



# **Guidelines for Submission of Requests for Expanded Authority**

**UNDER THE PROVISIONS OF APPENDIX B, PART 704,  
NCUA RULES AND REGULATIONS**

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## ***Foreword***

This document is intended to provide guidance for those corporate credit unions (corporates) seeking expanded authorities under Appendix B of Part 704 of the National Credit Union Administration's (NCUA) Rules and Regulations. These guidelines represent prudent policies, practices, procedures, and acceptable qualifications, which must be evident in a corporate for NCUA to approve an expanded authority request and are intended to be a framework for a corporate in assessing its capabilities.

Because no two corporates are exactly alike, it would be impossible for the guidelines to encompass every possible financial or operational scenario. Therefore, it will be necessary for NCUA staff to exercise judgment when considering issues specific to an institution. Maintaining open lines of communication between corporate officials and NCUA is a vital and important component during the review of the expanded authority request and serves to enhance the approval process and the overall regulatory environment.

## Introduction

There are five distinct expanded authorities (Base Plus, Parts I, II, III, and IV) set forth under Appendix B of Part 704 of NCUA's Rules and Regulations. To participate in any of the authorities set forth above, a corporate must evaluate monthly, the changes in Net Economic Value (NEV), NEV ratio, Net Interest Income (NII), Weighted Average Life (WAL), and duration as required by Section 704.8 (d) of the corporate rule. To obtain Part II expanded authorities, a corporate must meet the requirements of Part I in addition to the requirements of Part II. To obtain Part III expanded authorities, a corporate must meet the requirements of Part II in addition to the requirements of Part III if foreign counterparties are involved in the derivative transactions.

The request for expanded authorities is a two-part process. First, a corporate must submit to NCUA a self-assessment plan supporting its request. The self-assessment plan must include draft policies and procedures, and the proposed systems and personnel needed to efficiently and effectively manage the proposed risk activity. Additional information and documentation should be provided if the corporate believes it will enhance its self-assessment plan. NCUA will review the plan and assess management's ability to engage in the proposed risk activity given the infrastructure and other resource requirements described throughout this document. Decisions for approval will be based on the overall package, not absolute completion of each item on the checklist. Strengths in one area of operations may compensate for a slight weakness in another. Notice of approval will, if necessary, include specific items in the corporate's plan that need to be addressed or refined.

The second part of the process is implementation of the approved plan. Typically, NCUA staff will perform an on-site review of Part I, II and III expanded authority requests which may be incorporated in the examination process. NCUA staff will assess the corporate's financial and operational condition before final approval is granted and actual expanded authority transactions can take place. State supervisory authority staff will be invited to participate on assessments of state chartered corporate's financial and operational condition pursuant to expanded authority applications. The review will include evaluating the corporate's self-assessment plan, interviewing selected corporate staff and/or officials, and reviewing the adequacy of the systems most relevant to the proposed activity. It is anticipated the corporate will make every effort to bring its operations to a level approximating the guidelines prior to the on-site contact. Each corporate must demonstrate its ability to operate safely and soundly under the additional authorities.

If NCUA denies a request for expanded authorities, it will advise the corporate in writing of the reason(s) for the denial and what it must do to resubmit its request. NCUA may revoke these expanded authorities at any time if an analysis indicates a significant deficiency. NCUA will notify the corporate in writing of the identified deficiency. A corporate may request, in writing, reinstatement of the revoked authorities by providing a self-assessment plan detailing how it has corrected the deficiency.

Requests for expanded authority are to be submitted to the Director of the Office of Corporate Credit Unions (OCCU) at NCUA. The NCUA Board has delegated the following authorities to the Director of OCCU:

- authority to approve/disapprove corporate credit union requests for Base-plus and for Part IV expanded authorities under 12 C.F.R. 704 Appendix B;
- authority to approve/disapprove corporate credit union requests for Part I expanded authority under Appendix B with prior concurrence of the Office of Examination and Insurance;
- authority to approve/disapprove corporate credit union requests for Part III expanded authority under Appendix B with the prior concurrence of the Office of General Counsel and the Office of Examination and Insurance; and
- authority to give final approval to corporate credit unions which have received preliminary approval from the NCUA Board to expand their powers under 12 C.F.R. 704 Appendix B, Part II.

The NCUA review is not intended to be a static process. NCUA will work with corporate officials and staff to identify and address any perceived weaknesses or deficiencies noted in the review process and conduct ongoing monitoring of the expanded authorities.

Once an expanded authority level or levels have been approved by the NCUA, the corporate must periodically evaluate its existing policies, procedures, and qualifications in comparison to the guidance contained herein. A corporate must perform and submit to NCUA an updated self assessment of its expanded authorities on a biennial basis as a requirement to maintain that authority or authorities.

A state chartered corporate credit union may not exercise any expanded authority that exceeds the powers and authorities provided for under its state laws. Accordingly, requests by state chartered corporate credit unions for expansions under this part must be approved by the state regulator before being submitted to NCUA.

# **BASE-PLUS**

## **General**

The Base-Plus option permits a corporate to seek NCUA approval to operate with a higher level of interest rate risk allowing a maximum NEV decline of 20 percent. The higher NEV decline exposes a corporate to a greater level of interest rate risk than a corporate operating within the requirements of Section 704.8(d)(1). Therefore, to obtain expanded authority as outlined in Appendix B, Base-Plus, a corporate must meet the criteria listed below:

## **Board, senior management, and staff**

The corporate must demonstrate that its board has received adequate training and is sufficiently knowledgeable to make informed decisions regarding the risk activities of the corporate and to properly evaluate and monitor the use of the expanded authority.

A sufficient number of managers must have knowledge, experience, and training in the investment and asset/liability management areas commensurate with the corporate's current and projected risk activities. As the corporate will be taking on a higher degree of sensitivity to changes in market interest rates and ultimate risk to capital, it is essential that there be adequate primary and back-up personnel (internal or external) for each facet of the NEV risk management process.

## **Systems/Operations**

As with the corporate's personnel, the systems and operations must be capable of quickly and accurately calculating, capturing, and reporting the additional risk to capital that is associated with a higher degree of asset and liability price (valuation) sensitivity to changes in market interest rates. At a minimum, the corporate must have the operational capability to produce, either internally or through external means, the interest rate sensitivity and asset and liability valuation analysis noted in Section 704.8(d)(1) on a monthly basis. Systems must be sufficient to produce, and staff must be capable of conducting and analyzing, the additional tests in Section 704.8(d)(2) as quickly and frequently as necessary to identify and mitigate risk. There must be reporting capabilities that must allow for a timely (i.e., at least monthly and more frequently if appropriate) flow of information relating to changes in NEV to senior management.

# Part I

## **General**

Requests for expanded authorities as outlined in Appendix B, Part I, addressing required investment purchase conditions, performing rate stress tests set forth in Part 704.8(d), and the maximum aggregate amount of unsecured loans and lines of credit to any one member will be evaluated based on criteria outlined below. In order to qualify for Part I expanded authorities the corporate must maintain a minimum capital ratio of at least six percent<sup>1</sup>.

The successful use of expanded authorities is predicated upon adoption and adherence to specific, comprehensive, and up-to-date policies and procedures. Approval of expanded authorities may require extensive revisions to existing policies and procedures relating to, at a minimum, investments and asset and liability management. Other areas of operations will also be impacted and the policies and procedures governing those areas must be updated accordingly.

The application must address the NEV volatility level the corporate intends to operate. For example, the application must address the NEV volatility level (i.e., 20, 28 or 35 percent) and attendant minimum capital ratio (i.e., 6, 7, or 8 percent, respectively) the corporate intends to maintain.

## **Board, senior management, and staff**

NCUA will carefully evaluate the management team of a corporate seeking Part I expanded authority. It is expected that the corporate's board will have received adequate training, is sufficiently knowledgeable, and exhibits understanding of the proposed increase in market, price, and credit risk the corporate will be taking on when applying the Part I authorities. Senior management must possess in-depth experience in its direct areas of responsibility and a working knowledge of key areas of the institution's operations related to the measurement and management of market, price, and credit risk within the organization. The asset/liability committee (ALCO) members are expected to have a thorough understanding of investment activities and strategies, as well as the ability to assess and manage the increased levels of risk allowed for by the expanded authority.

Investment and asset/liability managers responsible for overseeing the areas impacted by the proposed activity must demonstrate knowledge and experience commensurate with the increased market, price, and credit risks associated with the authorities granted under Part I. Staff supporting asset/liability management functions must possess expert knowledge in developing and applying assumptions, methodologies, and interrelationships between financial and external factors driving risk measurement

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<sup>1</sup> On or after October 20, 2011, corporate credit unions will substitute "leverage ratio" for "capital ratio" where it appears in Part I.

results. This expertise should include a process for periodically testing, evaluating, and adjusting modeling assumptions that will accurately calculate, report, and manage risk to capital that increased levels of option, market, and credit risks may represent to the institution. Staff must exhibit the ability to adjust the model and customize applications consistent with the ability to perform the monthly tests required by §704.8(d).

It is essential that no area of operations be dependent upon one individual. Qualified designated back-ups must be in place and capable of assuming all primary responsibilities. Back-ups must be adequately trained to ensure that minimal disruption would occur in the event of loss (temporary or permanent) of primary personnel. The corporate should have a policy and practice of cross-training personnel for all essential support positions.

### **Systems/Operations**

To successfully manage Part I expanded authorities, the corporate must have systems support and operational capacity adequate to identify, measure, monitor, report, and manage risk related to current and projected asset and liability management strategies. Systems must result in appropriate monitoring and reporting of all investment exposures by issuer, obligor, and counterparty. Included in this requirement is the capacity to handle associated volume and complexity in a timely and accurate manner. The systems should possess the capability to provide sophisticated measures of valuation for a variety of simulated market scenarios as they could affect the valuation of the corporate's assets and liabilities and risk to capital. The systems must be interfaced and provide appropriate automation to ensure a strong measure of control and standardization.

It is critical for a corporate with expanded authorities to have appropriate capability for the valuation of instruments and risk measurement. The methodologies utilized must permit alternative scenario analysis (i.e., §704.8(d)(2)) in addition to performing the monthly tests required by §704.8(d)(1). The staff responsible for this activity must be capable of challenging and validating analytical applications and assumptions of risk measurement methodologies. Monthly variance analysis will be conducted to evaluate and explain reasons for differences between projected and actual results. The model(s) and supporting processes utilized by the corporate must have the capability of meeting the needs of management for both compliance and decision-making purposes. Established procedures must be in place requiring an annual third party validation of the model, pricing sources, cash flow sources and any other significant statistical analysis used to measure risk prior to use.

It is equally important that there exist adequate systems and procedures to process the accounting transactions related to the corporate's specialized activities. The accounting process must be entirely independent of the risk taking unit (investments) to ensure the existence of adequate internal controls. If a corporate has instruments with complex structures and/or embedded options, the accounting system and processes must be capable of accurately processing the transactions associated with these types of instruments. Additionally, the systems must have a demonstrated ability to produce

timely, accurate financial statements for internal and external purposes, in conformance with Generally Accepted Accounting Principles (GAAP).

The reports generated by the system should be standardized to meet normal ongoing business needs, and have the capability to be customized for both financial and risk reporting purposes. At a minimum, systems should include:

- Automated data transfer;
- On-demand report generation based on current data;
- Ability to account for investments with complex structures and/or embedded options including off-balance sheet activities (if applicable);
- Ability to account for all investment characteristics and cash flows;
- General ledger treatment -- amortization/accretion of discounts/premiums can be produced for dynamic cash-flow instruments and transactions;
- Security safeguards that ensure protection and integrity of input and output through a dedicated and controlled system environment;
- Ability to handle expanded authorities and changes in strategies and external market factors; and
- Establishment and maintenance of adequate back-up arrangements to minimize disruption of major services and to address system problems timely.

### **Credit risk management**

Credit risk relates to a loss associated with a counterparty's unwillingness or inability to pay its obligations. To safely and soundly manage credit risk, a corporate must develop policies and procedures, which identify, measure, monitor, report, and control all credit risk activities. To be effective, the credit risk management function must be independent of the risk taking or investment function. The credit risk management function must be directed by senior level management to ensure that credit risk activities remain consistent with board policies and objectives.

The credit risk management process must be commensurate with the scope and complexity of all credit risk related activities. Credit risk management staff must have the qualifications, training, and experience to assess the inherent credit risk with the proposed transactions, credit concentrations, and credit limits. Credit analysts' experience should include evaluation of credit risk in the money and capital markets.

The corporate's proposed policies and procedures must address the detailed actions to be taken in response to deterioration of one or multiple financial instruments or



counterparties. Measuring and reporting credit exposures in comparison to policy limits should be a daily process. The risk taking unit must be provided with daily credit exposures and remaining limit capacity. Policies will require that credit limits and transaction types be approved by an appropriate committee to ensure consistency with the corporate's objectives. Senior credit personnel should have direct independent authority to reduce, suspend, or revoke a credit limit, so that timely and appropriate action can be implemented when circumstances warrant.

## **Liquidity risk management**

Liquidity risk is the risk that an institution will be unable to meet its funding requirements. To adequately address this risk, there must be effective controls for liquidity exposures arising from both market or product liquidity and instrument cash flows. Market or product liquidity risk relates to an institution that may not be able to exit or offset a position quickly, and in sufficient quantities, at a reasonable price in the event an unanticipated need for liquidity arises. Cash flow risk relates to an institution's inability to meet funding requirements at a reasonable cost due to the mismatch of daily sources and uses of cash.

The corporate must have daily liquidity management procedures for investment activities as part of its integral day-to-day operations. Reporting procedures are to include ongoing daily liquidity assessments, updated to reflect any current changes to investment and funding positions. As part of its ongoing investment strategy, management should continually assess the ability to convert existing securities holdings to cash at an expected cost. Reporting of the cash conversion tendencies and opportunities relative to the portfolio should be made and reported to senior management, board and ALCO on at least a monthly basis.

## **Audit and compliance**

The integrity of a corporate's operation is enhanced by a strong internal audit function. A corporate desiring expanded authority should have an internal audit department in place with the appropriate tools and expertise to monitor and evaluate the risk from current and proposed risk activities. Staff should exhibit expert knowledge and experience adequate to support the scope and complexity of all risk activities associated with the request. The internal audit scope should address the appropriateness of risk as well as general compliance issues. While the use of outside consultants is permissible to support and enhance risk management, management retains the responsibility for oversight of potential heightened risks that could result from expanded authorities.

## **Legal issues**

The corporate must maintain inside counsel or established relationships with outside legal firms specializing in evaluating relevant contracts and transactions to assist management in protecting the corporate's legal and business interests.

## Part II

### **General**

Requests for expanded authorities as outlined in Appendix B, Part II, addressing foreign investments will be evaluated based on the criteria for management, staff, systems, compliance, legal, and risk assessment specified in Part I as well as the additional criteria outlined below.

The board of directors and senior management must submit proposed investment and asset/liability management policies and procedures indicating the expanded authorities requested and how they will be utilized. An analysis justifying the reasonableness of proposed activities relative to the corporate's overall financial and operating condition must be documented.

Costs associated with any additional systems and staff necessary to acceptably operate under the requested expanded powers must be documented. This includes a cost benefit analysis.

### **Senior management and staff**

Senior management must address the unique risks of foreign investments and how their staff, systems, policies, and procedures will identify, measure, monitor, report, and control these risks. Senior management and staff must consist of individuals with knowledge and experience evaluating cross-border risk. Analysts must be experienced in evaluating sovereign and foreign institution credits and be capable of conducting a timely, in-depth analysis for all approved positions in non U.S. based financial instruments and counterparties. Additionally, analysts must have training and/or experience in evaluating the political, economic, financial, accounting, and regulatory environment, which affect interpretation of financial data for foreign counterparties.

### **Systems and operations**

There must be in place an automated system which monitors all foreign investment exposures by entity and country and is updated daily and/or as exposures change. Credit risk management procedures must address unique political, legal, and economic factors, which potentially affect all approved foreign counterparties.

## Part III

### **General**

Requests for expanded authorities as outlined in Appendix B, Part III, addressing derivative transactions will be evaluated based on criteria for management, staff, systems, compliance, legal, and risk assessment detailed below.

Part III expanded authorities allow corporates to engage in derivative transactions. Part III expanded authority requests must contain a detailed description of the relevant products, markets, and business strategies including examples of how each type of proposed transaction will work and the benefit derived from those activities. The request must discuss the methodology for identifying, measuring, monitoring, reporting, and controlling exposures from the proposed activities. This should include limits on each type of transaction and an aggregate limit based upon a percentage of capital at risk. Analysis must be presented which evaluates the costs associated with establishing effective risk management systems and hiring and retaining professionals with derivative transaction experience.

The corporate must provide an analysis justifying the reasonableness of proposed activities relative to the corporate's overall financial and operational condition. Additionally, there must be an analysis of the risks that arise from use of derivatives including, market, credit, liquidity, operations, and legal risks.

The corporate must document that detailed procedures are in place which will be utilized to effectively identify, measure, monitor, report, and control risks. Documentation must also be provided to indicate relevant accounting requirements for derivative activities have been researched and adopted. The request discloses the internal control procedures detailing segregation of duties between staff executing transactions and personnel monitoring and reporting this activity. Finally, the audit scope and internal risk monitoring functions must be outlined.

### **Board, senior management, and staff**

Derivative transactions can be complex, and may be highly risky if not properly managed. To be approved for Part III expanded authorities, the board and senior management must have sufficient knowledge and experience to understand, approve, and provide oversight for all proposed derivative activities. Board members, applicable staff, and senior management must receive adequate training familiarizing themselves with the relevant aspects of effective derivative use and related control issues, before assuming risk exposures. The board and senior management must understand and agree that the risk management process that will be used is appropriate and that actual and potential risk exposures will be clearly identified, measured, monitored, reported, and controlled and will be fully and routinely disclosed to the board.

Senior management must retain knowledgeable and experienced personnel in derivative transactions for both management and operational functions. The manager directly responsible for these activities must have extensive experience with derivative transactions at some type of financial institution (i.e., a depository institution, an investment banker, a broker/dealer, etc.).

### **Systems and operations**

NCUA will perform a review to verify that the board of directors has dedicated sufficient financial and personnel resources to support operations and systems development and maintenance. The sophistication of the systems support and operational capacity must be commensurate with the size and complexity of the derivatives activity being requested. Derivatives support systems are required to provide accurate and timely transaction processing and allow for proper risk exposure monitoring and interfacing with other corporate systems. The risk measurement system must possess the capacity to quantify risk exposures resulting from derivative activities arising from changes in relevant market factors. The system must be able to produce, at least monthly, prompt and accurate assessments. Reports to senior management and the board must accurately present the types and amounts of risks assumed and demonstrate compliance with approved policies and limits.

The risk management system must have procedures that accurately identify and quantify risk levels on a timely basis. There must be limits and other controls on levels of risk associated with counterparty credit, concentrations, and other relevant market factors. Additionally, limits must be established on aggregate risk positions, which capture the inter-connected effect of all positions. There must be auditing procedures established to ensure the integrity of risk management systems and confirm compliance with approved policies and procedures.

To effectively manage its derivative activities, a corporate must allocate appropriate resources to support the scope and complexity of activities. Senior management supervision and board oversight must be in place to ensure that all derivative activities are conducted in a safe and sound manner. Separation of duties must exist between staff responsible for derivatives accounting and staff assigned to the risk taking (investment) function. Accounting systems and processes must be commensurate with off-balance sheet activities and timely, accurate financial statements must be produced in conformance with GAAP.

Comprehensive written policies and procedures must be approved by the board and periodically reviewed and updated thereafter as activity levels or market and/or business conditions warrant. Procedures must be in place to support proper control over the recording, settlement, and monitoring of derivative transactions. Internal controls need to ensure that proper processing procedures for all transactions and reconciliation of front and back office databases are done on a regular basis. The policies and procedures must address risk management (market, credit, liquidity, and operations), legal issues, capital requirements, and accounting standards. In

conjunction with the credit risk function, the methods of valuation (e.g., bid side or mid-market) are appropriate and the sources and methods of pricing are reasonable and supportable.

### **Credit risk management**

Policies and procedures must be in place to address, at a minimum, significant counterparty exposures, concentrations, credit exceptions, risk analysis, and non-performing contracts. Management must establish internal limits which are prudent and consistent with the corporate's financial condition and management expertise.

Timely, detailed reports, consistent with policy and procedure requirements, need to be available for board and senior management review. Aggregate counterparty credit exposure reports are to be produced consolidating derivative and non-derivative exposures. Approved counterparties must comply with regulatory credit requirements no lower than regulatory credit requirements for authorized corporate investments.

Credit personnel must be qualified to identify and assess inherent credit risk in all proposed derivative transactions. Established procedures must ensure credit analysis of counterparties is performed before transactions are executed and there is periodic assessment of the credit risk throughout the life of outstanding derivative transactions. Credit procedures, at a minimum, must address availability and impact of credit exposure reduction techniques (e.g., bilateral collateral agreements and/or mutual margining agreements).

The corporate must have the ability to calculate the current mark-to-market (current exposure) as well as projected changes in value (potential exposure) when assessing credit exposure per transaction and counterparty. Reports are to be generated tracking aggregate and net exposures for each counterparty. Mark-to-market calculations must be obtained independently from qualified sources as frequently as necessary.

The corporate must have policies and procedures addressing settlement risk, including establishing prudent settlement risk limits when applicable.

### **Liquidity risk management**

Management must establish effective controls for liquidity exposures arising from both market or product liquidity and instrument cash flows. Liquidity risk management policies must be crafted to address the exposures to cash flow gaps arising from derivative transactions and establish appropriate limits on the size and duration of such gaps (e.g., concentration of swap payments, margin calls, or early terminations).

Liquidity management procedures for derivatives must be an integral part of day-to-day operations and be incorporated into the overall liquidity stress test and contingency funding plan requirements of §704.9. Monitoring procedures must be integrated with the overall liquidity risk management process for all corporate risk activities.

## **Audit and compliance**

An independent risk management unit is to be responsible for identifying, measuring, monitoring, reporting, and controlling derivative risk exposures. Derivative related audit coverage must be adequate to ensure timely identification of internal control weaknesses or system deficiencies. At a minimum, all risk measurement applications and models must be reviewed and validated periodically, as appropriate. Individuals providing the auditing and compliance function must have knowledge about risks inherent in derivative transactions and have commensurate experience auditing financial institutions which utilize the same or similar types of derivatives.

The scope of the audit must include coverage of the accounting, legal, operating, and risk controls. The corporate must have controls in place to ensure that documentation is confirmed, maintained and safeguarded. Any documentation exceptions must be monitored and reviewed by appropriate senior management and/or legal counsel.

## **Legal issues**

The corporate must have in-house legal counsel or access to outside counsel which can reasonably ensure that all derivatives contracts adequately protect the legal and business interests of the corporate. The corporate's outside counsel must have legal expertise with all types of derivatives contracts and related matters.

## Part IV

### General

Requests for expanded authorities as outlined in Appendix B, Part IV, addressing participation in loans with member natural person credit unions will be evaluated based on criteria for management, staff, systems, credit risk management, audit and compliance, and legal issues, as detailed below.

Requests for Part IV expanded authority must include an economic viability assessment of the proposed program. This assessment should include: a detailed description of the sectors, types, anticipated volume, and size of participation loans; associated business strategies and sample transactions; a pro forma budget specifying the staffing and other costs and benefits associated with the program; and proposed organizational charts and position descriptions for program staff.

The request must include analysis of, and how the corporate plans to manage the market, credit, liquidity, operational, and legal risks associated with the proposed activity.

The request must include proposed policies and procedures the corporate will use to effectively identify, measure, monitor, report, and control risks associated with the proposed activity, including:

- aggregate program and sector limits based on a percentage of capital;
- individual participation loan limits per member credit union not to exceed 25 percent of capital;
- pre- and post-approval due diligence requirements (i.e., on-site analysis before and subsequent to loan purchases, etc.);
- due diligence requirements in the event the corporate sells or transfers its participation loan interest(s) to third parties (i.e., true sale accounting issues, legal requirements for any sale, and other related risk factors, etc.);
- relevant accounting and allowance for loan and lease loss reserving methodology;
- details regarding segregation of risk taking versus risk monitoring staff; and
- the audit scope and internal risk monitoring functions coinciding with the proposed activity.



## **Board, senior management, and staff**

The board, senior management, and applicable staff must have adequate knowledge, experience, and training necessary to safely and soundly manage the specific type of loans contemplated. Additionally, the risk management process for the program must regularly provide senior management and the board with independent, timely, and accurate compliance reports. The compliance reports must indicate whether all policies, procedures, and other applicable limitations and guidelines are being followed.

## **Systems and operations**

The request must clearly support that the board of directors has dedicated sufficient financial and personnel resources to support operations and systems development and maintenance. The sophistication of the systems and associated personnel must be commensurate with the size of individual participation loans and the complexity of the entire program. The corporate's ability to analyze servicer data must also be addressed. Additionally, the corporate's risk measurement system must be capable of modeling whole loan instruments, and producing prompt and accurate monthly NEV assessments (seven regulatory required scenarios) as well as additional interest rate risk assessments periodically as appropriate.

## **Credit risk management**

Credit risk management policies, procedures, and practices must result in a sound process for managing this risk activity. This includes appropriate pre- and post-approval credit analysis both for individual participation loans as well as the entire loan participation program. Due diligence reviews of underwriters and servicers must be addressed in the proposed policies and procedures. The corporate's policies and procedures should also establish clear and concise evaluation criteria and standards that will be used in evaluating the expected due diligence and credit evaluation to be produced and reported by underwriters and servicers who are party to the participation transaction.

## **Audit and compliance**

The corporate should have an independent audit and compliance (i.e., risk management) function with responsibility for measuring and reporting risk from the proposed activity to senior management and the board. This function should also perform tests and reviews of the adequacy of delinquency reporting and the allowance for loan and lease loss reserving methodology.

## **Legal**

The corporate must have access to legal counsel conversant in the requirements of participation lending, and able to appropriately guide the corporate in addressing the

various legal issues. Legal counsel should have experience in all legal aspects of participation lending, including issues related to the sale or transfer of a participation loan interest.

The corporate must develop a Master Participation Loan and Service Agreement detailing the respective rights and obligations of each party including specifying all reporting requirements applicable to each party in a transaction.

## **Submission of Expanded Authority Requests**

Requests for expanded authorities are to be forwarded to the Director of the Office of Corporate Credit Unions, NCUA, 1775 Duke Street, Alexandria, VA 22314 or via electronic mail at OCCUMail@NCUA.GOV. At a minimum, requests should contain the following:

- A board resolution authorizing submission of an application for the applicable expanded authority(s);
- The corporate's self-assessment and its statement of intent;
- Specific examples of transactions reflecting the potential impact on the corporate's balance sheet;
- Analysis of the corporate's current capital position, as well as its ability to meet the capital requirements on the date of implementation;
- Pro-forma balance sheets, income statements and NEV "what-if" analyses demonstrating the benefits of the proposed transactions, and acceptable risk to capital;
- Current and proposed organizational charts, applicable resumes, and job descriptions;
- Copies of all existing or draft policies and procedures relating to the expanded authority being sought; and
- Other documentation supporting the request and the capabilities of the corporate's operational structure.

The corporate is encouraged to communicate with OCCU field staff throughout the request period to facilitate an efficient and effective application process.