PART 614—LOAN POLICIES AND OPERATIONS

1. The authority citation for part 614 continues to read as follows:
   Authority: 42 U.S.C. 4012a, 4014a, 4014b, 4016, and 4128; secs. 1.3, 1.5, 1.6, 1.7, 1.9, 1.10, 1.11, 2.0, 2.2, 2.3, 2.4, 2.10, 2.12, 2.13, 2.15, 3.0, 3.1, 3.3, 3.7, 3.8, 3.10, 3.20, 3.28, 4.12, 4.12A, 4.13B, 4.14, 4.14A, 4.14C, 4.14D, 4.14E, 4.18, 4.18A, 4.19, 4.25, 4.26, 4.27, 4.28, 4.36, 4.37, 5.9, 5.10, 5.17, 7.0, 7.2, 7.6, 7.8, 7.12, 7.13, 8.0, 8.5 of the Farm Credit Act. (12 U.S.C. 2011, 2013, 2014, 2015, 2017, 2018, 2019, 2071, 2073, 2074, 2075, 2091, 2093, 2094, 2097, 2121, 2122, 2124, 2128, 2129, 2131, 2141, 2149, 2183, 2184, 2201, 2202, 2202a, 2202c, 2202d, 2202e, 2206, 2206a, 2207, 2211, 2212, 2213, 2214, 2219a, 2219b, 2243, 2244, 2252, 2270a, 2270a–2, 2279b, 2279c–1, 2279f–1, 2279a, 2279aa–5); sec. 413 of Pub. L. 100–233, 101 Stat. 1568, 1639.

Subpart B—Chartered Territories

2. Amend §614.4070 by adding a new paragraph (d) to read as follows:
   §614.4070 Loans and chartered territory—Federal land bank associations, Federal credit associations, Federal credit banks, agricultural credit associations, and agricultural credit banks. * * * *
   (d) A bank or association chartered under title I or II of the Act may finance eligible borrower operations conducted wholly or partially outside its chartered territory through the purchase of loans from the Federal Deposit Insurance Corporation in compliance with §614.4325(b)(3); provided:
   (1) Notice is given to the Farm Credit System institution(s) chartered to serve the territory where the headquarters of the borrower’s operation being financed is located; and
   (2) After loan purchase, additional financing of eligible borrower operations complies with paragraphs (a), (b), and (c) of this section.

Subpart H—Loan Purchases and Sales

3. Amend §614.4325 by revising paragraph (b) to read as follows:
   §614.4325 Purchase and sale of interests in loans.
   * * * *
   (b) Authority to purchase and sell interests in loans. Loans and interests in loans may only be sold in accordance with each institution’s lending authorities, as set forth in subpart A of this part. No Farm Credit System institution may purchase any interest in a loan from an institution that is not a Farm Credit System institution, except:
   (1) For the purpose of pooling and securitizing such loans under title VIII of the Act;
   (2) Purchases of a participation interest that qualifies under the institution’s lending authority, as set forth in subpart A of this part, and meets the requirements of §614.4330 of this subpart;
   (3) Loans purchased from the Federal Deposit Insurance Corporation, provided that the Farm Credit System institution with direct lending authority under title I, II or III of the Act:
      (i) Conducts a thorough due diligence prior to purchase to ensure that the loan, or pool of loans, qualifies under the institution’s lending authority as set forth in subpart A of this part, and meets scope of financing and eligibility requirements in subpart A or subpart B of part 613;
      (ii) Obtains funding bank approval if a Farm Credit System association purchases loans or pools of loans that exceed 10 percent of total its capital;
      (iii) Establishes a program whereby each eligible borrower of the loan purchased is offered an opportunity to acquire the institution’s required minimum amount of voting stock;
      (iv) Determines whether each loan purchased, except for loans purchased that could be financed only by a bank for cooperatives under title III of the Act, is a distressed loan as defined in §617.7000, and provides borrowers of purchased loans who acquire voting stock the rights afforded in §617.7000, subparts A, and D through G if the loan is distressed; and
      (v) Divests eligible purchased loans when the borrowers elect not to acquire stock under the program offered in paragraph (b)(3)(iii) of this section in the same manner it would divest loans under its current business practices.
      (vi) Includes information on loans purchased under authority of this section in the Reports of Condition and Performance required under §621.12 of this chapter, in the format prescribed by FCA reporting instructions.
   * * * *
   Date: May 19, 2011.
   Dale L. Aultman,
   Secretary, Farm Credit Administration Board.

BILLING CODE 6705–01–P
Frank Act is temporary through December 31, 2012.

2. The Proposed Rule

In December 2010, the NCUA Board issued a proposed rule to clarify its interpretation of the Dodd-Frank Act provisions regarding noninterest-bearing transaction accounts. 75 FR 80367 (December 22, 2010). The following summarizes the issues discussed in the proposal.

Amendments to Share Insurance Rules

Section 343 of the Dodd-Frank Act amended the share insurance provisions of the FCU Act (12 U.S.C. 1787(k)(1)) to provide separate insurance coverage for noninterest-bearing transaction accounts. Accordingly, as discussed in detail below, NCUA proposed to revise its share insurance regulations in 12 CFR Part 745 to include this new temporary share insurance account category.

Definition of Noninterest-Bearing Transaction Account

The proposed rule incorporated the definition of noninterest-bearing transaction account in section 343 of the Dodd-Frank Act. Section 343 defines a noninterest-bearing transaction account as "an account or deposit maintained at an insured credit union with respect to which interest is neither accrued nor paid; on which the account holder or depositor is permitted to make withdrawals by negotiable or transferable instrument, payment orders of withdrawal, telephone or other electronic media transfers, or other similar items for the purpose of making payments or transfers to third parties or others; and on which the insured credit union does not reserve the right to require advance notice of an intended withdrawal." This definition of noninterest-bearing transaction account encompasses only traditional, noninterest-bearing demand deposit (checking or share draft) accounts that allow for an unlimited number of deposits and withdrawals at any time, whether held by a business, an individual, or other type of member. It does not include negotiable order of withdrawal (NOW) accounts, money-market accounts (MMA), or Interest on Lawyers Trust Accounts (IOLTA).

Under the proposal, whether an account is considered noninterest-bearing or nondividend bearing is determined by the terms of the account agreement and not by the fact that the dividend rate on an account may be zero percent at a particular point in time. For example, an insured credit union might offer an account with a dividend rate of zero percent except when the balance exceeds a prescribed threshold. Similarly, an account that normally bears dividends might have a dividend rate of zero for a particular period if the board of directors of the insured credit union where the account is maintained determines not to, or is prohibited from, declaring a dividend for that period.

Such an account would not qualify as a noninterest-bearing transaction account even when the balance is less than the prescribed threshold or nondividend is declared and the dividend rate is zero percent for a particular period. Under the proposed rule, such an account would be treated as an interest-bearing or dividend-bearing account at all times because the account agreement provides for the payment of dividends under certain circumstances. However, under the proposal, the waiving of fees on an account would not be treated as the earning of dividends. For example, an insured credit union can sometimes waive fees or provide fee-reducing arrangements to members with share draft accounts. Under the proposed rule, such account features would not prevent an account from qualifying as a noninterest-bearing transaction account, as long as the account otherwise satisfies the definition of a noninterest-bearing transaction account.

The proposed rule’s definition of noninterest-bearing transaction account would include official checks issued by insured credit unions, such as negotiable cashier’s or certified checks. Ownership of such instruments and the right to full insurance coverage are determined pursuant to § 745.11 of NCUA’s share insurance rules regarding accounts evidenced by negotiable instruments.

Under the proposal, funds swept (or transferred) from a share account to either another type of share account or a non-deposit account are treated as being in the account to which the funds were transferred prior to the time of failure. For example, if a member agrees to an agreement between an insured credit union and its member, funds are swept daily from a noninterest-bearing transaction account to an account or product that is not a noninterest-bearing transaction account, then the funds in the resulting account or product would not be eligible for full insurance coverage as a noninterest-bearing transaction account. However, the proposed rule includes an exception from this treatment of swept funds in situations where funds are swept from a noninterest-bearing transaction account to a noninterest-bearing savings account, such as an MMA. Often referred to as "reserve sweeps," these products could entail an arrangement in which a single account is divided into two sub-accounts, a transaction account and an MMA. The amount and frequency of sweeps are often determined by an algorithm designed to minimize required reserves. In some situations, members may be unaware that this sweep mechanism is in place. Under the proposed rule, such accounts would be considered noninterest-bearing transaction accounts. Apart from this exception for reserve sweeps, MMAs and noninterest-bearing savings accounts do not qualify as noninterest-bearing transaction accounts.

Insurance Coverage

As noted in the proposal, pursuant to section 343 of the Dodd-Frank Act, all funds held in noninterest-bearing transaction accounts are fully insured, without limit. As specifically provided for in section 343 of the Dodd-Frank Act, this unlimited coverage is separate from, and in addition to, the coverage provided to members with respect to other accounts held at an insured credit union. This means that funds held in noninterest-bearing transaction accounts will not be counted for purposes of determining the amount of share insurance on shares held in other accounts, and in other rights and capacities, at the same insured credit union. For example, if a member has a $225,000 share certificate and a no-dividend share draft account with a balance of $300,000, both held in a single ownership capacity, he or she would be fully insured for $525,000 (plus dividends accrued on the share certificate), assuming the member has no other single-ownership funds at the same credit union. First, coverage of $225,000 (plus accrued dividends) would be provided for the share certificate as a single ownership account (12 CFR 745.3) up to the SMSIA of $250,000. Second, full coverage of the $300,000 share draft account would be provided separately, due to the no-dividend share draft account also being held as a single ownership account, because the account...
qualifies for unlimited separate coverage as a noninterest-bearing transaction account.

Disclosure and Notice Requirements

In the proposal, NCUA imposed notice and disclosure requirements to ensure that credit union members are aware of and understand what types of accounts will be covered by the temporary share insurance coverage for noninterest-bearing transaction accounts. The proposal included two such notices. The first requires insured credit unions to post a prescribed notice in their main offices, each branch and, if applicable, on their Web sites.

The second notice requires insured credit unions to notify members individually of any action they take to affect the share insurance coverage of funds held in noninterest-bearing transaction accounts. Although this second notice requirement continues to be mandatory in the final rule, it is noteworthy that NCUA does not impose specific requirements regarding the form of the notice. Rather, NCUA expects insured credit unions to act in a commercially reasonable manner and to comply with applicable state and federal laws and regulations in informing members of changes to their account agreements.

B. Summary of Comments

NCUA received seven comments to the proposed rule issued in December 2010. Many of the commenters acknowledged that the proposal necessarily adhered to the standards mandated in the Dodd-Frank Act regarding noninterest-bearing transaction accounts. Four commenters specifically noted their support for the rule. The other commenters did not oppose the proposal, but they expressed some concern or made some suggestion for improving the proposal.

One commenter suggested NCUA should update its website regarding the share insurance coverage for noninterest-bearing transaction accounts. NCUA agrees this would be helpful in ensuring credit unions are fully aware of the additional share insurance coverage and the conditions under which it is available. NCUA will update its website in this regard.

Some commenters expressed concern over how the proposal would affect the share insurance deposit, equaling 1% of insured shares, which each insured credit union is required to maintain with the NCUA (“NCUA Share Insurance Capitalization Deposit”). They requested NCUA discuss this in the final rule. The NCUA Share Insurance Capitalization Deposit is based on a credit union’s insured shares. NCUA’s 5300 Call Report considers shares in noninterest-bearing transaction accounts part of a credit union’s total insured shares. Accordingly, a credit union’s NCUA Share Insurance Capitalization Deposit will be based, in part, on the amount of insured shares its members have in noninterest-bearing transaction accounts.

Other commenters requested NCUA shorten the prescribed notice required by the proposal. They stated a shorter, more succinct notice would be more effective and less confusing. NCUA believes this is a good recommendation and adopts a shorter version of the prescribed notice in this final rule. All other aspects of the proposed rule are adopted as proposed.

C. Regulatory Procedures

Regulatory Flexibility Act

The Regulatory Flexibility Act requires NCUA to prepare an analysis to describe any significant economic impact a regulation may have on a substantial number of small credit unions (those under $10 million in assets). The amendments enhance share insurance coverage for members with no significant direct cost to small credit unions. Accordingly, the NCUA has determined and certifies that this rule will not have a significant economic impact on a substantial number of small credit unions within the meaning of the Regulatory Flexibility Act, 5 U.S.C. 601–612.

Paperwork Reduction Act

In accordance with section 3512 of the Paperwork Reduction Act of 1995 (“PRA”), 44 U.S.C. 3501 et seq., an agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a currently valid Office of Management and Budget (“OMB”) control number. This final rule contains disclosure requirements, some of which implicate PRA as more fully explained below.

The new disclosure requirements are contained in § 745.14(c)(1) and 745.14(c)(2). More specifically, § 745.14(c)(1) requires that each insured credit union that offers noninterest-bearing transaction accounts post a “Notice of Changes In Temporary NCUA Insurance Coverage For Transaction Accounts” in the lobby of its main office and domestic branches and, if it offers internet deposit services, on its Web site. Section 745.14(c)(2) requires that insured credit unions notify members of any action that affects the share insurance coverage of their funds held in noninterest-bearing transaction accounts.

The disclosure requirement in § 745.14(c)(1) would normally be subject to PRA. However, because NCUA has provided the specific text for the notice and allows for no variance in the language, the disclosure is excluded from coverage under PRA because “the public disclosure of information originally supplied by the Federal government to the recipient for the purpose of disclosure to the public is not included” within the definition of “collection of information.” 5 CFR 1320.3(c)(2). Therefore, NCUA is not submitting the § 745.14(c)(1) disclosure to OMB for review.

The disclosure requirement in § 745.14(c)(2) regarding sweep accounts and any action that affects the share insurance coverage of funds held in noninterest-bearing transaction accounts is mandatory for all insured credit unions, although insured credit unions would retain flexibility regarding the form of the notice. Therefore, in conjunction with publication of this rule, NCUA has submitted to OMB a request to review the estimated burden associated with this disclosure requirement, and that approval is pending.

The estimated burden for the proposed new disclosure under § 745.14(c)(2) is as follows:

Title: “Disclosure of Share Account Status.”

Affected Public: Insured credit unions.

Estimated Number of Respondents: 150.

Frequency of Response: On occasion (average of once per year per credit union).

Average Time per Response: 8 hours.

Estimated Annual Burden: 1,200 hours.

Small Business Regulatory Enforcement Fairness Act

The Small Business Regulatory Enforcement Fairness Act (SBREFA) of 1996, Public Law 104–121, provides generally for congressional review of agency rules. A reporting requirement is triggered in instances where NCUA issues a final rule as defined by Section 551 of the Administrative Procedures Act, 5 U.S.C. 551. The Office of Information and Regulatory Affairs, an office within OMB, has reviewed this rule and determined that, for purposes of SBREFA, this is not a major rule.
Executive Order 13132

Executive Order 13132 encourages independent regulatory agencies to consider the impact of their actions on state and local interests. In adherence to fundamental federalism principles, NCUA, an independent regulatory agency as defined in 44 U.S.C. 3502(5), voluntarily complies with the executive order. This rule would not have substantial direct effect on the states, on the connection between the national government and the states, or on the distribution of power and responsibilities among the various levels of government. NCUA has determined that this rule does not constitute a policy that has federalism implications for purposes of the executive order.


List of Subjects in 12 CFR Part 745

Credit unions, Share insurance.

By the National Credit Union Administration Board on May 19, 2011.

Mary F. Rupp,
Secretary of the Board.

For the reasons discussed above, NCUA amends 12 CFR Part 745 as follows:

PART 745—SHARE INSURANCE AND APPENDIX

1. The authority citation for Part 745 continues to read as follows:


2. Amend § 745.1 by adding a new paragraph (f) to read as follows:

§ 745.1 Definitions.

§ 745.14 Noninterest-bearing transaction accounts.

(a) Separate insurance coverage. Through December 31, 2012, a member’s funds in a “noninterest-bearing transaction account” (as defined in § 745.1(f) of this part) are fully insured, irrespective of the SMSIA. Such insurance coverage shall be separate from the coverage provided for other accounts maintained at the same insured credit union.

(b) Certain swept funds. NCUA will treat funds swept from a noninterest-bearing transaction account to a noninterest-bearing savings deposit account as being in a noninterest-bearing transaction account.

(c) Disclosure and notice requirements. (1) Each insured credit union that offers noninterest-bearing transaction accounts must post prominently the following notice in the lobby of its main office, in each branch and, if it offers internet deposit services, on its Web site:

NOTICE OF CHANGES IN TEMPORARY NCUA INSURANCE COVERAGE FOR TRANSACTION ACCOUNTS

All funds in a “noninterest-bearing transaction account” are insured in full by the National Credit Union Administration through December 31, 2012. This temporary unlimited coverage is in addition to, and separate from, the coverage of at least $250,000 available to members under the NCUA’s general share insurance rules.

The term “noninterest-bearing transaction account” includes a traditional share draft account (or demand deposit account) on which the insured credit union pays no interest or dividend. It does not include any transaction account that may earn interest or dividends, a negotiable order of withdrawal (“NOW”) account, money-market deposit account, and Interest on Lawyers Trust Account (“IOLTA”), even if share drafts may be drawn on the account. For more information about temporary NCUA insurance coverage of transaction accounts, visit www.ncua.gov.

(2) If an insured credit union uses sweep arrangements, modifies the terms of an account, or takes other actions that result in funds no longer being eligible for full coverage under this section, the insured credit union must notify affected members and clearly advise them, in writing, that such actions will affect their share insurance coverage.