

January 30, 1997

“A”  
“B” Credit Union

SUBJECT: Federal Home Loan Bank bonds

Opinion No: 97-5 (**Redacted**)

Dear “A”:

Thank you for your letter dated January 22, 1997 describing an investment option with callable Federal Home Loan Bank (FHLB) bonds.

FHLB bonds are authorized investments under RCW 31.12.425 (c) and Section 9101 of Title 31 U.S.C. Your plan to invest in callable FHLB bonds using cash and borrowings must be done in a safe and sound manner.

To determine if the activities are being conducted in a safe and sound manner, we will look at the following factors at the next regulatory examination:

Are the credit union’s investment policies and procedures adequate for investing in callable FHLB bonds, arbitrage activities, and for managing the associated risks?

1. Does credit union staff and the Board of Directors possess sufficient investment expertise to manage callable FHLB bonds, particularly as to managing arbitrage?
2. Has the credit union established and is the credit union in compliance with policies regarding a reasonable maximum limit on the total amount and bond structure for the investment in callable FHLB bonds? These limits should be based on a percentage or dollar amount of capital, and are intended to minimize capital losses.
3. Is the monitoring of interest rate risk by the credit union staff and the Board of Directors adequate to determine, on a periodic basis, that the level of risk to the credit union is within board-approved guidelines under a variety of possible adverse interest rate projections?
4. Does the credit union staff have an adequate liquidity plan in the event that the borrowing side of the arbitrage position must be closed unexpectedly?
5. Has the credit union staff and Board of Directors correctly determined what is the impact, if any, for compliance with NCUA Rule 741.3 (3) and Rule 703?

6. Is the credit union in compliance with adequate internal controls pertaining to investments and arbitrage activities?
7. Due to the callable feature and the possibility of early termination of the arbitrage plan before the FHLB bonds' maturity date, has the investment been categorized as available for sale under FASB 115?

I hope this information is helpful. Please call Linda Jekel at (360) 902-8753 if you have any further questions.

Sincerely,

Parker Cann  
Assistant Director