

§ 704.16 State-chartered corporate credit unions.

(a) This part does not expand the powers and authorities of any state-chartered corporate credit union, beyond those powers and authorities provided under the laws of the state in which it was chartered.

(b) A state-chartered corporate credit union that is not insured by the National Credit Union Share Insurance Fund, but that receives funds from federally insured credit unions, is considered an "institution-affiliated party" within the meaning of Section 206(r) of the Federal Credit Union Act, 12 U.S.C. 1786(r).

§ 704.17 Fidelity bond coverage.

(a) *Scope.* This section provides the fidelity bond requirements for employees and officials in corporate credit unions.

(b) *Review of coverage.* The board of directors of each corporate credit union shall, at least annually, carefully review the bond coverage in force to determine its adequacy in relation to risk exposure and to the minimum requirements in this section.

(c) *Minimum coverage; Approved forms.* Every corporate credit union will maintain bond coverage with a company holding a certificate of authority from the Secretary of the Treasury. All bond forms, and any riders and endorsements which limit the coverage provided by approved bond forms, must receive the prior written approval of the NCUA Board. The Corporate Credit Union Discovery Bond (NCUA 100) and Standard Form 24 with Credit Union Bond Conversion Endorsement are approved for use by corporate credit unions. Credit Union Blanket Bond Form 581 and Form 23—Extended Form, may also be utilized by corporate credit unions. Fidelity bonds must provide coverage for the fraud and dishonesty of all employees, directors, officers, and supervisory and credit committee members. Notwithstanding the foregoing, all bonds must include a provision, in a form approved by the NCUA Board, requiring written notification by surety to the Board: When the bond of a credit union is terminated in its entirety; or when bond coverage is terminated, by issuance of a written notice, on an employees, director, officer, supervisory or credit committee member. Said notification shall be sent to the Secretary of the NCUA Board or designee and shall include a brief statement of cause for termination.

(d) *Minimum; coverage amounts.* (1) The minimum amount of bond coverage will be computed based on the

corporate credit union's average daily assets as of December 31 of the preceding year. The following table lists the minimum requirements:

Net assets	Minimum bond (million)
Less than \$50 million	\$1.0
\$50—\$99 million	2.0
\$100—\$499 million	4.0
\$500—\$999 million	6.0
\$1.0—\$1.999 billion	8.0
\$2.0—\$4.999 billion	10.0
\$5.0—\$9.999 billion	15.0
\$10—\$24.999 billion	20.0
\$25.0 billion plus	25.0

(2) It is the duty of the board of directors of each corporate credit union to provide adequate protection to meet its unique circumstances by obtaining, when necessary, bond coverage in excess of the above minimums.

(e) *Reduced coverage; NCUA approval.* Any proposal for reduced coverage must be approved in writing by the NCUA Board at least 20 days in advance of the proposed effective date of the reduction.

(f) *Deductibles.* (1) The maximum amount of deductibles allowed are based on the corporate credit union's primary capital ratio as defined in § 704.12(a). The following table sets out the maximum deductibles:

Primary capital ratio	Maximum deductible
Less than 4.0 percent.	7.5 percent of primary capital.
4.0—7.99 percent	10.0 percent of primary capital.
8.0—11.99 percent.	12.0 percent of primary capital.
Greater than 12.0 percent.	15.0 percent of primary capital.

(2) A deductible may be applied separately to one or more insuring clauses in a blanket bond. Deductibles in excess of those showing in this section must have the written approval of the NCUA Board at least 20 days prior to the effective date of the deductibles.

(g) *Additional coverage.* The NCUA Board may require additional coverage for any corporate credit union when, in the opinion of the Board, current coverage is insufficient. The board of directors of the corporate credit union must obtain additional coverage within 30 days after the date of written notice from the NCUA Board.

§ 704.18 Effective date.

The regulations in this part are effective beginning January 1, 1996.

Appendix A to Part 704—Summary of Risk Weights and Risk Categories for Corporate Credit Unions

- Category 1: Zero Percent Risk Weight.
 - a. Coin and currency on hand or physically in transit.
 - b. Balances due from and claims on Federal Reserve Banks.
 - c. Claims on and portions of claims that are unconditionally guaranteed by the U.S. Government or its agencies.
 - d. Claims collateralized by cash or eligible deposits.
 - e. CLF subscriptions, including U.S. Central CLF Participation Certificates, and CLF Pass-Through Loans from the CLF through U.S. Central to the corporate credit unions.
 - f. Asset Accounts related to Member Reverse Repurchase Agreements without indemnity obligation.
 - g. Accrued Interest Receivable on the above.
- Category 2: 20 Percent Risk Weight.
 - a. Items, other than coin and currency, in process of collection.
 - b. Claims on or portions of claims guaranteed by U.S. Government-sponsored corporations and enterprises.
 - c. Claims conditionally guaranteed by the U.S. Government or its agencies or U.S. Government-sponsored corporations and enterprises.
 - d. Claims or portions of claims (including Repurchase Agreements) collateralized by securities issued by the U.S. Government or its agencies or U.S. Government-sponsored corporations and enterprises.
 - e. General obligation claims on state and local governments located in the United States.
 - f. Claims on U.S. depository institutions (including Federal Funds sold)
 - g. Claims on a corporate credit union.
 - h. Asset accounts related to Member Reverse Repurchase Agreements with indemnity obligation.
 - i. Asset-backed securities with remaining weighted average lives of 3 years or less.
 - j. Secured loans to credit unions.
 - k. Accrued Interest Receivable on the above.
- Category 3: 50 Percent Risk Weight.
 - a. Asset-backed securities with remaining weighted average lives greater than 3 years.
 - b. Privately-issued mortgage-backed securities provided that: (1) The security is structured so that it is treated as an indirect holding of the underlying assets;¹ (2) If the

¹ A private-issued mortgage-backed security may be treated as an indirect holding of the underlying assets provided that: (1) The underlying assets are held by an independent trustee and the trustee has a first priority, perfected security interest in the underlying assets on behalf of the holders of the security; (2) either the holder of the security has an undivided pro rata ownership interest in the underlying mortgage assets or the trust or single purpose entity (or conduit) that issues the security has no liabilities unrelated to the issued securities; (3) the security is structured such that the cash flow from the underlying assets in all cases fully meets the cash flow requirements of the security without undue reliance on any reinvestment income; and (4) there is no material reinvestment risk associated with any funds awaiting distribution to the holders