February 13, 1997

David A. Bohrer, Acting Director
Missouri Department of Economic Development
Division of Credit Unions
Jefferson City, Missouri 65102

Re: Risk Assets, Part 700 (Your December 3, 1996, Letter)

Dear Mr. Bohrer:

You have asked whether the "stated" or "effective" date of maturity should be used in determining if a fixed rate collateralized mortgage obligation (CMO), classified as held-to-maturity, is or is not a risk asset under NCUA's Regulations. CMOs that are comprised of government guaranteed mortgage loans and that have a remaining maturity of 5 years or less are excluded from the definition of risk assets. 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. However, the NCUA Board has recognized that with certain assets, such as CMOs, the maturity date can be dynamic due to prepayment activity. As such, the NCUA Board has stated that in evaluating the risk of these types of assets, a federal credit union should define "maturity" consistent with generally accepted accounting principles and investment industry practice. The maturity to be used in evaluating risk for CMOs is the estimated final payment date, calculated using a median prepayment estimate from an industry recognized information provider at the time of the reserve transfer.

Sincerely,

Michael J. McKenna
Acting Associate General Counsel

GC/NSW:bhs
SSIC 3500
96-1216

cc: Region IV Director
Office of Examinations and Insurance
Office of Investment Services