

security is backed by a pool of conventional mortgages, 1- to 4-family residential, or multifamily residential properties, each underlying mortgage must have been made in accordance with prudent underwriting standards, be performing in accordance with its original terms, and not be 90 days or more past due or carried in nonaccrual status; (3) If the security is backed by privately-issued mortgage-backed securities, each underlying security qualifies for the 50 percent risk category at the time the pool is originated; and (4) if the security is backed by a pool of multifamily residential mortgages, principal and interest payments on the security are not 30 days or more past due.

- c. Accrued Interest Receivable on the above.
- d. Claims on foreign banks (including Fed Funds sold).

Category 4: 100 Percent Risk Weight for All Other Assets Including, but NOT LIMITED to:

- a. Loans to CUSOs outstanding as of January 1, 1996.
- b. Loans to and Investments in CSOs.
- c. Unsecured loans to credit unions.
- d. All fixed assets, including land, buildings, furniture, fixtures, equipment, automobiles, and leasehold improvements.
- e. Permanent capital share account and secondary capital share account investments in a corporate credit union.
- f. Any mortgage-backed securities that do not meet the criteria for assignment to a lower risk weight (including any classes of mortgage-backed securities that can absorb more than their pro rata share of loss without the whole issue being in default).
- g. Zero Coupon Securities.
- h. Claims on U.S. chartered corporations and bank holding companies, including commercial paper and corporate bonds.
- i. Mutual Funds that do not qualify for a lower risk weighting.
- j. Prepaid Assets.
- k. Accounts Receivable and other receivables.
- l. NCUSIF Deposit
- m. Mortgage servicing rights.
- n. Intangible assets.
- o. All other claims on private obligors.
- p. Accrued Interest Receivable on the above.

**Appendix B to Part 704—Off-Balance Sheet Credit Conversion Factors**

Zero Percent Credit Conversion Factor:  
Unused portions of credit lines with original maturities of 6 months or less, or which are unconditionally cancelable.

50 Percent Credit Conversion Factor:  
a. Unused portions of credit lines with original maturities exceeding 6 months.

of the security. In addition, if the underlying assets of a mortgage-backed security are composed of more than one type of asset, for example, U.S. Government-sponsored agency securities and privately-issued pass-through securities that qualify for the 50 percent risk category, the entire mortgage-backed security is generally assigned to the category appropriate to the highest risk-weighted asset underlying the issue. Thus, in this example, the security would receive the 50 percent risk weight appropriate to the privately-issued pass-through securities.

b. Commitments to participate in a loan or loan package.

100 Percent Credit Conversion Factor:  
a. Irrevocable standby letters of credit guaranteeing financial performance (including VISA letters of credit issued by corporate credit unions on behalf of their members, or standby letters of credit backing Industrial Revenue Bonds).

b. Forward Commitments to purchase an asset or perform under a lease contract.

c. Securities held in safekeeping loaned with indemnification. Other off-balance sheet items will be addressed on a case-by-case basis by NCUA.

**Appendix C to Part 704—Model Forms**

This appendix contains three sample forms intended for use by corporate credit unions to aid in compliance with the permanent capital share account and secondary capital share account disclosure requirements of §704.2. Corporate credit unions that use these forms will be in compliance with those requirements.

C-1 Sample disclosure for opening of secondary capital share account.

Terms and Conditions of Secondary Capital Share Account

(1) A secondary capital share account is not subject to share insurance coverage by the NCUSIF or other deposit insurer.

(2) A member credit union may withdraw shares from its secondary capital share account only with two years' notice, except where the member credit union is merging or liquidating. If a member credit union merges, the corporate credit union will return the member's secondary capital shares, less any penalty for early withdrawal, within 30 days of written notification from NCUA.

(3) Secondary capital share accounts cannot be used by member credit unions to collateralize borrowings.

(4) Secondary capital share accounts are available to absorb losses in the event of a deficit in primary capital in the corporate credit union.

(5) Where the corporate credit union is liquidated, secondary capital share accounts are payable only after satisfaction of all liabilities of the liquidation estate including uninsured obligations to shareholders and the NCUSIF.

I have read the above terms and conditions and I understand them. I further agree to maintain in the credit union's files the annual notice of terms and conditions of the secondary capital share account.

Signatures of Directors and Date

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Name of member credit union:

Address of member credit union:

\_\_\_\_\_  
\_\_\_\_\_

C-2 Sample annual notice of terms and conditions of secondary capital share account.

Terms and Conditions of Secondary Capital Share Account

(1) A secondary capital share account is not subject to share insurance coverage by the NCUSIF or other deposit insurer.

(2) A member credit union may withdraw shares from its secondary capital share account only with two years' notice, except where the member credit union is merging or liquidating. If a member credit union merges, the corporate credit union will return the member's secondary capital shares, less any penalty for early withdrawal, within 30 days of written notification from NCUA.

(3) Secondary capital shares cannot be used by member credit unions to collateralize borrowings.

(4) Secondary capital share accounts are available to absorb losses in the event of a deficit in primary capital in the corporate credit union.

(5) Where the corporate credit union is liquidated, secondary capital share accounts are payable only after satisfaction of all liabilities of the liquidation estate including uninsured obligations to shareholders and the NCUSIF.

Mailed to member \_\_\_\_\_  
Month/Year.

Signature of the Chairman of the Board

C-3 Sample disclosure for opening of permanent capital share account.

Terms and Conditions of Permanent Capital Share Account

(1) A permanent capital share account is not subject to share insurance coverage by the NCUSIF or other deposit insurer.

(2) Permanent capital shares are not redeemable without the written concurrence of NCUA.

(3) Permanent capital share accounts cannot be used by member credit unions to collateralize borrowings.

(4) Permanent capital share accounts are available to absorb losses in the event of a deficit in other primary capital accounts in the corporate credit union.

(5) Where the corporate credit union is liquidated, permanent capital share accounts are payable only after satisfaction of all liabilities of the liquidation estate including uninsured obligations to shareholders and the NCUSIF.

(6) Permanent capital share account dividends are noncumulative.

I have read the above terms and conditions and I understand them.

Signatures of Directors and Date

\_\_\_\_\_  
\_\_\_\_\_

Name of member credit union:

Address of member credit union:

\_\_\_\_\_  
\_\_\_\_\_

**PART 741—REQUIREMENTS FOR INSURANCE**

2. The authority citation for part 741 continues to read as follows: