

NCUA-IR - 81-2 FEDERAL FUNDS 03/81

NATIONAL CREDIT UNION ADMINISTRATION
INTERPRETIVE RULING AND POLICY STATEMENT

IRPS 81-2; DATE: March 1, 1981

TITLE 12 -- BANKS AND BANKING

CHAPTER VII -- NATIONAL CREDIT UNION ADMINISTRATION

Interpretive Ruling -- Federal Funds

IRPS 81-2

AGENCY: National Credit Union Administration

ACTION: Interpretation of General Applicability

SUMMARY: The purpose of this interpretive ruling is to set forth the Administration's position with respect to transactions in Federal funds by Federal credit unions and to establish accounting procedures for such transactions.

EFFECTIVE DATE: March 1, 1981.

ADDRESS: National Credit Union Administration, 1776 G Street, N.W.,
Washington, D.C. 20456.

FOR FURTHER INFORMATION CONTACT: Robert M. Fenner, Deputy
General Counsel or James J. Engel, Assistant General Counsel, at the above
address. Telephone (202) 357-1030.

SUPPLEMENTARY INFORMATION: The Administration has previously taken the position that the sale of Federal funds to a bank constitutes a loan to the bank and is not authorized under the lending powers of Federal credit unions in Section 107(7) of the Act. Although the Administration continues to maintain its position that the sale of Federal Funds is not authorized by section 107(5), upon further analysis the Administration has determined that the sale of Federal Funds to a bank is authorized under the deposit power in section 107(8) of the Act.

The power to make deposits in national and state banking institutions was included in the original Federal Credit Union Act which was adopted in 1934 (June 26, 1934, c 750, 7, 48 Stat. 1218). Based on the legislative background and history of this power, the Administration has concluded that it is broad enough to permit the sale of Federal funds to any bank in which a Federal credit union may deposit funds.

If a Federal credit union purchases Federal funds from a bank, as contrasted with selling Federal funds to a bank, the purchase constitutes a borrowing transaction and is subject to the borrowing limitations of Section 107(9) of the Act.

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(a) Federal Funds Transactions. As used in this interpretation, a Federal funds

transaction is a transaction in which a Federal credit union sells Federal funds to a bank. A sale of Federal funds occurs when a Federal credit union transfers immediately available funds to a bank and the bank agrees to repay the funds to the Federal credit union one or more business days later. The funds may be transferred to the bank by any method, including from an account maintained at the bank by the credit union. The agreement to repay may have a specific maturity date or may be open-ended. An open-ended agreement has no specific maturity date but requires repayment on any date that is specified by either the Federal credit union or the bank.

A Federal funds transaction would ordinarily include the purchase of Federal funds as well as the sale of Federal funds. However, for purposes of this interpretation, a Federal funds transaction includes only the sale of Federal funds as described in this paragraph. A purchase of Federal funds is a borrowing transaction subject to the limitations of Section 107(9) of the Act. Also, for purposes of this interpretation, a Federal funds transaction does not include the transfer of funds to a bank if the funds are to be credited to a transaction account or a nonpersonal time deposit as defined in 12 C.F.R. 204.2, including any such time deposit that is represented by a certificate of deposit. An investment in a certificate of deposit is subject to the limitations in 12 C.F.R. 703.1.

(b) Banks. As used in this interpretation, a bank is:

(A) a national bank or

(B) a state bank, trust company, or mutual savings bank operating in accordance with the laws of a state in which the Federal credit union maintains a facility. The word "facility" means the home office of a Federal credit union or any suboffice thereof, including but not necessarily limited to a wire service, telephone service or mechanical teller station.

(c) Authorization. A Federal credit union may enter into a Federal funds transaction as described in this interpretation if:

(1) the interest or other consideration received from the bank is at the market rate for Federal funds transactions, and

(2) the transaction does not violate any of the limitations imposed on deposits under 12 C.F.R. 703.3.

(d) Guidelines. In entering into a Federal funds transaction under this interpretation, it is recommended that:

(1) the Federal credit union itself transfer the funds to the bank which agrees to repay the funds, and

(2) no consideration be received from a third party in connection with the transaction.

(e) Accounting Procedures. Federal funds transactions will be recorded in account 746, Other Shares, Deposits and Certificates.

ROSEMARY BRADY

Secretary of the Board

February 25, 1981

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