

*Corporate service organization (CSO)* means an entity that:

(1) Serves only corporate credit unions that have made investments in or loans to the entity and/or the member credit unions of such corporate credit unions;

(2) Limits the services it provides to data and item processing, wire transfers, record retention and storage, securities brokerage services, investment advisory services, and trust services; and

(3) Is chartered as a corporation under state law.

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

*Embedded options* mean characteristics of certain assets and liabilities which give the issuer of the instrument the ability to change the features such as final maturity, rate, principal amount and average life. These options include, but are not limited to, caps, floors, and prepayment options. These options are found in most mortgage-backed securities, structured notes, and some Network instruments.

*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.

*Facility* means the home office of a corporate credit union or any suboffice thereof including, but not necessarily limited to, wire service, telephonic station, or mechanical teller station.

*Federal funds transaction* means a short-term or open-ended transfer of funds between U.S. depository institutions.

*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.

*Forward rate agreement* means an over-the-counter market instrument that allows two parties to trade interest rates on a notional principal amount for a specified time period in the future.

*Futures contract* means a contract for the future delivery of commodities, including certain government securities, sold on commodities exchanges.

*Identically matched* means matched, to the extent possible, by amount,

repricing, behavior, and final maturity. Any embedded options, such as calls, caps, and prepayments, must be replicated in the corresponding source or use of funds.

*Immediate family member* means a person related by blood, marriage, or adoption.

*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.

*Market value of portfolio equity (MVPE)* means the net market value of all assets and liabilities, including their embedded options. This reflects the liquidation value of the balance sheet.

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

*Maturity date* means the date on which a security matures, and shall not mean the call date or the average life of the security.

*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.

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

*Official* means any director or committee member.

*Option contract* means a right, but not an obligation, to buy or sell a security at a specified price and settlement date in the future.

*Overnight* means having a maturity or call date of one business day.

*Penalty for early withdrawal* of a share, deposit, or liability means a fee which will, at a minimum, fully compensate a corporate credit union for the difference between fair value and book value of the asset that is divested (including any accumulated unrealized losses since the asset was purchased), or the replacement cost of funds, to meet the demand for early withdrawal.

*Permanent capital share account (PCSA)*. (1) PCSA means a share account that:

(i) Is restricted to credit unions within a corporate credit union's field of membership;

(ii) Is not subject to share insurance coverage by the NCUSIF or other deposit insurer;

(iii) Cannot be used by member credit unions to collateralize borrowings;

(iv) Is available to absorb losses in the event of a deficit in other primary capital accounts in the corporate credit union;

(v) 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;

(vi) Is redeemable only with the written concurrence of NCUA; and

(vii) Pays noncumulative dividends. (2) The terms and conditions of permanent capital share accounts must be disclosed at the time an account is opened. The board of directors of the member credit union must acknowledge those terms and conditions by signing a disclosure form. A copy of the disclosure form must be given to the member credit union, with the original retained by the corporate credit union.

*Primary capital* means statutory reserves, undivided earnings, other reserves (excluding the allowance for loan losses and accumulated unrealized gains/losses on available-for-sale securities), net income (loss), and permanent capital share accounts (PCSAs). No more than 50 percent of primary capital may be comprised of PCSAs.

*Primary dealer* means a bank or investment dealer authorized to buy and sell government securities in direct dealings with the Federal Reserve Bank of New York in its execution of Fed open market operations.

*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.

*Rated*, in the context of investments under § 704.5, means rated by an SEC-recognized rating agency. An SEC-recognized rating agency is any firm recognized by the Securities and Exchange Commission (SEC) as qualified to assign risk ratings to various investment instruments required to be registered with the SEC.

*Real Estate Mortgage Investment Conduit (REMIC)* means a nontaxable entity formed for the sole purpose of holding a fixed pool of mortgages