 <b>Office of Credit Unions</b> <b>Policies and Procedures</b>	<b>POLICY NUMBER</b>
	<b>10420</b>
<b>INVESTMENTS</b>	<b>EFFECTIVE DATE</b>
	<b>11/01/2018</b>
<b>SUBJECT</b>	<b>REVISION DATE</b>
	<b>11/01/2018</b>
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### I. PURPOSE


Investments in corporate credit unions are reviewed to determine compliance with state and federal regulations and the adequacy of the credit union's investment policies, procedures and controls. Management's ability to manage the risks in this portfolio while balancing safety, liquidity and yield must also be evaluated.

### II. PRIMARY REFERENCES / RELATED REGULATIONS

1. [Michigan Credit Union Act, Section 342](#): Board Responsibility to Establish Policy
2. [Michigan Credit Union Act, Section 401](#) (2)(r): Domestic credit union; powers.
3. [Michigan Credit Union Act, Section 431](#): Permissible Investments and Activities
4. [NCUA Rules and Regulations Part 704](#): Corporate Credit Unions
5. [NCUA Rules and Regulations Part 741.219](#): Investment Requirements
6. Accounting Standards Codification (ASC) 320: Accounting for Investments

### III. MINIMUM PROCEDURES


1. Ensure corporate credit unions comply with Part 704 of the NCUA Rules and Regulations. Credit unions may not invest in a corporate credit union which does not operate in compliance with Part 704.
2. Ensure the Board of Directors and management have established procedures for evaluating corporate credit union investments. The amounts and maturities of all investments in corporate credit unions should be included in the credit union's investment policies.
3. Review due diligence procedures for investing in corporate credit union capital accounts. Corporate credit unions may offer two capital accounts which are not insured by the NCUSIF; membership capital (MC) and paid-in capital (PIC). There is a minimum withdrawal notice of three years for membership capital. PICs are callable at the corporate's option and have an initial maturity of at least twenty years. Credit unions must accept the risk of these uninsured accounts; therefore, the same due diligence procedures should be performed as for other at-risk investments.

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4. Ensure the ALM policies and structure are adhered to when investing in corporate credit union investments. In addition to daily balance share accounts and certificate accounts, some corporates offer structured investments which mimic CMOs and other complex investments; management and the Board must demonstrate an understanding of the risks associated with all corporate credit union investments.
5. For Share Accounts: Verify the account ownership and account terms, including the maturity date (if applicable).
6. For Corporate Credit Union Certificate of Deposits: Review the documentation to verify all characteristics of the CDs.
7. For the SimpliCD Program: Review the SimpliCD monthly statement and any other documentation such as confirmation receipts. Verify that the CDs are insured, and clear ownership is documented.
8. Evaluate the degree to which the aggregate deposits are insured:
  - a. Review the level of credit and liquidity risk present relative to any concentrations.
  - b. Evaluate management's understanding of, and controls in place, relative to the risks associated with any material uninsured balances present.
9. Ensure accounts are fully reconciled at least monthly. The high volume of activity within corporate clearing accounts requires adequate reconciliation procedures to ensure management maintains control over these accounts. Examiners should note the lack of prompt reconciliements or continually carrying over outstanding items from one month to the next as an area of concern.

#### **IV. Loans from Corporate Credit Unions**

1. Verify the date of the loan, maturity date, interest rate, security pledged (if any), and original loan amount.
2. The credit union's documentation must contain the application, documented authority to borrow (Board of Director's Resolution), promissory note signed by authorized representative(s), current financial statement, and audit.

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- 3. Account Activity:
  - a. Review the adequacy of the line of credit in relation to the credit union's liquidity needs.
  - b. Review the loan activity to determine if the credit union is relying on borrowed funds for its day-to-day operations.
  - c. Review the loan activity to determine if there is authorized approval for all borrowings or if the approval limits have been exceeded.
  - d. Review the recording of borrowed funds on the financial statements to ensure accurate reporting.