



## CDRLF Interest Rate Policy

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## Effective May 15, 2017

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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).

### Authority

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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 Credit Union Resources and Expansion (CURE) via NCUA Delegations of Authority, Special Activities 21 (SPE21).

### Policies and Objectives

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It is the policy of NCUA to charge a fair, but below market rate of interest on CDRLF loans that balances the objectives of granting loans on affordable terms while also building the available reserve of lendable funds over time. The earnings on loans are only used to fund additional loan and grant activity. The objective is to augment and grow CDRLF funds to benefit additional qualified credit unions and to maximize deployment of available loan funds. To fulfill this goal, NCUA will maintain efforts to promote credit union awareness of funds availability and increase participation in loan and grant programs.

### Rate Setting Factors

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The following factors are considered when determining the appropriate rate on CDRLF loans:

- Competitive Offerings
- Opportunity Costs
- Operational Costs
- Strategic Goals

When setting the CDRLF loan interest rate, CURE focuses on achieving the objectives of the CDRLF loan program by offering loans at below market rates to all qualified borrowers in order to support the low income credit unions' efforts in developing new products, services and other financial service offerings to low wealth communities. We do not try to maximize earnings on loans, but rather to extend credit on fair and affordable terms.



## Rate Determination

In order to maintain the objectives of the CDRLF loan program, the table below provides the CDRLF recommended rate based on the Fed Funds Rate plus a discount. This rate will be reviewed on an as needed basis determinate on market fluctuations.

| Rate Setting Criteria    | Fed Fund Rate as of 4/21/2017 | Discount for 2017 | CDRLF Rate for 2017 | Recommended Rate |
|--------------------------|-------------------------------|-------------------|---------------------|------------------|
| Fed Fund Rate - Discount | 0.72                          | -0.10             | 0.62                | 0.60             |

## 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 used in determining the Interest Rate will be documented.

## Internal Controls

Internal controls are established for the CDRLF Interest Rate policy to ensure the correct interest rates are determined and applied correctly for each CDRLF loan made. Internal controls include separation of duties between those staff that analyze (CDRLF loan and grants manager) and approve the interest rate (CURE Director), and those that approve the CDRLF loan applications (financial analyst, and the Deputy Director), and the staff that controls the accounting function (CURE financial analyst). At every point of the loan approval process, the interest rate is confirmed by the reviewer.

## Rate Information – Effective May 15, 2017

After considering the previously addressed factors, the CURE Director opts to maintain the current interest rate of 0.60%.

### Basis for the Decision

As of March 31, 2017, the ratio of total CDRLF loans outstanding to total loan appropriations equals 76%. When the anticipated cash flow of \$ 2.5 million from payoffs is subtracted from the outstanding balance, the ratio of total CDRLF loans outstanding to total loan appropriations becomes 58%. An interest rate increase may decrease loan demand and prevent the CDRLF program from meeting its objective of providing low cost funds to low income credit unions and financial services to underserved communities.



If unused funds are kept in overnight investments, (current rate of 0.72%) the CDRLF will gain \$6,800 annually compared to loaning funds out to credit unions at 0.60%. The program objective of the CDRLF is to loan the funds to low-income designated credit unions, not to invest and increase income. Therefore, to protect loan demand, the interest rate will remain at 0.60%

### Interest Rate Review

Analysis of the CDRLF interest rate reviews will be held when deemed necessary based on changes to market, loan demand and other factors.