National Credit Union Administration

National Supervision
Policy Manual
12. Secondary Capital

Section 107(6) of the Federal Credit Union Act authorizes federal credit unions serving predominantly low-income members to receive shares, share drafts and share certificates from non-members. In order to use this authority, a federal credit union must receive a low income designation from its Regional Director. These credit unions are considered low income credit unions (LICUs). See Chapter 8 of this manual for more information on the low income designation process.

NCUA rules and regulations, §701.34 and §741.204, allow federally insured credit unions (FICUs) designated with low income status to accept secondary capital accounts from non-natural person members and non-natural person nonmembers subject to certain conditions (see the Required Information section of this chapter). Increased capital is intended to enable FICUs to support greater lending and improve other financial services for the limited income groups and communities they serve.

Certain restrictions are placed on these accounts. Foremost is the accounts may be offered only to organizational investors, not to natural person members or other natural person investors. The regulation requires written notice from the LICU and Regional Director approval prior to accepting secondary capital accounts.

A. Secondary Capital Plans

The board of directors of a LICU will adopt a Secondary Capital Plan (Plan) and forward it to the appropriate Regional Director for approval. Section 701.34(b)(1) discusses the minimum Plan requirements.

i. Required Information
Each secondary capital account established by a LICU must meet the regulatory requirements, which require a written Plan for the use of the funds in the accounts and subsequent liquidity needs to meet the repayment requirements upon maturity.

ii. Timeframes for Approval

Approval is automatic if a completed plan is not denied within 45 days of receipt.

iii. Division of Supervision (DOS) Initial Responsibilities

Within five calendar days of the regional office receiving the plan, DOS will perform a cursory review to determine whether the plan meets minimum requirements.

If the plan is considered incomplete, DOS will:

- Contact the credit union to obtain the missing information; or
- Prepare an incomplete/denial letter and send it to the credit union by the region’s preferred expedited mail delivery
  - Use *Secondary Capital Plan Application (Incomplete Application – Deferral)*, Appendix – 6-LL.
- Ensure the letter lists the additional information the credit union must submit if they would like the request to be re-considered. DOS will copy the examiner and supervisory examiner on the letter.

If the plan is considered complete, DOS will:

- Prepare and send an acknowledgement letter to the credit union using the region’s preferred expedited mail delivery service
  - Use *Secondary Capital Plan Application (Acknowledgement)*, Appendix 6-MM.
- Prepare and send a work assignment to the field that includes the credit union’s request, the plan, supporting documentation, and request a recommendation for approval or denial

iv. Field Review Responsibilities

Examiners and their supervisor will evaluate the credit union’s plan. After evaluating the plan, the examiners will:

- Complete a *Regional Summary* (Appendix 6-NN) to include an approval or denial recommendation
- Draft a letter for approval (Appendix 6-OO), partial approval (Appendix 6-PP) deferral, or denial (Appendix 6-QQ)
• Email the approval, partial approval, deferral, or denial letter, the Regional Summary, and any supporting documentation to their supervisor

The supervisor will review the information, provide supporting reasons for concurrence or non-concurrence, and forward the package to the region’s DOS mailbox.

v. DOS Processing and Review Responsibilities

Upon receipt of the examiner’s recommendation, DOS will review and analyze the recommendation for appropriate support and justification.

If DOS and/or the Regional Director do not agree with the field recommendation, the supervisor will be contacted to discuss further, as time permits. The field will be given the opportunity to further support or revise their recommendation.

DOS finalizes the response letter for the Regional Director’s signature. Once signed, DOS will mail it to the credit union using the region’s preferred expedited mail delivery service and copy both the examiner and supervisor.

B. Secondary Capital Redemptions

The board of directors of a LICU may submit a written request to redeem secondary capital to the Regional Director for approval. Section 701.34(d)(1) contains the minimum requirements to redeem secondary capital:

• The credit union has a post-redemption net worth classification of “adequately capitalized” under part 702;

• The discounted secondary capital has been on deposit at least two years;

• The discounted secondary capital will not be needed to cover losses prior to the final maturity of the account;

• The credit union’s books and records are current and reconciled;

• The proposed redemption will not jeopardize other current sources of funding, if any, to the credit union; and

• The request to redeem is authorized by resolution of the LICU’s board of directors.

i. Required Information

The Secondary Capital Redemption (SCR) request must be submitted in writing, specify the increment(s) to be redeemed and the schedule for redeeming any part of the eligible increment, and must demonstrate the LICU can meet the minimum requirements of Section 701.34(d)(1).
ii. Timeframes for Approval

Approval for SCR is automatic if not denied within 45 days of receipt.

iii. DOS Initial Responsibilities

Within five calendar days of the regional office receiving the SCR, DOS will perform a cursory review to determine whether the request meets minimum requirements of Section 701.34(d)(1).

If the SCR is considered incomplete DOS will:

- Contact the credit union to obtain the missing information; or
- Prepare an incomplete/denial letter and send it to the credit union by the region’s preferred expedited mail delivery.
- Ensure the letter lists the additional information the credit union must submit if they would like the request to be considered. DOS will copy the examiner and supervisory examiner on the letter.

If the SCR is considered complete, DOS will determine whether the credit union qualifies for streamlined approval.

To qualify for streamlined approval, the credit union must meet the minimum requirements specified in Section 701.34(d)(1) and the following criteria:

- Composite CAMEL rating of 1 or 2
- The credit union has properly recognized costs and impairments consistent with GAAP
- Net worth trends are stable or growing, and the credit union will have a post-redemption net worth classification of “well capitalized” under Part 702
- The credit union’s post-redemption capital level will remain sufficient relative to any extraordinary risks associated with its financial and operational activities

If the credit union meets the requirements for streamlined approval, DOS will prepare an approval letter (Appendix 6-TT) and send it to the credit union by the region’s preferred expedited mail delivery service.

If the credit union does not meet the requirements for streamlined approval, DOS will:
• Prepare and send an acknowledgment letter (Appendix 6-RR) to the credit union using the region’s preferred expedited mail delivery service
• Prepare and send a work assignment to the field that includes the credit union’s request, the SCR, supporting documentation, and request a recommendation for approval or denial

iv. Field Review Responsibilities

If assigned, the examiner will evaluate the credit union’s SCR request. After evaluating the SCR request, the examiner will:

• Complete a Regional Summary (Appendix 6-SS) to include an approval or denial recommendation
• Draft a letter for approval (Appendix 6-OO), partial approval (Appendix 6-PP), deferral, or denial (Appendix 6-QQ)
• Email the approval, partial approval, deferral, or denial letter, the Regional Summary, and any supporting documentation to their supervisor

The supervisor will review the information, provide supporting reasons for concurrence or non-concurrence, and forward the package to the region’s DOS mailbox.

v. DOS Processing and Review Responsibilities

Upon receipt of the examiner’s recommendation, DOS will review and analyze the recommendation for appropriate support and justification.

If DOS and/or the Regional Director do not agree with the field recommendation, the supervisor will be contacted to discuss further. The field will be given the opportunity to further support or revise their recommendation.

DOS finalizes the response letter for the Regional Director’s signature. Once signed, DOS will mail it to the credit union using the region’s preferred expedited mail delivery service and copy both the examiner and supervisor.
Appendix 6-LL: Secondary Capital Plan Application (Incomplete Application – Deferral)

Dear Mr./Mrs. Name:

We reviewed your credit union’s proposed Secondary Capital Plan and application received on [insert date]. The plan and supporting documents do not meet the requirements of Section 701.34 of the NCUA rules and regulations. The documentation is not sufficient to perform an adequate review and make an informed decision. Therefore, I must defer your request at this time.

If you wish for me to reconsider your request, please submit the following information, in addition to the information previously received by this office:

1. XX
2. XX
3. XX

If you have any questions, please contact Supervision Analyst [insert name] at [phone number].

Sincerely,

[NAME]
Regional Director

[OFFICE]/DOS/XXX:XX
FCU/SCU-XX

cc: Jane Smith, CEO
    SE
    EX
    SSA (when applicable)
Appendix 6-MM: Secondary Capital Plan Application (Acknowledgement)

Date

Mr. John Doe
Chairperson
ABC Federal Credit Union
Address
City, State Zip

Dear Mr. Doe:

On [insert date], we received your Secondary Capital Plan submitted for our approval pursuant to Section 701.34(b) of the NCUA rules and regulations. We will respond to your request by [45 days from receipt date].

If you have any questions, please contact Supervisory Examiner [full name] or Examiner [full name] at [phone number].

Sincerely,

[NAME]
Director of Supervision

[Office]/DOS/XXX:XX
FCU XXXXX-XX

cc: Jane Smith, CEO
SE Name
EX Name
SSA – State (if applicable)

bcc: FCU XXXXX
ARDP Name
Reading
Appendix 6-NN: Secondary Capital Plan Application (Regional Summary)

<table>
<thead>
<tr>
<th>REGIONAL SUMMARY</th>
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</thead>
<tbody>
<tr>
<td>Secondary Capital Plan Application</td>
</tr>
<tr>
<td>Charter Number</td>
</tr>
<tr>
<td>Credit Union Name</td>
</tr>
<tr>
<td>Supervisor Name</td>
</tr>
<tr>
<td>Examiner Name</td>
</tr>
<tr>
<td>CAMEL Rating / Effective Date</td>
</tr>
<tr>
<td>Financial Data Date</td>
</tr>
<tr>
<td>Total Assets</td>
</tr>
<tr>
<td>Current Net Worth Ratio</td>
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<tr>
<td>Proposed Net Worth Ratio</td>
</tr>
<tr>
<td>Proposed Uninsured Secondary Capital Amount</td>
</tr>
</tbody>
</table>

General FOM Description:

Reason for Request and Strategy for Funds Received:

At a minimum, the examiner must review the Secondary Capital Plan (Plan) to ensure it was approved by the Board of Directors and addresses the following regulatory requirements from §701.34(b)(1):

1. Does the Plan state the maximum aggregate amount of uninsured secondary capital the credit union plans to accept?

2. Does the Plan identify the purpose for which the aggregate secondary capital will be used, and how it will be repaid?

3. Does the Plan explain how the credit union will provide for liquidity to repay the secondary capital upon maturity of the accounts?

4. Does the Plan demonstrate the planned uses of secondary capital conform to the credit union’s strategic plan, business plan, and budget?

5. Does the Plan include supporting pro forma financial statements, including any off-balance sheet items, covering a minimum of the next two years?
Balance sheet and income statement projections and assumptions
(Consider the impact the secondary capital account will have on liquidity, income, and net worth.)

Other pertinent information
(Consider the appropriateness of the secondary capital account. Discuss any negative trends or concerns noted at previous examinations that could impact credit union viability.)

EXAMINERS AND SUPERVISOR RECOMMENDATIONS AND COMMENTS:

Examiner’s Recommendation:

SE/DSA Concurrence:

APPROVAL/DENIAL RECOMMENDATIONS

Analyst Comments:

APPROVE ☐ DISAPPROVE ☐
Supervision Analyst __________________ Date __________________

APPROVE ☐ DISAPPROVE ☐
Director of Supervision __________________ Date __________________

APPROVE ☐ DISAPPROVE ☐
Associate Regional Director __________________ Date __________________

APPROVE ☐ DISAPPROVE ☐
Regional Director __________________ Date __________________
Appendix 6-OO: Secondary Capital Plan Application (Approval)

Date

Name
Board Chairperson
Address
City, State  Zip

Dear Mr./Mrs. Name:

I reviewed your credit union’s proposed Secondary Capital Plan and application received on [insert date], followed with additional information that completed your application on [insert date if needed]. The plan and supporting documents meet the requirements of Section 701.34 of the NCUA rules and regulations. As such, I approve with the below condition your request to accept $[insert amount] from the National Federation of Community Development Credit Unions (Federation) for a term of XX years with the below condition.

Please note my approval is contingent upon this office receiving copies of the signed loan agreement, note, and disclosure and acknowledgement within 10 days of both parties signing. Please ensure the loan agreement, note, and disclosure and acknowledgement are identical to the final unsigned ones submitted to this office. If these documents are not identical in all regards, you will need to obtain my approval prior to signing and receiving the funds.

If you have any questions, please contact Supervision Analyst [insert name] at [phone number].

Sincerely,

 [NAME]
Regional Director

[Office]/DOS/XXX:XX
FCU/SCU-XX

cc: Jane Smith, CEO
    SE
    EX
    SSA (when applicable)

bcc: FCU/SCU *
    ARDP or ARDO
    Reading
    FU [Date] to SA [insert name]
Appendix 6-PP: Secondary Capital Plan Application (Contingent Approval)

Date

Name
Board Chairperson
Address
City, State Zip

Dear Mr./Mrs. Name:

I reviewed your credit union’s proposed Secondary Capital Plan and application received on [insert date], followed with additional information that completed your application on [insert date if needed]. The plan and supporting documents meet the requirements of Section 701.34 of the NCUA rules and regulations. I approve your request to accept $[insert amount] from the National Federation of Community Development Credit Unions (Federation) for a term of XX years with the below condition.

Please note my approval is contingent upon this office receiving copies of the signed loan agreement, note, and disclosure and acknowledgement within 10 days of both parties signing. Please ensure the loan agreement, note, and disclosure and acknowledgement are identical to the final unsigned ones submitted to this office. If these documents are not identical in all regards, you will need to obtain my approval prior to signing and receiving the funds.

If you have any questions, please contact Supervision Analyst [insert name] at [phone number].

Sincerely,

[NAME]
Regional Director

[Office]/DOS/XXX:XX
FCU/SCU-XX

cc: Jane Smith, CEO
    SE
    EX
    SSA (when applicable)

bcc: FCU/SCU *
    ARDP or ARDO
    Reading
    FU [Date] to SA [insert name]
Appendix 6-QQ: Secondary Capital Plan Application (Denial)

Date

Name
Board Chairperson
Address
City, State Zip

Dear Mr./Mrs. Name:

We reviewed your credit union’s proposed Secondary Capital Plan (Plan) and application received on [insert date]; however, we cannot approve your acceptance of secondary capital at this time. We noted the following deficiencies with your request:

1. XX
2. XX
3. XX

Once you address the issues discussed above, you may resubmit your plan. If you have any questions, please contact Supervision Analyst [insert name] at [phone number].

Sincerely,

[NAME]
Regional Director

[Office]/DOS/XXX:XX
FCU/SCU-XX

cc: Jane Smith, CEO
SE
EX
SSA (when applicable)

bcc: FCU/SCU *
ARDP or ARDO
Reading
FU [Date] to SA [insert name]
Date

Mr. John Doe  
Chairperson  
ABC Federal Credit Union  
Address  
City, State Zip

Dear Mr. Doe:

On Date, we received your request to redeem $XXXX in secondary capital from the US Treasury Department’s Community Development Capital Initiative program. We will respond to your request by [45 days from receipt date].

If you have any questions, please contact Supervisory Examiner [Full Name] or Examiner [Full Name] at [phone number].

Sincerely,

[NAME]  
Director of Supervision

[Office]/DOS/XXX:XX  
FCU XXXXX-XX

cc: Jane Smith, CEO  
SE Name  
EX Name

bcc: FCU XXXXX  
ARDP Name  
Reading
### REGIONAL SUMMARY
Secondary Capital Plan Redemption

<table>
<thead>
<tr>
<th>Charter Number</th>
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<tbody>
<tr>
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<tr>
<td>Proposed Net Worth Ratio</td>
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<tr>
<td>Current Cash and Short-term Investment Ratio</td>
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<tr>
<td>Proposed Cash and Short-term Investment Ratio</td>
<td></td>
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</tbody>
</table>

**General FOM Description:**

**Reason for Request:**

**Strategy for Secondary Capital Plan Funds:**
(Review the credit union’s initial submission, document the initial plan for the funds and if implementation was successful. Why or why not?)

**At a minimum, the examiner must consider the following when evaluating a request:**

- The credit union will have a post-redemption net worth classification of “adequately capitalized” under part 702
- The discounted secondary capital has been on deposit at least two years
- The discounted secondary capital will not be needed to cover losses prior to the final maturity of the account
- The credit union’s books and records are current and reconciled
- The proposed redemption will not jeopardize other current sources of funding, if any, to the credit union
- The request to redeem is authorized by resolution of the LICU’s board of directors

**Balance sheet and income statement projections and assumptions**
(Consider the impact the redemption will have on liquidity, income and net worth.)
Other pertinent information
(Consider the appropriateness of the redemption. Discuss any negative trends or concerns noted at previous examinations that could impact credit union viability.)

EXAMINERS AND SUPERVISOR RECOMMENDATIONS AND COMMENTS:

Examiner’s Recommendation:

SE/DSA Concurrence:

APPROVAL/DENIAL RECOMMENDATIONS

Analyst Comments:

APPROVE □ DISAPPROVE □
Supervision Analyst __________________________ Date ________________

APPROVE □ DISAPPROVE □
Director of Supervision ______________________ Date ________________

APPROVE □ DISAPPROVE □
Associate Regional Director _________________ Date ________________

APPROVE □ DISAPPROVE □
Regional Director __________________________ Date ________________
Appendix 6-TT: Secondary Capital Redemption Request (Approval)

Date

First Last Name
Board Chairperson
Address
City, State Zip

Dear Mr./Mrs. Name:

I reviewed your credit union’s request to redeem its Community Development Capital Initiative (CDCI) investment issued by the U.S. Department of the Treasury (Treasury) pursuant to Section 701.34 of the NCUA rules and regulations.

I approve your request to redeem the $[insert dollar amount] secondary capital CDCI investment. The Office of Small Credit Union Initiatives will notify the Treasury that we approved your redemption request.

If you have any questions, please contact Supervision Analyst [insert name] at [phone number].

Sincerely,

[NAME]
Regional Director

V/DOS/XXX:XX
FCU/SCU-XX

cc: Jane Smith, CEO
Pamela Williams, Partnerships and Outreach Coordinator
Office of Small Credit Union Initiatives
SE [insert last name]
EX [insert last name]
SSA (when applicable)

bcc: FCU/SCU *
ARDP or ARDO
Reading

OSCUI Required Notifications
Pamela Williams (pwilliams@ncua.gov) and oscuimail@ncua.gov