 Office of Credit Unions Policies and Procedures	POLICY NUMBER
	10480
	EFFECTIVE DATE
	11/01/2018
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I. PURPOSE

To identify impermissible investments held by a credit union and ensure appropriate corrective action to remedy the state of non-compliance. Examples of impermissible investments are Standby Commitments, Cash Forward Agreements, Short Sales, Pair-off Transactions, Repurchase Agreements, Bank Stock, any investment considered to be speculative in nature, any investments not otherwise specifically permitted by the Michigan Credit Union Act.

The burden of proof is upon credit union management to support the permissibility of any given investment. Management must maintain detailed investment documentation to support the recorded asset.


II. PRIMARY REFERENCES/REGULATIONS

1. Michigan Credit Union Act:
 - a. [Sections 490.401\(2\)\(i\) and 490.401\(2\)\(ss\)](#): Domestic Credit Union Powers
 - b. [Section 490.431\(2\)](#): Investments of funds not used in member loans; limitations; maintenance of files

III. MINIMUM PROCEDURES

If a credit union comes into possession of capital stock or another equity investment as a result of a loan default, it should be disposed of within one year, unless a longer time period is approved by the OCU Director. If a credit union is otherwise in possession of investments in violation of the Michigan Credit Union Act, action must be taken to remedy the state of non-compliance in a timely manner.

1. The details of the investment should be documented in the work papers and credit union files.
 - a. Discuss the investment with management to determine if/how the investment is permissible under the MCUA.
 - b. The burden of proof is upon credit union management to defend the permissibility of their investment practice(s).

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2. Appropriate remedies may differ based upon individual circumstances. The examiner should contact their Regional Supervisor regarding the proposed citation/remedy. Possible required remedies include:
 - a. Immediate divestiture.
 - b. Immediate write-off of the asset through expense, with asset recovery recorded upon final investment disposition.
 - c. Reserve for the asset through an allowance reserve, or investment valuation reserve (segregation of undivided earnings).

3. The Regional Supervisor may consult with the Assistant Director to determine the appropriate regulatory action if:
 - a. Management disagrees with the proposed remedy;
 - b. Management has an alternate proposed remedy which deviates from the standard ones; or
 - c. The proposed remedy is projected to have a significant negative effect on the overall safety and soundness of the credit union.