

NCUA Community Development Revolving Loan Fund Loan Interest Rate Policy Effective February 1, 2013

The purpose of this policy is to establish specific guidelines for setting the interest rate on loans made through the Community Development Revolving Loan Fund (CDRLF).

I. Authority

Per National Credit Union Administration (NCUA) Rules and Regulations §705.5(d), the NCUA Board will announce changes to the CDRLF Loan Interest Rate Policy. The NCUA Board has delegated authority to determine interest rates on CDRLF loans to the Director, Office of Small Credit Union Initiatives (OSCUI) via NCUA Delegations of Authority, Special Activities 21 (SPE21).

II. Policies and Objectives

It is the policy of NCUA to charge a below market rate of interest on CDRLF loans that is high enough to generate a modest and affordable return. The earnings on loans are intended to fund additional loans and grant activity. The objective of this earnings strategy is to augment the available sources of CDRLF funds to benefit additional qualified credit unions in-need.

Another program goal of the CDRLF is maximum deployment of available loan funds. To fulfill this goal, NCUA will increase efforts to promote credit union awareness of funding availability when surplus funds arise.

III. Rate Setting Factors

The OSCUI Director will consider the following factors to determine the appropriate rate on CDRLF loans:

Factor #1 – Competitive Offerings

Alternative funding opportunities for potential CDRLF loan recipients.

Factor #2 – Opportunity Costs

Credit risk and potential income from alternative investments in relation to the resources available to the CDRLF.

Factor #3 – Functional Costs

Operational costs incurred by NCUA associated with the administration of the CDRLF.

Factor #4 – Strategic Goals

Goals of the NCUA, in particular the goals of OSCUI.

IV. Rate Setting Calculation Methodologies

Indexed Interest Rate Guidelines – Methodology A

The Indexed Interest Rate Guideline Table below provides guidelines/criteria to index the rate to the two-year Constant Maturity Treasury (CMT) rate as posted on the website of the U.S. Department of the Treasury. The two-year maturity correlates with the weighted average maturity of the CDRLF loan portfolio as of the date this policy was developed.

Indexed Interest Rate Guideline Table

Constant Maturity Treasury (CMT) rate ¹	CDRLF Loan Rate Loans ≤ \$300,000	CDRLF Loan Rate Loans > \$300,000
0.00% - 2.00%	CMT + 20 basis points	CMT + 40 basis points
2.01% - 5.00%	CMT + 40 basis points	CMT + 60 basis points
5.01% and higher	CMT + 60 basis points	CMT + 80 basis points

Loan Demand Driven Interest Rate Guidelines – Methodology B

This guideline provides for interest rates to increase with rising loan demand. Historically, loan demand followed the market conditions.

Ratio of Total CDRLF Loans Outstanding to Total Loan Appropriations ¹	Resulting APR
<25%	0.40%
26% -50%	0.80%
50% - 75%	1.60%
75% - 100%	3.80%

¹ Source:

V. Reporting Requirements

Changes to this NCUA CDRLF Loan Interest Rate policy, including rate changes, shall be distributed to the NCUA Board and Executive Director prior to implementation or announcement. Factors utilized in determining the Interest Rate will be documented.

VI. Internal Controls

Changes to this NCUA CDRLF Loan Interest Rate policy, including rate changes, shall be distributed to the NCUA Board and Executive Director prior to implementation or announcement. Factors utilized in determining the Interest Rate will be documented.

VII. 2013 Rate Information – Effective as of February 1, 2013

After considering the previously addressed factors 1 through 4 in this policy, OSCUI Director opted to maintain the Interest Rate Methodology B for 2013 with a slight modification. ***For 2013, New Loan Balance is used to determine the rate instead of the outstanding loan balance. The logic for this selection is due to the fact that approximately 1 million in the portfolio are old loans and have maturity dates in 2014. New loans booked totals to approximately 3 million in 2012. CDRLF still have approximately 9.5 Million to be loaned out.***

As of December 31, 2012, the ratio of total **NEW** CDRLF loans outstanding to total loan appropriations equals to 22%. Based on the table below, current rate offering would be 0.40%.

Ratio of Total CDRLF Loans Outstanding to Total Loan Appropriations ¹	Resulting APR
<25%	0.40%
26% -50%	0.80%
50% - 75%	1.60%
75% - 100%	3.80%

Resulting APR for the lowest tier (<25%) is calculated based on the market driven strategy (2 yr CMT of 0.27% plus 0.20% = .47%). As CDRLF portfolio has approximately 9.5 million to loan out, OSCUI Director opted to round down the .47% and maintain the current rate of .40%.

Resulting APR for the rest of the tiers is double of the previous tier.

Resulting APR Change Schedule for 2013:

Rate Review Period	Outstanding Loan Balance Period	Rate Effective Date
October 2013	September 2013	November 2013