

**6100. INVESTMENT POLICY**

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## **Basic Philosophy**

The Investment Policies of Resource One Credit Union (the "Credit Union") are designed to minimize investment risks (credit, interest rate and liquidity) while attempting to obtain the highest available market rates of return, which are commensurate with a well-diversified and low-risk investment portfolio. The Credit Union strictly adheres to the "prudent man" philosophy of safety, liquidity and yield (SLY) in all investment decisions. Diversification and credit analysis achieve safety where as, liquidity and interest-rate risks are taken into account as an integral aspect of the overall Asset/Liability Management (ALM) program. Subject to liquidity requirements and portfolio restructuring, investments made are classified at the time of purchase, as either Available for Sale (AFS), Held to Maturity (HTM), or Trading. Furthermore, the Investment Policies are in accordance with all Texas Credit Union Departments' rules and regulations that pertain to the investment practices of state-chartered credit unions. The procedures set forth in this section are to be followed by the Investment Committee and operating personnel when implementing the Investment Policies.

### **Investment Committee**

The Credit Union's Board of Directors (the "Board") delegates the daily management of the investment portfolio to the Investment Committee. This Board appointed committee meets regularly to review investment activity, liquidity and rate sensitivity trends. Both credit analysis and the monitoring of adherence to maximum investment limits established for financial institutions are responsibilities of this committee, as well as, compliance with its Investment Policy at all times. The Board of Directors also designates the President as the person responsible for implementing investing decisions. The President has designated the Chief Financial Officer as the Credit Union personnel with the authority to execute daily investment transactions. However, all investment decisions shall be consistent with this policy statement.

The extent of authority granted in par value allowable for purchase is as follows:

1. President or other Investment Committee staff: \$3 million
2. Investment Committee approval: \$5 million
3. ALM Committee approval: >\$5 million

### **Investment Objectives & Liquidity Policy**

The Credit Union first strives to meet the credit needs of our members through its lending function; loan demand will have a priority claim on the Credit Union's investable funds.

Since loan demand and deposit flow are subject to variation over time, liquidity and cash management activities are required in the management of these assets and liabilities. Therefore, the investment objective is to provide liquidity and facilitate the cash management process. The portfolio will convert cash resulting from a decrease in loan demand and/or deposit inflows into earning assets. Alternatively, the portfolio will be drawn down when necessary in order to accommodate loan requests, deposit withdrawals, and other contingencies. Should the Credit Union need to liquidate securities, an analysis shall be performed comparing the cost of selling securities, borrowing funds and reversing securities.

The second objective of our Investment Policy is to produce income for the Credit Union. Not only will securities be purchased so that maturities will be laddered in such a fashion as to provide liquidity in times of rising loan demand or falling deposits, but yield will also be very important in selecting securities for the portfolio. The Investment Officer (Chief Financial Officer) will always strive to purchase securities of sufficiently high yield with the proper consideration for quality. Occasionally, the Investment Officer will have opportunities to sell selected securities for gains because of changing strategies, or volatile interest rates.

## **Investment Goals**

In line with the Investment Objective set forth above, the investment goals are to compose a portfolio of securities with the following characteristics:

1. A low degree of default risk.
2. A low degree of price risk resulting from changes in the level of interest rates.
3. A high degree of marketability (unless the maturity is short term).

These characteristics limit the types of investments that may be acquired by the Credit Union. The emphasis is on liquidity and the safety of principal with respect to default risk and interest rate risk. The yield on investments is secondary to liquidity and safety.

## **Permissible Investments**

The Credit Union may make any investment permitted under the Texas Credit Union Department's rules and regulations pertaining to the investment activity of state chartered credit unions, further subject to the conditions specified below in this Investment Policy. With the exception of investments in non-member loan participations, investment alternatives not authorized by the Texas Credit Union Department's Rules and Regulations are prohibited. The principal types of investments in which the Credit Union may place funds include the U.S. Treasury securities, issues of federal agencies, repurchase agreements, federal funds, certificates of deposit, certain types of mortgage related securities and obligations of approved institutions. (See Asset/Liability Policy for investment limits, credit risk, and maturity limits)

### U.S. Treasury Securities

Direct obligations of the United States Treasury, which possess no credit risk. No limits are placed on investments in U.S. Treasury securities other than those dictated by the ALM Policy.

### Federal Agency Securities

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**Revised: September 2018**  
**Ratified: April 2019**

Issues of federal agencies possess little or no credit risk. Callable and step up securities are permitted.

#### Insured CD's

Negotiable and non-negotiable Certificates of Deposit of any domestic commercial bank, savings and loan association, credit union, or savings bank may be acquired if the deposit is fully insured by the FDIC or NCUA.

#### Repurchase Agreements (RPs)

A transaction in which a bank or government securities dealer borrows funds by selling securities to the Credit Union at a total price equal to the prevailing market price plus accrued interest, with the agreement that it will repurchase the securities at the same total price plus interest after a specified period. This is a collateralized loan and the agreement to repurchase removes the risk of price changes. The transfer of ownership must be unrestricted and the lien perfected. This transaction is subject to the following conditions:

1. The term shall not exceed 180 days although a continuous agreement is allowed. Under a continuous agreement, the agreement remains in effect until canceled by either the Credit Union or the borrower
2. The securities acceptable for purchase under a RP are those issued by the United States Treasury, Agencies of the United States Government, and AAA rated mortgage securities, which are allowable by these Investment Policies.
3. The institutions with which RPs may be made are limited to those on the approved list. (Policy 6100 -Page 11).
4. The market value of the underlying securities involved in the RP must be at least 2% greater than the amount of funds advanced by the credit union to the vendor. These margin requirements will be maintained throughout the life of the RP.
5. All RPs will be on a delivered versus payment basis (payment and delivery of the securities must occur simultaneously) or tri-party agreement basis

(contractual agreement between the broker/dealer, or financial institution, custodian bank, and the credit union for the delivery, payment and safekeeping of securities)

### Reverse Repurchase Agreement

This transaction enables the Credit Union to borrow funds by selling securities it owns to an investor whereby the vendor agrees to repurchase the securities at a predetermined future date at the same price plus interest for the number of days the transaction is in effect. The Reverse Repurchase Agreement may be used in an investment strategy known as arbitrage. Under this agreement, the Credit Union obtains funds from Federal Home Loan Bank (FHLB) through a Discounted Note Advances drawn against the credit union's available line of credit, or by selling securities it owns. The funds are then used to purchase short term investments from Federal Reserve Bank (FRB) whereby the FRB sells US Treasury or Agency issues it owns to the credit union. The price is based on the prevailing market rate. The proceeds are used to acquire another security within the same maturity but a higher yield. The institutions with which Reverse Repurchases may be made are limited to those on the approved list. (Policy 1600 -Page 11).

#### Restrictions:

1. Any security purchased with the funds obtained from the transaction or the securities collateralizing the transaction must have a maturity date no later than the maturity date for the reverse repo transaction, as well as, be considered as a permissible investment under Part 703.
2. Reverse Repos represent borrowings by the credit union, credit unions must record them as notes payable and requires the Board of Director's or ALM Committee's approval. The Investment Committee cannot authorize borrowing through a reverse repo.
3. The credit union may only utilize the FHLB and FRB as reverse repurchase facilities.
4. The maximum term of any reverse repurchase agreement is 28 days, and the complete transaction must occur within the same calendar month.

Mortgage-Backed Securities

The Credit Union may invest in the following type of mortgage-backed securities (MBS).

1. Pass-Through MBS:

Agency issues of pass-through mortgage-backed securities, which are backed by home, mortgage loans. Multi-family, commercial, and home equity loans are prohibited. Average lives and stated finals of mortgage-backed securities, which are longer than five years, and 10 years respectively will need to be approved by the Board of Directors.

2. Collateralized Mortgage Obligations (CMOs):

The Credit Union may only invest in CMOs that are direct issues of a federal agency. The Credit Union will use the Bloomberg median prepayment speed at the time of purchase and to test the CMOs on a quarterly basis when determining prepayments estimates for various interest rate scenarios. Further, the Credit Union may only invest in tranches that:

- a. Have expected average lives at the time of purchase not exceeding four years in the case of fixed-rate issues and not exceeding five years for floating rate issues.
- b. Have expected average lives at the time of purchase that neither extend nor shorten by more than three years for fixed-rate issues or four years for floating rate issues under modeling scenarios whereby mortgage commitment rates immediately rise or fall 300 basis points.
- c. Any CMO security downgraded below AA- (or equivalent) will be subject to the Credit Union's Divestiture Policy. (Section V Page 16).
- d. Should a CMO fail a shock test, it will be immediately added to the executive summary for the Board of Directors meeting and included on the watch report for action to be recommended by the ALM and the Investment Committee.
- e. The Credit Union may invest in floating rate type CMOs provided that the coupon formula is indexed to either the one month and six month LIBOR rate, the six month CD index, a Cost of Funds Index (COFI), the One Year Constant Maturity (CMT) Index, or other suitable index approved by the Credit Union's Investment Committee. Lifetime caps on these securities will be at least 300 basis points greater than the

current coupon of the issue.

3. Adjustable-Rate Mortgages (ARMs):

U.S. Agency bonds backed by pass-through securities or whole loan mortgages. The Credit Union may invest in ARMs that are based on the one month and six month LIBOR rate, the six month CD index, a Cost of Funds Index (COFI), the One Year Constant Maturity (CMT) Index, or other suitable index approved by the Credit Union's Investment Committee. Interim caps may not be less than 2% on an annual basis. The average life at the time of purchase may not exceed six years using the appropriate constant prepayment rates for convertible or nonconvertible issues.

Catalyst Corporate Federal Credit Union (Catalyst Corporate)

Catalyst Corporate is the Credit Union's corporate credit union. The Board has designated Catalyst Corporate as the credit union's designated depository. Catalyst Corporate possesses little credit risk due to the well-diversified nature of its investment portfolio and the prudence exercised by Catalyst Corporate in both its investment and ALM policies. Therefore, no limits are placed on investments in Catalyst Corporate other than those dictated by the ALM Policy, provided:

1. Catalyst Corporate credit standards remain as high or higher than other institutions on the Credit Union's approved investment list and
2. Catalyst Corporate operates in compliance with NCUA's Rules and Regulations and is examined by NCUA.

The Credit Union will review Catalyst Corporate financial statements, financial performance, and Investment Policies on a quarterly basis.

Split Dollar Life Insurance

Credit union owned life insurance policies are classified as a non-permissible investment unless the sole purpose of the investment is to provide funding for an employee benefit plan obligation.

The credit union may hold the investment only for the period during which it has an actual or potential obligation to fund the employee benefit plan. Once the obligation has been extinguished, the credit union must divest or surrender the investment unless it has incurred additional employee benefit obligations.

Investment Limits:

Investment in a credit union owned life insurance policy shall be limited to the amount necessary to fund the employee benefit plan obligation.

The aggregate cash surrender value held by the credit union shall not exceed 25% of the credit union's net worth.

Aggregate cash surrender value from any one insurance company shall not exceed 20% of the credit union's net worth.

Pre-Purchase Analysis:

The Board of Directors shall approve the purchase of all credit union owned life insurance assets. Senior management will perform the pre-purchase analysis under the Board's oversight. The pre-purchase analysis will include at a minimum: The purpose and amount of the plan, its cost and benefits, an analysis of projected cash surrender values and death benefits using a range of plan performance scenarios and mortality assumptions, and an in-depth due diligence review on both the insurance broker and carrier.

Ongoing Monitoring and Review:

The credit union's management will perform a semiannual counter-party credit review of both the broker and insurance carrier. Management will report to the Board of Directors; the result of the credit reviews, the financial performance and overall status of the credit union's Split Dollar life insurance program on an annual basis. More frequent reviews are warranted should there be significant changes in plan's expected value or performance, deterioration of the insurance carrier's financial condition, anticipated policy surrenders, or other significant anticipated changes to the program.

**Maximum Investment Limits**

US Treasury Securities	Limited to 300% of net worth.
Federal Agency Securities	Limited to 250% of net worth. Aggregate limit - 100% of net worth callable securities.
Insured CDs	Limited to 200% of net worth. Institutional Limits - Up to the maximum NCUA or FDIC insured limit per institution unless specifically authorized by ALCO Committee.
Federal Funds	Limited to 200% of net worth. Institutional Limits - Limited to institutions with net worth over \$50 million. Total limit per institution cannot exceed 15% of that institution's total capital.
Designated Depository (Catalyst Corporate)	150% of the credit union's net worth.
Repurchase Agreements	Limited to 10% of the credit union net worth.
Reverse Repurchase Agreements	Limited to 200% of net worth. Institutional Limits - net worth over \$50 million and cannot exceed 15% of that institution's total capital.
U.S. Agency Mortgage-Backed Securities (MBS)	Limited to 200% of net worth. Aggregate limit of 100% of net worth for Pass-Through MBS, Collateral Mortgage Obligations and Adjustable-Rate MBS, respectively.

**Authorized Investment Broker-Dealer and Advisory Services**

Investment transactions will be conducted directly or through an investment advisor with brokers, issuers of securities, or strong, reputable security firms. It will be the responsibility of the President to ensure that the Broker/Dealer is licensed, bonded and reputable. The Investment Committee will review a list of potential Broker-Dealers annually for policy compliance. The investment firms approved to conduct business with the Credit Union are listed below. Firms not on this list and wishing to conduct business with the Credit Union

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must be screened and approved by the Board of Directors.

By Board of Directors approval, the Credit Union has the authority to enter into contract with ALM First Investment Advisors, Inc. for its Investment Advisory Service. It will be the Investment Committees' responsibility to evaluate the service performance for continuation.

**List of Approved Brokers\Dealers\Advisors:**

Catalyst Corporate Credit Union	6801 Parkwood Boulevard Plano, TX 75024	Mike McGinnis
ALM First Investment Advisors, Inc.	6888 N. Central Expressway Suite 200 Dallas, Texas 75206	Tom Manley

### **Credit / Default Risk**

Credit/Default risk management is an ongoing process at the Credit Union that is coordinated through the Investment Committee. On a regular basis, the Investment Committee with the guidance of the investment advisor reviews all investment activity and institutions in which the Credit Union has investments. Further, internal credit analysis is conducted on all institutions in which the Credit Union has either a current position or possible interest. Other than the US Treasury and various federal agencies, only institutions that meet stringent credit standards imposed by the Credit Union are considered for inclusion on the list of approved institutions. Investment limits for these approved institutions are then established in accordance with an institution's creditworthiness and these investment limits are both approved and regularly reviewed by the Committee.

### **Maturity of Investments / Interest Rate Risk**

In order to control the risk of loss resulting from increases in the level of interest rates and forced sale of securities, the maturity distribution of the investment portfolio must be controlled. Normally, the Investment Committee shall restrict investment decisions to securities with an expected maturity of five years or less. When the needs of the Credit Union are such that sufficient funds are being generated to cover short-term needs, investments with an expected maturity of greater than five years may be considered by the Committee. However, the decision to invest in securities in the greater than five year expected maturity range must be approved by the Board of Directors.

On a quarterly basis, the investment portfolio will be shocked in 100 basis point increments in the immediate up and down 300 basis point scenarios. The weighted average life of the investment portfolio will not be greater than three years in the base case scenario nor be greater than five years in the immediate up 300 basis point scenario unless approval is received from the Board of Directors. In addition, the market price of the securities in the up 300 basis point scenario will not impair capital by more than 35%.

### **FAS 115 Classification Requirements**

The Credit Union's purchases with the intent and ability to hold them to maturity will be classified as a held to maturity. In addition, the credit union will designate certain securities as available-for-sale portfolio to ensure liquidity. Securities buying and selling for the purpose of profit alone or trading is strictly prohibited.

In addition, the Investment Committee will perform a monthly review of the appropriateness of the classifications and the reasonableness and accuracy of the related fair value measurement of currently held securities.

### **Unauthorized Transactions**

Regulations pertaining to state chartered credit unions prevent or severely limit the use of some types of investment transactions. With the exception of investments in non-member loan participations, any investment not authorized by the State Credit Union Department or other regulatory agencies shall not be made.

### **Divestiture Policy**

The Credit Union will review all securities for possible downgrades and failures to comply with the Credit Union's Investment Policy.

1. If a security is downgraded by Moodys and S&P to an investment grade permitted by the Credit Union's Investment Policy then:
  - a. The security will be placed on a watch list; and
  - b. A special meeting of the Investment Committee will be called to review the security.
  
2. If Moody's or S&P downgrade a security to an investment grade below those permitted by the Credit Union's Investment Policy, or a security becomes more volatile than those permitted by internal policies:
  - a. The security will be placed on a watch list; and
  - b. A special meeting of the Investment Committee will be called to review the security.
    - 1) If the Committee votes to continue holding the security 30 days after it becomes an improper investment according to the Investment Policy, the security will remain on the watch list. The security will be reviewed each month by the Investment Committee as a specific agenda item until the security is upgraded to original status or stabilizes in volatility as its original status.
    - 2) If the Committee votes to sell the security, then the Accounting Department will begin using Available for Sale accounting treatment for the security as allowed under FASB 115.

- 3) An orderly disposition of the security within the guidelines set by the committee. The Board of Directors will be informed of the actions being taken at the next regularly scheduled Board meeting.
3. If Moody's or S&P downgrade a security to an investment grade below *those permitted by the Texas Credit Union Department's regulations*, or a security becomes more volatile than those permitted by Texas Credit Union Department.
  - a. The security will be placed on a watch list.
  - b. The Board will be notified within 30 days.
  - c. A special meeting of the Investment Committee will be called to review the security.
    - 1) If the Committee votes to continue holding the security after it becomes an improper investment according to the state rules and regulations, the security will remain on the watch list and will be reviewed each month by the investment committee as a specific agenda item until the security is upgraded to original status or stabilizes in volatility as its original status. In addition, the credit union will develop a written plan that supports the intention to hold the security within 60 days after the security becomes an improper investment which will include the following:
      - An income simulation analysis showing the impact of holding and selling the security in an immediate increase and decrease of rates by 300 basis points.
      - The characteristics and risks of the security and the likelihood of the security passing the requirements in the future.
      - Monthly stress tests for CMOs if applicable.
    - 2) If the Committee votes to sell the security, then the Accounting Department will begin using Available for Sale accounting treatment for the security as allowed under FASB 115. An orderly disposition of the security within the guidelines set by the committee. The Board of Directors will be informed of the actions being taken at the next regularly scheduled Board meeting.

## **Other Procedures**

### Delivery & Safekeeping

The payment for securities purchased is to be made only upon delivery. The use of due bills is not authorized. Similarly, securities sold shall be delivered only upon payment. With respect to safekeeping, the following policies shall be followed:

1. All securities not in the physical possession of the Credit Union will be held in a third party (a bank or other financial institution) safekeeping account. A separate trust division of a bank acting as a dealer qualifies as third party safekeeping institution. Catalyst Corporate Federal Credit Union is the authorized safekeeping facility for investments.
2. A safekeeping receipt with the safekeeping institution shall evidence all securities held in safekeeping.
3. The Audit Committee of the Credit Union will, as part of its audit, confirm all securities held in safekeeping with safekeeping institution.

### Reporting

The Board at their regularly scheduled meeting will review investment activity. Monthly reporting will consist of the fair value of each security in the Credit Union's portfolio from a source independent from the Broker/Dealer in which it was purchased. Quarterly reporting will consist of rate shock reports for the investment portfolio.

### Board Review

On a monthly basis, the Board of Directors will be provided with a copy of the investment additions and deletions that took place since the last report.

### **Exceptions and Review**

The Board of Directors has approved this policy statement. The Board recognizes that questions may arise and minor policy exemptions may be necessary from time to time, the Board will approve all significant changes to the policy before said changes are implemented. In addition, the Board will review this policy annually.

The investment portfolio represents a significant percentage of the credit union's assets. It is mandatory that these assets be under audit and control. Audits are by the Credit Union's auditor; control is by the President and CFO. Record keeping will be the responsibility of the Credit Union's Director of Finance.

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### Historical Record of Policy Changes

**Date Revised:** July 2011  
**Date Approved:** September 2011

#### Policy Change

##### Permissible Investments

Removed ~~\$100,000 or less~~ and added **fully** insured by the FDIC or NCUA.

##### Mortgage Backed Securities

- #2 – Collateralized Mortgage Obligations (CMOs) ~~and Real Estate Mortgage Investment Conduits (REMICs):~~

~~Agency or AAA-rated bonds backed by pass-through securities or whole loan mortgages.~~ The Credit Union may only invest in CMOs ~~and REMICs~~ that are direct issues of a federal agency ~~or are non-agency issuers that are rated in the highest rating category assigned by Moodys (Aaa) or Standard and Poors (AAA) for long term debt securities.~~

- #2(c) – Removed REMIC from sentence.
- #3 – Added **U.S. Agency** to beginning of sentence.

##### ~~Southwest Corporate Federal Credit Union (Southwest Corporate) Catalyst Corporate Federal Credit Union (Catalyst Corporate)~~

Replaced Southwest Corporate with Catalyst Corporate throughout entire section.

##### Maximum Investment Limits

- Insured CD – Domestic: Removed ~~\$100,000~~ and added **up to the maximum NCUA or FDIC insured limit.**
- Removed ~~Investments in Loan Participations~~ from chart.
- Changed Southwest to Catalyst
- Added **U.S. Agency** to Mortgage backed securities.

##### List of Approved Brokers/Dealers/Advisors

Replaced Southwest Corporate with Catalyst and updated the address.

##### Exceptions and Review

Record keeping will be the responsibility of the Credit Union's ~~Accounting Manager~~ **Director of Finance.**

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Date Revised: August 2012  
Date Ratified: August 2012

**Shares in Credit Union Bankshares (CUBS)**

Credit Union Bankshares is the parent holding company of Town North Bank, Dallas Texas. The bank is a recognized CUSO by the NCUA and by the Texas Department of Banking. This type of investment falls outside the objective and goals of this policy. Therefore, management shall use the Available for Sale accounting treatment for the security as allowed under FASB 115. Should a potential buyer be identified, management will conduct an orderly disposition of the security within the guidelines set by the committee.

**Maximum Investment Limits**

US Treasury Securities	<del>No Limit</del> <b>Limited to 300% of net worth.</b>
Federal Agency Securities	<del>No Limit</del> . <b>Limited to 200% of net worth.</b> Aggregate limit of 50% of the investment portfolio for callable securities.
Insured CDs – Domestic	<del>Limited to 75% of the investment portfolio</del> . <b>Limited to 200% of net worth.</b> Institutional Limits - Up to the maximum NCUA or FDIC insured limit per institution unless specifically authorized by ALCO Committee.
Bank Debt Obligations	Investments at any single institution are limited to 25% of capital <b>net worth</b> if the investment is less than three months and 10% of capital <b>net worth</b> if the investment is greater than three months. The maximum maturity for a non-insured AB/C or better-rated institution is 365 days. The aggregate maximum investment is 25% of the investment portfolio.
Other Credit Union	<del>Aggregate limit of 10% of the investment portfolio</del> . <b>Limited to 200% of net worth.</b>
Federal Funds	<del>Limited to 60% of the investment portfolio</del> . <b>Limited to 200% of net worth.</b> Federal Funds are limited to 60% of the investment portfolio. Institutional Limits - Limited to institutions with equity capital <b>net worth</b> over \$50 million. Total limit per institution cannot exceed 15% of that institution's total capital.
<b>Credit Union Bankshares</b>	<b>Limited to 2% of net worth. No additional purchases allowed.</b>
Designated Depository (Catalyst Corporate)	150% of the that credit union's net worth (i.e. Equity)
Repurchase	Limited to 10% of the credit union net worth.

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Agreements	
Reverse Purchase	Limited to 20% of the investment portfolio. <b>Limited to 150% of net worth.</b> Institutional Limits - equity capital <b>net worth</b> over \$50 million and cannot exceed 15% of that institution's total capital.
U.S. Agency Mortgage-Backed Securities	Aggregate limit of 70% of the investment portfolio. <b>Limited to 200% of net worth.</b>

**Date Revised: April 2014**  
**Date Ratified: April 2014**

**Policy Changes**

- Permissible Investments, page 10: The Split Dollar Life Insurance section was added in order to be consistent with Asset/Liability Management Policy.

**Date Revised: July 2014**  
**Date Ratified: July 2014**

- The section of the Investment Policy addressing the Split Dollar Life Insurance policies purchased to fund retirement benefits for several members of senior management is not comprehensive.
  - a) Establishment of semiannual counter-party credit review processes. Ongoing documented reviews are critical to the ongoing due diligence process in consideration of the long-term obligations within the credit union owned life insurance products. Addressed on page 9, added Pre-Purchase Analysis section.
  - b) Providing information to the board of directors regarding the ongoing monitoring of the insurance companies. Addressed on page 10, added Ongoing Monitoring and Review Section.
  - c) Aggregate investment limits in Pass-Through Mortgage Backed Securities, Collateralized Mortgage Obligations and Adjustable-Rate Mortgages have not been established in the Investment Policy. Addressed on page 11, revised Maximum Investment Limits.

**Revised: September 2018**  
**Ratified: April 2019**

Date Revised: September 2018  
Date Ratified: September 2018

#### Reverse Repurchase Agreement

This transaction enables the Credit Union to borrow funds by selling securities it owns to an investor whereby the vendor agrees to repurchase the securities at a predetermined future date at the same price plus interest for the number of days the transaction is in effect. The Reverse Repurchase Agreement may be used in an investment strategy known as arbitrage. Under this agreement, the Credit Union obtains funds from Federal Home Loan Bank (FHLB) through a Discounted Note Advances drawn against the credit union's available line of credit, or by selling securities it owns. The funds are then used to purchase short term investments from Federal Reserve Bank (FRB) whereby the FRB sells US Treasury or Agency issues it owns to the credit union.~~an approved dealer.~~ The price is based on the prevailing market rate. The proceeds are used to acquire another security within the same maturity but a higher yield. The institutions with which Reverse Repurchases may be made are limited to those on the approved list. (Policy 1600 - Page 11).

#### Restrictions:

1. Any security purchased with the funds obtained from the transaction or the securities collateralizing the transaction must have a maturity date no later than the maturity date for the reverse repo transaction, as well as, be considered as a permissible investment under Part 703.
2. Reverse Repos represent borrowings by the credit union, credit unions must record them as notes payable and requires the Board of Director's or ALM Committee's approval. The Investment Committee cannot authorize borrowing through a reverse repo.
3. The credit union may only utilize the FHLB and FRB as reverse repurchase facilities.
4. The maximum term of any reverse repurchase agreement is 28 days, and the complete transaction must occur within the same calendar month.

#### Shares in Credit Union Bankshares (CUBS)

~~Credit Union Bankshares is the parent holding company of Town North Bank, Dallas Texas. The bank is a recognized CUSO by the NCUA and by the Texas Department of Banking. This type of investment falls outside the objective and goals of this policy. Therefore, management shall use the Available for Sale accounting treatment for the security as allowed under FASB 115. Should a~~

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Revised: September 2018  
Ratified: April 2019

~~potential buyer be identified, management will conduct an orderly disposition of the security within the guidelines set by the committee.~~

**Maximum Investment Limits**

**Credit Union Bankshares**

Designated Depository (alyst Corporate)

US Treasury Securities	Limited to 300% of net worth.
Federal Agency Securities	Limited to <del>200</del> <u>250</u> % of net worth. Aggregate limit - 100% of net worth callable securities.
Insured CDs	Limited to 200% of net worth. Institutional Limits - Up to the maximum NCUA or FDIC insured limit per institution unless specifically authorized by ALCO
Federal Funds	onal Limits - Limited to

institutions with net worth over \$50 million. Total limit per institution cannot exceed 15% of that institution's total capital.

~~Limited to 2% of net worth. No additional purchases allowed.~~ 150% of the credit union's net worth.

Repurchase Agreements	Limited to 10% of the credit union net worth.
Reverse Repurchase Agreements	Limited to <del>150</del> <u>200</u> % of net worth. Institutional Limits - net worth over \$50 million and cannot exceed 15% of that institution's total capital.
U.S. Agency Mortgage-Backed Securities (MBS)	Limited to 200% of net worth. Aggregate limit of 100% of net worth for Pass-Through MBS, Collateral Mortgage