

SUPPORTING STATEMENT

Fidelity Bond and Insurance Coverage for Federal Credit Unions

12 C.F.R. Part 713

OMB Control Number 3133-0170

A. JUSTIFICATION

1. Necessity of Information Collection

The Federal Credit Union Act (at 12 USC 1761(b)(2)) requires that the boards of federal credit unions (FCU) arrange for adequate fidelity coverage for officers and employees having custody of or responsibility for handling funds.

Part 713 of the National Credit Union Administration's (NCUA) regulations implements this requirement by describing the responsibilities of credit union boards of directors in this area and establishing coverage and deductible limits.

The regulation contains a number of reporting requirements where a credit union seeks to exercise flexibility under the regulations. These requirements enable NCUA to monitor the FCU's financial condition for safety and soundness purposes and helps to assure that FCUs are properly and adequately protected against potential losses due to insider abuse such as fraud and embezzlement.

2. Purpose and Use of the Information Collection

The reporting requirements in this regulation are used by the NCUA to determine whether any deviations from standard practice by an FCU is a risk to the safety and soundness of the institution and, by extension, the National Credit Union Share Insurance Fund.

The regulations require that FCUs seek written approval of the board to use a bond form not currently approved by the NCUA (12 CFR 713.4(b)). Similarly, if an FCU wishes to reduce its required fidelity bond coverage, it must seek approval to do so, in writing, at least 20 days before the proposed reduction would go into effect (12 CFR 713.5(e)).

The regulation allows FCUs to increase the deductible on its bonds if they meet certain risk and capital requirements. However, the regulation calls for an FCU that falls out of eligibility for the higher deductible to obtain a policy with the required coverage and to notify the appropriate NCUA regional office of its changed status and confirming that it has obtained the required coverage (12 CFR 713.6(c)). The information will be used by the regional office in its efforts to monitor credit unions for safe and sound operations and is critically important in helping to avert or minimize losses to the National Credit Union Share Insurance Fund (NCUSIF), which

provides federally guaranteed account insurance for all federally insured credit unions.

Adequate insurance coverage can avert a credit union failure due to insolvency; alternatively, where insolvency and failure do occur, the NCUA, in its capacity as receiver for the failed FCU, can recoup some of its losses through a claim under an insurance policy.

3. Consideration Given to Information Technology.

Credit unions can provide the required notifications and seek the required approvals through electronic means. However, the specifics motivating an individual application for an alternative approach will be case specific and not amenable to automation.

4. Duplication

Eligibility for the higher deductible permissible under the rule is a function, in part, of the credit union's financial condition. Several NCUA rules already call for the monitoring and reporting of this information, and such monitoring is a matter of good business practice in any case. Credit unions may rely on the form 5300 call report, which must be filed quarterly, in reviewing whether they continue to qualify for the higher deductible. As noted in the response to the preceding section, however, the specific notice to NCUA about having obtained the required coverage is unique and not addressed in any of our other rules.

5. Effect on Small Entities

The burden associated with the notification requirements are minimal (an hour per occurrence) on any individual credit union, regardless of size. The burden represents the minimum necessary to provide flexibility to credit unions while maintaining some level of oversight over safety and soundness.

6. Consequences of not Conducting Collection

The requirements to seek approval to purchase a non-standard bond or to reduce the required level of coverage are required to ensure that any deviation from the minimum legal coverage requirements are justified by the circumstances faced by the credit union seeking such approval. Without requiring notification and approval of departures from the minimums become difficult to enforce and lose their effectiveness in protecting individual credit unions and the NCUSIF.

The rule's requirements for written confirmation to the regional office are triggered, if at all, only when a change in the credit union's financial condition requires it to lower its deductible. Failure to provide this confirmation to the NCUA would diminish its knowledge about the financial condition of FCUs and could result in losses to the NCUSIF.

7. Inconsistencies with Guidelines in 5 CFR 1320.5(d)(2)

No special circumstances exist that would cause this collection to be conducted in a manner inconsistent with OMB guidelines.

8. Consultations Outside the Agency

Notice of the proposed collection and a request for public comment was published in the Federal Register with a 60-day comment period on October 7, 2016 (81 FR 69872). No comments were received regarding this collection.

9. Payment or Gift

NCUA will not make any payment, gift or remuneration to anyone in connection with the information collection.

10. Confidentiality

Certain financial information about credit unions is publicly available through the filing of quarterly call reports. However, a credit union's eligibility for a higher fidelity bond and insurance deductible is not public information. Like information contained in an agency examination report, this information is exempt from public disclosure under exemption 8 of the Freedom of Information Act. 5 U.S.C. 522(b)(8)

11. Sensitive Questions

The information collection does not include any sensitive questions or collect any Personally Identifiable Information (PII).

12. Burden of Information Collection

NCUA estimates that it will take one hour to prepare and submit an application for approval of a deviation from an approved bond form or to require a lower level of required coverage. Based on NCUA's recent experience, such requests are not common. We estimate that such requests could occur as often as 7 times per year. The burden associated with each request includes the time required to prepare and transmit the request and the time required to work with the NCUA to obtain the approval of the request.

NCUA estimates it will take an average of one hour for a credit union to provide notice to both its bond carrier and its regulator of its changed status. Based on NCUA's information, the number FCUs that fall out of eligibility for the higher deductible is minimal.

Thus, the burden associated with this collection of information may be summarized as follows:

Information Collection Activity	Number of Respondents	Frequency of Response (Annual (1), Quarterly (4), etc.)	Number of Responses	Burden Hours per Response	Annual Hourly Burden
1. Obtain Prior Written Approval from NCUA Board to Use a Basic Form Not on the Approved List or to Adopt a Rider to an Approved Form that Limits Coverage. (12 CFR 713.4(b))	5	1	5	1 Hour	5 Hours
2. Obtain Prior Written Approval for a Reduction in the Required Bond Coverage. (12 CFR 713.5(e))	1	1	1	1 Hour	1 Hour
3. Notice in Change of Status Disqualifying the Credit Union from Use of Higher Deductible Limit. (12 CFR 713.6(c))	1	1	1	1 Hour	1 Hour
Total (Sum)	7		7		7 hours

The resource cost of this collection (measured in dollars) is estimated by multiplying the total burden hours by \$35 – the approximate loaded average wage rate of credit union employees – resulting in an estimated cost to respondents of \$245.

13. Capital, Startup, and Operations and Maintenance Costs

All equipment necessary to prepare, manage, and submit this information to NCUA is equipment already in use by the credit unions. There are no startup or operations and maintenance costs associated with this collection.

14. Costs to the Federal Government

We estimate that the cost to review and approve requests submitted under Section 713 to be roughly equivalent to the time it takes the public to prepare such a request. This results in an estimated cost to the Federal Government of \$560.

15. Changes to Burden

This is a reinstatement. However, additional burden was added to account for the requirements in Sections 713.4 and 713.5.

16. Information Collection Planned for Statistical Purposes

This information will not be used for statistical purposes.

17. If seeking approval to not display the expiration date for OMB approval of the information collection, explain the reasons that display would be inappropriate.

There is no physical form for this submission of information. The OMB Control Number, along with the expiration date, will be displayed on the Federal electronic docket at www.reginfo.gov as well as in the Federal Register Notice of the Submission.

18. Exceptions to Certification for Purposes of Paperwork Reduction Act Submissions

There are no exceptions to the certification statement.

B. Collections of Information Employing Statistical Methods

This collection does not employ statistical methods.