The purpose of the Community Development Investment Program is to provide capital to strengthen the capacity of CDCUs in furthering the Federation’s mission of “helping low- and moderate-income individuals and communities achieve financial independence.”

Secondary capital is one of the Federation’s impact investing initiatives.

What is secondary capital?

Secondary capital is a subordinated loan that is treated as equity for regulatory purposes, serving as a catalyst for growth in scaling the financial growth and expanding the social impact of credit union led financial inclusion initiatives. Starting from five years to maturity, 20% of the loan is discounted and booked as notes payable.

The Federation offers two types of secondary capital products:

- Secondary Capital I (balloon repayment);
- Secondary Capital II (amortizing repayments)

One of the differences between the two loans is that Secondary Capital II borrowers are expected to repay the discounted portions as the loan amortizes. Secondary Capital I borrowers, while they are also encouraged to repay the amortized portions, are expected to make a balloon repayment at maturity.

<table>
<thead>
<tr>
<th></th>
<th>Secondary Capital 1.0 (Balloon Repayment)</th>
<th>Secondary Capital 2.0 (Amortized Repayments)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount</td>
<td>Up to $500,000</td>
<td>Up to $2,000,000</td>
</tr>
<tr>
<td>Requested Term</td>
<td>5-7 years</td>
<td>5-10 years</td>
</tr>
</tbody>
</table>

Rates are determined by the Community Development Investments Committee based on the risk of the credit union, business plan and impact model.
These two loan products have different terms and approval considerations. The following regulatory qualifications and considerations when deciding between secondary capital products. Credit Unions applying for Secondary Capital from the Federation must meet the following criteria:

- A credit union must also be designated as low-income by either NCUA or their state regulatory agency;
- A credit union must be well capitalized at the time of application;
- Credit unions must also submit payment of the application fees.

Credit unions will also have to submit and receive approval of a secondary capital plan to NCUA and/ or their state regulator.

Credit unions seeking to applying for the amortizing secondary capital product must be eligible to receive streamlined approval of secondary capital redemption as detailed in the NCUA’s National Supervisory Policy Manual (see excerpt below.)

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NCUA Supervisory Policy Manual - Excerpts

A request for approval to redeem discounted secondary capital may be submitted in writing at any time, must specify the increment(s) to be redeemed and the schedule for redeeming all or any part of each eligible increment, and must demonstrate to the satisfaction of NCUA that for each year:

(i) The LICU will have a post-redemption net worth classification of “adequately capitalized”;
(ii) The discounted secondary capital has been on deposit at least two years;
(iii) The discounted secondary capital will not be needed to cover losses prior to final maturity of the account;
(iv) The LICU's books and records are current and reconciled;
(v) The proposed redemption will not jeopardize other current sources of funding, if any, to the LICU; and
(vi) The request to redeem is authorized by resolution of the LICU's board of directors.

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 an extraordinary risks associated with its financial and operational activities.

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1 *Note: If your credit union does not meet the NCUA Regulations Section 701.34(d)(1) criteria stated above, you may not qualify for a Secondary Capital II Loan from the Federation. Please consider submitting an application for Secondary Capital I rather than Secondary Capital II.