including the loans in a package or pool of loans that will be sold or pledged to a secondary market. However, prior to the credit union's purchase of these nonmember student loans, arrangements should be made for a secondary market to purchase the pool of loans in which they are included.

Student loans purchased to package a pool of loans will not be included in determining whether the total of unpaid notes purchased has exceeded the 5 percent notation that is based on the credit union's paid-in and unimpaired capital and surplus.

6030.4 REAL ESTATE LOANS

Real estate loans can only be purchased if they were used to finance the purchase of one-to-four family dwelling that is or will be the principal residence of the borrower and if the loan is secured by a perfected first lien on this dwelling.

As stated previously, in order for a federal credit union to be eligible to purchase real estate loans, it must have adopted a policy of granting long-term real estate loans and must actually be granting these loans (i.e., accepting applications, processing them, and disbursing its own funds) on an on-going basis.

The purchase of real estate loans must be for the purpose of including the loans in a substantial pool of its own loans. Once it sells or pledges the pool of loans, the credit union must grant more loans before a second package or pool of loans can be assembled.

If the board of directors decides to stop granting real estate loans, the credit union will still be considered by the National Credit Union Administration as a credit union that is granting real estate loans on an on-going basis for a reasonable period such as 60 days. Prior to this time, real estate loans may be purchased for pooling purposes provided that they are disposed of promptly.

Since the credit unions will be purchasing loans and obligations of nonmembers and loans they could not grant, they will be expected to sell or pledge the pool of loans promptly. Arrangements should be made in advance of the purchase date, by obtaining a commitment from a buyer, to purchase the pool of loans before it is actually packaged.

6030.5 SALE OF ELIGIBLE MEMBER OBLIGATIONS

A credit union may sell any member obligation with the approval of the board of directors. Examples of circumstances where a credit union might sell members' loans include closing a branch (members are served better by another credit union) or terminating a particular loan type (such as no longer offering credit cards). However, the most common form of such a transaction is the sale of mortgage loans, either individually to a secondary market investor or via securitization of a pool of loans.

Loans may be sold with or without recourse. Recourse refers to the acceptance, assumption, or retention of some or all of the risk of loss generally associated with owning a loan. In addition to risk, recourse refers to control of some future economic benefit relating to the loan. Examples of recourse provisions include:

- Credit union (seller) must reimburse buyer in full, by repurchasing the loan or otherwise, regardless of the status of the collateral securing the loan.
- Credit union (seller) must reimburse buyer in the amount of loss after repossession of the collateral. Collateral may be sold by either party, depending on the recourse agreement.
- Credit union (seller) must reimburse the buyer a limited amount, such as a stipulated dollar amount or a percentage of the loans sold.
- Buyer retains a portion of the selling price in a separate reserve to ensure performance (commonly known as a dealer's reserve).

6030.5.1 SALE WITHOUT RECOURSE

The sale of loans without recourse generally removes all risk from the selling credit union. True "without recourse" sales are recorded through the income statement, with any gains or losses on the sale recognized in the period of the sale.

Illustrative Entries

---

a) Credit union sells $500,000 of member loans without recourse for $475,000 cash.

Dr. - Cash (Acct. No. 730)	$475,000	
Dr. - Loss on Sale of Loans (Acct. No. 140)	25,000	
Cr.-Loans (Acct. No. 701)		$500,000

b)Credit union sells $500,000 of member loans without recourse for $525,000 cash.

Dr. - Cash (Acct. No. 730)	$525,000	
Cr.-Loans (Acct. No. 701)		$500,000
Cr.-Gain on Sale of Loans (Acct. No. 140)		25,000

Additional discussions and illustrative entries for these types of sales are provided in part 6030.8.2

6030.5.2 SALE WITH RECOURSE

Loans are more commonly sold with some type of recourse. That is, the selling credit union retains some risk associated with the loans. There are numerous types of recourse arrangements a credit union may offer including the following:

- The credit union may agree to absorb losses up to a certain percentage of the loan balance;
- The credit union may create a subordinate security to stand first in line to recognize any loss;
- The credit union may originate both a first and second mortgage on the same property, sell the first and retain the second mortgage in order to provide some protection for the first; or
- The credit union may agree to replace a nonperforming asset that it has sold into a pool with a performing one that it has retained on its books.

The sale of loans with recourse should be recorded as a regular sales transaction through the income statement only if all three of the following conditions exist:

1) The selling credit union must surrender control of the future economic benefits embodied in the asset;
2) The selling credit union must be able to reasonably estimate its obligations under the recourse provisions; and
3) The selling credit union must not be obligated to repurchase the assets except pursuant to the recourse provisions.

6030.5.2.1 RECOURSE SALE RECORDED AS A SALE

Assuming that all three of the required conditions are met, the credit union should accrue all probable adjustments necessary for loss contingencies. See Sections 2050.1.10 and 4050.5 Liability Accounts (856-Accrued Loss Contingencies) for more information. Additionally, the difference between the sales price (adjusted for the accrual of probable adjustments) and the net loans should be recognized as a gain or loss on the sale.

Illustrative Entries

a) Credit union sells $500,000 of member loans with recourse for $475,000 cash. The recourse calls for the credit union to pay not more than 20 percent of the total principal of the sale in the event of default (maximum contingency is 20 percent of $500,000 or $100,000). All requirements of sale are met.

Dr. - Cash (Acct. No. 730)	$475,000	
Dr. - Loss on Sale of Loans (Acct. No. 140)	125,000	
Cr.-Loans (Acct. No. 701)		$500,000
Cr.-Accrued Loss Contingencies (Acct. No. 856)		100,000

b) Credit union sells $500,000 of member loans with recourse for $625,000 cash. The recourse calls for the credit union to pay not more than 20 percent of the total principal of the sale in the event of default (maximum contingency is 20 percent of $500,000 ore $100,000). All requirements of sale are met.

Dr. - Cash (Acct. No. 730)	$625,000	
Cr.-Loans (Acct. No. 701)		$500,000
Cr.-Accrued Loss Contingencies (Acct. No. 856)		100,000
Cr.-Gain on Sale of Loans (Acct. No. 140)		25,000

6030.5.2.2 RECOURSE SALE RECORDED AS A LIABILITY

If all three of the required conditions are not present, the transaction must be recorded as a pledge of security on a loan (a liability) rather than as a sale. Both the loans and the related liability are removed from the credit union's books as the obligation under the recourse agreement is reduced as a result of loan payoffs, loan paydowns, or full repurchase by the credit union under the recourse agreement.

Illustrative Entries

a) Credit union sells $500,000 of member loans with recourse for $475,000 cash. The recourse agreement calls for the credit union to repurchase any or all of the loans if and when they become more than 90 days delinquent. At the time of repurchase, the credit union must reimburse the buyer an amount equal to the remaining principal of the defaulted loan, plus accrued interest income and all collections costs.

Because the credit union's obligations under this recourse agreement cannot be reasonably estimated, the sale must be recorded as a liability, as follows:

Dr. - Cash (Acct. No. 730)	$475,000	
Cr.-Other Liabilities (Acct. No. 860)		$475,000

b) Suppose the buyer exercised the right of recourse for loans with total outstanding principal of $30,000. The buyer also recorded accrued interest income of $2,500 and collections costs of $300. Under the terms of the recourse agreement, the credit union must repurchase the loans and pay costs, for a total amount owed of $32,800.

Dr. - Other Liabilities		
(Acct. No. 860)	$30,000	
Dr. - Loan Interest Income		
(Acct. No. 110)	2,500	
Dr. - Collection Expenses		
(Acct. No. 282)	300	
Cr.-Cash (Acct. No. 730)		$32,800

Note that no entry is required to Acct. No. 701-Loans because the original entry did not remove them from the credit union's books. By repurchasing the loans, the credit union's liability under the recourse agreement has been reduced. Additionally, the credit union recognizes the extra costs under the recourse agreement as a reduction in loan interest income and increased expense. No gain or loss is recognized because the sale was never completed.

c) During a given month principal paydowns/payoffs equal $50,000. The credit union's liability under the recourse agreement is reduced in proportion to the amount of loans paid off, and gains/losses are recognized as the liability is reduced.

Dr. - Other Liabilities		
(Acct. No. 860)	$47,500	
Dr. - Loss on Sale of Loans		
(Acct. No. 140)	2,500	
Cr.-Loans (Acct. No. 701)		$50,000

The amount of liability reduction is $47,500 [total original liability of $475,000 times 10 percent [$50,000 principal paydown divided by $500,000 total loan principal]]. The difference between the amount of principal paydown and the amount of liability reduction is the amount of gain/loss to be recognized ($50,000 less $47,500 is $2,500).

6030.5.2.3 DISCLOSURE REQUIREMENTS

The selling credit union's financial statements must disclose the following items, even if the possibility of loss from recourse is considered only remote:

1) The amount of proceeds from the sale;

2) The principal amount of the sale;

3) The nature and terms of the sale including the credit and market risk and the cash requirements of the loans sold;

4) The amount of accounting loss the credit union would incur if any party failed to perform or if related collateral had no value;

5) All relevant information regarding the collateral involved; and

6) Concentrations of credit risk to any member or group of members.

These disclosures are required in addition to any others that might be required under generally accepted accounting principles, such as those required for extraordinary items and related party transactions.

6030.6 PLEDGE OF ELIGIBLE MEMBER OBLIGATIONS AS SECURITY

A credit union may also pledge member loans as collateral for a loan. Such a transaction is recorded on the general ledger as a note payable. No gains or losses are recognized, and there is no effect on the members' loan accounts in the general ledger.

Federal credit unions pledging member loans as security for a loan to the credit union must retain copies of the original loan documents on file. The documents must be made available for review by NCUA examiners so that compliance with applicable laws and sound credit union practices can be determined.

6030.7 ACCOUNTING FOR THE PURCHASE, SALE, AND PLEDGE OF ELIGIBLE OBLIGATIONS

6030.7.1 LOANS PURCHASED

When loans are purchased, the seller assigns the notes to the purchasing credit union. The notes or mortgages, and other supporting documents for each loan are assigned and transmitted to the purchasing federal credit union.

The accounting for the purchase will include determining the face amount of the loan, the amount of the discount received or the premium paid, and the amount of accrued interest due to the date of the transaction. Illustrated below are three typical accounting entries to record loans purchased.

Example (1). Assume the ZDK FCU purchased at par $100,000 of loans that had no unpaid or accrued interest. No fees were paid; no fees were received. The entry to record the purchase would be:

Dr. - Loans and Other Obligations Purchased (Acct. No. 714)	.....	$100,000
Cr.-Cash (Acct. No. 731)	.....	$100,000

Example (2). Assume that the same credit union purchased a group of loans that had a book value of $100,000. The credit union had to purchase the loans for $110,000 because this was the existing market value of the loans at the time. The difference between the book value of the loans and the price that was paid is called the premium. No additional fees were paid or received. The loans had $1,050 of unpaid (accrued interest) that was also purchased:

Dr. - Loans and Other Obligations Purchased (Acct. No. 714)	$100,000	
Dr. - Purchased Accrued Interest Receivable on Loans (Acct. No. 755)	1,050	
Dr. - Premiums on Loans Purchased (Acct. No. 714.1)	10,000	
Cr.-Cash (Acct. No. 731)		$111,050

Example (3). Assume another situation where the ZDK FCU purchased a group of loans that had a book value of $100,000. Because market conditions were less favorable, the credit union only had to pay $95,000 for the loans plus the accrued or unpaid interest to the date of sale of $900. No fees were paid; no fees were received. The difference between the book value and the amount paid for the loans is the discount. The entry to record the transaction would be:

Dr. - Loans and Other Obligations Purchased (Acct. No. 714)	$100,000	
Dr. - Purchased Accrued Interest Receivable on Loans (Acct. No. 755)	900	
Cr.-Cash (Acct. No. 731)		$95,900
Cr.-Discount on Loans Purchased (Acct. No. 714.2)		$5,000

Generally, the selling institution or person retains a percentage ownership in the loans (i.e., 10 percent) that are sold so that the original borrower continues to pay his or her loans to the institutions from which he or she borrowed the funds. The servicer charges the purchasing credit union a fee for this service, the terms of which are included in the sales agreement.

Illustration:

Assume the same facts as in Example #3 and that the credit union received from the servicer the first monthly payment of $3,321 including interest on the group of loans. Average maturity for this group of loans was 36 months. The entry to record the payment with a $30 servicing fee and interest rate of 1 percent per month on the unpaid loan balance would be:

Dr. - Cash (Acct. No. 731)	$3,291	
Dr. - Service Fees on Loans Purchased (Acct. No. 287)	30	
Cr.-Purchased Accrued Interest Receivable (Acct. No. 755)		$900*
Cr.-Interest on Loans and Other Obligations Purchased (Acct. No. 115)		100*
Cr.-Loans and Other Obligations (Acct. No. 714)		2,321

*Interest on loans consists of $900 of purchased accrued interest and $100 of additional income earned from the date of purchase.

In addition to this entry, the purchasing credit union would amortize the discount on loans purchased based on the interest method. This method is discussed in detail in Section 4050.4, Account No. 703.1.

Dr. - Discount on Loans Purchased (Acct. No. 714.2)	$138.89	
Cr.-Interest on Loans and Other Obligations Purchased (Acct. No. 115)		$138.89

Assuming a premium was paid, the following entry would be made:

Dr. - Interest on Loans and Other Obligations Purchased (Acct. No. 115)	$277.78	
Cr.-Premiums on Loans Purchased (Acct. No. 741.1)		$277.78

6030.7.1.1 SUBSIDIARY RECORDS

A separate subsidiary record should be established for each individual loan purchased. Loans and Other Obligations Purchased (Account No. 714) will serve as a control account for the balance of the purchased loans outstanding. Each subsidiary ledger could be titled, “Loans and Other Obligations Purchased” - serviced by _____ federal credit union, or _____ Association, etc., accompanied by a subaccount number (i.e., 714.001, 714.002).

The detail of the loan transaction payment is processed in accordance with regular posting procedures, using the details of a remittance report as discussed in the next paragraph. Posting of payments to the detailed subsidiary records includes, as a matter of proof, comparing the balances of each subsidiary ledger with their respective remittance report.

Remittance of payments is made at agreed times by the servicer(s) of the loan accounts. The form of the remittance report to be agreed upon should contain all the information required for the processing needs of both the purchaser and the seller. Figure 6-2 is an example of a "Detailed Report of Loans Serviced."

6030.7.1.2 ESCROW ACCOUNTS

Processing of escrow accounts for taxes, insurance, and other charges to be paid by the borrower will normally remain the responsibility of the servicer, who handles these details on behalf of the purchaser. Thus, no accounting is required of the purchasing credit union unless a borrower's escrow account becomes overdrawn and reimbursement to the servicer is requested. If this situation occurs, the following entry will be made, assuming the amount is $750:

Dr. - Advances for Taxes, Insurance, and Other Charges (Acct. No. 725)	.....	$750
Cr.-Cash (Acct. No. 731)	.....	$750

A detailed accounting of the charges must be maintained. Recovery of the charges will result in the reversal of the above illustrative entry.

6030.7.2 LOANS SOLD (SERVICING RETAINED)

Assuming that the selling credit union will continue to service the loans, with only a few exceptions, the administration, accounting, and control of the loans sold, will be the reverse of loans purchased. There are two exceptions to this rule: one exception relates to the treatment of escrow funds collected from the borrower; and the other exception concerns the relationship of loans sold to the other loans in the loan ledger accounts and the disposition of the collections on these accounts.

With regard to escrow funds collected from the borrower for payment of property taxes, mortgage and hazard insurance, and similar expenses that are the responsibility of the borrower, a different situation exists as compared to when loans are purchased. When a sale is consummated, the funds collected by the servicer, and those that were previously accumulated, remain the possession of the servicer, or the seller in this instance, and are disbursed by the servicer.

FIGURE 6-2: Illustration of a Completed Report of Loans Sold and Being Serviced

Detailed Report of Loans Serviced.

LOANS SERVICED BY ABC FEDERAL CREDIT UNION
AND SOLD TO
ZDK FEDERAL CREDIT UNION

(1) Acct. No.	(2) Name	(3) % Int. Rate	(4) Monthly Payment	(5) Balance Last Report	(6) Interest	(7) Payment	(8) Misc. Charges	(9) Balance This Report
8495	E. J. Majors	12	$128.00	$8,800.00	$88.00	$128.00		$8,760.00
8499	W. P. Barth	12	176.00	12,848.92	128.50	176.00		12,801.42
8507	Z. K. Jones	12	236.00	15,368.83	153.68	236.00	$20.75	15,307.26
8512	P.W. Farth	12	190.00	10,915.86	109.16	190.00	35.00	10,870.02
				$479,336.10	$2,396.70	$3,650.00	$557.50	$478,640.30

Column 1: Account number of the reporting credit union or, if it is found desirable, the account number assigned by the purchasing credit union or a number common to both the purchaser and the seller.
Column 2: Name of the borrower.
Column 3: Interest rate, usually shown in account number order; on larger reports, shown in account number order by rate.
Column 4: Amount of the contractual payment.
Column 5: Last trial balance on the previous month's report, in order to give continuity to the last report submitted.
Column 6: Amount of interest posted to the loan and charged to the balance.
Column 7: Amount of the actual payment or payments. Any miscellaneous credits are also recorded in this column.
Column 8. Charges from any source other than interest.
Column 9. Current trial balance of the loans at the end of the day on the date of the report.

Columns 5, 6, 7, 8 and 9 are totaled and should cross-foot by adding column 7 and subtracting columns 5,6 and 8 which should equal the column 9 total.

In regard to the relationship of loans to the other loans in the loan ledger accounts and the collections of the payments on those accounts, the situation is different in a sale as compared to a purchase. After a sale, there are no further General Ledger Accounts for the principal balances of the loans, unless a percentage of ownership is retained. Also in this situation, the accounting to the borrower remains the responsibility of the selling credit union and posting to his account record continues under the same procedures as before the sale.

The transactions at a teller's window for loans sold will be intermingled with members' regular loan transactions. Whatever the circumstances, all payments collected for the loans (loan account ledgers) sold must be segregated when balancing and summarizing cash receipts. The collections will be credited to "Collections on Loans and Obligations Serviced (Account No. 862). In addition, the servicer will be responsible for preparing the remittance report to the purchaser according to the terms of the service contract.

6030.7.2.1 LOANS SOLD AT A PREMIUM

If a loan is sold at a premium, the excess will result in a profit to the selling credit union. This will require crediting the income accounts within the accounting period in which the sale was consummated. The following entry illustrates this type of sale:

Assume that SMART Federal Credit Union sold $100,000 of Ralph Baker's (credit unions member borrower) new yacht loan of $110,000. The loan was a 12% loan computed according the US Rule and had a maturity of 60 months. The $100,000 portion of the loan was sold to Brooks Federal Credit Union for $102,000. Assume further that there is half month's interest due at the time of the sale. The entry to record this sale would be:

Dr. - Cash (Acct. No. 731)	$102,500	
Cr.-Loans (Acct. No. 701)		$100,000
Cr.-Interest on Loans (Acct. No. 111)		500
Cr.-Gains or (Loss) on Sale of Loans and Other Eligible Obligations (Acct. No. 140)		2,000

If the above loan would have been a loan purchased from another credit union (subsequently sold to Brooks Federal Credit Union), any credits that were the result of the original purchase would also have to be charged (debited) or credited to "Gain or (Loss) on Sale of Loans and Other Eligible Obligations Purchased" (Account No. 140), thereby adjusting the profit on the sale.

6030.7.2.2 LOANS SOLD AT A DISCOUNT

If loans are sold at a discount (sale price is less than the book's loan balances), and there are unamortized discounts or acquisition fees applicable to the sold loans, the entry to record the sale would be as follows:

FIGURE 6-3: Illustration of a Completed Summary Report of Loans Sold and Being Serviced

Summary Report of Loans Serviced
Sale By
SMART Federal Credit Union
TO
Brooks Federal Credit Union
DATE: As of_____ :

Total Payments	$ 3,650.50
Less Miscellaneous Charges	557.00
Net Collections Loans Serviced	$ 3,093.50
Less Service Fee	125.00
Proceeds to Purchaser	$ 2,968.50

FIGURE 6-4: Illustration of a Completed Summary Report of Loans Sold and Being Serviced

Summary Report of Loans Participations
ABC Federal Credit Union
Sale of Participation Loans to
XYZ Federal Credit Union
As of December 31, 19X1

Total Payment	$ 3,650.00	
Less Interest	2,396.70	
Less Miscellaneous Charges	557.50	
Principal Reduction	$ 695.80	
50% to Purchaser		$ 347.90
Interest Charged $2,396.70		
50 % to Purchaser	1,198.35	
Less Service Charge per Agreement	99.87	
Net interest		1,098.48
Total Remittance		$ 1,446.38

Assume the same example as in Section 6030.7.2.1, except that the $100,000 portion of the $110,000 yacht loan was sold for $95,000 and that the loan has $3,000 of unamortized discount purchased applicable to the $100,000 portion:

Dr. - Cash (Acct. No. 731)	$95,500	
Dr. - Discount on Loans Purchased (Acct. No. 714.2)	3,000	
Dr. - Gain or (Loss) on Sale of Loans and Other Eligible Obligations (Acct. No. 140)	2,000	
Cr.-Loans (Acct. No. 701)		$100,000
Cr.-Interest on Loans (Acct. No. 111)		500

If, in either of these examples, there is interest that is collected but unearned at the time of the sale, the sale entry must include a debit to "Interest on Loans," (Account No. 111). There may be both accrued and precollected interest in a group of loans that are sold. When this occurs the interest column on the sale schedule needs to be footed to a net figure so that it will appear as either a debit or credit to "Interest on Loans," (Account No. 111).

Escrow balances on the loans sold are transferred from "Advances for Taxes and Insurance," (Account No. 725) to "Advance Payments by Borrowers for Taxes and Insurance on Serviced Loans," (Account No. 797). Escrow payments collected and disbursements for charges to these accounts are processed the same as before the sale.

Posting procedures for the individual loan accounts are also the same as before the sale. At the time of the sale, a memorandum control account should be set up to reflect and control the total balances of these accounts. This control is not part of the General Ledger Accounts. The individual loan subsidiaries are segregated in the file for the purposes of reporting collections to the purchaser of the accounts.

When the required report is prepared for the purchaser, the total collections must agree with "Collections on Loans and Other Obligations Serviced," (Account No. 862) where the loan payments were recorded as being received. The ending balances on the report must agree with the balance in the memorandum control account.

Another exception to the fact that a sale is treated like a purchase, is that the servicer is responsible for preparing the remittance report that is sent to the purchaser. The form and details of reporting are determined from the service contract. Reporting facilities of the servicer as well as the needs of the purchaser will determine the specific form of the report. Figure 6-2 illustrated this report earlier in this section. Figure 6-3 is an example of a Summary Report of Loans Serviced. An example entry showing payments to the purchasing credit union is also provided.

Illustrative Entry:

Dr. - Collection on Loans and Other Obligations Serviced (Acct. No. 862)	$3,093.50	
Cr.-Service Income on Loans and Other Obligations (Acct. No. 160)		$125.00
Cr.-Cash (Acct. No. 731)		2,968.50

6030.8 PARTICIPATION LOANS

The primary difference between purchasing and selling participation loans is that in the participations, title to the loans does not normally transfer to the purchaser. The seller retains title to the accounts and sells only a part interest in the loans to the purchaser. The seller continues to account for the loan payments and the borrower is not informed of any change in ownership of his loan.

The purchasing credit union's records consist only of the original listing of loans, the sale agreement, and the subsequent remittance reports from the seller. Detailed ledger records are not established.

The original listing of loans, the sales agreement, and the remittance reports should contain any needed information as to balances or loan payment status on individual loans. The original listing should also include a record of any accrued interest and/or interest that is precollected.

A separate control account is established for each participation package and the total balances of each control account must agree with "Loan Participations Purchased," (Account No. 715). The control account is the same as an Individual Loan Ledger and is posted in the same manner as when a remittance is received from a seller for a regular loan purchased by the credit union. A normal entry evidencing a loan participation purchase would be:

Dr. - Loan Participations Purchased (Acct. No. 715)	$10,000	
Dr. - Accrued Interest on Loan Participations Purchased (Acct. No. 786)	200	
Cr.-Cash (Acct. No. 731)		$10,200

A detailed report for such a purchase is the same as shown for Figure 6-2. Settlement remittance for receipts on participation loans by the seller will be made in accordance with the participation agreement. The separation of interest from principal is illustrated in Figure 6-4.

The Journal and Cash Record entry for the above remittance that is collected by the seller would be:

Dr. -Cash (Acct. No. 731)	$1,446.38	
Dr. - Service Fees on Loans Purchased (Acct. No. 287)	99.87	
Cr.-Loans Participation Purchased (Acct. No. 715)		$347.90
Cr.-Interest on Loans Participations Purchased (Acct. No. 116)		1,198.35

6030.9 LOAN PARTICIPATIONS SOLD

Credit unions may experience a situation where their loan demand will exceed the inflow of share deposit and certificate purchases, and as a result a liquidity management problem arises.

A means of resolving part or all of the problem is to generate additional funds for loans by selling a partial interest on loans to other credit unions or other financial institutions or individuals. These participation loans are generally sold at par (amount equal to unpaid for a specified rate of return (yield rate) to the purchaser.

A servicing agreement may be part of the sale agreement and the selling federal credit union might charge a servicing fee (i.e., 1/2 of 1 % or 1/4 of 1 % of the unpaid balances) to reimburse the credit union for the costs involved in servicing the loans.

There is no change in accounting for the sale of the loans, except that the loan accounts must be identified and shifted to a separate section of the Individual Loan Ledger (manual or computer) files. A transfer is then made from "Loans to Members," (Account Nos. 701-709) to "Loan Participations Sold," (Account No 716).

Reporting procedures are accomplished by copying the transaction from the respective Individual Loan Ledger to the remittance reports for the timeframes established in the participating agreement. Transactions with the participating purchaser are reflected in the Liability Account No. 716.1, "Loan Participations Sold" (contra account). A transfer of the accounts is then recorded in the Journal and Cash Record as follows:

Dr. - Loan Participations Sold (Acct. No. 716)	$100,000	
Cr.-Loans to Members (Acct. Nos. 701-709)		$100,000

When the proceeds of the sale are received by the credit union, they would be recorded as follows:

Dr. - Cash (Acct. No. 731)	$100,000	
Cr.-Loans Participation Sold (Contra Account (Acct. No. 116)		$100,000

When the member makes the first payment to the selling credit union:

Dr. - Cash (Acct. No. 731)	$3,650.00	
Cr.-Interest on Loans (Acct. No. 111)		$2,396.70
Cr.-Other Miscellaneous Income (Acct. 151)		557.50
Cr.-Loans Participation Sold (Acct. No. 716)		695.80

The Journal and Cash Record entry to record the payment of a participation remittance received by the ABC Federal Credit Union in Figure 6-3 would be:

Dr. - Loan Participations Sold (Contra Account) (Acct. No. 716.1)	$347.90	
Dr. - Interest On Loans (Acct. No. 111)	1,198.35	
Cr.-Service Income on Loans Sold and Participations (Acct. No. 117)		$99.87
Cr.-Cash (Acct. No. 731)		1,446.38

When the posting is completed, the balance in the above contra account must reflect the required participation ratio when compared to the Individual Loan Ledger balances for the loan control account and also the report schedule (50% in Figure 6-4). The ending loan balances in the report should also balance to the loans control account.

6030.10 GAINS AND LOSSES ON THE SALE OF PARTICIPATIONS

Even though participation loans are generally sold at par, a gain or loss on the sale may result and must be recognized at the time of sale. When the contract rate of loans sold differs from the yield rate to be paid to the purchaser, there will be a gain or loss on the sale.

6030.10.1 DETERMINING THE GAIN OR LOSS

To determine the gain or loss on the sale of participating interest on loans, two computations are required:

a) Computation of the gross gain or loss; and

b) Computation of the discounts of the gross gain or loss to its present value.

The gross gain or loss is the difference between the selling price and the credit union's cost basis of the participating interest that it sold. "Selling price," as used here, is the same as market price. This would be defined as that price which would have to be paid in the market to obtain a desired yield.

When the purchaser's desired yield is more than the selling credit union's contract rate, the credit union usually has a loss. If the purchaser's desired yield is less than the contracted interest rate, the credit union has a gain. This difference in interest is the gain or loss when discounted to present value.

The examples below illustrate the computation of a gain or a loss. Assume the following facts:

Example #1 (Loss)

CBA Federal Credit Union has $4,000,000 of loans of which it wants to sell a 50% interest to ZYX Federal Credit Union. The note's contracts rate is 12% (US Rule). The interest rate to be paid to the purchaser is 14% (US Rule). The remaining contractual life of the loans sold is 10 years. Assume further that the market price is 91-1/2.

Market Value of Loans Sold	91-1/2%
Par Value of Loans Sold	100%
Discount	8-1/2%
Participating Interest Sold	$2,000,000
Times Discount	x 8 1/2%
Loss	$170,000

Example #2 (Gain)

Assume the same facts in Example #1 except that the market value was 108 1/2 and the contract rate was 12% and the yield to be paid to the purchaser was 11 %. The gain would be $170,000, computed by multiplying 8.5% times $2,000,000.

6030.10.2 DETERMINATION OF MARKET PRICES

The market prices of loans can often be determined by refining to published prices or sales of comparable loans. In many cases, however, it is not possible to obtain market prices in this manner.

When they are not available, an imputed market price must be mathematically computed. The most practical method of determining the unpaved market price is to refer to yield tables for monthly payment loans that can be purchased from various statistical research publishing firms.

6030.10.3 DISCOUNTING THE GROSS GAIN OR LOSS

The gross gain or loss is discounted to present value because the selling credit union does not receive (or pays) the difference in interest (between the contract rate or the yield rate) at the time of the sale. Instead, the credit union receives (or pays) the interest differential over the remaining life of the loans in which the participating interests are sold. This occurs because the credit union collects interest from the borrower at the contract (note's) rate and remits periodically (usually monthly) to the purchaser at the yield rate.

When the credit union experiences a gain on such a sale, it does not have use of all of the funds resulting from it, since the credit union receives a portion of the gain as the premium is amortized (usually monthly).

In the case of a loss (when the contract rate is less than the yield rate), the reverse situation occurs. The credit union has received and is using the funds that will eventually be paid to the purchaser as the discount is amortized over the remaining life of the loans.

Thus in both situations, the gross gain or loss should be discounted to present value to recognize that the cash received, at the time of sale, is not the true selling price.

Using example #2 in Section 6030.10.1, the true selling price was actually $2,170,000. However, at the time of the sale of the credit union only receives $2,000,000. The remaining $170,000 win be paid to the credit union in the form of excess interest as the premium is amortized.

While the credit union will be collecting interest from the borrower at 12%, it will be remitting to the purchaser at 11 %. This 1% differential represents the remaining selling price to be recovered by the credit union. Since the credit union does not have these funds, recognition should be given to this fact by discounting the $170,000 to present value.

In order to discount the gross gain or loss to present value, a rate of interest to use in the discounting computation must be determined. The best approximation of this rate will be the rate at which the sale's proceeds can be reinvested. If the rate selected is the same as the yield to be paid to the purchaser, the gross gain or loss on the sale will remain unchanged. If the rate is not the same, the present value computation must be made.

Assume the following example:

Example #1 (Loss)

ABC Federal Credit Union has $200,000 of loans of which it wants to sell a 50% interest to CBE Federal Credit Union. The rate or contract rate is 7 1/2% (US Rule). The rate (yield) to be paid to the purchaser is 8 1/2%. The average remaining *contractual life* of the loans sold is 240 months while the average remaining life of the loans sold is 60 months.

The ABC FCU's expected rate of return from the funds it receives from the proceeds of the sale is 9%. Servicing costs will be 1/4%. The yield specified in the participation sales agreement was 8-1/4%. Assume that the discount was 4% on the sale (or the loan interest was sold at 96 and the discount totaled $4,000). Using this information the discounted value of the gross loss is computed as follows:

a.	Credit Union's Expected Rate of Return		9%
	Yield to Purchaser		8-1/2%
	*Difference		1/2%
b.	Gross Discount		$4,000
c.	Factor of 1/2% for average remaining life of 60 months**	=	.9884
	Discounted Gross Loss		$3,954

*Yield per sales agreement +1/4% servicing costs.

**Derived by dividing the present value of $1 at 9% for 60 months (48.1733) by the present value of $1 at 8 1/2% for 60 months (48.74118). This results in the stated factor of .9884. Tables can be prepared or purchased to provide this factor.

Example #2 (Gain)

Assume the same facts as in Example #1, above, except that the loan participation interest was sold at 104 or at a premium of 4%. The discounted gross gain would thus be computed in the same manner and would be equal to $3,954.

6030.10.4 ADDITIONAL CONSIDERATION IN DISCOUNTING THE GROSS GAIN OR LOSS

In the foregoing examples, the facts were simply applied. from those that would be present in an actual situation. First, loans of varying interest rates may be included in the package of loans in which participating interests are sold. When this occurs, an average contractual rate needs to be used.

The average interest rate may be determined by computing potential interest (contract rate times principal balance) for each loan in the package. The total potential interest is then divided by the total principal balances which results in the average contract interest rate.

The same reasoning applies to the average recontractual life and estimated remaining life. The package may consist of loans having varying remaining contractual lives and varying estimated remaining lives.

They are averaged using a weighted average method. This means that the principal balances of each loan within the package must be multiplied by its remaining contractual life and estimated remaining life. The sum of the total of each of these calculations must then be divided by the total principal balances. These computations will result in the average remaining contractual life and the average estimated remaining life.

The estimated remaining life of loans sold is a vital factor in computing the gain or loss on a sale. The estimated remaining life should be based on the credit union's past experience with the type of loans being sold. It is possible that the average life on an FHA or VA loan may differ from the conventional loans within the same credit union. All of these factors must be considered in determining the average estimated remaining life, inclusive of mortgage market conditions.

6030.11 CREDIT UNIONS AS SBA GUARANTEED LOAN ORIGINATORS

It has been determined by the SBA that federal credit unions are eligible to become participating SBA lenders under Subsection 120.4(a) of the SBA Rules and Regulations. Before an FCU can make loans under the program an "affirmative determination of eligibility" must be conducted by the district SBA office.

Once this has been accomplished, a loan guarantee agreement can be entered into between the federal credit union and the SBA. Additional information can be obtained at SBA field offices. A complete listing of field offices is available by contacting the Administrator, Small Business Administration, Washington, DC 20416.

Loans originated to members under this program may be held by the credit union or the guaranteed portion may be sold to secondary participants as provided for by the SBA. The sale of the loan would also be subject to requirements of Section 701.23 of the National Credit Union Administration Rules and Regulations (purchase, sale and pledge of eligible obligations). Accounting requirements or transactions of this nature are discussed and outlined in Section 6030.7.

6030.12 SALE OF ASSETS OTHER THAN LOANS INVOLVING A NOTE AS PAYMENT

In this section thus far, loans have been used in the computations. The same accounting theory and practice would apply to other assets, particularly when an asset, such as a computer, would be sold and paid for by the buyer with a note to the credit union plus cash. The interest rate method of computing interest should be used.

Illustration

On January 1, 19X0, HEM FCU sells a computer to RAM FCU which originally cost $600,000. It has total depreciation of $300,000. RAM FCU gave HEM FCU a noninterest bearing note of $400,000 in payment. The note was payable 3 years later. Assume that current interest rate for the first and second year would be as illustrated below:

January 1, 19X0.

Dr. - Notes and Contracts Receivable (Acct. No. 711)	$400,000	
Dr. - Allowance for Depreciation of Furniture and Equipment (Acct. No. 775)	300,000	
Cr.-Furniture and Equipment (Acct. No. 774)		$600,000
Cr.-Gain (Loss) on Deposition of Assets (Acct. No. 430)		17,532
Cr.-Unamortized Discount on Sale of Assets (Acct. No. 886)		82,468

Computation of Gain or Loss on Disposition

Step #1 Note		Present value factor for 8% for 3 periods		
$400,000	x	.79383	=	$317,532

Step #2 Note		Discount Present Value		Unamortized Discount
$400,000	-	$317,532	=	$82,468

Step #3: Compute resulting Gain or Loss $400,00-($600,000 - $300,000)-$82,468 = $17,532

Computation and Recording of Interest Income December 31, 19x0:

Step #1:

Discounted PV x Current Interest Rate = Interest Income.

$317,532 x 8% = $25,402.56

Step #2 Entry:

Dr. - Unamortized Discount on Sale of Assets (Acct. No. 886)	.....	$25,402.56
Cr.-Other Nonoperating Income (Acct. No. 440)	.....	$25,402.56

December 31, 19X1:

Step #1: Discounted Present Value of Note, 12/31/x0, + Discount Amortization, 12/31/x0, x Current Interest Rate at Time of Sale = Interest Income

$317,532 + $25,402.56 = $342.934.56 x 8% = $27,434.76

Step #2: Entry:

Dr. - Unamortized Discount on Sale of Assets (Acct. No. 886)	.....	$27,434.76
Cr.-Other Nonoperating Income (Acct. No. 440)	.....	$27,434.76

6030.13 ACCOUNTING FOR PROFIT RECOGNITION ON SALES OF REAL ESTATE

A credit union's profit on a real estate loan should only be immediately recognized when the following two conditions exist:

a) collectibility of the sales price is reasonably assured or the amount that would be uncollectible can be estimated; and

b) the credit union is no longer committed to performing additional acts subsequent to the sale. Unless both conditions exist, recognition of all or part of the profits shall be postponed.

To recognize profit on the full accrual basis, all of the following conditions must be met:

a) A sale is consummated.

b) The buyer's initial and continuing investments are adequate to demonstrate a commitment to pay for the property.

c) The seller's receivable is not subject to future subordination.

d) The seller has transferred to the buyer the usual risks and rewards of ownership in a transaction and does not have a substantial continuing involvement with the property.

A sale must be consummated before profit can be recognized. Consummation consists of binding the selling credit union and the purchaser to the terms of the sales contract, exchanging all consideration (payment), arranging any permanent financing for which the seller is responsible, and completing all acts that are subject to the sale. Generally, all of these acts are completed at the time of closing (upon settlement) and not when the sales contract is completed.

The buyer's initial investment should be adequate to ensure his commitment to pay for the property and evidence a reasonable likelihood that the seller will collect the receivable. Its adequacy shall be determined by its composition and its size compared with the sales value of the property. It shall include:

a) cash paid as a down payment,

b) the buyer's notes supported by irrevocable letters of credit from an independent lending institution,

c) payments to third parties to reduce existing indebtedness on the property, and

d) other amounts paid that are part of the sales value.

The initial investment shall not include:

a) payments made by the buyer to third parties for improvements to the property,

b) a permanent loan commitment by an independent third party to replace a loan made by the seller,

c) any funds that have been or will be loaned, refunded, or directly or indirectly provided to the buyer by the seller or loans guaranteed or collateralized by the seller for the buyer.

A table of minimum initial investment expressed as a percentage of sales value as represented in FAS66, paragraph 54 is provided in Figure 6-5.

To evidence a continuing investment, the buyer must be contractually required to pay annually an amount at least equal to the level annual payment that would be needed to pay that debt and interest on the unpaid balance over no more than 20 years for land and the customary mortgage term by an independent established lending institution for other real estate.

The restriction on future subordination shall not apply under either of two conditions:

a) a receivable is subordinate to a first mortgage on the property existing at the time of sale, or
b) a future loan, including an existing permanent loan commitment, is provided for by the terms of the sale and the purchase of the loan will be applied first to the payment of the seller's receivable.

FIGURE 6-5

	Minimum Initial Investment Expressed as a Percentage of Sales Value
Land	
Held for commercial, industrial, or residential development to commence within two years after sale	20
Held for commercial, industrial, or residential development to commence after two years	25
Commercial and Industrial Property	
Office and industrial buildings, shopping centers, and so forth:	
Properties subject to lease on a long-term lease basis to parties with satisfaction credit rating; cash flow currently sufficient to service all indebtedness	10
Single-tenancy properties sold to a buyer with a satisfactory credity rating	15
All other	20
Other income-producing properties (hotels, motels, marinas, mobile home parks, and so forth):	
Cash flow currently sufficient to service all indebtedness	15
Start-up situtations or current deficiencies in cash flow	25
Multifamily Residential Property	
Primary residence:	
Cash flow currenctly sufficient to service all indebtedness	10
Start-up situtations or current deficiencies in cash flow	15
Secondary or recreational residence:	
Cash flow currently sufficient to service all indebtdness	15
Start-up situations or current deficiencies in cash flow	25
Single-Family Residential Property (including condominium or cooperative housing)	
Primary residence of the buyer	5[a]
Secondary or recreational residence	10[a]

Examples of forms of involvement that result in retention of substantial risks or rewards by the seller include:

a) seller's obligation or option to repurchase the property,
b) the seller is a general partner in a limited partnership that acquires an interest in the property sold and holds a receivable from the buyer for a significant part of the sales price,

c) the seller guarantees the return in whole or in part of the buyer's investment,
d) the seller is required to initiate or support operations or continue to operate the property at its own risk for a period of time, the transaction is merely an option to purchase,
e) the sale is only a partial sale,
f) the seller sees improvements and leases the underlying land,
g) the sale of the property is accompanied by a leaseback to the seller, etc.

SFAS No. 66 requires that if the seller has some continuing involvement with the property and does not transfer substantially all of the risks and rewards of ownership, profit should be recognized by a method determined by the nature and extent of the seller's continuing involvement. Generally, if the amount of a seller's loss of profit is limited because of continued involvement by the terms of the sales contract, profit should be recognized at the time of sale. The profit recognized must be reduced by the maximum exposure to loss.

6030.14 METHODS OF RECOGNIZING PROFIT ON THE SALE OF REAL ESTATE

The three methods of profit recognition on the sale of real estate are as follows:

a) Deposit Method: Postpones recognition of a sale until a sale is realized. Until a sale has been recognized, the credit union records a receivable and not profit. The property is still recorded as though the credit union owned it. Cash received is recorded only as a deposit liability (Accounts Payable).

b) Cost Recovery Method: Accounts for all cash received as a recovery of cost. No profit is recognized, until the cost of the property has been collected. Thereafter, all collections are accounted for as profit is received.

c) Installment Method: Apportions each cash payment received between the recovered cost and the profit to be recognized in the same ratio as cost and profit are assumed to constitute sales price. A sales contract is not a sale, for accounting purposes, if the credit union retains the risks of ownership.

For example, if the credit union agrees to or has an obligation to repurchase the property at a specified date, the transaction, in substance, is not a sale. Nor is it a sale if the buyer can cause the seller (credit union) to repurchase the property, or if the credit union guarantees the return of the buyer's investments. "No sale is recognized if the transaction is in substance a financing, leasing, or profit-sharing arrangement."

6040 MORTGAGE BANKING ACTIVITIES

A credit union acts in the capacity of a mortgage banker and engages in mortgage banking activities when it: (a) originates or acquires mortgage loans for sale to permanent investors and (b) subsequently provides long-term servicing of the loans. See Section 6030 of this manual for a discussion on the purchase and sale of eligible member obligations including mortgage loans.

Mortgage loans and mortgage-backed securities held for sale should be reported at the lower of cost or market value on the credit union's financial statements. The amount by which cost exceeds market should be accounted for as a valuation allowance and changes in the valuation allowance should be included in the determination of net income for the period in which the changes occurs.

Purchase discounts on mortgage loans and mortgage-backed securities should not be amortized as interest revenue during the period the loans or securities are held for sale. On the financial statements, a credit union should distinguish between (a) mortgage loans and mortgage-backed securities held for sale and (b) mortgage loans and mortgage-backed securities held for long-term investment.

6040.1 LONG-TERM SERVICING

6040.1.1 DEFINITIONS

Current (normal) servicing fee rate. A servicing fee rate that is representative of the servicing fee rates most commonly used in comparable servicing agreements covering similar types of loans. Determination of the normal servicing rate typically requires consideration of customary rates in the secondary market.

Net servicing income. The estimated future servicing revenue less the expected future servicing costs; comparison based on present value analysis.

Servicing. Servicing includes collecting monthly payments, forwarding payments and related accounting reports to investors, collecting escrow deposits, and paying necessary taxes and insurance from escrow funds.

Servicing rights. When loans are sold, the seller often retains the right to service the loans for the buyer for a fee. When these servicing fees exceed the cost of performing the servicing functions, the servicing rights have economic value (an intangible asset). Because of this value, servicing rights are frequently purchased and sold.

6040.1.2 SERVICING INTERNALLY GENERATED LOANS

Servicing rights for internally generated loans are recorded as a separate asset even if the underlying loans are sold to an investor. If the servicing fee stated in the sales agreement differs materially from the current (normal) servicing fee rate, the sales price should be adjusted so that servicing income is properly recognized in subsequent years. The adjustment is the difference between the actual selling price and the estimated selling price if a normal servicing rate were specified. The difference is recognized as an adjustment to the gain or loss on the sale. Additionally, if normal servicing fees are expected to be less than estimated servicing costs, a loss on servicing should be accrued at the time of sale.

a) Credit union sells $450,000 of member loans for $475,000 cash. The credit union agrees to continue servicing the loans for twice the normal servicing fee rate. If the credit union had consented to service the loan for the normal servicing fee rate, the selling price would have been $500,000. The gain on the sale is computed as follows:

Actual selling price	$475,000	
Principal balance of loans sold	450,000	
Initial gain		$25,000
Adjusted selling price (normal fee)	$500,000	
Actual selling price (excess servicing)	475,000	
Excess servicing adjustment		25,000
Total gain on sale		$50,000

Dr. - Cash (Acct. No. 730)	$475,000	
Dr. - Other Accrued Income (Acct. No. 789)	25,000	
Cr.-Loans (Acct. No. 701)		$450,000
Cr.-Gain on Sale of Loans (Acct. No. 140)		50,000

b. Credit union sells $450,000 of member loans for $400,000 cash. The credit union agrees to continue servicing the loans for twice the normal servicing fee rate. If the credit union had consented to service the loan for the normal servicing fee rate, the selling price would have been $425,000. The gain/loss on the sale is computed as follows:

Actual selling price	$400,000	
Principal balance of loans sold	450,000	
Initial loss	($50,000)	
Adjusted selling price (normal fee)	$425,000	
Actual selling price (excess servicing)	400,000	
Excess servicing adjustment		25,000
Total loss on sale		($25,000)

Dr. - Cash (Acct. No. 730)	$400,000	
Dr. - Loss on Sale of Loans (Acct. No. 140)	25,000	
Dr. - Other Accrued Income (Acct. No. 789)	25,000	
Cr.-Loans (Acct. No. 701)		$450,000

In both examples, the total gain/loss on the sale includes the amount of excess servicing. The full amount of the gain/loss is recognized at the time of sale so that servicing income is not distorted for the servicing period.

c) The credit union's total servicing income for a given period is $1,000, of which half is determined to excess servicing accounted for at the time of the sale. The following entry records the amount of servicing income, reduced by the amount of excess servicing:

Dr. - Cash (Acct. No. 730)	$1,000	
Cr. - Other Accrued Income (Acct. No. 789)		$500
Cr. -Income from Loans (Acct. No. 110)		500

6040.1.3 SERVICING PURCHASED LOANS

A credit union that acquires mortgage servicing rights (it is impermissible for credit unions to purchase mortgage servicing rights without the underlying loans) and sells or securitizes those loans while retaining the serving rights, should allocate the total cost of the mortgage loans between the servicing rights and the loans (without the servicing rights). The allocation should be based on their relative fair values if it is practicable to estimate those fair values. If the fair values of the mortgage servicing rights and the mortgage loans (without the servicing rights) cannot be estimated, the entire cost of purchasing or originating the loans should be allocated to the mortgage loans, as is currently done.

A credit union should arrange its mortgage servicing rights that are capitalized based on one or more of the predominant risk characteristics of the underlying loans, e.g., loan type, size, note rate, date of origination, term, and geographic location. Impairment should be recognized through a valuation allowance for each impaired category.

Illustrative Entries

Credit union purchases loans for $750,000 cash, including related servicing rights. The price without the related servicing rights would have been $475,000. The loans were immediately sold to an outside investor for $500,000. The present value of the net servicing income is estimated to be $300,000. The value of the servicing rights is computed as follows:

Purchase price of loans with servicing	$750,000	
Purchase price of loans without servicing	475,000	
Cost of servicing rights	$275,000	
Dr. - Loans (Acct. No. 701)	$475,000	
Dr. - Investment-Servicing Rights (Acct. No. 470)	275,000	
Cr.-Cash (Acct. No. 730)		$750,000

This entry records the acquisition of the loans and the servicing rights for cash. The value of the servicing rights is determined to be the difference between the purchase price of the loans with and without servicing. The servicing rights are recorded at the lower of cost or present value of net servicing income.

Dr. - Cash (Acct. No. 730)	$500,000	
Cr.-Loans (Acct. No. 701)		$475,000
Cr.-Gain on Sale of Loans (Acct. No. 140)		25,000

This entry records the sale of the loans and recognizes the gain on the sale.

6050 CREDIT CARDS

Section 107(5)(B) of the Federal Credit Union Act gives the board of directors of a federal credit union the authority to implement a credit card lending program for the credit union members.

Some of the issues which the board will need to consider prior to making a decision include:

a) Do the members desire this type of program and will they use it?

b) What are the economic costs of the program and can the credit union afford to provide the service?

c) Will the credit union establish its own program, participate with other credit unions or financial institutions in establishing a program, or join an existing program such as the national bank programs, which may be directly affiliated with a bank or through another vendor (VISA, Master Card, etc.)?

In addition to these general issues, the board of directors must be familiar with the provisions of Part 701.21 of the National Credit Union Administration Rules and Regulations, the provisions of Regulation Z, and the operation of existing credit card systems. With this general background the board of directors will have a point from which to start in making an informed and realistic decision concerning the establishment of a credit card program.

Prior to implementing a credit card program, the board of directors should obtain a written legal opinion regarding the legal propriety of their credit card program.

A federal credit union may enter into an agency relationship with a bank or other financial institution to provide another financial institution's credit cards to the credit union's members provided:

a) The federal credit union's management is free to make its own credit decision on each member's credit application.

b) All loans or advances made to the federal credit union's members under the credit card program will be extended under the provisions of Section 107(5)(B) of the Federal Credit Union Act.

A federal credit union may issue credit cards to its own members. The board may include, as part of its credit card policy, a policy where joint account owners, cosigners and nonmembers may be issued credit cards. Issuance of cards to other than regular credit union members could occur only if:

a) The board policy permits it;

b) The primary account holder (primary credit union member) desires it;

c) The sponsoring member's request must be in writing;

d) The member's line of credit account number must appear on the face of the credit card;

e) The issuance of any additional cards to a member or to other persons must comply with specific written policies established by the board of directors; and

f) The member must be primarily liable to the issuing credit union for any nonmember (authorized user) purchases or advances made pursuant to use of the credit card.

Within the limits of the Act and NCUA Rules and Regulations, the board of directors will establish written loan policies for line of credit loans.

Each line of credit loan will be evidenced by an agreement which will contain, incorporate by reference, or provide for at least the following:

a) The borrower's credit limit or maximum amount of principal available under the agreement;

b) The schedule of payments required to repay the loan;

c) The interest rate or rates, not exceeding the maximum rate, inclusive of all service charges, allowed by the Act;

d) The borrower's promise to repay;

e) The repayment of any amount outstanding, prior to maturity, without penalty;

f) Other conditions established by the board of directors necessary to protect the credit union and comply with applicable Federal and State laws and regulations; and

g) That the credit committee or loan officer may terminate the agreement under the following conditions:

    1) Upon adverse reevaluation of the borrower's creditworthiness.

    2) Upon failure of the borrower to satisfy the terms of the agreement.

3) At the option of the borrower or the credit union with good cause.

The termination of a line of credit agreement by the credit union will be given by written notice and will be in accordance with the Equal Credit Opportunity Act and Regulation B.

The board of directors may, as part of their policy, require a review of the members' loan files on a periodic basis (i.e., every 36 months, or other period) to determine the continuing creditworthiness of the members.

The review will be completed by obtaining current information to reassess the member's creditworthiness and the date of the review will be documented in the member's loan file.

A reapplication by the member and approval by the credit committee should be required when the member's credit limit is increased, or when the terms of payment are extended beyond the terms of the original agreement.

Liquidity Considerations

The credit union's liquidity status, in relation to extending loans approved under line of credit agreements, should be reviewed by the board of directors each month. This review should be documented by recording the following information, as of the previous month end, in the board of directors' minutes:

a) The number and amount of outstanding balances under all line of credit agreements;

b) The aggregate amount of credit approved under line of credit agreements; and

c) The total amount of loans advanced and the total amount of loans repaid under line of credit agreements for the previous month.

This monthly review will enable the board of directors to monitor the credit union's liquidity needs and minimize the likelihood of the contingent liabilities exceeding the credit union's available liquid assets.

The board of directors should establish a policy for control of advances disbursed under a line of credit agreement which exceed the borrower's credit limit.

Regulation Z, Truth-in-Lending Act

The credit union must comply with the provisions of Regulation Z when any open-end credit plan is offered to members. This includes credit card plans.

Sections 226.5 through 226.16 of Regulation Z pertain to open-end credit, including sections on periodic statements, billing error resolution procedures and a special credit card provisions section. The Board of Directors should be knowledgeable of the requirements of this regulation if a credit card or other open-end plan is offered.

Regulation E, Electronic Funds Transfer Act

Certain provisions of Regulation E apply when a credit card is used to initiate an electronic funds transfer. If the credit union issues credit cards which can be used to obtain cash advances from an ATM (automatic teller machine), the credit union will need to comply with Regulation E.

6050.1 INTEREST COMPUTATION

Each federal credit union must determine that the computation used for determining the interest due at each billing date for a credit card program does not exceed the maximum interest rate permitted by the Federal Credit Union Act. The following factors need to be considered in determining the propriety of the amount of interest charged to the member:

a) Interest must be calculated on the unpaid principal balance after credit is given for all payments and adjustments during the beginning period. The adjusted balance and average daily balance methods of interest computation may be used. The previous statement of account balance method of interest computation is not allowed.

b) When included with interest charges, fees such as cash advance fees, fees assessed when any balance is outstanding, or other fees related to the extension of credit, may not exceed the maximum rate of interest permitted by the Federal Credit Union Act. Fees not included for the purposes of the usury limit would be an annual card fee, the initial card issuance fee, annual high balance fees (over the credit limit fees), or charges which are assets whether or not the card is used to obtain credit. (Reference Section 226.4 of Regulation Z for descriptions of finance charges and charges which are excluded from the finance charge.)

c) Interest may not begin to accrue prior to the date of a cash advance or the date of purchase if posted (debited) to the member's account.

d) The board of directors may establish a reasonable grace period not exceeding 30 days and waive interest charges accruing from the beginning date (date bill is prepared) to the date payment is posted (debited) to the member's account.

e) A fee may be assessed against a member if the member exceeds the approved line of credit (referred to as annual high balance fee).

6050.2 ACCOUNTING AND OPERATIONAL POLICY

For the most part, the same instructions concerning closed-end loans are still appropriate when dealing with a credit card program; however, the following modifications in the accounting and operational policy are necessary:

a) "Lines of Credit to Members-Credit Cards," (Account No. 702.6) should include all outstanding balances advanced under line of credit agreements. Additional segregation's of this account may be used for credit card accounts.

b) "Interest on Lines of Credit," (Account No. 112) should be used to record interest received on outstanding line of credit balances.

c) "Deferred Credits-Credit Card Commitments," (Account No. 884): Fees which are periodically collected from cardholders, such as annual credit card fees, should be recorded as deferred credits and amortized over the period to which they apply.

Account No. 884, "Defended Credits-Credit Card Commitments", should be used to record the deferred fee income; the fees should be amortized through Account No. 162, "Service Income on Credit Card Loans". (Refer to illustrative entries in Section 4050 of this Manual, Account No. 884.)

d) Appropriate expenses incurred in the operation of a credit card program need to be charged to "Credit Card Program Expenses," (Account No. 286). Any interchange fees received should be recorded under "Credit Card Interchange Income," (Account No. 152).

e) The aggregate total of credit limits approved for members should be noted on the Statement of Financial Condition, Form FCU 109A, as a contingent liability at the end of the month.

f) Delinquency for line of credit loans is computed on a contractual basis by comparing the amount of the minimum payment billed to the amount paid by the member prior to the next billing statement. Any portion of a billed minimum payment which is not paid by the next billing period will cause the unpaid balance to be considered delinquent.

Payments received on delinquent accounts should be applied to delinquent minimum payments starting with the oldest delinquent payment. If payment of a delinquent minimum payment is not received by the third beginning date, the unpaid balance is considered to be 2 months delinquent. In no case should payment in excess of the minimum payment cause the account to be paid ahead or reduce the amount of subsequent required monthly payments.

g) Form FCU 118, Schedule of Delinquent Loans, may also be used as a substitute to report delinquent account activity for lines of credit. The form can be modified by retitling column (3) to "Approved Credit Limit," column (4) to "Amount of Payments in Arrears," and the identification heading for columns (5) through (8) to "Unpaid Balances of Delinquent Line of Credit." Four categories of delinquent line of credit balances should be reported in columns (5) through (8) including "l to less than 2 months," "2 to less than 6 months..... 6 to less than 12 months," and " 12 months and over." The date of last payment can be reported in column (9). Forms FCU 118 or 118 LC are completed for line of credit loans as of the monthly billing date or at the end of each month. Substitute forms may be used if the information included on modified Form FCU 118 LC is provided.

It is recommended that federal credit unions establishing credit card programs limit payment schedules to 3 years in order to assimilate that sufficient turnover of funds occurs to provide liquidity. Credit limits established and a members' ability to repay should be carefully reviewed to determine each credit(ht union's ability to meet the demands placed upon it by its members.

Figure 6-6: Illustration of a Completed Schedule of Dlinquent Lines of Credit (Form FCU 118 LC)

(FORM FCU 118 LC) OUR

Federal Credit Union

SCHEDULE OF DELINQUENT LINES OF CREDIT

AS OF December 31, 1980 .

SUMMARY

DELINQUENT CATEGORIES	NUMBER	UNPAID BALANCES
1 TO Less than 2 Months	4	387 00
2 TO Less Than 6 Months	1	563 30
6 To Less Than 12 Months	1	1058 20
12 Months And Over		
Totals		

(1) ACCOUNT NUMBER	(2) NAME OF BORROWER	(3) APPROVED CREDIT LINE	(4) AMOUNT OF PA YMENTS IN ARREARS	(5) UNPAID BALANCES OF DELINQ UENT LINES OF CREDIT 1To Less Than 2 Months	(6) 2 TO Less Than 6 Months	(7) 6 To Less Than 12 Months	(8) 12 Months and over	(9) DATE OF LATE PAYMENT	COMMENTS
13	Mary Jones	2000 00	200 00	125 00				11/30/80	Sick-now pays weekly
133	Lawrence Hart	2000 00	200 00	90 00				11/30/80	Promised Pymt. 1/15/81
220	Stanley Mark	750 00	30 00		563 00			9/30/80	Out of city
241	Bill Burns	1400 00	1200 00			1058 20		1/31/80	Sick - Have contact
297	W. A. Giles	3000 00	300 00	130 00				11/30/80	Slow pay at times
369	Peter Mckinley	500 00	50 00	42 50				11/30/80	Will catch up next week
TOTAL UNPAID BALANCES OF DELINQ UENT LOANS				387 50	563 30	1,058 20			
TOTAL NUMBER OF DELINQ UENT LOANS				4	1	1	0		

In most cases, credit unions which intend to offer a credit card program will utilize one of the existing bank programs, e.g., VISA, Master Card, etc. Generally, these existing programs use the "batch system" concept in maintaining the records of member credit card transactions. In a "batch system" program the data processor maintains the member's account activity and periodically, e.g., weekly, submits this information to the credit union for entry on its records. Adjustments that may be needed should be recorded in an in-process account which should be reconciled monthly. The accounting entries listed below are recorded in the "Miscellaneous" columns of the Journal and Cash Record (Form FCU 101).

Accounts used relating to credit card programs:

Account No.	Title
112.0	Interest on Lines of Credit
152.0	Credit Card Interchange Income
162.0	Service Income on Credit Card Loans
286.0	Credit Card Program Expenses
702.4	Lines of Credit-Cash Advances in Process
702.6	Lines of Credit to Members-Credit Cards
783.0	Accrued Credit Card Income
730 or 740	Settlement Account (as described in Section 6050.3.1 Series)
802.1	Credit Card Payments in Process
802.2	Credit Card Adjustments in Process
802.3	Credit Card Chargebacks in Process
884.0	Deferred Credits-Credit Card Commitment Fees

6050.3 ACCOUNTING FOR CREDIT CARD TRANSACTIONS

Monetary activity affecting credit union member cardholder account balances can be originated either by the credit union or by other merchants or financial institutions that participate in the credit card program The credit union's General Ledger accounting entries have to take into account both in-process items submitted by the credit union and the processor's posting from other sources.

The credit union's employees forward batches of cash advances, adjustments or payments. The batch total dollar amounts for each type of input are placed into an in-process account called "Lines of Credit Cash Advances in Process," (Account No. 702.4). When they are posted to the cardholder's account, the amounts are transferred from this in-process account to "Lines of Credit to Members-Credit Cards," (Account No. 702.6). Processor rejects are sold back to the credit union.

This in-process accounting involves suspending all credit union monetary input until the processor's reports are received and showing either posting or rejection of the input. It also considers the accrual of interest billed and the applying of payments received to principal and interest.

6050.3.1 ILLUSTRATIVE ENTRIES

a) Settlement Account.

Some of the following entries affect a credit card settlement account, an asset account which may be established as:

- A Cash Account in a commercial bank, established as a separate General Ledger account in the 730 account series (i.e., any unassigned Cash Account from Account No. 732 through Account No. 737);

- A deposit in another credit union, "Shares/Deposits/Certificates of Other Credit Unions," (Account No. 745). (The settlement account should be established separately from other accounts, if any, in the 745 series, i.e., Account No. 745.1, 745.2, etc.); and

- A deposit in a corporate credit union, "Shares/Deposits/Certificates of Corporate Credit Unions," (Account No. 744). (The settlement account should be established separately from other accounts, if any, in the 744 series, i.e., Account No. 744.1, 744.1, etc.)

For illustrative purposes, the settlement account used below is Account No. 745, "Shares/ Deposits/ Certificates of Other Credit Unions". If another settlement account is used, the appropriate account number would be substituted in place of Account No. 745.

The settlement account should be reconciled at the end of each month with the appropriate General Ledger account.

a) To record periodic transfers to the settlement account:

Dr. - Corporate Credit Unions (Acct. No. 744) or Commercial Bank Deposits (Acct. No. 746.1) or Savings and Loans and Mutual Savings Bank Deposits (Acct. No. 746.2)	$1,000	
Cr.-Cash (Acct. No. 731)		$1,000

b) To record purchase of sales drafts and cash advances from processor:

Dr. - Lines of Credit to Members		
Credit Cards (Acct. No. 702.6)	$950	
Cr.-Corporate Credit Unions		
(Acct. No. 744) or Commercial		
Bank Deposits (Acct. No.		
746.1) or Savings and Loans		
and Mutual Savings Bank		
Deposits (Acct. No. 746.2)		$950

c) To record periodic payment of vendor's expenses through the settlement account:

Dr. - Credit Card Program		
Expense (Acct. No. 286)	$50	
Cr.-Corporate Credit Unions		
(Acct. No. 744) or Commercial		
Bank Deposits (Acct. No.		
746.1) or Savings and Loans		
and Mutual Savings Bank		
Deposits (Acct. No. 746.2)		$50

d) To record monthly receipt of the Interchange income:

Dr. - Corporate Credit Unions		
(Acct. No. 744) or Commercial		
Bank Deposits (Acct. No. 746.1)		
or Savings and Loans and		
Mutual Savings Bank Deposits		
(Acct. No. 746.2)	$980	
Cr.-Credit Card Interchange		
Income (Acct. No. 152)		$980

e) To record payments received by processor through a lock box:

Dr. - Corporate Credit Unions		
(Acct. No. 744) or Commercial		
Bank Deposits (Acct. No. 746.1)		
or Savings and Loans and		
Mutual Savings Bank Deposits		
(Acct. No. 746.2)	$950	
Cr.-Lines of Credit to Members -		
Credit Cards (Acct. No. 702.6)		$800
Cr.-Accrued Credit Card		
Income (Acct. No. 783)		150

*****NOTE: If settlement is performed through a corporate central credit union then the settlement account number would be 744.1., "Shares, Deposits of Corporate Central Credit Unions - Credit Card Settlement". The settlement account should be reconciled at the end of each month with the balance in the General Ledger.

Cash Account Entries.

a) To record periodic payment of credit card expenses through cash account:

Dr. - Credit Card Program Expense (Acct. No. 286)	$170	
Cr.-Cash (Acct. No. 731)		$170

Credit Union Cash Advance.

a) To record cash advances at the credit union office:

Dr.-Lines of Credit-Cash Advances in Process (Acct. No. 702.4)	$150	
Cr.-Cash (Acct. No. 731)		$150

b) To record posting of cash advances by the processor:

Dr.-Lines of Credit to Members-Credit Cards (Acct. No. 702.6)	$150	
Cr.-Lines of Credit - Cash Advances in Process (Acct. No. 702.4)		$150

Payments to the Credit Union.

a) To record billed interest calculated by the processor and added to members' monthly statements:

Dr.-Accrued Credit Card Income (Acct. No. 783)	$775	
Cr.-Interest on Lines of Credit (Acct. No. 112.2)		$775

b) To record Credit Card payments received at the credit union office:

Dr.-Cash (Acct. No. 731)	$475	
Cr.-Credit Card Payments in Process (Acct. No. 802.1)		$475

c) To record posting of payments by the processor:

Dr.-Credit Card Payments in Process (Acct. No. 802.1)	$475	
Cr.-Lines of Credit to Members - Credit Cards (Acct. No. 702.6)		$453
Cr.-Accrued Credit Card Income (Acct. No. 783)		22

Adjustments Generated by the Credit Union.

a) To record credit union initiated adjustments, when the processor erroneously posts a credit transaction to a wrong member's account:

Dr.-Credit Card Adjustments in Process (Acct. No. 802.2)	$478	
Cr.-Lines of Credit to Members - Credit Cards (Acct. No. 702.6)		$478

b) When the processor posts the payment to the correct member's account:

Dr.-Lines of Credit to Members - Credit Cards (Acct. No. 702.6)	$478	
Cr.-Credit Card Adjustments in Process (Acct. No. 802.2)		$478

NOTE: An adjustment for interest would also have to be made if erroneously posted to the wrong member's account.

Chargeback Accounting Initiated by the Credit Union.

a) When the credit union personnel initiates a chargeback and adjustment to a cardholder's loan account for a sales draft that was charged to the account in error:

Dr.-Credit Card Chargeback in Process (Acct. No. 802.3)	$275	
Cr.-Credit Card Adjustments in Process (Acct. No. 802.2)		$275

b) Then, when the adjustment is posted:

Dr.-Credit Card Adjustments in Process (Acct. No. 802.2)	$275	
Cr.-Lines of Credit to Members - Credit Cards (Acct. No. 702.6)		$275

c) It will then need to be accompanied by an adjustment of the finance charge by:

Dr.-Interest on Lines of Credit - Credit Cards (Acct. No. 112.2)	$2.75	
Cr.-Credit Card Adjustments in Process (Acct. No. 802.2)		$2.75

d) The credit union will receive an advice of credit for the sales draft chargeback. Thus,

Dr.-Credit Card Interchange Income (Acct. No. 152)	$1	
Dr.-Corporate Credit Unions (Acct. No. 744) or Commercial Bank Deposits (Acct. No. 746.1) or Savings and Loans and Mutual Savings Bank Deposits (Acct. No. 746.2)	275	
Cr.-Credit Card Chargeback in Process (Acct. No. 802.3)		$276

Chargeback Reversal.

a) When the credit union has received an Advice of Charge and the chargeback documentation:

Dr.-Credit Card Chargeback in Process (Acct. No. 802.3)	$276	
Cr.-Credit Card Interchange Income (Acct. No. 152)		$1
Cr.-Corporate Credit Unions (Acct. No. 744) or Commercial Bank Deposits (Acct. No. 746.1) or Savings and Loans and Mutual Savings Bank Deposits (Acct. No. 746.2)		275

b) When the credit union prepares the adjustment documentation to charge the cardholder:

Dr.-Credit Card Adjustments in Process (Acct. No. 802.2)	$275	
Cr.-Credit Card Chargebacks in Process (Acct. No. 802.3)		$275

c) When the item is posted to the cardholder's account:

Dr.-Lines of Credit to Members - Credit Cards (Acct. No. 702.6)	$275	
Cr.-Credit Card Adjustments in Process (Acct. No. 802.2)		$275

Credit Union Adjusting Entries.

a) To establish or increase the Allowance for Loan Losses for Credit Card losses:

Dr.-Provision for Loan Losses-Lines of Credit (Acct. No. 302)	$4,000	
Cr.-Allowance for Loan Losses - Lines of Credit (Acct. No. 719.2)		$4,000

b) To record charge-off of a Credit Card (Line of Credit) loan principal and to reverse the accrued interest income:

Dr.-Allowance for Loan Losses-Lines of Credit (Acct. No. 712.2)	$550	
Dr.-Interest on Lines of Credit - Credit Cards (Acct. No. 112.2)	110	
Cr.-Lines of Credit to Members - Credit Cards (Acct. No. 702.6)		$550
Cr.-Accrued Credit Card Income (Acct. No. 783)		110

6050.4 TRIAL BALANCE

The vendor or processor will normally provide the card issuing credit union with a monthly trial balance of all cardholder accounts. The date of the trial balance coincides with the date of the monthly statement. If the credit union's statement date is other than month-end, the federal credit union's Journal and Cash Record and General Ledger is posted and totaled as of the date of the monthly cardholder trial balance and a trial balance must be taken of the General Ledger. Any differences between the cardholder trial balance and the General Ledger's Lines of Credit to Members - Credit Cards (Account No. 702.6) are located and corrected within 7 days after the trial balance is received.

6050.5 INTERNAL CONTROLS

The board of directors of a federal credit union which issues credit cards should establish sufficient internal controls to assure that improper use of a credit card is quickly detected. Some credit unions may involve themselves with existing credit card programs which already contain many of the controls for issuing credit cards. The officials and management of a credit union should be fully aware of how these systems operate. Management will need to implement daily audit and review routines to assure that the established controls and systems are functioning properly. The board of directors may wish to purchase insurance coverage, from the bonding company, for protection from losses due to cardholder fraud.

6060 INVESTMENTS

This section discusses investments and accounting for investments. In general, investments are limited to those authorized by Section 107 of the Federal Credit Union Act (the Act) and Part 703 of the National Credit Union Administration Rules and Regulations. Rather than repeat the section and part here, we refer you to the above referenced documents for examples of the types of investments permissible for federal credit unions.

6060.1 METHOD OF RECORDING INVESTMENTS

When a credit union acquires securities, it must assess its intent and ability with regard to its securities holdings and assign its debt and equity securities to the appropriate measurement category: *trading, held-to-maturity,* or *available-for-sale*. Not less frequently than the end of each dividend period, (i.e., monthly, quarterly, semiannually, or annually), the appropriateness of the classifications, and the reasonableness and accuracy of the related measurement (*trading* and *available-for-sale*) shall be assessed.

Reporting requirements shall be as follows:

- *Debt and equity* securities that are bought and held principally for the purpose of selling them in the near term shall be classified as *trading securities* and reported at fair value through the income statement.

- *Debt* securities (not equity) that the enterprise has the positive intent and ability to hold to maturity shall be classified as securities *held-to-maturity* and reported at amortized cost.

- *Debt and equity* securities not classified as either securities *trading* or *held-to-maturity* securities shall be classified as securities *available-for-sale* and reported at fair value through a separate component of equity in the balance sheet, *Accumulated Unrealized Gains/Losses on Available-for-Sale Securities.*

For credit union boards, in particular, fair value measurement gives them the information they need to oversee their credit unions. If securities in the *available-for-sale* portfolio drop in fair value below book value, a credit union board will have a ready indicator of this decline in the balance sheet separate equity account. These losses are *real* losses which are simply unrealized. Fair value measurement is a tool credit union management, credit union boards, and regulatory staff need to ensure the safety and soundness of credit unions, individually and corporately.

A credit union shall consider GAAP in how it plans to manage its holdings of securities when designating individual securities as trading, *held-to-maturity* or *available-for-sale*. Credit unions which used outside accountants are encouraged to consult them when assigning their securities to the measurement categories. There is no specified percentage or amount of securities that a credit union must assign to each category. Rather, the amount of securities a credit union assigns to each of the three categories depends on the facts and circumstances surrounding the credit union and the actual securities it owns.

A credit union shall have adequate documentation to support the initial assignment of securities to the three categories, the assignments made when securities are purchased, and the periodic evaluations (not less frequently than the end of each dividend period) of the continuing appropriateness of these assignments. The amount and types of documentation to support the assignment of securities to the measurement categories will vary from credit union to credit union based on its size and the complexity of its operations, including the nature and scope of its securities activities. A credit union's documentation may include its:

- written and approved securities policies and strategies,
- policies governing liquidity and funds management and interest rate risk management,
- board or committee minutes,
- budgets,
- cash flow projections,
- capital plans, and
- memorandums discussing the purposes or reasons for purchasing particular securities.

In addition, a credit union's history of holding specific types of securities to maturity can be a form of documentation. A credit union's management shall recognize that GAAP envisions that sale and transfer out of the *held-to-maturity* category generally should be rare and that any such transactions may raise questions about the appropriateness of the credit union's designation of other securities as *held-to-maturity*.

6060.1.1 HELD-TO-MATURITY

To qualify as having established intent to hold-to-maturity the credit union cannot have an intent to hold the security only for an indefinite period. If the credit union *may* sell the security due to:

- changes in market interest rates and related changes in prepayment risk,

- needs for liquidity,
- changes in funding sources and terms,
- changes in the availability of and the yield on alternative security, etc.,

the credit union has failed to meet the "hold to maturity" test. A credit union's alternatives are to classify the security as either *available-for-sale* or in a *trading* account.

Through an established and documented asset-liability management strategy, a credit union may decide that it can accomplish the necessary liquidity, funds management, and management of interest rate risk goals without having all of its debt securities *available-for-sale*. GAAP acknowledges that even though a credit union considers the maturity and repricing characteristics of all of its debt securities as part of its asset-liability management, the credit union may determine that it can carry out the ongoing adjustments to its asset-liability position without having all of its debt securities *available-for-sale*. In such a situation, the credit union may earmark specific debt securities as unavailable to be sold for purposes of adjusting its asset-liability position. This would enable the earmarked securities to be placed in the *held-to-maturity* category provided the credit union otherwise has the positive intent and ability to hold them to maturity. For example, if at the point of purchase of a CMO, a credit union can demonstrate that:

1) The failure of the HRST caused by future interest-rate swings is remote; and

2) All probable future liquidity needs can be met through the sale of other securities;

then the classification of the CMO as *held-to-maturity* will be accepted.

A credit union can successfully defend the sale of a *held-to-maturity* security, prior to maturity, under two conditions:

a) The sale is so near the maturity date that the security's value is little affected by changes in market interest rates.

b) The sale occurs after the credit union has already collected a substantial portion (e.g., percent or more) of the principal outstanding at acquisition.

Additionally, a credit union could experience any of the following "changes in circumstances" which may cause a credit union to sell or transfer a *held-to-maturity* security to another classification without raising questions about whether it was appropriate for that security to have been reported previously as *held-to-maturity*:

a) A significant deterioration in the issuer's creditworthiness.

b) A merger, purchase and assumption, or other business combination that necessitates the sale or transfer of *held-to-maturity* securities to maintain the credit union's existing interest-rate risk position or credit risk policy.

c) A change in statutory or regulatory requirements causing the credit union to dispose of a *held-to-maturity* security (e.g., mandated change to risk based capital reserving structure).

d) A significant increase by the regulator in capital requirements that causes the credit union to downsize by selling *held-to-maturity* securities.

Reverse repurchase and repurchase arrangements do not in and of themselves preclude a credit union from placing such securities in the *held-to-maturity* category provided the credit union otherwise has the positive intent and ability to hold the securities to maturity.

6060.1.2 TRADING

Securities are *trading securities*, if they are bought and held principally for the purpose of selling them in the near term. Characteristic of trading is active and frequent buying and selling, and *trading* securities are generally used with the objective of generating profits on short-term differences in price. Unrealized holding gains and losses for *trading* securities shall be included in the income statement. Dividend and interest income, including amortization of premium and discount, shall continue to be included in the income statement.

6060.1.3 AVAILABLE-FOR-SALE

Securities not classified as trading and not meeting the requirements of *held-to-maturity* shall be classified as securities *available-for-sale*. Adjustments shall be made directly to the investment account. Unrealized holding gains and losses shall be excluded from the income statement and reported as a net amount in a separate component of equity on the balance sheet until realized. Dividend and interest income, including amortization of premium and discount, shall continue to be included in the income statement.

6060.1.4 TRANSFERS BETWEEN CATEGORIES

Transfers between categories shall be accounted for at fair value with unrealized holding gains or losses accounted for as shown in the table which follows. Transfers into and out of the *held-to-maturity* category should be rare. Furthermore, a decision to designate a security as *held-to-maturity* may affect a credit union's ability to transfer or sell a security without sacrificing the ability to continue to carry the remainder of its *held-to-maturity* portfolio at amortized cost. As a result, a credit union's initial designation of its securities may adversely affect the degree of flexibility it has to manage its securities portfolio as a secondary source of liquidity. Given the nature of a *trading* account, transfers into or out of the *trading* category should also be rare.

Investment Transferred From/To:	Transfer at:	Unrealized Holding Gain or Loss
From *Trading* category	Fair Value	Already recognized in earnings and shall not be reversed
To *Trading* category	Fair Value	Recognized in earnings immediately
To *Available-for-sale* category from Held-to-maturity category	Fair Value	Separate component of shareholder's equity
To *Held-to-maturity* category from the *Available-for-sale* category	Fair Value	Continue reporting as a separate compo nent of shareholders' equity but begin amortization over the remaining life of the security as an adjustment of yield in a manner consistent with the amortization of any premium or discount

6060.1.5 IMPAIRMENT OF SECURITIES

If the credit union experiences a decline in either an *available-for-sale* or *held-to-maturity* security's value which is *other than temporary*, the cost basis of the individual security shall be written down to fair value as a new cost basis and the writedown included in the income statement as a realized loss. This is the only adjustment to a security's book value that shall be made through an allowance (asset valuation) account; all other adjustments shall be made directly to the investment account. An other-than-temporary impairment should be considered to have occurred if it is probable that the investor will be unable to collect all amounts due according to the contractual terms of a debt security not impaired at acquisition. The new cost basis shall not be changed for subsequent recoveries in fair value.

6060.2 DEFINITIONS

Certain investment transactions and activities defined below may or may not be permissible for federal credit unions in accordance with Sections 107(7) and 107(8) of the Federal Credit Union and Part 703 of the National Credit Union Administration Rules and Regulations. Additional definitions are also available in the referenced part of the Rules and Regulations.

Adjusted Trading-Any method or transaction used to defer a loss whereby a federal credit union sells a security to a vendor at a price above its current market price and simultaneously purchases or commits to purchase from that vendor another security above its current market price.

These investments are highly complex. In order to understand the transactions and activities the reader must understand the following terminology.

Bailment for Hire Contract-A contract whereby a third party of other financial institution, for a fee, agrees to exercise ordinary care in protecting the securities held in safekeeping for its customers.

Cash Forward Agreement -An agreement to purchase or sell a security, at a future date, with delivery and acceptance being mandatory. The contract for the purchase or sale of a security for which delivery of the security is made in excess of thirty (30) days but not exceeding one hundred-twenty (120) days from the trade date shall be considered to be a cash forward agreement.

Debt security. Any security representing a creditor relationship with an entity. As it applies to federal credit unions, debt securities include such investments as U.S. Treasury securities and Mortgage Backed Securities (MBSs) such as mortgage pass-through securities and Collateralized Mortgage Obligations (CMOs). Debt securities do not include accounts receivable on member loans.

Equity security. Any security representing an ownership interest in an entity or the right to acquire or dispose of such ownership at fixed or determinable prices. An example of an equity security investment is a mutual fund.

Fair value. The current amount at which an investment could be bought, sold, or otherwise exchanged between willing parties, other than in a forced liquidation sale.

Futures Contract - A standardized contract for the future delivery of commodities, including certain government securities, sold on designated commodities exchanges.

Holding gain or loss. The net change in fair value of a security. It does not include earned dividends or interest which have not been received or write-downs resulting from permanent declines in fair value.

Market Price - The last established price at which a security is sold.

Maturity Date - The date on which a security matures. It does not mean the call date or the average life of the security.

Repurchase Transaction - A transaction in which a federal credit union agrees to purchase a security from a vendor and to resell the same or any identical security to the vendor at a later date. A repurchase transaction may be of three types: (a) an "investment-type repurchase transaction", (b) a "financial institution-type repurchase transaction", or (c) a "loan-type repurchase transaction."

a) An "Investment-type Repurchase Transaction" is where the federal credit union purchasing the security takes physical possession of the security, or receives written confirmation of the purchase and a custodial or safekeeping receipt from a third party under a written bailment for hire contract, or is recorded as the owner of the security through the Federal Reserve Book-Entry System; there is not restriction on the transfer of the security purchased by the federal credit union; and the federal credit union is not required to deliver the identical security to the vendor upon resale.

b) A "Financial Institution-type Repurchase Transaction" is a repurchase transaction with an institution identified in Section 107(8) of the Act.

c) "A Loan-type Repurchase Transaction" is any repurchase transaction that does not qualify as an investment-type or financial institution-type repurchase transaction. A lone-type repurchase transaction represents a lending transaction and is subject to the limitations of Section 107(5) of the Act.

Reverse Repurchase Transaction - A transaction whereby a federal credit union agrees to sell a security to a purchaser and to repurchase the same or any identical security from the purchaser at a future date and at a specified price. A reverse repurchase transaction represents a borrowing transaction and is subject to the limitations of Section 107(9) of the Act.

Settlement Date - The date originally agreed to by a federal credit union and a vendor for settlement of the purchase or sale of a security.

Security - Any investment or deposit authorized for a federal credit union pursuant to Sections 107(7), 107(8) and 107(15) of the Act.

Short Sale - The sale of a security not owned by the seller.

Standby Commitment - An agreement to sell a security on or before a future date at a predetermined price. The seller of the agreement is required to accept delivery of the security (in the case of a commitment to buy) or make delivery of a security (in the case of a commitment to sell) in either case at the option of the buyer of the commitment.

Trade Date - The date the federal credit union originally agreed, whether verbally or in writing, to enter the purchase or sale of a security with a vendor.

Investment types and terms are further defined in Part 703, NCUA Rules and Regulations.

6060.3 AUTHORIZED INVESTMENT ACTIVITIES

Part 703, NCUA Rules and Regulations, identifies securities that federal credit unions may invest in. These securities are authorized by Section 107(7) and 107(8) of the Federal Credit Union Act. Federal credit unions should refer to these sources prior to making investment decisions.

Not all the permissible investments for credit unions are covered in the following sections. A few examples of permissible investments and the recommended accounting treatment are shown.

6060.3.1 CASH-INVESTMENT PURCHASE

A credit union may enter into a contract to purchase (or sell) a security authorized in Section 107 of the Act provided that the security is delivered within 30 days of the trade date. The purchase of a security should be recorded on the credit union's records at cost which is the market price on the trade date.

6060.3.2 CASH FORWARD AGREEMENTS

A federal credit union may enter into a cash forward agreement to purchase or sell a security, provided that:

a) The period from the trade date to the settlement date does not exceed 120 days;

b) It has written cash flow projections evidencing its ability to purchase the security (purchaser);

c) It owns the security on the trade date (seller); and

d) The cash forward agreement is settled on a cash basis at the settlement date.

Prior to settlement, the amount of the cash forward agreement represents a contingent liability to purchase securities. Therefore, it needs to be shown as a note or memorandum entry on the credit union's Statement of Financial Condition for each month the commitment is outstanding. The note should describe the agreement, trade and settlement date, amount, purchase and market price on the statement date.

Illustrative Entries

Assume that JWP FCU entered into a Cash Forward Agreement to purchase a $1 million part value Federal Agency Security on March 16 at 95, which is the market price for a 90-day forward. The FCU had written projections which showed that it had a $1 million certificate of deposit maturing on June 15, the settlement date of the forward. The market value of the security was 93 on June 14.

March 16

The commitment is recorded in the cash forward agreement register. Future financial statements of the federal credit union are footnoted.

June 15

Dr.-Available-for-Sale Securities		
(Acct. No. 743)	$930,000	
Dr.-Gain (Loss) on Investments		
(Acct. No. 420)	20,000	
Cr.-Cash (Acct. No. 731)		$950,000

The original footnote denoting market value would be removed from the financial statements.

6060.3.3 CASH FORWARD AGREEMENT TO SELL SECURITIES

A federal credit union may enter into a cash forward agreement to sell a security, provided that:

a) The period from the trade date to the settlement date does not exceed 120 days;

b) It owns the security on the trade date;

c) The cash forward agreement is settled on a cash basis at the settlement date.

A federal credit union must be able to provide information on the type of security sold by use of a cash forward agreement to include a complete description, trade date, settlement date, sale price and name of the purchaser. Such information should be kept in a current register for that purpose.

Prior to settlement, the amount of the cash forward agreement represents a contingent liability to deliver securities. Therefore, it needs to be shown as a note or memorandum entry on the credit union's Statement of Financial Condition for each month the commitment is outstanding. The gain or loss on the sale of the underlying security should not be recognized until the settlement date and will be recorded in Gain (Loss) on Investments (Account No. 420).

Illustrative Entries

Assume that MAY FCU owns a Federal Agency Security recorded on its books for $950,000. It commits on June 10 to sell the security on August 20 for $975,000.

June 10

The commitment is recorded in the cash forward agreement register. Future financial statements are noted.

August 20 - To record the sale of the security and recognize the gain on the sale. Note is removed from the financial statements.

Dr.-Cash (Acct. No. 731)	$975,000	
Cr.-Available-for-Sale Securities (Acct. No. 743)		$950,000
Cr.-Gain (Loss) on Investments (Acct. No. 420)		25,000

6060.3.4 INVESTMENT-TYPE REPURCHASE TRANSACTIONS

The purpose of an investment-type repurchase transaction is to obtain a specified yield on the investment made. A federal credit union may enter into this type of transaction provided the transaction is as defined in Section 6060.2. Any repurchase transaction that does not meet these requirements constitutes a loan-type repurchase transaction. The purchase price of a security obtained under an investment-type repurchase transaction must be at or below the market price.

A federal credit union must maintain certain information on the type of security purchased through an investment-type repurchase transaction in a Repurchase Investment Register. This register must include an identification of the security (type, face value, coupon rate), trade date, settlement date, amount, repurchase rate, purchase price and the name of the seller.

Each investment-type repurchase transaction must be documented by the following:

a) evidence that the credit union has been recorded as the owner of the security through the Federal Reserve book-entry system,

b) for those securities in the physical possession of the credit union, there must be clear evidence of ownership of the security,

c) for those securities held in safekeeping, there must be a copy of the "bailment for hire contract" from the third party bank or other financial institution, and a safekeeping receipt.

The security purchased should be recorded at cost in the appropriate investment account. The credit union's Statement of Financial Condition must be noted to reflect the amount of securities which are subject to resale and the date of resale. Income earned on the investment should be recorded in the appropriate income account.

Illustrative Entries

Assume that RFS FCU entered into an investment-type repurchase transaction on September 30 to purchase a mortgage-backed federal agency security with a face value of $2,142,857 and a coupon rate of 8.50. The parties agreed upon a repurchase rate of 9.0. The purchase price was 98. Also assume that the FCU agreed to resell a similar type security to the vendor on October 1 at 98.

September 30-To record the purchase of the security:

The funds are transferred to the broker through the credit union's custodial bank, which transmits a custodial slip to the FCU. The transaction is recorded in the repurchase transaction register. The financial statements of the federal credit union are noted.

Dr.-Available-for-Sale Securities (Acct. No. 743) ($2,142,857 x 98)	$2,100,000	
Cr.-Cash (Acct. No. 731)		$2,100,000

October 1 - To record resale of the security and receipt of income.

Dr.-Cash (Acct. No. 731)	$2,100,525*	
Cr.-Available-for-Sale Securities (Acct. No. 743)		$2,100,000
Cr.-Income from Investments (Acct. No. 122)		525

* - ($2,142,857 x .980245)

The original note would be removed from the financial statements.

6060.3.5 FINANCIAL INSTITUTION-TYPE REPURCHASE TRANSACTION

A federal credit union may enter into a financial institution-type repurchase transaction with an institution identified in Section 107(8) of the Act. The purpose of such a transaction is to obtain a specified yield on the investment made. The purchase price of the security obtained under a financial institution-type repurchase transaction must be at or below the market price.

A federal credit union must be able to provide information on the security purchased to include an identification of the security (type, face value, coupon rate), trade date, settlement date, amount, repurchase rate, purchase price and the name of the seller. Such information should be kept in a current register for that purpose.

A federal credit union must also be able to clearly document that it is the owner of the security and that the security is adequately safekept. The security purchased should be recorded at cost in the appropriate investment account. The credit union's Statement of Financial Condition should be noted to reflect the amount of securities which are subject to resale and the date of resale. Income earned on the investment should be recorded in the appropriate income account.

6060.3.6 LOAN-TYPE REPURCHASE TRANSACTION

A federal credit union may enter into a loan type repurchase transaction only with its own members, other credit unions, or approved credit union organizations. Loan-type repurchase transactions are subject to specific requirements such as a maximum loan limit of 10 per centum of paid-in and unimpaired capital and surplus to one member, the receipt of a properly supported loan application, approval of the loan by the credit committee, and execution of a note supported by documentation of the collateral. Loans Subject to Repurchase Agreements (Account No. 718) should be used to record these loans to members.

Loan-type repurchase agreements to other credit unions must conform to limitations contained in Sections 107(5)(C) and 107(7)(C) of the Act and Section 703.2 of the National Credit Union Administration Rules and Regulations. Loan-type repurchase agreements should be recorded in "Loans to Other Credit Unions," (Account No. 747).

Loan-type repurchase agreements to approved credit union organizations must be in compliance with Section 107(5)(D) of the Act and the National Credit Union Administration Rules and Regulations. "Loans to Credit Union Service Corporations," (Account No. 748.2) should be used to record these loans.

Where material in amount, the securities used as collateral for the loan-type repurchase agreement should be identified in a note or memorandum entry on the credit union's Statement of Financial Condition for each month the repurchase agreement is outstanding. The note should reflect the market price of the securities on the statement date.

Income received from loans to members should be recorded in "Interest on Loans," (Account No. 111). Income received from loans to credit unions should be recorded in "Income from Investments," (Account No. 127) and (Account No. 128).

Assume HEM FCU enters into a repurchase agreement with VAF FCU whereby HEM FCU lends $1 million to VAF FCU on February 1 and receives as collateral a $1 million Federal Agency Security valued at par. VAF FCU agrees to repay the loan on August 1. The interest rate is 6 percent.

February l-Entry on the books of HEM FCU to record the loan.

Dr.-Loans to Other Credit Unions (Acct. No. 747)	$1,000,000	
Cr.-Cash (Acct. No. 731)		$1,000,000

The financial statements of the federal credit union should be noted.

August 1-HEM FCU entry to record repayment of the loan with interest.

Dr.-Cash (Acct. No. 731)	$1,030,000	
Cr.-Loans to Other Credit Unions (Acct. No. 747)		$1,000,000
Cr.-Income from Investment (Acct. No. 127)		$30,000

The original note should be removed from financial statements.

Entries for VAF FCU are contained in Illustrative Accounting Entries in the following section.

6060.3.7 REVERSE REPURCHASE TRANSACTION

A federal credit union may enter into a reverse repurchase transaction, provided no securities purchased with the funds received from the reverse repo, nor any securities collateralizing the reverse repo, have a maturity date later than the settlement date for the reverse repo.

The maximum amount of funds that may be borrowed under a reverse repurchase transaction for investment or deposit purposes is 50 percent of the credit union's paid-in and unimpaired capital.

Since reverse repos represent a borrowing activity, such activity must be approved by the board of directors or a duly appointed executive committee as required by Section 113 of the Federal Credit Union Act. The funds received from the reverse repos should be recorded as borrowed funds in "Notes Payable-Other," (Account No. 812). Interest paid on reverse repos should be recorded in "Interest on Borrowed Money," (Account No. 340).

The securities used as collateral for the reverse repos should be identified in a note on the credit union's Statement of Financial Condition for each month the reverse repo is outstanding. The note should reflect both the book value and the market price on the statement date.

Referring to the various illustrative accounting entry, VAF FCU would record the Reverse Repurchase Transaction. In addition to the information given in that example, assume also that VAF FCU is unable to repay the loan from available funds on settlement date. VAF FCU chooses to sell the underlying security at its fair market value of 99-1/2. The security is booked at par.

Entries on books of VAF FCU.

February 1-To record the Reverse Repo as borrowed funds.

Dr.-Cash (Acct. No. 731)	$1,000,000	
Cr.-Notes Payable-Other (Acct. No. 812)		$1,000,000

The financial statements of the federal credit union should be noted.

August 1-To record sale of the underlying security recognizing a $5,000 loss.

Dr.-Cash (Acct. No. 731)	$995,000	
Dr.-Gain (Loss) on Investments (Acct. No. 420)	5,000	
Cr.-Available-for-Sale Securities (Acct. No. 743)		$1,000,000

To record payment of notes payable and interest due.

Dr.-Notes Payable (Acct. No. 812)	$1,000,000	
Dr.-Interest on Borrowed Money (Acct. No. 340)	30,000	
Cr.-Cash (Acct. No. 731)		$1,030,000

The original note should be removed from the Statement of Financial Condition.

6060.4 UNAUTHORIZED INVESTMENT TRANSACTIONS AND ACTIVITIES

Because of the inherent risk involved in certain investment transactions and activities a federal credit union may not:

1) enter into a standby commitment to purchase or sell a security,

2) buy or sell a futures contract,

3) engage in adjusted trading or a short sale,

4) enter into a yield maintenance contract, or

5) participate in a pair-off transaction.

6060.4.1 ADJUSTED TRADING

The most common form of adjusted trading occurs when a credit union cannot meet its commitment to purchase a security on the settlement date, and the market price is below the commitment price. Thus, if the credit union is forced to immediately sell the security it will incur a loss.

To prevent the loss, the credit. union would enter into an agreement to resell the security to the broker at the commitment price and to enter into another commitment to purchase a different security at a price that exceeds its market value. Thus, the credit union has deferred its loss in hopes that the market price of the security underlying the new commitment will increase by the new settlement date.

A less common form of adjusted trading occurs when a credit union swaps or exchanges a lower yielding security for a higher yielding security. In this case, the sale of the low yielding security would result in a loss, which the credit union does not wish to recognize during the current accounting period. Again, the credit union agrees to sell its security and buy the new security at prices above market. Another name for these transactions is overtrading.

A variation of the adjusted trade involving a forward commitment is known as "fee trading" or "reposition trading." This transaction is the s as the first example above except that the broker is unwilling to take the risk of purchasing the initial security. The credit union would sell at a price above market. Therefore, the broker requires that the credit union pay a fee, which is the difference in the commitment price and the market price when they enter into the transactions. When the credit union purchases the new security, the broker returns the fee. Often, this type of transaction occurs repeatedly. The fee is usually recorded by the credit union as a receivable, deferred charge, or other asset.

The above described transactions, under whatever name, constitute adjusted trading and, thus, are prohibited

6060.4.2 YIELD MAINTENANCE CONTRACT

A yield maintenance contract, also known as a "pair-off" hedger, is the concurrent commitment to purchase a security via a cash forward agreement and to sell the same security on the same settlement date via a standby commitment. The credit union would be required to pay a generally exorbitant commitment fee to the vendor. The purpose of the transaction would be to "guarantee" a specified yield which is based upon the commitment fee paid. Generally, the purchase and sale prices are not related to the current market price.

Yield maintenance contracts are not permitted since they violate Section 708.4 of the National Credit Union Administration Rules and Regulations. This section prohibits a federal credit union from' entering into a standby commitment. The yield maintenance contract is an unsecured loan to a broker (a nonmember) and thus is in violation of Section 107(5) of the Federal Credit Union Act.

6060.4.3 PAIR-OFF TRANSACTION

A pair-off is a security purchase transaction which is closed or sold at, or prior to, the settlement date.

Generally, a federal credit union could commit to purchase a security and sometime thereafter commit to seller the security on the same settlement date. The purpose in engaging in pair-off transactions is not to take delivery of the security purchased, but to speculate that the market price will increase before settlement date and a gain will result from its sale.

Many times the commitment to sell is made the same day as the commitment to purchase. There may even be a standing order with the vendor to sell when a certain market price is reached. *Pair-off transactions using cash forward agreements are impermissible for federal credit unions.* In addition, pairoff transactions represent a speculative activity which are generally unsafe and unsound. There is strong evidence to show that it has been used as a means of "churning" credit union accounts to generate brokerage commissions.

6060.5 PERMISSIBLE INVESTMENT ACTIVITIES AND TRANSACTIONS SUBJECT TO SPECIFIED CONDITIONS

6060.5.1 DOLLAR PRICE REPURCHASE AGREEMENT (DOLLAR PRICE REPO)

A dollar price repurchase transaction is a contract whereby a federal credit union sells a security that it owns and agrees to purchase another security on a future date. The dollar price repo does not represent borrowing by a federal credit union as does a reverse repurchase transaction.

In the case of a reverse repurchase transaction, the transaction represents a borrowing because ownership of the security "sold" does not change; that is, the "seller" of the security still has title and still receives the dividend or interest income from the security. Interest based upon the balance of the proceeds received from the transaction is paid by the "seller." Additionally, the same security "sold" must be "repurchased." As such the essentials of a sale and repurchase do not exist.

In the case of a dollar price repo, the essential elements of a sale do exist, i.e., ownership of the security does change. The buyer now receives the dividend or interest income on the security. No interest is paid by the seller for funds received. The same security sold is not required to be repurchased.

A dollar price repo represents the sale of a security and a simultaneous agreement to purchase another security at a future date by the use of a forward placement contract. As such, a federal credit union may enter into such an agreement only if:

a) Gains and losses on the sale of the security sold are recognized on the settlement date of the sale.

b) The limitations cited in Section 703.3(b) of the NCUA Rules and Regulations for purchasing a security under a cash forward agreement are met.

6060.6 MORTGAGE-BACKED SECURITIES

6060.6.1 MORTGAGE PASS-THROUGH SECURITIES

Mortgage pass-through securities were the first form of mortgage collateralized securities to be issued and are the predominant form of mortgage-backed security actively traded among investors today. With a pass-through security, investors purchase an undivided interest in an underlying pool of mortgages that serves to collateralize the pass-through security. As the mortgages in the pool are repaid, principal and interest are passed through to each investor on a pro rata basis. All pass-through securities have an issue date; a coupon or pass-through rate; and a final or stated maturity date.

Mortgage originators, such as commercial banks, S & Ls & Ls, etc., are among the most active in pooling mortgages and issuing pass-through securities. The originator usually issues a pass-through with the guarantee of a federally sponsored agency. In addition, a large volume of mortgages are purchased, pooled and collateralized under agency programs. The agencies that guarantee and issue pass-through securities are the Government National Mortgage Association (Ginnie Mae); the Federal Home Loan Mortgage Corporation (Freddie Mac); and the Federal National Mortgage Association (Fannie Mae).

When a pass-through is not backed by the guarantee of a federally sponsored agency, it falls into the category of "privately issued" and may be backed by pool insurance, letters of credit, and other credit enhancements.

Federal credit unions may invest in pass-through securities issued or guaranteed by the Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA), or the Federal Home Loan Mortgage Corporation (Freddie Mac). Under Section 107(15)(B) of the Federal Credit Union Act, federal credit unions may also invest in privately issued pass-through securities as defined in Section 3(a)(41) of the Securities Exchange Act of 1934.

When a credit union acquires a mortgage pass-through security, it must assess its intent and ability with regard to the security and assign it to the appropriate measurement category: *trading, held-to-maturity,* or *available-for-sale*. Not less frequently than the end of each dividend period, (i.e., monthly, quarterly, semiannually or annually), the appropriateness of the classifications, and the reasonableness and accuracy of the related measurement (*trading* and *available-for-sale*), shall be assessed. See Section 6060.1 for more complete discussion.

Illustrative Entries

The IMU FCU purchased $100,000 worth of passthrough securities for $99,000. The securities have a 30 year life and have a 10% pass-through paid monthly. The annual effective yield to maturity is 10.12%. The credit union has the ability to hold the investment to maturity and the positive intent to hold it for the foreseeable future. *(Note*.- This illustration assumes no significant changes in prepayment assumption from the purchase date to maturity, therefore, periodic adjustments to the investment carrying value are not illustrated.)

a) IMU's entry at the point of purchase.

Dr.-Held-to-Maturity Securities (Acct. No. 741)	$100,000	
Cr.-Discount on Held-to-Maturity Securities (Acct. No. 741.1)		$1,000
Cr.-Cash (Acct. No. 731)		99,000

b) To record the receipt of the first monthly payment: the recognition of income at the effective rate, the accretion of discount (the difference between income at the pass-through rate and income at the effective rate), and the return of principal.

Dr.-Cash (Acct. No. 731)	$877.75	
Dr.-Discount on Held-to-Maturity Securities (Acct. No. 741.1)	1.57	
Cr.-Income on Federal Agency Securities (Acct. No. 122)		$834.90
Cr.-Held-to-Maturity Securities (Acct. No. 741)		44.24

c) To record the receipt of the second monthly payment: the recognition of income at the effective rate, the accretion of discount (the difference between income at the pass-through rate and income at the effective rate), and the return of principal.

Dr.-Cash (Acct. No. 731)	$877.57	
Dr.-Discount on Held-to-Maturity Securities (Acct. No. 741.1)	1.56	
Cr.-Income on Federal Agency Securities (Acct. No. 122)		$834.52
Cr.-Held-to-Maturity Securities (Acct. No. 741)		44.61

If the credit union holds this investment to maturity, they should receive a full return of principal plus interest.

If there is a significant change in prepayment assumptions on the underlying pool of mortgages, i.e., the underlying mortgages are paying significantly faster or slower than anticipated, the carrying value must be adjusted to reflect the change in prepayment rate.

This adjustment is accomplished by discounting the cash flows received to date, plus the cash flows the credit union anticipates to receive in the future based on the new prepayment assumptions back to the original purchase date to determine the new anticipated yield. The new yield thus calculated is then applied from date of purchase to calculate what the carrying value of the security would be today had the new yield been applied since purchase.

The booked carrying value is then adjusted through current period income to reflect the adjusted carrying value and the amortization is continued at the new effective rate.

6060.6.2 COLLATERALIZED MORTGAGE OBLIGATIONS (CMOs)

A CMO is a multi-class bond issue collateralized by whole mortgage loans or mortgage passthrough securities. The cash flows of the underlying mortgages are used to make the principal and interest payments on the bonds.

The key difference between a conventional mortgage pass-through security, such as a Government National Mortgage Association (Ginnie Mae) pass-through, and a CMO is in the distribution of principal payments. With a conventional pass-through, the interest and principal payments received each month from mortgage holders are passed through to all security holders on a pro rata basis. Because of prepayments, the pass-through's cash flows tend to be irregular and widely dispersed over time. The security remains outstanding for as long as any of the mortgages in the underlying mortgage pool are outstanding (up to 30 years where the pass-through is backed by long-term mortgages).

The CMO structure substitutes sequential retirement of bonds for the pro rata return of principal found in the pass-through, the result of which is to create mortgage-backed securities with short, intermediate and long-term maturities.

Typically, the first class of CMO bonds receives all principal generated by the issue until it is completely retired; then the second class begins to receive principal until it is retired and so on. Interest is paid on all outstanding bonds unless they are accrual or "Z" bonds.

The typical CMO has been characterized by four classes (or tranches) with the fourth class often being a "Z" bond. The second and third classes receive level interest payments in accordance with their stated coupon rates, while the first class pays down. Then the third class continues to receive level interest payments until the second class is paid down and so forth. The fourth class, the "Z" bond, accrues its stated interest rate as an addition to its initial face value until all of the previous classes have been retried.

Once all of the previous classes have been retried, the "Z" bond becomes a pass-through instrument. Principal and interest, based on the accrued principal amount, is then paid to the holders until the "Z" bond is completely paid down, at which point the CMO is closed.

CMO's have been issued by the Federal Home Loan Mortgage Corporation (Freddie Mac) and the Federal National Mortgage Association (Fannie Mae) and have also been privately issued by securities firms, S&L's, mortgage bankers, home builders, and life insurance companies. A federal credit union may invest in CMO's issued by Freddie Mac or Fannie Mae and privately-issued CMO's as defined by Section 3(a)(41) of the Securities Exchange Act of 1934.

HRST in Relation to Available-for-sale. GAAP interpreted in light of NCUA Rules and Regulations part 703 may have the practical effect of requiring credit unions to classify most collateralized mortgage obligations (CMOs) as "*available-for-sale*" necessitating marking to fair value. The part 703 "high risk

security test", (HRST) which may precipitate divestiture of a CMO, may be viewed as hindering a credit union's ability to successfully assert they have both the "*intent and ability to hold-to-maturity*" which is necessary under GAAP to defend a *hold-to-maturity* classification. The *hold-to-maturity* classification permits measurement at amortized cost. Lacking the ability to *hold-to-maturity*, and in the absence of *Trading* intent, the CMO must be classified as "*available-for-sale*".

At one point, FASB had taken the position that the application of divestiture policies may not remove the uncertainty about whether, from an auditor's standpoint, a credit union's regulators might in future years seek the divestiture of a mortgage derivative security that is currently or later becomes "high-risk". Thus, auditors *may conclude* that the more detailed explanation of divestiture is not sufficiently workable for them to accept a credit union's designation of "non high-risk mortgage securities" as *held-to-maturity* securities for reporting purposes. Those credit unions not seeking a CPA's opinion on their financial statements will have to support a CMO classification other than *available-for-sale* or *trading* by establishing a defensible and persuasive case that they have the intent and ability to hold-to-maturity consistent with the requirements of GAAP.

Regulations require that a federal credit union shall not have high-risk securities in its portfolio, unless they are being used solely to offset interest-rate risk and, for that reason, divestiture may become necessary. The regulatory language explains that ". . .NCUA will address divestiture situations on a *case-by-case basis*. . . existing policies and procedures permit NCUA and the affected credit union to develop a liquidation plan appropriate to the *circumstances of the case*. The plan would take into account all relevant factors, including the dollar amount of the security, the remaining time to maturity, and the likelihood that the security may again pass the high-risk security test at a future testing date. . ." Safety and soundness risks can arise from the size of a credit union's holding of high-risk mortgage securities in relation to its capital and earnings, management's inability to demonstrate an understanding of the nature of the risks inherent in the securities, the absence of internal monitoring systems and other internal controls to appropriately measure the market and cash flow risk of these securities, or management's inability to prudently manage its overall interest rate risk or similar factors.

NCUA will continue to study its security regulations and supervisory policy statements governing credit union securities to grant credit unions the full discretion they need to best manage their resources within safe and sound boundaries. The automatic transfer of a CMO classified as *held-to-maturity* to *available-for-sale* upon failing the HRST may not be required. For example, in rare cases where the "divestiture plan" approved lay NCUA permits the holding of the CMO until maturity, the automatic transfer to *available-for-sale* is not necessary. The provisions of GAAP will govern the classification and accounting treatment of security portfolios. The designations of securities under GAAP and the required documentation shall be among the matters reviewed as part of any external audit of a credit union.

Illustrative Entries

Suppose a credit union invested $92,128.55 in the second tranche of a CMO valued at $100,000. The credit union has the ability to hold the investment to maturity and the intent to hold it for the foreseeable

future. The estimated life of the second tranche of the CMO is 6 years with receipt of interest only for 3 years while the first tranche receives principal and interest payments and receipt of principal and interest payments for the next three years. The pass-through rate of interest is stated as 7% and the annual effective yield to maturity is expected to be 9.1936%. (*Note*: This illustration assumes no significant changes in prepayment assumption from the purchase date to maturity, therefore, periodic adjustments to the investment carrying value are not illustrated.)

a) The credit union's entry at the point of purchase.

Dr.-Held-to-Maturity Securities (Acct. No. 741)	$100,000.00	
Cr.-Discount on Held-to-Maturity Securities (Acct. No. 741.1)		$7,871.45
Cr.-Cash (Acct. No. 731)		92,128.55

b) To record the receipt of the first monthly payment: the recognition of income at the effective rate, the accretion of discount (the difference between income at the pass-through rate and income at the effective rate) and the receipt of income at the pass-through rate while the first tranche is receiving a payment of principal plus interest.

Dr.-Cash (Acct. No. 731)	$583.33	
Dr.-Discount on Held-to-Maturity Securities (Acct. No. 741.1)	122.50	
Cr.-Income on Federal Agency Securities (Acct. No. 122)		$705.83

c) To record the receipt of the second monthly payment: the recognition of income at the effective rate, the accretion of discount (the difference between income at the pass-through rate and income at the effective rate) and the receipt of income at the pass-through rate while the first tranche is receiving a payment of principal plus interest.

Dr.-Cash (Acct. No. 731)	$583.33	
Dr.-Discount on Held-to-Maturity Securities (Acct. No. 741.1)	123.43	
Cr.-Income on Federal Agency Securities (Acct. No. 122)		$706.76

At the end of three years when the first tranche is fully satisfied, the second tranche will become a pass-through security and the accretion of discount using the interest method will proceed as demonstrated in the previous section to pass-through securities. Remember, when there is a significant change in prepayment assumptions (rates) the carrying value of the security must be adjusted through current period income.

6060.6.3 STRIPPED MORTGAGE-BACKED SECURITIES (IO's/PO's)

Stripped Mortgage-Backed Securities (SMBS's) consist of two classes of securities with each class receiving a different portion of the monthly interest and principal cash flow of the underlying mortgage backed securities. In its purest form, an SMBS is converted into an interest-only (IO) strip, where the investor receives 100% of the interest cash flow and a principal-only (PO) where the investor receives 100% of the principal cash flow.

All IO's and PO's have highly volatile price characteristics based on changes in the prepayment pattern of the underlying mortgages and consequently on the maturity of the stripped security. Generally, IO's will increase in value when interest rates rise. Accordingly, the purchase of an IO strip may serve to offset the interest rate risk associated with mortgages and similar instruments held by a federal credit union.

Similarly, a PO may be useful as an offset to the effect of interest rate movements on the value of mortgage servicing. However, when purchasing an IO or PO, the investor is speculating on the movements of future interest rates and how these movements will effect the prepayment pattern of the underlying mortgage collateral. Further, those SMBS's that do not have the guarantee of a federally sponsored agency (privately-issued SMBS'S) as to the payment of mortgage principal and interest have an added element of credit risk.

NCUA has determined that SMBS's are not suitable investments for the vast majority of federal credit unions. SMBS'S, however, may be appropriate holdings for federal credit unions that have highly sophisticated and well-managed securities portfolios or mortgage portfolios. In these federal credit unions, however, the acquisition of SMBS's should be made only in compliance with carefully developed and documented plans prescribing specific positioning limits and control arrangements for enforcing those limits. These plans must be approved by the federal credit union's board of directors and vigorously enforced.

SMBS's have been issued by the Federal National Mortgage Association (Fannie Mae) and have also been "privately-issued" to a limited degree. A federal credit union may purchase SMBS's issued by Fannie Mae and may also purchase "privately-issued" SMBS's as defined in Section 3(a)(41) of the Securities Exchange Act of 1934.

Illustrative Entries

Assume a credit union purchased an interest-only investment at a purchase price of 45% expecting 12% yield to maturity. (Note: Interest-only investments are purchased at a percentage of notional value. "Notional value" is the amount of principal upon which interest will be calculated. For purposes of our example, assume a $100,000 notional value.) The credit union has the ability to hold the IO strip to maturity and the positive intent to hold it for the foreseeable future. The credit union will receive scheduled monthly cash distributions as partially detailed in the following entries.

a) Entry at purchase.

Dr.-Held-to-Maturity Securities (Acct. No. 741)	.....	$45,000
Cr.-Cash (Acct. No. 731)	.....	$45,000

b) Upon receiving the first cash distribution:

Dr.-Cash (Acct. No. 731)	$958.33	
Cr.-Held-to-Maturity Securities (Acct. No. 741)		$508.33
Cr.-Income on Federal Agency Securities (Acct. No. 122)		450.00

6060.7 ZERO COUPON SECURITIES

A zero coupon security is a security that makes no periodic interest payments, but instead is sold at a deep discount to its face (par) value. The buyer of such a security realizes the rate of return by the gradual appreciation of the security, receiving the face value of the security as a lump sum payment on a specified maturity date.

Because zero coupon securities bear no interest, they are among the most volatile of all fixed income securities. Since holders of zero coupon securities do not receive interest payments, these securities fall more dramatically than bonds paying interest on a current basis when interest rates rise.

On the other hand, when interest rates fall, zero coupon securities rise more rapidly in value because the bonds have locked in a particular rate of reinvestment that becomes more and more attractive as rates fall further. The greater the number of years a zero coupon bond has until maturity, the less the investor has to pay for it and the more leverage the investor has at work for him.

For instance, a bond that matures in 5 years may double in value while a bond that matures in 25 years may increase in value 10 times, depending on the interest rate of the bond.

There are various kinds of permissible zero coupon ties for federal credit unions. These include STRIPS which were created to fill a growing demand for zero coupon Treasury securities. STRIPS is an acronym that reflects investor jargon for the practice of “stripping” the coupon from a bond (corpus) and selling the corpus and interest payments separately.

With STRIPS, any depository institution buying Treasury securities can request that each semiannual interest payment and principal be registered as a separate security by the Federal Reserve Bank. Because purchasers of these securities receive no periodic interest payments, STRIPS are considered zero coupon securities.

Assume a credit union purchased a $1,500,000 zero coupon bond for $534,000 expecting an effective yield of 10.6% to maturity in 10 years. Assume also that the credit union has the intent and ability to hold the zero to maturity.

a) The credit union's entry at the point of purchase.

Dr.-Held-to-Maturity Securities (Acct. No. 741)	$1,500,000	
Cr.-Discount on Held-to-Maturity Securities (Acct. No. 741.1)		$966,000
Cr.-Cash (Acct. No. 731)		534,000

b) To record the receipt of the first semiannual accretion of discount:

Dr.-Discount on Held-to-Maturity Securities (Acct. No. 741.1)	$28,302	
Cr.-Income on Federal Agency Securities (Acct. No. 122)		$28,302

c) To record the receipt of the second semiannual accretion of discount:

Dr.-Discount on Held-to-Maturity Securities (Acct. No. 742.2)	$29,802	
Cr.-Income on Federal Agency Securities (Acct. No. 122)		$29,802

Notice that after the first year, the carrying value of the zero coupon bond has grown from $534,000 to $592,104.

6060.8.1 ACCOUNTING FOR MUTUAL FUNDS AND UNIT INVESTMENT TRUSTS

6060.8.1.1 ACCOUNTING FOR MUTUAL FUNDS

When a credit union invests in a mutual fund, it purchases a number of shares (units) in the fund generally paying a broker's commission or load fee as part of the purchase price. The fund invests the proceeds from the sale of shares in a portfolio of securities to be held and /or traded for profit.

The broker's fee or commission is passed on to the broker securing the sale. Each mutual fund investors' share/unit in the mutual fund is worth an amount calculated based on the total market value of the number of outstanding units in the fund. This value per share is known as the net asset value per share. (NAV).

The NAV of a share/unit in the fund fluctuates periodically based on the changing market value of the underlying ties in the mutual fund portfolio, as well as the natural change in the value of the portfolio, inherent in continually buying and selling securities.

Generally, as interest rates fall, the value of the underlying securities in the mutual fund portfolio rises and, likewise, the NAV per share increases; conversely as interest rates rise, the value of the underlying securities in the mutual fund portfolio decreases and, likewise, the NAV per share drops. Thus, the credit union investor's NAV per share drops. The credit union's NAV per share is dynamic, rising and falling with interest rates and the changing securities market.

Generally accepted accounting principles (GAAP) provide that certain equity securities should be accounted for as trading or available for sale at fair value. Fair value for trading accounts is booked through income; fair value for available for sale securities is debited/credited through a separate component of equity in the statement of financial condition.

Illustrative Entry:

Assume a credit union purchased shares/units in three different mutual funds as follows:

1/13/91 Fund A - 10,000 shares @ $10.00 per share
2/05/91 Fund B - 10,000 shares @ $8.00 per share
3/20/91 Fund C - 4,000 shares @ $16.00 per share

The accounting entries made on the credit union's books at the time of purchase are detailed below. The broker's commission (loan fee) is included in the quoted share/unit purchase price.

Dr.-Available-for-Sale Securities (Acct. No. 743)	$245,000	
Cr.-Cash (Acct. No. 731)		$245,000

To continue the example, at the quarter ending 3/31/91 when the credit union is closing its books but prior to paying dividends to its members, the credit union needs to adjust the mutual fund investments to the LCM. Assume that the 3/31/91 market values of the three funds are as shown in the table below:

Mutual Fund	Original Cost	Current Market Value	Gain or (Loss)
A	$100,000	$ 95,000	($5,000)
B	80,000	80,000	
C	65,000	62,000	(3,000)
	$245,000	$237,000	($8,000)
	(A)	(B)	(B-A)

Although, the funds were purchased during the quarter for a total of $245,000, the fair value of the funds in aggregate at 3/31/91 has declined to $237,000. Therefore, the credit union should adjust the carrying value of its mutual fund investments downward to the current fair value.

Dr.-Accumulated Unrealized Gains/Losses on Available-for-Sale Securities (Acct. No. 945)	$8,000	
Cr.-Available-for-Sale Securities (Acct. No. 743)		$8,000

(Account 945 must be netted with Account 940, Undivided Earnings, before the credit union declares dividends.)

Assume during the second quarter, the mutual funds in aggregate increase in value. Assume that at the end of the second quarter, 6/30/91, when the credit union closes their books and before paying dividends, the mutual funds are valued as follows:

Mutual Fund	Original Cost	Current Balance Sheet Value	Current Market Value	Gain or (Loss)
A	$100,000	$ 95,000	$104,000	
B	80,000	80,000	82,000	
C	65,000	62,000	62,000	
	$245,000	$237,000	$248,000	$11,000
		(A)	(B)	(B-A)

In this case the entry would be:

Dr.-Available-for-Sale Securities (Acct. No. 743)	$11,000	
Cr.-Accumulated Unrealized Gains/Losses on Available-for-Sale Securities (Acct. No. 945)		$11,000

6060.8.2 ACCOUNTING FOR UNIT INVESTMENT TRUSTS

A unit investment trust is an investment vehicle that purchases a fixed portfolio of income-producing securities, such as Treasury bonds or mortgage backed securities. Units of the trust, which usually cost at least $1,000.00, are sold to investors by broker/dealers for a sales charge which may range up to 5% of the total dollar amount of the purchase.

With a unit investment trust, investors own an undivided interest in the principal and interest portions of the portfolio in proportion to the amount of money they invest. Usually, the portfolio of securities remains fixed until all the securities mature and unit holders have recovered their principal. Most broker/dealers maintain a secondary market in the units they sell, so that the units can be resold if necessary.

Unlike mutual funds, the underlying portfolio remains fixed until all of the securities have matured. However, similar to mutual funds, a credit union cannot control the securities placed into the trust by the underwriter or the disposal of individual portfolio issues. Accordingly, NCUA has adopted the regulatory accounting practice of requiring credit unions to record unit investment trusts in the same manner as mutual funds, i.e., at fair value through equity.

6060.9 PUT OPTIONS

Increased real estate lending by federal credit unions has led to increased risks related to the interest rate sensitivity of such loans and their longer terms. Under Part 701.21(i) of the NCUA Rules and Regulations, a federal credit union may purchase put options on Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA), and Federal Home Loan Mortgage Corporation (FHLMC) securities in order to manage interest rate risk for real estate loans produced for sale on the secondary mortgage market.

When purchasing a put option, a federal credit union acquires the right to sell a certain security at a specified price within a particular period of time. There are two parties to the put option agreement:

a) The “holder” (the credit Union) who, in exchange for paying an up front fee, acquires the right to sell the security in accordance with the option contract.

b) The “writer” (another party) who, in exchange for receiving an up front fee, must stand ready to purchase the security on demand by the holder, in accordance with the terms of the option contract.

Because the market value of a put option on a GNMA, FNMA, or FHLMC security may be expected to rise with an increase in market interest rates, such an option is considered “term insurance” against an increase in market interest rates from the time the rate is committed to the member during loan application to the time the loan is sold on the secondary market.

Under the regulation, a federal credit union may purchase put options if:

a) The related loans are to be sold on the secondary mortgage market within 90 days of closing;

b) The positions are entered into through a contract market designated by the Commodity Futures Trading Commission or with a primary dealer in government securities;

c) The positions are entered into through written policies that meet the minimum requirements contained in the regulation; -

d) The credit union has received permission from the appropriate Regional Director to engage in options transactions; and

e) The transactions are accounted for in accordance with standards established under GAAP to the extent not inconsistent with NCUA Board instructions.

6060.10 OBJECTIONABLE INVESTMENT PRACTICES

Federal credit union directors are responsible for prudent administration of investments in securities. An investment portfolio traditionally has been maintained to provide earnings, liquidity, and a means of diversifying risks.

When investment transactions are entered into in anticipation of taking gains on short-term price movements, the transactions are no longer characteristic of prudent investment activities and should be conducted in a securities trading account. Securities trading of the types described in this section will be viewed as unsuitable activities when they are conducted in a financial institution's investment account. Securities trading should take place only in a closely supervised trading account and be undertaken only by institutions that have the expertise and strong capital and current earning positions.

Trading in the investment portfolio is characterized by a high volume of purchase and sale activity, which, when considered in light of a short holding period for securities, clearly demonstrates management's intent to profit from short-term price movements. In this situation, a failure to follow accounting and reporting standards applicable to trading accounts may result in a misstatement of the financial institution's income and a filing of false regulatory reports and other published financial data.

It is an unsafe and unsound practice to record and report holdings of securities that result from trading transactions using accounting standards which are intended for investment portfolio transactions; therefore, the discipline associated with the accounting standards applicable to trading accounts is necessary. Securities held in trading accounts should be marked to market periodically with unrealized gains or losses recognized in current period income. Prices used in periodic reevaluations should be obtained from sources that are independent of the securities dealer doing business with the institution.

The following practices are considered to be unsuitable when they occur in a financial institution's investment portfolio.

Gains Trading-"Gains trading" is a securities trading activity conducted in an investment portfolio. often termed "active portfolio management." "Gains trading" is characterized by the purchase of a security as an investment and the subsequent sale of that same security at a profit within several days or weeks. Those securities initially purchased with the intent to resell are retained as investment portfolio assets if they cannot be sold at a profit. These "losers" are retained in the investment portfolio because investment portfolio holdings are accounted for at cost, and losses are not recognized unless the security is sold. "Gains trading" often results in a portfolio of securities with extended maturities, lower credit quality, high market depreciation and limited practical liquidity.

In many cases, "gains trading" has involved the trading of "when-issued" securities and "pair-offs" or "corporate settlements" because the extended settlement period associated with these practices allows speculators the opportunity for substantial price changes to occur before payment for the securities is due.

When-Issued Securities Trading-"When-issued" securities trading is the buying and selling of securities in the interim between the announcement of an offering and the issuance and payment date of these securities. A purchaser of a "when issued" security acquires all the risks and rewards of owning a security and may sell the "when-issued" security at a profit before taking delivery and paying for it.

Frequent purchases and sales of securities during the "when-issued" period generally are indications of trading activity and should not be conducted in a credit union's investment portfolio. Federal credit unions engaging in when-issued securities trading must follow NCUA's regulation on cash forward agreements.

Pair-Offs-A "pair-off" is a security purchase transaction which is closed out or sold at, or prior to, settlement date. As an example, an investment portfolio manager will continue to purchase a security; then, prior to the predetermined settlement date, the portfolio manager will "pair-off" the purchase with a sale of the same security prior to, or on, the original settlement date. Profits or losses on the transaction are settled by one party to the transaction remitting to the counter party the difference between the purchase and sale price.

Like "when-issued" trading, "pair-offs" permit speculation on securities price movements without paying for the securities. Pair-off transactions using cash forward agreements are impermissible for federal credit unions. According to NCUA's regulation, cash forward agreements (settlement occurring between 30-120 days) must be settled on a cash basis.

Corporate Settlement on US. Government and Federal Agency Securities Purchases-Regular-way settlement for transactions in U.S. Government and Federal agency securities is one business day after the trade date. Regular-way settlement for corporate securities is five business days after the trade date. The use of a settlement method (5 business days) for U.S. Government securities purchases appears to be offered by dealers in order to facilitate speculation on the part of the purchaser.

Repositioning Repurchase Agreements-Dealers who encourage speculation through the use of "pair-off", "when-issued" and "corporate settlement" transactions often provide the financing at settlement of purchased securities which cannot be sold at a profit. The buyer purchasing the security pays the dealer a small "margin" that is equivalent roughly to the actual loss in the security. The dealer then agrees to fund the purchase by buying the security back from the purchaser under a resale agreement. Apart from imprudently funding a longer-term, fixed-rate asset with short-term, variable-rate source funds, the purchaser acquires all the risks of ownership of a larger amount of depreciated securities for a very small margin payment. Purchasing securities in these circumstances is inherently speculative and is a wholly unsuitable investment practice for credit unions.

6060.11 INVESTMENT TRADING POLICIES

The board of directors of a federal credit union that intends to engage in securities trading should develop and adopt a written trading account policy that includes, at a minimum, the following provisions:

a) Individuals who have purchase and sale authority;

b) Trading account size limitations;

c) Allocation of credit union's cash flow to trading accounts;

d) Stop-loss or sale provisions;

e) Dollar-size limitations of specific types, quantities and maturities to be purchased;

f) Monthly market price adjustments;

g) Limits on the length of time an investment may be inventoried in the trading account;

h) Monthly reports to the Board of all purchase and sale transactions and the resulting gain or loss to be reported on an individual basis. Purchases and sales shall be reported at trade date;

i) A prohibition against the use of a broker/ securities dealer in purchase or sales transactions unless, prior thereto, the credit union has in its files evidence of the broker/dealer's financial responsibility and capability, and management has made reasonable inquiries concerning the broker/ dealer's reputation;

j) A requirement that any security purchased for trading purposes will be recorded at market value on the trade date; and

k) Requirements with respect to securities transfers between the credit union's investment and trading accounts:

   1) The securities being transferred shall be revalued to the current fair value;

   2) That any adjustment in connection with transfer of a security shall be accounted for consistent with section 6060.1.4, "Transfers Between Categories".

   3) No transfers shall be made between categories unless transfer of the security is consistent with previously established investment portfolio policies and objectives. Such transfers are unusual and should be rare.

6061 INVESTMENT CONSIDERATIONS

6061.1 RESPONSIBILITY

The board of directors is responsible for the investment of credit union funds, other than loans to members, in accordance with Section 113 of the Federal Credit Union Act (Act). In general, these investments are limited to those authorized by Section 107(7), 107(8) and 107(15) of the Act. Additionally, Part 703 of the National Credit Union Administration Rules and Regulations and various NCUA Interpretive Ruling and Policy Statements impose additional limitations and/or requirements.

The board of directors must establish policies and procedures to ensure that the credit union's overall financial objectives are being met and that the investment program will provide adequate liquidity, safety and yield to the credit union. To achieve these goals, the board will need to give attention to the following investment considerations:

A federal credit union's ability or inability to make a quick decision to purchase or sell an investment could result in a gain or loss of thousands of dollars. By the same token, a quick decision to invest in a security or enter into a transaction that management does not understand could result not only in potential losses, but also long-term liquidity problems.

A sound investment policy facilitates purchases and sales of securities while assuring their safety. Each security, investment and type of transaction should be analyzed, approved by the board of directors and formally addressed in the investment policy manual. The investment policy should consider the following:

a) U.S. Government and federal agency securities vary in guarantee, yield, interest rates and maturities. Some may not meet the overall needs and objectives of the credit union. The investment policy should list disapproved, as well as approved investments. Any new issue should be presented to the board with an appropriate prospectus and background information before decisions are made.

b) Shares, deposits, or investments in savings and loan associations, banks and credit unions may present a risk not generally recognized, especially when investments exceed insured limits. A thorough review of these institutions' financial statements before investment should disclose any undue risk, and periodic review after the investment should be required. The manual should also specify any limitation or restriction of these investments.

c) All other investments should be reviewed on an individual basis and cited in the investment policy. A sound investment policy addresses the need to facilitate purchases and sales of securities and to enter into safe investment transactions. In many credit unions, this means delegating the responsibility for individual approvals to either an executive or investment committee. This should be done carefully. The right to delegate is not the right to abdicate. Clear written guidelines outlining the delegated authority will ensure that the board's policies are carried out.

In some cases, an individual may be authorized to invest or divest funds in specific investments on a continuing basis, such as in a common trust whenever the checking account balance is in excess of a specified balance. Additionally, an individual may be assigned to advise a broker of the board's decision to purchase an investment or to sign documents. Investment policy should make clear that these responsibilities are not a "carte blanche" authorization to invest credit union funds.

The type of funds management employed by a credit union depends upon its size, resources, volume of activity, and management expertise. Generally, the more detailed the concept, the better control the credit union has over its ability to meet member needs.

6061.2 SPECIAL CONSIDERATIONS

There are certain factors which must be considered when integrating investment policy into overall goals and objectives. These factors are liquidity, safety and yield.

6061.2.1 LIQUIDITY

Investment policy must be flexible enough to allow for changes in the balance sheet items that represent member needs, i.e., shares and loans. As such, investment practices can be considered a function of share and loan behavior. Each time there is a shift in either share or loan volume, there may exist a need to shift investment strategy.

Suppose, for example, the board of directors decides to expand loan policies by offering longer term loans to meet member needs. This will result in a slower turnover of funds, and thus will expand the loan portfolio. If share deposits cannot be expected to meet the increased loan demand, investment policies must reflect a change. In this case, the credit union would probably shorten investment maturities to meet the expected loan demand.

Another factor which would affect Liquidity is the movement and direction of interest rates. As they increase, the value of long-term securities decreases. Thus a credit union with long-term securities during a period of increasing interest rates would become illiquid unless the loss incurred through their sale could be absorbed.

6061.2.2 SAFETY

Despite being limited by law to investments that are primarily guaranteed as to principal and interest, certain investment risks do exist for Federal credit unions. These risks include:

a) Market risk-a possible reduction in value resulting from changes in market demand.

b) Interest rate or maturity risk-a possible reduction in value resulting from increases in interest rates.

c) Credit risk-a possible loss if the issuer of an investment defaults. (This could result from imprudent investments in savings and loan associations and banks in excess of insured limits, or investments in credit unions.)

d) Price-level risk-a possible reduction in purchasing power of the dollar as a result of inflation.

Federal credit unions can reduce investment risks by fully evaluating each type of investment prior to purchase, including the issuer, analyzing the financial condition and reputation of any intermediary to the transaction, such as a broker/dealer; and diversifying the investment portfolio by type, maturity, geographical location, guarantor, etc.

6061.2.3 YIELD

Only after liquidity and safety are considered should investment analysis center on yield. As a general rule, investments with higher risk factors and greater price volatility command the greater yield. Thus the potential for greater income must be weighed very carefully against the risks of reduced liquidity and/or potential losses.

6061.3 AUTHORIZED BROKER/DEALERS

The credit union's investment policies should identify all institutions and dealers/brokers with whom the board of directors and/or investment committee/officer are authorized to transact investments. Approval of institutions and dealers/ brokers should be preceded by a thorough analysis of their financial stability, services provided, responsiveness, and reputation. The credit union should formalize its relationship with investment institutions and specifically identify which credit union officials are authorized to transact credit union investments. Contractual arrangements with investment institutions should be reviewed at least annually. Additional information and guidance relative to the selection of securities dealers is contained in NCUA Interpretive Ruling and Policy Statement No. 88-1; Policy on Selection of Security Dealers and Unsuitable Investment Practices.

6061.4 REPORTING REQUIREMENTS

The investment policy should specifically state the types of reports required by the board to make investment decisions. These reports may include a summary of investments by type, maturity, size or concentration. Additionally, executive and/ or investment committees should prepare a monthly list of all investments which they authorized and any significant occurrences during that period.

6061.5 INTERNAL CONTROLS

The investment policy should require that adequate internal controls are established to separate the responsibilities for approving, disbursing, reconciling and accounting for investment activities. A flow chart depicting these responsibilities may be needed.

6061.5.1 SURETY ASPECTS

The investment policy should give consideration to the maximum amount of coverage and other possible limitations contained in the surety bond. However, the board should not rely on the expectation of surety coverage as a substitute for sound and prudent investment policies.

6061.5.2 SAFEKEEPING

The board should establish investment policies which will protect securities held in safekeeping. The policies require that:

a) All securities not in the physical possession of the credit union should be held in a third party (a bank or other financial institution) safekeeping account. A separate trust division of a bank acting as a dealer qualifies as a third party safekeeping institution.

b) All securities held in safekeeping account, cost and service should be considered. The broker's bank may be used for safekeeping services. However, safekeeping agreements should provide that all transactions will be ordered only by a duly authorized employee or official of the credit union. If the safekeeping institution is to be used to transmit credit union funds for purchases of securities, the agreement should provide that the funds will not be transferred until the securities are received by the institution.

In establishing a safekeeping account, cost and service should be considered. The broker's bank may be used for safekeeping services. However, safekeeping agreements should provide that all transactions will be ordered only by a duly authorized employee or official of the credit union. If the safekeeping institution is to be used to transmit credit union funds for purchases of securities, the agreement should provide that the funds will not be transferred until the securities are received by the institution.

Safekeeping services should be covered by a "bailment for hire" contract. Under this arrangement, the institution, for a fee, agrees to exercise ordinary care in protecting the securities held in safekeeping. Unless specifically covered by statute or contract, the institution is not an insurer of the securities. It is liable only for negligence in caring for and protecting the securities.

6061.6 PERIODIC REVIEW POLICY

The investment policy should be reviewed by the board of directors at least annually. This should ensure that policies and procedures are kept current and that the officials remain in control of the investment program.

6070 FIXED ASSETS

6070.1 FCU OWNERSHIP OF FIXED ASSETS

Federal credit unions have the power to purchase, hold and dispose of property necessary or incidental to their operations. However, Section 701.36 of the National Credit Union Administration Rules and Regulations places some limitations on amounts which may be invested in fixed assets and on the sources from which real property can be acquired without prior approval of the National Credit Union Administration Board.

6070.2 AMOUNT OF INVESTMENTS IN FIXED ASSETS

Prior approval of the National Credit Union Administration Board is required before any federal credit union having $1,000,000 or more in assets may invest in fixed assets if the aggregate of all such investments exceed 5 percent of shares and retained earnings. Section 701.36 of the NCUA Rules and Regulations defines shares to mean all savings (regular shares, share drafts, share certificates, other shares)

and retained earnings to include the regular reserves, reserve for contingencies, supplemental reserves, reserves for losses, and undivided earnings. For example, a federal credit union with total shares and retained earnings of $3,000,000 cannot invest more than $150,000 in fixed assets without the National Credit Union Administration's approval.

If a federal credit union desires to invest in fixed assets exceeding 5 percent of its shares and retained earnings, Section 701.36 of the NCUA Rules and Regulations, requires that the federal credit union submit such statements and reports as the NCUA regional director may require in support of the investment. These investments and reports should include but will not be limited to, the following:

a) The purpose of investing in the fixed assets, and a narrative describing how the fixed assets will enhance the credit union's overall operation. For example, if a building is to be purchased or leased, the narrative would include such items as the amount of increased floor space, a plan detailing how the additional floor space will be utilized, comments concerning accessibility of the new location by the current field of membership, and comments on how the purchase will be financed.

b) The credit union's ratio of fixed assets to total shares and retained earnings with and without the proposed investment, and the percentage increase in fixed assets that the proposed investment represents.

c) Estimated additional monthly operating costs and the estimated loss of investment income that will result when investments are used to purchase a fixed asset.

d) A cash flow analysis with and without the proposed investment in order to determine what impact the investment will have on liquidity.

e) A narrative addressing the impact that local economic factors will have on the credit union's performance based upon the assumption that the proposed investment will be approved.

f) A current balance sheet and income statement.

g) Projected year-end balance sheets and income statements for the next 5 consecutive calendar years. Projections should be based on growth rates that can be realistically attained, and reflect the impact of the fixed asset investment. The assumptions used to develop the projections need to be made a part of the balance sheets and income statements.

If the regional director determines that the proposal will not adversely affect the credit union, an aggregate dollar amount or percentage of assets will be approved for investment in fixed assets. Once such a limit has been approved, and unless otherwise specified by the regional director, a federal credit union may make future acquisition of fixed assets provided the aggregate of all such future investments in fixed assets does not exceed an additional 1 percent of the shares and retained earnings over the amount approved.

Federal credit unions shall submit their requests to the National Credit Union Administration's regional office having jurisdiction over the geographical area in which the credit union's main office is located. The regional office shall inform the requesting credit union in writing of the date the request was received. If the credit union does not receive notification of the action taken on its request within 45 calendar days of the date the request was received by the regional office, the credit union may proceed with its proposed investment in fixed assets.

6070.3 PREMISES

When real property is acquired for future expansion, at least partial utilization should be accomplished within a reasonable period, which shall not exceed 3 years, unless otherwise approved in writing by the National Credit Union Administration. After real property for future expansion has been held for 1 year, a board resolution with definitive plans for utilization must be available for inspection by an NCUA examiner.

Investments in premises should be recorded on the credit union's books at historical costs. Historical cost is the actual amount paid at the date of acquisition, including all normal expenditures of readying an asset for use. The cost of land shall be carried on the books of the credit union in an account separate from the cost of improvements thereon. Unless otherwise approved in writing by the National Credit Union Administration Board, the cost of improvements shall be amortized over their estimated useful life, through periodic charges to depreciation expense, such as straight-line or declining balance methods. The reverse sum-of-the-years digits method is not acceptable. The estimated useful life shall conform to guidelines prescribed by the National Credit Union Administration Board. Refer to Section 4050.4, Account No. 772, "Building," in this manual for a listing of acceptable useful lives for buildings.

For purposes of determining the periodic depreciation charge, it is recommended that the salvage value be limited to 10 percent of the cost of the depreciable property (excluding the cost of land) unless a higher salvage value is determined by an independent qualified appraiser at the time of acquisition.

For premises being acquired through a lease agreement refer to Section 6080, Accounting for Leases, in this manual.

A federal credit union shall endeavor to dispose of "abandoned premises" at a price sufficient to reimburse the credit union for its investment and costs of acquisition. Current documents must be maintained reflecting the credit union's continuing and diligent efforts to dispose of "abandoned premises." After "abandoned premises" have been on the credit union's books for 4 years, the property must be publicly advertised for sale. Disposition must occur through public or private sale within 5 years of abandonment, unless otherwise approved in writing by the Administration.

6070.4 PROHIBITED TRANSACTIONS

With the exception of a short term informal lease agreement (maturity less than 1 year) no federal credit union may acquire or lease premises without the prior written approval of the Administration from any of the following:

a) A director, member of the credit committee or supervisory committee, official or employee of the federal credit union, or immediate family member of such director, member of the credit committee or supervisory committee, official or employee.

b) A corporation in which any director, member of the credit committee or supervisory committee, official or employee, or immediate family member of such director, member of the credit committee or supervisory committee, official or employee, is an officer or director, or has a stock interest of 10 percent or more.

c) A partnership in which any director, member of the credit committee or supervisory committee, official or employee, or immediate family member of such director, member of the credit committee or supervisory committee, official or employee is a general partner, or a limited partner with an interest of 10 percent or more.

6070.5 FURNITURE, FIXTURES AND EQUIPMENT

Investments in furniture, fixtures, and equipment should be recorded on the credit union's books at historical cost. The cost of the computer hardware and software should be carried on the books of the credit union in a subsidiary account separate from other items of furniture, fixtures, and equipment.

The cost of furniture, fixtures, and equipment shall be amortized over the estimated useful life through periodic charges to depreciation expense using any of the generally accepted methods of depreciation, except the reverse sum-of-the-years digits method.

Refer to Section 5120.2 of this Accounting Manual for a listing of acceptable uses for furniture and equipment.

6070.6 DEPRECIATION OF FIXED ASSETS

6070.6.1 STRAIGHT LINE

This method is the most popular among credit unions. The remaining amount is divided by the useful life of the asset, and that amount is the yearly depreciation expense. The amount of the depreciation will remain the same until the asset has been depreciated down to salvage value.

To illustrate this method, assume that the credit union purchases an asset for $10,000 with a useful life of 5 years. The estimated average value of the assets is $1,000. The yearly depreciation would be $1,800 computed as follows:

Cost of Asset:	$10,000	
Less Salvage Value:	1,000	
Depreciable Amount:	$ 9,000	
Depreciation, 19X1	$1,800	($9,000/5 = $1,800)
Depreciation, 19X2	$1,800	($9,000/5 = $1,800)
Depreciation, 19X3	$1,800	($9,000/5 = $1,800)
Depreciation, 19X4	$1,800	($9,000/5 = $1,800)
Depreciation, 19X5	$1,800	($9,000/5 = $1,800)

If an asset is purchased or sold during the year, it becomes necessary to expense only a portion of the yearly depreciation expense. To illustrate, assume that the above asset was purchased on October 1, 19 X 1. The amount of the expense for that first year would only be $450 ($1,800 x 3/12).

Instead of computing depreciation on a yearly basis, months can be substituted for years. Instead of computing a yearly depreciation rate, the credit union can compute a monthly rate by dividing the cost of the asset (less salvage value) by the number of months in the useful life. In the above example, the monthly rate of depreciation would be $150, ($9,000 / 60 months = $150).

6070.6.2 SUM OF THE YEARS DIGITS

This method is designed to provide more depreciation expense in the first few years of ownership and less in the last few years. This is called an accelerated method of depreciation. It is most useful in leveling out expenses over the life of an asset. As an asset ages, repair and maintenance costs increase. An accelerated depreciation method should provide high depreciation costs when repair costs are low and low depreciation costs when repair costs are high. Total costs for an asset (depreciation and repairs and maintenance) should then remain somewhat level over its useful life.

To compute depreciation under the sum of the years digits method, the cost of an asset (less salvage value) is multiplied by a fraction each year to determine that year's depreciation expense.

The denominator (bottom line) of this fraction is the sum of each of the years in the useful life of an asset. If the useful life of an asset is 3, then the sum of the years is 6 (3 + 2 + 1). If the useful life of an asset is 4, then the sum of the years is 10 (4 + 3 + 2 + 1). This part of the fraction will stay the same each year.

The numerator (top number) of this fraction is the number of years of useful life remaining for the asset. This part of the fraction will change each year.

Example 1: Assume a $10,000 asset with a useful life of 5 years and a salvage value of $1,000. The depreciation expense is computed as follows:

	Fraction Amount	Depreciable Amount	Depreciation Expense
Depreciation 19X1	5/15	$9,000	$3,000
Depreciation 19X2	4/15	$9,000	2,400
Depreciation 19X3	3/15	$9,000	1,800
Depreciation 19X4	2/15	$9,000	1,200
Depreciation 19X4	1/15	$9,000	600
Total Depreciation			$9,000

The fractions for the following years are:

Year	4 Year Useful Life	5 Year Useful Life	6 Year Useful Life
1	4/10	5/15	6/21
2	3/10	4/15	5/21
3	2/10	3/15	4/21
4	1/10	2/15	3/21
5	—	1/15	2/21
6	—	—	1/21

Months (or quarters) may be substituted for years if the credit union elects to compute monthly (or quarterly) depreciation.

When a credit union computes depreciation on a yearly basis, it becomes necessary to record only a portion of that depreciation in the year of purchase and in the year of sale of the asset. This can be done by months or by days.

Assume that the credit union purchases an asset on April 1, 1981. The asset, cost $12,500, has a salvage value of $500 and a useful life of 3 years, and the credit union elects to use the sum of the years digits method of depreciation. Since the asset was purchased one-fourth of the way through the first year, only three-fourths of the depreciation should be taken in the first year, the remainder should be taken in the second year. Each additional year must also be allocated as well.

Year	Fraction	Depreciable Amount	Depreciable Expense
1	3/6	$12,000	$ 6,000
2	2/6	12,000	4,000
3	1/6	12,000	2,000
Total Depreciation Expense			$12,000

Calendar Year	1981	1982	1983	1984
1st year 3/4 x 6,000	4,500			
1st year 1/4 x 6,000		1,500		
2nd year 3/4 x 4,000		3,000		
2nd year 1/4 x 4,000			1,000	
3rd year 3/4 x 2,000			1,500	
3rd year 1/4 x 2,000				500
Total Expense for Year	$4,500	$4,500	$2,500	$500

6070.6.3 DECLINING BALANCE

This depreciation method is also an accelerated method of depreciation providing for additional depreciation expense in the early years. Under this method, a fixed percentage is multiplied by the d g balance of the particular asset. The rate of depreciation is a number between 100 and 200 percent of the straight line rate. The following steps should be used to determine depreciation under the declining balance method.

Facts: The credit union purchased an asset for $10,000 with a useful life of 5 years. The estimated salvage value of the asset is $1,000.

a) Determine the straight line rate:

   The straight line rate is determined by the following formula: 1 divided by the useful life of the asset. For example, an asset with a useful life of 5 years would have a straight line rate of 20 percent.

b) Multiply the straight line rate by a percentage between 100 and 200:

   Assume that a credit union wanted to use a rate of 150 percent of the straight line rate. On an asset with a useful life of 5 years, then 150 percent of the straight line rate would be 30 percent (1 divided by 5 has a straight fine rate of 20 percent, and 150% of that rate is 30 percent).

c) Multiply the depreciation rate times the declining balance of the asset (ignoring salvage value until the last year). To determine a years depreciation expense, multiply the depreciation rate times the declining balance (the original cost less prior years depreciation, if any). The declining value must never fall below the estimated salvage value of the asset. Also, in the last year of useful life, the asset must be written down to salvage value.

Purchased 1/1/X1

	Depreciation	Balance
		$10,000
Depreciation, 19X1 ($10,000 x 30%)	$3,000	7,000
Depreciation, 19X2 ($ 7,000 x 30%)	2,100	4,900
Depreciation, 19X3 ($ 4,900 x 30%)	1,470	3,430
Depreciation, 19X4 ($ 3,430 x 30%	1,029	2,401
Depreciation, 19X5 (Writedown to salvage value)	1,401	1,000
Total Depreciation	$9,000	

In the event that an asset is purchased or sold during the year, only a portion of the year's expense should be recorded. In the above example, if the asset has been purchased on July 1, 19 X 1. The depreciation for the first year would be only $1,500 (6/12 x $3,000). In subsequent years, the credit union should continue to use the 30 percent rate against the declining balance to determine the depreciation expense for the year.

6070.6.4 COMPARISON OF THREE METHODS

	Straight Line	Sum of the Year Digits	Declining Balance
Depreciation, 19X1	$1,800	$3,000	$3,000
Depreciation, 19X2	1,800	2,400	2,100
Depreciation, 19X3	1,800	1,800	1,470
Depreciation, 19X4	1,800	1,200	1,029
Depreciation, 19X5	1,800	600	1,401
Total Depreciation	$9,000	$9,000	$9,000

6070.6.5 GAIN OR LOSS IN THE YEAR OF SALE OF AN ASSET

If an asset is sold during the year, a gain or loss will occur unless the asset is sold for book value (the original cost less depreciation). In order to compute this gain or loss, the following steps should be followed:

Record depreciation up to date. Since the asset was sold prior to year end, it is necessary to allocate depreciation up to the date of sale.

Compute book value. The book value is the original cost to the credit union, plus any additions to the asset that have not been expensed, less any depreciation taken to date. This amount is the book value.

Determine proceeds from the sale. This is the amount received by the credit union for the sale of the asset. If the property is abandoned or given away, the proceeds will be zero. If property is received as a part of the sale, the sale may be considered a trade-in. Trade-ins are covered in Section 6070.6.6 (Trade-in).

Determine gain or loss. If the proceeds from the sale is greater than the computed book value, the sale is a gain. The gain is the difference between the proceeds and the book value. The following entry should be prepared to record the sale and remove the asset from the books of the credit union.

Dr. - Allowance for Depreciation of Furniture and Fixtures (Acct. No. 775)	XXXXX	
Dr. - Cash (Acct. No. 731)	XXXXX	
Cr.-Furniture and Fixtures (Acct. No. 774)		XXXXX
Cr.-Gain (Loss) on Disposition of Assets (Acct. No. 430)		XXXXX

If the proceeds from the sale is less than the computed book value, then the sale is a loss. The loss is the difference between the proceeds and the book value. The following entry should be prepared to record the sale and remove the asset from the books of the credit union.

Dr. - Allowance for Depreciation of Furniture and Fixtures (Acct. No. 775)	XXXXX	
Dr. - Cash (Acct. No. 731)	XXXXX	
Cr.-Gain (Loss) on Disposition of Assets (Acct. No. 430)		XXXXX
Cr.-Furniture and Fixtures (Acct. No. 774)		XXXXX

6070.6.6 TRADE-IN

In some cases when a new asset is purchased, the credit union will exchange or trade-in the current asset. This is common with computer equipment. Unless the book value and the fair market value are equal, the credit union must record a gain or loss on this exchange. This gain or loss should be computed as the difference between the fair market value and the book value of the equipment given up. It is not adequate to obtain the vendor's statement as to the fair market value of the asset. An independent determination of the value is necessary. The following steps are used when current asset are traded:

a) *Record depreciation up to date.* If the asset was traded in prior to year end, it is necessary to allocate depreciation up to the date of the trade-in.

b) *Compute book value.* The book value is the original cost to the credit union, plus any additions to the asset that have not been expensed, less any depreciation taken to date. This amount is the book value.

c) *Determine fair market value of the asset given up*.

d) *Determine gain or loss.* If the book value of the asset traded-in is greater than the fair market value of that asset, a loss has occurred. The following entry should be recorded when an asset has been traded in for a new asset and a loss has occurred:

Dr. - Allowance for Depreciation of Furniture and Fixtures (Acct. No. 775)	XXXXX	
Dr. - Furniture and Fixtures (Acct. No. 774) (new)	XXXXX	
Dr. - Gain (Loss) on Disposition of Assets (Acct. No. 430)	XXXXX	
Cr.-Furniture and Fixtures (Acct. No. 774) (old)		XXXXX
Cr.-Cash (Acct. No. 731)		XXXXX

If the book value of the asset traded-in is less than the fair market value of that asset, a gain has occurred, and the following entry should be recorded to reflect the trade-in of the old asset for a new asset and the gain on the exchange:

Dr. - Allowance for Depreciation of Furniture and Fixtures (Acct. No. 775)	XXXXX	
Dr. - Furniture and Fixtures (Acct. No. 774) (new)	XXXXX	
Cr.-Furniture and Fixtures (Acct. No. 774) (old)		XXXXX
Cr.-Gain (Loss) on Disposition of Assets (Acct. No. 430)		XXXXX
Cr.-Cash (Acct. No. 731)		XXXXX

The book value of the new asset will be the fair market value of the asset given up plus any cash paid or debt incurred.

6070.6.7 COMPOSITE DEPRECIATION METHOD

This method allows economic lives to be applied to broad classes of assets rather than to detailed items of depreciable property. Composite or group depreciation is a process of averaging the economic lives of a number of property units and taking depreciation on the entire group as if it were a unit. The depreciation rate is computed determining the depreciation for 1 year for each item or each group of similar items and dividing the total depreciation thus obtained by the total cost or other basis of the assets. This average rate is to be used as long as later additions, requirements, or replacements do not substantially alter the relative proportions of different types of assets in the accounts. An example of the computation of a composite rate under the straight-fine method follows:

On January 2, a desk was brought for $500. It has an estimated useful life of 10 years. A calculator was also purchased for $500. The life was 5 years. Estimated salvage value was 20% of cost on both items. The average rate of depreciation is computed as follows:

Asset	Date Acquired	Original Cost	Estimated Salvage Value	Amount To Be Depreciated	Annual Economic Life	Annual Depreciation
Desk	1/2	$ 500	$100	$400	10	$ 40
Calculator	1/2	500	100	400	5	80
		$1,000	$200	$800		$120

(Average rate of depreciation ($120 divided by $1,000) = 12%)

6080 LEASES

The discussion and examples contained in this section are designed to provide a basic understanding of the Generally Accepted Accounting Principles applicable to leases. This section does not address all of the variations and complications that a lease may involve.

The management of a credit union considering entering into an extensive or complicated lease should obtain the opinion of an independent accountant concerning the correct accounting procedures and disclosures applicable to the particular lease.

The credit union management should also obtain an opinion from a competent attorney concerning the legality of entering into such a lease before making the final decision to do so.

6080.1 DEFINITIONS

Estimated Economic Life. The estimated remaining period during which the property is expected to be usable for the purpose for which it was designed, with normal repairs and maintenance, without limitation by the lease term.

Incremental Borrowing Rate. The rate of interest that the lessee would have had to pay at the beginning of the lease to borrow the funds, on similar terms, to purchase the leased property.

Interest Rate Implicit In The Lease. The rate used by the lessor to determine the amount of the lease payments. This rate can be derived by the lease terms using a present value computation of the minimum lease payments, or, in some cases, may be supplied by the lessor to the lessee.

Minimum Lease Payments. The payments the lessee is obligated to make, or can be required to make, over the length of the lease, such as the total of the periodic lease payments, any guarantee by the lessee of residual value, any payment agreement upon failure to renew or extend the lease, and the payment required by a bargain purchase option.

6080.2 LEASE CLASSIFICATIONS FOR LESSEES

From the standpoint of the lessee, there are two major categories of leases: capital and operating. A capital lease, generally, is one which transfers substantially all of the benefits and risks of ownership of the asset, and, specifically, meets one of the four criteria listed below. An operating lease is a rental of property, meeting none of the criteria listed below.

6080.2.1 CAPITAL LEASES

A lease meeting one of the following criteria is a capital lease.

a) The lease transfers ownership of the property to the lessee by the end of the lease term.

b) The lease contains an option to purchase the leased property at a bargain (below fair value) price.

c) The lease term is equal to or greater than 75% of the estimated economic life of the leased property.

d) The present value of the minimum lease payments equals or exceeds 90% of the fair market value of the leased property less any investment tax credit retained by the lessor.

The last two criteria are not applicable when the beginning of the lease term falls within the last 25 percent of the total estimated economic life of the leased property.

To compute the present value of the lease payments specified in item d, the lessee will use its incremental borrowing rate unless the lessee is aware of the lessor's interest rate implicit in the lease, and the implicit rate is less than the lessee's incremental rate.

6080.2.2 ACCOUNTING PROCEDURES - CAPITAL LEASES

Leases involving land and building are discussed separately. See section 6080.10.

Capital leases should be accounted for as an acquisition of a depreciable asset and the assumption of a liability by the lessee. The following example demonstrates the accounting entries used to record a lease.

XYZ Credit Union has decided to lease computer hardware. The terms of the lease specify that the credit union will make monthly payments of $254.65 for four years. At the end of the lease, the credit union may purchase the hardware for $500.

The fair market value of the hardware is $10,000. To purchase the equipment outright, the credit union would have to borrow at an interest rate of 13%. The lessor has informed the credit union that the interest rate used to determine the lease terms was 12%.

The credit union determines that the lease is a capital lease because of the bargain purchase option in the lease. In addition, the credit union uses the following computation to determine that the minimum lease payments are at least 90% of the fair market value of the hardware.

Monthly lease rentals: $262.65 x present value of an annuity due (payments made at the start of the payment period) of 48 rents at 1% per period or $262.65 x 36.89	$9,690
Plus: Bargain purchase price: $500 x present value of $1 discounted for 48 periods at 1% per period or $500 x .62	$310
Total present value of minimum lease payments	$10,000

Fair Market Value of Computer Hardware	$10,000
Present value of minimum lease payments as a percentage of fair market value	100%

The credit union normally would have used 13% (the Incremental Borrowing Rate; see Definitions) to determine the present value of the minimum lease terms. However, the credit union knew that the interest rate used by the lessor to determine the lease terms was 12%. Since the credit union knew the interest rate used by the lessor, and since this rate was less than the credit union's Incremental Rate, it used 12% (1% per month) to determine the present value of the minimum lease payments.

The asset (lease) should be recorded by the credit union at the lesser of the present value of the minimum lease payments or at the fair value of the item leased. In this example, the amounts are the same, $10,000.

To record the lease:

Dr. - Leased Hardware - Capital Lease (Acct. No. 778)	$10,000	
Cr.-Obligations under Capital Lease (Acct. No. 863)		$10,000

To record the first month's payment:

Dr. - Obligation under Capital Lease (Acct. No. 863)	$252.65	
Cr.-Cash (Acct. No. 730)		$252.65

To record the second month's payment and interest expense:

The interest expense is ($10,000-$252.56) x 1%, or $97.47

Dr. - Interest Expense (Acct. No. 342)	$97.47	
Dr. - Obligation under Capital Lease (Acct. No. 863)	155.18	
Cr.-Cash (Acct. No. 730)		$252.65

The credit union will amortize the lease using its normal method of depreciation for fixed assets. In this example, straight line depreciation is used.

If the lease specifies that the ownership of the property will transfer to the lessee by the end of the lease, or if the lease provides for a bargain purchase option, the credit union will amortize the lease over the useful life of the property. In this example, five years is used.

If the lease does not meet either of the two criteria stated above, then the lease will be depreciated over the term of the lease.

To record the monthly depreciation expense (the salvage value is determined to be $100):
$10,000 - $100/60 months = $165.00

Dr. - Depreciation Expense for
Leased Assets (Acct. No. 257) $165
Cr.-Allowance for Depreciation of
Leased Assets (Acct. No. 779) .....
$165

6080.2.3 REQUIRED DISCLOSURES - CAPITAL LEASES

The lessee will disclose the following information:

a) The gross amount of assets recorded under capital leases as of the balance sheet date.

b) Future minimum lease payments as of the balance sheet date.

c) The total of minimum subleases, if any, to be received in the future as of the balance sheet date.

d) Total contingent rentals actually incurred for each period presented.

e) Assets recorded under capital leases and the accumulated amortization of those assets.

6080.3 OPERATING LEASES

Any lease not meeting at least one of the four criteria cited in 6080.2.1 is an operating lease.

6080.3.1 ACCOUNTING PROCEDURES - OPERATING LEASES

Normally, rents on an operating lease shall be charged to expense over the lease term. Rental expense will be recognized on a straight line basis unless another systematic and rational basis is more representative of the time period in which the benefit is derived.

As an example, XYZ Credit Union rents **a** typewriter for three months while their typewriter is being repaired. Total rental is payable at the beginning of the lease.

To record the payment of the lease:

Dr. - Prepaid Expenses
(Acct. No. 769) $120
Cr.-Cash (Acct. No. 730) $120

To record the expense of the rental each month for the three months:

Dr. - Other Operation Expense
(Acct. No. 269) $40
Cr.-Prepaid Expenses
(Acct. No. 769) .....
$40

6080.3.2 REQUIRED DISCLOSURES OPERATING LEASES

The lessee will disclose the following information for all operating leases:

a) Rental expenses for each period in which an income statement is presented.

b) A general description of the leasing arrangements.

The lessee will disclose the following information for all leases having initial or remaining noncancelable lease terms in excess of one year:

a) Future minimum rental payments required as of the date of the latest balance sheet.

b) The total minimum rentals to be received in the future under noncancelable subleases.

6080.4 LEASE CLASSIFICATIONS FOR LESSORS

From the standpoint of the lessor, there are four basic types of leases: sales-type leases, direct financing leases, leveraged leases, and operating leases.

6080.5 SALES-TYPE LEASES

In general, a lease that provides for a profit (or loss) is a sales-type lease. That is, the fair market value of the lease as recorded on the lessor's books is different from (greater or less than) the cost or carrying value of the leased property.

Normally, sales-type leases are used by manufacturers as a means of marketing their products. To be a sales-type lease, the lease must meet at least one of the criteria in section 6080.2.1 and both of the following two conditions:

a) Collectibility of the minimum lease payments is reasonably predictable.

b) No important uncertainties surround the amount of unreimbursable costs yet to be incurred by the lessor.

6080.5.1 ACCOUNTING PROCEDURES SALES-TYPE LEASES

The total of the minimum lease payments plus any unguaranteed residual value of the property is recorded as the lessor's gross investment. The difference between the gross investment and the present value of the minimum lease payments and residual value is recorded as unearned income.

6080.6 DIRECT FINANCING LEASES

A direct financing lease must meet at least one of the criteria for a capital lease, (See section 6080.2.1) and the two additional conditions stated above in section 6080.5. A sales-type lease differs from a direct financing lease in that the cost (or carrying value) of the property to be leased is the same as the fair market value of the property.

Credit unions which lease personal property, such as automobiles, make direct financing leases.

6080.6.1 ACCOUNTING PROCEDURES - DIRECT FINANCING LEASES

The sum of the minimum lease payments plus any unguaranteed residual value will be recorded as the gross investment in the lease. The difference between the gross investment in the lease and the cost of the property shall be recorded as unearned income.

For example, XYZ Credit Union purchases a new automobile from a dealer and then leases the automobile to a member. The purchase price of the car is $12,000. The lease terms specify 60 monthly payments of $254.96. Payments are to be made at the end of each period. The interest rate implicit in the lease is 10%. Ownership of the automobile passes to the member at the end of the lease.

This lease qualifies as a direct financing lease for the following reasons:

a) The present value of the minimum lease payments ($12,000) equals or exceeds 90% of the fair market value of the leased property ($12,000). Also, the ownership of the automobile passes to the member by the end of the lease.

b) Collectibility of the minimum lease payments are reasonably predictable. This determination has been made through the creditworthiness evaluation of the member.

c) No important uncertainties surround the amount of unreimbursable costs yet to be incurred by the credit union. The credit union has already paid $12,000 for the car.

d) The carrying value of the automobile ($12,000) is the same as the fair market value of the lease. The credit union paid cash for the automobile, thus establishing fair market value, and the auto is on the credit union's books at the cash price paid.

The following entries will be made by the credit union.

To purchase the automobile:

Dr. - Automobile (Acct. No. 799)	$12,000	
Cr.-Cash (Acct. No. 730)		$12,000

To record the lease:

Dr. - Lease Payments Receivable (Acct. No. 723)	$15,297.60	
Cr.-Automobile (Acct. No. 799)		$12,000.00
Cr.-Other Deferred Credit (Acct. No. 889)		3,297.60

To record the receipt of the first lease payment:

Dr. - Cash (Acct. No. 730)	$254.96	
Cr.-Lease Payments Receivable (Acct. No. 723)		$254.96

To recognize the portion of the unearned income that is earned during the first month of the lease: $15,297.60 x .83% = $127.48

Dr. - Unearned Income (Acct. No. 889)	$127.48	
Cr.-Miscellaneous Operating Income Earned on Leases (Acct. No. 154)		$127.48

The balance in the Lease Payments is used to determine the income recognized each month. For instance, the computation for the second month would be $15,297.60 - $254.96 x .83%, and so on through the term of the lease.

As an alternative, suppose that the same automobile is purchased, but the member will be required to guarantee a $4,000 residual at the end of the 48 month lease term. Assume all other conditions which applied to the preceding example apply to this example as well.

First the discounted value of the $4,000 residual is determined. This value of $4,000 discounted .83% (10% per year divided by 12 months = .83%) for 48 months is $2,685.73.

This value may be determined by discounting the value of $4,000 by .83% for 48 months using a calculator, or by looking up the present value of $1.00 (and multiplying by $4,000) in a present value table. The factor is .6714321. To get the discounted figure, multiply this factor by $4,000.

This value is then subtracted from the $12,000 purchase price of the automobile, giving $9,314.27 as the remaining present value.

This present value is then used to determine the monthly payments. For 48 payments at 10% per year (.83% per month) for a value of $9,314.27, the monthly payments are $236.23.

Note that the present value of the monthly payments and the discounted value of the guaranteed residual add to $12,000, as shown below.

Present value of lease payments receivable	$ 9,314.27
Present value of $4,000 received in 48 months at .83%	$ 2,685.73
Present Value of Total Lease Payments Receivable	$12,000.00

To record the purchase of the automobile:

Dr. - Automobile (Acct. No. 799)	$12,000	
Cr.-Cash (Acct. No. 730)		$12,000

To record the lease:

Dr. - Lease Payments Receivable (Acct. No. 723)	$15,339.04	
Cr.-Automobile (Acct. No. 799)		$12,000.00
Cr.-Other Deferred Credit (Acct. No. 889)		3,339.04

To record the receipt of the first lease payment:

Dr. - Cash (Acct. No. 730)	$263.23	
Cr.-Lease Payments Receivable (Acct. No. 723)		$263.23

To recognize the portion of the unearned income that is earned during the first month of the lease: $15,399.04 x .83% = $127.31

Dr. - Unearned Income (Acct. No. 889)	$127.31	
Cr.-Miscellaneous Operating Income Earned on Leases (Acct. No. 154)		$127.31

The balance of the Lease Payments Receivable is used to determine the income recognized each month. For instance, the computation for the second month would be $15,339.04 - $236.23=$15,102.81 x .83%=$125.35.

6080.7 LEVERAGED LEASES

A leveraged lease is an arrangement whereby a long-term creditor provides nonrecourse financing for a leasing transaction between the lessee and the lessor. It would be unusual for a credit union to be involved in this type of lease. Accounting for the various aspects of a leveraged lease is quite complex. A credit union would need to obtain expert advice before entering into a lease of this type.

6080.8 OPERATING LEASES

Leases not failing into the three types described above are operating leases. An operating lease does not transfer substantially all of the benefits and risks of ownership to the lessee, and does not meet any of the four criteria in section 6080.2.1.

Rental income will be recognized over the lease term as it becomes receivable according to the provisions of the lease. If rentals are not received on a straight line basis, however, the income will still be recognized on a straight line basis unless another systematic and rational basis is more representative of the time pattern in which the use benefit is diminished. In that case, the alternate basis shall be used.

Initial direct costs associated with the lease will be deferred and expensed over the lease term on the same basis as the income. If the costs are immaterial in amount, the credit union may choose to expense them in the period incurred.

6080.9 REQUIRED DISCLOSURES - LESSORS

When leasing is a significant part of the credit union's activities in terms of revenue, net income, or assets, the credit union must make the disclosures listed below.

For all types of leases, the credit union will provide a general description of the lessor's leasing arrangements.

For sales-type and direct financing leases, the credit union will disclose:

a) All components of the net leases as of the date of each balance sheet, such as future minimum lease payment to be received, unguaranteed residual values accruing to the benefit of the credit union, initial direct costs in the case of direct financing leases only, and unearned income.

b) The future minimum lease payments to be received for each of the five succeeding fiscal years as of the date of the latest balance sheet presented.

c) Total contingent rentals included in income for each of the income periods presented in the statements.

For operating leases, the credit union will disclose:

a) The cost and carrying amount, if different, of leased property according to type of property and the amount of depreciation in total as of the date of the latest balance sheet presented.

b) Minimum future rentals on noncancelable leases in total as of the date of the latest balance sheet presented and for each of the five succeeding fiscal years.

c) The total contingent rentals included for each of the income periods included in the statements.

6080.10 LEASES INVOLVING REAL ESTATE

Real estate leases will be discussed under the four categories listed as follows:

a) leases involving land only,

b) leases involving land and building,

c) leases involving real estate and equipment, and

d) leases involving only part of a building.

6080.10.1 CRITERIA FOR CLASSIFYING REAL ESTATE LEASES

To determine the correct accounting procedures for real estate leases, the following criteria must be considered.

a) The lease transfers ownership of the property to the lessee by the end of the lease term.

b) The lease contains an option to purchase the leased property at a bargain price.

c) The lease term is equal to or greater than 75% of the estimated economic life of the leased property.

d) The present value of the minimum lease payments equals or exceeds 90% of the fair value of the leased property less any investment tax credit retained by the lessor.

e) Collectibility of the minimum lease payments is reasonably predictable.

f) No important uncertainties surround the amount of unreimbursable costs yet to be incurred by the lessor.

g) The fair market value of the land equals less than 25% of the total fair market value of the leased property at the inception of the lease. The land and building are considered a single unit for the purposes of applying criteria c and d. The estimated economic life of the building shall be considered the estimated economic life of the unit for determining c.

h) The fair value of the land equals 25% or more of the total fair value of the leased property at the inception of the lease. The land and building shall be considered separately for purposes of applying criteria c and d. The minimum lease payments shall be apportioned in order to determine d. The building element of the lease meets c or d.

i) The fair value of the land equals 25% or more of the total value of the leased property at the inception of the lease. The land and building shall be considered separately for purposes of applying criteria c and d. The minimum lease payments shall be apportioned in order to determine d. The building element of the lease does not meet c or d.

6080.10.2 LEASES INVOLVING LAND ONLY

The following tables identify the accounting treatment to be applied depending on the criteria met.

TABLE 1

If the credit union is a lessee, only a criteria a and b apply

Criteria Met	Special Circumstances	Accounting Procedures
a or b		Treated as a Capital Lease
Neither a nor b		Treated as an Operating Lease

TABLE 2

If the credit union is a lessor, criteria c, d, g, h, and i do not apply to this table.

Criteria Met	Special Circumstances	Accounting Procedures
a	The lease gives rise to a dealer's profit	Treated as a Sales-Type Lease*
a, e, and f	The lease does not give rise to a dealer's profit	Treated as a Direct Financing or a Leveraged Lease as appropriate
b, e, and f		Treated as a Direct Financing, Leveraged, or Operating Lease as appropriate
Neither e		Treated as an Operating Lease

* The lease is classified as a sales-type lease. However, the accounting procedures will follow those required for the sale of a property.

6080.10.3 LEASES INVOLVING LAND AND BUILDING

For leases involving both land and building, the criteria g, h, and i will be considered, as well as the other criteria previously considered. These criteria are listed in the previous section, 6080.10, Leases Involving Real Estate.

TABLE 3

If the credit union is a lessee, criteria e and f do not apply to this table.

Criteria Met	Special Circumstances	Accounting Procedures
a or b	Land and building will be separately capitalized and accounted for	Treated as a Capital Lease* **
g and c or d, not a or b	Land and building shall be capitalized as a single unit	Treated as a Capital Lease***
g and not a, b, c, or d		Treated as an Operating Lease
h and not a or b	The land and building will be separately capitalized and accounted for as follows:	
	Building	Treated as a Capital Lease***
	Land	Treated as an Operating Lease
i and not a or b	The land and building will be accounted for as a single unit	Treated as an Operating Lease

* The costs, etc. will be prorated between land and building. The land will not normally be amortized.
** The building will be amortized according to the credit union's normal depreciation policy.
*** The building will be amortized according to the credit union's normal depreciation policy except that the period of amortization shall be the lease period.

This table applies if the credit union is a lessor.

TABLE 4

Criteria Met	Special Circumstances	Accounting Procedures
a only	The lease gives rise to a dealer's profit	Treated as a Sale-Type Lease*
a, e, and f	The lease does not give rise to a dealer's profit	Treated as a Direct Financing or Leveraged Lease as appropriate
a only	The lease does not give rise to a dealer's profit	Treated as an Operating Lease
b only	The lease gives rise to a dealer's profit	Treated as an Operating Lease
b, e, and f	The lease does not give rise to a dealer's profit	Treated as a Direct Financing or as a Leveraged Lease as appropriate
b only	The lease does not give rise to a dealer's profit	Treated as an Operating Lease
g, e, f and c or d; not a or b	The land and building are accounted for as a single unit	Treated as a Direct Financing or as a Leveraged Lease as appropriate

TABLE 4 (Continued)

g only	The land and building are accounted for as a single unit	Treated as an Operating Lease
h, e, and f only	The land and building are accounted for separately	
	Building	Treated as a Direct Financing Lease, as a Leveraged Lease, or as an Operating Lease as appropriate.
	Land	Treated as an Operating Lease
i only	The land and building are accounted for as a single unit	Treated as an Operating Lease

* The lease is classified as a sales-Type Lease. However, the accounting procedures will follow those required for sale of a property.

6080.10.4 LEASES INVOLVING REAL ESTATE AND EQUIPMENT

A credit union will account for the equipment separately from the real estate in all circumstances, regardless of whether it is the lessee or the lessor. The credit union will estimate, by whatever means are appropriate to the circumstances, the minimum lease payments applicable to the equipment. The equipment is to be considered separately for purposes of applying the criteria in the above tables, and is to be accounted for separately according to its classification.

6080.10.5 LEASES INVOLVING ONLY PART OF A BUILDING

Leases involving only part of a building will be accounted for according to the same method as described under Section 6080.10.2 if the cost and fair value of the leased portion of the building are objectively determinable.

In most cases, those factors will not be objectively determinable. When the cost and fair value of the leased area can not be objectively determinable, and the credit union is the lessor, the lease will be accounted for as an Operating Lease.

If the credit union is a lessee, and the cost and fair value of the leased portion of the property cannot be objectively determinable, the credit union must decide if the lease term is equal to or greater than the economic life of the building in which the leased property is located. If so, the credit union will treat the lease as a Capital Lease, and it will amortize the property over the terms of the lease according to the credit union's usual method of depreciation. If not, the lease will be treated as an Operating Lease.

6080.11 SALE AND LEASEBACK TRANSACTIONS

Sale and leaseback transactions involve a sale of property by the serer-lessee and the lease of the property back to the seller by the buyer-lessor.

Credit union involvement in sale and leaseback transactions is addressed by a National Credit Union Administration Interpretive Ruling and Policy Statement (IRPS 81-7).

This IRPS should be reviewed by any federally insured credit union contemplating a sale and leaseback transaction. Auditors and Examiners who encounter such transactions in credit unions should also review this IRPS to ensure adequate knowledge of the accounting treatment of such transactions as they apply to federally insured credit unions.

6080.11.1 ACCOUNTING TREATMENT FOR SALE AND LEASEBACK TRANSACTIONS FOR SELLER-LESSEES

This section will be discussed in terms of sale and leaseback transactions for seller-lessees which do not involve real estate and those which do involve real estate.

A credit union engaging in a bona fide sale and leaseback transaction may recognize an immediate gain (or loss) on the sale only if the terms of the transaction meet one or more of the following conditions:

a) The credit union relinquishes the right to substantially all of the remaining use of the property sold, retaining only a minor portion of such use. In that case, the sale and leaseback will be accounted for as separate transactions based on each of their respective terms. However, if the rental amount is greater than the market at the inception of the lease, a portion of the gain is to be deferred and amortized in an amount which reduces the rentals to market.

b) The credit union retains more than a minor part but less than substantially all of the use of the leaseback property. In that case, the credit union would recognize a profit or loss equal to the difference between the sale price and the present value of the minimum lease payments over the lease term if the lease is classified as an operating lease, or the difference between the sale price and the recorded amount of the lease asset if the leaseback is classified as a capital lease.

c) If the fair value of the property at the time of the sale is less than its undepreciated cost, (carrying value) the credit union will recognize an immediate loss equal to the difference.

If the terms of the sale and leaseback do not meet any of the above conditions, but if the lease meets any of the criteria in 6080.2. 1, the credit union will account for the lease as a capital lease. Any profit on the sale shall be deferred and amortized in proportion to the amortization of the leased asset. A loss on the transaction will be recognized immediately.

6080.11.1.1 ACCOUNTING TREATMENT FOR NON-REAL ESTATE SALE AND LEASEBACK TRANSACTIONS FOR SELLER-LESSEES

Non-real estate sale and leaseback transactions involving all or part of the leaseback property's economic life are accounted for by the seller-lessee as Capital Leases if they meet one or more of the criteria listed in section 6080.10.2, Capital Leases. If they fail to meet any of the said criteria, they are accounted for as Operating Leases.

For a credit union retaining substantially all of the remaining use of the leaseback property, any profit or loss on the sale is to be deferred and amortized in proportion to the amortization of the leased asset, if the transaction is a Capital Lease.

If the credit union retains substantially all of the remaining use of the leaseback property, and if the transaction is an Operating Lease, the profit or loss is to be amortized in proportion to the related gross rental charged to expense over the lease term.

If the credit union does not retain substantially all of the remaining use of the leaseback property, one of the three following applies:

a) If the seller-lessee relinquishes the right to substantially all of the leaseback property, retaining only a minor portion of such use, the sale and leaseback shall be accounted for as separate transactions based on their respective terms. If the amount of rentals agreed upon in the lease is unreasonable under market conditions, an appropriate amount shall be deferred or accrued by adjusting profit or loss on the sale, and amortized as specified above to adjust those rentals to a reasonable amount.

b) If the seller-lessee retains more than a minor part but less than substantially all of the leaseback property and realizes a profit on the sale in excess of either the present value of the minimum lease payments over the lease term, or the recorded amount of the leaseback asset (carrying value), then the profit shall be recognized at the date of the sale. The present value of the minimum lease payments for an operating lease are to be calculated using the rate to apply the 90% recovery criterion (criterion d) of section 6080.10.2, Capital Leases.

c) If the fair value at the time of the transaction is less than the carrying value of the leaseback property, a loss is to be immediately recognized up to the amount of the difference between the carrying value and the fair value of the leaseback property.

6080.11.1.2 ACCOUNTING TREATMENT FOR REAL ESTATE SALE AND LEASEBACK TRANSACTIONS FOR SELLER-LESSEES

This section discusses accounting treatment of sale and leaseback transactions involving real estate, including real estate with equipment. Sale and leaseback transactions involving real estate with equipment include any transactions in which the equipment and real estate are sold and leased as a package, irrespective of the relative value of the equipment and the real estate.

Sale and leaseback accounting is an accounting procedure whereby the seller-lessee records the sale, removes all property and related liabilities from its balance sheet, recognizes gain or loss from the sale, and classifies the leaseback as specified herein.

Sale and leaseback accounting is to be used only if a sale and leaseback transaction includes all of the following:

a) A normal leaseback transaction wherein the lessee-lessor relationship involves the active use of the leaseback property by the serer-lessee in consideration for payment of rent and excludes other continuing involvement provisions or conditions. Active use of the leaseback property means the use of the property during the lease term in the seller-lessee's business, providing that the present value of all subleasing, if any, is less than 10% of the fair value of the leaseback property.

b) Payment terms and provisions that adequately demonstrate the buyer-lessor's initial and continuing investment in the leaseback property.

c) Payment terms and provisions that transfer all of the other risks and rewards of ownership as demonstrated by the absence of any other continuing involvement by the seller-lessee. Examples of continuing involvement are that the seller-lessee has an option or obligation to repurchase the property or the buyer-lessor can compel the serer-lessee to repurchase the leaseback property, or that the seller-lessee guarantees the buyer-lessor's investment or a return on that investment.

A sale and leaseback transaction not qualifying for sale and leaseback accounting because of any form of continuing involvement by the seller-lessee (other than a normal leaseback) is to be accounted for by the deposit method or as a direct financing lease.

Credit unions should generally use the direct financing lease type of accounting in these circumstances. The deposit method of accounting is used when the uncertainty of the collectibility of the sales price is so great that the effective date of the sale is deferred until collectibility of the sale price is more reasonably assured. Given the risk and the uncertainty of this type of transaction, credit unions should generally participate in the kind of transaction that would require this type of accounting. The deposit method of accounting is discussed in section 6030.15 of this Manual.

If the terms of the sale and leaseback transaction are substantially different from terms that an independent third party would accept, then those terms represent an exchange of some stated or unstated rights or privileges. Those rights or privileges must be considered in evaluating the continuing involvement provisions stated immediately above.

The terms referred to above include, but are not limited to, the sales price, the interest rate, and other terms of any loan from the seller-lessee to the buyer-lessor. To assure that any sale and leaseback transactions meet the provisions of this section, the fair value of the leaseback property should be based on an independent third party appraisal.

There are many more examples of provisions or conditions which constitute continuing involvement than can be discussed here. Any credit unions considering entering into sale and leaseback transactions should obtain the advice of an independent accountant to assist them in determining whether the transaction qualifies as a bona fide sale and leaseback transaction.

Such credit unions should also obtain an opinion from a competent attorney concerning the legality of any such transaction before entering into it.

Considering the wide variety of sale and leaseback transactions and the effects different conditions and provisions may have on the obligations of the parties involved, it is incumbent on any credit union considering entering into such a transaction that all of the obligations for both parties be fully understood and agreed upon before finalizing such an agreement.

6080.11.1.3 FINANCIAL STATEMENT PRESENTATION AND DISCLOSURE FOR SALE AND LEASEBACK TRANSACTIONS FOR SELLER-LESSEES

In addition to the disclosures required by other sections pertaining to leases, the financial statements of a seller-lessee are to include a description of the terms of the sale and leaseback transaction, including future commitments, obligations, provisions, or circumstances that require or result in the seller-lessee's continuing involvement.

A credit union which has accounted for a sale and leaseback transaction using the deposit method or as a financing lease is to disclose:

a) The amount the credit union is obligated for future minimum lease payments as of the date of the most recent balance sheet in total, and for the next succeeding five fiscal years, and

b) The amount of minimum sublease rentals the credit union is to receive, if any, under noncancelable subleases in total and for the next succeeding five fiscal years.

6080.11.2 ACCOUNTING TREATMENT FOR SALE AND LEASEBACK TRANSACTIONS FOR BUYER-LESSORS

Sale and leaseback transactions for all or part of the remaining life of the leaseback property for buyer-lessors are for as follows:

a) If the lease meets any one of the criteria a, b, c, or d in section 6080.10, and if it meets both the criteria e and f of the same section, the buyer-lessor is to record the transaction as a purchase and a direct financing lease.

b) If the transaction fails to meet the tests stated in the immediately preceding paragraph, then the buyer-lessor is to record the transaction as a purchase and an operating lease.

6080.12 ACCOUNTING FOR SUBLEASES AND SIMILAR TRANSACTIONS

The accounting treatment for the following types of leasing transactions are discussed below:

a) The leased property is re-leased by the original lessee to a third party, and the lease agreement between the original lessee and the lessor remains intact.

b) A new lease is substituted under the original agreement. The new lessee becomes primarily obligated, and the original lessee may or may not remain liable.

c) A new lessee is substituted through a new agreement, and the original agreement is canceled.

6080.12.1 ACCOUNTING FOR SUBLEASES AND SIMILAR TRANSACTIONS FOR THE ORIGINAL LESSOR

If the original lessee enters into a sublease or the original lease agreement is sold or transferred by the original lessee to a third party, the original lessor is to account for the lease as before.

If the original lease agreement is replaced with a new agreement with a new lessee, the lessor is to account for the termination of the lease, and account for the new lease as a new transaction.

6080.12.2 ACCOUNTING FOR SUBLEASES AND SIMILAR TRANSACTIONS FOR THE ORIGINAL LESSEE

If the credit union is not relieved of the primary obligation under the original lease, as would be the case in situation a of section 6080.12, the credit union, as original lessee and as sublessor would account for the transaction as follows.

a) The credit union will continue to account for the obligation related to the original lease as before. The credit union is to determine whether the new lease meets the criteria in section 6080.10.1. If it meets any one of criteria a, b, c, or d and both of criteria e and f, the credit union is to classify it as a sales or a direct financing lease, and the unamortized balance of the asset under the original lease is to be treated as the cost of the leased property. If the new lease does not qualify as a sales or direct financing lease, the credit union is to account for it as an operating lease.

b) The credit union as original lessee is to account for the obligation under the original lease as it did before. If the original lease met either criteria c or d of section 6080.10.1, the credit union as original lessee is to classify the new lease in accordance with the criteria a, or b, and both e and f of section 6080.10.1. If it meets those criteria, the credit union is to account for the lease as a direct financing, with the unamortized balance of the asset under the original lease treated as the cost of the leased property. If the new lease does not meet the above stated criteria, then the credit union is to account for it as an operating lease.

c) If the original lease is an operating lease, the credit union as original lessee is to account for both the original and the new leases as operating leases.

6080.12.3 ACCOUNTING FOR SUBLEASES AND SIMILAR TRANSACTIONS FOR THE NEW LESSEE

If the credit union is a new lessee, the credit union is to classify the lease in accordance with the criteria found in section 6080.1.10, and is to account for it accordingly.

6080.13 ACCOUNTING FOR LEASE CHANGES, RENEWALS, EXTENSIONS AND EARLY TERMINATIONS

Credit unions will account for changes in the provisions of a lease, renewals, extensions of existing leases, or early termination of leases as follows.

6080.13.1 ACCOUNTING FOR CHANGES TO LEASE PROVISIONS

If a credit union's lease provisions are changed in a way that changes the amount of the remaining minimum lease payments, and if the lease remains a sales-type lease or if it results in a new agreement classified as a direct financing lease, the credit union will adjust the balance of the minimum lease payments receivable and the estimated residual value downward, if affected, to reflect the change. The credit union will charge the net adjustment to unearned income. Upward adjustments of the estimated residual value are not made.

If changes in the lease provisions give rise to a new agreement classified as an operating lease, the credit union is to remove the remaining net investment from the books, and the credit union is to record the leased asset as an asset at the lowest of its original cost, present fair value, or present carrying amount. The net adjustment, if any, is to be charged to income for the current period. The credit union is to account for the new lease as an operating lease.

6080.13.2 ACCOUNTING FOR RENEWALS OF OR EXTENSIONS TO LEASE PROVISIONS

Except when a guarantee or penalty is rendered inoperative, credit unions are to account for renewals or extensions as follows:

a) If the credit union classifies the renewal or extension as a direct financing lease, it is to account for the renewal or extension the same as it would for a change, as stated in section 6080.13.l.

b) If the credit union classifies the renewal or extension as an operating lease, it is to continue to account for the existing lease as a sales-type lease to the end of its term, and then account for the renewal or extension as any other operating lease.

c) If the credit union classifies a renewal or extension that occurs at or near the end of the term of the existing as a sales-type lease, it is to account the renewal or extension as a sales-type lease.

6080.13.3 ACCOUNTING FOR EARLY TERMINATIONS OF LEASE PROVISIONS

Credit unions account for early lease terminations by removing the net investment from their books and recording the leased asset at the lowest of its original cost, present fair value, or present carrying value. The credit union will charge the net adjustment to income for the current period.

6090 MEMBERSHIP IN CENTRAL LIQUIDITY FACILITY

6090.1 PURPOSE OF THE CENTRAL LIQUIDITY FACILITY

The purpose of the Central Liquidity Facility (CLF)) is to improve the general financial stability by credit unions with a source of loans to meet liquidity needs, and thereby encourage savings, consumer and mortgage lending, and provide financial resources to all segments of the . CLF was established by Congress to provide credit unions with a source of funds such as banks and savings and loan associations have a long as available through the Federal Reserve System and the Federal Home Loan Banks.

6090.2 AVAILABILITY OF MEMBERSHIP IN THE FACILITY

Membership in the CLF is available to both federal and state-chartered credit unions. There are two types of memberships: regular membership and agent membership. A natural person credit union may become a regular member or may gain access to the CLF through an agent member. Agent membership is open only to credit unions or groups of credit unions which primarily serve other credit unions. A regular member carries on its dealings directly with the CLF whereas a credit union which gains access to the CLF through membership in a central credit union (which is an agent member) would deal only with the agent member and not directly with the CLF. Part 725 of the National Credit Union Administration Rules and Regulations provides procedures that must be followed in order to become either a regular or agent member.

If an agent is federally chartered, it can require a member natural person credit union to establish and maintain a special share account. This account will reimburse the agent for the portion of the agent's stock subscription which is attributable to each natural person credit union. The special share account maintained in the CLF by a natural person credit union does not qualify as an investment in the CLF. Part 725 of the NCUA Rules and Regulations states that member natural person credit unions are not members of the CLF unless they are also regular members of the CLF.

6090.3 REQUIRED STOCK SUBSCRIPTION

In order to become a regular member of the CLF, a credit union must subscribe to stock in a total amount of one-half of one percent of the credit union's 6 paid-in and unimpaired capital and surplus." Only one-half of the required stock subscription must be paid to the CLF while the other one-half of the subscription will be on call by the NCUA Board and must be invested in liquid assets.

Agent members must also subscribe to the capital stock of the CLF. The amount of the subscription is one-half of one percent of the paid-in and unimpaired capital and surplus of all the natural person credit unions which are members of the applicant central credit union, or in the case of a group of central credit unions which are members of any central credit union in the group. As in the case of regular members, only one-half of the required stock subscription must be paid to the CLF, while the remainder will be on call by the National Credit. Union Administration Board and must be invested in liquid assets.

The required subscription will be adjusted annually to reflect changes in the paid-in and unimpaired capital and surplus upon which the stock subscription is based.

6090.4 COMPUTING THE AMOUNT OF THE STOCK SUBSCRIPTION

Paid-in and unimpaired capital and surplus is defined as the balances of the paid-in share accounts and deposits as of a given date, less any loss that may have been incurred for which there is no reserve or which has not been charged against Undivided Earnings, plus the credit balance (or less the debit balance) of the Undivided Earnings, after all losses have been provided for and net earnings have been added or net losses deducted. In most cases, paid-in and unimpaired capital and surplus can be determined simply by totaling shares (including all share certificates, share draft accounts, split rate accounts, mini m balance accounts, etc.), Undivided Earnings (including all discretionary reserves such as reserve for contingencies, investment reserves (SCUs only), or other appropriated reserves, etc.), and net income to date (or less net loss to date). The total obtained will be reduced in those relatively rare cases of unusual losses which have not yet been recognized on the federal credit union's records, e.g., a lawsuit against the credit union in which it has been adjudged that the credit union is at fault and must pay a penalty of $1,000 or more at a later date.

The initial stock subscription is based on an arithmetic average of paid-in and unimpaired capital and surplus over the six months preceding the application for membership and is adjusted at the close of each calendar year in accordance with the arithmetic average of paid-in and unimpaired capital and surplus over the 12 months in such calendar year.

As an example computation of an initial stock subscription, assume that XYZ Credit Union applies for a regular membership in October. The computation of the 6-month arithmetic average of paid-in and unimpaired capital and surplus and General Ledger balances of applicable accounts would be as follows:

(1)	(2)	(3) (State Credit Unions only)	(4)	(5)	(6) Unimpaired
Month	Shares	Deposits	Undivided Earnings	Net Gain or (Loss)	Capital & Surplus
(a) 09/30/80	$512,000	$500,000	$9,800	$22,200	$1,044,000
(b) 03/31/80	501,000	499,000	6,000	14,000	1,020,000
(c) Total					$2,064,000

Line (a) should have information as of the most recent month end prior to the date of application. Line (b) should have the information as of 6 months ends prior to the month end preceding the date of application.

Assuming there are no unrecognized losses, the totals for line (a) and line (b) are added together and divided by two, giving an average paid-in and unimpaired capital and surplus of $1,032,000. The required stock subscription will then be computed by taking one-half of 1 percent of that figure, or $5,160. One-half of that amount will be forwarded to the CLF and the remainder will be invested in liquid assets.

6090.5 ACCOUNTING ENTRIES FOR CLF TRANSACTIONS MEMBERSHIP AND DIVIDENDS

Funds invested in stock of the CLF should be recorded as a debit to "Investment in CLF - Membership Stock," (Account No. 751.1). Dividends will be paid on CLF stock at least annually as determined by the NCUA Board. The on-call portion of the subscription should not be included in Account No. 751 unless it is actually invested in the CLF.

Dividends on capital stock will be paid by crediting the members' capital stock accounts. Therefore, "Investment in CLF," (Account No. 751.1) should be debited and "Income from Investments," (Account No. 121) should be credited whenever the credit union receives notice of the amount of the dividend credited to its account. Dividends received on the CLF investment are excludable from gross income in computing the amount of the statutory transfer to the Regular Reserve at the end of each accounting period.

6090.6 EXTENSION OF CREDIT TO MEMBERS

The CLF is authorized to make loans to meet liquidity needs, and is specifically prohibited by statute from making any loan "the intent of which is to expand credit union loan portfolios." Regular members should submit their applications for credit directly to a CLF lending officer at a designated location. Credit unions which access the CLF through an agent member should submit their applications for credit directly to a CLF lending officer at a designated location. Credit unions which access the CLF through an agent member should submit their applications to the agent, which can then make the loan out of its own funds or immediately apply to the CLF for funds to make the loan. In any case, when the requesting credit union receives the funds, the accounting is the same as for funds borrowed from any other source.

For example:

Dr. - Cash (Acct. No. 731)	.....	$50,000
Cr.-Notes Payable - Other (Acct. No. 812)	.....	$50,000

Interest on the borrowed funds should be charged to "Interest on Borrowed Money," (Account No. 340).

6090.7 ILLUSTRATIVE ENTRIES

a) Natural Person Credit Union

Upon subscription to the CLF as a Regular member and payment of the required 1/4 of 1 % of unimpaired capital and surplus the natural person credit union would make the following entry on its books:

Dr. - Investment in CLF- Membership Stock (Acct. No. 751.1)	.....	$XXXXXX
Cr.-Cash (Acct. No. 731)	.....	$XXXXXX

If the credit union purchases CLF stock in addition to its required portion, the entry would be as follows:

Dr. - Investment in CLF- Liquidity & Clearing (Acct. No. 751.2)	$YYYY	
Cr.-Cash (Acct. No. 731)		$YYYY

If the credit union has a liquidity-clearing account as well as a membership-stock account in the CLF, and reports these two accounts as a single line item on its financial statements, the following note could be used:

> "The investment in Central Liquidity Facility includes $XXXX which is required for membership in the CLF to make the credit union eligible to receive loans or other assistance from the CLF to meet liquidity needs. This stock may be redeemed only by withdrawing from membership in the CLF. A like amount is required to be held on-call in certain prescribed liquid assets. The balance ($YYYY) represents a discretionary investment in the CLF and may be redeemed at any time. The membership stock and the discretionary investment may not be pledged or hypothecated except to the CLF."

b) Corporate Central Credit Union

Upon subscription to CLF stock, acceptance by the Board as an Agent member and payment of the required 1/4 of 1% of the unimpaired capital and surplus of all its member credit unions which are not Regular members of the CLF, the corporate central would make the following entry on its books:

Dr. - Investment in CLF- Membership Stock (Acct. No. 751.1)	$XXXX	
Cr.-Cash (Acct. No. 731)		$XXXX

If the credit union purchases CLF stock in addition to its required portion, the entry would be as follows:

Dr. - Investment in CLF- Liquidity & Clearing (Acct. No. 751.2)	$YYYY	
Cr.-Cash (Acct. No. 731)		$YYYY

On its financial statements the credit union may show the membership-stock portion and the liquidity-clearing portion separately or in a lump sum. Whichever method is used, a note is required to describe the nature of the investment and to disclose the on-call portion of the stock subscription.

If the corporate central has a liquidity-clearing account as well as a membership-stock account in the CLF, and reports these two accounts as a single line item on its financial statements, the following footnote could be used:

> "The investment in the Central Liquidity Facility includes $XXXX which is required for Agent membership in the CLF. Agent membership permits this corporate central to obtain loans from the CLF to meet the liquidity needs of member credit unions. This stock may be redeemed only by withdrawing from membership in the CLF. A like amount is required to be held on-call (by the NCUA Board) in certain prescribed liquidity assets. The balance ($YYYY) represents a discretionary investment in the CLF and may be redeemed at any time. The membership stock account and the liquidity reserve and clearing account may not be pledged or hypothecated except to the facility.

6110 CREDIT UNION SERVICE ORGANIZATIONS

Section 107(5)(D) of the Federal Credit Union Act defines a credit union service organization as any organization, as determined by the National Credit Union Administration Board, which is established primarily to serve the needs of its member credit unions, and whose business relates to the daily operations of the credit unions they serve.

Sections 107(7)(1) and (107(5)(D) of the Federal Credit Union Act authorizes federal credit unions to invest in and make loans to credit union service organizations (CUSOs). Part 701.27 of the National Credit Union Administration Rules and Regulations implements these sections by addressing various issues, including monetary limits on loans and investments, the structure of credit union service organizations, their customer base, and the range of services and activities that they may provide. The regulation also establishes standards for federal credit union involvement with CUSOs through provisions concerning conflict of interest, accounting practices, and NCUA access to books and records. The regulations also state that a federal credit union must obtain written legal advice as to whether the CUSO is established in a manner that will limit the credit union's exposure to no more than the loss of funds invested in or lent to the CUSO. Management's of credit unions which have CUSOs, or are considering establishing a CUSO, should be fully aware of and comply with Section 701.27 of the NCUA Rules and Regulations.

6110.1 ACCOUNTING PROCEDURES

The regulation cited above requires that a federal credit union follow generally accepted accounting principles (GAAP) in its involvement with CUSOs. In addition, a credit union must obtain written agreements from a CUSO, prior to investing in or lending to the organization, that the organization will:

a) Follow GAAP;

b) Render financial statements (balance sheets and income statements) at least quarterly, obtain an annual audit performed by a certified public accountant and provide copies of the same to the affiliated federal credit union; and

c) Provide the NCUA Board or its representatives with complete access to any books and records of the CUSO as deemed necessary by the NCUA Board in carrying out its responsibilities under the Federal Credit Union Act.

6110.1.1 INVESTMENTS IN AND LOANS TO CREDIT UNION SERVICE ORGANIZATIONS

Section 701.27(d)(1) of the National Credit Union Administration Rules and Regulations provides that a federal credit union may invest in shares, stocks or obligations of CUSOs in amounts not exceeding, in the aggregate, 1 percent of the credit union's paid in and unimpaired capital and surplus (total of all shares and undivided earnings plus net income or minus net losses to date) as of its last calendar year-end financial report. This same section authorizes credit unions to make loans to CUSOs in amounts not exceeding, in the aggregate, I percent of its paid in and unimpaired capital and surplus as of its last calendar year-end financial report.

For purposes of measuring a CU's investments and loans to a CUSO in financial statements, GAAP should be followed. GAAP requires one of three measurement options (cost method, equity method, or consolidated financial statements) depending on the degree of ownership a CU has in a CUSO (See Section 6110.3 for a further discussion). However for purposes of statutorily derived limitations in the CUSO rule, the CU's "aggregate cash outlay" should be used.

As an example for computing the maximum amount which may be invested in a CUSO, assume that a federal credit union shows the following applicable General Ledger account balances, and assume that there are no losses which have not been provided for:

Total of all Saving Accounts	$5,000,000
Undivided Earnings	250,000
Net Income to Date	20,000
Total Unimpaired Capital and Surplus	$5,270,000

The investment limit, aggregate cash outlay, would then be 1 percent of $5,270,000 or $52,700. The credit union could lend an additional $52,700 to the CUSO. A federal credit union need not invest in a CUSO before it can lend to it.

6110.2 ACCOUNTING ENTRIES

6110.2.1 EQUITY METHOD

When a credit union invests in the outstanding voting stock of a CUSO and has the ability to exercise significant influence over the management of the CUSO, the equity method of accounting for investments should be used. *(Note:* It is generally presumed that an investment of 20 percent or more of the voting stock of a CUSO indicates the ability to exercise significant influence.)

Using the equity method, the investing credit union would record the initial investment at cost. During subsequent accounting periods, the credit union would adjust the investment account balance for its proportionate share of the CUSO's net income or loss. Dividends paid by the CUSO in cash should be treated and recorded by the credit union as a conversion of the investment into cash causing the investment amount to decrease.

Illustrative Entries:

To illustrate the equity method, assume that ABC Federal Credit Union purchases 40 percent of the voting common stock of Zebra Credit Union Service Corporation for $500,000 which corresponds to the underlying value of the corporation. During the subsequent period, Zebra reported net income of $100,000 (including a $50,000 extraordinary gain) and paid a dividend of $50,000. ABC Federal Credit Union would account for its investment as follows:

Entry #1-To record the acquisition of 40 percent of the common stock of Zebra Credit Union Service Corporation at carrying value.

Dr. - Investment in Credit Union Service Corporation (Acct. No. 748)	$500,000	
Cr.-Cash (Acct. No. 731)		$500,000

Entry #2-To record 40 percent net income of Zebra Credit Union Service Corporation (40% x operating gain of $50,000 = $20,000; and 40% x nonoperating gain of $50,000 = $20,000).

Dr. - Investment in Credit Union Service Corporation (Acct. No. 748)	$40,000	
Cr.-Income from Investments in Credit Union Service Corporation (Acct. No. 128.1)		$20,000
Cr.-Gain (Loss) on Investments (Acct. No. 420)		20,000

Entry #3-To record dividends received from Zebra Credit Union Service Corporation (40% x $50,000 = $20,000).

Dr. - Cash (Acct. No. 731)	$20,000	
Cr.-Investment in Credit Union Service Corporation (Acct. No. 748)		$20,000

In this example, it should be noted that the net effect of ABC Federal Credit Union's accounting for Zebra Credit Union Service Corporation's net income and dividends was to increase the investment account by $20,000. This corresponds to 40 percent of the increase reported in Zebra Credit Union Service Corporation's net assets during the period (40% x ($100,000 - $50,000) = $20,000).

Assume that in the following year the credit union service corporation has a $100,000 operating loss. The credit union would record its proportionate share of this loss as follows:

Entry #4-To record the 40 percent net loss of Zebra Credit Union Service Corporation (40% x $100,000 = $40,000).

Dr. - Income from Investments in Credit Union Service Corporation (Acct. No. 128.1)	$40,000	
Cr.-Investment in Credit Union Service Corporation (Acct. No. 748)		$40,000

If an investment in voting stock falls below the 20 percent level, the presumption is that the credit union has lost the ability to exercise significant influence in which case the equity method should be discontinued. The carrying amount at the date of discontinuance becomes the cost of the investment. Subsequently, dividends are accounted for by the cost method from the date the equity method was discontinued.

6110.2.1.1 SPECIAL ACCOUNTING TREATMENT

Under the equity method various transactions require special accounting treatment such as the elimination of intercompany profits and losses until they are realized by the investing credit union or the credit union service corporation. In addition, when the acquisition cost of an investment differs from the carrying value of the underlying net assets of the credit union service corporation, adjustments may have to be made to the investment income of the investing federal credit union.

6110.2.1.2 COST IN EXCESS OF CARRYING VALUE

A credit union may pay more for its investment than the underlying carrying value of the CUSO's assets. This is because the fair value of the CUSO's assets is more than their recorded amounts, or because the CUSO has unrecorded goodwill. In either instance, the cost in excess of the carrying value will only benefit the investing federal credit union over the useful lives of the overvalued or unrecorded assets.

The excess of the cost over the carrying value incurred in acquiring a credit union's investment in a CUSO should be amortized over the economic lives of the assets by recording the following entry:

Dr. - Income from Investments in Credit Union Service Corporation (Acct. No. 128.1)	XX	
Cr.-Investment in Credit Union Service Corporation (Acct. No. 748.0)		XX

Where the excess cost was incurred due to implied goodwill, the amount of the excess should be amortized over the estimated economic life of that goodwill, which will not be a period in excess of 40 years.

6110.2.1.3 COST LESS THAN CARRYING VALUE

If the carrying value of the underlying assets of the credit union service corporation is in excess of the credit union's acquisition costs, it is assumed that the assets of the credit union service corporation are overvalued. The excess should be amortized, over the economic lives of the assets provided that the credit union service corporation's assets are depreciable. The accounting entry would be the opposite of the previously illustrated entry. This will result in increases in the income received from the credit union service corporation.

6110.2.2 COST METHOD

A different accounting treatment is provided in the situation where the investing credit union does not exert significant influence or exercise a controlling financial interest as a result of its investment in the CUSO. In this situation (generally assumed if the investing credit union owns less than 20 percent of the CUSO's voting common stock), the cost method of accounting should be used.

Under the cost method, the investment is maintained in terms of the cost of shares acquired. Dividends received from the current earnings of the CUSO are recognized as income, and do not affect the balance in the investment account. If, at a later date, a credit union exerts significant influence over the CUSO's operations or acquires more than 20 percent ownership in a CUSO's voting common stock, the credit union must retroactively adjust its accounts to the equity method on the basis of a step by-step acquisition of the CUSO. In this event, at the date of each step (date of each purchase of stock) the carrying value of the investment must be compared with the underlying net assets of the CUSO to determine whether goodwill is involved.

Illustrative Entries:

To illustrate the cost method, assume that a federal credit union acquires 15 percent of Zebra Credit Union Service Corporation's voting stock for $45,000. During the year, the CUSO had net income of $30,000 and paid a $3,000 dividend to the credit union. The credit union would account for its investment as follows:

Entry #1 -To record the acquisition of 15 percent of the common stock of Zebra Credit Union Service Corporation.

Dr. - Investment in Credit Union Service Corporation (Acct. No. 748)	$45,000	
Cr.-Cash (Acct. No. 731)		$45,000

Entry #2-To record dividends received from Zebra Credit Union Service Corporation.

Dr. - Cash (Acct. No. 731)	$3,000	
Cr.-Income from Investments in Credit Union Service Corporation (Acct. No. 128.1)		$3,000

The credit union's investment account at the end of the year will show a balance of $45,000, the amount of the original investment. Changes in the carrying value of the underlying assets of the CUSO are ignored unless a significant and permanent impairment of the value of the investment occurs.

Three events which may result in a departure from the cost basis would be:

a) The receipt of a liquidating dividend from a CUSO which would result in a reduction of the investment account.

b) A permanent impairment in the value of the investment and the credit union's discontinued use of the services of the CUSO. Operating losses that substantially reduce the CUSO's net assets and which seriously impair its future operations are recognized as realized losses by debiting the "Gain (Loss) on Investments," (Account No. 420) and crediting the "Investment in Credit Union Service Corporation," (Account No. 748).

c) A permanent impairment 'n the value of the investment and the credit union's continued use of the services of the corporation. The unrealized loss in value of the long-term securities should be shown as a reduction in equity. This is accomplished by establishing a valuation allowance account. When the long-term investment is sold at a price below cost, a realized loss is recorded and the unrealized loss and the established allowance account are eliminated.

6110.2.2.1 PERMANENT IMPAIRMENT AND SERVICES OF CREDIT UNION SERVICES CORPORATION ARE NO LONGER USED

To record a significant and permanent decline in value of a long-term investment in a CUSO the following entry is used.

Dr. - Gain (Loss) on Investment	
(Acct. No. 420)	XX
Cr.-Investment in	
Credit Union Service Corporation	
(Acct. No. 748)	XX

Operating losses of the CUSO, which reduce its net assets substantially and which seriously impair its future prospects, should be recognized as losses. In determining whether a permanent impairment in the value of a long-term investment exists, the following facts must be considered:

a) The length of time the security has been owned;

b) The length of time the security has been below cost and the extent of the decline;

c) The financial condition and prospects of the CUSO;

d) The financial condition of the credit union; and

e) The materiality of the decline in value of the investment in relationship to the net income and equity of the credit union.

6110.2.2.2 PERMANENT IMPAIRMENT AND SERVICES OF CREDIT UNION SERVICE CORPORATION ARE BEING USED

Using the utility concept (investing in a CUSO to obtain low cost and efficient services), a credit union that is still using the services of the CUSO would not have to immediately expense the loss from the permanent decline in value of its investment. With respect to a permanent decline, the reasoning is that the credit union is deriving benefit from the credit union service corporation and therefore, cannot affix a poor prospect status upon its investment in that corporation. Assuming that the credit union has a satisfactory financial condition, that the loss would not be material, and that its investment has utility, it would seem that these reasons would outweigh any argument for writing down the investment as a charge to the income statement.

When a credit union that is on a cost basis of accounting for a long-term investment is still using the services of the CUSO and does not write down its investment to the value of the asset, it should record the unrealized losses. These unrealized losses should be recorded as a reduction of equity rather than a reduction of net income. The reduced value of the credit union's investment can be determined by the credit union's appraisal of the underlying value of the CUSO's net assets based on its year-end or periodic financial statements.

6110.3 FINANCIAL STATEMENT PRESENTATION

The presentation of the investment in a CUSO on the credit union's financial statements depends upon the amount of voting stock of the CUSO that is owned by the credit union. Therefore, the investment will be shown in one of three ways:

a) If the credit union owns over 50 percent of the voting stock of the CUSO, under generally accepted accounting principles, the credit union is deemed to have a controlling financial interest in the CUSO's operations and is required to prepare consolidated CU/CUSO financial statements. The preparation of consolidated financial statements is facilitated by using a consolidated statement working paper. An illustrative example of a consolidated statement working paper, along with examples of the elimination of intercompany transactions is presented later in this section.

b) If the credit union owns 20 to 50 percent of the voting stock of a CUSO and has the ability to exercise significant influence over its operations, the investment should be shown on the balance sheet using the equity method, i.e., as a single amount with the proportionate share of income or loss shown on the income statement as a single amount except for extraordinary items which should be shown separately.

c) If the credit union owns less than 20 percent of the voting stock of the CUSO, and therefore, has neither a controlling financial interest nor the ability to exercise significant influence over the CUSO's operation, the investment should be shown as a single amount on the balance sheet in Account No. 748.l.

Illustrative Example for Consolidated Statement Working Paper.

The following example represents credit union X's and CUSO Y's consolidated financial statements as of December 31, 1986, 1 year following credit union X's 100 percent purchase of CUSO Y's voting stock for $90,000. The par value of the stock was $75,000, undivided earnings purchased totaled $12,000, and the credit union paid $3,000 in excess of book value for the CUSO's assets.

Since the credit union purchased a controlling financial interest in the CUSO, consolidation of CU and CUSO financial statements is necessary/ required. Assume that no dividends were declared by the CUSO and that the CUSO's net income for the year was $10,000. The following entry would be made on the credit union's books to record the amount of the net income (100% interest):

Dr. - Investment in Credit Union Service Organization (Acct. No. 749.1)	$10,000	
Cr.-Income from Investments in Credit Union Service Corporation (Acct. No. 128.1)		$10,000

Since the above entry is considered to be an "intercompany transaction," an eliminating entry on the consolidated statement working paper will be needed. These entries are necessary to prevent assets and liabilities from being overstated on the consolidated financial statement.

Other types of intercompany transactions that must be eliminated in the preparation of consolidated statements but which are not demonstrated in this example include:

a) Money loaned to a CUSO that results in an account payable on the books of the CUSO, and an account receivable on the books of the credit union.

b) Any portion of an employee's salary of the credit union that also provides services to the CUSO, that results in an accrued expense on the CUSO's books and accrued income on the credit union's books.

These examples are not intended to be an all inclusive list of necessary intercompany transactions. Because of the complicated nature of consolidated accounting, a credit union should consider the need for the services of a public accounting firm to assist in the preparation of consolidated statements.

Credit Union X and Subsidiary CUSO Consolidated Statement Working Paper
For Year Ended December 31, 1992

	Credit Union U	CUSO Y	Eliminations		Consolidated
			Debit	Credit	
	($000s)	($000s)	($000s)	($000s)	($000s)
Income Statement:					
Loan Income	18				18
CUSO Income	10		a) 10		
Investment Income	9				9
Other Income	3				3
Locate Fees		75			75
Auto Sales		26			26
Interest Income		11			11
Advertising		6			6
Tax Service		4			4
Total Credits	40	122	10	—	152
Salaries & Benefits	15	57			72
Total Other Op. Exp.	12	55			67
Prov for Loan Losses	5				5
Total Debits	32	112	—	—	144
Net Income, Carried Forward	8	10	10		8
Balance Sheet:					
Loans, Net	87,000				87,000
Cash	2,700	8			2,708
Investments	24,000	20			24,020
Investment in CUSO	100			a) 10 b) 90	

Credit Union X and Subsidiary CUSO Consolidated Statement Working Paper
For Year Ended December 31, 1992 (Continued)

	Credit Union U	CUSO Y	Eliminations		Consolidated
			Debit	Credit	
	($000s)	($000s)	($000s)	($000s)	($000s)
Accts Receivable		12			5,112
Notes Receivable		3			3
Other Assets	7,860	54			7,914
Differential			b) 33		3
	$126,760	$97	$343	$100	$126,760
Accounts Payable	5,000				5,500
Other Liabilities	6,002				6,002
Shares					
CU X	110,000				110,000
CUSO Y		75	b) 75		
Regular Reserve	2,350				2,350
Undivided Earnings	2,900	12	b) 12		2,900
Net Income, Brought Forward	8	10	10		8
	$126,760	$97	$97	—	$126,760

Explanation of Eliminations:

a) To reverse credit union X's proportionate share of CUSO Y's net income.

b) To eliminate the January 1, 1986, investment account balance against the corresponding equity accounts of subsidiary CUSO Y.

6110.4 LOANS TO A CREDIT UNION SERVICE ORGANIZATION

When a credit union makes a loan to a CUSO, it should follow the same procedures that would be used in the granting of a commercial loan to a member. These procedures are outlined in Section 701.21(h) of the NCUA Rules and Regulations. Particular attention should be paid to the following areas:

a) Perform an analysis of the CUSO's ability to meet the payment schedule shown on the Promissory Note. This would include an in-depth cash flow analysis.

b) Collateral requirements, including loan to value ratio's; appraisal, and title searches; steps to be taken to secure various types of collateral, and how often the value and marketability of collateral is to be reevaluated, along with frequency of on-site inspections of the collateral.

c) Appropriate interest rates and maturities of the loan(s).

d) Loan monitoring and follow-up procedures.

If the CUSO is not able to make payments on **a** regular basis, causing the loan to become delinquent, the loan should be treated as any other delinquent loan. This would include listing the loan on the monthly delinquent loan report, and reserving for any possible losses on the loan if the loan becomes seriously delinquent. Generally accepted accounting principles requires a credit union to establish **a** reasonable amount in the Allowance for Loan Losses Account to cover estimated losses inherent in the loan.

6110.4.1 ACCOUNTING PROCEDURES

The accounting entries for a loan to a CUSO should be the same as those for a loan to a member except that Account No. 748.2, "Loans to a Credit Union Service Organization," should be used rather than Account No. 701. Refer to Section 4050.4 in the Accounting Manual.

6110.4.2 COLLECTION PROCEDURES

The collection procedures for a loan to a CUSO should be essentially the same as for a loan to **any** member. Refer to Section 5220.2.8 in this Accounting Manual for a discussion on establishing and maintaining an effective collection program.

6120 SPECIAL ACCOUNTING AND OPERATING PROCEDURES FOR FEDERAL CREDIT UNIONS MAINTAINING BRANCH OPERATIONS

A branch operation can be established for a variety of reasons or circumstances. Some branches are established to extend services within an existing field of membership, or are the result of mergers with other credit unions. Sometimes a branch is established due to the expansion of the sponsor or to better serve membership at distant geographical locations. If a federal credit union has one or more branch offices, a review of the branches' operations should be performed on a periodic basis. This review should include at least the following: cost effectiveness, adequacy of internal controls, and service to members.

When assessing the areas of services to members and cost effectiveness, the board of directors need to determine the effect of a branch operation on shares, loans, income, expenses and reserves. This same analysis would be applied whenever a federal credit union adds one or more branches, or desires to establish its first branch operation.

Whenever a credit union increases the number of branch offices or establishes its first branch, the board of directors need to consider the effect these actions will have on the amount of fixed assets owned or leased by the credit union. This is necessary because Section 701.36 of the National Credit Union Administration Rules and Regulations places some limitations on the amount that can be invested in fixed assets. Section 6070 in this Accounting Manual provides a detailed explanation of the limitations.

In summary, establishing a branch operation, maintaining existing branch operations, or establishing branch offices requires thorough planning by the board of directors.

6120.1 BRANCHES

Management must determine the type of branch office control to establish. The decision is based upon policy, available staff, member needs and the nature of the recordkeeping system and equipment available. The degree of control can vary from centralized, where strict control is maintained in the main office, to decentralized, where the branch operates under a maximum of main office direction. Under either type of control the scope of operations can vary from form processing such as member and loan applications, to full service such as cash receipt and disbursements, and loan application approval and disbursements.

6120.2 CENTRALIZED OPERATIONS

This type of control requires maintenance of the books of account, including the member's ledgers and all other essential records, in the main office. In order to retain proper control of transaction activity in central operations, effective communication must be established between the branch and the main office. Immediate availability of communication is essential if the branch has the function of disbursing funds to members. For example, in the case of a share withdrawal, an inquiry must be made to the main office to determine if sufficient unencumbered shares are available for withdrawal. Communication can be established and maintained by any one or combination of methods such as by special messengers, couriers, mail telephone, data transmission by electronic means, teller terminals, etc.

Regardless of the type of communication used, procedures must be established to insure that the information exchanged between the main office and the branch is both current and accurate.

For centralized operations, an accounting system needs to be developed that will identify the share and loan accounts initiated and maintained at or by the branch, and create separate income and expense accounts for the branch by adding a suffix to the primary account, e.g., Account No. 111-1, "Interest on Loans-Branch No. l," etc.

The accounting and operating procedures discussed herein encompass a wide range of services. Variations of the procedures can be adapted to suit the degree and complexity of the services offered.

6120.2.1 CASH RECEIPTS

Cash receipts can be received from over the counter share deposits and loan payments, purchase of travelers checks and money orders, etc. To record cash receipts at the branch office, three copies of the cash received voucher are usually prepared. One copy of the voucher is transmitted to the main office, another is filed at the branch office and a third copy is given to the member as a receipt. Additional copies may be needed if source documents are batched and sent to an electronic data processor.

Cash receipts are balanced daffy. An original and one copy of the summary voucher is prepared. One copy is included with the cash received vouchers being sent to the main office while the other copy is retained at the branch. With an on-line system, the process can be combined whereby the cash received voucher is a by-product of data entry into the terminal. If information is transmitted by hard copy, as well as by computer, both sources must be reconciled.

6120.2.2 DISBURSEMENTS

All branch office disbursements must be supported by vouchers. The original vouchers along with the summary are to be sent to the main office. The duplicate vouchers, along with the duplicate of the summary, are to be held at the branch office.

6120.2.3 CASH ACCOUNTS

Several types of cash accounts may be established if receipts and disbursements are processed through the branch office:

a) Change fund-this must be authorized by board policy and would depend upon the volume of transactions, proximity to the main office and facilities for handling cash.

b) Checking account-this could either be a separate account in the same bank as the main office, or an account in a bank located within the same city as the branch office. Arrangements can be made in advance for transfer of funds as necessary. The bank statements and canceled checks should be sent to the main office for reconcilement.

6120.2.4 PROCESSING OF LOANS

Loans may be disbursed at the branch office after approval by a loan officer pursuant to the authority delegated by the credit committee or board of directors. Applications which require credit committee action must be referred to the committee at the main office for approval or disapproval. After action has been taken on these items, approval and rejection advices should be sent to the branch office on a flow basis.

Loan documents are usually transmitted to the main office; however the board of directors may decide that these documents be maintained at the branch office. If the loan documents are sent to the main office, sufficient information to meet member servicing needs should be maintained at the branch office.

6120.2.5 RECORDS AT A BRANCH

Although the books of account and essential records are usually maintained in the main office, it is necessary for the branch to maintain some records so that day-to-day operations may be conducted with the members as follows:

a) Duplicate of cash received, cash disbursed, journal and summary vouchers;

b) Duplicate records affecting payroll deductions;

c) Duplicate membership applications cards or some other means of identifying members;

d) Duplicate of the Individual Share and Loan Ledgers; and

e) A daily log for Cash, Shares and Loans. This record is useful in determining cash needs on a daily basis. At the end of each month, the cumulative totals of the daily log are determined.

6120.2.6 STAFFING OF A BRANCH

The board of directors must provide necessary operating staff for the branch office including the appointment of one or more assistant treasurers or assistant managers. The credit committee or the board of directors, if the bylaws so provide, may want to appoint one or more loan officers. The loan officer may serve as an assistant manager or assistant treasurer. However, the restrictions against disbursing proceeds of a loan which are approved by the same person, must be observed. If the branch office and main office are in proximity of each other, rotation of personnel may be appropriate.

6120.2.7 SURETY BOND AND OTHER INSURANCE COVERAGE

Coverage under the surety bond and other insurance policies may not automatically extend to the branch office. The board of directors will need to determine that surety coverage is provided in accordance with Section 701.20 of the National Credit Union Administration Rules and Regulations. The need for and extent of coverage provided by other types of insurance should also be determined by the board of directors.

6120.2.8 SUPERVISORY COMMITTEE

Provisions must be made to include the operations of the branch office in the comprehensive annual audit performed each year and the verification of members' accounts. Surprise cash counts, bank (checking) account reconciliations, and inventories of money orders and travelers checks should be included in the audit steps.

6120.2.9 MEMBERSHIP APPLICATIONS

Membership officers may be appointed by the board of directors for branch offices as required. Persons appointed must be members of the credit union and other than persons authorized to disburse funds or to serve as loan officers.

6120.2.10 SECURITY

Provision must be made for compliance with Section 748 of the National Credit Union Administration Rules and Regulations (Minimum Security Devices and Procedures) at each branch location.

6120.2.11 RECORDS PRESERVATION

As a minimum, duplicate records need to be retained at the branch office until the transactions reflected on them have been recorded and balanced at the main office. In setting a destruction schedule, the board of directors will need to consider the value of the duplicate records as a tool for answering questions presented by the members as well as the needs of the supervisory committee in auditing the branch office.

6120.2.12 SERVICE

There are occasions where branch office members may appear at the main office for service and vice versa. Careful separation of account activity between members at the branch office versus members at the main office is a crucial aspect of branch office control, e.g., using a special suffix, code, or block of account numbers to identify branch office members.

6120.2.13 OVERSEAS BRANCHES

Most of the procedures indicated above for a centralized operation also apply to the establishment and operation of overseas branches for stateside credit unions which provide immediate communication to the branches via teletype, telex or similar data transmission system. Stateside credit unions that do not provide immediate communication to overseas branches operate under a modified centralized/decentralized operation which mandate special approaches and procedures described in Section 6125 of this manual.

6120.3 DECENTRALIZED OPERATIONS

Under this type of control the branch management operates under a minimum of main office direction and is responsible to the main office. In practice, the board of directors may select any type of control between the two extremes. To illustrate decentralized operations, it will be assumed that the branch is a "mini" credit union, operating within board policy. Monthly financial statements are prepared and submitted to the board of directors. Separate Individual Share and Loan Ledgers, a Journal and Cash Record and a General Ledger are maintained by the branch office. In a decentralized operation, boards of directors should develop an operating budget for the branch office and conduct periodic reviews of the budget by comparing actual income and expense amounts to budgeted amounts.

6120.4 ACCOUNTING SYSTEM FOR A BRANCH

As stated previously, the extent of the accounting activity at a branch depends on credit union policy. The operating policies of one credit union may require a complete set of accounting records at each branch; policies at another credit union may call for the concentration of all accounting records in the main office.

In some credit unions, the branch maintains a complete set of accounting records. They consist of the Journal and Cash Record, the General Ledger, Expense Ledgers, a Chart of Accounts, and segregated Individual Share and Loan Ledgers; all similar to those of an independent credit union. The branch also

prepares monthly financial statements and forwards them to the main office. The main office thus establishes the number and types of General Ledger Accounts, internal control policies and procedures, the form and content of financial statements, and the accounting policies.

The range of transactions that need to be accounted for by a branch are those transactions which consist of controllable expenses and income for which the branch manager is responsible. If the branch manager has responsibility for all assets of the branch and its expenditures, the branch accounts need to reflect this responsibility. Expenses that are not within control of the branch should be accounted for by the main office. These expenses are then allocated and charged to the branch in accordance with management's allocation policy. The branch's Statement of Income (FCU 109B) will then reflect those charges.

6120.4.1 RECIPROCAL ACCOUNTS

The accounting records maintained by a branch should include a main office account (Account No. 865) which is credited for all purchases, cash, or other funds provided by the main office. It should be debited for all cash, purchases, or other funds sent by the branch to the main office or other branches.

The "Main Office Account" is shown in the liability section of the branch's Statement of Financial Condition (FCU 109A). This account shows the main office's net investment in the branch. At the end of the accounting period when the branch closes its accounts, the "Net Income (Loss)-Branch #1," (e.g., Account No. 960-1), would be closed to the main office's "Net Income Account," (Account No. 960). The account balance would either increase when there was net income or decrease when there was a net loss.

6120.4.2 INVESTMENT IN BRANCH ACCOUNT

As for the accounting records of the main office, a reciprocal account is maintained, titled, "Investment in Branch," (Account No. 753). The account is debited for the cash, purchases, and services that are provided to the branch and the net income earned by it. It is credited for the cash or assets that are received from the branch office and for any net loss incurred by the branch.

6120.5 FINANCIAL STATEMENTS FOR THE BRANCH

The branch needs to prepare a separate Statement of Financial Condition (FCU 109A) and a Statement of Income (FCU 109B). The only different aspect of a Statement of Financial Condition (FCU 109A) for a branch is the use of the Main Office Account (Account No. 865) instead of the investment accounts used by the main office.

6120.6 FINANCIAL STATEMENTS FOR THE MAIN OFFICE AND THE BRANCH

The Statement of Financial Condition (FCU 109A) that is made available to credit unions members or posted in the credit union's main office must show the financial position of the credit union as a single unit. A working paper would normally be prepared reflecting the adjusted trial balances of the home office and the branch. The Statements of Financial Condition (FCU 109A) and the Statements of Income (FCU 109B) would be used for this purpose. **Figure 6-XX** provides an illustration of such a working paper.

In completing the working paper, the assets and liabilities of the branch are substituted for the "Investment in Branch" account (Account No. 753) shown on the workpaper as part of the main office's trial balance. This is accomplished by the combination eliminating entries whereby:

a) The "Main Office," Account No. 865 is offset by "Investment in Branch," Account No. 753;

b) Receivables and payables between the branches and the main office or between the main office and a branch are eliminated; and

c) Intra-office profits or losses are eliminated.

6120.7 ILLUSTRATIVE JOURNAL AND CASH RECORD ENTRIES

Assume that JV Federal Credit Union maintains Branch #1 in another state. Furniture and equipment used at the branch is recorded on the records of the main office. Several operating expenses are applicable to the entire credit union operation. The main office bills the branch for its portion of the allocated cost. The branch was opened December 1, 19X0.

The following transactions occurred during the month of December 19Xl.

6120.7.1 DESCRIPTIONS OF THE TRANSACTIONS

a) Cash of $200,000 was sent to the branch.

b) Furniture and equipment was purchased by the branch for $1,000. The transaction is to be recorded on the records of the main office which is in accordance with the policies of the main office for other assets purchased by the branch.

c) Forty new consumer type loans were granted to credit union members totaling $160,000.

d) Payments on loans that have been processed by the branch amounted to $124,000 including interest.

e) $4,000 of operating expense were paid by the branch.

f) The branch forwarded $76,000 cash to the main office.

g) Operating expenses of $6,000 that were applicable to the branch's operations were billed to the branch by the main office.

Journal and Cash Record Entries

Main Office

a. Dr. - Investment in Branch #1
(Acct. No. 753.1) $200,000
Cr.-Cash (Acct. No. 731) $200,000

b. Dr. - Furniture and Equipment -
Branch #1 (Acct No. 774.1) $1,000
Cr.-Investment in Branch #1
(Acct. No. 753.1)..... $1,000

c. None

d. None

e. None

f. Dr. - Cash (Acct. No. 731) $76,000
Cr.-Investment in Branch #1
(Acct. No. 753.1) $76,000

g. Dr. - Investment in Branch #1
(Acct. No. 753.1) $6,000
Cr.-Operating Expenses
(Acct. No. 200) $6,000

Branch Office

a. Dr. - Cash (Acct. No. 731) $200,000
Cr.-Main Office (Acct. No. 865) $200,000

b. Dr. - Main Office (Acct. No. 865) $1,000
Cr.-Cash (Acct. No. 731) $1,000

c. Dr.-Loans (Acct. No. 701) $160,000
Cr.-Cash (Acct. No. 731) $160,000

d. Dr. - Cash (Acct. No. 731) $124,000
Cr.-Loans (Acct. No. 701) $100,000
Cr.-Interest on Loans (Acct. No. 111) $24,000

e. Dr.-Rent (Acct. No. 251) $4,000
Cr.-Cash (Acct. No. 731) $4,000

Branch Office (Continued)

f. Dr. - Main Office (Acct. No. 865) $76,000
Cr.-Cash (Acct. No. 731) $76,000

g. Dr. - Operating Expense
(Acct. No. 200) $6,000
Cr.-Main Office (Acct. No. 865) $6,000

6120.7.2 RECIPROCAL ACCOUNT IN MAIN OFFICE GENERAL LEDGER

Investment in Branch #1 *(Account No. 753)*

Explanation of the Transaction	Dr.	Cr.	Debit Balance
#1 Cash forwarded to the branch	$200,000		$200,000
#2 Furniture and Equipment purchased			
Reciprocal Account in Main Office Gener Ledger (continued)			
by the branch, but recorded in the main office		$1,000	$199,000

Investment in Branch #1 *(Account No. 753)*

Explanation of the Transaction	Dr.	Cr.	Debit Balance
#6 Cash received from the branch		$76,000	$123,000
#7 Operating expenses billed to branch	$6,000		$129,000

6120.7.3 RECIPROCAL ACCOUNT IN BRANCH LEDGER

Main Office *(Account No. 865)*

Explanation of the Transaction	Dr.	Cr.	Credit Balance
#1 Cash received from main office		$200,000	$200,000
#2 Equipment purchases by branch to be recorded on the books of the main office	$1,000		$199,000
#6 Cash sent to home office	$76,000		$123,000
#7 Operating Expenses billed by home office		$6,000	$129,000

6125 SPECIAL ACCOUNTING AND OPERATING PROCEDURES FOR FEDERAL CREDIT UNIONS MAINTAINING OFFICES OVERSEAS

Federal credit unions whose fields of membership have been expanded to include personnel at military bases overseas are presented with new opportunities to extend valuable credit union services. Undoubtedly, the greatest challenge will be to provide prompt and complete service to the members overseas in spite of the geographical distance that separates the overseas base from the credit union office in the United States.

A federal credit union submitting a proposal to the National Credit Union Administration to include overseas installations in its field of membership should include information on the accounting and operating procedures which will be used in operating the overseas office. Information concerning the accounting and operating procedures should be submitted to the Administration's regional office serving the area in which the credit union's home office is located.

In summarizing the operating procedures it should be kept in mind that the need to maintain duplicate records may be substantially reduced for federal credit unions that use a computerized accounting system. Since there are variances in the types of computer systems used by federal credit unions, it is not practical to identify a uniform method that each of these credit unions should follow in serving the overseas office.

Consequently, a federal credit union using a computer system should submit a description of the procedures it intends to use in servicing the overseas office. Comments on the frequency of transmittal of specific types of documents between offices will need to be included. Copies of output documents to be used by the overseas facility as substitutes for maintaining duplicate records should be submitted with the description.

6125.1 ACCOUNTING AND OPERATING PROCEDURES

The accounting and operating procedures discussed herein provide the framework in which overseas members can receive appropriate service. The procedures are based on the assumptions that the overseas office will accept payments from members and make all disbursements to them.

The accounting and operating procedures are discussed in three major sections as follows:

a) Special Considerations;

b) Overseas Procedures; and

c) Main Office Procedures.

In most instances, these procedures can be followed with few changes. Where necessary, however, requests for waivers should be sent to the Regional Directors for review and transmittal to the Administrator for action.

6125.2 SPECIAL CONSIDERATIONS

6125.2.1 RESPONSIBILITY FOR OPERATIONS

The board of directors, credit committee and supervisory committee are responsible for the operations of a federal credit union. The operation of an overseas office of the credit union places increased responsibility on the officials at the main office in guiding and directing the affairs of the credit union at each of its branch locations.

6125.2.2 ALLOTMENTS

Allotment checks and supporting data showing the individual allotments should be sent to the office serving the members at that location. Members stationed at the overseas location should designate the overseas office as recipient of their allotments. All other members should designate the main office as recipient.

6125.2.3 FOREIGN CURRENCY TRANSACTIONS

Statement of Financial Accounting Standards (SFAS) No. 52 sets forth accounting standards for foreign operations. FASB 52 would usually only affect credit unions with regard to foreign currency transactions. A foreign currency transaction takes place whenever a monetary transaction occurs in a currency other than the functional currency of the branch. For purposes of SFAS No. 52, the "functional currency" of the branch would normally be U.S. dollars.

SFAS No. 52 requires that financial statements be adjusted to reflect the current value of foreign currency on deposit at the overseas branch. This is referred to as "Translation Adjustments." Translation adjustments may result in a gain or loss that would have to be reflected on the financial statement. translation adjustments are calculated by taking the difference between the exchange rate that could have been used to settle the transaction on the date it occurred and the exchange rate that exists as of the balance sheet date.

Example: A member makes a share deposit in a foreign currency of $50 and the exchange rate on that day is 1.25. In U.S. dollars the deposit is worth $40 ($50 divided by 1.25). When the month-end financial statements are prepared, the exchange rate has changed to 1.20. The deposit is now worth $41.67, or a gain of $1.67. This gain of $1.67 should be recorded on the income statement as a gain on foreign currency transactions.

6125.3 OVERSEAS PROCEDURES

6125.3.1 RECORDS

In order for the overseas office to carry on day-to-day operations with the members at the facility, it is necessary that certain records be maintained overseas. These records should be duplicated and the official records maintained at the main office.

6125.3.1.1 MINIMUM RECORDS TO BE MAINTAINED AT OVERSEAS OFFICE

a) Duplicates of cash received, cash disbursed and journal vouchers, along with any summary vouchers prepared.

b) Duplicates of records reflecting allotment postings.

c) Duplicates of membership application cards or some other means of identifying the members.

d) A Daily Log for Cash, Shares and Loans, except for centralized, computerized recordkeeping systems.

e) Duplicates of the Individual Share and Loan Ledgers, except for centralized, computerized recordkeeping systems.

6125.3.1.2 RECORDS AND INFORMATION TO BE TRANSMITTED BY THE OVERSEAS OFFICE TO THE MAIN OFFICE

Daily

a) Originals of all cash received, cash disbursed and journal vouchers, along with each day's summary vouchers.

b) The breakdown (Shares, Loans, Interest and Late Charges) of any allotment posting.

c) Invoices for expenses paid.

d) Notes and supporting documents for loans made (microfilmed, microfiched, photostatic copies, or the original documents).

e) Applications for loans and extension agreements to be considered by the credit committee (including applications submitted to the loan officer but not approved by the loan officer).

f) Requests for withdrawal of shares requiring credit committee approval.

g) Membership applications.

h) Loan officer records (credit committee may require weekly submittal).

Monthly

a) Month-end tapes of the Individual Share and Loan Ledger balances, except for centralized, computerized recordkeeping systems.

b) Membership officer report, if membership officer is located overseas.

c) Month-end cumulative totals of Cash, Shares and Loans from the Daily Log, except for centralized, computerized recordkeeping systems.

6125.3.2 OPERATIONS

6125.3.2.1 RECEIPTS

To record cash receipts at the overseas office, three copies of the cash received voucher should be prepared. One voucher is transmitted to the main office; a second copy is filed at the overseas location after posting, and the third copy given to the member as his receipt. (If passbooks are used, the triplicate copy need not be prepared.)

Cash receipts should be balanced in accordance with the instructions in Sections 5010, 5050, and 5060. An original and a copy of the summary voucher should be prepared for all cash received vouchers of the day. The original summary should be transmitted to the main office with the original vouchers. The duplicate summary should be filed in the overseas office with the copies of the vouchers.

6125.3.2.2 DEPOSITS MADE BY AN OVERSEAS BRANCH

A separate bank account must be opened for the overseas office. Eligible depositories under the Federal Credit Union Act include branches of stateside banks and local banks that are correspondents of stateside banks. If there are no such branches or banks available at or near the overseas facility, the account should be maintained in a stateside bank. In that event, cash receipts will need to be transmitted to the bank. Money orders may be used for this purpose. It may be possible to make an arrangement with the financial officer on the military base where cash turned over to him/her will be transmitted to the main office or designated depository.

Arrangements should be made so that both the main office and the overseas office receive validated bank deposit tickets for deposits made by the overseas office.

6125.3.2.3 DISBURSEMENTS

Disbursements to members whose accounts are at the overseas office should be made by the overseas office. Consequently, all requests for share withdrawals and loan applications by members whose accounts are at the overseas office should be presented to that office. Careful separation of account activity between members at the overseas office versus members at the main office is a crucial aspect of overseas office control.

Many requests for disbursements, including loans and share withdrawals that the loan officer approves pursuant to delegated authority can be fulfilled without referral to the main office. Those requests which do require further main office action, should be referred to the main office for approval or disapproval. After action has been taken on these items, approval and rejection advices should be sent to the overseas office in whatever form the credit union finds workable.

All overseas disbursements should be supported by vouchers. The original vouchers, along with the summary, are usually sent to the main office. The duplicates, along with the duplicates of the summary, are to be filed at the overseas office. If the main office desires a posting copy in addition to a check register copy, an additional copy of the voucher should be prepared. Notes and supporting documents (or facsimiles thereof) for loans disbursed at the overseas office are usually sent to the main office for filing; however if the board of directors so decide, these documents can be maintained at the overseas office.

Expenses incurred at the overseas office should be paid by that office. An exception to this policy would be the payment of salaries to the overseas office employees by the main office.

6125.3.2.4 DAILY LOG

The overseas office should maintain a Daily Log into which the debits and credits of Cash, Shares and Loans from each day's summary vouchers are entered. At the end of each month, the cumulative totals of the Daily Log should be determined.

6125.3.2.5 ALLOTMENTS

Overseas members should designate the overseas office as recipient of their allotments. Each time the overseas office posts allotments, it should furnish the main office with the posting information so that the official Individual Share and Loan Ledgers can be updated.

6125.3.2.6 RECORD OF LOANS MADE

If the overseas office does not retain loan applications, it is necessary that a record of loans made be maintained. The basic information shown on the record portion of the Individual Share and Loan Ledger (plus any additional information that is necessary for the loan officer to act on applications for loan(s) should be recorded. An example of additional information which would be helpful is the "purpose" of the previous loan(s).

6125.3.2.7 LOANS TO PURCHASE SECURITIES

A borrower who is a citizen or a resident of the United States obtaining credit from an overseas office of an FCU registered under Regulation G must comply with the provisions of Regulation G if the purpose of the loan is to purchase listed securities. The borrower is not required to complete Part I of Federal Reserve Form G-3 (concerning a statement of the purpose of the credit). However, it is recommended that a federal credit union encourage the member to fill out the purpose statement. This practice should eliminate any potential penalties that could arise should the member use the borrowed funds to purchase something other than listed securities.

6125.4 MAIN OFFICE PROCEDURES

6125.4.1 RECORDS

The main office is charged with the responsibility of maintaining all official records for the overseas office in addition to the main office records. The main office, therefore, needs to maintain the same records for overseas members as it maintains for the members at the stateside location. The fact that the overseas office is required to maintain duplicate records in order to provide prompt service does not relieve the main office from keeping a complete set of records.

6125.4.1.1 RECORDS TO BE MAINTAINED AT THE MAIN OFFICE

a) All records now maintained for main office transaction.

b) All records reflecting overseas transactions.

c) Daily cash balance of bank account for overseas office.

d) Duplicate copies of approval and rejection advices sent to overseas office.

6125.4.1.2 INDIVIDUAL SHARE AND LOAN LEDGERS (DUPLICATES)

The balances on the Individual Share and Loan ledgers are updated daily. These ledgers must be clearly marked "duplicate."

Trial balance tapes of the duplicate Individual Share and Loan Ledgers must be prepared each month-end and balanced to the Share and Loan totals in the Daily Log. One copy of the tapes should be sent to the main office for confirmation with the official records.

6125.4.1.3 JOURNAL AND CASH RECORD AND GENERAL LEDGER

To provide the credit unions officials with the information they need to analyze the overseas operations, separate Journal and Cash Records and General Ledgers (designated as "main office" and "overseas") should be maintained. In addition, in order that transactions between the two offices can be properly reflected in the separate records maintained for each office, it is necessary to use the reciprocal accounts, Account. Nos. 753 and 865.

At the end of each month, the "main office" Journal and Cash Record is closed, and the totals are posted to the "main office" General Ledger. Trial balances are prepared of the Individual Share and Loan Ledgers for the "main office" accounts, and the balances are reconciled to their respective "main office" General Ledger accounts.

The monthend tapes of the overseas office, which have been prepared by the main office, should then be reconciled to the tapes furnished by the overseas office. All balances on the tapes must be as of the last business day of the period. Any differences should be promptly reconciled with the overseas office. A Statement of Financial Condition and related period-end reports should then be prepared for the main

office.

The “overseas” Journal and Cash Record should be held open until all vouchers for the month are received. After these transactions are entered into the “overseas” Journal and Cash Record and posted to the “overseas” Individual Share and Loan Ledgers, the “overseas” Individual Share and Loan Ledgers, and the balances should be reconciled to their respective “overseas” General Ledger accounts. A Statement of Financial Condition and related period-end reports should then be prepared for the overseas office. As a final step, a consolidated Statement of Financial Condition and related period-end reports should be prepared.

6125.4.1.4 SCHEDULE OF DELINQUENT LOANS

At the end of each month (or more frequently if dividends are distributed more frequently than monthly) the main office should prepare a Schedule of Delinquent Loans. A combined schedule or separate schedules for the overseas office and the main office can be prepared. A copy of the combined schedule, which specifically identifies the delinquent loans at the overseas office (or the separate schedule which fists only the delinquent loans at the overseas office), should be furnished to the overseas office on a monthly basis (more frequently if needed).

If the credit union follows the practice of transferring to the main office the accounts of those members who leave the overseas base, then a procedure should be developed to identify those loans which subsequently become delinquent. The total of the number and amount of these loans which subsequently become delinquent should be shown in the statistical section of the Statement of Income (FCU 109B) of both the overseas office and the main office. A note to the financial statements should identify the total of the number and amount of delinquent loans attributed to the overseas branch and the main office.

6125.4.1.5 STATEMENT OF ACCOUNT

Assuming that statements of accounts are used, they should be mailed by the main office to all overseas members.

6125.4.1.6 SUPERVISORY COMMITTEE

The supervisory committee should determine the date and scope of audits to be performed at the overseas location and inform its overseas assistant and/or accounting firm. Since the official records should be maintained at the main office, verification of members’ accounts should originate from the main office.

6125.4.1.7 OTHER ACCOUNTING ENTRIES

At the end of each accounting period, the income and expense accounts should be closed to “Net Income (Loss)” on the respective records of the overseas office and main office. Valuation allowance adjustments, dividends, and interest refunds should be recorded on the respective records before the income and expense accounts are closed to “Net Income (Loss)”, in accordance with the instructions in Sections 4000 and 5000 of this manual. The net income or loss generated on the records of the overseas office should then be

transferred to the main office records through the use of the reciprocal accounts. The apportionment of income or loss between the "Regular Reserve" and "Undivided Earnings" accounts should then be made on the main office records. "Undivided Earnings" and "Regular Reserve" accounts should not be established for the overseas office.

Any loans to be charged off should be charged to the "Allowance for Loan Losses," (Account No. 719) in the main office records. Refer to Section 6125.5 for a listing of the proper accounting entries to be used when a loan is transferred to the main office. Recoveries should, likewise, be credited to the main office "Allowance for Loan Losses," (Account No. 719). The Statement of Income (FCU 109B) should receive allocation of the "Provision for Loan Losses Expense," (Account No. 300) and be footnoted for charge-offs and recoveries of overseas loans.

6125.5 ILLUSTRATIVE OPERATIONAL ENTRIES

The following illustrative entries reflect typical transactions between the main office and overseas branch office.

Illustrative Entries:

a) To record cash transferred from branch office to main office:

Dr. - Main Office (Acct. No. 865) $300
Cr.-Cash (Acct. No. 731) $300

Main Office:

Dr. - Cash (Acct. No. 731) $300
Cr.-Investment in Branch
(Acct. No. 753) $300

b) To record transfer of a loss loan to Main Office for collection and/or charge-off:

Branch Office:

Dr. - Main Office (Acct. No. 865) $175
Cr.-Loans (Acct. No. 701) $175

Main Office:

Dr.-Loans (Acct. No. 701) $175
Cr.-Investment in Branch

(Acct. No. 753) $175

c) To record transfer of allowance established for above loan transferred to Main Office:

Branch Office:

Dr. - Allowance for Loan Losses
(Acct. No. 719) $175
Cr.-Main Office (Acct. No. 865) $175

Main Office:

Dr.-Investment in Branch
(Acct. No. 753) $175
Cr.-Allowance for Loan Losses
(Acct. No. 719) $175

d) To record the charge-off of a loan that is on the records of the Branch office:

Branch Office:

Dr. - Main Office (Acct. No. 865) $125
Cr.-Loans (Acct. No. 701) $125

Main Office:

Dr. - Allowance for Loan Losses
(Acct. No. 719) $125
Cr.-Investment in Branch
(Acct. No. 753) $125

6125.5.1 ILLUSTRATIVE ENTRIES FOR THE END OF THE ACCOUNTING PERIOD

a) To adjust valuation allowance for loans at branch office as required by directors:

Branch Office:

Dr. -Provision for Loan Losses
(Acct. No. 300) $55
Cr.-Allowance for Loan Losses
(Acct. No. 719) $55

Main Office:

No Entry Needed

b) To record dividends declared for branch office accounts:

Branch Office:

Dr. - Dividend Expense (Acct. No. 380) $125
Cr.-Dividends Payable (Acct. No. 820) $125

Main Office:

No Entry Needed

c) To close interest on loans to Net Income (Loss) for the branch office:

Branch Office:

Dr.-Interest on Loans (Acct. No. 111) $400
Cr.-Net Income (Loss)
(Acct. No. 960) $400

Main Office:

No Entry Needed

d) To close expense control to Net Income (Loss) for the branch office:

Branch Office:

Dr.-Net Income (Loss)
(Acct. No. 960) $100
Cr.-Operating Expenses (Control)
(Acct. No. 200) $100

e) To transfer Net Income (Loss) from records of branch office to records to main office:

Branch Office:

Dr.-Net Income (Loss)
(Acct. No. 960) $300
Cr.-Main Office (Acct. No. 865) .....
$300

Main Office:

Dr. -Investment in Branch Office
(Acct. No. 753) $300

Cr.-Net Income (Loss)
(Acct. No. 960 ..... $300

The apportionment of the combined Net Income (Loss) between Regular Reserve and Undivided Earnings is then made on the main office records.

6128 CREDIT UNION OFFICE FACILITIES ON DEPARTMENT OF DEFENSE INSTALLATIONS

Federal credit unions that have offices on military installations may have the option of using either available real property space, or constructing their own facilities. The following instructions concern the prescribed procedure for such credit unions to account for funds expended for office facilities. Authority for this activity is contained in Department of Defense Directive 1000.10. Details are shown in the regulations issued by each concerned military department.

6128.1 GOVERNMENT-OWNED FACILITY

When a credit union has used its own funds to expand, modify, or renovate government-owned space, a no-cost permit or license may be provided for a period not to exceed 26 years. The duration of the permit or license is to be commensurate with the extent of the improvements as determined by the DOD component concerned. The leasehold improvements, in this situation, would thus need to be amortized over the term of the license or permit or the economic life of the improvements, whichever is less. The unamortized portion of the leasehold improvement should be shown as a separate asset account, "Leasehold Improvements," (Account Number 776). Periodic charges to amortize the asset account would be to "Amortization of Leasehold Improvements," (Account Number 255).

6128.2 OFFICE FACILITIES CONSTRUCTED BY FEDERAL CREDIT UNIONS

Federal credit unions that construct office facilities on government installations must agree to certain conditions required by the aforementioned DOD Directive 1000.10. These conditions are that the facilities would revert to the government without reimbursement to the credit union upon the revocation of the lease, closing of the installation or the liquidation of the credit union.

The DOD currently encourages credit unions to construct buildings off-base rather than on-base so that the credit union does not suffer in case of an installation closure. In addition, credit unions should be aware that current DOD policy limits leases for new construction to 25 years or less. Some credit unions are currently operating under 15 year leases, which was the previous maximum period allowed by DOD. The credit union's financial statement should be noted to indicate the improvement is owned by the U.S. Government and the credit union is permitted to occupy it at no cost to the credit union.

For those credit unions that have constructed buildings on DOD installations, either independently or as a part of a complex, such as an installation shopping mall, land for buildings should be provided to the credit union in the form of a real estate land lease, at a fair market rental, for a period not to exceed 25 years.

When under the land lease, title to the buildings and other improvements to the land has passed to the government, arrangements should be made for the credit union's continued occupancy of those premises by a no-cost permit or license. Such arrangements will continue for as long as the credit union desires occupancy. Continued renewal of the permit will only cease under those conditions which would have caused cessation of the predecessor lease. Under these circumstances, the amortization period for the building and improvements to the land would be their economic life.

If a federal credit union erects an on-site building under the above conditions, the cost should be shown in "Leased Assets," (Account No. 778). Periodic amortization charges should be made to "Depreciation of Leased Assets," (Account No. 257).

6128.3 OFF-SITE OFFICE FACILITY

Expenditures for an office building constructed by a defense credit union which is not on a military installation should be handled in accordance with the instructions for "Building," (Account No. 772).

If a credit union constructed both on-site and offsite buildings, two separate asset accounts should be shown in its General Ledger and in its financial statement. The building located off-site would have its costs recorded in "Building," (Account No. 772), with any land cost recorded in "Land," (Account No. 771), while the building located on the installation would be shown in "Leased Assets," (Account No. 778).

6128.4 RISK ASSETS

For the purpose of establishing the reserves required by Section 116 of the Federal Credit Union Act, assets shown in "Leasehold Improvements," (Account No. 776), will not be considered as risk assets.

6130 CORPORATE CENTRAL CREDIT UNIONS

Corporate central credit unions were established to serve primarily other credit unions. A corporate central federal credit union is defined as a federal credit union whose total dollar amount of outstanding corporate loans plus corporate shareholdings is equal to, or in excess of, 75 percent of its total outstanding loans plus shareholdings (corporate accounts are accounts of natural person credit unions). Additional information about corporate credit unions may be found in Part 704 of the NCUA Rules and Regulations.

The corporate central credit union can service the natural person credit union in two specific ways:

a) By giving the natural person credit union a place to invest its excess funds; and

b) By being able to lend to natural person credit unions for needs which are seasonal or short-term. In emergency situations, the corporate central credit union may also be able to provide long-term financing.

When the corporate central credit union is able to meet these objectives, it is fulfilling its role in the liquidity management of the credit union system.

For accounting purposes, investments in a corporate central credit union will be recorded in "Shares, Deposits and Certificates in Corporate Centrals," (Account No. 744); and loans from the corporate central should be recorded in "Notes Payable-Other," (Account No. 812). Income from the shares, deposits, and certificates should be recorded in "Income from Shares, Deposits and Certificates in Corporate Credit Unions," (Account No. 126). Additional information on accounting for these accounts in the General Ledger can be found in Section 4000 of this manual.

Corporate central federal credit unions can become Agent members to the Central Liquidity Facility. The main purpose for a corporate central to become an Agent is to assure financial stability by providing its member natural person credit unions with a source of loans to meet their liquidity needs. If a corporate central becomes an Agent, all of its member natural person credit unions can use the Central Liquidity Facility but only through the corporate central. Refer to Section 6090, "Membership in Central Liquidity Facility" for further information on Agent membership and required stock subscriptions.

6140 PENSIONS

A pension plan is a contract between a credit union and its employees whereby the credit union agrees to pay benefits to employees upon their retirement. Pension benefits generally consist of monthly payments and may provide for additional payments when employees die or becomes disabled.

A pension plan may be formal or implied by credit union practice. The plan may be established by an individual federal credit union or collectively with other credit unions.

There is no restriction on the types of pension plans credit unions may provide for their employees; however, credit unions should look for pension plans providing the most benefits at the lowest cost.

Federal credit unions may establish pension plans for their employees, or they may join existing programs as follows:

a) As the sponsor of an employee pension benefit plan for employees and compensated officers of the credit union with a named trustee other than the credit union;

b) As the trustee or custodian for individual retirement accounts (IRAs) for employees and compensated officers of the credit union;

c) As the trustee or custodian for individual retirement accounts (IRAs) for credit union members, groups of members, or organizations of members; or

d) As the trust or custodian for self-employment plans (Keoghs) for credit union members, groups of members, or organizations of members.

Due to their complexity, participation in any of these plans should only be undertaken with the advice of legal counsel. In addition, participation in any of the above plans (where the retirement funds are to be placed in trust or custodial accounts in the credit union) would require that credit unions comply with Article III, Sections 5(d), 5(e) and 6 of the Bylaws for Federal Credit Unions, and 724 and 745 of the NCUA Rules and Regulations as they relate to these types of accounts. Finally, credit unions should obtain outside assistance to determine whether the are complying with IRS regulations, Pension Benefit Guaranty Corporation (PBGC) guidelines and Department of Labor requirements.

Federal credit unions are authorized to have funded or unfunded pension plans for their employees. Under funded plans, regular periodic payments are made to an insurance company or to a trustee which agrees to assume the responsibility of distributing retirement checks to the designated recipients. Under unfunded plans, pension payments would be made by federal credit unions directly to their retired workers. The plans may be contributory where the employees bear part of the cost or they may be noncontributory where the credit unions pay the entire cost.

When a federal credit union acts as a trustee or custodian of a pension plan, the plan must consist of Individual Retirement Accounts and/or Keogh Accounts. The accounts must be established pursuant to Part 724 of the NCUA Rules and Regulations. Fiduciary liability insurance is not required.

When the federal credit union does not act as trustee or custodian, the plan needs to provide for the appointment of a trustee or custodian that is a person, committee, or organization other than the credit union.

A federal credit union acting as a trustee or custodian of individual retirement plans of its members established pursuant to the Employee Retirement Income Security Act of 1974 or self-employed retirement plans established pursuant to the Self Employed Individuals Retirement Act of 1962, *can do so only if:*

a) All contributions of funds are initially made to a share or share certificate account in the credit union;

b) Any subsequent transfer of funds to other assets is solely at the direction of the member and the federal credit union exercises no investment discretion and provides no investment advice with respect to plan assets (i.e., the credit union performs only custodial duties);

c) The member is clearly notified of the fact that NCUSIF coverage is limited to funds held in share or share certificate accounts of federally insured credit unions; and

d) The federal credit union complies with all applicable provisions of the Federal Credit Union Act and the NCUA Rules and Regulations, and applicable laws and regulations as may be promulgated

by the Secretary of Labor, the Secretary of the Treasury, or any other authority exercising jurisdiction over such trust or custodial accounts.

Pension plans may be initiated when a credit union is organized or, as in most credit unions, several years subsequent to its organization. If a pension plan is initiated upon organization, the credit union would incur normal pension costs.

However, if the plan is initiated subsequent to the credit union's organization, employees would be given past service credits for prior years' employment. The service credit should be included in the prior service cost as defined in Section 6140.1.

6140.1 DEFINITIONS

Accumulated Benefit Obligation. The actuarial present value of vested and/or non-vested retirement benefits attributed by the pension benefit formula to employee service before a certain date based on employee service and/or employee compensation prior to that date.

Actual Return on Plan Assets. The difference between the fair value of the plan assets at the beginning and at the end of a measurement period, adjusting for all payments and contributions during that period.

Actuarial Present Value. The current value of an amount or series of amounts, with each amount discounted for interest and the probability of payment between the specified date and the expected date of payment.

Annuity Contract. A contract whereby an insurance company unconditionally guarantees to provide specified pension benefits to specific individuals in return for a fixed premium.

Assumptions. Estimates of the occurrence of future events affecting pension costs, such as mortality, withdrawal, disablement, and retirement, changes in compensation, and discount rates.

Attribution. The process of assigning pension costs to periods of employee service.

Defined Benefit Pension Plan. A pension plan that determines an amount of pension benefit to be provided, usually as a function of age, years of employment, and/or compensation.

Defined Contribution Plan. A plan providing pension benefits which specifies the contributions to be made to the plan rather than specifying the benefits an employee is to receive. The retiree simply receives the balance of his account (or the actuarial equivalent) at the time his benefits begin. To meet its obligation, a credit union having such a plan needs only to make the contributions required by the funding provision of the plan.

Expected Long Term Rate of Return on Plan Assets. An assumption regarding the rate of return on plan assets reflecting the average rate of earnings expected on the investments in the retirement fund to provide the benefits.

Final Pay Formula/Plan. A benefit formula basing benefits on the employee's compensation over a certain number of years near the end of his employment period.

Flat Benefit Formula/Plan. A benefit formula basing benefits on a fixed amount per year of service.

Funding Policy. The plan for investing and timing credit union contributions to provide retirement benefits.

Gain or Loss. A change in the value of either the projected benefit obligation or the plan assets, or both.

Gain or Loss as a Component of Net Periodic Pension Cost. The sum of two factors:

a) The difference between the actual return on plan assets and the expected return on plan assets, and

b) The amortization of the unrecognized net gain or loss from previous periods.

Interest as a Component of Net Periodic Pension Cost. The increase in the projected retirement obligation due to passage of time.

Net Periodic Pension Cost. The amount recognized as pension plan cost in the credit union's financial statements.

Pension Benefit Formula. The formula for determining retirement payments to entitled participants under the pension plan.

Plan Amendment. A change in the terms of an existing plan or the beginning of a new plan.

Plan Assets. Assets which have been segregated and restricted to provide pension plan benefits.

Plan Curtailment. An event significantly reducing the expected years of future employment of employees or eliminating the accrual of benefits for a significant number of employees for some or all of their future services.

Plan Termination. An event resulting in the cessation the pension plan and the settlement of pension benefits. Termination may result in the purchase of annuities or lump sum payments in settlement of the pension benefits.

Prepaid Pension Cost. Accumulated employer contributions in excess of accrued net pension costs.

Prior Service Cost. The cost of retroactive benefits granted in a plan amendment, or the initiation of a plan subsequent to a credit union's organization.

Projected Benefit Obligation. The actuarial present value of all benefits attributed by the pension benefit formula as of a certain date to employee service rendered prior to that date.

Retroactive Benefits. Benefits granted in a plan amendment or initiation attributed to employee service by the pension benefit formula prior to the amendment or the initiation.

Service. Employment considered eligible to earn benefits by the pension benefit formula.

Service Cost Component of Net Periodic Pension Cost. The actuarial present value of retirement benefits

earned under the pension benefit formula during a particular period.

Settlement. An irrevocable transaction relieving the credit union or the plan of primary responsibility for pension benefits and eliminating significant risks related to the obligations and the assets used to pay for the settlement.

Unfunded Accrued Pension Cost. Accumulated net pension cost accrued in excess of the credit union's contributions.

Unrecognized Prior Service Cost as a Component of Net Periodic Pension Cost. The portion of prior service cost which has not yet been recognized by the credit union as part of net periodic cost.

Vested Benefits. Benefits already earned by the employee through service.

6140.2 ACCOUNTING FOR PENSION COSTS

When considering pension plans, deferred compensation agreements are often considered at the same time. The accounting treatment and the disclosure requirements for deferred compensation agreements are covered in section 6140.7 and related subsections.

Pension plans may be defined contribution or defined benefit plans. Defined contribution plans are discussed in section 6140.9.

For purposes of this section, a defined benefit pension represents an exchange between a credit union and its employees. In exchange for services, the credit union agrees to provide, in addition to current compensation, an amount of retirement income.

Pensions, therefore, are not gratuities, but are part of an employee's basic compensation. Since retirement income is not received currently, but is instead deferred until retirement, a pension is a form of deferred compensation. The credit union's obligation is incurred, however, when the services are rendered.

There are three basic aspects of pension accounting: delaying recognition of certain events, reporting net cost, and offsetting liabilities and assets.

Delayed recognition means that credit unions do not recognize changes in the pension obligation and/or changes in the value of the assets dedicated to meet those obligations as they occur, but gradually and systematically over later periods.

Net cost means that credit unions report all components of net pension benefits as one cost, rather than separately breaking down the compensation cost, the interest cost, and the income from investing what are often substantial amounts.

Offsetting refers to the fact that credit unions recognize the net values of assets contributed to pension plans and pension liabilities for past periods on their statements of financial position (balance sheets) even though the liabilities have not been settled, the assets may still be substantially controlled, and

substantial risks and rewards associated with both of those amounts are clearly still borne by the credit unions.

Credit unions are required to recognize minimum liabilities in certain circumstances when the accumulated benefit obligation exceeds the fair value of plan assets, even though recognition of the offsetting increase in net periodic pension cost is delayed over subsequent periods.

Net pension costs, as all other components of compensation costs, should be recognized by credit unions in the periods in which their employees render service. Even though the complexity and uncertainties of some plans may preclude complete achievement of that goal, it is the intent here to approximate more closely the recognition of the compensation cost of credit unions' pension benefits over its employees' service periods.

In accounting for pension costs, various problems arise such as:

a) allocating the pension costs to their applicable periods;

b) reporting the correct amounts for the rights and obligations in existence at different time periods;

c) disclosing the major terms or provisions of the plan, including the amount and time of the payments to be paid into the fund;

d) calculating the net periodic pension cost; and,

e) distributing the pension costs into their proper periods in a manner that will cause the costs to match the net revenue.

When accounting for pension costs, it should be assumed that the credit union will continue to provide the pension plan benefits. This assumption implies that the pension plan is a long-term undertaking, the cost of which will be recognized at least annually by those credit unions on a modified cash basis of accounting, and monthly by those credit unions on a full accrual method of accounting.

The entire cost of benefit payments should be charged against current period income. No portion of the cost should be charged against Undivided Earnings as a prior period adjustment.

6140.2.1 DETERMINATION OF NET PERIODIC PENSION COST

The net periodic pension cost is to be determined using the following components:

a) Service cost-The actuarial present value of benefits attributed by the pension benefit formula to employee services rendered by employees during that period. The service cost component is a portion of the projected benefit obligation and is unaffected by the funded status of the plan.

b) Interest cost-The increase in the projected benefit obligation due to passage of time.

c) Actual return on plan assets, if any-The difference between fair value of plan assets at the end of

the period and the fair value at the beginning of the period, adjusted for contributions and payments of benefits during the period.

d) Amortization of unrecognized prior service cost, if any-The systematic recognition, over several periods, as a charge to current income, of that portion of prior service cost that has not been recognized as a part of the net periodic pension cost.

e) Gain or loss (including the effects of changes in assumptions) to the extent recognized-The sum of (a) the difference between the actual return on plan assets and the expected return on plan assets and (b) the amortization of the unrecognized net gain or loss from previous periods. The gain or loss component is the net effect of delayed recognition of gains and losses (the net change in the unrecognized gain or loss) except that it does not include changes in the projected benefit obligation occurring during the period and deferred for later recognition.

f) Amortization of the unrecognized net obligation (and loss or cost) or unrecognized net asset (and gain) existing at the date of initial application of this section-The systematic recognition, over several periods, as a charge to current income, of the difference between the projected benefit obligation and fair value of pension assets, plus previously recognized unfunded accrued pension cost or less previously recognized prepaid pension cost.

6140.2.2 ILLUSTRATION OF NET PERIODIC PENSION COST COMPUTATION

For simplicity, it is assumed for this Illustration that there are no differences (actuarial gains or losses) between the actual amounts and those estimated at the end of the accounting period, and that the credit union made no contributions to the pension fund during the period.

Service cost component	$1,000
Interest cost component	500
Actual Return on plan assets	(750)
Amortization of unrecognized prior service cost	300
Amortization of unrecognized net (gain) or loss	300
Amortization of initial unrecognized net obligation (asset)	450
Total net periodic pension cost accrual	$1,800

6140.2.3 PROVISION FOR VESTED BENEFITS

Earned pension benefits that are not contingent on the employee remaining in the service of the credit union are known as vested benefits. If the credit union is maintaining a provision account for vested benefits, this account should be maintained until such time as the balance in the account is cleared.

Under the Net Periodic Pension Cost Method, the amortization of the vested benefits would be included in the Cost Component "Amortization of the unrecognized net obligation (and loss or cost) or unrecognized net asset (and gain) existing at the date of initial application of this section."

6140.3 ACTUARIAL GAINS AND LOSSES

These gains and losses are equal to the difference between actuarial assumptions and existing actuarial conditions affecting the total pension cost. In the previous Accounting Manual for Federal Credit Unions, we included a description of the various methods to account for actuarial gains and losses. As a result of the changes in accounting methods for pension plans, a discussion on the several methods has been deleted.

If a credit union becomes involved in a pension plan, the trustee should be able to provide the information necessary to properly account for the pension plan. Whether the credit union acts as a trustee for pension plans involving IRA/Keogh accounts or provides a pension plan through an outside trustee, competent outside assistance should be used if needed to insure compliance with generally accepted accounting principles.

6140.4 RECORDING PENSION ASSETS AND LIABILITIES

The difference between the total contribution to the pension plan for the period and the net periodic pension cost shall be recognized as an "Unfunded Accrued Pension Cost" or as a "Prepaid Pension Cost." If vested pension rights exist, they should be accounted for as outlined in Section 6140.2.3 "Provision for Vested Benefits."

On the "Statement of Financial Condition," there should be full disclosure (in the form of notes) describing the pension plan, a breakdown of the net periodic pension costs, a schedule reconciling the funded status, the weighted averages used for computing the projected benefit obligation and long-term rate of return on plan assets, and disclosures of securities, annuities and amortization methods of the plan.

Due to the complex nature of accounting for pension plans, the credit union should obtain competent outside assistance, if needed, to fully comply with generally accepted accounting principles and disclosure requirements.

6140.5 ILLUSTRATIVE JOURNAL ENTRIES

Example 1. To record the net periodic pension cost accrual as computed in Section 6140.2.2.

Dr. - Net Periodic Pension Cost (Acct. No. 221 - Pension Plan Cost)	$1,800

Cr.-Deferred Pension Cost
(Acct. No. 767) or Liability
Under Pension Cost
(Acct. No. 861) $1,800

Dr. - Deferred Pension Cost
(Acct. No. 767) or Liability
Under Pension Cost (Acct.
No. 861) $1,800

For those credit unions on a modified cash basis, the entry would be to debit the net periodic pension cost and credit cash instead of crediting prepaid/ accrued pension cost.

Example 2. To record an additional liability to reflect the required minimum liability. Based upon information provided by the trustee of the credit union's pension plan an additional liability may have to be recognized if an unfunded accumulated benefit obligation exists and:

a) An asset has been recognized as prepaid pension cost,

b) The liability already recognized as unfunded accrued pension cost is less than the unfunded accumulated benefit obligation, or

c) No accrued or prepaid pension cost has been recognized.

Assuming that an additional liability of $60 exists then the following entry is made:

Dr. - Intangible Assets As Part of
Pension Plan (Acct. No. 799) $50
Cr.-Additional Liability as Part
of Pension Plan (Acct. No. 869) $50

Credit unions should seek outside assistance as the accounting entries become more complex in nature.

6140.6 REQUIRED DISCLOSURE FOR POST EMPLOYMENT HEALTH CARE BENEFITS AND LIFE INSURANCE

A credit union providing postretirement health care or life insurance benefits to retirees, their dependents, or survivors is to disclose at least the following information:

a) A description of the benefits provided and the employees groups covered;

b) A description of the accounting and funding policies followed for those benefits;

c) The cost of those benefits, if they can be readily separable from the cost of providing those benefits for active employees, or if they can be reasonably estimated; and

d) The effect of significant matters, accounting or otherwise, affecting the comparability of the costs recognized for all periods presented.

Credit unions should use reasonable methods to estimate the costs of postretirement health and fife insurance benefits. The disclosures may be made separately for each type of benefit, or they may be made in total for all benefits.

If the cost of any postretirement benefits cannot be readily separated from the cost of providing such benefits for active employees, or otherwise reasonably estimated, the total cost of providing those benefits to both active employees and retirees, covered by the plan, is to be disclosed by the credit union.

Due to the complex nature of accounting for post employment health care benefit and life insurance plans, credit unions should obtain guidance from an independent accountant concerning proper accounting treatment and to ensure that their disclosures meet applicable requirements. They should also obtain an opinion from a competent attorney regarding the legality of such a plan before making a final decision to enter into it.

6140.7 DEFERRED COMPENSATION CONTRACTS/AGREEMENTS

Deferred compensation contracts are either treated as pensions or accrued for individually. If the deferred compensation contracts with individual employees, when taken together, are equivalent to a pension plan, then they are accounted for as a pension plan.

Other deferred compensation contracts which include, but are not limited to, such provisions as continued employment for a specified time, availability for consulting work, etc., should be accounted for individually on an accrual basis. The total amount of accruals when added together should equal no less than the present value of the benefits provided in the contract. Accruals should be made systematically over the active term of employment.

Some deferred compensation contracts pay periodic payments to retirees or their beneficiaries for life, with lump sum payments in the event of early death of one or all of the beneficiaries. If the benefits are payable for life, then the total liability should be based on the beneficiaries' life expectancies, rather than on the minimum amount payable in the event of early death.

6140.7.1 ACCOUNTING PROCEDURES FOR DEFERRED COMPENSATION CONTRACTS/ AGREEMENTS

The following example demonstrates the accounting procedures for a deferred compensation agreement:

Assume the credit union has entered into a deferred compensation agreement with an employee scheduled

to retire in 5 years. The terms of the agreement call for the credit union to pay the employee, upon her retirement, or her beneficiaries, in the case of her premature death, $500 a month for 15 years.

In order to fund the deferred compensation amount at the end of the initial 5 years and for the subsequent 15 years, the credit union has decided to purchase an annuity. The credit union is the owner and beneficiary of the annuity. The annuity should be accounted for as a credit union investment consistent with guidelines provided in Section 6060 of this manual in an account titled, "Annuity to Fund Deferred Compensation Agreement".

Because this is not equivalent to a pension plan, the credit union should expense the cost of the deferred compensation over the remaining period of the employee's active retirement. The entries should be made each pay period (twice a month, in this example):

a) To accrue the amount of the deferred compensation expense ($692.30 per pay period x 26 pay periods per year for 5 years or $90,000):

Dr. -Other Compensation (Acct. No. 219)	$692.30	
Cr.-Accrued Employee Benefits (Acct. No. 852) or Other Accrued Expenses (Acct. No. 859)		$692.30

NOTE: The annuity purchased to fund the deferred compensation agreement should, in this case, provide a sufficient return to fund the $500 per month deferred compensation obligation of the credit union beginning at the end of five years plus $500 per month thereafter for the remaining 179 months (5 years x 12 months per year less 1st month).

The annuity (principal and interest) need not have grown to $90,000 by the end of the initial 5 years as long as funding (annuity cash flow) is sufficient to meet the $500.00 monthly expense from year six through twenty (15 years). The total accrual, however, must be $90,000 ($500 per month x 12 months x 15 years) over the next 5 years (the term of the employee's remaining active employment).

6140.7.2 REQUIRED DISCLOSURES FOR DEFERRED CONTRACTS/AGREEMENTS

Postretirement benefits such as deferred compensation agreements should be disclosed on the credit union's financial statements. The disclosure should include at least the following:

a) Description of employee groups covered and benefits provided,

b) Description of the accounting and funding policies used for the benefits.

c) Cost of the benefits included in net income for the period.

d) Effect of significant items that affect comparability of benefit cost for all periods presented.

6140.8 THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974 (ERISA)

This Act was designed to give more protection to employees included under private pension plans and protection from the weaknesses and abuses in administering of these plans. The Act is also referred to as the Pension Reform Act of 1974. Prior to this legislation, the laws dealing with the creation and management of these private pension plans, and their assets were unclear and ineffective. A pension plan administrator could operate a plan according to his own judgment and intuition.

Fully encompassing minimum requirements for funding benefits were established in the passing of this new Act to protect the rights of employees. The requirements provide for:

a) Establishing standards of conduct, responsibility, and obligation for fiduciaries of employee benefit plans;

b) For appropriate remedies, sanctions, and ready access to the federal courts;

c) Requiring plans to vest the accrued benefits of employees with significant periods of service;

d) Requiring plans to meet minimum standards of funding; and

e) Requiring plan termination insurance.

Not all pension plans referred to in ERISA are required to meet the requirements stated above; however, every employee benefit plan (including individual retirement accounts and Keogh plans) must meet the disclosure and reporting requirements of Title I of ERISA. To aid in the understanding of this and other requirements, it is helpful to examine the definition of "employee benefit plan."

The term "employee benefit plan" is defined in ERISA to include two types of plans:

a) An employee welfare plan; and

b) An employee pension benefit plan, also called an employee pension plan. An employee plan may also be a combination of these two types, which are explained below.

   1) An employee welfare plan provides for medical, surgical or hospital care or benefits, or benefits in the event of sickness, accident, disability, death or unemployment. A welfare plan can also provide for vacation benefits, training programs, day-care centers, scholarship funds or prepaid legal services.

   2) An employee pension benefit plan or pension plan is any plan maintained by an employer or employee organization that provides: (a) retirement income to employees, or (b) results in a deferral of income by employees for periods extending to the termination of employment or beyond.

The authorities responsible for the enforcement of ERISA are the Department of Labor (Labor), the Department of Treasury, through the Internal Revenue Service (IRS) and the Pension Benefit Guarantee Corporation (PBGC).

Regulations have been promulgated under the provisions of ERISA by Labor, IRS and PBGC, and overlap in many areas. Generally, the reporting and disclosure, participating and vesting, funding and fiduciary responsibility provisions of ERISA are administered by Labor. The IRS is also responsible for participation, vesting and funding standards, as well as prohibited transactions. The PBGC is responsible for plan termination insurance.

Administrators of private pension plans are now required to file annual reports with the Department of Labor that include a description of the plan, financial statements and extensive supporting schedules.

Credit unions should obtain competent outside assistance for additional information regarding eligibility, coverage, vesting and minimum funding standards. Because of its complexities that often require legal interpretation, we have not expanded our discussion of those requirements here. Credit union officials should ensure that the credit union's files contain a legal opinion that its plan complies with the provisions of this law.

6140.9 DEFINED CONTRIBUTION PLANS

A defined contribution plan specifies the contributions to be made to an individual employee's retirement account rather than the amount of retirement benefits the retiree is to receive.

The net pension cost for any period is the amount to be contributed by the credit union during that period, as required by the plan. If the plan requires contributions for periods after the employee retires or is otherwise separated from employment by the credit union, the estimated cost is to be accrued during the employee's service period with the credit union.

Credit unions having one or more defined contribution plans are required to disclose the following separately from their defined benefit plan disclosures:

a) A description of the plan(s), specifying which employee groups are covered by the plan, the basis for determining contributions to the plan, and the nature and effect of significant matters affecting comparability of information for all periods presented.

b) The cost recognized during the current period.

Note that the accounting treatment and the required disclosures are considerably less for defined contribution plans than those for defined benefit plans. Credit unions should consider not only the cost, but also the additional burden of accounting and required disclosures when considering the nature and kinds of retirement plans to offer their employees.

Note further that a pension plan having the characteristics of both a defined benefit plan and a defined contribution plan may be required to be accounted for as a defined benefit plan, especially some "target benefit" plans. Even though the amount contributed may be specified by the plan, if the "substance" of the plan is to provide a defined benefit, the accounting and required disclosures will be determined in accordance with defined benefit plans.

6140.10 PRESENTATION OF PENSION PLANS IN FINANCIAL STATEMENTS

A federal credit union which sponsors a defined benefit pension plan must disclose and report the following in its financial statements:

a) A full description of the pension plan, including the employee groups covered, type of benefit formula, funding policy, types of assets held and significant nonbenefit liabilities (if any), and the nature and effect of significant matters affecting comparability of information for all periods presented.

b) The amount of net periodic pension cost for the period detailing the separate amounts for each of the following:

   1) service cost component;

   2) interest cost component;

   3) actual return on plan assets for the period; and

   4) net total of other components.

c) A schedule reconciling the funded status of the plan with amounts reported in the employer's statement of financial position, showing separately:

   1) The fair value of plan assets.

   2) The projected benefit obligation, separately identifying the accumulated benefit obligation and vested benefit obligation.

   3) The amount of unrecognized prior service cost.

   4) The amount of unrecognized net gain or loss, including asset gains and losses not yet reflected in market-related values.

   5) The amount of any remaining unrecognized net obligation or net asset existing at the date of the initial application of Financial Accounting Standards Board Statement of Financial Accounting Standards Number 87.

   6) The amount of additional minimum liability equal to either: (a) the unfunded accumulated obligation plus any prepaid pension cost; (b) the unfunded accumulated benefit obligation reduced by any unfunded accrued pension cost; or (c) the amount of the unfunded accumulated benefit obligation.

   7) The amount of the net pension asset or liability that has been recognized in the employer's statement of financial position. This amount must be equal to the total of items (1) through (6).

d) The weighted-average assumed discount rate and, if applicable, the rate of compensation increase used in determining the projected benefit obligation, and the weighted-average expected long-term

rate of return on pension plan assets.

e) If applicable, the amounts and types of securities of the employer and/or related parties that are included in plan assets, and the approximate amount of annual benefits of employees and retirees covered by annuity contracts issued by the employer and related parties. Also, if applicable, the alternative amortization method used for unrecognized prior service cost and the alternative amortization method used to reflect the substantive commitment of an employer to pay more employee benefits than its existing pension benefit formula indicates.

6140.11 SETTLEMENTS AND CURTAILMENTS OF PENSION PLANS AND TERMINATION BENEFITS

A settlement occurs when a credit union either makes a lump sum payment to its employees in exchange for their rights to receive the benefits specified by the plan, or when the credit union purchases a nonparticipating annuity to cover the same benefits.

Not all transactions constitute a settlement. While purchasing high-quality fixed income securities with principal and interest payment dates similar to the estimated retirement plan payments and dates may avoid or reduce certain risks associated with the retirement plan, such a transaction does not constitute a settlement. It does not meet the requirements of a settlement because it could (at the credit union's discretion) be reversed, it does not relieve the credit union of the primary responsibilities and liabilities of the plan, and it does not eliminate all significant risks related to the plan obligation.

Curtailments include the termination of employees' services earlier than expected, such as in a significant layoff or workforce reduction, and termination or suspension of a plan so that the credit union's employees do not earn additional defined benefits for their future services.

A settlement and a curtailment of a defined benefit plan may occur separately or together. If benefits to be earned in future periods are reduced (because of a significant workforce reduction, for example) but the plan remains in effect otherwise, a curtailment has occurred, but a settlement has not. If a credit union purchases a nonparticipating annuity for vested benefits and continues to provide benefits for future services as defined in the same plan or in a successor plan, a settlement has occurred, but a curtailment has not. If a plan is ended (the plan obligation is settled and the plan is discontinued) and if it is not replaced by a successor defined benefit plan, a settlement and a curtailment have occurred.

6140.11.1 ACCOUNTING FOR SETTLEMENTS OF DEFINED BENEFIT PENSION PLANS

The maximum gain or loss credit unions may recognize in earnings when a pension obligation is settled is the unrecognized net gain or loss, plus any remaining unrecognized net asset on the books at the date of the settlement and recognition of such on the books. Included in that maximum amount is any gain or loss first measured at the time of settlement.

If the credit union settles the entire projected benefit obligation, the maximum amount (the amount referred to in the paragraph immediately above) is to be recognized in the credit union's earnings as a gain or as a loss, as applicable. If only a part of the obligation is settled, the credit union is to recognize only a pro rata portion of the maximum amount (as a gain or as a loss) in earnings equal to the percentage

reduction in the projected benefit obligation.

If the cost of all settlements, cash, the amount paid for nonparticipating settlement annuities, or the amount paid for participating annuities less the amount attributed to the cost to the sum of the service cost and interest cost components of net periodic pension cost for the plan for the year, gain or loss recognition is allowed, but is not required. However, the accounting policy adopted by the credit union is to be applied consistently from year to year.

6140.11.2 ACCOUNTING FOR DEFINED BENEFIT PLAN CURTAILMENTS

If a credit union has an unrecognized prior service cost associated with years of service which are not expected to be rendered as the result of a curtailment, it is recognized in a loss in current earnings. If, for example, a curtailment results in a reduction of half of the remaining future years of service of a credit union's employees (as of the date of a prior plan amendment) who were expected to receive benefits under the plan, then the loss associated with the curtailment is half of the remaining unrecognized prior service cost related to that plan amendment.

A credit union's projected benefit obligation may be decreased (resulting in a gain) or increased (resulting in a loss) as a result of a curtailment, to the extent that:

a) Such a gain exceeds any unrecognized net loss (or the entire gain, if an unrecognized net gain exists), as a curtailment gain.

b) Such a loss exceeds any unrecognized net gain (or the entire loss, if an unrecognized net loss exists), as a curtailment loss.

A credit union having any remaining unrecognized net asset existing at the date of recognition of a curtailment is to recognize a net gain, and this gain is to be combined with the unrecognized net gain or loss arising subsequent to the recognition of the curtailment.

If a credit union's recognition and accounting for a curtailment (as described above) results in a net loss, it is to recognize the loss in earnings when it is probable that a curtailment will occur and the effects described are reasonably estimable. If such recognition and accounting results in a gain, the effects of that gain are not to be recognized until the curtailment actually takes place.

6140.11.3 DISCLOSURE AND FINANCIAL STATEMENT PRESENTATION FOR SETTLEMENTS AND CURTAILMENTS OF PENSION BENEFITS AND TERMINATION BENEFITS

A credit union which recognizes a gain or a loss as described above is to disclose the following:

a) A description of the nature of the event(s), or what happened, and

b) The amount of gain or loss recognized resulting from the above described event(s).

Obtain advice from an independent accountant as to whether these items should be reported as Extraordinary Items.

6140.11.4 TERMINATION BENEFITS

A credit union may provide termination benefits to its employees. These benefits may be either 4 special termination benefits" offered for a short time, or they may be "contractual termination benefits" to be paid if a specific event occurs, such as a layoff or the reduction of a significant portion of a credit union's workforce.

A credit union offering special termination benefits to its employees is to recognize a liability and a loss when its employees accept the offer, and the amount can be reasonably estimated. A credit union offering contractual termination benefits is to recognize a liability and a loss when it is probable that its employees will be entitled to benefits and the amount can be reasonably estimated.

A credit union may offer termination benefits in various forms, including lump-sum payments, periodic future payments, or both. A credit union may pay these benefits directly from its assets, from an existing pension plan, from a new benefit plan, or a combination thereof.

A credit union is to include lump-sum payments and the present value of expected future payments in the cost of termination benefits it recognizes as a liability and as a loss. Note that a situation involving termination benefits may also involve a curtailment, to be accounted for as described above.

6150 SHARE DRAFTS

6150.1 DEFINITIONS

a) *Share Draft* means a negotiable or nonnegotiable draft used to withdraw shares from a share draft account.

b) *Payable through bank* means a bank that has been designated to make presentment of a share draft to the federal credit union for payment.

c) *Payable at bank* means a draft drawn on the credit union that is payable at any correspondent or Federal Reserve Bank. It is payable when it falls due out of any funds of the maker or acceptor. The bank is expected to make payment without consulting the credit union. In this situation the draft is endorsed, "Payable at any bank" and it bears the routing and transit number of the credit union.

d) *Truncation* means the original share draft is not returned to the member.

e) *Share Draft Account* means an account from which the holder is authorized to withdraw shares by means of a negotiable or transferable instrument or other order.

f) *MICR* stands for Magnetic Ink Character Recognition and refers to the numbering printed in

magnetic ink at the bottom of each share draft.

6150.2 ESTABLISHING A SHARE DRAFT PROGRAM

The board of directors should determine, prior to implementing the share draft program, that the member's use of share draft is economically and operationally feasible for the federal credit union. This should be supported by written operational and program specifications that will be available at the credit union's principal office.

The share draft program should provide for truncation, additional surety bond coverage, and retaining copies or photo reproductions of paid share drafts (or other orders of withdrawal) on file for a period of 5 years, or as required by applicable state law.

6150.2.1 EXPERIMENTAL SHARE DRAFT PROGRAM

The board of directors may design a share draft program that provides for an experimental share draft program. This program should include terms and conditions that restrict the number of share draft accounts for a period which should not exceed 1 year. The advertising and disclosure requirements of Section 701.35 of the National Credit Union Administration Rules and Regulations are applicable.

A share draft program may also provide for participation in guarantee arrangements. Share drafts must compete equally with instruments issued by other financial institutions. When the practice of other financial institutions in the local market place so requires, federal credit unions must be in a position to guarantee share drafts through the use of a guarantee card or other method.

This must be done in such a manner that third parties, without cumbersome and sometimes unsuccessful processes, may be immediately satisfied that a share draft is guaranteed when it is accepted for payment. A share draft program may provide for guarantee arrangements provided the board of directors adopt a Standard Bylaw amendment to Article III, Section 5(a) of the Federal Credit Union Bylaws.

Refer to the booklet entitled "Federal Credit Union Standard Bylaw Amendments and Guidelines." That particular bylaw amendment provision will effectuate an absolute guarantee of a share draft by a federal credit union. If it were not adopted, a federal credit union would have the right to require up to 60 days notice of intent to withdraw, thus preventing an absolute guarantee. If a federal credit union has adopted this Federal Credit Union Bylaw Amendment it may issue guarantee cards which, on presentment to a third party, will assure payment of a share draft.

6150.3 GUIDELINES ON THE USE OF PAYABLE-THROUGH SHARE DRAFTS IN A FEDERAL CREDIT UNION'S GENERAL DESCRIPTION OF OPERATIONAL FLOW

Share drafts may be used as a part of the remote funds withdrawal procedures available to credit union members. Under this program, the following actions take place during its operation.

a) The member establishes a share draft account by signing a share draft agreement.

b) The credit union then provides the member with a book or books of share drafts.

c) The member writes a draft and presents it to a merchant, bank or other party for purchase of goods or services or draws a draft for cash.

d) The payee ordinarily presents the drafts received to his own bank. (Deposits the drafts with other receipts.)

e) The payee's bank forwards the draft through bank clearing channels for presentment to the payable-through bank.

f) The payable-through bank receives the draft and makes provisional payment subject to payment or dishonor by the credit union.

g) The payable-through bank upon receipt of the draft presents the information on the draft to the credit union. Normally the information on the share draft is converted to an electronic medium at this point (magnetic tape) and is transmitted to the credit union for payment or dishonor. The information may also be transmitted directly to the credit union's EDP Supplier.

h) The credit union then approves payment and posts the share withdrawal to the member's account.

i) The member receives a periodic statement of account(s) which identifies the drafts paid during the period and payments to the credit union.

6150.4 DESCRIPTION OF A SHARE DRAFT UNDER A PAYABLE-THROUGH SYSTEM

The share draft is usually made payable to cash or identifies the payee preceded by the words "pay to" or "pay to the order of." Each share draft also identifies the member's name and address, the name of the payable-through bank (preceded by the wording "paying through") and the name of the credit union. The share draft should contain the following information printed in accordance with the standards required for Magnetic Ink Character Recognition (MICR):

a) The payable-through bank's routing and transit number which provides the identification required for routing share drafts to the payable-through bank.

b) The share draft account number which provides the necessary information to charge the appropriate members' account.

c) The number of the draft which provides the information necessary to reconcile the share draft account without returning the draft to the member.

6150.5 SHARE DRAFT AGREEMENT

A share draft agreement that outlines both credit union and member responsibilities should be signed by each member desiring to use share drafts. The agreement should outline the credit union's and member's rights and agreement, such as approved methods of withdrawal, obligations and liability of the credit union and the members, provisions for service charges, overdrafts, accessing lines of credit, ultimate liability on guaranteed share drafts, if any, and a specified time period for the member to object to items reflected on his periodic statement of account.

6150.6 SHARE DRAFT ACCOUNT

The share draft account established by the share draft agreement should be used to record all share drafts which the member writes and which the credit union pays. The share drafts should be posted to the account as of the date the bank makes provisional or actual payment or receives the draft. Normally the credit union is notified of the drafts received by the payable-through or payable at bank on the day after the payable at or payable-through bank receives the drafts.

Statements of the share draft account should identify the date of withdrawal or share payment, the amount of the withdrawal or payment and the number of each draft paid. The serial number will assist the member in reconciling his account with his records.

6150.7 SHARE DRAFT ACCOUNT OVERDRAFTS

At the time a credit union receives a share draft which overdraws a share draft account the FCU has several options open to handling the situation:

a) The draft may be returned to the payable through or payable at bank as not paid for lack of sufficient funds. If this action is taken, it must be done within the time limits permitted the payable-through or payable at bank for returning items through the bank clearing systems to the payee.

b) The draft may be accepted pending receipt of payment from the member to cover the overdraft. The credit union needs to advise the member by telephone of the overdraft and will request that the member deposit sufficient funds to cover the draft prior to expiration of the time limits imposed for returning the draft. This procedure will normally involve only small overdrafts. The federal credit union will need to establish sufficient authorization procedures to provide internal control over this activity.

c) The draft may be accepted and an overdraft created as discussed and then cleared by a transfer from another share account from which the member is authorized to withdraw.

d) The draft may be accepted and the overdraft may be cleared by an advance from a line of credit special loan plan or other agreement established with the member. The line of credit agreement ~~should be separate~~ from the share draft agreement and must comply with the provisions of Part 701.21(c) of the NCUA Rules and Regulations. Authorization should be included in the Share

Draft Agreement for the credit union to transfer the amount of loan advance to the share draft account and should provide wording such as the following:

"In the event that any of the undersigned writes a share draft which would result in this share draft account being overdrawn, and if at that time any of the undersigned is eligible to receive advances from this credit union under the loan account referred to above, that share draft shall be deemed to be a request to the credit union for an advance under such loan account in multiples of $ sufficient to permit the credit union to honor such draft and credit the advance to the share draft account."

Under this procedure, a designated person will work from a listing of drafts which will overdraw share draft accounts. This listing should become a permanent part of the credit union's records. Additional conditions necessary for using this procedure involve: (1) persons signing this agreement must be members to insure that all persons who are parties to the agreement are eligible for a loan, and (2) notification of each overdraft should be forwarded to the members at the time it occurs. If, however, the credit union issues monthly statements, it may not be necessary to send overdraft notices if overdrafts are clearly indicated on the monthly statements. If an overdraft notice is issued, it should identify the draft overdrawing the share draft account, the date received and the amount. The method and timing of the notice will be dependent on the discretion of the board. It should not be less frequent than monthly, however.

All overdrafts occurring on the share draft account should be reflected on the statement of account as a debit balance. This procedure needs to be followed regardless of whether or not the overdraft is to be cleared by an advance from a loan account or from another share account. Such a procedure may not be needed for EDP systems which have the capability of preparing a list of drafts which will overdraw a share account if they are posted.

In these systems, the credit union officials are able to take action to prevent the occurrence of an overdraft by posting an advance from a line of credit to the share account or making a transfer from another share account prior to posting the draft which would have overdrawn the account. Should a credit union have this capability, it should be used in lieu of posting the proceeds of a loan or other funds to the account.

The member will receive notification of the overdraft at the time it occurs regardless of how it is cleared. The draft which would have created the overdraft situation should be posted to the share account on the same day as the line of credit advance or share transfer.

6150.8 DRAFT VERIFICATION PROCEDURES

Since the credit union officials do not actually review share drafts received for payment to determine if the member signed the draft presented, the procedures to verify the authenticity of the transaction depend upon the member's review of their periodic statement for unauthorized drafts. Since each member may receive notice of all overdrafts when they occur, the member can have the opportunity to notify the credit

union of any unauthorized drafts which may have caused the overdrafts.

When a credit union receives notice of an unauthorized draft, the original draft or a copy of the original draft is retrieved for comparison against the signature card on file at the credit union's office. It is up to the officials of the credit union to determine whether or not the forged draft is to be returned to the payee for reimbursement. Insurance is available to protect the credit union from loss due to forged drafts. The board of directors will determine whether or not this type of insurance is to be obtained. In any event, insurance coverage for forged drafts and the amount necessary is a matter for the board of directors to determine.

6150.9 SETTLEMENT ACCOUNT

In order to make settlement for drafts which are provisionally paid by a payable-through bank or payable at bank, FCUs normally maintain a deposit account in the payable-through bank or payable at correspondent or Federal Reserve Bank. Other alternatives for settlement include use of an investment account, such as an account with ICU, a savings and loan association or Corporate Central Credit Union through which funds are transferred to the payable-through bank via preauthorized agreements. The payable-through bank writes drafts against the account. The payable through bank may accept drafts in an account receivable clearing status and at the end of each day draw a draft against the credit union's demand deposit in a bank where the credit union does business. This method may be used where the payable-through bank is not an acceptable depository under Section 107(8) of the Federal Credit Union Act.

6150.10 STOP PAYMENT PROCEDURES

Federal credit unions using a share draft program must provide their members with the ability to stop payment on share drafts which they do not wish to pay because of loss or theft of the draft.

6150.11 DRAFT CASHING PROGRAMS

Federal credit unions establishing share draft programs may desire to make arrangements with local banks or other financial institutions to cash share drafts under the condition that the credit union provide authorization for each draft cashed. Credit unions becoming involved in this activity must assure that the authorization is recorded on the member's share draft account at the time it is given.

6150.12 SERVICE CHARGES AND FEES

Federal credit unions offering share drafts to their members may charge periodic fees or service charges to their members using share drafts. Charges may be assessed for distribution of interim statements, processing stop payment orders, overdrafts, obtaining copies of paid drafts for a member, and for the actual cost of the blank share drafts furnished to each member.

6150.13 INTERNAL SHARE DRAFT ACCOUNT

A federal credit union should not establish its own share draft account. The existence of a share draft account presupposes the existence of an account representing an equity of ownership interest in the credit union. In effect, a federal credit union would be redeeming its shares by using a share draft account.

What is actually desired is the ability of a federal credit union to issue drafts drawn against its assets. A federal credit union has been permitted in the past to draw drafts upon itself. The particular type of permissible draft would be the functional equivalent of a cashier's check which is drawn by a bank against itself. The bank is both the drawer and the drawee of the instrument. It becomes the bank's primary obligation and constitutes its written promise to pay on demand. Naturally, the credit union must retain its financial ability to honor the drafts.

Treasurer's Drafts

A federal credit union can issue a draft (Treasurer's Draft) that is drawn upon itself. The draft may bear the credit union's own routing and transit numbers and thus would be made payable at its Federal Reserve or correspondent bank where a Federal Reserve deposit account is maintained. Drafts paid would be recorded as a withdrawal from the deposit account in Other Shares, Deposits, and Certificates (Account No. 746).

6150.14 USE OF SHARE DRAFTS

All individual or corporations that are members of any federal credit union that provides for the establishment of share draft accounts, are eligible for share draft accounts. This includes organization of such persons who are members. It also includes federal credit unions that are members of corporate central federal credit unions. In addition, nonprofit organizations who are not members and are operated primarily for religious, philanthropic, charitable, educational, or other similar purposes may establish share draft accounts in low income credit unions.

6150.15 NEEDED OPINIONS OF LEGAL COUNSEL

The National Credit Union Administration Board advises credit unions to obtain a written opinion of counsel assuring that the particular share draft program undertaken by any given credit union not only conforms with federal law and regulation, but also any state law requirements or other requirements, such as clearinghouse rules for those credit unions choosing to use their own routing and transit numbers, the "payable at" method.

6150.16 FEDERAL RESERVE REGULATION D

Federal credit unions that offer share drafts may be subject to Federal Regulation D. This regulation is known as the Monetary Control Act of 1980 and requires depository institutions to maintain reserves against their transaction accounts, and nonpersonal time deposits. With respect to credit unions, "depository institutions" means any credit union that is insured by, or is eligible to apply for insurance with, the National Credit Union Administration. For purposes of Regulation D, share drafts are considered to be a transaction account.

Refer to Section 5240 in this Accounting Manual for a complete listing of transaction accounts and nonpersonal time deposits. Section 5240 also contains a discussion of the computation and reporting requirements for Federal Reserve Regulation D.

6150.17 FEDERAL RESERVE REGULATION CC

All federal credit unions which offer share drafts are subject to Federal Reserve Board Regulation CC (Regulation CC). In addition, all other federal credit unions are subject to Subpart C of Regulation CC which governs the rules to expedite the collection and return of checks by banks, including the standards governing the endorsement of checks for processing through banks. Subparts A and B of Regulation CC, apply only to share draft accounts called "transaction accounts." Primarily, these two subparts contain definitions of terms and requirements regarding the availability of funds from deposits in these transaction accounts, the disclosure of credit union policies on the availability of funds, accrual of interest on these deposits, establishment of internal controls and an annual audit program on the procedures followed, and the establishment of a staff training program in the credit union to insure compliance with the board's policies.

6160 TREASURY TAX AND LOAN ACCOUNTS

Credit unions are eligible to be designated as Treasury Tax and Loan (TT&L) depositories. Authority to become depositories is set forth in Section 701.37-1 of the NCUA Rules and Regulations. Application procedures and requirements for designation as a TT&L depository are set forth in the Department of Treasury Regulations.

There are two types of accounts in which a credit union may participate:

a) TT&L Remittance Account-an account, the balance of which is subject to the right of immediate withdrawal, established for receipt of payments of Federal taxes and certain United States obligations.

b) TT&L Note Account-an account subject to the right of immediate call, evidencing funds held by depositories electing the note option under applicable U.S. Treasury Department Regulations.

After the Department of the Treasury has designated a federal credit union as a Treasury tax and loan depository, the credit union should establish General Ledger Account No. 736, "Treasury Tax and Loan Remittance." Funds in this account are not eligible for dividends.

Funds held in the federal credit union's TT&L note account should bear interest at a rate specified in the Department of the Treasury Regulations and are not considered borrowings for purposes of Section 107(9) of the Federal Credit Union Act.

For share insurance purposes, funds in the TT&L Remittance Account and the TT&L Note Account should be considered public unit funds and as such are insured up to a maximum of $100,000 in the aggregate. The share insurance premium paid should include a premium equal to one-twelfth of 1 per centum of the total amount of funds in the TT&L Remittance Account and the TT&L Note Account at the close of the preceding insurance year.

A federal credit union may pledge specifically identified assets as collateral for TT&L Remittance and Note Accounts and may enter into such custodial arrangements as may be necessary to meet Department of Treasury requirements for collateral on TT&L accounts.

Federal credit unions are also eligible to act as a Depository or Financial Agent of the U.S. Government under the provisions of 31 CFR 203 and maintain Treasury General Accounts and Treasury Time Deposit-Open Accounts in accordance with Section 701.37-2 of the NCUA Rules and Regulations. The sum of these accounts should not exceed 20 percent of the total shares of the credit union, or $1.5 million, whichever is greater.

Detailed Entries:

Deposits into TT&L accounts should be recorded as a debit to "Cash" (Account No. 731) and a credit to "Public Unit Shares" (Account No. 910). Withdrawals should be recorded as a debit to Public Unit Shares and a credit to Cash.

6170 PUBLIC UNIT ACCOUNTS

Under the authority of Section 107(6) of the Federal Credit Union Act, federal credit unions can receive public funds. The authorized sources of public funds, and the insurance of these funds, are defined in Section 745.10 of the NCUA Rules and Regulations. If funds are received from more than one public unit, separate ledgers shall be maintained for each unit. For accounting purposes, public funds will be entered in the General Ledger under Shares-Public Unit Accounts, Account No. 910.

6180 SECONDARY CAPITAL ACCOUNTS FOR LOW INCOME CREDIT UNIONS

Federally insured credit unions designated as low-income are authorized to establish secondary capital accounts. The increased capital is intended to enable those credit unions to support greater lending and improve other financial services for the limited income groups and communities they serve. Certain restrictions are placed on these accounts, foremost among them is that the accounts may be *offered only to organizational investors*, not to natural person members or other natural person investors. Other key restrictions are:

- The accounts are not insured by the NCUSIF or any other government entity, and may not be offered as share accounts. They will take the form of subordinated debt.

- The funds in the accounts must be available to cover losses, after reserves and undivided earnings, but prior to liquidation.

- The accounts must have a minimum maturity of 5 years.

- The accounts may not be used as security on other obligations of the account holder.

- The accounts will not "carry over" as secondary capital in the event of merger into a credit union that is not low-income designated.

A declining scale for the capital value of accounts with less than 5 years remaining maturity has been established. All funds, however, will continue to be at risk to cover losses that exceed reserves and undivided earnings. Accounts with remaining maturities of at least:

- 4 years, but less than 5 years are counted as capital at 80 percent of face value;

- 3 years, but less than 4 years are counted as capital at 60 percent of face value;

- 2 years, but less than 3 years are counted as capital at 40 percent of face value;

- 1 year, but less than 2 years are counted as capital at 20 percent of face value; and

- less than one year remaining maturity will be counted as capital at 0 percent of face value.

A disclosure and acknowledgment must be provided and executed by an authorized representative of the account holder. State-chartered, federally insured credit unions may establish these accounts in accordance with the terms and conditions authorized for federal credit unions and to the extent they are not inconsistent with applicable state law, regulation, and accounting requirements.

A regulatory accounting position (RAP) has been taken to establish these accounts and to recognize them as secondary capital. These accounts are subordinated debt and the account holder does not have voting or ownership rights. Credit unions should record the amount of secondary capital in the equity section of the balance sheet, although any secondary capital that has a remaining maturity of less than 5 years will be split into capital and liability components based on a sliding scale. To be consistent with generally accepted accounting principles (GAAP), the credit union's outside auditor may recognize accounts established as secondary capital as subordinated debt, and for financial statement presentation purposes, may reflect the entire balance in these accounts in the liability section of the balance sheet.

Credit unions must adopt a written plan for use of the funds in the accounts and subsequent liquidity needs to meet repayment requirements upon maturity. The credit union should consider reasonableness and with risk assessment in mind.

The secondary capital accounts may not be established as share accounts and, therefore, will be considered a form of subordinated debt, in effect a borrowing. In most cases of borrowed funds, the stated

interest rate is guaranteed contrary to dividends on share deposits for credit unions which are limited to the amount of funds available from earnings, both current and accumulated. The credit union should consider its ability to meet the interest payment obligation in light of its current and accumulated earnings. Interest payable on these accounts must be accrued at least monthly. The credit union should consider the effect on regular members' dividends when setting the interest rate or index for these accounts.

Section 107(9) of the Federal Credit Union Act limits a credit union's borrowing to 50 percent of its paid-in and unimpaired capital and surplus. The amount held in secondary capital accounts held by low-income credit unions is to be included in total borrowings for purposes of this limitation. Secondary capital accounts, plus any other borrowings by the low-income credit union will not exceed the 50 percent limit.

Part 705 of the NCUA Rules and Regulations addresses the Community Development Revolving Loan Program for Credit Unions. A credit union participating in the program may receive up to $300,000 in the form of a loan. A matching requirement encourages credit unions to develop a permanent source of *member shares* within one year of loan approval.

Accounts established as secondary capital by low-income designated credit unions may not be used as a source of matching funds for this program. First, secondary capital is not a *member share* and second, the regulation requires that the credit union maintain the increase in the total amount of *share deposits* for the duration of the loan from the program. These accounts "may not be offered as share accounts."

ACCOUNTING MANUAL FOR FEDERAL CREDIT UNIONS

ALPHABETICAL INDEX BY TOPIC

A

Topic	*Section No.*	*Page*
Abandoned property law (Account 801)	4050.5	4-175
Account numbers	5030.1.4	5-16
Account, joint	5030.1.5	5-15
	5030.1.5	5-17
Accounting and dividend periods	2020.11	2-4
Accounting and operational policy-		
Credit Cards	6050.2	6-50
Accounting Basis	2020.10	2-4
Accounting Basis-Modified Cash		
Basis or Accrual Basis	4030	4-11
Accounting Control Procedures Over		
Field Collection	5100.2.1	5-114
Accounting controls	5140.2.2	5-138
Accounting entries for CLF transac-		
tions -membership and dividend	6090.5	6-123
Accounting entries for federal fund trans-		
actions	5250.4	5-241
Accounting Entries for Investments in		
Credit Union Organizations	6110.2	6-126
Accounting for actuarial gains and losses	6140.3	6-163
Accounting for cash receipts and disburse-		
ments	5010	5-1
Accounting for Credit Card Transactions	6050.3	6-53
Accounting for Leases	6080	6-102
Accounting for leases-lessee	6080	6-102
Accounting for leases-lessor	6080.4	6-106
Accounting for pension costs	6140.2	6-160
Accounting for Premium Stabilization Re-		
serve	4050.4	4-171
Accounting for Profit Recognition on		
Sales of Real Estate	6030.14	6-43
Accounting for Recoverable Collection		
Cost Advanced by the Credit Union	5100.1.2	5-109
Accounting for the sale, purchase, and		
pledge of eligible obligations	6030.7	6-25
Accounting for transactions with the		
member	5030.1.7	5-20
Accounting Guidelines for Real Estate		
Lending	6020	6-5
Account description		
Affected accounts	6020.2	6-7
Accounting instructions-Collection of		
Utility Bills	5210.4	5-218
Accounting machine systems and forms	5130.1	5-129
Accounting Manual:	1010	1-1
Purpose and use of prescribed system	1010.1	1-1
Loose-leaf system-periodic revisions	1010.2	1-1
Accounting Principles:		
Asset accounts (700 Account Number		
Series)	4040.4	4-27
	4050.4	4-76

A

Topic	*Section No.*	*Page*
Principles Affecting the Recording of-		
Income and expense accounts	4040.1	4-23
	4040.2	4-24
	4040.3	4-26
	4050.1	4-33
	4050.2	4-55
	4050.3	4-71
Liability accounts (800 Series)	4040.5	4-30
	4050.5	4-174
Savings/Equity accounts (900		
series)	4040.6	4-32
	4050.6	4-224
Accounting Profession Pronouncements	2030	2-5
Accounting Records: Standard forms	5020.1	5-7
Description and illustration:		
Application for Membership (form		
FCU 150)	5030.1.1	5-14
Bank Reconcilement (form FCU 108)	5020.1	5-9
	5060.5	5-62
Cash Received Voucher (form FCU		
105)	5010.1	5-1
	5130.1.3.2	5-130
Dividend Record (form FCU 112)	5020.1	5-13
	5160.1.9	5-174
Dividend Worksheet and Payment		
Record (form FCU 112A)	5020.1	5-13
Expense Ledger (form FCU 104)	5020.1	5-9
Financial Statements (forms 109A-E)	2080	2-19
Furniture and Equipment Ledger		
(form FCU 94)	5020.1	5-13
General Ledger Accounts	4000	4-1
	4040.1	4-23
Individual Share and Loan Ledger		
(form FCU 103)	5030.1.7	5-20
Joint Share Account Agreement (form		
FCU 123)	5030.1.5	5-17
Journal and Cash Record (form FCU		
101)	4010.5	4-2
	5020.1	5-7
Journal Voucher (form FCU 106A)	5010.2.3	5-4
	5020.1	5-8
List of Cash Collected (form FCU		
250)	5100.2.1.3	5-114
Loans Transfer Summary (form FCU		
105C)	5090.5.4	5-99
Issuance of a Passbook (form FCU		
107)	5030.1.3	5-15
Record of Dividends (form FCU 112B)	5020.1	5-13
Record Interest Refunds (form FCU		
92)	5020.1	5-9

Topic	Section No.	Page
Record of Payroll Deductions (form FCU 105A, FCU 105B, FCU 105C, FCU 105D)	5090.5.4	5-99
Schedule of Delinquent Loans (form FCU 118)	5220.2.7	5-229
Statement of Account (form FCU 107G)	5090.8	5-103
Substitution of (see, Forms, substitute for standard forms)	5130.1.3	5-130
Trial Balance (form FCU 116)	5020.1	5-9
Accounting System, brief outline	1040	1-4
Accounting System Described	1040.3	1-4
Accounting System for a Branch	6120.4	6-139
Accounting Systems	5130	5-129
Posting board systems and forms	5130.1.1	5-129
Accounting services (Acct. No. 293)	4050.2	4-64
Accounts (Assets):		
Accounts Receivable-Real Estate Loans (Acct. No. 728)	4050.4	4-110
Accounts Receivable-U.S. Saving Bonds Redeemed (Acct. No. 727)	4050.4	4-109
Accrued Credit Card Income (Acct. No. 783)	4050.4	4-167
Accrued Income (Acct. No. 780)	4050.4	4-163
Accrued Income on Investments (Acct. No. 782)	4050.4	4-165
Accrued Interest on Loan Participations Purchased (Acct. No. 786)	4050.4	4-168
Accrued Interest on Loans (Acct. No. 781)	4050.4	4-163
Accrued Interest-Other Lines of Credit to Members (Acct. No. 787)	4050.4	4-168
Accrued Interest-Real Estate Loans (Acct. No. 784)	4050.4	4-167
Advance Payments by Borrowers for Taxes and Insurance on Services Loans (Acct. No. 797)	4050.4	4-172
Advances for Taxes and Insurance and Other Charges (Acct. No. 725)	4050.4	4-108
All Other Assets (Acct. No. 790)	4050.4	4-171
Allowance for Amortization of Leasehold Improvements (Acct. No. 777)	4050.4	4-162
Allowance for Depredation of Building (Acct. No. 773)	4050.4	4-157
Allowance for Depreciation of Furniture and Equipment (Acct. No. 775)	4050.4	4-160
Allowance for Depreciation of Leased Assets (Acct. No. 779)	4050.4	4-162
Allowance for Losses (Acct. No. 719)	4050.4	4-99
Building (Acct. No. 772)	4050.4	4-155
Cash (Acct. No. 730-731)	4050.4	4-113
Cash (Reserved for Additional Account 732-736)	4050.4	4-113
Cash-U.S. Bond Installment Payments (Acct. No. 737)	4050.4	4-118
Change Fund (Acct. No. 739)	4050.4	4-122
Common Trust and Mutual Funds Investments (Acct. No. 743)	4050.4	4-133
Deferred Pension Cost (Acct. No. 767)	4050.4	4-150
Loans to Other Credit Unions (Acct. No. 747)	4050.4	4-140
Discount on Held-to-Maturity Securities (Acct. No. 742.1)	4050.4	4-123
Discount on Loans Participation Purchased (Acct. No. 715.2)	4050.4	4-98
Discount on Loans Purchased (Acct. No. 714.2)	4050.4	4-97
Discount on Held-to-Maturity Securities (Acct. No. 741.1)	4050.4	4-123
Fixed Assets (Acct. No. 770)	4050.4	4-153
Furniture and Equipment (Acct. No. 774)	4050.4	4-157
Insurance Premiums Receivable (Acct. No. 724)	4050.4	4-106
Insurance Premium Stabilization Reserve (Acct. No. 792)	4050.4	4-171
Investments (Acct. No. 740-760)	4050.4	4-123
Investment in Branch (Acct. No. 753)	4050.4	4-144
Investment in Central Liquidity Facility (Acct. No. 751)	4050.4	4-142
Investment in CLF-Liquidity Clearing (Acct. No. 751.2)	4050.4	4-142
Investment in CLF-Membership Stock (Acct. No. 751.1)	4050.4	4-142
Investment in CU Service Corporation (Acct. No. 748)	4050.4	4-141
Land (Acct. No. 771)	4050.4	4-153
Lease Payments Receivable (Acct. No. 723)	4050.4	4-106
Leased Assets (Acct. No. 778)	4050.4	4-162
Leasehold Improvements (Acct. No. 776)	4050.4	4-160
Line of Credit to Members (Acct. No. 702)	4050.4	4-82
Lines of Credit to Members-Cash Advances in Process (Acct. No. 702.2)	4050.4	4-83
Lines of Credit to Members-Credit Cards (Acct. No. 702.1)	4050.4	4-83
Loan Participations Purchased (Acct. No. 715)	4050.4	4-97
Loan Participations Sold (Acct. No. 716)	4050.4	4-98
Loan Participations Sold (Contra Asset Account) (Acct. No. 716.1)	4050.4	4-98
Loans (Acct. No. 701)	4050.4	4-79
Loans-Collateral in Process of Liquidation (Acct. No. 707)	4050.4	4-90
Loans or Other Obligations Purchased (Acct. No. 714)	4050.4	4-97
Loans Purchased from Liquidating Credit Unions (Acct. No. 712)	4050.4	4-93
Loans Purchased from Liquidating Credit Unions-Collateral in Process of Liquidation (Acct. No. 713)	4050.4	4-95
Loans Subject to Repurchase Agreements (Acct. No. 718)	4050.4	4-99
Loans to Credit Union Service Corporation (Acct. No. 748.2)	4050.4	4-141
Loans to Members (Acct No. 700)	4050.4	4-76
Loans to Other Credit Unions Acct. No. 745)	4050.4	4-140

Topic	Section No.	Page
Mobile Home Loans (Acct. No. 705)	4050.4	4-89
Monetary Control Reserve Deposits (Acct. No. 793)	4050.4	4-172
Notes and Contracts Receivable (Acct. No. 711)	4050.4	4-91
Other Accounts Receivable (Acct. No. 729)	4050.4	4-110
Other Accrued Income (Acct. No. 789)	4050.4	4-170
Other Assets (Acct. No. 799)	4050.4	4-174
Other Loans (Acct. No. 710)	4050.4	4-91
Other Prepaid Expenses and Deferred Charges (Acct. No. 769)	4050.4	4-152
Other Prepaid Insurance (Acct. No. 766)	4050.4	4-149
Other Receivables (Acct. No. 720)	4050.4	4-104
Other Shares, Deposits and Certificates (Acct. No. 746)	4050.4	4-137
Payroll Deductions Receivable (Acct. No. 721)	4050.4	4-104
Petty Cash (Acct. No. 738)	4050.4	4-119
Premium on Held-to-Maturity Securities (Acct. No. 742.2)	4050.4	4-132
Premium on Loans Purchases (Acct. No. 714.1)	4050.4	4-97
Premium on Loan Participations Purchased (Acct. No. 715.1)	4050.4	4-98
Premium Held-to-Maturity Securi - ties (Acct. No. 741.2)	4050.4	4-123
Prepaid and Deferred Charges (Acct. No. 760)	4050.4	4-145
Prepaid Share Insurance (Acct. No. 765)	4050.4	4-148
Purchase Accrued Interest Receivable (Acct. No. 755)	4050.4	4-145
Purchased Accrued Interest Receivable on Loans 100% (Acct. No. 786)	4050.4	4-168
Real Estate Loans-Over 12 Years (Acct. No. 703)	4050.4	4-83
Real Estate Loans-12 Years or Less (Acct. No. 704)	4060.4	4-89
Share Secured Loans (Acct. No. 706)	4050.4	4-90
Shares, Deposits and Certificates of Corporate Central Credit Unions (Acct. No. 744)	4050.4	4-135
Shares, Deposits and Certificates of Other Credit Unions (Acct. No. 745)	4050.4	4-135
Truth in Lending Bond Claim Receivable (Acct. No. 729.1)	4050.4	4-111
Unamortized Organization Costs (Acct. No. 768)	4050.4	4-151
U.S. Government Obligations (Acct. No. 741)	4050.4	4-123
Accounts (Equity/Savings):	4050.6	4-224
Appropriate Undivided Earnings (Acct. No. 942)	4050.6	4-249
Corporate Central Reserve (Acct. No. 935)	4050.6	4-246
Share Draft Accounts (Acct. No. 902)	4050.6	4-226
Donated Equity (Acct. No. 950)	4050.6	4-250
Net Income (Loss) (Acct. No. 960)	4050.6	4-252
Regular Reserve (Acct. No. 931)	4050.6	4-241
Reserves (Acct. No. 930)	4050.6	4-241
Reserve for Loss Contingencies (Acct. No. 933)	4050.6	4-244
Share Certificates (Acct. No. 908)	4050.6	4-233
Shares (Acct. No. 900, 901)	4050.6	4-224
Shares-Escrow Accounts (Acct. No. 903)	4050.6	4-228
Shares-Other (Acct. No. 904)	4050.6	4-229
Shares of Nonmembers (Acct. No. 920, 921)	4050.6	4-238
Shares-Public Unit Accounts (Acct. No. 910)	4050.6	4-235
Shares-Retirement Plans (Acct. No. 906)	4050.6	4-231
Shares-Unposted Payroll Deductions (Acct. No. 909)	4050.6	4-235
Special Reserves for Losses (Acct. No. 932)	4050.6	4-244
Undivided Earnings (Acct. No. 940)	4050.6	4-247
Unrealized Loss in Value of Long-Term Investment in Equity Securities (Acct. No. 945)	4050.6	4-250
Accounts (Liability):	4050.5	4-174
Accounts Payable (Acct. No. 800,801)	4050.5	4-174
Accounts Payable-Check Transmittal Service (Acct. No. 804)	4050.5	4-180
Accounts Payable-Credit Card Adjustments in Process (Acct. No. 802.2)	4050.5	4-179
Accounts Payable-Credit Card Chargebacks (Acct. No. 802.3)	4050.5	4-179
Accounts Payable-Credit Card Payments in Process (Acct. No. 802.1)	4050.5	4-179
Accounts Payable-Drafts Authorized (Acct. No. 805)	4050.5	4-182
Accounts Payable-Escrow Accounts (Acct. No. 809)	4050.5	4-185
Accounts Payable-Installment Payments on U.S. Bonds (Acct. No. 806)	4050.5	4-182
Accounts Payable-Real Estate Loans (Acct. No. 808)	4050.5	4-185
Accounts Payable-U.S. Savings Bond Remittances (Acct. No. 807)	4050.5	4-184
Accounts Payable-Undistributed Payments (Acct. No. 802)	4050.5	4-178
Accounts Payable/Undistributed Payroll Deductions or Allotments (Acct. No. 803)	4050.5	4-179
Accrued Accounting Service Cost (Acct. No. 855)	4050.5	4-203
Accrued Cost of Space Occupied cct. No. 853)	4050.5	4-203
Accrued Dividends Payable (Acct. No. 854)	4050.5	4-203
Accrued Employee Benefits (Acct. No. 852)	4050.5	4-203
Accrued Expenses (Acct. No. 860)	4050.5	4-203
Accrued Interest Payable (Acct. No. 860)	4505.5	4-206
Accrued Loss Contingencies (Acct. No. 856)	4050.5	4-204
Accrued Salaries (Acct. No. 851)	4050.5	4-202
City Withholding Taxes Payable (Acct. No. 845)	4050.5	4-196

Topic	Section No.	Page
Collections on Loans and Other Obligations Serviced (Acct. No. 862)	4050.5	4-207
Credit Card Chargebacks in Process (Acct. No. 802.3)	4050.5	4-179
Deferred Credits (Acct. No. 880)	4050.5	4-211
Deferred Credit-Discounts on Loans Purchased from Liquidating Credit Unions (Acct. No. 887)	4050.5	4-217
Deferred Credit-Insurance Premium tabilization Reserve (Acct. No. 888)	4050.5	4-218
Deferred Credits-Prepaid interest-Real Estate Loans (Acct. No. 885)	4050.5	4-217
Deferred Credits-Fees received on loans to be purchased (Acct. No. 87)	4050.5	4-217
Deferred Gain on Liquidation of Loans (Acct. No. 883)	4050.5	4-214
Dividends Payable (Acct. No. 820)	4050.5	4-191
Federal Funds Payable (Acct. No. 813)	4050.5	4-189
Federal Unemployment Compensation Tax Payable (Acct. No. 847)	4050.5	4-200
Federal Withholding Taxes Payable (Acct. No. 841)	4060.5	4-196
Interest Refunds Payable (Acct. No. 830)	4050.5	4-194
Liability Under Pension Plan (Acct. No. 861)	4050.5	4-207
Main Office (Acct. No. 865)	4050.5	4-208
Monetary Control Pass Deposits (Acct. No. 864)	4050.5	4-207
Mortgage Notes Payable (Acct. No. 811)	4050.5	4-186
Notes and Interest Payable (Acct. No. 810)	4050.5	4-185
Notes Payable-Other (Acct. No. 812)	4050.5	4-187
Obligation Under Capital Lease (Acct. No. 863)	4050.5	4-207
Other Accrued Expenses (Acct. No. 859)	4050.5	4-205
Other Deferred Credits (Acct. No. 889)	4050.5	4-219
Other Liabilities (Acct. No. 860)	4050.5	4-206
Other Taxes Payable (Acct. No. 849)	4050.5	4-201
Social Security Taxes Payable (Acct. No. 846)	4050.5	4-198
State Unemployment Compensation Tax Payable (Acct. No. 848)	4050.5	4-200
State Withholding Taxes Payable (Acct. No. 842)	4050.5	4-196
Taxes Payable (Acct. No. 840)	4050.5	4-196
Undisbursed Loan Proceeds (Acct. No. 866)	4050.5	4-208
Unamortized Discount on Sale Assets (Acct. No. 886)	4050.5	4-217
Unapplied Data Processing Exceptions (Acct. No. 870)	4050.5	4-209
Unapplied Data Processing Excep. tions (Disbursements) (Acct. No. 872)	4050.5	4-210
Unapplied Data Processing Exceptions (Receipts) (Acct. No. 871)	4050.5	4-209
Unearned Interest on Loans (Acct. No. 881)	4050.5	4-211

A

Topic	Section No.	Page
Accounts (Non-Operating Income and Expense); (400 Series)	4050.3	4-71
Extraordinary Gains and Losses (Acct. No. 446)	4050.3	4-75
Gain (Loss) on Disposition of Assets (Acct. No. 430)	4050.3	4-73
Gain (Loss) on Investments (Acct. No. 420)	4050.3	4-71
Non-Operating Income (Expense) (Acct. No. 400)	4050.3	4-71
Other Non-Operating Income (Expense) (Acct. No. 440)	4050.3	4-74
Accounts (Operating Expense):	4050.2	4-55
Accounting Services (Acct. No. 293)	4050.2	4-64
Advertising (Acct. No. 271)	4050.2	4-62
Amortization of Leasehold Improvements (Acct. No. 255)	4050.2	4-60
Annual Meeting Expenses (Acct. No. 350)	4050.2	4-69
Association Dues (Acct. No. 240)	4050.2	4-60
Audit Fees (Acct. No. 292)	4050.2	4-64
Bank Service Charges (Acct. No. 269)	4050.2	4-62
Borrowers' Insurance (Acct. No. 313)	4050.2	4-66
Cash Over and Short (Acct. No. 330)	4050.2	4-67
Chattel Lien Non Filing Insurance (Acct. No. 283)	4050.2	4-63
Collection Expense (Acct. No. 282)	4050.2	4-63
Communications (Acct. No. 261)	4050.2	4-61
Compensation (Acct. No. 210)	4050.2	4-59
Credit Card Program Expenses (Acct. No. 286)	4050.2	4-63
Credit Reports (Acct. No. 284)	4050.2	4-63
Depreciation Expense-Leased Assets (Acct. No. 257)	4050.2	4-61
Depreciation of Building (Acct. No. 254)	4050.2	4-60
Depreciation of Furniture and Equipment (Acct. No. 266)	4050.2	4-62
Dividends (Acct. No. 380)	4050.2	4-70
Educational and Promotional Expenses (Acct. No. 270)	4050.2	4-62
Employee Benefits (Acct. No. 220)	4050.2	4-59
Employees' Travel and Conference Expenses (Acct. No. 231)	4050.2	4-60
Federal Operation Fee (Acct. No. 320)	4050.2	4-66
Imputed Interest Costs (Acct. No. 341)	4050.2	4-68
Insurance (Acct. No. 265)	4050.2	4-61
Interest on Borrowed Money (Acct. No. 340)	4050.2	4-68
Legal Fees (Acct. No. 291)	4050.2	4-64
Life Savings Insurance (Acct. No. 312)	4050.2	4-65
Loan Servicing Expense (Acct. No. 280)	4050.2	4-63
Maintenance of Building (Acct. No. 252)	4050.2	4-60
Maintenance of Furniture and Equipment (Acct. No. 263	4050.2	4-61
Management Consulting Fees (Acct. No. 294)	4050.2	4-64
Members' Insurance (Acct. No. 310)	4050.2	4-65
Miscellaneous Operating Expenses (Acct. No. 370)	4050.2	4-70
NCUA Operating Fee (Acct. No. 320)	4050.2	4-66

Topic	Section No.	Page
Office Occupancy Expenses (Acct. No. 250)	4050.2	4-60
Office Operations Expenses (Acct. No. 260)	4050.2	4-61
Officers' and Directors' Travel and Conference Expenses (Acct. No. 232)	4050.2	4-60
Operating Expenses (Control) (Acct. No. 200)	4050.2	4-55
Other Employee Benefits (Acct. No. 224)	4050.2	4-59
Pension Plan Costs (Acct. No. 221)	4050.2	4-59
Professional and Outside Services (Acct. No. 290)	4050.2	4-63
Provision for Loan Losses (Acct. No. 300)	4050.2	4-64
Lines of Credit (Acct. No. 302)	4050.2	4-64
Loans (Acct. No. 301)	4050.2	4-64
Mobile Homes (Acct. No. 304)	4050.2	4-64
Other Loans (Acct. No. 305)	4050.2	4-64
Real Estate Loans (Acct. No. 303)	4050.2	4-64
Publicity and Promotions (Acct. No. 272)	4050.2	4-62
Real Estate Taxes (Acct. No. 256)	4050.2	4-61
Recording Fees Chattel Lien Insurance (Acct. No. 283)	4050.2	4-63
Refunds-Real Estate Finance Charges Acct. No. 285)	4050.2	4-63
Reimbursement to Sponsor for Services (Acct. No. 212)	4050.2	4-59
Rent (Acct. No. 251)	4050.2	4-60
Rental of Furniture and Equipment (Acct. No. 262)	4050.2	4-61
Salaries (Acct. No. 211)	4050.2	4-59
Service Fees on Loans Purchased (Acct. No. 287)	4050.2	4-63
Share Insurance (Acct. No. 311)	4050.2	4-65
Social Security Taxes (Employer's Share) (Acct. No. 222)	4050.2	4-59
Stationery and Supplies (Acct. No. 264)	4050.2	4-61
Travel and Conference Expenses (Acct. No. 230)	4050.2	4-60
Truth in Lending Expense (TIL) (Acct. No. 360)	4050.2	4-69
TIL Reimbursement of Interest Over, charges (Acct. No. 361)	4050.2	4-69
TIL Restitution (Acct. No. 362)	4050.2	4-69
Unemployment Compensation Taxes (Acct. No. 223)	4050.2	4-59
Utilities (Acct. No. 253)	4050.2	4-60
Accounts (Operating Income):	4050.1	4-33
Credit Card Interchange Income (Acct. No. 152)	4050.1	4-52
Fees and Charges (Acct No. 130, 131)	4050.1	4-50
Gain (Loss) On Sale of Eligible Obligations (Acct. No. 141)	4050.1	4-51
Gain (Loss) on Sale of Loans and Other Eligible Obligations (Acct. No. 140)	4050.1	4-51
Income from Investments (Acct. No. 120)	4050.1	4-44
Income from Investments in Credit Union Service Corporation (Acct. No. 128.1)	4050.1	4-49
Income from Loans (Acct. No. 110)	4050.1	4-33
Income from Loans of Liquidating Credit Unions (Acct. No. 113)	4050.1	4-39
Interest on Lines of Credit (Acct. No. 112)	4050.1	4-37
Interest on Loans (Acct. No. 111)	4050.1	4-33
Interest on Loans and Other Obligations Purchased 100% (Acct. No. 115)	4050.1	4-42
Interest on Loan Participations Purchased (Acct. No. 116)	4050.1	4-42
Interest on Real Estate Loans (Acct. No. 114)	4050.1	4-41
Interest Refunds (Acct. No. 119)	4050.1	4-43
Investment Income (Acct. No. 120)	4050.1	4-44
Miscellaneous Operating Income (Acct. No. 150, 151)	4050.1	4-52
Service Income on Loans (Acct. No. 160)	4050.1	4-53
Service Income on Loans and Other Obligations Sold (Acct. No. 161)	4050.1	4-53
Service Income on Loans Sold and Participations (Acct. No. 117)	4050.1	4-42
Accounts Dormant	5140.5	5-141
Accounts Payable (Acct. No. 801)	4050.5	4-174
Accounts Payable:		
Check Transmittal Service (Acct. 804)	4050.5	4-180
Credit Card Adjustments in Process (Acct. No. 802.2)	4050.5	4-179
Credit Card Chargebacks in Process (Acct. No. 802.3)	4050.5	4-179
Credit Card Payments in Process (Acct. No. 802.1)	4050.5	4-179
Drafts Authorized (Acct. No. 805)	4050.5	4-182
Escrow Accounts (Acct. No. 809)	4050.5	4-185
Installment Payment on U.S. Bonds (Acct. No. 806)	4050.5	4-182
Real Estate Loans (Acct. No. 808)	4050.5	4-185
Undistributed Payments (Acct. No. 802)	4050.5	4-178
Undistributed Payroll Deductions on Allotments (Acct. No. 803)	4050.5	4-179
Accounts Receivable-Real Estate Loans (Acct. No. 728)	4050.4	4-110
Redeemed (Acct. No. 727)	4050.4	4-109

Topic	Section No.	Page
Accrual basis of accounting	1040.2	1-4
	2040.2	2-8
	4030.2	4-12
Accrual entries in General Ledger Account Descriptions	4030.3	4-22
Accrual of Interest	5040.5.1.4	5-26
Accrued Benefit Cost Method-Unit Credit Method Accrued Credit Card Income (Acct. No. 783)	4050.4	4-167
Accrued Expenses (Acct. No. 850)	4050.5	4-202
Accrued Expenses	4030.2.6	4-16
	4030.2.9.1	4-20
Accounting Service Cost (Acct. No. 855)	4050.5	4-203
Cost of Space Occupied (Acct. No. 853)	4050.5	4-203
Dividends Payable (Acct. No. 854)	4050.5	4-203
Employee Benefits (Acct. No. 852)	4050.5	4-203
Other (Acct. No. 859)	4050.5	4-205
Salaries (Acct. No. 851)	4050.5	4-202
Accrued Income (Acct. No. 780)	4050.4	4-163
Accrued Income	4030.2.4	4-13
	4030.2.9.1	4-20
Accrued income on investments (Acct. No. 782)	4030.2.4.2	4-14
	4050.4	4-165
Accrued Interest on Loans (Acct. No. 781)	4050.4	4-163
	4030.2.4.1	4-13
Accrued interest on loans included in valuation allowance	2070.2.4	2-19
Accrued Interest Other Lines of Credit to Members (Acct. No. 787)	4050.4	4-168
Accrued Interest Payable (Acct. No. 818)	4050.5	4-190
Accrued Interest-Real Estate Loans (Acct. No. 784)	4050.4	4-167
Accrued Interest Receivable on Loans (100%) (Acct. No. 785)	4050.4	4-167
Accrued Loss Contingencies (Acct. No. 856)	4050.5	4-204
Accumulated Payroll Deduction Plan	5090.4.2.1	5-96
Accurate and Current Records Essential	1030	1-2
Actuarial Method	5040.5.2.3	5-27
Additional Consideration in Discounting the Gross Gains or Loss	6030.10.4	6-37
Adjustable Mortgage Rate Loans	6020.1.1	6-6
Adjusted trading	6060.4.1	6-73
Adjusting entries	5070.1	5-72
Adjusting entries at end of accounting period	5070.5.2	5-77
Adjustment Method	5120.1.2	5-124
Administrative controls	5140.2.1	5-137
Admission of members	5030.1	5-13
Advanced Data Processing	5130.1.3	5-130
Advanced Payment by Borrowers for Taxes and Insurance on Serviced Loans (Acct. No. 797)	4050.4	4-172
Advances for Taxes, Insurance and Other Changes (Acct. No. 725)	4050.4	4-108
Advertising (Acct. No. 271)	4050.2	4-62
Advertising requirements	5150.8	5-154
Agency and Branch Office Accounting	6120	6-135
Agent	5200.2.3	5-210
Allotments	6125.2.2	6-145
	6125.3.2.5	6-148
Allotments and Payroll Deductions	5090.1	5-93
Allowance for Amortization of Leasehold Improvements (Acct. No. 777)	4050.4	4-162
Allowance for Depreciation of Furniture and Equipment (Acct. No. 775)	4050.4	4-160
Allowance for Depreciation-Leased Assets (Acct. No. 779)	4050.4	4-162
All Other Assets (Acct. No. 790)	4050.4	4-171
Allowance for depreciation of tangible fixed assets	5120.2	5-125
Allowance for Loan Losses (Acct. No. 719)	2070.1.7	2-16
	4050.4	4-99
	5120.1	5-122
Allowance for Losses on Investments Acct. No. 758)	4050.4	4-76
Alternate Method B	5220.2.6.2	5-225
Alternative interest refund procedures	5070.3	5-76
Amortization	2090.1	2-24
Amortization of Computer Hardware Costs	5120.3	5-128
Amortization of deferred charges	2070.1.5	2-15
Amortization of Leasehold Improvements (Acct. No. 255)	4050.1	4-36
Amortization of premium or discount on securities purchased	2040.2.3	2-9
Amortization of Purchased Software Costs	5120.4	5-129
Amount of investment in fixed assets	6070.2	6-92
Annual Meeting Expenses (Acct. No. 350)	4050.2	4-69
Application for Membership (form FCU 150)	5030.1.1	5-15
Applying for Membership	5030.1.1	5-14
Approval for Expenses	4050.2.1	4-55
Appropriate Undivided Earnings (Acct. No. 942)	4050.6	4-249
Arbitrary adjustment of subsidiary share and loan ledger differences	5060.9	5-68
Assessment of late charges	5040.5.7	5-30
Asset Accounts (700 Series)	4040.4	4-27
	4050.4	4-76
Asset valuation allowance	5120	5-121
Assets Acquired in Liquidation of Loans	5110	5-118
Assets general basis for recording	2040.1.1	2-5
Assets pledged	2040.1.8	2-8
Assigning account numbers	5030.1.4	5-16
Association Dues Deferred	4050.5	4-174
Audit Fees (Acct. No. 292)	4050.2	4-64
Authorization of payroll deductions	5090.5.1	5-97
Authorized Transactions and Permissible Methods for Purchase Securities	6060.3	6-66
Authorized Broker/Dealers	6061.3	6-91
Automated Clearing House	5210.1.3	5-216
Availability of membership in Central Liquidity Facility	6090	6-121

B

Topic	*Section No.*	*Page*
Bad loans	2070.1.7	2-16
	4050.4	4-76
	5220.2.7	5-229
Balance per bank statement	5060.5.2	5-63
Balance per books of credit union	5060.5.1	5-63
Balance Sheet	3050.1	3-2
Balancing of posting to Individual Share and Loan Ledgers daily	5060.7	5-66
Balacing Out Tellers Funds	5050.1.1	5-36
Balancing Tellers Cash Receipts and Disbursements Using On-Line Computer Terminals	5050.1.5	5-43
Balancing the Individual Share and Loan Ledger	5060.7	5-66
Balancing the subcontrols	5080.4	5-84
Bank deposits	5010.1	5-1
Bank Balance Per Bank Statement	5060.5.2	5-63
Bank Reconcilement (form FCU 108)	5060.5	5-49
Bank Service Charge (Acct. No 268)	4050.2	4-62
Basic Accounting:	4010	4-1
Purpose of the General Ledger	4010.1	4-1
Opening the General Ledger Accounts	4010.2	4-1
Sources of posting of books of original entry	4010.3	4-2
Opening the Journal and Cash Record	4010.4	4-2
Illustrative Entries	4010.6	4-3
Basic accounting records	1030.2	1-2
	5020	5-7
Basic concepts, accounting principles	2020	2-1
Basic elements of Internal Control	5140.2	5-137
Basis for recording expenses	2070.1.3	2-15
Basis for recording income	2070.1.2	2-15
Bond sale transactions	5195.1	5-200
Bonds (see U.S. Government Obligations)	4050.4	4-72
Borrowed money	4050.5	4-187
Borrowed money, interest paid on	4050.2	4-68
	4050.5	4-187
Borrowers' Insurance (Acct. No. 313)	4050.2	4-66
Branch Control Via Centralized Operations	6120.2	6-136
Branch office accounting	6120	6-136
Branch Office Disbursements	6120.2.2	6-137
Branch offices	6120	6-136
Brief outline of prescribed accounting system	1040	1-4
Building (Acct. No. 772)	4050.4	4-155

C

Calculation of reserve requirement	5230.1.2	5-23
Capital leases	6080.2.1	6-102
Cash:		
Account (Acct. No. 731)	4050.4	4-113
Cash Account for Branch Operations	6120.2.3	6-137
Cash Balance Per Books of Credit Union	5060.5.1	6-63
Cash forward agreements to purchase securities	6060.3.2	6-67
Cash forward agreements to sell securities	4050.4	4-76
	6060.3.3	6-35

C

Topic	*Section No.*	*Page*
Cash/Investment Purchase	6060.3.	6-34
		66-6
Cash over and short (Acct. No. 330)	4050.2-	4-41
		4-67
Cash Receipts for Overseas Branches	6120.2.1	6-136
Cash received by collectors	5100.2.1.1	5-114
Cash received from sale of U.S. Savings Bond	5195.1.2	5-201
Cash Received Voucher (form FCU 105)	5010.1	5-1
	5050.1.1	5-36
Cash-unrestricted and restricted	2040.1.2	2-5
Cashier's daily summary	5050.1.1	5-36
Change Fund (Acct. No. 739)	4050.4	4-122
Depositing in bank	5010.1	5-1
	6120.2.1	6-136
Disbursement of basic procedure	5010.2	5-2
Disbursements, special procedures	5050.2.2	5-48
	5050.2.	5-46
"Fluctuating" change funds	5050.2.7	5-57
List of Cash Collected (form FCU 250)	5100.2.1.1	5-114
Mail receipts	5050.1.3	5-40
Over and Short (Acct. No. 330)	4050.2	4-67
Petty Cash Acct. No. 738)	4050.4	4-119
Receipts, special procedures	5050.1	5-36
Received, basic procedure for handling	5050.1	5-36
Received by collectors	5100.2.1.7	5-117
Shares and loans disbursed in cash (currency and coin)	5050.2.2	5-48
Teller's Daily Cash Sheet	5050.1.1	5-36
Cash basis, modified	1040.1	1-4
	2040.1	2-5
Cash Received Voucher (form FCU 105)	2070.1	2-15
	5050.1.1	5-37
Total payment vouchers	5050.1.2	5-40
Cash-U.S. Bond Installment Payments (Acct. No. 737)	4050.4	4-118
Central credit unions, shares or deposits in	4050.4	4-76
Central Liquidity Facility	6090	6-121
Certificates of Deposit	4050.4	4-76
Certification, financial reports	2080.11	2-24
Centralized operations	6120.2	6-136
Change Fund: Account (Acct. No. 739)	4050.4	4-122
Charge Off of Loan Against Allowance for Loan Losses (Acct. No. 719)	4050.4	4-99
Change Fund Verses Monetary Reserve Requirements of Regulation D	5050.2.8	5-59
Chart of General Ledger Accounts:	4040	4-23
Asset Accounts (700 Series)	4040.4	4-27
Liabilities Accounts (800 Series)	4040.5	4-30
Non-Operating Income and Expense Accounts (400 Series)	4040.3	4-26
Operating Income accounts (100 Series)	4040.1	4-33
Operating Expense accounts (200-300 Series)	4040.2	4-24
Savings/Equity accounts (900 Series)	4040.6	4-32

Topic	Section No.	Page
Chattel Lien Nonfiling Insurance (Acct. No. 283)	4050.2	4-63
Check Digit	5030.1.4	5-16
Check Endorsements	5050.1.1.2	5-39
Check Protectors	5050.2.4	5-54
Check Register	5050.2.1.1	5-46
Check Signing Machine	5050.2.3	5-53
Checks sold	5200.2.2	5-217
Check Transmittal Service	5210.3	5-147
Check Writing Machines	5050.2.5	5-54
Checks:		
Check Register	5050.2.1.2	5-46
Cost of cashing checks	5200.3	5-211
Cost of selling checks	5200.2	5-209
Countersignature	5010.2.2	5-2
Disbursements made by	5010.2.1	5-2
Prenumbering	5010.2.1	5-2
Single signature	5010.2.2	5-2
Unpresented	4050.5	4-103
Voucher checks illustrated	505.2.1.3	5-48
Christmas Savings Share Accounts	4050.6	4-228
City Withholding Taxes Payable (Acct. No. 845)	4050.5	4-196
Classification of Loans Outstanding	3050.2.1	3-4
Closing books at distribution Dividends	5160.1.2.6	5-166
Closing entries	5070.5	5-77
Closing entries in detail	5070.5.3	5-80
Closing procedure illustrated	6070.5.4	5-80
Collateral:	5110.1	5-117
In process of liquidation (Acct. No. 707)	4050.4	4-90
	5110.1.1	5-117
Collection costs and expenses	5100.1.1	5-109
Collection Expenses (Acct. No. 282)	4050.2	4-63
Collection of interest	5040.5.1	5-24
Collection on Loans and Other Obligations Serviced (Acct. No. 862)	4050.5	4-207
Collection of loans by outside sources	5100.1	5-109
Collection of Utility Bills By Credit Unions	5210.4	5-218
Collection policies	5220.2.3	5-222
Collection procedures-Delinquency Control	5220.2	5-221
Collectors, field	5100.2	5-113
Comments and recommendations on the establishment of subcontrols	5080.2	5-83
Common Trust and Mutual Investments (Acct. No. 743)	4050.4	4-133
Communications (Acct. No. 261)	4050.2	4-61
Compensation (Acct. No. 210)	4050.2	4-59
Compensation for Services	5195.3.6	5-208
Complete recording of income and expenses	2020.9	2-3
Composite-Life depreciation	2040.1.6	2-8
	5120.2.1.4	5-128
Compounding of Dividends	5160.1	5-158
Computation of Delinquency	5220.2.6	5-223
Computation of Delinquency-Method A	5220.2.6.1	5-223
Computation of Delinquency-Method B	5220.2.6.2	5-225
Computation of Delinquency-Method C	5220.2.6.3	5-226
Computation of dividends	5160.1.2.1	5-159

C

Topic	Section No.	Page
Computation of other than level payment loans	5040.5.2.1.2	5-26
Computing the amount of stock subscription	6090.4	6-122
Conservative accounting	2020.7	2-3
Consistency in accounting	2020.4	2-3
Contingent liabilities	2050.1.10	2-11
Contracted dividend rate	5160.1.2.7	5-166
Conversion to accrual basis of accounting	4030.2.9	4-19
Cost in excess of carrying value	6110.2.1.2	6-129
Cost less than carrying value	6110.2.1.3	6-129
Cost Method	6110.2.2	6-129
Cost Method Illustrated	6110.2.2.	6-129
Cost of cashing checks	5200.3	5-211
Cost of selling checks	5200.2	5-209
Countersignatures and single signatures	5010.2.2	5-2
Coupon book plans for loan repayments	5050.1.4	5-42
Credit Card Chargebacks (Acct. No. 802.3)	4050.5	4-179
	6050	6-47
Credit Card Program Expenses	4050.2	4-55
Credit Cards:	6050	6-47
Interest computation	6050.1	6-50
Accounting and operational policy	6050.2	6-50
Accounting for Credit Card Transactions	6050.3	6-53
Illustrative entries	6050.3.1	6-54
Trial balance	6050.4	6-59
Internal controls	6050.5	6-60
Credit Committee:		
Approval of pledged shares	6050	6-47
Credit Reports (Acct. No. 284)	4050.2	4-63
Credit union, loans of liquidating	4050.4	4-93
Credit union funds in possession of collectors	5100.2.1.7	5-117
Credit Union Office Facilities on Department of Defense Installations	6128	6-154
Credit union operations governed by law, bylaws and regulations	1020	1-2
Credit union, shares or deposits in central	4050.4	4-76
Credit Unions as SBA Guaranteed Loan Originators	6030.11	6-38
"Cutoff" business days	5010.1	5-1

D

Topic	Section No.	Page
Daily balancing of postings to the Individual Share and Loan Ledgers	5060.10	5-69
Daily Log	6125.3.2.4	6-148
Data processing	5130.1.2	5-130
Data Processing Guidelines for Federal Credit Unions	5130.1.2	5-130
Data processing records, destruction of	5190.3.2	5-198
Deceased members' shares	5150.12	5-156
Decentralized operations	6120.3	6-139
Declaring dividends	5160.1.2.3	5-165
Declining Balance Depreciation	5120.2.1.3	5-127
Deferred Charges (Acct. No. 760)	4030.2.8	4-18
	4050.4	4-145
Deferred Credits (Acct. No. 880)	4030.2.7	4-18
	4050.4	4-211

Topic	Section No.	Page
Deferred Credits-Discounts on Loans Purchased from Liquidating Credit Unions (Acct. No. 885)	4050.5	4-217
Deferred Credits-Insurance Premium Rebates (Acct. No. 882)	4050.5	4-213
Deferred Credits-Insurance Premium Stabilization Reserve (Acct. No. 888)	4050.5	4-218
Deferred Credits-Prepaid Interest-Real Estate Loans (Acct. No. 885)	4050.5	4-217
Deferred Gain on Liquidation of Loans (Acct. No. 883)	4050.5	4-214
Deferred Pension Cost (Acct. No. 767)	4050.4	4-150
Deferred Stationary and Supplies (Acct. No. 264)	4050.2	4-61
Definition of Direct and Indirect Costs	5200.1	5-208
Definition of Internal Controls	5140.1	5-136
Definition of Modified Cash Basis	4030.1.2	4-11
Definition of Terms	2090	2-24
Definitions, accounting for leases	6080	6-102
Definitions, Sale-and-Leaseback	6080.11	6-114
Definitions, Share Accounts and Share Certificate Accounts	5150	5-143
Definitions, Share Drafts	5150.4	5-146
Delinquency Computation:	5220.2.6	5-223
Method A	5220.2.6.1	5-223
Method B	5220.2.6.2	5-223
Method C	5220.2.6.3	5-225
Delinquency Control:	5220	5-220
Need for delinquency control	5220.1	5-220
Elements of delinquency control	5220.2	5-221
Lending policies	5220.2.1	5-221
Education of Members	5220.2.2	5-222
Collection policies	5220.2.3	5-222
Identification	5220.2.5	5-223
Delinquency control on Individual Share and Loan Ledgers	5040.4.2	5-24
Delinquent loans:		
Computation of	5220.2.6	5-223
Level payment loans	5220.2.6.1	5-223
Other than level payment loans	5220.2.6.3	5-226
Deposit insurance coverage on Trust Accounts	5150.10.1	5-156
Deposits:		
in bank	4040.4	4-27
	4050.4	4-76
	5010.1	5-1
in other credit unions	4050.4	4-76
made by overseas branch	6125.3.2.2	6-147
Depreciation:	5120.2	5-125
Buildings	4050.4	4-157
Composite-Life	5120.2.1.4	5-128
Declining Balance	5120.2.1.3	5-127
Sample Calculation	5120.2.1	5-126
Straight Line	5120.2.1.1	5-126
Sum of Years Digits	5120.2.1.2	5-127
Depreciation Expense-Leased Assets (Acct. No. 257)	4050.2	4-6
Depreciation of Building (Acct. No. 254)	4050.2	4-60
Allowance for (Acct. No. 773)	4050.4	4-157
Depreciation of Furniture and Equipment (Acct. No. 266)	4050.2	4-62
Allowance for (Acct. No. 775)	4050.4	4-160
Depreciation Periods	5120.2	5-125
Description of a Share Draft under a Payable Through System	6150.4	6-174
Description of Financial Reports:	3050	3-21
Statement of Financial Condition	3050.1	3-2
Statement of Income	3050.2	3-3
Supportive Schedules for Financial Statements	3050.3	3-4
Statement of Changes in Equity	3050.5	3-16
Statement of Changes in Financial Position	3050.6	3-16
Description of General Ledger Accounts	4050	4-33
Descriptions of Transactions-Branch Accounting	6120.7.1	6-144
Destruction of obsolete records	5190.3	5-196
Determination of market prices	6030.10.2	6-36
Determining maximum dividend rate	5160.1.8	5-174
Differences in ledgers, locating and adjusting	5060.4	5-61
Direct deposit of federal recurring payments	5090.2	5-94
Disbursement of cash, basic procedure	5010.2	5-2
Disbursements	6120.2.2	6-137
Disbursements by Overseas Branch	6125.3.2.3	6-147
Disbursements-Installment Payments	5195.2.3	5-203
Disbursements in Cash	5010.2	5-2
Disbursements to be made by check	5010.2.1	5-2
Disbursements to Overseas Members	6125.3.2.3	6-147
Disbursing Share Withdrawals and Loans in cash	5050.2.2	5-48
Disclosures for share, share draft and share certificate accounts	5150.7	5-152
Discount on Federal Agency Securities (Acct. No. 742.1)	4050.4	4-131
Discount on Loan Participation Purchases (Acct. No. 715.2)	4050.4	4-98
Discount on U.S. Government Obligations (Acct. No. 741.1)	4050.4	4-123
Discount on Loans Purchased (Acct. No. 714.2)	4050.4	4-97
Discounting the gross gain or loss	6030.10.3	6-36
Disposal of data processing output records	5190.3.2	5-198
Disposal of furniture and equipment	4050.4	4-157
Disposition of the proceeds from the liquidation of collateral in possession of the credit union	5110.2	5-120
Disposition of the related accounts after the collateral has been liquidated	5110.3	5-121
Distribution and use of dividend record	5160.1.3	5-169
Distribution of Statements of Account	5090.8	5-103
Dividend accrual	5160.1.6	5-170
Dividend computation	5160.1	5-158
Dividend computation-examples	5160.1.1	5-159
Dividend distribution date	5160.1.2.6	5-166
Dividend entitlement	5160.1.4	5-169
Dividend Entries in the Journal and Cash Record	5160.1	5-158
Dividend period	5160.1.2.2	5-164

Topic	Section No.	Page
Dividend policy	5160.1.2	5-159
Dividend rate specified or contracted for in advance	5160.1.2.7	5-166
Dividend Record (form FCU 112)	5160.1	5-158
Substitute form	5130.1.3	5-130
Dividend reductions and penalties	5160.1.2.10	5-168
Dividends (Acct. No. 380)	4050.2	4-70
	5070.4	5-77
Dividends:	5160	5-158
Accrual	5160.1.6	5-170
Amount, computation of	5160.1.2.1	5-159
Closing Books at Distribution	5070.4	5-77
Compounding of Dividends	5160.1.2.4	5-165
Contracted Dividend Rate	5160.1.2.7	5-166
Date payable established by board	5160.1.2.6	5-166
Declaration procedure	5160.1.2.3	5-165
Distribution Date	5160.1.2.6	5-166
Distribution of	5160.1.2.6	5-166
Dividends Payable (Acct. No. 820)	4050.5	4-191
Entitlement	5160.1.4	5-169
Establishing Policy	5160.1.2	5-159
Exceptions to the Penalties	5160.1.2.10	5-168
Period	5160.1.2.2	5-164
Rate, Determining Maximum	5160.1.8	5-174
Record of form (FCU 112)	5160.1	5-158
Reductions and Penalties	5160.3	5-121
Reporting to Internal Revenue	5160.1.2.10	5-168
Dividends, authorization of and computation at end of accounting period	5160	5-158
Dollar price repurchase agreement (Dollar Price Repo)	6060.5.1	6-74
Domestic branches	6120.1	6-136
Donated Equity (Acct. No. 950)	4050.6	4-250
Donations	2070.1.10	
Dormant accounts	5140.5	5-141
Double-Entry System	1030.2.1	1-2
Draft cashing programs	6150.11	6-177
Draft verification procedures	6150.8	6-176
Drafts for Loans	5050.2.6	5-54

Educational and Promotional Expenses (Acct. No. 270)	4050.2	4-62
Electronic data processing systems and forms	5130.1.2	5-130
Electronic data processing systems and forms	5130.1.2	5-130
Electronic Funds Transfer, Automatic Clearance House Payments and Payments by Phone	5210.1	5-214
Electronic Funds Transfer Act	5210.1.2	5-215
Elements of Delinquency Control	5220.2	5-221
Employee Benefits (Acct. No. 220)	4050.2	4-59
Employee Retirement Income Security Act of 1974 (ERISA)	6140.8	6-166
Employees' Travel and Conference Expense (Acct. No. 231)	4050.2	4-60
End-of accounting period	5070	5-70
End-of-month procedures	5060	5-59
Entries under Payroll Deduction Plans 1 and 3, and Entries under the Share Credit Portion of Payroll Deduction Plan 2	5090.6.1	5-99
Entering member loan on the records	5040.4	5-23
Entitlement, Dividend	5160.1.4	5-169
Entrance Fees	4050.6	4-224
Entry in the Journal and Cash Record	5100.2.1.5	5-115
Equipment rental expense	2070.1.6	2-16
Equity Accounts (900 Series)	4040.6	4-224
	4040.6	4-250
Equity Method	6110.2.1	6-127
Errors in ledgers, locating and adjusting	5060.4	5-61
Escheat	5200.2.4	5-210
Escheatment abandoned money orders and checks	5200.2.4	5-210
Escrow Accounts	6030.7.1.2	6-28
Essentials Needed for Offering the Sale of and Cashing of Money Order and Checks	5200.1.1	5-209
Establishing a Systematic Procedure	5060.8	5-67
Establishing Dividend Policy	5160.1.2	5-159
Establishing Share Draft Program	6150.2	6-172
Estimated interest refund costs	5070.2	5-73
Exchange of records between credit union office and field collector	5100.2.1.3	5-114
Expense Accounts (200-300 Series)	4050.2	4-55
Expense control (Operating)	4050.2	4-55
Expense control, single operating optional procedure	4020.7	4-11
Expense Ledger (form FCU 104)	5020.1	5-7
2-17 Expenses, accrued (Acct. No. 860)	4050.5	4-206
Experience Method	5120.1	5-122
Experimental Share Draft Program	6150.2.1	6-173
Extended loans	5040.5.5	5-30

Federal Agency Securities (Acct. No. 742)	4050.4	4-44
Federal Credit Unino ownership of fixed assets	6070.1	6-92
Federal Funds Payable (Acct. No. 813)	4050.5	4-189
Federal Operating Fee (Acct. No. 320)	4050.2	4-66
Federal Recurring Payments	5090.2	5-94
Federal Unemployment Compensation Tax Payable (Acct. No. 847)	4050.5	4-117
Fees:		
Cost of cashing checks	5200.3	5-211
Cost of selling checks	5200.2	5-210
Entrance	4050.1	4-31
NCUA Operating Fee (Acct. No. 320)	4050.2	4-40
Fees and Charges (Acct. No. 130,131)	4050.1	4-31
Field collectors	5100.2	5-113

F

Topic	*Section No.*	*Page*
Financial Reports:	3050	3-2
Statement of Financial Condition (109A)	3050.1	3-2
Statement of Income (109B)	3050.2	3-3
Statement of Reserves and undivided earnings	3050.5	3-16
Statement of Cash flows	3050.6	3-16
Supporting Schedules for Financial Statements	3050.3	3-4
Financial reports, frequency of report description	3020	3-1
Financial reports, preparation of trial balance	5060.3	5-61
Financial Statements	2080	2-19
Financial Statements for the Branch	6120.5	6-140
Financial statements for the Main Office and the Branch	6120.6	6-140
First Alternative to Computing Interest Refund	5070.3.1	5-76
Fiscal year	2020.12	2-4
Five percent limitation-Eligible Obligations Purchased	6030.5	6-21
Fixed assets (Acct. No. 770)	4050.4	4-92
	6070	6-92
Flood Insurance	6020.5	6-16
"Fluctuating" change funds	5050.2.7	5-57
Format of Financial Reports	3040	3-2
Forms, accounting machine	5090.5.2	5-98
Forms, FCU 105A	5090.5.4	5-99
Forms, pegboard or posting board	5130.1.1	5-129
Forms, standard	5020.1	5-7
Forms, substitute for standard forms	5130.1.3.2	5-130
Application for Membership	5030.1.1	5-14
Bank Reconcilement	5060.5	5-62
Cash Received Voucher	5010.1	5-1
Dividend Record	5160.1	5-158
General Ledger	4010.2	4-1
Individual Share and Loan Ledger	5040.4.2	5-24
Journal and Cash Record	4010.5	4-4
Member's Passbook	5030.1.3	5-15
Statements of Account	5090.7	5-103
Forms, suppliers	5020.1	5-7
Frequency of report requirements	3020	3-1
Full and fair disclosure	2080.8	2-23
Furniture and Equipment (Acct. No. 774)	4050.4	4-94
Depreciation of (Acct. No. 266)	4050.2	4-37
Allowance for (Acct. No. 775)	4050.4	4-95
Disposal of	4050.4	4-95
Furniture, Fixtures and Equipment	6070.5	6-95

G

Gain (loss) on Disposition of Assets (Acct. No. 430)	4050.3	4-44
Gain (loss) on Investments (Acct. No. 420)		
Gain (Loss) on Sale of Eligible Obligations (Acct. No. 141)	4050.1	4-31

G

Gain (Loss) on sale of Loans and Other Eligible Obligations (Acct. No. 140)	4050.1	4-31
Gain or loss on the sale of participations	6030.11	6-38
General Accounting and Operating Procedures	5000	5-1
General cash receipts and disbursements	5010	5-1
General guidelines for Real Estate lending	6020.1	6-5
General requirements for substitute forms	5130.1.3.1	5-130
General rules for recording income and expenses	2070.1.1	2-15
General Expense (see Miscellaneous Operating Expenses)	4050.1	4-42
General Ledger (form FCU 102)	4010.2	4-1
Locating differences	5060.4	5-61
Opening the General Ledger accounts	4010.2	4-1
Posting to:	5060.2.2	5-60
From source documents	4010.3	4-1
Six main groupings	4020.1	4-8
Substitute form	5140.1.3.2	5-130
Trial balance of	5060.3	5-61
Gifts (see donations)	2070.1.10	2-17
Gifts or Premiums on Savings Accounts	5150.14	5-158
Going Concern concept	2020.2	2-2
Government owned facilities	6128.1	6-154
Grace period interest	5040.5.1.3	5-26
Group Purchasing and Insurance Activities	5200.6	5-211
Groups of General Ledger Accounts	4020	4-8
Guidelines for data processing systems and forms	5130.1.2	5-130

H

Hybrid variations of Share Certificates	5150.6.1.1	5-147

I

Identification-Delinquency Control	5220.2.5	5-223
If Member Desires Joint Account	5030.1.5	5-17
Illustration of a Federal Credit Union Computation of Maximum Reimbursable Costs for Services	5200.6.1	5-213
Illustration of the Use of Notes to the Financial Statements	3050.7.1	3-17
Illustrative entries-credit cards	6050.3.1	6-54
Illustrative entries-end of accounting period	5070.5.4	5-80
	6125.5.1	6-152
Illustrative Entries-Installment Payments	5195.2.7	5-205
Illustrative entries Journal and Cash Record	4010.6	4-3
	5210.4.2.4	5-219
	6120.7	6-141
Illustrative Entries-Sale and Redemption of U.S. Savings Bonds	5195.1.3	5-202

Topic	Section No.	Page
Illustrative Entry-Savings Bond and Savings Note Redemption Transaction	5195.3.1.1	5-206
Illustrative journal entries-pensions	6140.2.2	6-162
Illustrative Operational entries	6125.5	6-151
Imputed Interest Cost (Acct. No. 341)	4050.2	4-68
Inactive (dormant) accounts	5140.5	5-141
Income accounts (see Accounts)	4050.1	4-33
Income, accrued on Investments	4030.2.4.2	4-14
Income and expense, complete recording	2020.9	2-3
Income from Loans (Acct. No. 110)	4050.1	4-33
Income from Loans of Liquidating Credit Unions (Acct. No. 113)	4050.1	4-39
Income from Investments (Acct. No. 120)	4050.1	4-44
Income from Investments in Credit Union Service Corporations	6110	6-125
Income on Investments	2070.2.2	2-18
Individual Retirement Accounts (IRA)	5150.13	5-157
Individual Share and Loan Ledger (Duplicates)	6125.4.1.2	6-149
Individual Share and Loan Ledger (form FCU 103)	5010.1	5-1
Daily balancing of postings	5040.1	5-20
Locating and adjusting differences	5030.1.7	5-10
Posting payments received by field collectors	5060.2	5-60
Subcontrols	5080.2	5-83
Substitute form	5130.1.3.2	5-131
Information returns to Director of Internal Revenue	5030.1.5.1	5-18
Installment Payments Received over the Counter	5195.2.2	5-203
Installment Payments-U.S. Savings Bonds	5195.2	5-202
Insurance:		
Borrower's (Acct. No. 313)	4050.2	4-66
Chattel Lien Nonfiling (Acct. No. 283)	4050.2	4-63
Life Savings (Acct. No. 312)	4050.2	4-65
Other (Acct. No. 265)	4050.2	4-61
Premiums Receivable (Acct. No. 724)	4050.4	4-106
Proceeds on lives of members with joint accounts	5030.1.5	5-17
Insurance Premium Stabilization Reserve (Acct. No. 792)	4050.4	4-171
Interest and Income Earned:		
Accrued Income (Acct. No. 780)	4050.4	4-163
Accrued Income on Investments (Acct. No. 782)	4050.4	4-165
Accrued Interest on Loans (Acct. No. 781)	4050.4	4-163
	5040.5.1	5-24
Computation of Grace period for Interest on Loans	5040.5.1.3	5-26
Income From Investments (Acct. No. 120)	4050.1	4-44
Interest on Lines of Credit (Acct. No. 112)	4050.1	4-37
Interest on Loans (Acct. No. 111)	4050.1	4-33
Interest Refunds (Acct. No. 119)	4050.1	4-43
Level payment	5040.5.2.1.1	5-26
On Borrowed Money (Acct. No. 340)	4050.2	4-68
On Insurance Premiums Receivable (Acct. No. 724)	4050.4	4-106
On Loan Participations Purchased (Acct. No. 116)	4050.1	4-42
On Loans and Other Obligations Purchased (100%) (Acct. No. 115)	4050.1	4-42
On loans of liquidating credit unions	4050.1	4-33
On Real Estate Loans (Acct. No. 114)	4050.1	4-41
Interest rates in relation to different classifications of loans	5040.5.2.4	5-27
Interest refunds (Acct. No. 119)	4050.1	4-43
	5070.2	5-73
Alternate interest refund procedures	5070.3	5-76
Interest Refunds Payable (Acct. No. 830)	4050.5	4-194
Interim Financial Reporting	5070	5-70
Internal Control	2020.8	2-3
	5140	5-136
Internal Control, Credit Card	6050.5	6-60
Internal Control With Limited Staff	5140.3	5-140
Internal Share Draft Accounts	6150.13	6-177
Investment Considerations	6061	6-88
Investment, discount on	2040.2.3	2-9
Investment in Branch (Acct. No. 753)	4050.4	4-144
	6120.4.2	6-140
Investment in Central Liquidity Facility (Acct. No. 751)	4050.4	4-142
Investment in CLF-Liquidity Clearing (Acct. No. 751.2)	4050.4	4-142
Investment in CLF-Membership Stock (Acct. No. 751.1)	4050.4	4-142
Investment in Credit Union Service Corporation (Acct. No. 748)	4050.4	4-141
Investment in Credit Union Organizations	6110	6-125
Investment Income (Acct. No. 120)	4050.1	4-44
Investment, premium on	2040.2.3	2-9
Investment type repurchase transactions	6060.3.4	6-68
Investments:		
Account (Acct. No. 740-759)	4050.4	4-123
Federal Agency Securities (Acct. No. 742)	4050.4	4-131
Common Trust and Mutual Investments (Acct. No. 743)	4050.4	4-133
Loans purchased from liquidating credit unions	4050.4	4-133
Issuance of a passbook	5030.1.3	5-15
J		
Joint account, if member desires a	5030.1.5	5-17
Joint Share, Termination of (form FCU 123)	5030.1.5.1	5-18
Journal and Cash Record (form FCU 101)	4010.5	4-2
Accounting machine byproduct as basis for entry	5130.1.2	5-130
Accounting machine byproduct as substitute for the Journal and Cash Record	5130.1.2	5-130

J

Topic	*Section No.*	*Page*
Continuation Sheet (form FCU 101A)	4010.5	4-2
	5020.1	5-7
Receipt of funds by field collectors		
Funds received by field collectors	5100.2.1.1	5-114
Opening of	4010.4	4-1
Postings from	4010.3	4-2
Substitute forms	5130.1.3	5-130
Summary entries of	5050.2.1	5-46
Journal Voucher Forms to be Used with Disbursements (form FCU 106A)	5010.2.3	5-4

L

Land (Acct. No. 771)	4050.4	4-153
Late Charges, Assessment of	5040.5.7	5-30
League Dues (see Association Dues)	4050.2	4-60
Leased Assets (Acct. No. 778)	4050.4	4-162
Leasehold Improvements (Acct. No. 776)	4050.4	4-160
Lease Payments Receivable (Acct. No. 723)	4050.4	4-106
Ledgers differences, locating and adjusting	5060.4	5-61
Ledgers:		
Expense (form FCU 104)	5020.1	5-9
General Ledger (form FCU 102)	4010.2	4-1
Individual Share and Loan (form FCU 103)	5020.1	5-7
Legal Fees (Acct. No. 291)	4050.2	4-64
Lending policies	5220.2.1	5-221
Liabilities general basis for recording	2050.1.1	2-9
Liabilities in Connection With Loan Drafts	5050.2.6.2	5-55
Liabilities secured by liens	2050.1.9	2-11
Liability Accounts (800 Series)	4040.5	4-30
	4050.5	4-174
	5195.2.4	5-203
Liability Under Pension Plan (Acct. No. 861)	4050.5	4-207
Life Savings Insurance (Acct. No. 312)	4050.2	4-65
Lines of Credit-Cash Advances in Process (Acct. No. 702.2)	4050.4	4-83
Lines of Credit To Members (Acct. No. 702)	4050.4	4-82
Lines of Credit To Members-Credit Cards (Acct. No. 702.1)	4050.4	4-83
Liquidating credit unions, purchased loans of	4050.4	4-93
Liquidity:	6061.2.1	6-90
List of Cash Collected (form FCU 250)	5100.2.1.5	5-115
List of now members and those who have withdrawn	5060.12	5-70
Listed check register	5050.2.1.2	5-46
Loan Drafts	5050.2.6	5-54
Loan losses	4050.4	4-99
Loan papers	5040.4.1	5-24
Loan Participations Purchased (Acct. No. 715)	4050.4	4-97
Loan participation sold	6030.9	6-33
Loan Servicing Expenses (Acct. No. 280)	4050.2	4-63
Loan Type Repurchase Transaction	6060.3.6	6-70

L

Topic	*Section No.*	*Page*
Loans:		
Allowance for losses	5120.1	5-122
Assets Acquired in Liquidation of (Acct. No. 712)	4050.4	4-93
Branch Office	6120.1	6-136
Collateral in Process of Liquidation (Acct. No. 707)	4050.4	4-90
	5110.1.1	5-117
Coupon book plans for repayments	5050.1.4	5-42
Disbursed by drafts	5050.2.6	5-54
Disbursing share withdrawals & loans in cash	5050.2.2	5-48
Interest on	4030.2.4.1	4-13
	4050.1	4-33
	5040.5.1	5-24
	4050.2	4-60
Level payment of	5040.5.2.1	5-26
Loans Transfer Summary (form FCU 105C)	5090.5.4.	5-76
Operation of Account (Acct. No. 701)	4050.4	4-79
Other Obligations Purchased (Acct. No. 714)	4050.4	4-97
Placed with outside sources for collection	5100.1	5-109
Procedure for making	5040.4	5-23
Refinanced, renewed or extended	5040.5.4	5-29
	5040.5.5	5-30
Regular Reserve (Acct. No. 931)	4050.6	4-241
Schedule of Delinquent Loans (form FCU 118)	5220.2.7	5-229
To Other Credit Unions (Acct. No. 747)	4050.4	4-140
Loans Collateral in Process of Liquidation (Acct. No. 707)	4050.4	4-90
Loans Participations Sold (Acct. No. 716)	4050.4	4-98
Loans Participations Sold (Contra-Asset) (Acct. No. 716.1)	4050.4	4-98
Loans purchased	6030.71	6-25
Loan Servicing Expense (Acct. No. 280)	4050.2	4-63
Loans from Liquidating Credit Unions (Acct. No. 712)	4050.4	4-93
Loans sold (servicing retained)	6030.7.2	6-28
Loans sold at a discount	6030.7.2.2	6-30
Loans sold at a premium	6030.72.1	6-30
Loans Subject to Repurchase Agreement (Acct. No. 718)	4050.4	4-99
Loans to Credit Union Service (Acct. No. 748)	4050.4	4-141
Loans to Members (Acct. No. 700)	4050.4	4-76
Loans to Other Credit Unions (Acct. No. 747)	4050.4	4-140
Loan-type repurchase transactions	6060.3.6	6-70
Locating and adjusting differences in General Ledger (form FCU 102)	5060.4	5-61
Locating and adjusting differences in Individual Share and Loan Ledger (form FCU 103)	5060.7	5-66
Loose leaf system periodic revisions	1010.2	1-1
Losses:		
On sale of bonds	4050.4	4-112
Other Losses (Acct. No. 440)	4050.2	4-47

M

Topic	Section No.	Page
Mail Receipts	5050.1.3	5-40
Main Office (Acct. No. 865)	4050.5	4-208
Main Office Procedures	6125.4	6-148
Maintaining the Delinquency Control on the Individual Share and Loan Ledger	5040.4.2	5-24
Maintaining the Note Record on the Individual Share and Loan Ledger	5040.4.1	5-24
Maintenance of Building (Acct. No. 252)	4050.2	4-60
Maintenance of Furniture and Equipment (Acct. No. 263)	4050.2	4-61
Making Initial Payments	5030.1.2	5-15
Management Consulting Fees (Acct. No. 294)	4050.2	4-38
Management Official Interlocks	5140.4	5-141
Materiality, in accounting	2020.6	2-2
Members:		
Account numbers	5030.1.4	5-16
Admission of	5030.1	5-13
Application for Membership (form FCU 150)	5030.1.1	5-14
Passbook (form FCU 107)	5030.1.3	5-15
Members Desiring Joint Account	5030.1.5	5-17
Members' Insurance (Acct. No. 310)	4050.2	4-65
Member's Passbook (form FCU 107)	5030.1.3	5-15
Retention by members of passbook	5030.1.3	5-15
Substitute form for member passbook	5130.1.3.2	5-130
Total payment passbook	5050.1.2	5-40
When members passbooks are lost	5040.3	5-23
Membership:		
Accounting for Transactions With Member	5030.1.7	5-20
Application	5030.1.1	5-14
Assigning Account Numbers If Member Desires Joint Account	5030.1.4 5030.1.5	5-16 5-17
Issuance of a Passbook	5030.1.3	5-15
Making Initial Payments	5030.1.2	5-15
Members Joint Agreement (form FCU 123)	5030.1.5	5-17
Membership Officer	5030.1.6	5-19
Procedure When a New Member is Admitted or Termination of Joint Account	5030.1.5.1	5-18
Membership card (see Application for Membership)	5030.1.1	5-14
Membership in Central Liquidity Facility	6090	6-121
Membership Officer	5030.1.6	5-19
Method A	5220.2.6.1	5-223
Method B	5220.2.6.2	5-225
Method C	5220.2.6.3	5-226
Method of Distribution and Use of Dividend Record	5160.1	5-158
Method of Recording for Long Term Investments	6060.1	6-60
Method of Recordkeeping for Recoverable Collection Cost	5100.1.2.1	5-110
Methods of Calculating Interest	5040.5.2	5-26
Microfiched Records	5190.3.3	5-199
Microfilming of records	5190.3.1	5-198
Minimum Procedure Prescribed for All Credit Unions	4030.1.1	4-11
Minimum Records to be Maintained at Overseas Office	6125.3.1.1	6-146

N

Topic	Section No.	Page
Minors' share accounts	5150.11	5-156
Miscellaneous Information	3050.2.3	3-4
Miscellaneous Operating Expenses (Acct. No. 370)	4050.2	4-70
Miscellaneous Operating Income (Acct. No. 150, 151)	4050.1	4-52
Miscellaneous Procedures and Systems	5130.1	5-129
Miscellaneous share accounts	4050.6	4-224
Mobile Home Loans (Acct. No. 705)	4050.4	4-89
Modification of Plan No. 2 (Accumulate Payroll Deduction Plan)	5090.4.2.1	5-96
Modified cash basis of Accounting	1040.1	1-4
	2050.1	2-9
	4030.1	4-11
Monetary basis of accounting	2020.3	2-2
Monetary Control Reserve Deposits (Acct. No. 793)	4050.4	4-172
Monetary Control Reserve Pass Through Deposits (Acct. No. 864)	4050.5	4-207
Money orders	5200.2.2	5-210
Mortgage Notes Payable (Acct. No. 81 1)	4050.5	4-186

N

Nature of Collateral in Process of Liquidtion5110.1	5-117	
Nature of Collection Cost and Expenses	5100.1.1	5-109
Nature of Loan Drafts	5050.2.6.1	5-54
NCUA Operating Fee (Acct. No. 320)	4050.2	4-66
Need for Delinquency Control	5220.1	5-220
Needed Opinions of Legal Counsel	6150.15	6-178
Net Income (Loss) (Acct. No. 960)	2060.1	2-12
No Mail Accounts	5090.8.1	5-105
Non Operating Income and Expense Accounts (400 Series)	4040.3	4-26
Non Operating Income (Expense) (Acct. No. 400)	4050.3	4-71
Note Record on Individual Share and Loan Ledger	5040.4.1	5-24
Notes and Contracts Receivable (Acct. No. 711)	4050.4	4-91
Notes and Interest Payable (Acct. No. 810)	5110.1.4	5-120
	4050.5	4-185
Notes Payable (Acct. No. 810, 811, 812)	4050.5	4-185
Notes to the Financial Statements	3050.7	3-17
Notice Share Certificates	5150.9	5-155
Numbering of General Ledger Accounts	4020.6	4-10

0

Obligation Under Capital Lease (Acct. No. 863)	4050.5	4-207
Obsolete Records	5190.3	5-196
Off-Site Office Facilities	6128.3	6-155
Office Facilities Construct by Federal Credit Unions	6128.2	6-154
Office Occupancy Expense (Acct. No. 250)	4050.2	4-60
Office Operation Expense (Acct. No. 260)	4050.2	4-61
Officers' and Directors' Travel and Conference Expense (Acct. No. 232)	4050.2	4-60
Opening General Ledger Accounts	4010.2	4-1

Topic	Section No.	Page
Opening the books:		
Expense Ledger	5020	5-7
General Ledger	4010.2	4-1
Share and Loan Ledger	5040.4	5-23
Opening the Journal and Cash Record	4010.5	4-2
Operating Expense Accounts (200-300 Series)	4050.2	4-55
Operating Expenses (control) (Acct. No. 200)	4050.2	4-55
Operating Income Accounts (100 Series)	4050.1	4-33
Operating Leases	6080.3	6-105
Operational Guidelines for Preauthorized Payment Transfer Plans	5210.5	5-220
Operating Procedure:		
During the month:		
Daily balancing of postings	5060.10	5-69
General cash receipt and disbursements	5010.1	5-1
Members, admission of	5030.1	5-13
Shares:		
Accumulated Payroll deduction plan	5090.4.2.1	5-96
Payments received	5040.1	5-20
Withdrawal	5040.2	5-21
Loans:		
Interest on Loans	5040.5.1	5-24
Made, renewed or refinanced	5040.5.4	5-29
Payment received on loans		
End of Month:		
Ruling and checking the Journal and Cash Record	5060.1	5-51
Posting at the end of the accounting period	5060.2	5-60
Trial Balance:		
General Ledger Trial Balance	5060.3	5-61
Individual Share and Loan Ledgers Trial Balance	5060.6	5-64
Bank Reconcilement	5060.5	5-62
Schedule of Delinquent loans	5060.11	5-70
Financial Reports preparation of	5060.13	5-70
List of new members and those who have withdrawn	5060.12	5-70
End of Accounting period		
Adjusting entries at the end of the accounting period	5070.1	5-72
Closing entries	5070.5	5-77
Closing entries at the end of the month	5060.2.2	5-60
Interest refunds	5070.2	5-73
Interest refunds at the end of the month	5070.2	5-73
Dividends, authorization of and computations at the end of the month	5160.1	5-158
Opinions of Legal Counsel	6150.15	6-178
Other Accounts Receivable (Acct. No. 729)	4050.4	4-110
Other Asset (Acct. No. 790, 799)	4050.4	4-171
Other Accrued Income (Acct. No. 789)	4050.4	4-170
Other Deferred Credits (Acct. No. 889)	4050.5	4-219
Other Gains and Losses	2070.1.8	2-16

0

Topic	Section No.	Page
Other Employment Benefits (Acct. No. 224)	4050.2	4-59
Other income, operating (Acct. No. 150, 151)	4050.2	4-52
Other income, nonoperating (Acct. No. 440)	4050.3	4-74
Other Insurance (Acct. No. 265)	4050.2	4-6
Other Liabilities (Acct. No. 860)	4050.5	4-206
Other Loan Information	3050.2.2	3-4
Other Loans (Acct. No. 710)	4050.4	4-91
Other Non-Operating Income Expense (Acct. No. 440)	4050.3	4-74
Other Methods of Accounting for Re-1 ceipts and Disbursements	5050	5-36
Other Prepaid Expenses and Deferred Charges (Acct. No. 769)	4050.4	4-152
Other Prepaid Insurance (Acct. No. 766)	4050.4	4-149
Other Receivables (Acct. No. 720)	4050.4	4-104
Other Share, Share Draft and Share Certificate Accounts	5150.3.1	5-146
Other Shares, Deposits and Certificates (Acct. No. 746)	4050.4	4-137
Other Subsidiary Records for Other General Ledger Accounts	5080.5	5-84
Other Taxes Payable (Acct. No. 849)	4050.5	4-20
Over Accrued Expenses	4030.2.11.1	4-22
Overage (cash over and short)	2070.1.9	2-16
	4050.2	4-551
Over or Under Accrued Expenses	4030.2.11	4-22
Overseas Branch Operations	6125.3.2	6-147
Overseas Branches	6125	6-144
Overseas Procedures	6125.3	6-145

P

Pair-off Transaction	6060.4.3	6-7
Participation Loan Purchased	6030.8	6-32
Passbook, Members (form FCU 107)	5030.1.3	5-15
Pass-Through Correspondents	5240.1	5-237
Payment by Check	5195.3.1	5-206
Payment by Share Credit	5195.3.2	5-206
Payment in Cash-Dividends	5195.3.3	5-207
Payment of Dividends by Share Credit	5195.3.2	5-206
Payments by mail	5050.1.3	5-40
Payments Received	5195.2.1	5-203
Payments received on loans	5040.5	5-24
Payments received on shares	5040.1	5-20
Payroll Deduction Plans	5090.4	5-94
Payroll Deduction Records	5090.5	5-97
Payroll deductions:		
Accumulated plan for	5090.4.2.1	5-96
Master record	5090.5.3	5-98
Plan No. 1	5090.4.1	5-95
Plan No. 2	5090.4.2	5-95
Plan No. 2 (Modified)	5090.4.2.1	5-96
Plan No. 3	5090.4.3	5-97
Undistributed Payroll Deductions or Allotments (Acct. No. 803)	4050.5	4-179
Payroll Deductions and Allotments	5090.1	5-93
Payroll Deductions and Records	5090.5	5-97

Topic	Section No.	Page
Payroll Deductions Receivable (Acct. No. 721)	4050.4	4-104
Payroll Numbers	5030.1.4	5-16
Payroll Plans and Procedures	5090	5-93
Pegboard Accounting System	5130.1.1	5-129
Penalty Provision	5150.6.4	5-151
Pensions	6140	6-156
Pension Plan Costs (Acct. No. 221)	2070.1.11	2-18
	4050.2	4-59
Permanent Impairment and Services of CUSO Being Used	6110.2.2.2	6-131
Permanent Impairment and Services of CUSO No Longer Used	6110.2.2.1	6-131
Periodic Review Policy	6061.6	6-92
Periodic Statements - Regulation E	5090.9	5-105
Permissible Investment Activities and Transactions Subject to Specified Conditions	6060.5	6-74
Petty Cash (Acct. No. 738)	4050.4	4-119
Places to Which Posting From Journal and Cash Records are Made	5060.2.1	5-60
Pledge of Shares	5040.2.1	5-21
Pledging Loans as Security	6030.6	6-25
Posting to the Journal & Cash Record	5060.2	5-60
Posting at the end of month	5060.2	5-60
Posting Board Systems and Forms	5130.1.1	5-129
Posting from Journal and Cash Record	5060.2.1	5-60
Posting Payments received by field collectors to the Individual Share and Loan Ledgers	5100.2.1.6	5-116
Posting to Subcontrol Records	5080.3	5-83
Posting to the General Ledger Accounts	5060.2.2	5-60
Posting to the Individual Share and Loan Ledger	5060.10	5-69
	5100.2.1.6	5-116
Premature Withdrawal From a Share Certificate Account	5150.6.3	5-151
Premises	6070.3	6-94
Premium on Accounts	5150.14	5-158
Premium on Federal Agency Securities (Acct. No. 742.2)	4050.4	4-131
Premium on Investments	2040.2.3	2-9
	4050.4	4-123
Premium on Loans Purchased (Acct. No. 714.1)	4050.4	4-97
Premium on Loans Participations Purchased (Acct. No. 715.1)	4050.4	4-97
Premium on U.S. Government Obligations (Acct. No. 741.2)	4050.4	4-123
Prepaid Expenses and Deferred Charges (Acct. No. 760)	4050.4	4-145
Prepaid Share Insurance (Acct. No. 765)	4050.4	4-148
Preparation of Records for Entry in Journal and Cash Record	5100.2.1.4	5-114
Preparing List of New Members and Those Who Have Withdrawn	5060.12	5-70
Preparing the Bank Reconcilement	5060.5	5-62
Preparing the Schedule of Delinquent Loans	5060.11	5-70
Presentation of Pension Plans in Financial Statements	6140.10	6-168
	4050.4	4-83
Presenting Passbooks for Transactions	5040.3	5-23
Principal Payment Plus Interest	5040.5.2.1.2	5-26
Principles Affecting:		
Recording of Assets	2040	2-5
Recording of Income and Expenses	2070	2-15
Recording of Liabilities	2050	2-9
Principles Affecting Equity	2060	2-12
Priority in Application of Payments	5100.1.3	5-110
Procedure for Making Loans	5040.4	5-23
Procedure When a New Member is Admitted	5030.1	5-13
Procedure When Cash is Disbursed	5010.2	5-2
Procedure When Cash is Received	5010.1	5-1
Procedures for Cash Disbursements	5050.2	5-46
Procedures for Cash Receipts	5050.1	5-36
Procedures for Proving the Daily Postings	5060.10.1	5-69
Procedures for the Collection of Payments for Utility Bills	5210.4.2	5-218
Procedures to be Used for Closing Entries	5070.5.2	5-77
Processing Basic Share and Loan Transactions	5040	5-20
Professional and Outside Services (Acct. No. 290)	4050.2	4-63
Prohibited Transaction	6060.4	6-72
Promissory Notes	4050.5	4-55
Provision for Losses (Acct. No. 300)	4050.2	4-64
Provision for Vested Benefits	6140.2.3	6-162
Public Unit Accounts	6170	6-180
Publicity and Promotions (Acct. No. 272)	4050.2	4-62
Purchase of Eligible Obligations	6030.1.1	6-18
Purchase, Sale and Pledge of Eligible Obligations	6030	6-17
Purchase Accrued Interest Receivable (Acct. No. 755)	4050.4	4-145
Purchased Soft Ware Costs (Amortization of)	5120.3	5-128
Purpose and Scope of the Accounting Principles and Standards for Federal Credit Unions	2010	2-1
Purpose for Federal Credit Unions and Use of the Accounting Manual for Federal Credit Unions as a Prescribed System	1010.1	1-1
Purpose of-.		
Central Liquidity Facility	6090.1	6-121
Closing Entries	5070.5	5-77
Financial Reports	3010	3-1
Financial Statements	2080.1	2-19
General Ledger	4010.1	4-1
Journal and Cash Record	4010.5	4-2
Records	1030.1	1-2
Six Main Groupings	4020.1	4-5

Q

Quarterly Statements	5090.9	5-105

R

Real Estate Loans	6020	6-5
Real Estate Loans-Over 12 Years (Acct. No. 703)		

Topic	Section No.	Page
Real Estate Loans-12 Years or Less (Acct. No. 704)	4050.4	4-89
Real Estate Taxes (Acct. No. 256)	4050.2	4-61
Receipt:		
Total Payment Vouchers	5050.1.2	5-40
Receipt For Loans Disbursed in Cash	5050.2.2	5-48
Receipt For Shares Disbursed in Cash	5040.1	5-20
Receipt of Funds by Collector	5100.2.1.1	5-114
Receipts-Overseas Branch	6125.3.2.1	6-147
Receipts for Utility Bill Payments	5210.4.2.1	5-218
Receipts & Disbursements Using ATM's and Now Accounts	5050.1.6	5-43
Reciprocal Accounts	6120.7.2	6-143
Reciprocal Accounts in Branch General Ledger	6120.4.1	6-140
Reciprocal Accounts in Main Office General Ledger	6120.7.2	6-143
Recomputation for Rebate	6020.4	6-12
Reconcilement of Bank Account	5060.5	5-62
Reconciliation Balancing Procedures	5060-5.3	5-64
Reconciling Subsidiary Records	5080.6	5-93
Reconciling the Cash on Hand	5050.1.1.1	5-39
Record of Dividends (form FCU 112B)	5160.1	5-158
Record of Final Entry	1030.2.3.2	1-3
Record of Loans Made by Overseas Office	6125.3.2.6	6-148
Record of Original Entry	1030.2.3.1	1-3
Record of Payroll Deductions (Forms FCU 105A, FCU 105B, FCU 105C, FCU 105D)	5090.5.3	5-98
Recording Fees-Chattel Lien Insurance Acct. No. 283)	4050.2	4-63
Recording Payment Data on Savings Bond and Notes Paid	5195.3.4	5-207
Recording Pension Assets and Liabilities	6140.4	6-163
Recordkeeping for Collection by Outside Sources	5100	5-109
Records:		
Destruction of Obsolete Records for the Inventory of U.S. Savings Bonds	5195.1.1	5-201
in Connection With Loan Draft Procedures	5050.2.6.3	5-56
in Connection With Loans Placed with Outside Sources for Collection	5100.1.4	5-110
Main Office	6125.4	6-148
Microfilming of Records	5190.3.1	5-198
Obsolete Records, Destruction of	5190.3	5-196
of Distribution of Payroll Deductions and Records of Share to Loan Transfer Under Payroll Deduction Plan No. 2	5090.5.4	5-99
of Installment Payments	5195.2.5	5-204
of Original Entry and Records of Final Entry	1030.2.3	1-3
Storing Records	5190.2	5-195
to Be Maintained At an Overseas Branch Office	6125.3.1.1	6-146
To Be Maintained At A Main Office	6125.4.1.1	6-49
Utility Bill Payments	5210.4.2.2	5-219
Records, accounting (see Accounting records)	1030.2 5010	1-2 5-1
Records and Information To Be Transmitted By the Overseas Office To The Main Office	6125.3.1.2	6-146
Records at a Branch	6120.2.5	6-137
Records for Overseas Branch Operations	6125.3.1	6-145
Records Preservation for Branch Offices	6120.2.11	6-139
Records Preservation and Retention	5190	5-194
Records Preservation Program	5190.1	5-194
Records Retention	5190.2	5-195
Refinanced, Renewed or Extended Loans	5040.5.4 5040-5.5	5-29 5-26
Refund of Interest (see Interest Refunds) (Acct. No. 119)	4050.1	4-43
Refunds-Real Estate Service Charges (Acct. No. 285)	4050.2	4-63
Regular Reserve	2060.6	2-14
Regular Share Account	5150.2	5-145
Regulation C. - Home Mortgage Disclosure Act	6020.6	6-16
Regulation D	5240	5-237
Regulation D Accounting Entries	5240.4	5-240
Regulation D Nonpersonal Time Deposit Reserves	5240.3	5-239
Regulation D Transaction Reserves	5240.2	5-237
Regulation E Periodic Statements	5090.9	5-105
Regulation G	5040.5.8	5-30
Regulation E	5090.9.1	5-105
Reimbursement Fees:	5200	5-208
Cost of Cashing Checks	5200.3	5-211
Cost of Handling Insurance	5200.4	5-211
Cost of Handling Trust Accounts	5200.5	5-211
Cost of Selling Checks	5200.2	5-209
for Services	5200	5-208
to Sponsor for Services (Acct. No. 212)	4050.2	4-59
Relationship of Grouping to Financial Statements	4020.2	4-10
Renewed loans	5040.5.4	5-29
Rent (Acct. No. 251)	4050.2	4-60
Rental of Furniture and Equipment (Acct. No. 262)	4050.2	4-61
Repayment Plans for Loans	5040.5.3	5-29
Reporting Dividends to Internal Revenue Service	5160.1.10	5-175
Reporting Requirements for Investment Decisions	6061.4	6-91
Reports, financial	3010	3-1
Reports Required By National Credit Union Administration	3030	3-1
Repossession and Sale of Collateral on Loans	5110	5-117
Required Certification of Financial Statements	2080.11	2-24
Required Financial Statements	2080.2	2-20
Required CLF Stock Subscription	6090.3	6-121
Requirements for a Valid Sale-and-Lease.-back Transaction	6080.11	6-114
Reserves:		
Regular Reserve (Acct. No. 931)	4050.6	4-241
Reserve for Loss Contingencies (Acct. No. 934)	4050.6	4-244
Special Reserve for Losses (Acct. No. 932)	4050.6	4-244

R

Topic	*Section No.*	*Page*
Reserves (Acct. No. 930)	4050.6	4-241
Reserve for Loss Contingencies	2060.4	2-13
	2090.9	2-25
Reserve Requirements	5230	5-232
Responsibility for Funds on Hand to Meet Loan Draft Obligations	5050.2.6.4	5-57
Retention by member of passbook	5030.1.3	5-15
Reverse Repurchase Transactions	6060.3.7	6-71
Risk Assets	5230.1.1	5-233
	6128.4	6-155
Rule of 78	5040.5.2.2	5-27
Ruling and checking Journal and Cash Record	5060.1	5-59

S

Safekeeping	6061.5.2	6-91
Safety As An Investment Consideration	6061.2.2	6-90
Salaries (Acct. No. 211)	4050.2	4-59
Sale and Leaseback	6080.11	6-114
Sale and Redemption of U.S. Savings Bonds	5195	5-200
Sale of land	4050.4	4-76
Sample Accounting Entries-Guidelines for Real Estate Lending	6020.3	6-8
Sample Calculation Accounting Entry for Investment in Credit Union Service Corporation	6110.1.1	6-126
Sample Depreciation Calculation	6120.2	5-136
Savings and Equity Accounts (900 Series)	4040.6	4-224
	4050.6	4-224
Savings and Loan Shares Accrued Income (Acct. No. 780)	4050.4	4-163
Savings Bond and Savings Note Redemption Transactions	5195.3	5-206
Savings Banks	4050.4	4-76
SBA Guaranteed Loans-Secondary Participations	6030.11	6-38
Schedule of Delinquent Loans (form FCU 118)	5220.2.7	5-229
	6050.2	6-50
Scope of Accruals	4030.2.3	4-13
Second Alternative to Computing Interest Refunds	5070.3.2	5-76
Security at Branch Offices	6120.2.10	6-138
Security Devices and Procedures	5193	5-199
Separate Bank Accounts	5200.2.1	5-210
Separate enterprise concept	2020.1	2-1
Service charges, bank (Acct. No. 269)	4050.2	4-62
Service Contracts	5260	5-241
Service Fees on Loans Purchased (Acct. No. 287)	4050.2	4-63
Service Income on Loans (Acct. No. 160)	4050.1	4-53
Service Income on Loans Sold and Participations (Acct. No. 117)	4050.1	4-42
Service Income On Loans And Other Obligations Sold (Acct. No. 161)	4050.1	4-53
Service Charges, fees-Share Drafts	6150.12	6-177
Set Date for Posting Payroll Deductions	5090.3	5-94
Settlement Account for Share Drafts	6150.9	6-177
Share Accounts of Minors	5150.11	5-156

S

Topic	*Section No.*	*Page*
Share Accounts of Terminated or Deceased Members	5150.12	5-156
Share ,and Share Certificate Accounts	5150.3	5-145
Share Certificate Documents	5150.6.6	5-152
Share Certificates	5150.6	5-147
Share Drafts	6150	6-172
Definition	6150.1	6-172
Description of Share Draft	6150.4	6-174
Draft Cashing Program	6150.11	6-177
Draft Verification Procedures	6150.8	6-176
Establishing A Share Draft Program	6150.2	6-172
Experimental Share Draft Program	6150.2.1	6-173
Guidelines for use of Share Drafts in Federal Credit Unions General Description of Operational Overflow	6150.3	6-173
Service Charges & Fees	6150.12	6-177
Settlement Account	6150.9	6-177
Share Certificates (Acct. No. 908)	4050.6	4-233
Share Draft Account Overdrafts	6150.7	6-175
Share Draft Accounts (Acct. No. 902)	4150.4	4-226
	6150.6	6-175
Share Draft Agreement	6150.5	6-174
Share Escrow (Acct. No. 903)	4150.5	4-228
Share Insurance (Acct. No. 311)	4050.2	4-65
Amortized share insurance premiums	4050.4	4-76
Share, Share Draft, and Share Certificate Accounts	5150	5-143
Share to Loan Transfers Under Payroll Deduction Plan No. 2	5090.6.2	5-100
Shares (Acct. No. 900, 901)	4050.6	4-224
Shares:		
Account (Non-Members) (Acct. No. 921)	4050.6	4-238
Account (Acct. No. 901)	4050.6	1-224
Christmas savings	4050.6	4-224
In other credit unions	4050.4	4-76
Minors accounts	5030.1.5.1	5-18
	5150.11	5-156
Miscellaneous accounts	4050.6	4-224
Of deceased members	5150.12	5-156
Of terminated members	5150.12	5-156
Public Unit Accounts (Acct. No. 910)	4050.6	4-235
Retirement Plans (Acct. No. 906)	4050.6	4-231
Trust accounts	5150.10	5-155
Savings and Loan	4050.4	4-76
Unposted payroll deductions (Acct. No. 909)	4050.6	4-235
Withdrawal of	5040.2	5-21
Withdrawn in cash (currency and com)	5050.2.2	5-48
Shares, Deposits and Certificates of Corporate Central Credit Unions (Acct. No. 744)	4050.4	4-135
Shares, Deposits and Certificates of Other Credit Unions (Acct. No. 745)	4050.4	4-135
Shares of Nonmembers (Acct. No. 921)	4050.6	4-238
Shares or Deposits in other Credit Unions	4050.4	4-76
Share to Loan Transfers Under Payroll Deduction Plan No. 2	5090.6.2	5-100
Share Secured Loan (Acct. No. 706)	4050.4	4-90
Shipment of Paid Bonds and Notes	5195.3.5	5-208
Shortage (see Cash Over and Short)	4050.2	4-55

Topic	Section No.	Page
Shortcomings of Modified Cash Basis	4030.1.3	4-12
Signature card (see Application for Membership)	5030.1.1	5-14
Signature on checks	5010.2.2	5-2
Single Operating Expense Control Account as an Optional Procedure	4020.7	4-11
Single signature checks	5010.2.2	5-2
Six main groupings of General Ledger accounts	4020.1	4-5
Small Business Administration Secondary Participations	6030.11	6-38
Social Security numbers	5030.1.4	5-16
Social Security Taxes (Acct. No. 222)	4050.2	4-59
Social Security Taxes Payable (Acct. No. 846)	4050.5	4-198
Sources of Posting from Books of Original Entry	4010.3	4-2
Special Accounting and Operation Procedures for Federal Credit Unions Maintaining Offices Overseas	6125	6-144
Special Accounting Treatment-Credit Union Service Corporations	6110.2.1.1	6-128
Special Considerations	6061.2	6-89
Specialized Accounting and Operational Procedures	6000	6-1
Special Reporting Requirements	6125.2.3	6-145
	6125.4.1	6-149
Special Reserve for Losses (Acct. No. 932)	4050.6	4-244
Special share accounts	4050.6	4-224
Specific Requirements for Substitute Forms	5130.1.3.2	5-130
Split-Rate Transfers	5230.1.4	5-235
Staffing of A Branch	6120.2.6	6-138
Standard Forms	5020.1	5-7
Standard Forms for:		
Suppliers	5020.1	5-7
Accounting machines systems and forms	5130.1	5-129
Posting-board equipment	5130.1.1	5-129
State Unemployment Compensation Tax Payable (Acct. No. 848)	4050.5	4-200
State Withholding Taxes Payable (Acct. No. 842)	4050.5	4-196
Statement of Account	5090.7	5-103
Statement of Account (form FCU 107G)	5090.8	5-103
Distribution	5090.8	5-103
Mail receipts	5050.1.3	5-40
Substitute forms	5130.1.3	5-130
Statement of Reserves and Undivided Earnings (109D)	3050.5	3-16
Statement of Cash Flows	3050.6	3-16
Statement of Financial Condition (109A)	3050.1	3-2
Statement of Income (109B)	3050.2	3-3
Statement of Income and Expense	2080.4	2-21
Stationery and Supplies (Acct. No. 264)	4060.2	4-61
Deferred Stationery and Supplies	4030.2.8	4-18
	4050.4	4-76
Stop Payment Procedures	6150.10	6-177
Storage of records	5190	5-194
Straight Line Depreciation	5120.2.1.1	5-126

S

Topic	Section No.	Page
Subcontrols for Individual Share and Loan Ledgers	5080.1	5-82
Subordinate Grouping Within Main Classification	4020.3	4-10
Subsidiary Ledgers	5195.2.6	5-204
Subsidiary Recordkeeping	5080	5-82
Subsidiary Records for Loans Purchased	6030.7.1.1	6-27
Substitutes form for Cash Received Voucher (form FCU 105)	5130.1.3	5-130
Substitutes form for Dividend Record (form FCU 112)	5130.1.3	5-130
Substitute form for General Ledger	5130.1.3	5-130
Substitute form for Individual Share and Loan Ledger (form FCU 103)	5130.1.3	5-130
Substitute form for Journal and Cash Record	5130.1.3	5-130
Substitute form for Members' Passbook	5130.1.3	5-130
Substitute forms (see Forms, substitute for standard forms)	5130.1.3	5-130
Sum of the Year Digits Depreciation	5120.2.1.2	5-127
Summary Entries of Disbursements in the Journal and Cash Record	5050.2.1	5-46
Summary Voucher	5010.1	5-1
	5010.2.3	5-4
Supervisory Committee	5220.2.9	5-232
	6120.2.8	6-138
	6125.4.1.6	6-150
Supplemental reserve	4050.6	4-224
Suppliers of standard forms	5020.1	5-7
Supporting Schedules for Financial Statements	3050.3	3-4
Surety Aspects	6061.5.1	6-91
Surety bond premium	4050.4	4-76
Systems, accounting	5130.1	5-129
Systems, loose-leaf	1010.2	1-1

T

Topic	Section No.	Page
Taking a Trial Balance of the Individual Share and Loan Ledgers	5060.6	5-64
Tangible Fixed Assets and Expenses	2070.1.4	2-15
Taxes:		
Social Security Taxes (Acct. No. 846)	4050.5	4-198
Unemployment Compensation Taxes (Acct. 223)	4050.2	4-59
Withholding Taxes (Acct. No. 841, 842, 845)	4050.5	4-196
Taxes Payable (Acct. No. 840)	4050.5	4-196
Tellers Daily Cash Sheet	5050.1.1	5-36
Terminated Members	5150.12	5-156
Termination of a Joint Account	5030.1-5.1	5-18
Text of the Interpretive Ruling and Policy Statement (IRPS 81-7)	6080.11	6-114
Third Party Payments	5210	5-213
Thirty Day Month Method (360 Day Year)	5040.5.1.2	5-25
Three Hundred and Sixty-five Day Year Method	5040.5.1.1	5-25
TIL Bond Claim Receivable (Acct. No. 729.1)	4050.4	4-111
TIL Reimbursement of Interest Overcharges (Acct. No. 361)	4050.2	4-69

T

Topic	*Section No.*	*Page*
TIL Restitution (Acct. No. 362)	4050.2	4-69
Timely recognition in accounting records	2020.5	2-2
Total payment voucher	5050.1.2	5-40
Total payment plan	5050.1.2	5-40
Transactions After Conversion To Accrual Accounting	4030.2.10	4-21
Transmitting Funds and Records to the Credit Union Office	5100.2.1.2	5-114
Travel and Conference Expenses (Acct. No. 230)	4050.2	4-60
Treasury Tax and Loan accounts	6160	6-179
Travelers checks	5200.2	5-209
Treasurer's Salary	4050.2	4-55
Trial Balance:		
General Ledger accounts	5060.3	5-61
Individual Share and Loan Ledgers	5060.6	5-64
Trial Balance of Credit Card Holder Accounts	6050.4	6-59
Trust accounts	5150.10	5-155
Common Trust and Mutual Investment Accounts (Acct. No. 743)	4050.4	4-133
Types of Accounts	1030.2.2	1-2
Types of Leases	6080.2	6-102
Types of Real Estate Mortgage Loans	6020.1.1	6-5

U

Unamortized Discount On Sale of Assets (Acct. No. 886)	4050.5	4-217
Unamortized Organization Cost (Acct. No. 768)	4050.4	4-151
Unapphed Data Processing Exceptions (Acct. No. 870)	4050.5	4-209
Unapplied Data Processing Exceptions (Disbursements) (Acct. No. 872)	4050.5	4-210
Unapplied Data Processing Exceptions (Receipts) (Acct. No. 871)	4050.5	4-209
Unauthorized Investment Transactions and Activities	6060.4	6-72
Uncollectible Collection Cost	5100.1.2.2	5-110
Uncollectible Notes and Contracts Receivable	5110.4	5-121
Under Accrued Expenses, Accounting Basis	4030.2.11.2	4-22
Undisbursed Loan Proceeds (Acct. No. 866)	4060.5	4-208
Undistributed Payroll Deductions (Acct. No. 803)	4050.6	4-247
Undistributed Payments (Acct. No. 802)	4050.5	4-179
Undivided Earnings (Acct. No. 940)	4050.5	4-178
	2060.2	2-12
	2090.10	2-26
	4050.6	4-247
Unearned Interest on Loans (Acct. No. 881)	4050.5	4-211
Unemployment Compensation Tax Payable	4050.5	4-174
Unemployment Compensation Tax (Acct. No. 223)	4050.2	4-59
United States Rule-Simple Interest	5040.5.2.1	5-26
Upon Maturity of a Share Certificate	5150.6.2	5-149

U

U.S. Government Obligations (Acct. No. 741)	4050.4	4-123
Accrued income	4050.4	4-76
Accrued interest at time of purchase	4050.4	4-76
Gain on (Acct. No. 420)	4050.3	4-71
Income from Investments (Acct. No. 121)	4050.1	4-44
Losses on (Acct. No. 420)	4050.3	4-71
Unrealized Loss in Value of Long Term Investments In Equity Securities (Acct. No. 945)	4050.6	4-250
Unpresented Checks	4050.5	4-174
Use of Additional General Ledger Accounts	4020.5	4-10
Use of Accounting Machine byproduct of Dividend Record (form FCU 112)	5160.1	5-158
Use of Share Drafts	6150.14	6-178
Use Only Needed General Ledger Accounts	4020.4	4-10
Utilities (Acct. No. 253)	4050.2	4-60

V

Valuation allowance	2090.11	2-26
	5120.1	5-122
definition of	2090.11	2-26
for amortization (Acct. No. 777)	4060.4	4-162
for depreciation (Acct. No. 773, 775)	4050.4	4-157
		4-160
for loans	4050.4	4-160
	5120.1	5-122
To Reduce Long Term Investments To Market Value (Acct. No. 758)	4050.4	4-145
Variable Rate Mortgage Loans	6020.1.1	6-5
Varieties of Share Certificates	5150.6.1	5-147
Voucher Check Register	5050.2.1.3	5-48
Voucher checks	5050.2.1.3	5-48

W

When a Loan is Deferred	5040.5.6	5-30
When a Loan is Extended	5040.5.5	5-30
When a Loan is Made	5040.4	5-23
When a Loan is Refinanced	5040.5.4	5-29
When Credit Union Develops All the Records in Connection with Payroll Deductions	5090.5.2	5-98
When Passbooks are Used	5050.1.3.1	5-40
When Payments on Loans are Received	5040.5	5-24
When Payments on Shares are Received	5040.1	5-20
When Shares are Withdrawn	5040.2	5-21
When Statements of Account Are Used	5050.1.3.2	5-42
When the General Ledger Trial Balance does not Balance	5060.4	5-61
Where Credit Union Receives a Record of the Payroll Deductions from the Employer	5090.5.3	5-98
Withdrawal of shares	5040.2	5-21
Withholding Taxes Payable (Acct. No. 840)	4050.5	4-196

W

Topic	*Section No.*	*Page*
Worksheet Records for General Ledger Accounts No. 707 Loans Collateral in Process of Liquidation and No. 708, Assets Acquired in Liquidation of Loans	5110.1.3	5-90
Written Agreements for Collection of Utility Bills	5210.4.1	5-128

Y

Yield Considerations in Investing	6061.2.3	6-90
Yield Maintenance Contract	6060.4.2	6-73

Z

Topic	*Section No.*	*Page*
Regulation Z	5090.9	5-105