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

SOURCE: 57 FR 22630, May 28, 1992, unless otherwise noted.

§704.1 Scope.

(a) This part establishes special rules for all federally insured corporate credit unions and 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 part 700 *et seq.*) 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 NCUAB 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).

[57 FR 22630, May 28, 1992, as amended at 57 FR 28085, June 24, 1992]

§704.2 Definitions.

Affiliated organization means:

(1) An organization with which the corporate credit union shares facilities, personnel, equipment, or services; or

(2) An organization which is at least 20 percent owned or controlled by an organization with which the corporate credit union shares services, facilities, personnel, or equipment.

Asset-backed securities (ABS) means all securities supported by installment loans or leases or by revolving lines of credit. 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).

Average daily assets means the daily average of net assets calculated on the basis of assets at the close of each day in the period.

Average life means the weighted average time to principal repayment with the amount of the principal paydowns (both scheduled and unscheduled) as the weights.

Capital means the total of all corporate reserves (regular or statutory reserves, as applicable), all undivided earnings, net income, and membership capital share deposit (or equivalent) accounts.

Capital of a broker/dealer means the sum of stockholder equity plus subordinated debt which qualifies as capital for regulatory purposes.

Claims means loans or other debt obligations.

Commitments means any unconditional arrangement that obligates a corporate credit union to extend credit in the form of loans or lease financing receivables; to purchase loans, securities or other assets; or to participate in loans and leases. Commitments also include overdraft facilities, revolving credit, home equity, and mortgage lines of credit, and similar transactions. An obligation is conditional if the corporate credit union is not automatically obligated to extend funds.

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 other credit unions;

(3) Is operated primarily for the purpose of serving other credit unions;

(4) Is designated by the National Credit Union Administration 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.

Corporate reserves means regular or statutory reserves, as applicable, excluding all valuation allowances established to meet the full and fair disclosure requirements of § 702.3 of this chapter.

Credit equivalent amounts means the face amount of each off-balance sheet item multiplied by a credit conversion factor outlined in Appendix B.

Credit union service organization (CUSO) means an organization that:

(1) Exists primarily to meet the needs of credit unions; and

(2) Engages only in business activities relating to the daily operations of the credit unions it serves or provides services associated with the routine operations of credit unions.

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.

Federally issued CMO/REMIC means a CMO or REMIC which is issued by a U.S. Government agency or a U.S. Government-sponsored corporation or enterprise.

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

Material means an amount that exceeds 5 percent of the corporate credit union's capital.

Membership capital share deposit (MCSD) account means a share, or deposit, or other account that:

(1) Is established, at a minimum, as a 12-month notice account;

(2) Is limited to members;

(3) Is not subject to share insurance coverage by the National Credit Union Share Insurance Fund (NCUSIF) or other deposit insurers; and

(4) In the event of liquidation of the corporate credit union, is payable only after satisfaction of all liabilities of the liquidation estate, including uninsured obligations to shareholders and the NCUSIF.

In any event, an MCSD account shall not be repayable until notice that the account holder credit union intends to withdraw MCSD account funds from the corporate credit union, except in the case of a credit union that is placed into liquidation, is purchased and assumed, or is merged. MCSD accounts cannot be used to pledge borrowings. Corporate credit unions that issue MCSD accounts shall disclose, at least annually to their members, the terms and conditions under which such accounts are issued.

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.

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.

Non credit union member means any member of a corporate credit union that is not chartered or licensed as a credit union.

Original maturity means the length of time between the date when a commitment is issued and the earliest date on which the corporate credit union can unconditionally cancel the commitment.

Other reserves means reserves other than corporate reserves.

Primary capital means all corporate reserves and undivided earnings.

Privately issued CMO/REMIC means a CMO or REMIC that qualifies as a permissible investment for a federal credit union pursuant to the provisions of section 107(15)(B) of the Federal Credit Union Act.

Risk-based capital means the total of primary capital and secondary capital (up to 100 percent of primary capital).

Risk-weighted assets means the sum of total balance sheet assets and off-balance sheet credit equivalent amounts multiplied by their appropriate risk-weights.

SEC-recognized rating agency means any firm recognized by the Securities and Exchange Commission (SEC) as qualified to assign risk ratings to various instruments required to be registered with the SEC.

Secondary capital means MCSD or equivalent accounts (except for MCSD accounts owned by other corporates unless the MCSD account is held by a corporate whose members are primarily other corporates and organizations recognized under section 501(c)(6) of the Internal Revenue Code), allowance for loan and lease losses up to a maximum of 1.25 percent of risk-weighted assets, and term subordinated debt weighted by remaining maturity as indicated:

(1) 5 years or more until maturity—100 percent;

(2) 4 to less than 5 years until maturity—80 percent;

(3) 3 to less than 4 years until maturity—60 percent;

(4) 2 to less than 3 years until maturity—40 percent;

(5) 1 to less than 2 years until maturity—20 percent; and

(6) Less than 1 year remaining maturity—0 percent.

MCSD Accounts upon which the account holder has given the corporate credit union notice of intent to withdraw may no longer be considered secondary capital.

Speculative activities means the use of forwards, options, futures, or similar activities other than when used to reduce interest rate risk.

Term subordinated debt means debt of a corporate credit union that:

(1) Is unsecured;

(2) Is not a deposit;

(3) Is not insured by the National Credit Union Administration;

(4) Is subordinated to general creditors and claims of depositors;

(5) Has an original maturity of at least 7 years;

(6) Is not redeemable prior to maturity except with the approval of NCUA;

(7) Is ineligible as collateral for a loan; and

(8) Is represented by a debt instrument which clearly states that it will absorb losses.

Trade association means an association of organizations or persons formed to promote their common interests. The term includes entities owned or controlled directly or indirectly by such an association but does not include credit unions.

Undivided earnings means all forms of retained earnings, except:

(1) Corporate reserves (regular or statutory reserves, as applicable); and

(2) Valuation allowances established to meet the full and fair disclosure requirements of section 702.3 of this chapter.

United States depository institutions means offices or branches (foreign and domestic) of federally insured banks and depository institutions chartered and headquartered in the United States, Puerto Rico, and U.S. territories and possessions. This includes banks, mutual or stock savings banks, savings or building and loan associations, cooperative banks, credit unions, international banking facilities of domestic depository institutions, and U.S. chartered depository institutions owned by entities outside of the United States.

United States Government or its agencies means the United States Government or instrumentalities of the United States whose debt obligations are fully and explicitly guaranteed as to the timely payment of principal and interest by the full faith and credit of the United States Government (see appendix C to this part).

United States Government-sponsored corporations and enterprises means agencies originally established or chartered to serve public purposes specified by Congress, but whose obligations are not explicitly guaranteed by the full faith and credit of the United States Government (see appendix C to this part).

[57 FR 22630, May 28, 1992, as amended at 57 FR 28085, June 24, 1992; 59 FR 59360, Nov. 17, 1994]

§ 704.3 Planning: Strategic and Business Plans.

(a) The board of directors of a corporate credit union shall adopt a strategic plan with appropriate objectives and goals. This plan will be reviewed periodically during the year to determine that the goals are being accomplished. At least annually, the strategic plan will be reviewed and updated.

(b) A business plan will be prepared for any material expenditure in fixed assets, new products and services, or investments in a CUSO.

§ 704.4 Asset/Liability Management.

(a) *General.* Corporate credit unions shall develop and implement comprehensive written funds management policies.

(b) *Monitoring.* Corporate credit unions shall prepare monthly reports showing the degree of mismatch between the sources and uses of funds for the various timeframes.

§ 704.5 Capital Goals, Objectives and Strategies.

(a) *General.* Corporate credit unions shall adopt formal, written goals (both long-term and short-term), objectives and strategies, including a budgetary process, for the building of capital.

(b) *Impact study.* Where a proposed new service or program, purchase or lease of a fixed asset, or investment in or loan to a CUSO has a material effect on a corporate credit union, the corporate credit union shall perform a cost/benefit analysis of the activity and a study of its impact on the capital position of the corporate credit union.

(c) *Monitoring.* Management will establish monitoring standards and procedures to periodically review and reassess the capital position of the corporate credit union and will document the review.

§ 704.6 Investment.

(a) *Policies.* A corporate credit union shall develop written investment policies which address, at a minimum:

(1) Risk diversification;

(2) Funds management strategies;

(3) Approved investment issuers, instruments, credit limits, credit ratings, and list of permissible institutions;

(4) Approved list of broker/dealers;

(5) Authorization of and limitations on persons/committees making investments; and

(6) Procedures to periodically evaluate the quality of the investment portfolio.

(b) *Limitations.*

(1) Credit Union Service Organizations (CUSOs). The aggregate of all investments in CUSOs shall not exceed 15 percent of a corporate credit union's capital unless permission is obtained from the National Credit Union Administration Board (NCUAB). A corporate credit union is prohibited from utilizing CUSO authority to acquire control, directly or indirectly, of another financial institution, or to invest in shares, stocks or obligations of another financial institution, insurance company, trade association, liquidity facility, or similar organization. Except to the extent that they are inconsistent with this paragraph, a corporate credit union investing in a CUSO shall adhere to the applicable provisions of paragraphs (c) through (e) of § 701.27 of this chapter.

(2) Other Investments. Corporate credit unions shall be limited to the following additional investments:

(i) Investments authorized by sections 107(7), 107(8), and 107(15) of the Federal Credit Union Act and part 703 of this chapter, except where those authorities are inconsistent with other limitations of this section;

(ii) Deposits in state banks, trust companies, and mutual savings banks not domiciled in the state in which the corporate credit union does business;

(iii) Deposits in, the sale of Federal Funds to, and debt obligations of foreign banks subject to the following requirements:

(A) The bank must have assets of at least US$ 20 billion, and the investment must be rated not lower than A–1 (or equivalent) for short-term (initial maturity of 1 year or less) investments by an SEC-recognized rating agency, and not lower than AA– (or equivalent) for long-term (initial maturity over 1 year) investments. Short-term investments downgraded below A–2 (or equivalent) and long-term investments downgraded below A– (or equivalent) by the same rating agency used when