



NATIONAL CREDIT UNION ADMINISTRATION
Washington, D.C. 20456

October 20, 1986

GC/YG:sg
14440

Office of General Counsel

Ms. Connie L. Kluever
Brown & Wood
One World Trade Center
New York, NY 10048

Dear Ms. Kluever:

This is response to your letter dated August 19, 1986, concerning the current reference in Section 725.5(c) of the NCUA Rules and Regulations to Section 742.2(a). Although the reference still exists, Part 742 was deleted four years ago making it somewhat meaningless.

We are presently drafting an amendment to Section 725.5(c) which would insert the definition of liquid assets previously contained in Part 742. The deletion of Part 742 was never intended to alter or impair Part 725 or any other provision of the NCUA Rules and Regulations.

For your convenience, we have enclosed a copy of the former Section 742.2(a) to guide you in complying with Part 725.5(c). After the amended rule is approved and finalized, it will be published in the Federal Register (as required by the Administrative Procedure Act).

Thank you for bringing this matter to our attention.

Sincerely,

STEVEN R. BISKER
Assistant General Counsel

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Enclosure

FOIA Vol IV Part W

§742.1 Scope and Purpose.

(a) This part applies to all credit unions that are insured by the National Credit Union Share Insurance Fund and either

- (1) have assets of \$2,000,000 or more; or
- (2) operate share draft (as defined at 12 CFR 701.35(a)(2)) or equivalent programs.

(b) The purpose of this part is to establish a liquidity reserve requirement that enhances the ability of covered credit unions to meet member demands for liquid funds and avoid asset losses.

§742.2 Definitions.

As used in this part:

(a) "Liquid Assets" means the following unpledged assets:

- (1) cash on hand;
- (2) share or deposit accounts with remaining maturities of 1 year or less maintained in central credit unions or institutions insured by the Federal Deposit Insurance Corporation or Federal Savings and Loan Insurance Corporation;

(3) investments in obligations of the United States or an agency thereof, or securities fully guaranteed as to principal and interest thereby, which are authorized under 12 U.S.C. 1757(7) and which have a remaining maturity of 1 year or less;

(4) Common trust investments, and similar investments in funds of securities authorized for Federal credit unions, the objectives of which are to provide daily liquidity for participating credit unions;

(5) shares in the National Credit Union Administration Central Liquidity Facility or in special share accounts authorized by § 725.7 of this Chapter, and

(6) in the case of a federally-insured state chartered credit union, any asset held in satisfaction of liquidity requirements imposed by applicable state law or regulation.

(7) Balances maintained by federally insured credit unions in a Federal Reserve bank, or in a pass-through account to a Federal Reserve bank, pursuant to the requirements of Section 19 (b) of the Federal Reserve Act (12 U.S.C. 461 (b)).

(b) "Central credit union" means a credit

Part 742**Liquidity Reserves**

union operated primarily to serve other credit unions and in which the total dollar amount of shares and deposits received from other credit unions plus loans to other credit unions exceeds 50 percent of the total dollar amount of all shares and deposits plus loans.

(c) "Liability base" means an insured credit union's member accounts (as defined at 12 U.S.C. 1752(5) and notes payable, excluding

(1) share certificates (as defined at 12 C.F.R. 701.35(a)(3)) and equivalent member accounts with remaining maturities in excess of 1 year.

(2) notes payable with remaining maturities in excess of one year, and

(3) member accounts that have been provided in a specific amount as security on a loan, up to the amount of the loan balance.

§742.3 Liquidity reserve.

(a) Each credit union that is subject to this Part shall maintain a reserve of liquid assets ("liquidity reserve") the amount of which shall equal, at a minimum, 5% of the total dollar amount of the credit union's liability base.

(b) The liquidity reserve shall be determined on a monthly basis, not later than the tenth day of each month, and shall be based on the insured credit union's liability base as of the last day of business of the previous month.

(c) Liquid assets shall be valued at their book value for purposes of the liquidity reserve, except that common trust investments and similar investments shall be valued net of any deferred loss.

§742.4 Depletion and Replenishment.

(a) The liquidity reserve may be depleted below the level required by this Part only to meet outflows of shares or deposits.

(b) In the event of depletion of the liquidity reserve below the level required by this Part: