Purpose

It shall be the policy of North Island Credit Union to comply with all federal and state statutes and regulations, including NCUA MBL regulations 723, participation section 701.22, NCUA Guidance Letter 13-CU-07, GAAP and FASB 166 and 167 such that credit participations meet the criteria of “true participations”. It is understood that all accounting and regulatory rules must be followed in order for the proper classification of transactions as transfers of financial assets.

Overview

To diversify investments, enhance yield and to manage the cap on Member Business Loans the Credit Union is authorized to buy or sell participations of Member Business Loans, consumer loans, mortgage loans or other quality assets as determined from time to time by Board, Senior Management or Management ALCO Committee.

Departments Affected

Business Services, Finance and Executive

Policy

The Credit Union is authorized to enter into loan participation agreements with other eligible organizations, including federally and state chartered credit unions, credit union service organizations, or other federally insured financial institutions.

When acquiring loan participations (in participations) from eligible organizations, North Island Credit Union (the Credit Union) is authorized to purchase a maximum of 95% of the initial participation package if the originating financial institution is state chartered. If the originator is federally chartered the maximum is 90%. When selling participations to eligible organizations, the Credit Union will retain a minimum of 5% of the loan; 10% if any portion is sold to a federally chartered credit union.

For all participations the originating credit union must remain a participant in the transaction throughout the life of the loan.
For in participations the credit union will limit purchases from one originator to not more than 100% of the credit union’s net worth. In addition the maximum loans to one borrower, including associated borrowers is limited to 15% of the credit union’s net worth.

Total Nonmember Member Business Loan (MBL) participations are limited by MBL Concentration Policy 500-05-04 to 50% of the credit union’s net worth. The Concentration Policy also limits concentrations by loan and property type to between 10% and 45% of net worth, depending on the category. To best measure the credit union’s risk exposure to any one property type, the in participations will be included with the direct portfolio loans in measuring and reporting concentrations.

In participations other than MBLs, such as pools of consumer and/or mortgage loans are limited to 25% of Regulatory Net Worth.

All participations will have a Master Agreement that specifies the loan or loans that form the participation. A separate Participation Certificate for each transaction under the Master Agreement will also be required.

Prior to purchasing a loan participation the Credit Union will receive a loan summary with relevant information on pricing, collateral value and overall risk profile from the Lead Lender. For loan participations being considered for purchase, the Credit Union staff is required to perform two due diligence reviews. The first review will address the individual transaction, to confirm the loan(s) and the collateral have been underwritten in conformance with the Credit Union’s specific loan procedures with the acknowledgement that we do not control the underwriting process of the Lead Lender.

Although the regulations allow for differing standards for in participation, the credit union will adhere to the quality standards as written in its own policies and procedures. The underwriting presented by the Lead Lender will be reviewed, but in all cases the Credit Union will perform an independent credit analysis to confirm that the loan(s) included in the potential purchase meets the Credit Union’s underwriting risk tolerance guidelines. On MBL participations, each loan will be reviewed in this manner. On bulk participations, a sampling of loans will be reviewed. Any deviations from established credit union lending policies will require the same levels of enhanced approval authority and reporting as defined for direct portfolio loans. The second review will address the ability of the lead lender to underwrite, package and service the type of loan in question and its capacity to back up its financial commitments. This review may require an on-site visit at the lead lender’s operations center.

The collateral securing purchased Loan participations will be monitored according to either the MBL Concentration Policy, 500-05-04 or the general Loan Concentration Policy, 500-04-08 and be included in the standard Board Reports.

On loan participations purchased from within the industry, the Borrower must be a member of the originating credit union, and the property or chattels being offered as collateral may be located anywhere within the United States—subject to the single state concentration limit, which is outlined in the MBL Policy, for Concentrations 500-05-04.
If the originator is a federally insured financial institution, other than a credit union, the borrower must qualify for and become a member in good standing with North Island.

Participations will always meet NCUA regulation 701.22 rules and standards. MBL Participations will also meet the standards set forth in 723 North Island may participate in loan types that it does not normally originate. However, the loan must be one that it is empowered to grant. “Empowered to grant” refers to the credit union’s authority to make a loan under the Federal Credit Union Act, applicable state law, NCUA Rules and Regulations and current bylaws and other credit union loan polices.

**Policy Changes**
This policy was approved by the Board of Directors on June 26, 2008

Amended and approved by the Board on July 20, 2010
Amended and approved by the Board on May 23, 2011
Amended and approved by the Board on October 24, 2013