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# Secondary Capital



“No Mission Without Margin”





# Secondary Capital

- Subordinated debt included in Net Worth
- S.C. can be leveraged with deposits to create more value for the credit union



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# Assumptions - Perpetuity

Annual Interest Rate on Cash	1.00%
Annual Interest Rate on Loans	5.00%
Annual % Credit Loss	0.50%
Debt-to-Equity Ratio	9:1
Equity Multiplier (Assets-to-Equity)	10:1
Interest Rate on Non-Member Deposits	2.00%
Secondary Capital Term (Years)	6
Interest Rate on Secondary Capital	3.50%
Loan losses replaced with new loans	



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# Balance Sheet

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Cash	0	235,000	272,350	317,074	369,244	428,937	496,226
Loans (Net)	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000
<b>Assets</b>	<b>10,000,000</b>	<b>10,235,000</b>	<b>10,272,350</b>	<b>10,317,074</b>	<b>10,369,244</b>	<b>10,428,937</b>	<b>10,496,226</b>
Member Shares	0	0	0	0	0	0	0
Non-Member Deposits	9,000,000	9,000,000	9,000,000	9,000,000	9,000,000	9,000,000	9,000,000
<b>Total Shares</b>	<b>9,000,000</b>	<b>9,000,000</b>	<b>9,000,000</b>	<b>9,000,000</b>	<b>9,000,000</b>	<b>9,000,000</b>	<b>9,000,000</b>
Secondary Capital	1,000,000	1,000,000	800,000	600,000	400,000	200,000	0
Retained Earnings	0	235,000	472,350	717,074	969,244	1,228,937	1,496,226
<b>Total Net Worth</b>	<b>1,000,000</b>	<b>1,235,000</b>	<b>1,272,350</b>	<b>1,317,074</b>	<b>1,369,244</b>	<b>1,428,937</b>	<b>1,496,226</b>
<b>Total Liabilities and Equity</b>	<b>10,000,000</b>	<b>10,235,000</b>	<b>10,272,350</b>	<b>10,317,074</b>	<b>10,369,244</b>	<b>10,428,937</b>	<b>10,496,226</b>



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# Income Statement

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Cash Interest	-	-	2,350	2,724	3,171	3,692	4,289
Loan Interest	-	500,000	500,000	500,000	500,000	500,000	500,000
<b>Total Revenue</b>	-	500,000	502,350	502,724	503,171	503,692	504,289
Interest Expense - Member Shares	-	-	-	-	-	-	-
Interest Expense - Non-Member	-	180,000	180,000	180,000	180,000	180,000	180,000
Interest Expense - Secondary Capital	-	35,000	35,000	28,000	21,000	14,000	7,000
<b>Total Interest Expense</b>	-	215,000	215,000	208,000	201,000	194,000	187,000
<b>Provision for Loan Loss</b>	-	50,000	50,000	50,000	50,000	50,000	50,000
<b>Operating Costs</b>	-	-	-	-	-	-	-
<b>Net Income</b>	-	235,000	237,350	244,724	252,171	259,692	267,289



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# Statement of Cash Flows

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
<i>Operating Activities</i>							
Net Income		235,000	237,350	244,724	252,171	259,692	267,289
Provision for Loan Losses		50,000	50,000	50,000	50,000	50,000	50,000
Operating CF		285,000	287,350	294,724	302,171	309,692	317,289
<i>Investing Activities</i>							
New Loans		(50,000)	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)
<i>Financing Activities</i>							
SC Repayment		-	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)
<b>Total Change in Cash</b>		<b>235,000</b>	<b>37,350</b>	<b>44,724</b>	<b>52,171</b>	<b>59,692</b>	<b>67,289</b>



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***Balance Sheet***

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Cash	0	235,000	272,350	317,074	369,244	428,937	496,226
Loans (Net)	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000
<b>Assets</b>	10,000,000	10,235,000	10,272,350	10,317,074	10,369,244	10,428,937	10,496,226
Non-Member Deposits	9,000,000	9,000,000	9,000,000	9,000,000	9,000,000	9,000,000	9,000,000
Secondary Capital	1,000,000	1,000,000	800,000	600,000	400,000	200,000	0
Retained Earnings	0	235,000	472,350	717,074	969,244	1,228,937	1,496,226
<b>Total Net Worth</b>	1,000,000	1,235,000	1,272,350	1,317,074	1,369,244	1,428,937	1,496,226
<b>Total Liabilities and Equity</b>	10,000,000	10,235,000	10,272,350	10,317,074	10,369,244	10,428,937	10,496,226

***Income Statement***

Total Revenue	-	500,000	502,350	502,724	503,171	503,692	504,289
Total Interest Expense	-	215,000	215,000	208,000	201,000	194,000	187,000
Provision for Loan Loss	-	50,000	50,000	50,000	50,000	50,000	50,000
Operating Costs	-	-	-	-	-	-	-
<b>Net Income</b>	-	<b>235,000</b>	<b>237,350</b>	<b>244,724</b>	<b>252,171</b>	<b>259,692</b>	<b>267,289</b>

***Cash Flow Statement***

Operating CF	-	285,000	287,350	294,724	302,171	309,692	317,289
Investing CF	-	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)
Financing CF	-	-	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)
<b>Total Change in Cash</b>	-	<b>235,000</b>	<b>37,350</b>	<b>44,724</b>	<b>52,171</b>	<b>59,692</b>	<b>67,289</b>
<b>Cumulative Change in Cash</b>	-	<b>235,000</b>	<b>272,350</b>	<b>317,074</b>	<b>369,244</b>	<b>428,937</b>	<b>496,226</b>





# Return on Assets

$$ROA = \frac{NI}{A}$$



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# Return on Assets

Where: the only costs are financing costs

$$\text{ROA} = \frac{\text{Net Yield on Assets}}{\text{Weighted Average Cost of Capital}}$$



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# Weighted Average Cost of Capital

$$WACC = w_{debt} \times Cost_{debt} + w_{equity} \times Cost_{equity}$$

Where:

- $w_{debt}$  = the percentage of debt in the capital structure
- $w_{equity}$  = the percentage of equity in the capital structure
- $Cost_{debt}$  = the cost of debt
- $Cost_{equity}$  = the cost of equity
- The weights add to one:  $w_d + w_{eq} = 1$



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# Weighted Average Cost of Capital

$$WACC = w_{debt} \times Cost_{debt} + w_{equity} \times Cost_{equity}$$

$$2.15\% = 90\% \times 2.00\% + 10\% \times 3.50\%$$



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# Return on Assets

Where: the only costs are financing costs

$$\text{ROA} = \text{Net Yield on Assets} - \text{WACC}$$

$$2.35\% = (5.00\% - 0.50\%) - 2.15\%$$



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# Return on Equity

$$\text{ROE} = \frac{NI}{A} \times \frac{A}{E} = \frac{NI}{E}$$

(ROA)

(Leverage)



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# Return on Equity

$$\text{ROE} = \frac{.235}{10} \times \frac{10}{1} = \frac{.235}{1}$$

(ROA) (Leverage)



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# Weighted Average Cost of Capital


$$WACC = w_{debt} \times Cost_{debt} + w_{equity} \times Cost_{equity}$$

$$2.50\% = 90\% \times 2.00\% + 10\% \times 7.00\%$$



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	<u>Balance Sheet</u>						
	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Cash	0	200,000	202,000	218,020	248,200	292,682	351,609
Loans (Net)	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000
<b>Assets</b>	<b>10,000,000</b>	<b>10,200,000</b>	<b>10,202,000</b>	<b>10,218,020</b>	<b>10,248,200</b>	<b>10,292,682</b>	<b>10,351,609</b>
Non-Member Deposits	9,000,000	9,000,000	9,000,000	9,000,000	9,000,000	9,000,000	9,000,000
Secondary Capital at 7.00%	1,000,000	1,000,000	800,000	600,000	400,000	200,000	0
Retained Earnings	0	200,000	402,000	618,020	848,200	1,092,682	1,351,609
<b>Total Net Worth</b>	<b>1,000,000</b>	<b>1,200,000</b>	<b>1,202,000</b>	<b>1,218,020</b>	<b>1,248,200</b>	<b>1,292,682</b>	<b>1,351,609</b>
<b>Total Liabilities and Equity</b>	<b>10,000,000</b>	<b>10,200,000</b>	<b>10,202,000</b>	<b>10,218,020</b>	<b>10,248,200</b>	<b>10,292,682</b>	<b>10,351,609</b>

	<u>Income Statement</u>						
Total Revenue	-	500,000	502,000	502,020	502,180	502,482	502,927
Total Interest Expense	-	250,000	250,000	236,000	222,000	208,000	194,000
Provision for Loan Loss	-	50,000	50,000	50,000	50,000	50,000	50,000
Operating Costs	-	-	-	-	-	-	-
<b>Net Income</b>	<b>-</b>	<b>200,000</b>	<b>202,000</b>	<b>216,020</b>	<b>230,180</b>	<b>244,482</b>	<b>258,927</b>

	<u>Cash Flow Statement</u>						
Operating CF	-	250,000	252,000	266,020	280,180	294,482	308,927
Investing CF	-	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)
Financing CF	-	-	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)
<b>Total Change in Cash</b>	<b>-</b>	<b>200,000</b>	<b>2,000</b>	<b>16,020</b>	<b>30,180</b>	<b>44,482</b>	<b>58,927</b>
<b>Cumulative Change in Cash</b>	<b>-</b>	<b>200,000</b>	<b>202,000</b>	<b>218,020</b>	<b>248,200</b>	<b>292,682</b>	<b>351,609</b>







# Return on Equity

$$\text{ROE} = \frac{.20}{10} \times \frac{10}{1} = 20\%$$

(ROA) (Leverage)



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# Assumptions - Amortizing

Annual Interest Rate on Cash	1.00%
Annual Interest Rate on Loans	5.00%
Annual % Credit Loss	0.50%
Leverage Ratio	9:1
Equity Multiplier (Assets-to-Equity)	10:1
Secondary Capital Term (Years)	6
Loan Term (Years)	6
Average Rate on Non-Member Deposits	1.75%
Interest Rate on Secondary Capital	3.50%



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# Non-Member Deposit Ladder

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Total
Amount	1,500,000	1,500,000	1,750,000	1,500,000	1,750,000	1,000,000	9,000,000
Rate	1.25%	1.55%	1.60%	1.85%	2.15%	2.25%	
Interest	157,875	139,125	115,875	87,875	60,125	22,500	583,375
Weight	16.67%	16.67%	19.44%	16.67%	19.44%	11.11%	100.00%
Weighted Rate	0.21%	0.26%	0.31%	0.31%	0.42%	0.25%	1.75%



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	<u>Balance Sheet</u>						
	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Cash	0	234,651	298,116	150,571	295,059	234,678	977,699
Loans (Net)	10,000,000	8,529,825	6,986,142	5,365,274	3,663,363	1,876,357	0
<b>Assets</b>							
Member Shares	0	0	0	0	0	0	0
Non-Member Deposits	9,000,000	7,500,000	6,000,000	4,250,000	2,750,000	1,000,000	0
Total Shares	9,000,000	7,500,000	6,000,000	4,250,000	2,750,000	1,000,000	0
Retained Earnings	0	264,476	484,258	665,845	808,422	911,034	977,699
Secondary Capital	1,000,000	1,000,000	800,000	600,000	400,000	200,000	0
Total Net Worth	1,000,000	1,264,476	1,284,258	1,265,845	1,208,422	1,111,034	977,699
Total Liabilities and Equity	10,000,000	8,764,476	7,284,258	5,515,845	3,958,422	2,111,034	977,699

	<u>Income Statement</u>						
Total Revenue	-	500,000	428,838	352,288	269,769	186,119	96,165
Total Interest Expense	-	192,875	174,125	143,875	108,875	74,125	29,500
Provision for Loan Loss	-	42,649	34,931	26,826	18,317	9,382	-
Operating Costs	-	-	-	-	-	-	-
Net Income	-	264,476	219,782	181,587	142,578	102,612	66,665

	<u>Cash Flow Statement</u>						
Operating CF	-	307,125	254,713	208,413	160,894	111,994	66,665
Investing CF	-	1,427,526	1,508,753	1,594,041	1,683,594	1,777,625	1,876,357
Financing CF	-	(1,500,000)	(1,700,000)	(1,950,000)	(1,700,000)	(1,950,000)	(1,200,000)
Total Change in Cash	-	234,651	63,465	(147,546)	144,489	(60,382)	743,021
Cumulative Change in Cash	-	234,651	298,116	150,571	295,059	234,678	977,699





# SloGro FCU

- \$100m in assets
- 10% capital
- 70% Loans to Assets
- ROA of 0.225%
- No Member Growth



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Balance Sheet	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Cash	30,000,000	30,225,000	30,452,250	30,681,773	30,913,590	31,147,726	31,384,203
<b>Total Loans (Net)</b>	<b>70,000,000</b>	<b>70,000,000</b>	<b>70,000,000</b>	<b>70,000,000</b>	<b>70,000,000</b>	<b>70,000,000</b>	<b>70,000,000</b>
Member Loans	70,000,000	70,000,000	70,000,000	70,000,000	70,000,000	70,000,000	70,000,000
Participation Loans	0	0	0	0	0	0	0
<b>Assets</b>	<b>100,000,000</b>	<b>100,225,000</b>	<b>100,452,250</b>	<b>100,681,773</b>	<b>100,913,590</b>	<b>101,147,726</b>	<b>101,384,203</b>
<b>Member Shares</b>	<b>90,000,000</b>	<b>90,000,000</b>	<b>90,000,000</b>	<b>90,000,000</b>	<b>90,000,000</b>	<b>90,000,000</b>	<b>90,000,000</b>
<b>Non-Member Deposits</b>		0	0	0	0	0	0
<b>Total Shares</b>	<b>90,000,000</b>	<b>90,000,000</b>	<b>90,000,000</b>	<b>90,000,000</b>	<b>90,000,000</b>	<b>90,000,000</b>	<b>90,000,000</b>
<b>Retained Earnings</b>	<b>10,000,000</b>	<b>10,225,000</b>	<b>10,452,250</b>	<b>10,681,773</b>	<b>10,913,590</b>	<b>11,147,726</b>	<b>11,384,203</b>
<b>Secondary Capital</b>		0	0	0	0	0	0
<b>Total Net Worth</b>	<b>10,000,000</b>	<b>10,225,000</b>	<b>10,452,250</b>	<b>10,681,773</b>	<b>10,913,590</b>	<b>11,147,726</b>	<b>11,384,203</b>
<b>Total Liabilities and Equity</b>	<b>100,000,000</b>	<b>100,225,000</b>	<b>100,452,250</b>	<b>100,681,773</b>	<b>100,913,590</b>	<b>101,147,726</b>	<b>101,384,203</b>
Net Worth Ratio	10.0%	10.2%	10.4%	10.6%	10.8%	11.0%	11.2%
<b>Income Statement</b>							
Cash Interest		300,000	302,250	304,523	306,818	309,136	311,477
Total Loan Interest		3,500,000	3,500,000	3,500,000	3,500,000	3,500,000	3,500,000
Member Loan Interest		3,500,000	3,500,000	3,500,000	3,500,000	3,500,000	3,500,000
Participation Loan Interest		-	-	-	-	-	-
<b>Total Revenue</b>		<b>3,800,000</b>	<b>3,802,250</b>	<b>3,804,523</b>	<b>3,806,818</b>	<b>3,809,136</b>	<b>3,811,477</b>
<b>Interest Expense - Member Shares</b>		<b>225,000</b>	<b>225,000</b>	<b>225,000</b>	<b>225,000</b>	<b>225,000</b>	<b>225,000</b>
<b>Total Interest Expense</b>		<b>225,000</b>	<b>225,000</b>	<b>225,000</b>	<b>225,000</b>	<b>225,000</b>	<b>225,000</b>
Provision for Loan Loss		350,000	350,000	350,000	350,000	350,000	350,000
Operating Costs		3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
<b>Net Income</b>		<b>225,000</b>	<b>227,250</b>	<b>229,523</b>	<b>231,818</b>	<b>234,136</b>	<b>236,477</b>
ROA		0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
ROE		2.2%	2.2%	2.1%	2.1%	2.1%	2.1%

No  
Secondary  
Capital

\$225k in  
Net  
Income





# SloGro w/ Secondary Capital

- Overlay \$1m Secondary Capital, NMD, and additional loans on to the CU
- Additional earnings for investment into core member loan and deposit services



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	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Cash	30,000,000	30,460,000	30,724,600	30,998,846	31,282,834	31,576,663	31,880,429
<b>Total Loans (Net)</b>	<b>80,000,000</b>	<b>80,000,000</b>	<b>80,000,000</b>	<b>80,000,000</b>	<b>80,000,000</b>	<b>80,000,000</b>	<b>80,000,000</b>
Member Loans	70,000,000	70,000,000	70,000,000	70,000,000	70,000,000	70,000,000	70,000,000
Participation Loans	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000
<b>Assets</b>	<b>110,000,000</b>	<b>110,460,000</b>	<b>110,724,600</b>	<b>110,998,846</b>	<b>111,282,834</b>	<b>111,576,663</b>	<b>111,880,429</b>
Member Shares	90,000,000	90,000,000	90,000,000	90,000,000	90,000,000	90,000,000	90,000,000
Non-Member Deposits	9,000,000	9,000,000	9,000,000	9,000,000	9,000,000	9,000,000	9,000,000
<b>Total Shares</b>	<b>99,000,000</b>	<b>99,000,000</b>	<b>99,000,000</b>	<b>99,000,000</b>	<b>99,000,000</b>	<b>99,000,000</b>	<b>99,000,000</b>
Retained Earnings	10,000,000	10,460,000	10,924,600	11,398,846	11,882,834	12,376,663	12,880,429
Secondary Capital	1,000,000	1,000,000	800,000	600,000	400,000	200,000	0
<b>Total Net Worth</b>	<b>11,000,000</b>	<b>11,460,000</b>	<b>11,724,600</b>	<b>11,998,846</b>	<b>12,282,834</b>	<b>12,576,663</b>	<b>12,880,429</b>
<b>Total Liabilities and Equity</b>	<b>110,000,000</b>	<b>110,460,000</b>	<b>110,724,600</b>	<b>110,998,846</b>	<b>111,282,834</b>	<b>111,576,663</b>	<b>111,880,429</b>
Net Worth Ratio	10.0%	10.4%	10.6%	10.8%	11.0%	11.3%	11.5%

#### Income Statement

Cash Interest		300,000	304,600	307,246	309,988	312,828	315,767
Total Loan Interest		4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000
Member Loan Interest		3,500,000	3,500,000	3,500,000	3,500,000	3,500,000	3,500,000
Participation Loan Interest		500,000	500,000	500,000	500,000	500,000	500,000
<b>Total Revenue</b>		<b>4,300,000</b>	<b>4,304,600</b>	<b>4,307,246</b>	<b>4,309,988</b>	<b>4,312,828</b>	<b>4,315,767</b>
Interest Expense - Member Shares		225,000	225,000	225,000	225,000	225,000	225,000
Interest Expense - Non-Member Shares		180,000	180,000	180,000	180,000	180,000	180,000
Interest Expense - Secondary Capital		35,000	35,000	28,000	21,000	14,000	7,000
<b>Total Interest Expense</b>		<b>440,000</b>	<b>440,000</b>	<b>433,000</b>	<b>426,000</b>	<b>419,000</b>	<b>412,000</b>
Provision for Loan Loss		400,000	400,000	400,000	400,000	400,000	400,000
Operating Costs		3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
<b>Net Income</b>		<b>460,000</b>	<b>464,600</b>	<b>474,246</b>	<b>483,988</b>	<b>493,828</b>	<b>503,767</b>
ROA		0.4%	0.4%	0.4%	0.4%	0.4%	0.5%
ROE		4.0%	4.0%	4.0%	3.9%	3.9%	3.9%



# Alternative Structure

- 1% Marginal ROA
- 10x leverage
- \$5mm of Secondary Capital
- Add'l NI =  $\$5\text{mm} \times 1\% \times 10 = \$500,000$



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	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Cash	30,000,000	30,725,000	31,457,250	32,196,823	32,943,791	33,698,229	34,460,211
<b>Total Loans (Net)</b>	<b>120,000,000</b>	<b>120,000,000</b>	<b>120,000,000</b>	<b>120,000,000</b>	<b>120,000,000</b>	<b>120,000,000</b>	<b>120,000,000</b>
Member Loans	70,000,000	70,000,000	70,000,000	70,000,000	70,000,000	70,000,000	70,000,000
Participation Loans	50,000,000	50,000,000	50,000,000	50,000,000	50,000,000	50,000,000	50,000,000
<b>Assets</b>	<b>150,000,000</b>	<b>150,725,000</b>	<b>151,457,250</b>	<b>152,196,823</b>	<b>152,943,791</b>	<b>153,698,229</b>	<b>154,460,211</b>
Member Shares	90,000,000	90,000,000	90,000,000	90,000,000	90,000,000	90,000,000	90,000,000
Non-Member Deposits	45,000,000	45,000,000	45,000,000	45,000,000	45,000,000	45,000,000	45,000,000
<b>Total Shares</b>	<b>135,000,000</b>	<b>135,000,000</b>	<b>135,000,000</b>	<b>135,000,000</b>	<b>135,000,000</b>	<b>135,000,000</b>	<b>135,000,000</b>
Retained Earnings	10,000,000	10,725,000	11,457,250	12,196,823	12,943,791	13,698,229	14,460,211
Secondary Capital	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000
<b>Total Net Worth</b>	<b>15,000,000</b>	<b>15,725,000</b>	<b>16,457,250</b>	<b>17,196,823</b>	<b>17,943,791</b>	<b>18,698,229</b>	<b>19,460,211</b>
<b>Total Liabilities and Equity</b>	<b>150,000,000</b>	<b>150,725,000</b>	<b>151,457,250</b>	<b>152,196,823</b>	<b>152,943,791</b>	<b>153,698,229</b>	<b>154,460,211</b>
Net Worth Ratio	10.0%	10.4%	10.9%	11.3%	11.7%	12.2%	12.6%
<b>Income Statement</b>							
Cash Interest		300,000	307,250	314,573	321,968	329,438	336,982
Total Loan Interest		5,325,000	5,325,000	5,325,000	5,325,000	5,325,000	5,325,000
Member Loan Interest		3,500,000	3,500,000	3,500,000	3,500,000	3,500,000	3,500,000
Participation Loan Interest		1,825,000	1,825,000	1,825,000	1,825,000	1,825,000	1,825,000
Total Revenue		5,625,000	5,632,250	5,639,573	5,646,968	5,654,438	5,661,982
Interest Expense - Member Shares		225,000	225,000	225,000	225,000	225,000	225,000
Interest Expense - Non-Member Shares		900,000	900,000	900,000	900,000	900,000	900,000
Interest Expense - Secondary Capital		175,000	175,000	175,000	175,000	175,000	175,000
Total Interest Expense		1,300,000	1,300,000	1,300,000	1,300,000	1,300,000	1,300,000
Provision for Loan Loss		600,000	600,000	600,000	600,000	600,000	600,000
Operating Costs		3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
<b>Net Income</b>		<b>725,000</b>	<b>732,250</b>	<b>739,573</b>	<b>746,968</b>	<b>754,438</b>	<b>761,982</b>
ROA		0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
ROE		4.6%	4.4%	4.3%	4.2%	4.0%	3.9%

**\$5mm in  
Secondary  
Cap.**

**\$725k in  
Net  
Income**






# Fast Growth CU

- Grows member shares and loans faster than retained earnings
- Secondary Capital is a permanent part of its business plan



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# Fast Growth - Assumptions

Annual Interest Rate on Cash	1.00%
Annual Interest Rate on Loans	5.75%
Annual % Credit Loss	0.50%
Leverage Ratio	9:1
Interest Rate on Member Deposits	0.25%
Interest Rate on Non-Member Deposits	2.00%
Interest Rate on Secondary Capital	7.00%
Member Shares Growth Rate	20.0%
Loan Growth Rate	14.0%
Operating Expense Growth Rate	12.0%



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# No Sec. Capital

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
<b>Cash</b>	20,000,000	27,725,000	38,392,410	51,970,477	69,144,912	90,752,320	117,812,211
<b>Loans</b>	80,000,000	91,200,000	103,968,000	118,523,520	135,116,813	154,033,167	175,597,810
Member Loans	80,000,000	91,200,000	103,968,000	118,523,520	135,116,813	154,033,167	175,597,810
Participation Loans							
<b>Assets</b>	100,000,000	118,925,000	142,360,410	170,493,997	204,261,724	244,785,487	293,410,021
<b>Member Shares</b>	90,000,000	108,000,000	129,600,000	155,520,000	186,624,000	223,948,800	268,738,560
<b>Non-Member Deposits</b>							
<b>Total Shares</b>	90,000,000	108,000,000	129,600,000	155,520,000	186,624,000	223,948,800	268,738,560
<b>Retained Earnings</b>	10,000,000	10,925,000	12,760,410	14,973,997	17,637,724	20,836,687	24,671,461
<b>Secondary Capital</b>							
<b>Total Net Worth</b>	10,000,000	10,925,000	12,760,410	14,973,997	17,637,724	20,836,687	24,671,461
<b>Total Liabilities and Equity</b>	100,000,000	118,925,000	142,360,410	170,493,997	204,261,724	244,785,487	293,410,021
<b>Net Worth</b>	<b>10.00%</b>	<b>9.19%</b>	<b>8.96%</b>	<b>8.78%</b>	<b>8.63%</b>	<b>8.51%</b>	<b>8.41%</b>
<b>Income Statement</b>							
Cash Interest		200,000	277,250	383,924	519,705	691,449	907,523
Loan Interest		4,600,000	5,978,160	6,815,102	7,769,217	8,856,907	10,096,874
<b>Total Revenue</b>		<b>4,800,000</b>	<b>6,255,410</b>	<b>7,199,027</b>	<b>8,288,922</b>	<b>9,548,356</b>	<b>11,004,397</b>
Interest Expense - Member Shares		225,000	324,000	388,800	466,560	559,872	671,846
Interest Expense - Non-Member Shares		-	-	-	-	-	-
Interest Expense - Secondary Capital		-	-	-	-	-	-
<b>Total Interest Expense</b>		<b>225,000</b>	<b>324,000</b>	<b>388,800</b>	<b>466,560</b>	<b>559,872</b>	<b>671,846</b>
Provision for Loan Loss		400,000	456,000	519,840	592,618	675,584	770,166
Operating Costs		3,250,000	3,640,000	4,076,800	4,566,016	5,113,938	5,727,610
<b>Net Income</b>		<b>-</b>	<b>925,000</b>	<b>1,835,410</b>	<b>2,213,587</b>	<b>3,198,962</b>	<b>3,834,775</b>
ROA		0.78%	1.29%	1.30%	1.30%	1.31%	1.31%
ROE		8.5%	14.4%	14.8%	15.1%	15.4%	15.5%



2020



# With Sec. Capital

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
<b>Cash</b>	20,000,000	27,725,000	38,093,510	50,975,442	69,123,420	90,285,196	118,722,040
<b>Loans</b>	80,000,000	93,200,000	106,248,000	121,122,720	138,079,901	157,411,087	179,448,639
Member Loans	80,000,000	93,200,000	106,248,000	121,122,720	138,079,901	157,411,087	179,448,639
Participation Loans							
<b>Assets</b>	100,000,000	120,925,000	144,341,510	172,098,162	207,203,321	247,696,283	298,170,679
<b>Member Shares</b>	90,000,000	108,000,000	129,600,000	155,520,000	186,624,000	223,948,800	268,738,560
<b>Non-Member Deposits</b>							
<b>Total Shares</b>	90,000,000	108,000,000	129,600,000	155,520,000	186,624,000	223,948,800	268,738,560
<b>Retained Earnings</b>	10,000,000	10,925,000	12,741,510	14,978,162	17,579,321	20,747,483	24,432,119
<b>Secondary Capital</b>		2,000,000	2,000,000	1,600,000	3,000,000	3,000,000	5,000,000
<b>Total Net Worth</b>	10,000,000	12,925,000	14,741,510	16,578,162	20,579,321	23,747,483	29,432,119
<b>Total Liabilities and Equity</b>	100,000,000	120,925,000	144,341,510	172,098,162	207,203,321	247,696,283	298,170,679
<b>Net Worth</b>	10.00%	10.69%	10.21%	9.63%	9.93%	9.59%	9.87%
<b>Income Statement</b>							
Cash Interest		200,000	277,250	380,935	509,754	691,234	902,852
Loan Interest		4,600,000	6,109,260	6,964,556	7,939,594	9,051,137	10,318,297
<b>Total Revenue</b>		4,800,000	6,386,510	7,345,492	8,449,349	9,742,372	11,221,149
Interest Expense - Member Shares		225,000	324,000	388,800	466,560	559,872	671,846
Interest Expense - Non-Member Shares		-	-	-	-	-	-
Interest Expense - Secondary Capital		-	140,000	112,000	210,000	210,000	350,000
<b>Total Interest Expense</b>		225,000	464,000	500,800	676,560	769,872	1,021,846
Provision for Loan Loss		400,000	466,000	531,240	605,614	690,400	787,055
Operating Costs		3,250,000	3,640,000	4,076,800	4,566,016	5,113,938	5,727,610
<b>Net Income</b>	-	925,000	1,816,510	2,236,652	2,601,159	3,168,162	3,684,636
ROA		0.76%	1.26%	1.30%	1.26%	1.28%	1.24%
ROE		7.2%	12.3%	13.5%	12.6%	13.3%	12.5%

