CHAPTER 80-2-9

INVESTMENT SECURITIES

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80-2-9-.01 Investment Securities.

(1) Subject to such further restrictions and limitations as its board of directors may set forth in this investment policy, a credit union may purchase, sell and hold securities:

(a) Without limitation if such securities are:

1. The general obligations of the United States Government or any agency or instrumentality thereof;

2. Guaranteed as to principal and interest by the United States Government or any agency or instrumentality thereof; or

3. Separate Trading of Registered Interest and Principal of Securities which are offered exclusively in book entry form, are direct obligations of the United States, and are issued under Chapter 31, Title 13 USC.

(b) Up to twenty-five (25) percent of the shares and deposits of the credit union if the securities are the general obligations of the State of Georgia or any of its counties, school districts, or municipalities;

(c) Up to fifteen (15) percent of the Tier 1 Capital of the credit union if the securities are:

1. General and direct obligations of any state other than Georgia or counties, municipalities, or other political subdivisions of such states authorized to levy taxes;

2. Secured by the pledge or assignment of tax receipts sufficient to pay the principal and interest of such securities as they become due;

3. The revenue obligations of a political subdivision authorized to establish utility fees, public transportation usage fees, or public use fees where such levies or fees are pledged to and are sufficient to pay the principal and interest of the securities as they become due; and

4. The securities are the securities of, or other interests in, any open-end or closed-end management type investment fund or investment trust which:

(i) Is registered under the Investment Company Act of 1940,

(ii) Expressly requires that any changes in the investment objectives, fundamental operating policies, and limitations of the fund or trust must receive prior approval by a majority of the shareholders authorized to vote on such matters,

(iii) Limits the investment portfolio of such investment fund or investment trust to:

(I) Obligations otherwise authorized under subparagraphs (1)(a)1, (1)(a)2 and (1)(a)3 of this Rule;

(II) Commercial paper and repurchase agreements, which are fully collateralized by securities authorized in subparagraph (1)(a)1, (1)(a)2, and 1(a)3 of this Rule, and where the fund or trust takes delivery of such collateral either directly or through an authorized custodian; or

(III) Certificates of deposit issued by financial institutions insured by an instrumentality of the United States government, and;

(iv) Does not:

(I) Except to the extent authorized in subparagraph (1)(a)3 of this Rule, acquire investments in the form of stripped or detached interest obligations associated with any security which otherwise constitutes a permissible investment under the provisions of this Rule;

(II) Engage in the purchase or sale of interest rate futures contracts;

(III) Purchase securities on margin, make short sales of securities or maintain a short position; or

(IV) Otherwise engage in futures, forwards or options transactions, except, however, that forward commitments may be entered into for the express purpose of acquiring securities on a when-issued basis.

5. Bankers Acceptances and Subordinated Securities issued by financial institutions domiciled in Georgia; or by financial institutions affiliated with a financial institution domiciled in Georgia;

6. Commercial paper issued by corporations domiciled within the United States which is rated in the highest rating category by a nationally recognized rating service; or

7. Such other securities as the Department may approve and subject to such limitations as the Department may specify upon a finding that the securities are marketable under ordinary circumstances, with reasonable promptness, at a fair value. Securities issued by political subdivisions which are rated in the three highest rating categories by a nationally recognized rating service shall be deemed approved for investment up to fifteen (15) percent of the credit union's Tier 1 Capital.

8. Credit unions may invest in such other investment securities as may be authorized for federally chartered credit unions subject to the prior approval of the Department.

9. In the case of a central credit union, the Department may approve investments of the type described in subparagraph (1)(c) of this rule which may exceed the fifteen (15) percent limitation. Prior approval is required, and may be subject to certain conditions of approval.

(d) Aggregate limitations for all investments pursuant to subparagraph (1)(c)4 of this Rule shall not exceed:

1. Thirty (30) percent of the credit union's Tier 1 Capital per fund/trust family or sponsor, and

2. Sixty (60) percent of the credit union's Tier 1 Capital; however, an additional aggregate limitation of one-hundred-twenty (120) percent of the credit union's Tier 1 Capital shall be allowed if the funds or trusts:

(i) Are managed so as to maintain the fund or trust shares at a constant net asset value,

(ii) Are no-load, and

(iii) Are rated in the highest rating category by either Moody's Investors Service or Standard and Poor's Corporation.

(2) In lieu of the limitation on investments issued by any single obligor as set forth in subparagraph (1)(c) of this Rule, credit unions having shares and deposits of $1,000,000 or less, may elect to purchase such obligations which in the aggregate do not exceed ten (10) percent of the credit union's shares and deposits provided the obligations of any single issuer do not exceed the greater of $10,000 or one (1) percent of the credit union's shares and deposits.

(3) With the exception of revenue obligations listed in subparagraph (1)(c)3 of this Rule, where the repayment of revenue obligations is dependent upon rentals or other fees payable to a political subdivision by a non-governmental unit, the obligor for the purpose of applying legal limitations shall be the non-governmental unit responsible for the payment of such rentals or other fees and any guarantor of such payments.

(4) Asset backed securities repayable in both interest and principal which are issued under:

(a) Governmentally sponsored programs which are fully collateralized by obligations fully guaranteed as to principal and interest by a governmental entity may be purchased to the same extent as direct obligations of the governmental entity granting the guarantee; and

(b) Private programs which are fully collateralized by obligations fully guaranteed as to principal and interest by a governmental entity may be purchased to the same extent as direct obligations of the governmental entity granting the guarantee.

(5) Except to the extent authorized in subparagraph (1)(a)3 of this Rule, nothing contained herein shall permit the purchase of investments in the form of:

(a) Stripped or detached interest obligations associated with any security which constitutes a permissible investment under the provisions of this Rule or otherwise; or

(b) Futures, forwards, and option contracts.

(6) For purposes of this Rule, "Tier 1 Capital" shall mean payments made to the credit union by members on their qualifying shares, together with retained earnings, statutory reserves and appropriated retained earnings.

Authority O.C.G.A. § 7-1-650; § 7-1-654; § 7-1-663.

80-2-9-.02 Accounting and Record Keeping.

(1) Securities transactions shall be accounted for in accordance with paragraph 1 of Rule 80-2-1-.01.

(2) Credit Unions shall maintain documentation sufficient to adequately identify the nature of all securities owned. For all securities other than direct investments in government bonds, notes, or debentures, documentation may include annual reports, offering circulars, credit analyses published by nationally recognized rating firms, or in-house analyses, reflecting an evaluation of the degree of risk in regard to liquidity, marketability, and price volatility.

(3) Investments in the form of "Zero Coupon" obligations shall be recorded at cost plus accretion to maturity over the life of the obligations. Legal limitations applicable to such securities shall be measured against the actual cost of the security. Provided, however, to the extent that the cash investment plus accretions of income earned, but not collected, exceed the legal limitation on any zero coupon security, such amount shall be set aside into a capital reserve and excluded in considering capital adequacy.

Authority Ga. L. 1974, p. 733.

80-2-9-.03 Custody and Safekeeping.

(1) Securities may be held in physical or book entry form.

(2) Physical possession of securities shall be maintained:

(a) In the vault of the investing credit union, or

(b) In safekeeping at any:

1. Federally-insured correspondent bank, credit union or trust company,

2. Federal Reserve or Federal Home Loan Bank,

3. Broker-dealer insured under the Securities Investors Protection Act provided the market value of such securities does not exceed $500,000, or

4. As otherwise specifically approved by the Department.

Authority Ga. L. 1974, p. 733.