National Credit Union Administration Interest Policy

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NCUA Community Development Revolving Loan Fund
Loan Interest Rate Policy
Effective May 1, 2016

The purpose of this policy is to provide specific guidelines used 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 generate a modest and affordable return. The earnings are used to fund additional loan and grant activity. The objective is to augment CDRLF funds to benefit additional qualified credit unions and to maximize deployment of available loan funds. To fulfill this goal, NCUA will increase efforts to promote credit union awareness of funds availability.

III. Rate Setting Factors

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

<u>Factor #1 – Competitive Offerings</u>
Alternative funding opportunities for potential CDRLF loan recipients.

<u>Factor #2 – Opportunity Costs</u>
Credit risk and potential income from alternative investments in relation to the resources available to the CDRLF.

<u>Factor #3 – Operational Costs</u>
Operational costs incurred by NCUA associated with the administration of the CDRLF.

<u>Factor #4 –Strategic Goals</u>
Goals of the NCUA, in particular the goals of OSCUI.

IV. Rate Setting Calculation Methodologies

Indexed Interest Rate Guidelines – Methodology A

The table below provides the CDRLF Recommended Rate based on the Five-Year Constant Maturity Treasury (CMT) rate as posted on the website of the U.S. Department of the Treasury. The five-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 Using 5 Yr. Treasury CMT rate[1]

Constant Maturity Treasury (CMT) rate	CDRLF Loan Rate	Recommended Rate[2]
0.00% - 2.00%	CMT - 60 basis points	0.60%
2.01% - 5.00%	CMT - 150 basis points	-
5.01% and higher	CMT - 200 basis points	-

Loan Demand Driven Interest Rate Guidelines – Methodology B
This methodology provides for interest rates to increase with rising loan demand. Historically, loan demand follows market conditions.

Resulting APR for the lowest tier (<25%) of Methodology B is calculated based on the market driven strategy (5 yr CMT of 1.22% minus 0.60% =.61%). The 5 yr CMT of 1.22% was calculated by averaging the interest over an 18 day period during the month of February 2016.

Ratio of Total CDRLF Loans Outstanding to Total Loan Appropriations[1]	**Resulting APR**
<25%	0.60%

[1] Source: http://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=yield
[2] Calculation worksheet embedded at the end of the document

26% -50%	1.20%
50% - 75%	2.40%
75% - 100%	4.80%

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 used in determining the Interest Rate will be documented.

VI. Internal Controls

Changes to the 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.

VII. 2016 Rate Information - Effective May 1, 2016

After considering the previously addressed factors 1 through 4 in this policy, the OSCUI Director opted to maintain the rate based on current loan demand. The interest rate is set to 0.60%, using Methodology A.

Basis for the Decision

As of September 30, 2015, ratio of total CDRLF loans outstanding to total loan appropriations equals 66%. Based on Methodology B, 2.40% should be the new interest rate. However, 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 treasury rate of 0.01%) the fund will lose $27,000 annually compared to loaning out to credit unions at 0.60%.

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