

April 25, 1991

Morgan Reed  
U.S. Sterling Capital Corp.  
20 Peachtree  
Holbrook, NY 11741

Re: FCU Investment in CMOs (Your March 21, 1991, Letter)

Dear Mr. Reed:

You have asked about federal credit union (FCU) investment in collateralized mortgage obligations (CMOs). The enclosed National Credit Union Administration (NCUA) Letters to Credit Unions Nos. 96 and 108 and NCUA Investment Report No. 3 provide guidance on that issue. Please note that NCUA has issued proposed revisions to its investment regulation, 12 C.F.R. Part 703, which would prohibit FCUs from purchasing: 1) any CMO tranche whose average life would extend or shorten by more than six years under modeling scenarios where mortgage commitment rates immediately rise or fall 300 basis points; and 2) residual interests in CMO transactions. A copy of the proposed regulation is enclosed.

Sincerely,

Hattie M. Ulan  
Associate General Counsel

Enclosures

GC/LH:sg  
SSIC 4660  
91-0326