August 28, 1996

Steve Pierson, President
Postal Federal Community Credit Union
1983 E. Seminole
Springfield, Missouri 65804

Re: Part 700 (Your June 24, 1996, Letter)

Dear Mr. Pierson:

You have asked whether an investment's stated or effective maturity date determines whether it is a "risk asset." According to your letter, state examiners directed your federally insured credit union ("FICU") to use the stated maturity when the effective maturity excluded the investment from the definition of a risk asset. You argue that the preamble to Part 700 of our regulations and generally acceptable accounting procedures require the use of an investment's effective maturity. 58 Federal Register 40040 (July 27, 1993). As discussed in more detail below, FICUs should use an investment's remaining stated maturity to determine whether it is a risk asset unless it meets an exception.

Analysis

Our regulations exempt investments in sections 700.1(i)(2)-(7) (referred to as "exempt investments" for purposes of this letter) from the definition of a risk asset if the investment's remaining maturity is either three years or less, or five years or less. Section 700(i) also lists other instruments which are, by definition, not considered risk assets. The remaining maturity is defined as "the time period from the date of the required reserve transfer to the stated date of maturity of the instrument." 12 C.F.R. §700.1(h) (emphasis added).

However, NCUA's regulations exclude exempt investments with remaining maturities of more than five years from the definition of a risk asset under certain conditions. First, if the FICU records the exempt investment at the lower of cost or market, or marks the exempt investment to market monthly. 12 C.F.R. §700.1(i)(15). Second, if the exempt investment meets the following criteria:

(i) The interest rate is reset at least annually.

(ii) The interest rate of the [exempt investment] is less than the maximum allowable interest rate for the [exempt investment] on the date of the required reserve transfer.

(iii) The interest rate of the [exempt investment] varies directly (not inversely) with the index upon which it is based and is not reset as a multiple of the change in the related index.

12 C.F.R. §700.1(i)(16)(i)-(iii). It is your credit union's responsibility to demonstrate that the exempt investment satisfies either condition in order to prove it is not a risk asset. In addition, some fixed-rate exempt investments, such as, collateralized mortgage obligations, have remaining maturities that fluctuate due to prepayment activities. When a FICU holds this type of exempt investment, it must document the exempt investment's remaining maturity based on recognized prepayment speeds as of the date of the required reserve transfer.

We suggest that you contact your state supervisor to determine if your state imposes any additional reserve requirements.

Sincerely,

Richard S. Schulman
Associate General Counsel

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