

**STATE OF MICHIGAN
DEPARTMENT OF INSURANCE AND FINANCIAL SERVICES**

Bulletin 2005-04-CU

In the matter of:

Investment Policy
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**Issued and entered
this 10th day of June 2005
by Linda A. Watters
Commissioner**

This bulletin supersedes Bulletin No. 97-1.

The purpose of this bulletin is to outline minimum requirements necessary for safe and sound investment practices of state-chartered credit unions.

The Board of Directors of each state-chartered credit union is responsible for identifying appropriate risk exposure levels and ensuring proper management of those risks within the institution. Section 431 of the Michigan Credit Union Act (the Act), 2003 PA 215 as amended, MCL 490.431, authorizes various permissible investments for funds not used in loans to members and requires demonstration of prudent business judgment in exercising investment powers.

To demonstrate prudent business judgment, fiduciary responsibility, and the application of safe and sound principles in conducting investment activities, each Board of Directors must develop a clear, concise, written investment policy in accordance with Section 342(3)(h) of the Act, 2003 PA 215, MCL 490.342(3)(h). The investment policy must address all investment activities engaged in by the credit union, and must include all of the following:

- Purpose and objectives of credit union's investment activities
- Person(s) or position(s) granted investment authority, including knowledge and experience requirements and appropriate authority limits
- Authorized investments, including a list of allowable investment types, issuers, and investment characteristics (e.g., ratings, maturities, and features)
- Approved broker-dealers and safekeeping entities, including limits on the amounts and types of investments authorized with each entity
- Criteria and procedures to identify and manage credit, interest rate, liquidity, market, prepayment and extension (amortizing investments), and concentration risks for individual investments and the investment portfolio as a whole
- Investment Officer's written monthly report to the Board of Directors detailing all investment transaction activity, complete portfolio composition, book and market value comparisons, and other information critical to sound portfolio management

- Procedures and required documentation necessary to properly evaluate broker/dealers, safekeeping entities, financial institutions, and other third-party investments vendors at least annually
- Ongoing risk monitoring and documented analysis of all investments (OCU recommends maintaining separate credit files for each investment)
- Procedures to follow for any investment that does not satisfactorily meet all approved criteria after purchase.

The Board of Directors must demonstrate a fundamental understanding of the risk characteristics of each investment activity engaged in by the credit union. Individuals to whom specific investment authority has been delegated must demonstrate a complete understanding of the characteristics and associated risks of each type of investment activity.

The Board of Directors must routinely evaluate the overall safety and soundness of the credit union's investment activities. The Board of Directors should also consider the size, composition, and complexity of the investment portfolio in assessing the adequacy of investment policies, procedures, and controls.

Any questions regarding this bulletin should be directed to:

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/s/

Linda A. Watters
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