

107(15)(A) of the Act, which is governed by § 701.23 of this chapter; investment in credit union service organizations, which is governed by § 701.27 of this chapter; investment in fixed assets, which is governed by § 701.36 of this chapter; or investments by corporate credit unions, which is governed by part 704 of this chapter.

### § 703.2 Definitions.

*Adjusted trading* means any method or transaction used to defer a loss whereby a federal credit union sells a security to a counterparty at a price above its current fair value and simultaneously purchases or commits to purchase from the counterparty another security at a price above its current fair value.

*Amortizing security* means a security where the principal is reduced by contractual payments.

*Average life* means the weighted average time to principal repayment with the amount of the principal paydowns (both scheduled and unscheduled) as the weights.

*Bankers' acceptance* means a time draft that is drawn on and accepted by a bank, and that represents an irrevocable obligation of the bank.

*Business day* means a day other than a Saturday, Sunday, or federal holiday.

*Capital* means the total of all undivided earnings, regular reserves, other reserves (excluding the allowance for loan losses), net income, and accumulated unrealized gains (losses) on available-for-sale securities.

*Collateralized mortgage obligation (CMO)* means a multi-class bond issue collateralized by whole loan mortgages or mortgage-backed securities.

*Commercial mortgage related security* means a mortgage related security where the mortgages are secured by real estate upon which is located a commercial structure.

*Corporate credit union* means a credit union that meets the definition of "corporate credit union" contained in part 704 of this chapter.

*Custodial agreement* means a contract whereby a third party, for a fee, agrees to exercise ordinary care in protecting the securities held in safekeeping for its customers.

*Delivery versus payment*, in the context of the purchase and sale of securities, means that payment for a security occurs simultaneously with its delivery.

*Embedded option* means a characteristic of an investment which gives the issuer or the holder of the investment the right to change features such as rate and principal payment schedule. Embedded options include,

but are not limited to, caps, floors, calls, and prepayment provisions. These options can result in the principal and/or interest cash flows of an investment varying in response to changes in interest rates.

*Eurodollar deposit* means a deposit in a foreign branch of a United States depository institution.

*Facility* means the home office of a federal credit union or any suboffice thereof, including, but not necessarily limited to, credit union service center, wire service, telephonic station, or mechanical teller station.

*Fair value* means the price at which a security can be bought or sold in a current, arms length transaction between willing parties, other than in a forced or liquidation sale.

*Federal funds transaction* means a transaction among depository institutions involving the transfer of immediately available funds resulting from credits to deposit balances at Federal Reserve banks or from credits to new or existing deposit balances due from a correspondent depository institution.

*Futures contract* means a contract for the future delivery of commodities, including certain government securities, sold on commodities exchanges.

*Immediate family member* means a spouse or other family member living in the same household.

*Index* means an interest rate which is regularly reported in a publication or electronic service of national circulation.

*Industry-recognized information provider* means an organization which obtains compensation by providing information to investors and receives no compensation for the purchase or sale of investments.

*Interest rate swap* means a contract to exchange streams of interest payments based upon a specified dollar amount at specified dates in the future.

*Investment* means any security, obligation, account, deposit, or other item authorized for purchase by a federal credit union under Sections 107(7), 107(8), or 107(15)(B) or (C) of the Federal Credit Union Act, or this part, other than loans to members.

*Investment characteristic* means a feature of an investment such as its maturity, index, cap, floor, coupon rate, coupon formula, index, call provision, or average life.

*Maturity* means the date the last principal amount of a security is scheduled to come due and shall not mean the call date or the average life of the security.

*Mortgage related security* means a security as defined in Section 3(a)(41) of

the Securities and Exchange Act of 1934, *i.e.*, a privately-issued security backed by mortgages secured by real estate upon which is located a dwelling, mixed residential and commercial structure, residential manufactured home, or commercial structure.

*Mortgage servicing* means performing tasks to protect a mortgage investment, including collecting the installment payments, managing the escrow accounts, monitoring and dealing with delinquencies, and overseeing foreclosures and payoffs.

*Municipal security* means a security as defined in Section 107(7)(K) of the Act.

*Official* means any member of the board of directors, credit committee, or supervisory committee.

*Option* means a contract which provides the right, but not the obligation, to buy or sell a security at a fixed price on or before a specified date in the future.

*Pair-off transaction* means a security purchase transaction that is closed or sold at, or prior to, the settlement date.

*Parallel shift* means an equal basis point change at every point along a given yield curve.

*Prepayment model* means a reasonable and supportable forecast of mortgage prepayments in alternative interest rate scenarios. Models are available from securities broker-dealers and industry-recognized information providers. These models are used in tests to forecast the weighted average life, change in weighted average life, and price sensitivity of CMOs/REMICs and mortgage-backed securities.

*Real estate mortgage investment conduit (REMIC)* means a nontaxable entity formed for the sole purpose of holding a fixed pool of mortgages secured by an interest in real property and issuing multiple classes of interests in the underlying mortgages.

*Regular-way settlement* means delivery of a security from a seller to a buyer within the specified number of days established for that type of security. For example, regular-way settlement for transactions in U.S. government securities is one business day after the trade date and in agency securities is three business days after the trade date.

*Repurchase transaction* means a transaction in which a federal credit union agrees to purchase a security from a counterparty and to resell the same or any identical security to that counterparty at a specified future date and at a specified price.

*Residual interest* means the remainder cash flows from a CMO/REMIC, or other mortgage-backed security transaction,