



NATIONAL CREDIT UNION ADMINISTRATION
Washington, D.C. 20456

October 20, 1986

GC/HMU:sg
4610

Office of General Counsel

Ms. Judith Benson
Vice President
Bay Bank, Inc.
175 Federal Street
Boston, MA 02110

Dear Ms. Benson:

This is in response to your letter of August 13, 1986, concerning Federal credit unions' (FCU's) participation in a shared automated teller machine (ATM) network.

The National Credit Union Administration has no formal application or notification requirements for FCU participation in a shared ATM network or its establishment of its own off-premises ATM's. For your information, I have enclosed the section from the Accounting Manual for FCU's addressing ATM's (Section 5100.3). This should provide guidance to FCU's that maintain their own ATM's or participate in shared ATM systems.

Although the NCUA does not have any specific requirements regarding ATM's, we render no opinion on any other state or Federal law that may be applicable.

I hope that we have been of assistance. Please contact Ms. Hattie Ulan of this Office if further questions arise.

Sincerely,

A handwritten signature in cursive script, appearing to read 'S. Bisker'.

STEVEN R. BISKER
Assistant General Counsel

HMU:sg

Enclosure

FOIA file: Vol 11, E, 3 ATMS



ACCOUNTING MANUAL

FOR

FEDERAL CREDIT

UNIONS

EFFECTIVE OCTOBER 1981

NATIONAL CREDIT UNION ADMINISTRATION
WASHINGTON, D.C. 20456

NCUA 8022

M4016

in the Journal and Cash Record should be written or machine printed on the same line in the member's ledger in an appropriate available space as close to the posting date as possible. A symbol can also be used for this purpose.

5100.2.1.7 CREDIT UNION FUNDS IN THE POSSESSION OF COLLECTORS

Where the situation warrants, a credit union may issue to field collectors a portion of the change fund in order to facilitate their services to the members. A petty cash fund may also be issued to collectors to defray minor expenses, such as the cost of purchasing money orders to transmit funds to the credit union office.

Use of collectors' funds must be strictly supervised by the credit union office. Collectors should be carefully trained to properly safeguard all monies in their possession, and to properly account for these funds while in their possession. This includes assigned funds (change funds or petty cash funds) and payments received from members. As a means of carrying out supervisory functions over field collectors, responsible credit union officials or employees should, at frequent intervals, count and reconcile funds in the possession of the collectors. Frequent "surprise" cash counts will be most effective.

5100.3 AUTOMATED TELLER MACHINE (ATM)

In an effort to better service its members and to compete with other financial institutions, credit unions have expanded service by using remote service units called automated teller machines (ATM). Some of the advantages of an ATM are: (a) it can provide services at a location distant from the credit union office, (b) it can provide extended hours of service to members and (c) it can be used to provide service at locations where the location of a branch office may not be feasible. The ATM consists of unmanned equipment activated by a customer to obtain services. These services include dispensing of cash, accepting deposits and transferring of funds between a customer's various accounts.

Besides the full service ATM, there are available other machines which have limited capabilities. These are also considered ATMs. They are:

1. A Deposit Machine — Just as the name implies, the deposit machine collects mem-

ber deposits that do not require a cash return, and

2. A Cash Dispenser — This machine permits the member to withdraw funds from a specified account. If the member's account will be overdrawn because of the withdrawal, the machine can access the member's line-of-credit.

All equipment is usually activated by a plastic card. The card has a magnetic stripe that can be read by the terminal. The machine has push buttons which are used to key in a personal identification number (PIN) and the transaction information.

Credit unions may find it advantageous to share ATMs with other financial institutions in order to reduce the cost involved in operating the machines. Regardless if the ATM is owned by the credit union or is shared, the board of directors should determine if terminal access to member accounts will be in the best interests of the credit union and its members. In reaching its decision, the board should consider, among other things, the attendant costs and risks associated in operating the program. These should be compared with the Federal credit union's resources, the number of members expected to benefit from the service, the comparative costs of purchasing or leasing the equipment for its sole use or operating in a shared environment, the experience and stability of the servicing financial institution, if applicable, and overall internal control procedures available to protect the interests of the members and integrity of the system. It is recommended that the board review its decision on at least an annual basis to determine if the activity should be continued.

5100.3.1 OPERATIONAL ATM GUIDELINES

In addition to the board of directors' review of the need for a system, the board should establish guidelines that deal with the operation of the ATMs and the protection of both the credit union and the member utilizing the service. As a minimum the guidelines should address:

1. Program Specifications and Agreement

An Operations Manual and/or other type of Statement of Operating Specifications should be maintained in the credit union's files describing the specific services and transactions covered under the program and such other information as is necessary to provide management and operating staff with an

overview of the scope of the activity as well as the day-to-day operational details. The Operations Manual/Statement of Operating Specifications may be incorporated as part of an agreement between the credit union and other parties in a shared environment or between the credit union and the seller/lessor in a proprietary arrangement. An unsafe or unsound practice may exist if a Federal credit union enters into a remote service unit sharing arrangement without a written agreement (or operating specifications if incorporated as a part of the agreement) being established which addresses the following:

- a. Maintaining the individual identity of the credit union and the confidentiality of the members in all transactions;
- b. The types of business to be transacted and limitations;
- c. Method and frequency of settlement;
- d. Communication methods between the parties for transactions, error resolution, etc.;
- e. A schedule of any charges to be assessed to the participating credit union including a statement that joint or shared costs will be equitably charged in proportion to each participant's use; and
- f. A procedure for arbitrating disputes and for terminating the contract.

2. Surety

Each Federal credit union entering into a remote service unit arrangement should obtain written assurance from surety that coverage extends to the use of terminal(s) and plastic access cards issued to members. This assurance is necessary to comply with Section 701.20(f) of the National Credit Union Administration Rules and Regulations which requires the board of directors to obtain adequate bond coverage to meet new or changed circumstances pertaining to the credit union's operation.

3. Legal Opinions and Regulatory Requirements

It is the responsibility of the board of directors of each Federal credit union planning to share remote service units with another financial institution to assure that the arrangement and any related contracts and agreements are in compliance with applicable Federal and/or State law. In this regard, the officials may deem it advisable to consult with an attorney to assure that agreements between the parties operating the system and between the member and the Federal credit union, whether in a

proprietary or shared environment, are in compliance with applicable Federal and/or State law.

If loan disbursements are a part of the service provided, the requirements of Regulation Z, Section 701.21-3 of the National Credit Union Administration Rules and Regulations and other applicable regulations regarding the use of credit cards must be met. Additionally, the activity involved in the disbursement of loans from remote service units should be consistent with the current loan policy and limitations of the respective participating credit union.

In all instances where Federal credit unions provide their members with services through remote service units the provisions of Federal Reserve Regulation E should be reviewed and must be complied with where applicable.

4. Member Agreements

To assure proper understanding, it is recommended that each Federal credit union (establishing shared or proprietary remote service units) execute an agreement with each member utilizing the service which outlines the specific duties and responsibilities of both the credit union and the member. As in the case of the agreement between the servicer and the credit union, an unsafe and unsound practice may exist if a Federal credit union does not execute such an agreement with its member.

5. Security

The servicing financial institution will generally be required to comply with the security regulations of the agency under which it is supervised. Federal credit unions participating in programs with financial institutions falling under the jurisdiction of the Federal Deposit Insurance Corporation or the Federal Home Loan Bank Board should determine that at least minimum security requirements promulgated by those supervising agencies are met. In arrangements involving servicing financial institutions which do not operate under specific security regulations pertaining to remote service units, the minimum security requirements set forth by Federal Deposit Insurance Corporation (12 C.F.R. 326 Appendix A) or Federal Home Loan Bank Board (12 C.F.R. 563a Appendix A) may be followed as appropriate guidelines.

Federal credit unions should note that these guidelines are not mandatory requirements. Failure to operate within these guidelines will not constitute a violation of a rule or law, except where specifically noted. However, the failure of a board of

directors to properly operate a remote service unit program or the failure to consider the procedures and controls envisioned in these guidelines could result in a finding that certain actions constitute "unsafe and unsound practices" for which administrative action under Section 206 of the Federal Credit Union Act may be taken if such practice threatens or endangers the financial stability of the Federal credit union.

If a Federal credit union intends to conduct shared remote service unit activity through the use

of a credit union service corporation, it must comply with provisions of Section 701.27-2 of the NCUA Rules and Regulations.

Using the same procedures described in Section 5050 of this manual, an employee will be assigned the duty to balance daily the transactions transacted through the ATM. Daily balancing is necessary to provide assurance that the system is functioning properly.

5110 REPOSSESSION AND SALE OF COLLATERAL ON LOANS

5110.1 NATURE OF COLLATERAL IN PROCESS OF LIQUIDATION

The procedures in this section are designed primarily to provide a basis for control and accountability over physical and tangible property accepted as collateral for loans to members and which has come into the possession of the credit union for liquidation — generally because of nonpayment by the borrower of his obligation. Within the intent of these procedures, it makes no difference whether the credit union is in possession of the collateral by virtue of legal process, or whether possession results from voluntary action by the borrower (or comakers). In either event, the credit union is accountable for the collateral and has a responsibility to liquidate or dispose of the collateral as promptly as possible consistent with the best interests of both the credit union and the borrower (or comakers). It is not intended that these procedures apply to cases where the credit union is holding collateral pledged as security for a loan and the credit union has no intention of disposing of the collateral; i.e., the borrower has not defaulted on his obligation.

5110.1.1 LOANS — COLLATERAL IN PROCESS OF LIQUIDATION

When the credit union takes possession of collateral, acquired by legal process or otherwise, any remaining principal balance of the loan will be transferred from the appropriate loan account to Loans-Collateral in Process of Liquidation (Account No. 707). If the borrower's obligation to the credit

union has been canceled, by legal requirement in some jurisdictions or by some action of the board of directors, such assets in possession of the credit union will be accounted for in General Ledger, Assets Acquired in Liquidation of Loans (Account No. 708). If the borrower has two or more loans, notation will be made on all his ledger cards but only the loan balances pertaining to the collateral in possession of the credit union will be transferred.

The purpose of the transfer is to segregate the loan balances for control and accountability, and to permit realistic financial analysis of these loans. The transfer does not in any way create an asset different from loans to members. It merely represents a separation of the General Ledger control account for Loans into two segments. The transfer entry affects the General Ledger control account only, and will not be reflected on the Individual Share and Loan Ledger. However, after the transfer is made, any further transaction activity relating to a transferred loan balance is posted to General Ledger Account No. 707 and to the Individual Share and Loan Ledger. The Individual Share and Loan Ledgers representing loans transferred to Account No. 707 will be physically separated, for control purposes, from the other members' ledgers. When trial balances of the individual loan balances are taken, the total of the loan balances on the ledgers transferred to Account No. 707 must agree with the balance of General Ledger Control Account No. 707.

Since the transfer to Account No. 707 has no effect other than to separate loan balances, all procedures in connection with loan balances remain the same. In particular, loan delinquency included in Account No. 707 will be computed and classified