

## **Secondary Capital Checklist - Community Development Capital Initiative (CDCI)**

Please note that this checklist is segregated into three parts, as follows: Secondary Capital Plan Requirements, Secondary Capital Account Requirements, and Accounting Requirements. Each category has its own required elements. For example, a credit union developing a Secondary Capital Plan for submission to the appropriate regional director for approval should carefully review the required elements for Secondary Capital Plans. In addition, during implementation of a Secondary Capital program a credit union should carefully review the Secondary Capital Account Requirements section and the Accounting Requirements section for required elements and procedures for implementing the credit union's Secondary Capital Plan.

Reference	Secondary Capital Plan Requirements	YES / NO
701.34(b)(1)	(i) Does the Secondary Capital Plan state the maximum aggregate amount of uninsured secondary capital the LICU plans to accept?	
701.34(b)(1)	(ii) Does the Secondary Capital Plan identify the purpose for which the aggregate secondary capital will be used, and how it will be repaid?	
701.34(b)(1)	(iii) Does the Secondary Capital Plan explain how the LICU will provide for liquidity to repay secondary capital upon maturity of the accounts?	
701.34(b)(1)	(iv) Does the Secondary Capital Plan demonstrate that the planned uses of secondary capital conform to the LICU's strategic plan, business plan and budget?	
701.34(b)(1)	(v) Does the Secondary Capital Plan include supporting pro-forma financial statements, including any off-balance sheet items, covering a minimum of the next two years? (Please note that while the regulation requires pro-forma financial statements for a minimum of two years, credit unions may provide more than two years of pro-forma financial statements. Additional pro-forma financial statements may help establish a credit union meets all Secondary Capital Plan requirements (i.e. repayment, liquidity, uses of secondary capital, etc.)	
	<b>Secondary Capital Account Requirements</b>	
701.34(b)(3)	<i>Non-share account.</i> Are secondary capital account(s) established as uninsured secondary capital account(s) or other form of non-share account(s)?	
701.34(b)(4)	<i>Minimum maturity.</i> Are minimum maturities of secondary capital accounts at least five years? (Please note that maturities of CDCI secondary capital accounts are 13 years, subject to early redemption if approved by the appropriate regional director.)	
701.34(b)(5)	<i>Uninsured account.</i> Are secondary capital accounts clearly identified as not being insured by the National Credit Union Share Insurance Fund or any governmental or private entity?	
701.34(b)(6)	<i>Subordination of claim.</i> Are secondary capital accounts set-up so an investors' claim against the LICU is subordinate to all other claims including those of shareholders, creditors, the National Credit Union Share Insurance Fund and CDCI funds issued by the U.S. Department of the Treasury?	
701.34(b)(7)	<i>Availability to cover losses.</i> Are funds deposited into a secondary capital account, including interest accrued and paid into the secondary capital account, available to cover operating losses realized by the LICU that exceed its net available reserves (exclusive of secondary capital and allowance accounts for loan and lease losses), and to the extent funds are so used, the LICU shall not restore or replenish the account under any circumstances? (The LICU may, in lieu of paying interest into the secondary capital account, pay accrued interest directly to the investor or into a separate account from which the secondary capital investor may make withdrawals.)	
701.34(b)(8)	<i>Security.</i> Are secondary capital accounts not pledged or provided by the account investor as security on a loan or other obligation with the LICU or any other party?	

701.34(b)(9)	<i>Merger or dissolution.</i> Will the LICU ensure, in the event of a merger or other voluntary dissolution of the LICU, other than merger into another LICU, that the secondary capital accounts will be closed and paid out to the account investor to the extent they are not needed to cover losses at the time of merger or dissolution?	
701.34(b)(10)	<i>Contract agreement.</i> Will the LICU ensure secondary capital account contract agreements are executed by an authorized representative of the account investor and of the LICU reflecting the terms and conditions mandated by NCUA Rules & Regulations §701.34 (et. seq.) and any other terms and conditions not inconsistent with NCUA Rules & Regulations?	
701.34(b)(11)	<i>Disclosure and acknowledgement.</i> Will the LICU ensure that an authorized representative of the LICU and of the secondary capital account investor each shall execute a “Disclosure and Acknowledgment” as set forth in the Appendix to NCUA Rules & Regulations §701.34 at the time of entering into the account agreement?	
701.34(b)(11)	<i>Disclosure and acknowledgement.</i> Will the LICU retain an original of the account agreement and the “Disclosure and Acknowledgment” for the term of the agreement, and provide a copy to the account investor?	
<b>Secondary Capital Accounting Requirements</b>		
701.34(c)	<i>Accounting Treatment.</i> Will the LICU record its secondary capital accounts pursuant to §701.34(c) by ensuring secondary capital funds on its balance sheet are recorded in an equity account titled "uninsured secondary capital"?	
701.34(2)	<i>Schedule for recognizing new worth value.</i> Will the LICU reflect the net worth value of the accounts in its financial statements in accordance with the schedule set forth in NCUA Rules & Regulations §701.34(2)?	
701.34(3)	<i>Financial Statement.</i> Will the LICU reflect the full amount of the secondary capital on deposit in a footnote to the LICU's financial statement?	