STANDARDS FOR THIRD-PARTY INVESTMENT FUND PILOT PROGRAM APPLICANTS INVOLVING LOANS

Section 1: Standards for Investment Funds

The investment funds will:

1) Qualify as an investment company under Securities and Exchange Commission (SEC) rules and regulations, but may be structured and operated to avoid SEC registration;
2) Purchase only:
   a) Participations in credit union originated member business loans as defined by Part 723;
   b) Participations in credit union originated loans of less than $50,000 which would be member business loans but are excluded from the definition of member business loan under §723.1(b)(3);
   c) All or part of, or participations in, credit union originated loans secured by vehicles;
   d) All or part of, or participations in, credit union originated loans secured by residential mortgages; and
   e) Permissible investments for federal credit unions for liquidity purposes;
3) Apply the standards of Part 723 to all purchases of member business loan participations;
4) Hold no more than 10 percent of the value of any Fund's assets in loans from any one (1) seller or servicer when shares in the Fund are being offered to credit unions;
5) Provide a disclosure document to prospective purchasers following the approach of SEC Form N-1A for investment companies (that need not be submitted to the SEC) including, but not limited to:
   a) Identification of the sponsor, advisor and other service providers;
   b) A discussion of risks and potential return;
   c) A description of fees and expenses;
   d) A description of management and organization;
   e) Share pricing procedures; and
   f) Procedures for the purchase and sale of shares;
6) Provide to the NCUA within 120 days of calendar year-end:
   a) An annual financial statement audit performed by a licensed independent accountant in accordance with generally accepted auditing standards (GAAS), such audited financial statements to be presented in accordance with generally accepted accounting principles (GAAP);
   b) An annual assessment by the fund's management of the effectiveness of internal control over financial reporting as of year-end;

c) A report by the fund’s licensed independent accountant on management's assertion concerning internal control following either: Section 501 of the American Institute of Certified Public Accountants' (AICPA) attestation standards, Reporting on an Entity's Internal Control Over Financial Reporting, commonly referred to as "AT 501,” or if the fund prefers, the more robust “Public Company Accounting Oversight Board's (PCAOB) Auditing Standard No. 2, An Audit of Internal Control Over Financial Reporting Performed in Conjunction with an Audit of Financial Statements;" and
d) A written report of material weaknesses and/or reportable conditions (aka, the management letter), if any;

7) Prior to the sale of shares to credit unions, file with NCUA its internal requirements for originator certification, underwriting and portfolio diversification, and file revisions to these requirements with NCUA on an on-going basis and no later than 30 days after their implementation;
8) Include in the sales agreement the statement: “The originating credit union can only account for the transfer of the loan as a sale if the transfer qualifies for true sales accounting under generally accepted accounting principles. If the originating credit union cannot meet the three conditions to use sales accounting treatment (legal isolation, ability to pledge, and transfer of control), then the credit union must book the loan transfer as a secured borrowing.”; and
9) Permit NCUA full access to the premises, books and records of the funds for the purposes of inspection and review (NCUA will be permitted to provide the results of its review to the participants as NCUA deems necessary).

Section 2: Standards for Originating Credit Unions

An originating/selling credit union will:

1) Meet the advisor’s certification, servicing and underwriting standards;
2) Establish the terms and conditions of the loan and make the loan decision;
3) Ensure either the credit union or its designee services the loans;
4) Purchase shares in a particular fund only if the value of the loans it has originated and sold to that fund constitute less than 10 percent of the total value of the loans in that fund; and
5) Ensure once a loan is sold, if the transfer qualifies for “true sale” treatment under generally accepted accounting principles (GAAP) and applicable state law in the jurisdiction of transfer, the loan will be removed from the credit union’s balance sheet.

Section 3: Standards for Purchasing Credit Unions

A purchasing credit union will:

1) Have an investment limit in any one fund of 10 percent of its net worth and an aggregate investment limit in all funds of 50 percent of net worth;
2) Confirm to the fund it has received and understood the disclosure statement;
3) Execute the transaction form; and
4) Ensure the investment is consistent with its investment policy.

Section 4: Standards for the Sponsor

The sponsor will:

1) Provide seed money and retain an equity interest in the funds equal to:
   a) $25 million in all funds;
   b) $10 million in any fund investing in member business loans; and
   c) $5 million in any fund not investing in member business loans;
2) Be a regulated institution with assets of at least $1 billion;
3) Have a corporate history of at least 20 years;
4) Certify it will not pledge or otherwise encumber the investment shares owned by the sponsor;
5) Provide NCUA, on a quarterly basis, information indicating any changes in the sponsor, advisor, or custodian, the total size of all of the funds and individual funds, the names and financial stake of any credit union participating in the funds, changes to the disclosure statement, the reasons for any originating credit union that withdraws from the Fund, the price at which purchases and sales are made on a monthly basis, any information that is provided to either the originating or purchasing credit unions on one or more of these funds (including all disclosure documents and monthly shareholder reports) and other information which will demonstrate continued compliance with its application;
6) Provide oversight to the funds and service providers;
7) Provide reports and serve as the liaison with NCUA; and
8) Market the funds to credit unions and credit union affiliated parties.

Section 5: Standards for the Advisor

The advisor will:

1) Be a Securities and Exchange Commission (SEC) registered investment advisor;
2) Have at least $5 billion under management;
3) Have at least 25 employees;
4) Have an errors and omission coverage policy of at least $1 million;
5) Ensure the employees reviewing member business loans have at least two years of direct experience with the types of member business loans which can be purchased by the investments funds consistent with §723.5;

6) Permit NCUA full access to the premises, books and records of the advisor for the purposes of inspection and review (NCUA will be permitted to provide the results of its review to the participants as NCUA deems necessary);
7) Establish and enforce certification and underwriting standards for originating credit unions selling loans to the investment funds;
8) Ensure the loans from a single originator will not exceed 10 percent of any one investment fund;
9) Evaluate each prospective credit union originator;
10) Establish the underwriting and diversification requirements for the loans held in each investment fund;
11) Perform research and investigation to identify eligible and appropriate loans for purchase by the investment funds and initiating the purchase of loans for the investment funds;
12) Provide continuous investment management including monitoring, investment research and reporting;
13) Determine a NAV for the investment funds on at least one designated day of the month;
14) Ensure shares can be purchased and sold on at least one designated day of the month at net asset value at no charge to the purchaser or seller; and
15) Charge a management fee that will not exceed 1.50 percent for funds investing in vehicle and residential mortgage loans and 1.00 percent for funds investing in member business loans.

Section 6: Standards for the Custodian

The custodian will:

1) Be independent of the sponsor, the Fund, the advisor and investment funds;
2) Have assets of at least $10 billion;
3) Have assets under custody of at least $1 trillion;
4) Perform recordkeeping;
5) Perform safekeeping; and
6) Be regulated by the SEC, a federal or state depository institution regulatory agency or a state trust company regulatory agency.

Section 7: OCMP Reassessment of Pilot Program

OCMP will reassess the pilot program 3 years after the fund becomes invested and no more than 5 years after the program is approved.

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