 <b>Office of Credit Unions</b> <b>Policies and Procedures</b>	<b>POLICY NUMBER</b>
	<b>10430</b>
	<b>EFFECTIVE DATE</b>
	<b>11/01/2018</b>
<b>INVESTMENTS</b>	<b>REVISION DATE</b>
	<b>11/01/2018</b>
<b>SUBJECT</b>	<b>PAGE(S)</b>
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## I. PURPOSE


Investments in federal agency and U.S. government issued securities 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 the investment portfolio and understand how the investment portfolio's market value and realized and unrealized gains or losses could impact the credit union's financial position must also be evaluated.

Types of investments covered by this Section include:

1. Treasury Bills, Notes, and Bonds: U.S. Government issued securities.
2. Government National Mortgage Association (GNMA / Ginnie Mae): Conduit for investments in certain federally insured mortgage loans (typically FHA, VA etc.) which carry the full faith and credit guaranty of the US Government.
3. Federal National Mortgage Association (FNMA / Fannie Mae): Previously a federal agency, now a shareholder-owned, government sponsored enterprise (GSE) which facilitates the secondary mortgage market.
4. Federal Home Loan Mortgage Corporation (FHLMC/Freddie Mac): A shareholder-owned, government sponsored enterprise (GSE) which facilitates the secondary mortgage market.
5. Federal Home Loan Banks (FHLB): Cooperatives owned by groups of individual financial institutions which are not explicitly guaranteed by the US Government.
6. Other Government Agency Investments and Loans, including Small Business Administration (SBA) loans.

## II. PRIMARY REFERENCES / RELATED REGULATIONS

1. [Michigan Credit Union Act, Section 342](#): Board Responsibility to Establish Policy
2. [Michigan Credit Union Act, Section 431](#): Permissible Investments and Activities
3. [NCUA Rules and Regulations Part 741.219](#): Investment Requirements
4. Accounting Standards Codification (ASC) 320: Accounting for Investments

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### III. MINIMUM PROCEDURES

1. Review the documentation for federal agency and U.S. government issued securities (e.g. broker statements, trade tickets, confirmation receipts, etc.) Verify ownership and investment characteristics including:
  - a. Security description;
  - b. Purchase date, purchase price and par value;
  - c. Coupon interest rate and maturity date; and
  - d. Book value and market value, including reported unrealized gains/losses.
  
2. Review the aggregate and individual exposure to each federal agency, analyzing the risk relative to the credit union's level of net worth, particularly for investments in entities not fully backed by the U.S. Government.
  
3. For federal agency securities, verify if the security is a direct investment or a pass through, and evaluate management's understanding of how the investment functions.
  
4. Review procedures for SBA loans:
  - a. SBA loans should serve only as a long-term investment as there is no active secondary market.
  - b. SBA loans are subject to immediate repayment and since SBA guarantees repayment at par, SBA loans may result in a loss if purchased at a premium.