

July 15, 1997

To the Corporate Credit Union Addressed:

SUBJ: Part 704 Guidance Letter No. 1

The Office of Corporate Credit Unions (OCCU) held two conferences in early June 1997, with 47 representatives of 26 corporate credit unions. The purpose of those meetings was to discuss the application process for requesting expanded authorities under Part 704 of NCUA's Rules and Regulations.

During those meetings, we agreed to provide corporates a periodic update of any issues that may arise as a result of discussions at those meetings, any future meetings, and from the ongoing review of applications. This letter is our first attempt to provide additional guidance for those corporates that will be seeking expanded authorities. This letter is to supplement the Guidelines for Submission of Requests for Expanded Authority (Guidelines)¹, which was issued by the NCUA Board.

To reiterate what we have professed throughout our discussions on the Guidelines; they are only guidelines. There is more than one way to implement the expanded authorities. Each corporate organization is unique. Each has its strengths and, relatively speaking, its weaknesses. In some instances, a weakness in one area can be offset by a strength in another area. When OCCU recommends an action to the NCUA Board, there will be no one issue that will prevail. Instead, we will consider the whole package, weighing its strengths and weaknesses.

ISSUES

Items for Inclusion in the Expanded Authorities Applications. After reviewing some applications and considering what a corporate would have to do to implement new policies surrounding an expanded authority, OCCU recommends that the following be included as part of the applications submitted to the NCUA Board:

a. Board resolution approving the application. This action would have to be taken by the corporate's board anyway. By submitting it with the application, there can be no question that the plan would be implemented as proposed.

¹ The Guidelines are dated January 1997, although they were not issued until March 1997.

b. Statement of Intent, detailing reasons for the requested expansion. This will assure the NCUA Board that full consideration has been given to the expansion request and that the reasons for doing so are consistent with the application. The statement should detail why the corporate's board desires the expanded authorities and how they will be used.

c. Copies of all policies and procedures regarding the expanded authorities requested. Policies and procedures have to be in place prior to initiating the expanded authorities. Review of the final policies and procedures will give NCUA confidence that the staff implementing the expanded authorities has a clear understanding of the risks. Additionally, early submittal of this documentation will reduce the discretionary authority of NCUA staff when final approval is requested.

d. Background on officials and senior management. This information should support the requirements of the regulation that officials and management have sufficient knowledge, understanding, training, and experience to engage in the activities requested in the application.

e. Infrastructure specifications. In light of the many options for purchasing or developing hardware and software, and the costs associated with each, a corporate should decide on its infrastructure systems by the time it submits its application to the NCUA Board.² Specific information such as model names or numbers are beneficial, but a description of the systems is even better. Failing to choose a specific system could raise issues which would delay the application's approval. And, as in the case of policies and procedures, early submittal of this documentation will reduce the discretionary authority of NCUA staff when final approval is requested.

f. Job requirements, position descriptions, and performance standards for new or reassigned employees. In order to evaluate the need for new positions and to determine their costs, corporates should prepare job requirements, position descriptions, and performance standards. Outside assistance may be necessary when the positions are new to determine what salary range and benefits will be necessary to attract quality individuals for the positions.

² The purchase need not be made when the application is submitted to the NCUA Board for its preliminary approval, but the systems need to be in place prior to obtaining final approval.

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g. Proforma Statements. Proforma statements for the balance sheet and income statement should be developed to determine the effect of the expanded authorities on a corporate's operations. These statements are to clearly reflect the impact of the expanded authorities on income as well as expenses. The corporate board should be satisfied that the statements are realistic and that the reflected results are acceptable.

Correction to Guidelines for Submission of Requests for Expanded Authority. The following correction should be made to the Guidelines for Submission of Requests for Expanded Authority: Under Base-Plus, Systems/Operations, 6th line - change Section 704.8(d)(3) to 704.8(d)(2).

Next Guideline Letter. The next Guideline Letter should be issued within the next ten days and should clarify internal audit and compliance functions as they apply to expanded authorities.

Sincerely,

Robert F. Schafer
Director
Office of Corporate Credit Unions