after payments due bondholders and trust administrative expenses have been satisfied.

Reverse repurchase transaction means a transaction in which a federal credit union agrees to sell a security to a counterparty and to repurchase the same or any identical security from that counterparty at a specified future date and at a specified price.

Section 107(8) institution means an institution in which a federal credit union is authorized to make deposits pursuant to Section 107(8) of the Act, i.e., an institution that is insured by the Federal Deposit Insurance Corporation or is a state bank, trust company or mutual savings bank operating in accordance with the laws of a state in which the federal credit union maintains a facility.

Securities loan means a transaction in which a federal credit union agrees to lend a security to a counterparty.

Security means a share, participation, or other interest in property or in an enterprise of the issuer or an obligation of the issuer that:

(1) Either is represented by an instrument issued in bearer or registered form or, if not represented by an instrument, is registered in books maintained to record transfers by or on behalf of the issuer;

(2) Is of a type commonly dealt in on securities exchanges or markets or, when represented by an instrument, is commonly recognized in any area in which it is issued or dealt in as a medium for investment; and

(3) Either is one of a class or series or by its terms is divisible into a class or series of shares, participations, interests, or obligations.

Senior management employee means the credit union's chief executive officer (typically this individual holds the title of President or Treasurer/Manager), any assistant chief executive officers (e.g., Assistant President, Vice President, or Assistant Treasurer/Manager) and the chief financial officer (Comptroller).

Settlement date means the date originally agreed to by a federal credit union and a vendor for settlement of the purchase or sale of a security.

Short sale means the sale of a security not owned by the seller.

Small business related security means a security as defined in Section 3(a)(53) of the Securities and Exchange Act of 1934, i.e., a security, rated in one of the four highest rating categories by a nationally recognized statistical rating organization, that represents ownership of one or more promissory notes or leases of personal property which evidence the obligation of a small business concern. It does not mean a

security issued or guaranteed by the Small Business Administration.

Standby commitment means a commitment to either buy or sell a security, on or before a future date, at a predetermined price. The seller of the commitment is required to either accept delivery of a security (in the case of a commitment to buy) or make delivery of a security (in the case of a commitment to sell), in either case, at the option of the buyer of the commitment.

Street name, for a security, means registered in the name of a broker-dealer. Customer-owned securities held by a safekeeper normally are registered in street name to facilitate transfer when the security is sold. The customer remains the beneficial owner of the security.

Stripped mortgage-backed security means a security that represents either the principal- or interest-only portion of the cash flows of an underlying pool of mortgages or mortgage-backed securities.

Total return means, for a specific holding period, the sum of interest and principal payments, the income earned on the reinvestment of these cash flows, and the change in fair value.

Trade date means the date a federal credit union originally agrees, orally or in writing, to purchase or sell a security.

U.S. government agency means an instrumentality of the U.S. government, including the Commodity Credit Corporation, the Export-Import Bank, the Federal Farm Credit Bank, the Farm Credit System Financial Assistance Corporation, the Federal Financing Bank, the Federal Housing Administration, the Financing Corporation, the Government National Mortgage Association, the Maritime Administration, the Overseas Private Investment Corporation, the Resolution Funding Corporation, the Small Business Administration, the Tennessee Valley Authority, and the Veterans Administration.

U.S. government-sponsored enterprise means an entity originally established or chartered by the federal government to serve public purposes specified by the U.S. Congress but whose obligations are not explicitly guaranteed by the full faith and credit of the U.S. government. Such enterprises include the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, and the Student Loan Marketing Association.

When issued trading means the buying and selling of securities in the period between the announcement of an offering and the issuance and payment date of the securities.

Yankee dollar deposit means a deposit in a United States branch of a foreign bank licensed to do business in the state in which it is located, or a deposit in a state-chartered, foreign controlled bank.

Zero coupon bond means a debt obligation that makes no periodic interest payments but instead is sold at a discount from its face value. The holder of a zero coupon bond realizes the rate of return through the gradual appreciation of the security, which is redeemed at face value on a specified maturity date.

§ 703.3 Investment policies and practices.

- (a) The board of directors of each federal credit union shall establish written investment policies consistent with the Act, this part, and other applicable laws and regulations, and review them at least annually. At a minimum, the policies shall address the following:
- (1) Purposes and objectives of the credit union's investment activities;
- (2) Authorized investments, by issuer and characteristics;
- (3) Interest rate risk management, if not addressed in the credit union's asset-liability management policies;
 - (4) Concentration limits;
- (5) Approved CMO/REMIC prepayment models, subject to the requirements of § 703.4(e)(3);
- (6) Liquidity risk management, if not addressed in the credit union's assetliability management policies;
- (7) Credit risk management, if applicable, including approved issuers, or criteria for issuers, and limits on the amounts that may be invested with each issuer;
- (8) Persons to whom investment authority has been delegated, the knowledge and experience required of such persons, and the extent of their authority. This requirement may be met by the board's approval of position descriptions which address the same criteria;
- (9) Approved securities broker-dealers and limits on the amounts and types of transactions to be executed with each broker-dealer. Limits to be considered should include safekeeping arrangements, repurchase transactions, securities lending and borrowing, other transactions with credit risk, and total credit risk with an individual broker-dealer;
- (10) Approved safekeeping entities and limits on the amounts and types of investments that may be safekept with each entity; and
- (11) Trading policies, if the credit union engages in trading, including persons who have purchase and sale