Secondary Capital Questionnaire

Regulatory Requirements

	Yes/No/NA	Comments
1. Does the Secondary Capital Plan meet all the regulatory requirements of Section 701.34(b)?		
2. Are the draft agreements and disclosures in compliance with the requirements stated in Section 701.34(b) of the NCUA Rules and Regulations and its Appendix?		
3. Do planned borrowings under the Secondary Capital Plan exceed the maximum borrowing authority? (Section 741.2)		
4. Do other elements of the Secondary Capital Plan comply with NCUA Rules and Regulations?		
5. Has the credit union drafted revised Liquidity and Contingency Funding Plans (CFP) to incorporate the proposed Secondary Capital Plan and is the CFP adequately robust to identify and mitigate the projected changes to liquidity risks? (Section 741.12)		
6. Has the credit union drafted a revised interest rate risk policy that effectively identifies and controls interest rate risks inherent under the proposed leveraged balance sheet strategy?		

Secondary Capital Questionnaire

Safety and Soundness

I. Oversight and Risk Management

	Yes/No/NA	Comments
1. Was management (operational management and the board of directors) involved in developing the Secondary Capital Plan? Describe management's involvement.		
2. Does the credit union's Secondary Capital Plan rely upon third party vendors? If so, did management perform a third party due diligence review in accordance with NCUA Letter No. 01-CU-20 (Due Diligence over Third Party Service Providers) and NCUA Letter No. 07-CU-13 (Evaluating Third Party Relationships)?		
3. Is the source of the funding for the secondary capital identified in the plan documents? Identify the source in the Comments box.		
4. Does this transaction obligate the credit union to any future obligations to any party?		
5. Does the plan introduce new products or services? What specific assets, products, and/or services will the credit union implement with secondary capital? Did credit union management perform any cost/benefit analysis?		
6. Does the credit union have the experience and resources to support, manage, and monitor new programs and services?		
7. Does the credit union have an existing branch, product, member and/or organizational profitability system? If not, how do they plan to assess the marginal risks and rewards of using secondary capital?		
8. Has management considered additional human resource requirements and related costs arising from accepting secondary capital? Do financial projections include these additional costs?		
9. How will management adjust current risk management decision support processes to accommodate the increased scale of operations?		
10. Were other liquidity alternatives considered in the event planned liquidity sources are no longer available or additional liquidity is needed? Describe the liquidity alternatives considered.		
11. Did management consider "event" risks (major recession, sponsor cutback, housing crisis, deterioration of credit quality, rise in delinquency/loan losses, etc.) and provide for a contingency plan?		
12. Has the credit union developed an exit strategy or contingency plan if the anticipated business fails to materialize?		
13. Are outstanding examination concerns exacerbated by the Secondary Capital Plan?		

Secondary Capital Questionnaire

II. Secondary Capital - Risk Measurement and Controls

	Yes/No	Comments
1. Are risk limits, as defined by current board policies (such as lending, investments, liquidity, asset-liability management), exceeded during the duration of the secondary capital plan? If so, are the board of directors aware of the policy exceptions? How will policy exceptions be addressed?		
2. Are the assumptions underlying the financial projections of the credit union's Secondary Capital Plan reasonable and supportable?		
3. Is the existing liquidity management policy and program sufficient? Does it incorporate future cash flow forecasts capable of scenario analysis involving borrowings and non-member deposits?		
4. Has the credit union modeled the effects on the levels of primary and secondary sources of liquidity through various interest rate and credit risk scenarios?		
5. Has the credit union defined the risk parameters for the transitional assets acquired (CMOs, participation loans, other investments, etc.) as a result of the secondary capital funds and non-member deposits?		
6. Are the risks and concentration levels reasonable in relation to net worth of the credit union?		