[CREDIT UNION NAME]
LOAN PARTICIPATION POLICY

1. PURPOSE

[Federal][State][[1]](#footnote-1) laws and regulations allow credit unions to enter into loan participations in order to further the financial success of credit unions. Loan participations may provide the selling credit unions with a means to manage regulatory, interest rate risk, liquidity, credit and geographic concentration risks and increase non-interest revenue. Buying credit unions may benefit from diversifying their balance sheet, putting excess liquidity into interest generating assets and increasing revenue.

“Loan participations strengthen the credit union industry by providing a useful way for credit unions to diversify their loan portfolios, improve earnings, generate loan growth, manage their balance sheets, and comply with regulatory requirements. Credit unions also use liquidity obtained through the sale of loan participations to increase the availability of credit to small businesses and consumers. “ (See NCUA final rule announcement at Federal Register Vol. 78 No. 122 (June 25, 2013) 37941.)

After a thorough review of benefits and risk associated with having a loan participation program, this credit union believes it is in its best interest to enter into loan participations from time to time in conformity with this policy.

This loan participation policy (this “Policy”) covers the manner in which [Credit Union Name][[2]](#footnote-2) may purchase and sell Loan Participations in conformity with NCUA guidelines and, in particular, NCUA Regulation 701.22 (“Loan participations.”) [and any applicable state law or regulation, including [Section ]][[3]](#footnote-3).

1. DEFINITIONS

All capitalized terms used but not defined herein shall have the meaning ascribed to them in NCUA Regulations 701.22 (“Loan participations.”).

1. INITIAL PROGRAM ADOPTION

Management has documented and reported to the Board of this credit union the benefits and risks of adopting this Policy and initiating a loan participation program, including a review of the following:

1. Credit Risk Assessment

A determination of which loan types to be included in this program and concentration limits based on a number of items, including staff experience and expertise, resources available to manage the program and the ability to track information and changing risks.

1. Interest Rate Risk Assessment

A determination of interest rate risk for various loans and loan types, size, whether variable or fixed, including on whether the program will include any loans with extended maturities.

1. Liquidity Risk Assessment

A determination that the credit union has sufficient liquidity available to fulfill obligations to purchase Loan Participations [especially if any revolving lines of credit will be included in the program][[4]](#footnote-4) and whether after any purchases, the buying credit union will have adequate capital to meet (i) their own members’ future loan demand; [and] (ii) the ability to manage and monitor cash flows[; and (iii) the funding sources to meet all potential calls for future loan disbursements (especially if revolving lines are included in the program)][[5]](#footnote-5).

1. Transaction Risk Assessment

A determination that the credit union fully understands the applicable loan participation agreement and that the credit union has internal controls, audit and business contingency plans in place to manage purchases and sales and a determination as to whether there is sufficient “bond” coverage for the adoption of this program.

1. Compliance Risk Assessment

A determination that the credit union has the controls in place to monitor and that it understands the applicable regulations governing loan participations, including (i) NCUA regulations applicable to loan participations, (ii) NCUA regulations governing appraisals, [(iii) applicable state laws],[[6]](#footnote-6) (iv) Bank Secrecy Act, and consumer protection regulations such as Truth in Lending, [and] Equal Credit Opportunity Act[, and Real Estate Settlement Procedures Act][[7]](#footnote-7).

1. Strategic Risk Assessment

A determination that this loan participation program complements the credit union’s overall mission and philosophy and how the program relates to the credit union’s long term strategic plan, objectives and resource allocations.

1. Reputation Risk Assessment

A determination that the credit union has adequate internal controls, staffing, and resources to make purchases [especially if any revolving lines will be included in the program][[8]](#footnote-8).

1. Originating Credit Union Due Diligence

In addition to the underwriting to be performed for any given Loan Participation, Management shall also make a determination regarding the originating credit unions or class of originating credit unions from which any Loan Participation may be purchased prior to the first purchase by this credit union from that originating credit union or class of originating credit unions. Furthermore, so long as this credit union holds any outstanding Loan Participations with respect to any originating credit union or class of originating credit unions, Management shall conduct an annual review of those originating credit unions or class of originating credit unions. Management review shall include:[[9]](#footnote-9)

* 1. the 5300 call reports for the preceding 18 consecutive calendar months and shall include a financial analysis of capital, net worth, and loan loss ratios;
	2. whether the originating credit unions are subject to different regulations due to differences in charters or otherwise the result of which this credit union being unable to purchase a Loan Participation from that credit union consistent with this policy.

Management shall maintain a list of approved originating credit unions or approved classes of originating credit unions for purchasing Loan Participations.

1. LOAN REQUIREMENTS

Purchases and sales of Loan Participations shall conform to the following requirements:

1. Loan Participation Purchases
	1. The selling credit union shall in all cases retain at least 10% of the outstanding aggregate principal balance of the loan throughout the life of the loan.
	2. Purchases of Loan Participations shall solely be entered into with Eligible Organizations.
	3. Purchases of Loan Participations shall solely be entered into with respect to loans that this credit union is empowered to make and set forth in Section VI (“Applicable Loan Types”).
	4. Purchases of Loan Participations shall comply with all regulatory requirements to the same extent as if the credit union had originated the loan, including, loans-to-one-borrower provisions in NCUA Regulation 701.21(c)(5) and 723.8 and maximum allowable interest rate.[[10]](#footnote-10)
2. Loan Participation Sales
	1. This credit union shall sell no more than 90% of any Loan Participation and will continue hold at least 10% of each Loan Participation for the life of the loan.
	2. This credit union shall solely sell Loan Participations on a non-recourse basis.
3. APPLICABLE LOAN TYPES

This Policy shall solely cover loans that this credit union is empowered to make and shall be limited to the following loan types:

1. [Automotive][[11]](#footnote-11)
2. [Residential]
3. [Business Loans]
4. [etc.]

[This Policy further limits the purchase of the following loan types to the credit union’s typical market or trade area:

1. Business Loans][[12]](#footnote-12)
2. UNDERWRITING

Each Loan Participation purchased under this Policy shall be underwritten in the same manner as any loan originated by this credit union as set forth in the following [policy(ies) [Underwriting Policy]][[13]](#footnote-13) [with the following exceptions:][[14]](#footnote-14)

1. [Automotive

(*Describe exceptions to standard underwriting policy, for example, any sampling process.*)]

1. PRICING; PREMIUMS; SERVICING FEES

Purchases and sales of Loan Participations with premiums, discounts and servicing fees shall be determined on a case-by-case basis as may be appropriate for a given loan type and current market conditions.

1. PARTICIPATION AGREEMENT

Each Loan Participations purchased or sold under this Policy shall be subject to a written participation agreement substantially in the form of Exhibit A.[[15]](#footnote-15)

The written participation agreement, attached in the form of Exhibit A, provides for:

1. The identification of each loan being purchased or sold through incorporation by reference in a purchase or sale confirmation;
2. The interest the originating credit union shall retain for each Loan Participation;
3. The location and custodian of all original loan documents;
4. The manner in which information about the performance of the borrower and each Loan Participation may be received and accessed so to enable proper loan monitoring; and
5. A detailed description of the duties and responsibilities of the originating credit union, servicer and purchasing credit union with respect all aspects of the participation, including servicing, default, foreclosure, collection and all other matters regarding the ongoing administration of the loan.

Management shall ensure that this credit union complies with its contractual obligations set forth in that agreement with respect to any Loan Participations purchased or sold pursuant to it.

1. PURCHASE LIMITS

Purchases of Loan Participations shall be subject to certain aggregate limits as set forth below:

1. Single Lender Limits

The aggregate principal amount of Loan Participations that may be purchased from any single lender shall not exceed the greater of $5,000,000 or 100% of the net worth of this credit union.[[16]](#footnote-16)

1. Loan Type Limits

The aggregate principal amount of Loan Participations that may be purchased shall not exceed the following percentages of the net worth of this credit union for each loan type as follows:

* 1. [Automotive]: [ ]% of net worth.[[17]](#footnote-17)
	2. [etc.]
1. Single Borrower Limits

The aggregate principal amount of Loan Participations that may be purchased from a single borrower or group of associated borrowers shall not exceed 15% of the net worth of this credit union.[[18]](#footnote-18)

1. [Total Aggregate Limits

The total aggregate principal amount of Loan Participations that may be purchased regardless of source shall not exceed [[ ]% or $[ ] of this credit union.][[19]](#footnote-19)

1. LOAN PARTICIPATION REPORTING

Recognizing that a proper Loan Participation program requires loan level reporting, management shall ensure that this credit union complies with its contractual obligations under the written participation agreement, attached as Exhibit A, as it relates to reporting.

1. LOAN PARTICIPATION MONITORING

Recognizing that a proper Loan Participation program requires loan level monitoring, this credit union shall comply with the NCUA Regulations regarding monitoring of a Loan Participation as required under Section 701.22 and shall do so to the same extent as if the loan was originated by the credit union, including a review of documents such as financial statements, tax returns and other information from the borrower (as they are provided by the borrower from time to time under the loan documents) and payment histories (as payments are made by the borrower).[[20]](#footnote-20)

1. MANAGEMENT REPORT TO BOARD

Management shall report to its Board annually a review of this loan participation program, including a review of the following criteria: (1) credit risk assessment; (2) interest rate assessment; (3) liquidity risk assessment; (4) compliance risk assessment; (5) strategic risk assessment; and (6) reputation risk assessment.

Management shall report to its Board [annually][semi-annually][[21]](#footnote-21) the list of originating credit unions or classes of originating credit unions approved by Management for the purchase of Loan Participations based upon the review performed in this Section as well as the results of its annual review for each such originating institution.

1. BOARD REVIEW

This Policy shall be subject to an annual review and approval by the Board.

Approved by the Board on [DATE]

1. Select “Federal” for federally chartered credit unions. Select “State” for state chartered credit unions. [↑](#footnote-ref-1)
2. Adopting credit union shall input its full legal name. [↑](#footnote-ref-2)
3. State-chartered credit unions should include applicable state regulations or laws. [↑](#footnote-ref-3)
4. Include only if revolving lines of credit will be included in the loan participation program. Loan participations involving revolving lines of credit are not common among credit unions. [↑](#footnote-ref-4)
5. Include only if revolving lines of credit will be included in the loan participation program. Loan participations involving revolving lines of credit are not common among credit unions. [↑](#footnote-ref-5)
6. State chartered credit unions should review any unique state laws applicable to loan participations. [↑](#footnote-ref-6)
7. Include if real estate loans will be an approved loan type. [↑](#footnote-ref-7)
8. Include only if revolving lines of credit will be included in the loan participation program. Loan participations involving revolving lines of credit are not common among credit unions. [↑](#footnote-ref-8)
9. Depending on the complexity of the relationship with a particular originating credit union, Management may supplement this review with additional due diligence to mitigate additional risks that a more extensive and complex relationship with a selling credit union may create, including a review of the length of time originating a loan type, any material changes in relevant staff such as underwriting and servicing staff for a particular loan type and any material changes to the trade areas especially if the change could materially alter credit risk. [↑](#footnote-ref-9)
10. State-chartered credit unions should add references to specific state laws or regulations to the extent there are different limitations from the NCUA regulations with respect to loans to a single borrower or allowable interest rate [↑](#footnote-ref-10)
11. Select which loan types shall be subject to this Policy. Only loan types that the credit union has existing loan policies in place for should be included. For example, if the credit union does not have a member business loan policy, do not include member business loans. Nonetheless, the credit union does not need to originate the included loan types, it is sufficient that the credit union has a policy with respect to such loan types. [↑](#footnote-ref-11)
12. Certain loan types such as business loans, including commercial real estate loans, can have greater geographic differences and Management should make a determination as to whether geographic limitations would be appropriate for certain loan types. [↑](#footnote-ref-12)
13. Select applicable underwriting policies of the credit union and input cross reference to those policies here. [↑](#footnote-ref-13)
14. Include “exceptions” language solely if the credit union will have differences in the manner in which loans will be underwritten when purchased than if originated by the credit unions. This could include differences in information reviewed or minimum credit score or otherwise. [↑](#footnote-ref-14)
15. Attach the master participation agreement provided in conjunction with the LoanStreet LLC platform and available at [www.loan-street.com](http://www.loan-street.com). [↑](#footnote-ref-15)
16. These amounts are the maximum allowed under NCUA Regulations, the credit union may have a lower amount. [↑](#footnote-ref-16)
17. Include each loan type subject to this Policy (under Section IV). Place percentage of net worth that the Management with the approval of the Board believes to be an appropriate percentage. [↑](#footnote-ref-17)
18. This amount is the maximum amount allowed under NCUA regulations, the credit union may choose to have a lower amount. [↑](#footnote-ref-18)
19. NCUA Regulation 701.22 does not specify a maximum aggregate amount. Management and the Board may choose not to include a total aggregate limit beyond the other concentration limits already required or can set the amount as a percentage or dollar amount as it deems prudent. [↑](#footnote-ref-19)
20. The master participation agreement used in conjunction with the LoanStreet LLC platform provides for such information to be made available to the purchaser to enable proper loan participation monitoring. [↑](#footnote-ref-20)
21. Select the time period that the Board would like to receive reports on the list of approved originating credit unions. [↑](#footnote-ref-21)