

BOARD ACTION MEMORANDUM

TO: NCUA Board

DATE: May 13, 2009

FROM: Office of General Counsel

SUBJ: Order to Exclude
Credit Union System
Investment Program
Funds from Assets
Subject to Minimum
Fidelity Bond
Requirements

DATE ACTION REQUESTED: May 21, 2009.

ACTION REQUESTED: Waiver of required minimum fidelity bond coverage, to exclude Credit Union System Investment Program (CU SIP) investments from total assets subject to minimum coverage requirements.

OTHER OFFICES CONSULTED: Office of Examination and Insurance and Office of Corporate Credit Unions.

VIEWS OF OTHER OFFICES CONSULTED: Concur.

SUBMITTED TO THE INSPECTOR GENERAL FOR REVIEW: Yes.

BUDGET IMPACT, IF ANY: None.

RESPONSIBLE STAFF MEMBERS: Trial Attorney Dianne Salva, Office of General Counsel.

SUMMARY: Part 713 of NCUA regulations requires federal credit unions to maintain minimum fidelity bond coverage for a single loss. The calculation of the minimum amount of coverage is based on the credit union's total assets and the credit union's cost to obtain coverage increases in direct relation to its total assets. The total assets of credit unions participating in the CU SIP are inflated by the amount they have invested in the program. Consequently, federal credit unions that have borrowed and invested CU SIP funds would see their minimum fidelity bond coverage requirement and attendant costs increase as a result of their participation in this program. There is no need to increase fidelity bond coverage to include the CU SIP assets, since they are funded by secured borrowings and are guaranteed investments. Section 713.5(e) of NCUA regulations authorizes the NCUA Board to reduce the required bond coverage when appropriate.

CU SIP

On December 9, 2008, the Board announced the CU SIP as a part of its effort to improve liquidity in the corporate credit union system. Under the CU SIP, credit unions may obtain a secured, one-year extension of credit from the Central Liquidity Facility (CLF) which the credit union must concurrently invest in a fixed-rate, matched-term, NCUA-guaranteed SIP note with a participating corporate credit union. The CU SIP program has been very successful, with 497 CLF loans granted as of May 12, representing well over \$8 billion invested in CU SIP notes by credit unions.

There is no need for federal credit unions to increase their fidelity bond coverage in relation to their CU SIP investments because these investments are guaranteed by the NCUSIF and pose no additional risk to the fund. Without Board action, the increased expenses of fidelity bond coverage could serve as an impediment to credit union participation in the program. While the Regional Directors and Director, OCCU, have the delegated authority to reduce the minimum bond coverage for individual credit unions pursuant to NCUA Board Delegation SPE 18, it is more appropriate for the Board to take action here since the issue affects all participants in the CU SIP program.

To reduce participating credit union's costs for fidelity bond coverage, staff recommends that the NCUA Board order a reduction of the minimum fidelity bond coverage required for all credit unions participating in the CU SIP. As set forth in the attached order, the Board action would permit participating credit unions to exclude CU SIP funds from their calculation of total assets subject to minimum fidelity bond coverage under Part 713.

RECOMMENDED ACTION: Staff recommends that the Board issue the attached Order excluding CU SIP investments from the calculation of total assets subject to minimum fidelity bond coverage under Part 713.

**NATIONAL CREDIT UNION ADMINISTRATION BOARD
NATIONAL CREDIT UNION ADMINISTRATION
Alexandria, Virginia**

ORDER

WHEREAS, the National Credit Union Administration Board (NCUA BOARD) held a regularly scheduled meeting on the 21st of May 2009, at which the full NCUA Board was present and a recommendation was presented by staff concerning minimum fidelity bond coverage for federal credit unions; and

WHEREAS, the NCUA Board considered the requirement for minimum fidelity bond coverage found in NCUA regulations at 12 C.F.R. §713.5; and

WHEREAS the NCUA Board considered that total assets subject to the minimum coverage at participating credit unions has increased as a result of the Credit Union System Investment Program (CU SIP); and

WHEREAS the NCUA Board considered that as CU SIP investments are guaranteed by the National Credit Union Share Insurance Fund (NCUSIF) and are secured borrowings from the Central Liquidity Facility they pose no additional risk on the NCUSIF; and

WHEREAS, the NCUA Board further considered its authority to reduce the required bond coverage as set forth in 12 C.F.R. §713.5, and the recommendation of staff that a credit union's CU SIP investments should be excluded from the calculation of total assets subject to minimum fidelity bond coverage;

NOW THEREFORE the NCUA BOARD hereby ORDERS:

- 1. Outstanding CU SIP investments shall be excluded from total assets for purposes of calculating the minimum fidelity bond coverage required under 12 C.F.R. §713.5.**
- 2. All other provisions of 12 C.F.R. Part 713 shall remain in effect and unchanged.**

So ORDERED by the NCUA Board this 21st Day of May, 2009.

**Mary F. Rupp
Secretary of the NCUA Board**

