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TO THE PRESIDENTS OF PENNSYLVANIA STATE-CHARTERED CREDIT UNIONS:

Attached you will find the Investment Powers, Standards and Accounting Guidelines for Pennsylvania state-chartered credit unions as required by Section 501(b)(7) of the Credit Union Code which was amended by House Bill 2563, effective February 12, 1995.

It is the purpose of these Guidelines to streamline the investment approval process by giving individual credit unions greater flexibility in making investment decisions, and by reducing, and in many cases eliminating, the need to obtain the prior approval of the Department before making the investment.

All credit unions subject to this Code are required to conduct their investment transactions and maintain their investment portfolio in accordance with these Standards and Guidelines.

Sincerely,

Richard C. Rishel

**INVESTMENT POWERS, STANDARDS AND ACCOUNTING GUIDELINES FOR
PENNSYLVANIA STATE-CHARTERED CREDIT UNIONS**

Section 501(b)(7) of the Credit Union Code (the "Code") enumerates the investment powers and restrictions applicable to Pennsylvania state-chartered credit unions. To aid credit unions in the understanding of and compliance with this Section, the Department of Banking has developed I) further detail of the Investment Powers, II) Investment Standards applicable to subparagraphs (vi) through (xi), and III) guidelines for the implementation of Financial Accounting Standards Board Statement No. 115.

I. Investment Powers

A. Section 501(b)(7)(i-xi) of the Credit Union Code permits credit unions to invest in securities, obligations or other instruments of specified issuers or categories of issuers. Subparagraphs (i), (iii), and (vi) can be further clarified as follows:

1. Permitted investments under Section 501(b)(7)(i) are the following:

- (A) District of Columbia Armory Board Bonds
- (B) Department of Transportation Certificates
- (C) Export/Import Bank Debentures
- (D) Export/Import Bank Participation Certificates
- (E) Farmers Home Administration (FHDA Insured Notes)
- (F) Federal Housing Authority Debentures
- (G) General Services Administration Participation Certificates
- (H) Government National Mortgage Association:
 - Mortgage Backed Bonds
 - Participation Certificates
 - Mortgage Backed Securities (Pass-Thru)
- (I) Merchant Marine Bonds
- (J) New Community Debentures (HUD)
- (K) Small Business Administration Debentures
- (L) U.S. Treasury Bills
- (M) U.S. Treasury Notes
- (N) U.S. Treasury Bonds
- (O) Washington Metropolitan Area Transit Authority Bonds

2. Permitted investments under Section 501(b)(7)(iii) are the shares of any Pennsylvania or Federally chartered savings and loan associations insured by the FDIC and any Pennsylvania chartered or Federally chartered credit unions which are insured by the NCUA.
3. "Government corporation" in Section 501(b)(7)(vi) is defined pursuant to 31 U.S.C. §9101(2) and (3), and means a mixed-ownership government corporation and a wholly-owned government corporation.

"Mixed-ownership Government corporation" includes:

- (A) Amtrak
- (B) Central Bank for Cooperatives
- (C) Federal Deposit Insurance Corporation
- (D) Federal Home Loan Banks
- (E) Federal Intermediate Credit Banks
- (F) Federal Land Banks
- (G) National Credit Union Administration Central Liquidity Facility
- (H) Regional Banks for Cooperatives
- (I) Rural Telephone Bank when the ownership, control, and operation of the Bank are converted under Section 410(a) of the Rural Electrification Act of 1936 (7 U.S.C. 950(a)) [7 USCS §950(a)]
- (J) United States Railway Association
- (K) Financing Corporation
- (L) Resolution Trust Company
- (M) Resolution Funding Corporation

"Wholly owned government corporation" includes:

- (A) Commodity Credit Corporation
- (B) Community Development Financial Institutions Fund
- (C) Export-Import Bank of the United States
- (D) Federal Crop Insurance Corporation
- (E) Federal Prison Industries, Incorporated
- (F) Corporation for National and Community Service
- (G) Government National Mortgage Association (GNMA)
- (H) Overseas Private Investment Corporation
- (I) Pennsylvania Avenue Development Corporation
- (J) Pension Benefit Guaranty Corporation
- (K) Rural Telephone Bank until the ownership, control, and operation of the Bank are converted under Section 410(a) of the Rural Electrification Act of 1936 (7 U.S.C. 950(a)) [7 USCS §950(a)]
- (L) Saint Lawrence Seaway Development Corporation
- (M) Secretary of Housing and Urban Development when carrying out duties and powers related to the Federal Housing Administration Fund
- (N) Tennessee Valley Authority
- (O) Uranium Enrichment Corporation

II. Department of Banking Investment Standards

- A. Before making the investments described in subparagraphs (vi) through (xi), a credit union shall be in compliance with the following investment standards established by the department.
1. The Board of Directors of each State chartered credit union shall establish written investment policies consistent with the applicable provisions of the Credit Union Code, NCUA's Rules and Regulations and these standards, and review them at least annually or as needed.
 2. The policy should specifically identify the types of securities that the credit union plans to buy, and must reflect management's understanding of each type of security listed through its criteria for purchase, e.g., maturity, rate structure, underlying collateral etc.
 3. At a minimum, the written policies shall address the following:
 - (A) Purposes and objectives of the credit union's investment activities, including a statement as to whether securities purchased are held for sale, investment, or trading purposes;
 - (B) Persons or committees to whom investment authority has been delegated and the extent of their authority;
 - (C) Limits on the amount of funds that may be committed to any particular investment or securities transaction;
 - (D) Maturity limits;
 - (E) Interest rate risk (as applicable);
 - (F) Credit risk (as applicable);
 - (G) Securities dealers/brokerage firms approved for use by the Board of Directors together with any limitations that the Board has established with respect to the amount of funds that may be placed or invested with any of the approved broker/dealers (as applicable); and
 - (H) Safekeeping of securities, including a list of safekeeping facilities approved by the credit union's Board of Directors.

4. The above are the minimum requirements. Some credit unions will require more comprehensive policies depending on the extent of their investment activities. Guidance on developing written investment policies is available from The Pennsylvania Credit Union League.

III. Financial Accounting Standard No. 115 Guidelines

All state-chartered credit unions must adopt Statement of Financial Accounting Standard No. 115, Accounting for Certain Investments in Debt and Equity Securities (FAS 115) for regulatory reporting purposes. At the time of the initial application of the accounting standard and thereafter, whenever securities are acquired, each credit union shall assess its intent and ability with regard to its security holdings. It must then assign its debt and equity securities to the appropriate category: trading, held-to-maturity, or available-for-sale.

Not less frequently than the end of each dividend period (i.e., monthly, quarterly, semiannually, or annually), the appropriateness of the classifications, and the reasonableness and accuracy of the related fair value shall be assessed.

Debt and equity securities that have been purchased and are being held for resale in the near term are to be classified as trading securities and reported at fair value through the income account.

Debt securities (not equity) that the credit union has the positive intent and ability to hold to maturity are to be classified as securities held-to-maturity and reported at amortized cost.

Debt and equity securities not classified as either securities for trading or held-to-maturity securities shall be classified as securities available-for-sale and reported at fair value through a separate component of equity in the balance sheet, entitled Accumulated Unrealized Gains/Losses on Available-for-sale Securities. If securities in the available-for-sale category drop in fair value below book value, the credit union board will have a ready indicator of this decline in the balance sheet's separate equity account. These losses are real losses which are recognized but unrealized.

Credit unions must have adequate documentation to support the initial assignment of securities to one of the three categories. The amounts and types of documentation to support the assignment of securities to these categories will vary from credit union to credit union based on its size and the complexity of its operations, including the nature and scope of its security activities. Such documentation might include written and approved security policies and strategies; policies governing liquidity and funds management and interest rate risk management; board or committee minutes; budgets; cash flow projections; capital plans; and memoranda discussing the purposes or reasons for purchasing particular securities. All documentation requirements should be clearly defined in the institution's investment policy.