

December 16, 1991

Richard M. Johnson
President
Western Corporate Federal Credit Union
P.O. Box 2930
Pomona, CA 91769-2930

Re: Proposed Revision to Part 704 (Your November 29, 1991, Letter)

Dear Mr. Johnson:

On November 13, 1991, the National Credit Union Administration (NCUA) Board issued a revised proposal to amend Part 704 of the NCUA Rules and Regulations, 12 C.F.R. Part 704, governing corporate credit unions. Proposed Section 704.6(b)(2)(vi)(E) states that a corporate credit union's total investment in collateralized mortgage obligations (CMOs) and real estate mortgage investment conduits (REMICs) may not exceed 30 percent of the corporate credit union's shares, less any shares created by member reverse repurchase agreements, plus capital. The proposal further provides that a corporate credit union that exceeds this limitation may not invest in additional CMO/REMIC securities after the effective date of the regulation without approval from the regional director. You have asked for clarification as to NCUA's authority to limit a corporate credit union's ability to purchase government agency CMO/REMICs.

Section 120(a) of the Federal Credit Union Act, 12 U.S.C. ~1766(a), provides as follows:

Any central credit union chartered by the [NCUA] Board shall be subject to such rules, regulations, and orders as the Board deems appropriate and, except as otherwise specifically provided in such rules, regulations, or orders, shall be vested with or subject to the same rights, privileges, duties, restrictions, penalties, liabilities, conditions, and limitations that would apply to all Federal credit unions under this Act.

This provision authorizes the NCUA Board to regulate corporate credit unions in any manner it finds necessary. While the Board generally relies on this authority to expand corporate credit union powers beyond those available to natural person credit unions, on occasion it uses the authority to limit a corporate credit union's powers. Thus, the Board has proposed to substantially broaden corporate credit union investment authority but, for safety and soundness reasons, to limit a corporate's concentration of CMO/REMICs.

Sincerely,

Hattie M. Ulan
Associate General Counsel

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cc: Dave Marquis, Office of Examination & Insurance Tim Hornbrook, Office of Examination & Insurance