

*Yankee dollar deposit* means a deposit in a United States branch of a foreign bank licensed to do business in the state in which it is located, or a deposit in a state-chartered, foreign controlled bank.

*You* means a federal credit union.

*Zero coupon investment* means an investment that makes no periodic interest payments but instead is sold at a discount from its face value. The holder of a zero coupon investment realizes the rate of return through the gradual appreciation of the investment, which is redeemed at face value on a specified maturity date.

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## PART 704—CORPORATE CREDIT UNIONS

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AUTHORITY: 12 U.S.C. 1762, 1766(a), 1781, and 1789.

SOURCE: 62 FR 12938, Mar. 19, 1997, unless otherwise noted.

### §704.1 Scope.

(a) This part establishes special rules for all federally insured corporate credit unions. Non federally insured corporate credit unions must agree, by written contract, to both adhere to the requirements of this part and submit to examinations, as determined by NCUA, as a condition of receiving

shares or deposits from federally insured credit unions. This part grants certain additional authorities to federal corporate credit unions. Except to the extent that they are inconsistent with this part, other provisions of NCUA's Rules and Regulations (12 CFR chapter VII) and the Federal Credit Union Act apply to federally chartered corporate credit unions and federally insured state-chartered corporate credit unions to the same extent that they apply to other federally chartered and federally insured state-chartered credit unions, respectively.

(b) The Board has the authority to issue orders which vary from this part. This authority is provided under Section 120(a) of the Federal Credit Union Act, 12 U.S.C. 1766(a). Requests by state-chartered corporate credit unions for waivers to this part and for expansions of authority under Appendix B of this part must be approved by the state regulator before being submitted to NCUA.

### §704.2 Definitions.

*Adjusted trading* means any method or transaction whereby a corporate credit union sells a security to a vendor at a price above its current market price and simultaneously purchases or commits to purchase from the vendor another security at a price above its current market price.

*Asset-backed security* means a security that is primarily serviced by the cashflows of a discrete pool of receivables or other financial assets, either fixed or revolving, that by their terms convert into cash within a finite time period plus any rights or other assets designed to assure the servicing or timely distribution of proceeds to the securityholders. This definition excludes those securities referred to in the financial markets as mortgage-backed securities (MBS), which includes collateralized mortgage obligations (CMOs) and real estate mortgage investment conduits (REMICs).

*Capital* means the sum of a corporate credit union's reserves and undivided earnings, paid-in capital, and membership capital.

*Capital ratio* means the corporate credit union's capital divided by its moving daily average net assets.

*Collateralized mortgage obligation (CMO)* means a multi-class bond issue collateralized by mortgages or mortgage-backed securities.

*Commercial mortgage related security* means a mortgage related security where the mortgages are secured by real estate upon which is located a commercial structure.

*Corporate credit union* means an organization that:

- (1) Is chartered under Federal or state law as a credit union;
- (2) Receives shares from and provides loan services to credit unions;
- (3) Is operated primarily for the purpose of serving other credit unions;
- (4) Is designated by NCUA as a corporate credit union;
- (5) Limits natural person members to the minimum required by state or federal law to charter and operate the credit union; and
- (6) Does not condition the eligibility of any credit union to become a member on that credit union's membership in any other organization.

*Correspondent services* means services provided by one financial institution to another, and includes check clearing, credit and investment services, and any other banking services.

*Credit enhancement* means collateral, third-party guarantees, and other features that are designed to provide structural support and protection against losses to investors in a particular security.

*Daily average net assets* means the average of net assets calculated for each day during the period.

*Dealer bid indication* means a dealer's approximation of the bid price of a security.

*Dollar roll* means the purchase or sale of a mortgage backed security to a counterparty with an agreement to resell or repurchase a substantially identical security at a future date and at a specified price.

*Embedded option* means a characteristic of certain assets and liabilities which gives the issuer of the instrument the ability to change the features such as final maturity, rate, principal amount and average life. Options include, but are not limited to, calls, caps, and prepayment options.

*Expected maturity* means the date on which all remaining principal amounts of an instrument or bond are anticipated to be paid off on the basis of projected payment assumptions.

*Fair value* of a financial instrument means the amount at which an instrument could be exchanged in a current arms-length transaction between willing parties, other than in a forced liquidation sale. Market prices, if available, are the best evidence of the fair value of financial instruments. If market prices are not available, the best estimate of fair value may be based on the quoted market price of a financial instrument with similar characteristics or on valuation techniques (for example, the present value of estimated future cash flows using a discount rate commensurate with the risks involved, option pricing models, or matrix pricing models).

*Federal funds transaction* means a short-term or open-ended unsecured transfer of immediately available funds by one depository institution to another depository institution or entity.

*Foreign bank* means an institution which is organized under the laws of a country other than the United States, is engaged in the business of banking, and is recognized as a bank by the banking supervisory authority of the country in which it is organized.

*Forward settlement* of a transaction means settlement on a date other than the trade date.

*Immediate family member* means a spouse or other family member living in the same household.

*Industry recognized information provider* means an organization which obtains compensation by providing information to investors and receives no compensation for the purchase or sale of investments.

*Long-term investment* means, for the purpose of issue ratings, an investment that has an initial maturity, or expected maturity, greater than one year.

*Market price* means the price at which a security can be bought or sold.

*Matched* means, with respect to assets and liabilities, that the factors which affect cash flows of an asset are replicated in a corresponding liability.

*Member paid-in capital* means paid-in capital that: Is held by the corporate credit union's members; and has an initial maturity of at least 20 years. A corporate credit union may not condition membership, services, or prices for services on a credit union's ownership of paid-in capital. When a paid-in capital instrument has a remaining maturity of 5 years, the amount of the instrument that may be considered paid-in capital for the purposes of this part is reduced by a constant monthly amortization which ensures the recognition of paid-in capital is fully amortized when the instrument has a remaining maturity of 3 years. The terms and conditions of any member paid-in capital instrument must be disclosed to the recorded owner of such instrument at the time the instrument is created and at least annually thereafter.

*Member reverse repurchase transaction* means an integrated transaction in which a corporate credit union purchases a security from one of its member credit unions under agreement by that member credit union to repurchase the same security at a specified time in the future. The corporate credit union then sells that same security, on the same day, to a third party, under agreement to repurchase it on the same date on which the corporate credit union is obligated to return the security to its member credit union.

*Membership capital* means funds contributed by members which are available to cover losses that exceed reserves and undivided earnings and paid-in capital. In the event of liquidation of the corporate credit union, membership capital is payable only after satisfaction of all liabilities of the liquidation estate, including uninsured share obligations to shareholders and the National Credit Union Share Insurance Fund (NCUSIF), but excluding paid-in capital. The funds have a minimum withdrawal notice of three years, are not insured by the NCUSIF or other share or deposit insurers, and cannot be used to pledge against borrowings. A member may sell its membership capital to a credit union in the corporate credit union's field of membership, subject to the corporate credit union's approval. The funds may be in the form of a term certificate, or may be in the

form of an adjusted balance account. An adjusted balance account may be adjusted in relation to a measure (e.g., one percent of a member credit union's assets) established and disclosed by the corporate credit union at the time the account is opened without regard to any minimum withdrawal notice period. Upon written notice of intent to withdraw membership capital, the balance of the account will be frozen (no annual adjustment) until the conclusion of the notice period. The terms and conditions of a membership capital account must be disclosed to the recorded owner of such account at the time the account is opened and at least annually thereafter. Upon notification of intent to withdraw, the amount of the account on notice that can be considered membership capital is reduced by a constant monthly amortization which ensures the recognition of membership capital is fully amortized at the end of the notice period. The full balance of a membership capital account that has been placed on notice, not just the remaining non amortized portion, is available to absorb losses in excess of the sum of reserves and undivided earnings and paid-in capital until the funds are released by the corporate credit union at the conclusion of the notice period.

*Mortgage related security* means a security as defined in Section 3(a)(41) of the Securities Exchange Act of 1934 (15 U.S.C. 78c(a)(41)), i.e., a privately-issued security backed by mortgages secured by real estate upon which is located a dwelling, mixed residential and commercial structure, residential manufactured home, or commercial structure.

*Mortgage servicing* means performing tasks to protect a mortgage investment, including collecting the installment accounts, monitoring and dealing with delinquencies, and overseeing foreclosures and payoffs.

*Moving daily average net assets* means the average of daily average net assets for the month being measured and the previous 11 months.

*NCUA* means NCUA Board (Board), unless the particular action has been delegated by the Board.

*Net assets* means total assets less Central Liquidity Facility (CLF) stock

subscriptions, CLF loans guaranteed by the NCUSIF, U.S. Central CLF certificates, and member reverse repurchase transactions. For its own account, a corporate credit union's payables under reverse repurchase agreements and receivables under repurchase agreements may be netted out if the Generally Accepted Accounting Principles (GAAP) conditions for offsetting are met.

*Net economic value (NEV)* means the fair value of assets minus the fair value of liabilities. All fair value calculations must include the value of forward settlements and embedded options and of off balance sheet financial derivatives, such as futures, options, interest rate swaps, and forward rate agreements. Membership capital is treated as a liability for purposes of this calculation. The NEV ratio is calculated by dividing NEV by the fair value of assets.

*Net interest income* means the difference between income earned on interest bearing assets and interest paid on interest bearing liabilities.

*Non member paid-in capital* means paid-in capital that is approved by NCUA, upon application by the corporate credit union. In determining whether or not to approve any paid-in capital instrument, NCUA will consider such features as maturity, capital amortization schedule, participation, voting, acceleration, redemption, or other rights of the holder, if any. NCUA will also consider the strategic purpose and financial impact of the proposed paid-in capital issuance and the corporate credit union's financial condition and management capabilities.

*Non secured obligation* means an obligation backed solely by the creditworthiness of the obligor.

*Official* means any director or committee member.

*Paid-in capital* means accounts or other interests of a corporate credit union that: Are available to cover losses that exceed reserves and undivided earnings; are not insured by the NCUSIF or other share or deposit insurers; and are callable only at the option of the corporate credit union and only if the corporate credit union meets its minimum level of required capital after the funds are called. Paid-in capital includes both member paid-

in capital and non member paid-in capital. In the event of liquidation of the corporate credit union, paid-in capital is payable only after satisfaction of all liabilities of the liquidation estate, including uninsured share obligations to shareholders, the NCUSIF, and membership capital holders. Paid-in capital shall not exceed reserves and undivided earnings.

*Pair-off transaction* means a security purchase transaction that is closed out or sold at, or prior to, the settlement or expiration date.

*Prepayment model* means an empirical method which produces a reasonable and supportable forecast of mortgage prepayments in alternative interest rate scenarios. Models are typically available from securities broker-dealers and industry-recognized information providers. These models are used in tests to forecast the weighted average life, change in weighted average life, and price sensitivity of CMOs/REMICs and mortgage-backed securities.

*Real estate mortgage investment conduit (REMIC)* means a nontaxable entity formed for the sole purpose of holding a fixed pool of mortgages secured by an interest in real property and issuing multiple classes of interests in the underlying mortgages.

*Regular way settlement* means delivery of a security from a seller to a buyer within the specified number of days established for that type of security.

*Repurchase transaction* means a transaction in which a corporate credit union agrees to purchase a security from a counterparty and to resell the same or any identical security to that counterparty at a later date.

*Reserve ratio* means the corporate credit union's reserves and undivided earnings plus paid in capital divided by its moving daily average net assets.

*Reserves and undivided earnings* means all forms of retained earnings, including regular or statutory reserves and all valuation allowances established to meet the full and fair disclosure requirements of §702.3 of this chapter.

*Residual interest* means the remainder cash flows from a CMO or REMIC transaction after payments due bondholders and trust administrative expenses have been satisfied.

*Section 107(8) institution* means an institution described in Section 107(8) of the Federal Credit Union Act (12 U.S.C. 1757(8)).

*Securities lending* means lending a security to a counterparty, either directly or through an agent, and accepting collateral in return.

*Senior management employee* means a chief executive officer, any assistant chief executive officer (e.g., any assistant president, any vice president or any assistant treasurer/manager), and the chief financial officer (controller).

*Settlement date* means the date originally agreed to by a corporate credit union and a counterparty for settlement of the purchase or sale of a security.

*Short sale* means the sale of a security not owned by the seller.

*Short-term investment* means, for the purpose of issue ratings, an investment that has an initial maturity, or expected maturity, of one year or less.

*Small business related security* means a security as defined in Section 3(a)(53) of the Securities Exchange Act of 1934 (15 U.S.C. 78c(a)(53)), i.e., a security, rated in one of the four highest rating categories by a nationally recognized statistical rating organization, that represents ownership of one or more promissory notes or leases of personal property which evidence the obligation of a small business concern. It does not mean a security issued or guaranteed by the Small Business Administration.

*Stripped mortgage-backed security* means a security that represents either the principal or interest only portion of the cash flows of an underlying pool of mortgages.

*Trade association* means an association of organizations or persons formed to promote their common interests. For the purposes of § 704.14, the term includes entities owned or controlled directly or indirectly by such an association but does not include credit unions.

*Trade date* means the date a corporate credit union originally agrees, whether orally or in writing, to enter into the purchase or sale of a security.

*Weighted average life* means the weighted average time to principal repayment of a security based upon the

proportional balances of the cash flows that make up the security.

*When-issued trading* means the buying and selling of securities in the period between the announcement of an offering and the issuance and payment date of the securities.

*Wholesale corporate credit union* means a corporate credit union which primarily serves other corporate credit unions.

### § 704.3 Corporate credit union capital.

(a) *General.* A corporate credit union must develop and ensure implementation of written short- and long-term capital goals, objectives, and strategies which provide for the building of capital consistent with regulatory requirements, the maintenance of sufficient capital to support the risk exposures that may arise from current and projected activities, and the periodic review and reassessment of the capital position of the corporate credit union.

(b) *Capital ratio.* A corporate credit union will maintain a minimum capital ratio of 4 percent, except as otherwise provided in this part. A corporate credit union must calculate its capital ratio at least monthly.

(c) *Reserve transfers.* A corporate credit union's monthly reserve transfers are based upon the level of its reserve ratio. Where the reserve ratio is greater than or equal to 4 percent, the reserve transfer is optional. Where the reserve ratio is greater than or equal to 3 percent but less than 4 percent, the corporate credit union must transfer .10 percent of its moving daily average net assets. Where the reserve ratio is less than 3 percent, the corporate credit union must transfer .15 percent of its moving daily average net assets. Reserve transfers must be calculated on a monthly basis and funded on at least a quarterly basis.

(d) *Individual capital ratio, reserve transfer requirement.* (1) When significant circumstances or events warrant, NCUA may require a different minimum capital ratio and/or reserve transfer level for an individual corporate credit union based on its circumstances. Factors that might warrant a different minimum capital ratio or reserve transfer level include, but are not limited to, for example: