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NATIONAL CREDIT UNION ADMINISTRATION
Washington, D.C. 20456

March 30, 1989

Office of General Counsel

Mr. David J. Rueckert
Allison, Rosenblum & Hannahs, Inc.
1200 N. Federal Highway
Suite 401
Boca Raton, Florida 33432

Re: Reverse Repurchase Transactions (Your November 1,
1988, Letter)

Dear Mr. Rueckert:

You have asked whether a Federal credit union ("FCU") may purchase variable rate securities with proceeds from a reverse repurchase transaction. The transaction you describe is currently not permissible under Section 703.3(e) of NCUA's Rules and Regulations (12 C.F.R. 703.3(e)) because neither the securities purchased nor those collateralizing the transaction will have a maturity date prior to or coinciding with the reverse repurchase settlement date.

ANALYSIS

Section 703.3(e) of NCUA's Rules and Regulations states:

A Federal credit union may enter into a reverse repurchase transaction, provided that either any securities purchased with the funds obtained from the transaction or the securities collateralizing the transaction have a maturity date not later than the settlement date for the reverse repurchase transaction. A reverse repurchase transaction is a borrowing transaction subject to Section 107(9) of the Federal Credit Union Act (12 U.S.C. 1757(9)), which limits a Federal credit union's aggregate borrowing to 50 percent of its unimpaired capital and surplus.

In the transaction you described, an FCU would use the proceeds from a reverse repurchase transaction to purchase variable rate securities that would reprice with the market at specified intervals. Neither the variable rate securities purchased with the proceeds nor the securities collateralizing the transaction will

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have a maturity date not later than the settlement date for the reverse repurchase transaction. You suggested that since the securities will reprice with the market, excessive market risk would be avoided, and therefore the regulatory requirements for a reverse repurchase transaction should be waived.

The proposed transaction is not in conformance with Section 703.3(e) of NCUA's Rules and Regulations. We have recently received several investment questions regarding the permissibility of certain transactions that do not comply with a strict reading of NCUA's investment regulation. Rather than interpreting the regulation to permit these types of transactions based on a determination that a given transaction does not violate the intent of the regulation and does not present undue safety and soundness concerns, we plan to review NCUA's investment regulation (Part 703 of NCUA's Rules and Regulations) in 1989. The review will be aimed at determining whether changes in the financial marketplace since the last major revision to Part 703 in 1984 require amendments to Part 703. The transaction you proposed will be considered during this review.

Sincerely,



HATTIE M. ULAN
Assistant General Counsel

JT:sg