

Supporting Statement  
National Credit Union Administration

**Loans to Members and Lines of Credit to Members**  
**12 CFR 701.21 and 12 CFR 741**

**OMB Control Number 3133-0092**

**A. JUSTIFICATION**

**1. Necessity of Information Collection**

Section 107(5) of the Federal Credit Union Act authorizes Federal Credit Unions to make loans to members and issue lines of credit (including credit cards) to members. NCUA's rules and regulations §701.21 governs the requirements related to loans to members and lines of credit to members for federal credit unions. The requirements include various information collections, including:

- Maintaining a credit application on file for each borrower.
- Developing a written overdraft policy if money is advanced to members without a credit application on file.
- Obtaining and maintaining an attorney's opinion if the credit union uses mortgage loan application forms that are not one of the approved forms.
- Obtaining and maintaining an attorney's opinion if the credit union uses a security instrument and note for mortgage loans that are not one of the approved forms.
- Retaining the title for a perfected lien on a first security interest.
- Developing and maintaining written policies for financial option contracts.
- Submitting reports related to financial option contracts to NCUA and retaining reports for two years.

Additionally, Part 741 of NCUA's rules and regulations established requirements for all federally insured credit unions (both Federal and state charters) related to loans to members and lines of credit union members, including:

- Maintaining written loan policies that address underwriting standards, security requirements, loan workout arrangements, and nonaccrual standards.
- Develop enhanced reporting for loan workout activity that exceeds the thresholds established in the written policy.
- Developing and maintaining policies related to incentives or bonuses to employees in connection with loans.
- Applying to NCUA for a waiver of the third party servicing limits.

**2. Purpose and Use of the Information Collection**

NCUA reviews the information collections to ensure compliance with applicable regulations and laws, and to assess the safety and soundness of the credit union's lending program.

3. **Consideration Given to Information Technology**  
Credit unions may submit and retain the information collections in a number of ways, including electronically.
4. **Duplication**  
Federal credit unions are required to have written loan policies under §701.21(c)(2). All federally insured credit unions must have written loan policies to determine whether the credit union's operations are safe and sound, per §741.3(b)(2). The credit union can use the same written policies to comply with both sections of the regulation.
5. **Effect on Small Entities**  
The information required cannot be different for smaller institutions, thus the burden to small credit unions is no greater than for any other institution. However, most of these requirements do not have a significant effect on small entities, as these institutions are less likely to engage in more complex lending activities. Most small entities will only be subject to the information collections requiring them to maintain written loan policies and credit applications.
6. **Consequences of Not Conducting Collection**  
The collection of these items serve to protect the federal credit union from risk exposure and promotes a safe and sound credit union system. Failure to comply could lead to excessive credit, transaction, and compliance risk if loan applications, attorney opinions, titles and financial option contracts are not maintained and reviewed.
7. **Inconsistencies with Guidelines in 5 CFR 1320.5(d)(2)**  
The reports described in § 701.21(i)(2)(iii)(E) (financial options contracts) for each month must be submitted to the appropriate NCUA Regional Office by the end of the following month. This monthly reporting requirement may be waived by the appropriate NCUA Regional Director on a case-by-case basis for those Federal credit unions with a proven record of responsible use of permitted financial options contracts.
8. **Consultations Outside the Agency**  
Notice and request for comments was published in the Federal Register on April 18, 2016 (81 FR 22649). No comments were filed in response to the notice.
9. **Payment or Gift**  
There is no intent by NCUA to provide payment or gifts for information collected.
10. **Confidentiality**  
Credit union examination reports and any documents related thereto are exempt from the Freedom of Information Act disclosure, pursuant to exemption 8, 5 U.S.C. 552(b)(8).
11. **Sensitive Questions**  
No questions of a sensitive nature are asked. The information collection does not collect any Personally Identifiable Information (PII).

## 12. **Burden of Information Collection**

A summary of the **recordkeeping** information collections is included below.

IC 1. Develop Written Loan Policies. Almost all active federally insured credit unions currently engage in making loans and have written loan policies. Only new credit unions, those that begin a lending program, or those that make significant changes to their existing loan policies will need to develop written loan policies. NCUA estimates that annually, no more than five federally insured credit unions will need to develop loan policies. The estimated burden hours per credit union is 8 hours to develop or modify a written loan policy.

IC 2. Retain a credit application for each loan. §701.21(c)(3) requires that a credit application is kept on file for each borrower supporting the decision to make a loan or establish a line of credit. It is estimated that all 3,856 federal credit unions will make loans requiring a credit application. Based on call report data, credit unions grant an average of 350 loans per year. The estimated burden is 87.50 hours for a credit union to retain credit applications for each loan.

IC 3. Develop written overdraft policies. Most federal credit unions already have written overdraft policies. NCUA estimates that no more than 50 credit unions will add overdraft services or modify their existing policies in any given year, necessitating development of a written overdraft policy. The estimated burden to develop or modify an overdraft policy is 2 hours.

IC 4. Develop written policies in connection with employee incentives and bonuses for loans. Most federal credit unions already have written policies related to incentives and bonuses for staff in connection with loan production. NCUA estimates that no more than 50 credit unions will add these incentives and bonuses or modify their existing policy in any given year, necessitating development of a written policy. The estimated burden to develop or modify an overdraft policy is 2 hours.

IC 5. Obtain an attorney's opinion for long-term real estate loans (applications). §701.21(g)(3) states that in lieu of use of a standard application for a long term mortgage loan the Federal credit union may have a current attorney's opinion on file stating that the forms in use meet the requirements of applicable Federal, state and local laws. NCUA estimates that no more than 10 percent of federal credit unions will use non-standard applications. Further, NCUA estimates the burden to be 3 hours to obtain an attorney's opinion.

IC 6. Obtain an attorney's opinion for long-term real estate loans (notes). §701.21(g)(4) states that in lieu of use of a standard security instrument and note for a long term mortgage loan, the Federal credit union may have a current attorney's opinion on file stating that the security instrument and note in use meet the requirements of applicable Federal, state and local laws. NCUA estimates that no more than 10 percent of federal

credit unions will use non-standard applications. Further, NCUA estimates the burden to be 3 hours to obtain an attorney's opinion.

IC 7. Retain title documentation showing a perfected lien. §701.21(g)(5) states that a long term mortgage loan shall be secured by a perfected first lien or first security interest in favor of the credit union supported by a properly executed and recorded security instrument. Based on call report data, there are approximately 2,400 federal credit unions that report offering real estate loans. An average, credit unions make 66 first-lien loans per year. The estimated burden to retain title documentation is 33.00 hours per federal credit union.

IC 8. Develop written policies to engage in financial options contracts. §701.21(i) allows a federal credit union to engage in financial option contracts if it has written policies in place. NCUA estimates that no more than 50 federal credit unions per year will begin engaging in this activity, necessitating development of a written policy. The estimated burden to develop this policy is 2 hours.

A summary of the **reporting** information collection requirements is included below.

IC 9. Develop enhanced reporting for loan workout activity that exceeds thresholds established in the policy. In Appendix C to Part 741, federally insured credit unions are required to develop enhanced reporting when loan workout activity exceeds the thresholds established in the credit union's written policy. NCUA estimates that the enhanced reporting will result in an annual burden of 2 hours per quarter. Further, since not all credit unions will exceed the thresholds outlined in the written policies, NCUA estimates no more than 500 federally insured credit unions will be subject to the enhanced reporting.

IC 10. Submit request to NCUA for waiver of third party servicer limits. Federally insured credit unions may apply for a waiver of the third party servicer limits in §701.21(h)(1). NCUA estimates that no more than 25 federally insured credit unions will submit applications for waivers. The estimated burden to submit a request for waiver is 3 hours.

IC 11. Retain and submit financial option contract reports to the regional office monthly. §701.21(i)(2)(iii)(E) states that reports must be submitted to the NCUA Regional Office on a monthly basis if the federal credit union is engaged in financial option contracts. NCUA estimates monthly reporting of the financial options contracts will take the respondents engaged in this activity 1 hour per month to submit. No more than 10 federal credit unions will be subject to the reporting requirement per year.

The table below outlines the estimated burden associated with all of the information collection requirements related to loans to members and lines of credit to members. The dollar cost burden is calculated using the average fully loaded hourly wage of credit union employees (\$35/hour)

	<i>Estimated number of respondents</i>	<i>Estimated annual frequency</i>	<i>Estimated average time per response</i>	<i>Estimated annual burden hours</i>	<i>Estimated annual burden (in dollars)</i>
<b>Recordkeeping</b>					
<i>IC 1. Develop Written Loan Policies</i>	5	1	8	40	1,400
<i>IC 2. Retain a credit application for each loan.</i>	3,856	1	87.50	337,400	11,809,000
<i>IC 3. Develop written overdraft policies.</i>	50	1	2	100	3,500
<i>IC 4. Develop written policies in connection with employee incentives and bonuses for loans</i>	50	1	2	100	3,500
<i>IC 5. Obtain an attorney's opinion for long-term real estate loans (applications)</i>	386	1	3	1,158	40,530
<i>IC 6. Obtain an attorney's opinion for long-term real estate loans (notes).</i>	386	1	3	1,158	40,530
<i>IC 7. Retain title documentation showing a perfected lien.</i>	2,400	1	33.00	79,200	2,772,000
<i>IC 8. Develop written policies to engage in financial options contracts</i>	50	1	2	100	3,500
<b>Sub-total Recordkeeping</b>	<b>3,856</b>			<b>419,256</b>	<b>14,673,960</b>

<b>Reporting</b>					
<i>IC 9. Develop enhanced reporting for loan workout activity that exceeds thresholds established in the policy.</i>	500	4	2	4,000	140,000
<i>IC 10. Submit request to NCUA for waiver of third party servicer limits.</i>	25	1	3	75	2,625
<i>IC 11. Submit financial options contract report to the regional office on a monthly basis</i>	10	12	1	120	4,200
<b>Sub-total reporting</b>	<b>535</b>			<b>4,195</b>	<b>146,825</b>
<b>Total Estimated Burden (Recordkeeping and Reporting)</b>	<b>3,856</b>			<b>423,451</b>	<b>14,820,785</b>

### 13. Costs to Respondents

All equipment needed to meet the recordkeeping requirement is equipment used for the customary and usual business of the credit union. Likewise conduct of the appraisals themselves is customary in real estate transactions. There is no special or additional equipment; therefore, there is no additional cost.

**14. Costs to Federal Government**

All of the recordkeeping information collections will be reviewed as part of the exam process and result in no additional cost to NCUA. The cost to NCUA of the reporting information collection is detailed below.

- Review credit union's request to waive the third party servicer limits. NCUA estimates that it will take NCUA staff 4 hours, on average, to review and respond to a credit union's request to waive the third party servicer limits. At a rate of \$85 per hour (fully loaded average hourly cost of an NCUA FTE), the estimated cost for NCUA to review these requests is \$8,500.
- Review credit union's financial option contract reports. NCUA estimates that it will take NCUA staff 2 hours, on average, to review and retain a credit union's financial option contract reports. At a rate of \$85 per hour (loaded average hourly cost of an NCUA FTE), the estimated cost for NCUA to review these requests is \$20,400.

The total cost to NCUA is \$28,900.

**15. Changes in Burden**

Adjustments in burden are due to: (1) A decrease in the number of credit unions developing written policy. Most credit unions already have loan plans in place. Only burden associated with new charters is reported. (2) Recordkeeping requirements not previously captured in prior approvals. This reinstatement provided a comprehensive review and identified collection requirements that should be incorporated into this consolidation effort.

Program changes increased the burden by 275 hours due to the consolidation of information collection requirements previously cleared under OMB numbers 3133-0139 (Overdraft and Lending-Related Incentive Pay Plan Policies) and 3133-0171 (Third Party Servicing of Indirect Vehicle Loans). This consolidation effort intends to include information collection requirements prescribed under §701.21.

**16. Information Collection Planned for Statistical Purposes**

Not applicable. The information collection is not used for statistical purposes.

**17. Approval to Omit OMB Expiration Date**

NCUA is not seeking approval to omit the expiration date.

**18. Exceptions to Certification for Paperwork Reduction Act Submissions**

This collection complies with the requirements in 5 CFR 1320.9.

**B. COLLECTIONS OF INFORMATION EMPLOYING STATISTICAL METHODS**

This collection does not involve statistical methods.