

institutions must be prepared quarterly by qualified staff and approved by an appropriate committee of the board so that changes in credit quality can be detected at the earliest opportunity. This approval must be documented in the minutes of the committee and be provided upon request to the auditor, supervisory committee, and NCUA.

(e)(1) A corporate credit union may invest in deposits in, the sale of Federal Funds to, and debt obligations of foreign banks, subject to the following requirements:

(i) The bank must have assets of at least US \$20 billion and an entity rating no lower than A/B (or equivalent);

(ii) The investment must be rated no lower than A-1 (or equivalent) for short-term investments and no lower than AA (or equivalent) for long-term investments;

(iii) The investment must be denominated in United States dollars;

(iv) The country in which the issuing bank is organized must be rated AAA (or equivalent) for political and economic stability;

(v) Aggregate investments in banks in any single foreign country are limited to 50 percent of the corporate credit union's primary capital at the time of purchase; and

(vi) Aggregate investments in all foreign banks are limited to 300 percent of the corporate credit union's primary capital at the time of purchase.

(2) A written evaluation of lines of exposure to all foreign banks must be prepared quarterly by qualified staff and approved by an appropriate committee of the board so that changes in credit quality can be detected at the earliest opportunity. This approval must be documented in the minutes of the committee and be provided upon request to the auditor, supervisory committee, and NCUA.

(f) A corporate credit union may invest in marketable debt obligations of corporations chartered in the United States, provided that the obligations are rated not lower than A-1 (or equivalent) for short-term investments and not lower than AA- (or equivalent) for long-term investments. A marketable obligation is one that may be sold with reasonable promptness at a price which corresponds reasonably to its fair value. This authority does not apply to debt obligations that are convertible into the stock of the corporation.

(g) A corporate credit union may invest in asset-backed securities subject to the following requirements:

(1) Rated not lower than AAA (or equivalent); and

(2) Having an average life at the time of purchase not to exceed 5 years.

(h) A corporate credit union may invest in federally and privately issued CMOs/REMICs, subject to the following limitations:

(1) All investments in fixed rate CMOs/REMICs must meet the following NCUA-modified FFIEC High Risk Security Test requirements:

(i) The weighted average life of the security may not exceed 5 years at the time of purchase;

(ii) The weighted average life may not extend by more than 2 years nor contract by more than 3 years for an instantaneous shift in market rates of plus or minus 300 basis points;

(iii) The investment's price may not decline by more than 10 percent for an instantaneous shift in market rates of plus or minus 300 basis points.

(2) All investments in floating rate CMOs/REMICs must meet the following NCUA-modified FFIEC High Risk Security Test requirements:

(i) The weighted average life of the security may not exceed 5 years at the time of purchase;

(ii) The weighted average life may not extend by more than 2 years nor contract by more than 3 years for an instantaneous shift in market rates of plus or minus 300 basis points;

(iii) The investment's price may not decline by more than 5 percent for an instantaneous shift in market rates of plus or minus 300 basis points.

(3) The prepayment assumption for the underlying mortgages shall be based on an industry standard median prepayment estimate or the median estimate of no fewer than five independent brokerage firms, at least one of which must be a primary dealer. When estimates from specific dealers are used, those dealers must be approved by an appropriate committee and listed along with monthly test results. The same industry standard or selection of dealers must be used for all CMO/REMIC securities each time the tests are performed. In computing the average life of a CMO/REMIC investment, it must be assumed that the anticipated rate of prepayment remains constant over the remaining life of the mortgage collateral.

(4) Any CMO/REMIC security that fails the average life standard or the price sensitivity test shall be divested within 10 business days.

(5) Results of monthly CMO/REMIC tests must be documented and reviewed by an appropriate committee and maintained in a permanent record. Such results shall be provided upon request to the auditor, supervisory committee, and NCUA.

(i) A corporate credit union may enter into a cash forward agreement to

purchase or sell a security, provided that:

(1) The period from the trade date to the settlement date does not exceed one hundred and twenty (120) days;

(2) If the credit union is the purchaser, it has written cash flow projections evidencing its ability to purchase the security;

(3) If the credit union is the seller, it owns the security on the trade date; and

(4) The cash forward agreement is settled on a cash basis at the settlement date.

(j) A corporate credit union may enter into a repurchase or reverse repurchase transaction provided that the collateral securities are permissible investments for corporate credit unions and the transaction is priced to reflect accrued interest, the risk of the securities, and the term of the trade. A corporate credit union purchasing a security in a repurchase transaction must take physical possession of the security, receive written confirmation of the purchase and a safekeeping receipt from a third party under a written bailment for hire contract, or be recorded as the owner of the security through the Federal Reserve Book-Entry System. A corporate credit union obtaining funds from a reverse repurchase transaction may not invest those funds for a term greater than the maturity date of the reverse repurchase transaction. A repurchase transaction shall be considered to have a credit exposure of 5 percent of the principal and accrued interest outstanding on the transaction for the purpose of the limitation on investments in a single institution, issuer, or trust set forth in paragraph (a) of this section.

(k) A corporate credit union may invest in a mutual fund if the investments and investment transactions of the fund are legally permissible for corporate credit unions.

(1) A corporate credit union is prohibited from:

(1) Purchasing or selling a standby commitment, except as provided in § 701.21(i) of this Chapter;

(2) Buying or selling a futures contract, forward rate agreement, swap agreement, or option contract;

(3) Engaging in adjusted trading;

(4) Engaging in a short sale;

(5) Purchasing a stripped mortgage-backed security or residual interest in a CMO/REMIC;

(6) Purchasing a zero coupon security with a maturity date that is more than 5 years from the settlement date for purchase of the security, except for funds matched against primary capital;