

(7) Making deposits in nonfederally insured state banks, trust companies, and mutual savings banks; and

(8) Purchasing commercial mortgage-related securities.

(m) A corporate credit union's officials, senior management employees, and immediate family members of such individuals, may not receive pecuniary consideration in connection with the making of an investment or deposit by the corporate credit union. The prohibition contained in this subsection also applies to any employee not otherwise covered if the employee is directly involved in investments or deposits. All transactions not specifically prohibited by this paragraph must be conducted at arm's length and in the interest of the credit union.

§ 704.6 Capital goals, objectives and strategies.

(a) *General.* Corporate credit unions shall adopt formal, written goals (both long-term and short-term), objectives and strategies, including a budgetary process, for the building of capital.

(b) *Impact study.* Where a proposed new service or program, purchase or lease of a fixed asset, or investment in or loan to a CSO may have a material effect on a corporate credit union, the corporate credit union shall perform a cost/benefit analysis of the activity and a study of its impact on the earnings and capital position of the corporate credit union.

(c) *Monitoring.* Management will establish monitoring standards and procedures to periodically review and reassess the capital position of the corporate credit union and will document these reviews.

§ 704.7 Corporate service organizations (CSOs).

(a) The aggregate of all investments in and loans to member and non member CSOs shall not exceed 15 percent of a corporate credit union's capital at the time the investment or loan is made. A corporate credit union may not use this authority to acquire control, directly or indirectly, of another financial institution, or to invest in shares, stocks or obligation of another financial institution, insurance company, trade association, liquidity facility, or similar organization. A CSO must be operated as an entity separate from any credit union. A corporate credit union investing in or lending to a CSO must take those steps necessary to ensure that it will not be held liable for the obligations of the CSO.

(b) An official or senior management employee of a corporate credit union which has invested in or loaned to a

CSO, and immediate family members of such an individual, may not receive, either directly or indirectly, any salary, commission, investment income, or other income or compensation, from the CSO. This prohibition extends to any other corporate credit union employee if such employee deals directly with the CSO.

(c) Prior to making an investment in or loan to a CSO, a corporate credit union must obtain a written agreement that the CSO will:

(1) Follow GAAP;

(2) Provide financial statements to the corporate credit union at least quarterly;

(3) Obtain an annual CPA audit and provide a copy to the corporate credit union; and

(4) Allow the auditor, supervisory committee, and NCUA complete access to its books, records, and any other pertinent documentation.

(d) A corporate credit union with an investment in, or a loan to, a credit union service organization (CUSO) as defined in § 701.27 of this chapter must, by January 1, 1996, divest of the investment, terminate the loan if contractually possible, or ensure that the organization meets the requirements of this section and § 704.2. If the loan cannot legally be terminated by January 1, 1996 it cannot be renewed or extended upon its next renewal or extension date.

§ 704.8 Lending.

(a) *Policies.* A corporate credit union shall develop, implement, and adhere to written loan policies which address, at a minimum:

(1) Loan types and limits;

(2) Documentation for each loan and line of credit;

(3) Security;

(4) Analysis of financial and operational data;

(5) Monitoring standards; and

(6) Review and reassessment of the credit quality of the member credit union.

(b) *General.* Each loan or line of credit limit will be determined after analyzing the financial and operational soundness of the member credit union and the ability of the member credit union to repay the loan. Loans are limited as follows:

(1) *Loans to member credit unions.* The maximum aggregated amount in loans and approved lines of credit to any one member credit union, excluding pass-through and guaranteed loans from the CLF and the NCUSIF and repurchase transactions, shall not exceed the corporate credit union's primary capital.

(2) *Loans to CSOs.* A corporate credit union may make loans and issue lines

of credit to CSOs, as defined in § 704.2 and subject to the limitations of § 704.7

(3) *Participation loans with other corporate credit unions.* A corporate credit union is permitted to participate in a loan with another corporate credit union and must retain an interest of at least 5 percent of the face amount of the loan. The participation agreement may be executed at any time prior to, during, or after disbursement. A participating corporate credit union must exercise the same due diligence as if it were the originating corporate credit union.

(4) *Prepayment penalties.* If provided for in the loan contract, a corporate credit union is authorized to assess prepayment penalties on loans made to member credit unions.

(5) *Prohibitions.* A corporate credit union may not make loans, issue lines of credit, or otherwise provide loan services to non members or natural person members. Except for providing overdraft protection for clearing accounts, a corporate credit union may not provide loan services to member trade associations. A loan or line of credit provided to a member trade association for the purpose of overdraft protection must be fully collateralized by any security which is permissible under § 704.5.

§ 704.9 Borrowing.

A corporate credit union may borrow up to 10 times capital or 50 percent of shares (excluding shares created by the use of member reverse repurchase agreements) and capital, whichever is less. Other than the issuance of the minimum amount of commercial paper to maintain a market presence, a corporate credit union may borrow only to meet liquidity needs. The need must be documented in writing and provided upon request to the auditor, supervisory committee, and NCUA. CLF borrowings, as agent member for natural person credit unions, and borrowed funds created by the use of repurchase agreements are excluded from this limit. In the event of extreme liquidity demands from its member credit unions, a corporate credit union may submit a request to NCUA for additional borrowing authority.

§ 704.10 Services.

A corporate credit union may provide services only to its members, subject to the limitations of this Part. A corporate credit union may not provide services to non members through the correspondent credit union authority or pursuant to § 701.26 of this chapter.