

Attachment

CENTRAL LIQUIDITY FACILITY INVESTMENT POLICY

(Revised as of September 2009)

The purpose of this statement is to provide guidelines for investments of the Central Liquidity Facility (CLF). The policy is set forth in the following sections:

- I. Statutory Authority
- II. Responsibility to Establish Policies
- III. Responsibility of Investment Committee
- IV. Responsibility to Implement Policies
- V. Scope and Objectives of the CLF Investment Policy
- VI. Types of Investments
- VII. Investment Strategy
- VIII. Reporting Requirements to Management
- IX. Internal Controls

I. Statutory Authority

CLF investment authority is derived from Title III, Section 307 of the Federal Credit Union Act. This section authorizes the NCUA Board on behalf of the CLF to invest in obligations of the United States or any agency thereof, to make deposits in federally insured financial institutions, and to make investments in shares or deposits of credit unions.

II. Responsibility to Establish Policies

The responsibility to establish investment objectives and policies rests with the NCUA Board.

III. Responsibility of the CLF Investment Committee

The CLF Investment Committee is responsible for developing the investment strategy necessary to implement the policies established by the NCUA Board. The committee will meet at least quarterly, or more frequent if conditions warrant, to review cash flow projections, to discuss interest rate movements and forecasts, and to make changes to the investment strategy, if appropriate. Any significant modifications to the strategy will be presented to the NCUA Board.

The CLF Investment Committee is comprised of the Director, Office of Examination and Insurance; Director, Office of Capital Markets and Planning; two senior investment officers, Office of Capital Markets and Planning; and the President of the CLF.

IV. Responsibility to Implement Policies

The responsibility to implement policies will be delegated to:

Attachment

<u>INDIVIDUAL</u>	<u>RESPONSIBILITY</u>
President	Overall management of CLF activities and operations. Monitor the performance of Investment Portfolio. Direct the placement of investment transactions. Preparation of monthly CLF Report containing investment performance data.
Senior Investment Officer	Monitor financial market conditions. Recommend changes to the CLF investment strategy. Provide prevailing market conditions update CLF investment committee meetings.
CLF Chief Financial Officer	Maintain all the investment documentation. Record and enter all investment activity into CLF records.

V. Scope and Objectives

The Investment Policy directs the investment of all available funds from capital stock proceeds and retained earnings.

The objectives of the investment activity are first to meet credit union liquidity needs by holding sufficient funds in overnight accounts to meet unexpected loan demand, liquidity and clearing account withdrawals, and any member cancellations. The balance of the funds will be placed in authorized investments. The portfolio mix will be dependent upon liquidity expectations, projected credit union needs, credit risk, current interest rate environment, and market expectations.

VI. Types of Investments

Title III of the Federal Credit Union Act, Section 307 paragraphs (7) and (8) define in broad terms acceptable investment instruments. Safety of principal and interest shall

Attachment

prevail in all investment decisions. Following is a sample of authorized investments and approved limits:

- U.S. Treasury Securities - The CLF has obtained approval from U.S. Treasury Department to purchase non-marketable Treasury Securities called market-based securities. These include Treasury Bills, Notes, Bonds and Overnight Certificates.
- Federal Funds - Federal Funds transactions involve the purchase (Borrowing) or sale (Lending) of member bank deposits at the Federal Reserve Bank. Maturities range from overnight to six months. The interest rate will vary. These investments are made on an unsecured basis and are considered a liability of the borrowing institution. CLF will limit this activity to the 25 largest banks in the U.S. subject to creditworthiness.
- Certificates of Deposit - Certificates of Deposit are obligations of the issuing bank to pay the bearer the face amount plus interest at a specific maturity. Maturities generally range from 14 days to one year. There is also an active secondary market for certificates issued by quality banks for amounts of \$1,000,000 or greater. CLF will limit its activity in this market to the 25 most credit-worthy domestic banks.
- Deposits in Credit Unions - Deposits in credit unions are a direct obligation of that credit union. Maturities range from overnight to term certificates up to one year. A credit analysis will be performed on each credit union before making an investment in the credit union.

VII. Investment Strategy

The investment strategy will be to minimize market, credit, and liquidity risk and meet liquidity needs while maximizing yield. CLF's general investment strategy is to limit its investment activities to overnight securities and maturity ladders determined by the CLF Investment Committee. The strategy must be constantly evaluated since both market expectations and cash needs constantly change. The reporting and review mechanism built into this policy provides the tools to evaluate the investment strategy.

VIII. Reporting Requirements to Management

Management review of the performance of the investment portfolio is necessary to evaluate the effectiveness of the strategy in meeting the objectives and policies established by the NCUA Board. Monthly reports will be prepared by the CLF. These reports will include the following investment information:

- Book Value vs. Market Value
- Monthly and FYTD Yields, Earnings, and Projections
- Maturity Schedule of Portfolio
- Comparative Yield to Other Market Indices
- Anticipated Liquidity Needs

Attachment

This information will also be included in the CLF's monthly financial statements presented to the NCUA Board.

IX. Internal Controls

A system of internal controls shall remain in place to promote efficiency and safeguard the assets of the CLF. A separation of duties shall be maintained between the system of investment authorization and the record keeping functions. The system of authorization shall begin with the NCUA Board level with the review and approval of the CLF's investment policies. The CLF investment committee develops and approves a specific strategy, with implementation responsibility to the CLF. The investment committee recommends the timing and maturity of investment placement within the guidelines of the investment strategy. The President, CLF instructs staff in the placement of specific investments. The record keeping function of the CLF investment portfolio rests with the CLF Chief Financial Officer, who also is responsible for the preparation of investment data contained in the CLF monthly reports. These reports are used by the NCUA Board and President, CLF, to evaluate and monitor the adequacy of liquidity and the financial performance of the CLF.