Title 12 - Banks and Banking CHAPTER VII - NATIONAL CREDIT UNION ADMINISTRATION

12 CFR Part 703.3 Interpretative Ruling - Investment Activities

AGENCY: National Credit Union Administration

ACTION: Interpretation of General Applicability

SUMMARY: The purpose of this interpretative ruling is to set forth the Administration's position on certain activities resulting from 12 CFR 703.3 published on July 20, 1979, and to establish accounting procedures to be used in conjunction with the investment authorities permitted by that rule. The accounting procedures will be reflected in future changes to the Accounting Manual for Federal Credit Unions,. NCUA 8022. EFFECTIVE DATE: Upon publication.

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SUPPLEMENTAL INFORMATION: On October 17, 1978, the Administration published a proposed rule (43 FR 47731) to restrict Federal credit unions from engaging in certain investment activities, which the Administration believed to be unauthorized, or unsafe and unsound in that they resulted in losses to Federal credit unions and/or in a risk to the National Credit Union Share Insurance Fund. The "comment period on the rule ended on December 15, 1978, but was extended to March 15, 1979. The final rule was published July 20, 1979.

As a result of the final rule the Administration has established certain accounting procedures for those investment activities which are permissible. It is the Administration's opinion that the new procedures are necessary for Federal credit unions to provide for "full and fair disclosure" which is required by Section 702.3 of the rules and regulations (12 CFR 702.3).

Some of the accounting procedures were cited in the preamble to the proposed regulation while others are the result of comments which were received. The Administration has reviewed all comments on accounting procedures and made changes as discussed below.

1. Procedures for Investment Activities

a. Background. The current Accounting Manual for Federal Credit Unions (accounting manual) does not address some of the accounting procedures necessary to implement the investment activities permitted under Section 703.3 of the National Credit Union Administration Rules and Regulations (the investment rule). Prior to the publication of the investment rule the Administration did recommend certain procedures for reverse repurchase transactions, which were distributed to all Federal credit unions in a letter from the Administrator. Additionally, the preamble to the proposed investment rule cited additional ,accounting procedures for investments. A copy of the proposed rule was also sent to all Federal credit unions for comment.

Numerous comments were received regarding the accounting procedures listed in the preamble to the proposed rule. Most of the comments objected to recognition of losses due to the mark to the lower of cost or market concept on forward placement contracts or to various aspects of fuller disclosure on the Statement of. Financial Condition.

(A) Marking to the Lower of Cost or Market.

Most of the comments received objected to recording securities purchased via forward placement contracts (forwards) at the lower of cost or market on settlement date. Commentors claimed that it is unfair or inconsistent to do so for forwards when the same was not done for cash/immediate purchases. Others commented that this procedure does not comply with Generally Accepted Accounting Principles..(GAAP). Some suggested that a footnote would suffice to provide full disclosure.

The Administration believes that there is a general misunderstanding of the basis for marking forwards to the lower of cost or market, as well as the basis for recording cash. purchases at cost.

Federal credit unions have traditionally recorded investment purchases at cost. This price however, is also the market value of the security on the date of purchase. Under current accounting procedures Federal credit unions may choose to reflect declines in market value if the board determines that the securities purchased will not be held to maturity. Premiums and discounts are amortized or accreted, respectively, over the life of the security.

The accounting procedures for forward placement contracts are similar to cash purchases, except for the initial recording of the asset. The Administration believes that the requirement to record forwards at the lower of cost or market prevents the recording of an inflated asset on the books which could materially distort the financial statement. Thus the Administration believes its position complies with GAAP. Once the asset is recorded all other accounting procedures for investments prevail.

Marking forwards to the lower of cost or market on settlement date is not a new concept as the Comptroller of the Currency requires it for all national banks. Additionally, Federal credit unions may be interested to know that approved common trust funds are required to reflect market fluctuation of forward commitments not only at settlement date, but also during the period between trade date and settlement date. The reflection of market changes, ultimately affects the rate of return on these accounts.

Accordingly, the Administration believes that in order to provide for full and fair disclosure under Section 702.3 of the rules, it would be necessary for Federal credit unions to mark to the lower of cost or market on settlement date any security purchased via a cash forward agreement (which is the only forward placement contract permitted under the investment rule).

(B) Commitment Fees on Standby Commitments.

Several commentors stated that it is inconsistent to prohibit the recording of commitment fees received as income until settlement date, while requiring the recording of commitment fees paid as an expense on the date of payment. The discrepancy is now moot since Federal credit unions are prohibited from purchasing or selling securities via a standby commitment. '

(C) Footnotes to the Financial Statements.

Several commentors objected to footnoting statements to reflect the current market value of outstanding commitments. Some pointed out that present accounting procedures do not require that Federal Credit Unions footnote their Statements of Financial Condition to reflect the current market value of the investment portfolio, and wondered why commitments should be footnoted. Others objected because they did not want to disclose large discrepancies between book and market value to their members "who would not understand."

The Administration has considered the former comment and determined that its policy on footnoting the impact of investment market conditions must be consistent for both recorded investments and commitments. 'The importance of this information in providing full and fair disclosure for recorded investments apparently had been overlooked in the past.

The Administration believes that the latter comment is contrary to the purpose of "full and fair disclosure". A Federal credit union has a responsibility to provide its members and creditors with sufficient and accurate information to make an informed decision on investing their funds.

Therefore Federal credit unions must footnote their Statements of Financial Condition to reflect the current market value of the investment portfolio as well as the value of outstanding commitments.

(D) Investment-type Repurchase Transactions

As noted in the preamble to the investment rule, the Administration reconsidered its position on the requirements necessary for delivering securities under an investment-type repurchase agreement. In light of this change, the Administration believes that some of the. accounting procedures contained in the preamble to the proposed investment regulation are no longer applicable. These procedures required that interest and dividends on the securities purchased be recorded separately from a gain or loss on the sale of the securities.

The Administration now believes that the purpose of repurchase agreements is to obtain a specified yield on the investment made and that this yield represents operating income. As such, it should be recorded in account no. 121, Income from Investments.

(E) Amortisation/Accretion of Premiums/Discounts

The current Accounting Manual for Federal Credit Unions requires that premiums on investments be amortized over a period from the purchase date to maturity date, or in the case of call bonds to the call date. Discounts in all cases are accreted from purchase date to maturity date.

It was suggested that the Administration review that position in light of the increased use of pass-through securities backed by mortgage loans such as Government National Mortgage Association securities (Ginnie Maes) and Federal Home Loan Mortgage Corporation securities (Freddie Macs). These securities provide for principal repayments on a monthly basis that may be repaid prior to maturity. As a standard for comparing yield, mortgage-backed pass-through securities, such as Ginnie Maes and Freddie Macs which have 30-year maturities, are considered to .have a 12-year average life. The average life is based upon data published by the Federal Housing Administration (FHA). Other pass-through securities, such as SBA guaranteed loans have no established average life.

In order to meet the needs of credit unions that have extensive pass-through security portfolios, the Administration has determined that it is necessary to provide alternative methods for amortizing or accreting premiums and discounts as set forth below in section ( )(8) of the Interpretative Ruling and Policy Statement.

2. Adjusted Trading.

As noted in the preamble to the final investment rule the Administration has documented a growing number of instances where Federal credit unions have attempted to hide or defer losses occurring from their investment *transactions.* The reasons for such actions have varied but generally can be attributed to the desire of officials to pay dividends when sufficient earnings would not be available had the investment losses been recognized. In some cases` the officials may not have been aware of the impact of their actions, or that the adjusted trading was in violation of National Credit Union Administration Rules and Regulations. Thus, the Administration prohibited such activity in Section 703.3(b)(8) of the rules and regulations, and now spells out some of the types of transactions that constitute this activity in section (b) of the Interpretative Ruling and Policy Statement.

3. Other Investment Transactions.

The final rule prohibits certain investment activities, such as standby commitments, adjusted trading and short sales, and limits other activities such as cash forward agreements and reverse repurchase transactions. The Administration has determined that Federal credit unions have engaged in transactions which in whole or in part are prohibited by the rule. Therefore, the Administration believes it is necessary to clarify those transactions which it has determined are prohibited by section 703.3 of the rules. The fact that a particular transaction is not described in section (c) of this Interpretative Ruling does not mean that it would necessarily be permitted. Each transaction must be reviewed on its own merits in light of the investment rule. Should the Administration determine in the future that other transactions violate the rule, additional Interpretative Rulings will be issued.

INTERPRETATIVE RULING - IRPS N0. 79-4

a. Accounting Procedures. The Administration believes that for the transactions listed below the following accounting procedures provide for full and fair disclosure as required by section 702.3 of the National Credit Union Administration Rules and Regulations.

(1) Cash Forward Agreement to Purchase Securities.

(A) Federal Credit Unions must be able to provide information on the type of security purchased by use of a cash forward agreement to include a complete description, trade date, settlement date, amount, coupon rate, purchase price, and name of the seller. Such information should be kept in a current register for that purpose.

(B) Written cash flow projections evidencing the credit union's ability to purchase the underlying securities must be prepared prior to making .a commitment to purchase the securities, as required by section 703.3(b)(3) of the investment rule.

(C) Prior to settlement the amount of the cash forward agreement represents a contingent liability to the credit union. Therefore, in accordance with the Accounting Principles and Standards for Federal Credit Unions it must be shown as a footnote or memorandum entry on the credit union's Statement of Financial Condition for each month the commitment is outstanding.

The footnote will reflect the agreed upon purchase price and the market price on the statement date.

(D) When purchased, the underlying security shall be recorded at the lower of cost or market. Losses, if any shall be shown in account no. 420, Gain (Loss) on Investments.

(2) Cash Forward Agreement to Sell Securities.

(A) A Federal Credit Union must be able to provide information on the type of security sold by use of a cash forward agreement to include a complete description, trade date, settlement date, sale price and name of the purchaser. Such information should be kept in a current register for that purpose.

(B) Prior to settlement the amount of the cash forward agreement represents a contingent liability to deliver securities. Therefore, in accordance with the Accounting Principles and Standards for Federal Credit Unions it must be shown as a footnote or memorandum entry on the credit union's Statement of Financial Condition for each month the commitment is outstanding.

(C) The gain or loss on the sale of the underlying security will not be recognized until the settlement date and will be recorded in account no. 420, Gain (Loss) on Investments.

(3) Investment-Type Repurchase Transaction

(A) A Federal Credit Union must be able to provide information on the type of security purchased by use of an investment-type repurchase transaction to include an identification of the security (type, face value, coupon rate), trade date, settlement date, amount, repo rate, purchase price. and the name of the seller . Such information should be kept in a current register for that purpose.

(B) Each investment-type repurchase transaction must be documented by the following as required by section 703.3(a)(4) of the investment rule.

(i) For those securities in the physical possession of the credit union, there must be clear evidence of ownership of the security.

(ii) For those securities held in safekeeping, there must be a copy of the "bailment for hire contract" from the third party bank or other financial institution, and a safekeeping receipt.(C) The security purchased will be recorded at cost in the appropriate investment account (series 740).

(D) The credit union's Statement of Financial Condition will be footnoted to reflect the amount of securities which are subject to resale and the date of resale.

(E) Income earned on the securities purchased will be recorded in account no. 121 Income from investments.

(4) Loan-Type Repurchase Transaction

(A) Loan-type repurchase agreements to members must be made in accordance with and within the limitations established in the Federal Credit Union Act, the Federal Credit Union Bylaws, the National Credit Union Administration Rules and Regulations, and policies established by the board of directors. These requirements include but are not limited to a maximum loan limit of 10 percentum of unimpaired capital and surplus to one member, the receipt of a properly supported loan application, approval of the loan by the credit committee, and execution of a note supported by documentation of the collateral. Account no. 705, Loans Subject to Repurchase. Agreements, will be used to record these loans.

(B) Loan-type repurchase agreements to other credit unions must conform with limitations contained in sections 107(5)(0) and 107(7)(0) of the Act and Section 703.2 of the National Credit Union Administration Rules and Regulations. These loans will be recorded in account 747, Loans to Other Credit Unions.

(C) Loan-type repurchase agreements to approved credit union organizations must be in compliance with section 107(5)(D) of the Act and National Credit Union Administration Rules and Regulations. Account no. 744, Loans to Credit Union Service Corporations, will be used to record these loans.

(D) Where material in amount the securities used as collateral for the loan-type repurchase agreement will be identified in a footnote or memorandum entry on the credit union's Statement of Financial Condition for each month the repurchase agreement is outstanding. The footnote will reflect the market price of the securities on the statement date.

(E) Income received from loans to members will be. recorded in account no. 111, Interest on Loans. Income received from loans to credit union organizations and loans to other credit unions will be recorded in account no. 121, Income from Investments.

(5) Reverse Repurchase Transaction

(A) Since Reverse repos represent a borrowing activity, such activity must be approved by the board of directors or a duly appointed executive committee as required by section 113 of the Federal Credit Union Act.

(B) Funds received from reverse repos will be recorded as borrowed funds in account no. 812, Notes Payable - Other.

(C) The securities used as collateral for the reverse repos will be identified in a footnote or memorandum entry on the credit union's Statement of Financial Condition for each month the reverse repo is outstanding. The footnote will reflect both the book value and the market price on the statement date.

(D) Interest paid on reverse repos will be recorded in account no. 340, Interest on Borrowed Money.

(6) Commitment Fees. Section 703.3(b)(2) of the investment rule prohibits Federal credit unions from entering into standby commitments to purchase or sell securities. Those credit unions, that prior to the publication of the final rule entered into standby commitments to purchase or sell securities, need not adjust their records to reflect the accounting procedure for commitment fees which was noted in the preamble to the proposed rule.

(7) Footnotes to Financial Statements. In order to provide for full and fair disclosure as required by section 702.3 of the National Credit Union Administration Rules and Regulations, Federal credit unions must footnote their Statements of Financial Condition to reflect the market value of the securities recorded in accounting series 740.

(8) Amortization/Accretion of Premiums/Discounts on Pass-through Securities. Federal credit unions may select from the following methods for amortizing and accreting premiums and discounts on pass-through securities, provided the method .selected is used for all such securities.

(A) For pass-through securities backed by mortgage loans:

(i) Maturity method. The maturity method calls '–for amortization or accretion of premiums or discounts from date of purchase to date of maturity.

(ii) Average life method. This method provides for amortization or accretion from the purchase date to 12 years from the date the security was originally issued.

(iii) Repayment factor method. This method provides for amortization or accretion based upon the percentage of the principal repaid to the par value of the security on the purchase date.

(B) For pass-through securities not backed by mortgage loans:

(i) Maturity Method

(ii) Repayment factor method

(9) Examples. Examples of the accounting entries for the transactions discussed above are found in Appendices A through F.

b. Adjusted Trading. The Administration believes that the following types of transactions constitute adjusted trading (as defined in section 703.3(a)(10)), and therefore, are prohibited. The most common form of adjusted trading occurs when a credit union cannot meet its commitment to purchase a security on the settlement date and the market price is below the commitment price. Thus, if the credit union is forced to immediately sell the security it will incur a loss.. In order to prevent the loss, the credit union would enter into an agreement to resell the security to the broker at the commitment price and to enter into another commitment to purchase a different security at a price that exceeds its market value. Thus the credit union has deferred its loss in hopes that the market price of the security underlying the new commitment will increase by the new settlement date.

A less common form of adjusted trading occurs when a credit union swaps or exchanges a lower yielding security for a higher yielding security. In this case, the sale of the low yielding security would result in a loss, which the credit union does not wish to recognize during the current accounting period. Again the credit union agrees to sell its security and buy the new security at prices above market. Another name for these transactions is overtrading.

A variation of the adjusted trade involving a forward commitment is known as "fee trading" or "reposition trading." This transaction is the same as the first example above except that the broker is unwilling to take the risk of purchasing the initial security the credit union would sell at a price above market. Therefore, the broker requires that the credit union pay a fee, which is the difference in the commitment price and the market price when they enter into the transactions. When the credit union purchases the new security, the broker returns the fee. Often, this type of transaction occurs repeatedly. The fee is usually recorded by the credit union as a receivable, deferred expense, or other asset.

The Administration believes that the transactions described above, under whatever name; constitute adjusted trading and thus are prohibited under section 703.3(b)(8) of the final investment regulation.

c. Other Investment Transactions. The Administration believes that the following transactions are in whole or in part in violation of section 703.3 of the National Credit Union Administration Rules and Regulations and thus are prohibited.

(1) Yield maintenance contract

(A) Definition. A yield maintenance contract, also known as a pair-off hedge, is the concurrent commitment to purchase a security via a cash forward agreement and to sell thesame security on the same settlement date via a standby commitment. The credit union is required to pay a commitment fee to the vendor which is generally exorbitant. The purpose of the transaction is to "guarantee" a specified yield which is based upon the commitment fee paid.¯Generally, the purchase and sale prices are not related to the current market price.

(B) Basis for Prohibition. Yield maintenance contracts violate section 703.3(b)(2) which prohibits a Federal credit union from entering into a standby commitment and section 703.3(b)(10) which requires that all purchases and sales of securities be done at market prices. Additionally, the Administration believes that a yield maintenance contract is an unsecured loan to a broker (a non-member) and thus is in violation of section 107(5) of the Federal Credit Union Act.

(2) Pair-Off Transaction.

(A) Definition. A pair-off transaction is the matching or netting of commitments to purchase and sell securities via cash forward agreements. Generally a Federal credit union would commit to purchase a security and sometime thereafter commit to sell the security on the same settlement date. The purpose in engaging in pair-off transactions is not to take delivery of the security purchased, but to speculate that the market price will increase before settlement date and a gain will result from its sale. Many times the commitment to sell is made the same day as the commitment to purchase. There may even be a standard order with the vendor to sell when a certain market price is reached.

(B) Basis for Prohibition. Pair-off transactions are prohibited by section 703.3(b)(3) which prohibits Federal credit unions from selling securities via a cash forward agreement that they do not own. The Administration also believes that pair-off transactions represent a speculative activity which is unsafe and unsound. Additionally, there is strong evidence to show that it has been used as a means of "churning" credit union accounts to benefit brokers commission.

It should be noted that a short sale, which is a pair-off transaction in reverse, is prohibited under section 703.3(b)(9).

(3) Dollar Price Repurchase Agreement (dollar price repo).

(A) Definition. A dollar price repurchase agreement means a contract whereby a Federal credit union sells a security that it owns and agrees to purchase another security on a future date. Because of the reasons set forth below, the Administration has determined that the dollar price repo does not represent borrowing by a Federal credit union as does a reverse repurchase transaction defined in section 703.3(a)(5) of the investment regulation.

In the case of a reverse repurchase agreement, the transaction represents borrowing because ownership of the security "sold" does not change; that is, the "seller" of the security still has title and still receives the dividend or interest income from the security. Interest based upon the balance of the proceeds received from the transaction are paid by the "seller." Additionally, the same security "sold" must be "repurchased." As such the essential elements of a sale and repurchase do not exist.

In the case of a dollar price repo, the essential elements of a sale do exist, i.e., ownership of the security does change. The buyer now receives the dividend or interest income on the security. No interest is paid by the seller for funds received. The same security sold is not required to be repurchased. .

The Administration believes that some Federal credit unions have been encouraged to adopt accounting practices that make a dollar price repo appear to be a reverse repurchase transaction.

Such practices include:

(i) Not recording gains and losses when the security is sold.

(ii) Prorating the difference between the price of the security sold and the price of the security purchased over the transaction period and recording this difference as interest income or expense.

(iii) Accruing or accreting premiums or discounts on the security that is sold.

(iv) Not recording the purchase of the new security.

(B) Policy. The Administration believes that a dollar price repo represents the sale of a security and a simultaneous. agreement to purchase another security at a future date by use of a forward placement contract. As such a Federal credit union may enter into such an agreement only if:

(i) Gains and losses on the sale of the security sold are recognized on the settlement date of the sale.

(ii) The limitations cited in section 703.3.(b)(3) for purchasing a security under a cash forward agreement are met.

/S/

LAWRENCE CONNEL
Chairman

APPENDIX A

ACCOUNTING ENTRIES FOR A CASH FORWARD AGREEMENT TO PURCHASE A SECURITY

Assume that an FCU entered into a Cash Forward Agreement to purchase a $1 million par value Federal. Agency security on March 16 at 95, which is the market price for a 90 day forward. The FCU had written projections which showed that it had a $1 million CD maturing on June 15, the settlement date of the forward. The market value of the security was 93 on June 14.

Entries:

March 16

The commitment is recorded in the cash forward agreement register.
Future financial statements of the Federal credit union are footnoted.

June 15

Dr. Federal Agency Securities (742)......... 930,000

Dr. Gain (Loss) on Investments (420)......... 20,000

Cr. Cash (731).................................. 950,000

To record purchase of security at lower of cost or market.

Footnote is removed from the financial statements.

APPENDIX B

ACCOUNTING ENTRIES FOR A CASH FORWARD AGREEMENT TO SELL A SECURITY

Assume that an FCU owns a Federal Agency Security recorded on its books for $950,000. It commits on June 10 to sell the security on August 20 for $975,000.

Entries:

June 10

The commitment is recorded in the cash forward agreement register.

Future financial statements are footnoted.

August 20

Dr. Cash (731)............................. $975,000

Cr. Federal Agency Securities (742)............. 950,000

Cr. Gain (Loss) on Investments (420)............... 25,000

To record the sale of the security and recognize the gain on the sale.

Footnote is removed from the financial statements.

APPENDIX C

ACCOUNTING ENTRIES FOR All INVESTMENT-TYPE REPURCHASE TRANSACTION

Assume that an FCU entered into an investment-type repurchase transaction on September 30 to purchase' a mortgage-backed Federal agency security with a face value of $2,142,857 and a coupon rate of 8.50. The parties agreed upon a repo rate of 9.0. The purchase price was 98. Also assume that the FCU agreed to resell a similar type security to the vendor on October I at 98.0245.

Entries:

September 30

The funds are transferred to the broker through the credit union's custodial bank, which transmits a custodial slip to the FCU. The transaction is recorded in the repurchase transaction register.

The financial statements of the Federal credit union are footnoted.

Dr. Federal Agency Securities (742)

($2,142,857 x 98)................... 2,100,000

Cr. Cash (731)................................. 2,100,000

To record the purchase of the security.

October 1

Dr. Cash (731)........................... 2,100,525

Cr. Federal Agency Securities (742).............. 2,100,000

Cr. Income from Investments (121)....................... 525

To record repurchase of security and receipt of income.

Footnote is removed from financial statements.

APPENDIX D

ACCOUNTING ENTRIES FOR A LOAN-TYPE REPURCHASE AGREEMENT

Assume FCU "A" enters into a Repurchase Agreement with FCU "B" whereby "A" lends $1 million to "B" on February 1 and receives as collateral a $1 million Federal Agency security valued at par. FCU "B" agrees to repay the loan on August 1. The interest rate is 6 percent.

Entries on the books of FCU "A"

February 1

Dr. Loans to Other Credit Unions (747).... 1,000,000

Cr. Cash (731). .... 1,000,000 To record loan.

The records of the Federal credit union are footnoted.

August 1

Dr. Cash (731)...... 1,030,000

Cr. Loans to Other -Credit Unions (747)......... 1,000,000

Cr. Income from Investment (121).................. 30,000

To record repayment of loan with interest.

Footnote is removed from records.

Entries for FCU "B" are contained in Appendix E.

APPENDIX E

ACCOUNTING ENTRIES FOR A PERMISSIBLE REVERSE REPURCHASE TRANSACTION

Referring to Appendix D, FCU "B" would record the transaction as a Reverse Repurchase Agreement. In addition to the information given in that example, assume also that FCU "B" is unable to repay the loan from available funds on settlement date. FCU "B" chooses to sell the underlying security at its fair market value of 99 1/2. The security is booked at par.

Entries on the books of FCU "B"

February 1

Dr. Cash (731)....................... 1,000,000

Cr. Notes Payable - Other (812).............1,000,000

To record the Reverse Repo as borrowed funds.

The records of the Federal credit union are footnoted.

August 1

Dr. Cash (731)......................... 995,000

Dr. Gain (Loss) on Investments (420)...... 5,000

Cr. Federal Agency Securities (742)........... 1,000,000

To record sale of the underlying security recognizing a $5,000 loss.

Dr. Notes Payable (812)............... 1,000,000

Dr. Interest on Borrowed Money (340)..... 30,000

Cr. Cash (731)............................... 1,030,000

To record payment of notes payable and interest due.

Footnote is removed from records.

APPENDIX F

REPAYMENT FACTOR METHOD OF AMORTIZING/ACCRETING PREMIUMS AND DISCOUNTS FOR MODIFIED PASS THROUGH SECURITIES

Assume that an FCU purchases a modified pass through security with a par value $932,577 on March 1 at 92 8/32. Principal repayments in March, April and May were $500, $625, and $750. Accretion of the discount would be as follows:

1. Determine the amount of the discount

Par value on date of purchase	$932,577
less purchase price (par x 92 8/32)	860,302
Discount	$72,275

2. Determine the repayment factor

Premium or discount
Par value = Repayment factor

$72,227
932,577 = .0775

3. Determine the amortization/accretion

	Principal repayment		Repayment factor		Amortization/ Accretion
April	$500	x	.0775	=	$38.75
May	$625	x	.0775	=	$48.44
June	$750	x	.0775	=	$58.13