MANAGEMENT OFFICIALS INTERLOCKS

REVIEW CONSIDERATIONS

Review Considerations

Review Area	Requirements / Recommendations
Policy/Procedures	Adopt policies and procedures implementing the Interlocks Act.
Coverage	The Act applies to management officials of federally insured credit unions. However credit union management officials may serve as management officials of other credit unions.[§711.4(c)] Therefore this restriction only applies to credit union management officials when that individual also serves as a management official for another type of financial institution.
Exemptions	Small market share exemption (§ 711.5) An interlock which is usually prohibited due to the two financial institutions being in the same community or Relevant Metropolitan Statistical Area (RMSA), is exempted if the combined deposits do not exceed 20% of the deposits in the community or RMSA. The amount of deposits is determined by reference to the most recent annual Summary of Deposits published by the FDIC, which is available on the internet at http://www.fdic.gov/ . General exemption (§ 711.6) NCUA may exempt a credit union from the management officials interlock prohibitions if NCUA finds that the interlock would not result in a monopoly or substantial lessening of competition, and would not present other safety and soundness concerns. Credit unions must apply for this exemption. When reviewing an application for an exemption, NCUA will initially presume that an interlock will not result in a monopoly or substantial lessening of competition if the credit union seeking to add a management official: (a) Primarily serves, low- and moderate-income

	areas; (b) Is controlled or managed by persons who are members of a minority group or women; (c) Is a depository institution that has been chartered for less than two years; or (d) Is deemed to be in ‘‘troubled condition’’ as defined in § 701.14(b)(3).
Prohibitions	<u>Community (§ 711.3(a))</u> A management official of a depository organization may not serve at the same time as a management official of an unaffiliated depository organization if both depository organizations have offices in the same community. <u>RMSA (§ 711.3(b))</u> A management official of a depository organization may not serve at the same time as a management official of an unaffiliated depository organization if both depository organizations have offices in the same RMSA and each depository organization has total assets of $20 million or more. <u>Major assets (§ 711.3(c))</u> A management official of a depository organization with total assets exceeding $2.5 billion (or any affiliate thereof) may not serve at the same time as a management official of an unaffiliated depository organization with total assets exceeding $1.5 billion (or any affiliate thereof), regardless of the location of the two depository organizations. The NCUA will adjust these thresholds, as necessary, based on year-to-year change in the average of the Consumer Price Index for the Urban Wage Earners and Clerical Workers, not seasonally adjusted, with rounding to the nearest $100 million. The NCUA will announce the revised thresholds by publishing a notice in the Federal Register.
Relationships Permitted	The prohibitions of § 711.3 (above) do not apply in the case of any one or more of the following organizations or to a subsidiary thereof: • A depository organization that has been placed formally in liquidation, or which is in the hands of a receiver, conservator, or other official

	exercising a similar function; • A credit union being served by a management official of another credit union; • A depository organization that does not do business within the United States except as an incident to its activities outside the United States; • A State-chartered savings and loan guaranty corporation; • A Federal Home Loan Bank or any other bank organized solely to serve depository institutions (a bankers' bank) or solely for the purpose of providing securities clearing services and services related thereto for depository institutions and securities companies; • A depository organization that is closed or is in danger of closing as determined by the appropriate Federal depository institutions regulatory agency and is acquired by another depository organization. This exemption lasts for five years, beginning on the date the depository organization is acquired; and • A diversified savings and loan holding company (as defined in section 10(a)(1)(F) of the Home Owners' Loan Act (12 U.S.C. 1467a(a)(1)(F)) with respect to the service of a director of a diversified savings and loan association holding company who also is a director of a credit union if: (1) Both the diversified savings and loan holding company and the credit union notify their appropriate Federal depository institutions regulatory agency at least 60 days before the dual service is proposed to begin; and (2) The appropriate regulatory agencies do not disapprove the dual service before the end of the 60-day period. The NCUA Board or its designee may disapprove a notice of proposed service if it finds that: (1) The service cannot be structured or limited so as to preclude an anticompetitive effect in financial services in any part of the United

	States; (2) The service would lead to substantial conflicts of interest or unsafe or unsound practices; or (3) The person giving notice failed to furnish all the information required by NCUA. The NCUA Board or its designee may require that any interlock permitted under this paragraph be terminated if a change in circumstances occurs with respect to one of the interlocked depository organizations that would have provided a basis for disapproval of the interlock during the notice period.
Change in Circumstance	<u>Termination (§ 711.7(a)</u> A management official shall terminate his or her service if a change in circumstances causes the service to become prohibited. A change in circumstances may include, but is not limited to: • an increase in asset size of an organization, • a change in the delineation of the RMSA or community, • the establishment of an office, an increase in the aggregate deposits of the depository organization, or • an acquisition, merger, consolidation, or reorganization of the ownership structure of a depository organization that causes a previously permissible interlock to become prohibited. <u>Transition period (§ 711.7(b)</u> A management official described in the paragraph above may continue to serve the depository organization involved in the interlock for 15 months following the date of the change in circumstances. NCUA may shorten this period under appropriate circumstances.
Record Retention	<u>Small Market Share Exemption</u> Each depository organization must maintain records sufficient to support its determination of eligibility for this exemption, and must reconfirm that determination on an annual basis.
Training	Ensure that the board is aware of all aspects of the regulation.

Updating	Update policies and procedures to reflect changes in the regulation.
Internal Review	Conduct an internal review at least annually to assess compliance with the regulation and conformity of an institution's practices with its policies and procedures.