SECTION 5000

GENERAL ACCOUNTING

TABLE OF CONTENTS

SECTION NO. / SUBSECTION NO.		PAGE 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.2	When Shares are Withdrawn	5-21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.		PAGE NO.
SUBSECTION 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.			PAGE NO.
SUBSECTION 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
			INTEREST			

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
			INTEREST		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	635.00							635.00												
9	26	JC3	114.57												272	114.57						
10	MTD		2,879.32	211	1,126.40		74.90			635.00		806.00		100.95		114.57		21.50				
11	YTD		4,603.17		1,126.40		74.90			635.00		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	60.140																			
14	30	JC6	75.00																			
15	31	JC6	100.00																			
16	31	JC6	(20.00)																			
17	MTD		648.190		1,126.40		74.90			635.00												290.420
18	YTD		19,793.97		5,632.00		374.50			3,175.00		806.00		324.80		114.57		21.50				490.420
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	105.780					232	105.780													
22	MTD		2,659.10		1,126.40		74.90		105.780							400.00						
23	QTD		9,141.00		2,252.80		149.80		105.780	635.00						400.00						290.420
24	YTD		22,453.07		6,758.40		449.40		105.780	3,175.00		806.00		324.80		514.57		21.50				490.420
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	50.00																			
30	12-30	JC8	345.680																			
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	635.00						400.00						290.420
33	YTD		29,131.17		7,884.80		524.30		2,357.80	3,175.00		806.00		324.80		514.57		21.50				490.420

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				10000				50000													
12																					
13									Microfiche Service	374	6014 0										
14									Cash Over & Short	330	75 00	330	55 00								
15									Donations	376	1000 00	374	601 40								
16									Cash Over & Short	330	200 00	376	100 00								
17						985 00					756 40		756 40								
18				10000		985 00		50000			1956 40										
19																					
20																					
21																					
22																					
23						985 00					756 40										
24				10000		985 00		50000			1956 40										
25																					
27									Cash Over & Short	330	20 00										
28									Microfiche Service	374	200 00										
29	313	500 00										330	200 00								
30												374	200 00		3456 80						
31		500 00									220 00		220 00		3456 80						
32		500 00				985 00					976 40			3	456 80						
33		500 00		10000		985 00		50000			2176 40			3456 80							

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	WITHDRAWN	BALANCE	FULL SHARES	FINES	LOANS LEDGER NOTE NO.	AMOUNT LOANED	INT. PAID	PRINCIPAL PAID	BALANCE	DELINQUENCY CONTROL BALANCE SHOULD BE	ON DATE 19X1	MEMORANDUM ENTRANCE FEES COLLECTED DATE 6-4-X1 6-11-X1 AMT. $1.00 $1.00
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		

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

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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:				
Shares		500	00	
Entrance Fees		2	00	
Late Charges				
Interest on Loans		16	00	
Loans		400	00	
Total receipts from members		918	00	
Miscellaneous				
Income from investments				
Other income				
Other (list below)				
Total cash receipts		918	00	
Opening change fund				
Change fund increase		500	00	
Total cash		1418	00	
DISBURSEMENTS:				
Can share withdrawals	150 00			
Share Drafts Cashed	150 00			
Cash loan payments				
Bonds redeemed				
Other (list below)				
Total cash disbursed	300 00			
Change fund decrease	XXXX XX			
Total disbursements		300	00	
Change fund and net cash proceeds		1118	00	
Cash over (or short) *cash short*		3	00	
***Adjusted balance**		1115	00	

CASH COUNT

Bills:		
100's		
50's		
20's	700	00
10's	100	00
5's	100	00
1's	55	00
Coin	1	00
Halves	15	00
Quarters	24	60
Dimes	5	40
Pennies	5	00
Total Money	1006	00
Checks and Share Drafts		
Myer	9	00
Syevens	40	00
LaCoste	60	00
*Tota	1115	00

CHANGE FUND RECONCILIATION

Opening change fund	500	00
Increase:	500	00
Decrease:		
Closing balance	500	00
Change fund cash inc\ventory	500	00
Needed for replenishment		
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 FEDERAL 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 FEDERAL 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.

Figure 5-17: Illustration of a Completed Bank Reconcilement (Form FCU 108)

FORM FCU 108

OUR

FEDERAL CREDIT UNION

First National Bank	032-11180	Anytown	Indiana
(NAME OF BANK)	(BANK ACCOUNT NUMBER)	(CITY)	(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

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 <u>summary</u> vouchers. The <u>summary</u> 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 (Ex penses)."

   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		DEBIT	CREDIT	BALANCE
		RATE %	AMOUNT REC'D			

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			1000 00		1000 00
6-30-x1		4.75	237 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			1000 00		1000 00
9-30-X0	10%	2500 00			
12-31-X0	10%	2500 00			
Interest YTD		5000 00			
3-31-X1	10%	2500 00			
6-30-X1	10%	2500 00		1000 00	00
Interest YTD		5000 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 0 0 0 0 00	1 0 0 0 0 0 00
3-31-X0	10%	1 1 7 81			
6-30-X0	10%	2 4 9 32			
Interest YTD		*6 1 9 18*			
9-30-X0	10%	2 5 2 05			
Interest YTD		*8 7 1 23*			
12-15-X0	10%	2 0 8 22	1 0 0 0 0 00		00
Interest YTD (12-31-X0)		*1 0 7 9 45*			

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		12000.00	(500.00)	(5000.00)		100000.00
11-01-X0	333.33		1000.00	5000.00	2867	99971.39
12-01-X0	333.33		999.71	1499.71	2890	99942.49
01-01-X1	333.33		999.42	2499.13	2919	99913.30

**** 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	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	1201.30	211	1126.40	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	114.57												272	114.57						
10	MTD		2879.32	211	1126.40		74.90			635.00		806.00		300.95		114.57		21.50				
11	YTD		4603.17		1126.40		74.90			635.00		806.00		324.80		114.57		21.50				
12	10-28	JC6	1201.30	211	1126.40	222	74.90															
13	29	JC6	60.140																			
14	30	JC6	75.00																			
15	31	JC6	100.00																			
16	31	JC6	(20.00)																			
17	MTD		6481.90		1126.40		74.90			635.00											2904.20	
18	YTD		19793.97		5632.00		374.50			3175.00		806.00		324.80		114.57		21.50			4904.20	
19	11-4	JC7	1201.30	211	1126.40		74.90															
20	11-7	JC7	400.00												271	400.00						
21	11-30	JC7	1057.80					232	1057.80													
22	MTD		2659.10		1126.40		74.90		1057.80							400.00						
23	QTD		9141.00		2252.80		149.80		1057.80	635.00						400.00					2904.20	
24	YTD		22453.07		6758.40		449.40		1057.80	3175.00		806.00		324.80		514.57		21.50			4904.20	
25	12-5	JC8	1201.30	211	1126.40	222	74.90															
26	12-9	JC8	1300.00					231	1300.00													
27	12-13	JC8	200.00																			
28	12-17	JC8	200.00																			
29	12-21	JC8	500.00																			
30	12-30	JC8	3456.80																			
31	MTD		6678.10		1126.40		74.90		1300.00													
32	QTD		19819.10		3379.50		224.70		2357.80	6350.00						400.00					2904.20	
33	YTD		29131.17		7884.80		524.30		2357.80	3175.00		806.00		324.80		514.57		21.50			4904.20	

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	ACCT.	AMOUNT
1																					
2																					
3																					
4																					
5																					
6																					
7																					
8																					
9																					
10																					
11				10000				50000													
12																					
13									Microfiche Service	374	6014										
14									Cash Over & Short	330	75	330	55								
15									Donations	376	10000	374	601								
16									Cash Over & Short	330	200	376	100								
17						985					756		756								
18				10000		985		50000			1956										
19																					
20																					
21																					
22																					
23						985					756										
24				10000		985		50000			1956										
25																					
27									Cash Over & Short	330	20										
28									Microfiche Service	374	200										
29	313	500										330	200								
30												374	200		3456						
31		500									220		220		3456						
32		500				985					976				3456						
33		500		10000		985		50000			2176				3456						

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 INT. CR.		DISTRIBUTION LOANS CR.		DISTRIBUTION LATE CHARGES		✓	REMARKS
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)

ACCOUNT NO.

MEMBER'S PERIODIC STATEMENT OF ACCOUNT

SEND INQUIRIES TO: _____

CREDIT UNION

ADDRESS

FORM FCU 107-G OE Rev. 10/80

DATE	POST REF. (CODE)	SHARES (NOT TRANSFERABLE)			LOANS ACCOUNT						LATE CHARGE
		PAID IN	WITHDRAWN	BALANCE / FULL SHARES	NOTE NO.	ADVANCES AMOUNT LOANED	FINANCE CHARGE	PAYMENTS AND CREDITS (PRINCIPAL)	UNPAID BALANCE		

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
CB — CREDIT BALANCE
CR — CREDIT
CS — CASH
DP — DUPLICATE ENTRY
DV — DIVIDEND
FE — FEE
FI — LATE CHARGES
MF — MEMBERSHIP FEE
NB — NO BOOK
NL — NEW LOAN
OD — OVER DRAFT LOAN
PY — PAYMENT
PD — PAYROLL DEDUCTION
RE — REBATE
RF — REFINANCE
TR — 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.

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.

(<u>Note</u>: *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

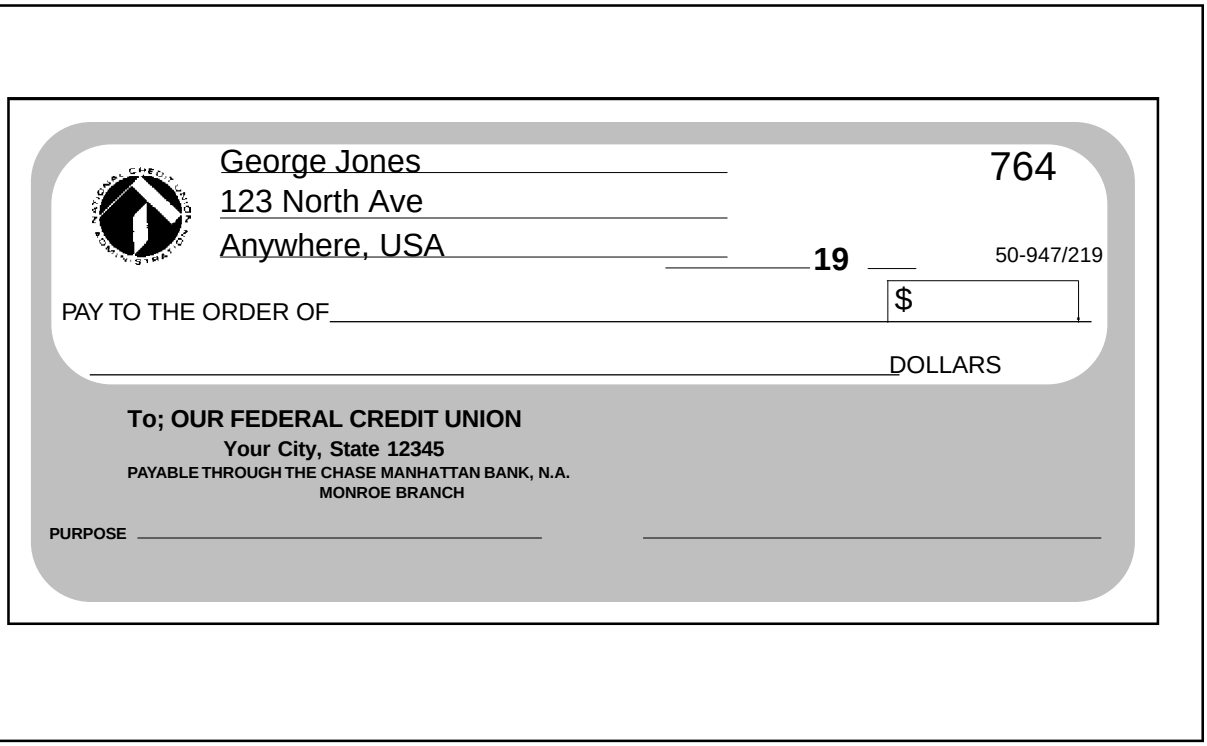
Share certificate accounts were defined in Section 5150.1. Their minimum qualifying periods. if any, are prescribed by the board of directors.

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				POSTED TO SHARES LEDGER		POSTED TO PASS-BOOK	
					NUMBER	AMOUNT						
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)

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CREDIT UNION

DIVIDEND WORK SHEET AND PAYMENT RECORD

Declared on Members' Shares for the Period Ending _____ 19 _____ Rate _____ _____

MEMBERS' ACCT NO	NAME	Dollar Equivalent or Share $'s Held Continuously to End of Div. Period												SHARE DOLLARS	AMT OF DIVIDEND		PAYMENT BY CHECK			POSTED TO SHARES LEDGER		POSTED TO PASS-BOOK	
		JAN	FEB	MAR	APRIL	MAY	JUNE	JULY	AUGUST	SEPT	OCT	NOV	DEC				NUMBER	AMOUNT					
	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:

MEMBERS' ACCT NO	19 ____ RATE ____ %			19 ____ RATE ____ %			19 ____ RATE ____ %			19 ____ RATE ____ %			TOTAL DIVIDENDS PAID
	SHARE DOLLARS	AMT. OF DIVIDEND	POSTED	SHARE DOLLARS	AMT. OF DIVIDEND	POSTED	SHARE DOLLARS	AMT. OF DIVIDEND	POSTED	SHARE DOLLARS	AMT. OF DIVIDEND	POSTED	
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 5.11<u>6</u> 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%.

$$\text{APYE} = 100\left[\left\{1+\frac{\text{Dividends earned/Balance}}{\text{Days in Period (Compounding)}}\right\}^{(365/\text{Compounding})} -1\right]$$

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 = $\frac{(2)}{(1)}$ = 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	(6)	Computation of Delinquency
(2)	Education of Members	(7)	Schedule of Delinquent Loans
(3)	Collection Policies	(8)	Collection Procedures
(4)	Selection and Training of Personnel	(9)	Documentation
(5)	Identification	(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.

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

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
TOTAL UNPAID BALANCES OF DELINQUENT LOANS					387	50	563	30	1,058	20				
TOTAL NUMBER OF DELINQUENT LOANS					4		1		1					

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).