

§ 703.18 Grandfathered investments.

(a) Subject to safety and soundness considerations, a Federal credit union may hold a CMO/REMIC residual, stripped mortgage-backed securities, or zero coupon security with a maturity greater than 10 years, if it purchased the investment:

- (1) Before December 2, 1991; or
- (2) On or after December 2, 1991, but before January 1, 1998, if for the purpose of reducing interest rate risk and if the Federal credit union meets the following:
 - (i) The Federal credit union has a monitoring and reporting system in place that provides the documentation necessary to evaluate the expected and actual performance of the investment under different interest rate scenarios;
 - (ii) The Federal credit union uses the monitoring and reporting system to conduct and document an analysis that shows, before purchase, that the proposed investment will reduce its interest rate risk;
 - (iii) After purchase, the Federal credit union evaluates the investment at least quarterly to determine whether or not it actually has reduced the interest rate risk; and
 - (iv) The Federal credit union accounts for the investment consistent with generally accepted accounting principles.
- (b) All grandfathered investments are subject to the valuation and monitoring requirements of §§ 703.10, 703.11, and 703.12 of this part.

§ 703.19 Investment pilot program.

- (a) Under the investment pilot program, NCUA will permit a limited number of Federal credit unions to engage in investment activities prohibited by this part but permitted by the Act.
- (b) Except as provided in paragraph (c) of this section, before a Federal credit union may engage in additional activities it must obtain written approval from NCUA. To obtain approval, a Federal credit union must submit a request to its regional director that addresses the following items:
 - (1) Certification that the Federal credit union is “well-capitalized” under part 702 of this chapter;

- (2) Board policies approving the activities and establishing limits on them;
- (3) A complete description of the activities, with specific examples of how they will benefit the Federal credit union and how they will be conducted;
- (4) A demonstration of how the activities will affect the Federal credit union’s financial performance, risk profile, and asset-liability management strategies;
- (5) Examples of reports the Federal credit union will generate to monitor the activities;
- (6) Projections of the associated costs of the activities, including personnel, computer, audit, and so forth;
- (7) Descriptions of the internal systems that will measure, monitor, and report the activities;
- (8) Qualifications of the staff and officials responsible for implementing and overseeing the activities; and
- (9) Internal control procedures that will be implemented, including audit requirements.
- (c) A third-party seeking approval of an investment pilot program must submit a request to the Director of the Office of Capital Markets and Planning that addresses the following items:
 - (1) A complete description of the activities with specific examples of how a credit union will conduct and account for them, and how they will benefit a Federal credit union;
 - (2) A description of any risks to a Federal credit union from participating in the program; and
 - (3) Contracts that must be executed by the Federal credit union.
- (d) A Federal credit union need not obtain individual written approval to engage in investment activities prohibited by this part but permitted by statute where the activities are part of a third-party investment program that NCUA has approved under this section.

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PART 704—CORPORATE CREDIT UNIONS

- Sec.
- 704.1 Scope.
- 704.2 Definitions.