

Benefits of the Low-Income Credit Union (LICU) Designation

1. Able to accept non-member deposits (R&R Part 705)

- ✓ LICUs may accept non-member deposits from sources other than public units and other credit unions
- ✓ Limited to 20% of total shares or \$1.5 million, whichever is greater

2. Participate in the Community Development Revolving Loan Fund (R&R Part 701.34)

- ✓ The fund supports credit unions serving low-income communities by making loans and technical assistance grants (TAGs) available to qualifying institutions.
- ✓ The loans are reduced rate and the TAGs enable low-income credit unions to provide basic financial services to their communities and to stimulate economic activities.
- ✓ CDRLF funding also enables low-income credit unions to improve their operations
- ✓ Congress appropriates funds to the CDRLF for loans and/or grants.

CDRLF Loans

- \$300,000 max
- Matching requirement – encourages credit unions to develop a permanent source of member shares within in one year of loan approval and maintain the increase in the share deposits for the duration of the loan. Any loan monies matched by member share deposits will **be** credited as a two-for-one match.
- 1-3 percent rate – rates are set annually and the max rate is 3%
- Five year term (max maturity limit)
- Semiannual payments
- First installment due 6 months after the loan origination date and is an interest only payment
- The last installment payment consists of 2 principal payments plus interest
- To participate in the CDRLF the credit union must currently be designated as a low-income credit union by the NCUA
- The LICU must have a Dun & Bradstreet Universal Numbering System (DUNS) Number
- A DUNS Number can be obtained free of charge by calling Dun & Bradstreet at 1-866-705-5711.

CDRLF Loans uses:

- Examples include:
 - providing new services or expanding existing services (such as ATM machines and debit/credit card services to members)
 - Extending technology to members through web services, such as online deposit and loan services online bill pay and website design and implementation
 - Relocating or renovating credit union offices in new or expanded geographic areas.

- ✓ One open application round per year for CDRLF loans
- ✓ When the information is available it is located at
<http://www.ncua.gov/Resources/CreditUnionDevelopment/Finance.aspx>
- ✓ As of February 22, 2011 the NCUA is accepting CDRLF Loan Applications

CDRLF TAG uses:

- Adding new services including ATM machines, debit card, electronic bill paying; designing and implementing websites for information and online banking.
 - Providing financial education for members and the community, in different languages, for homebuyers and as part of the VITA program
 - Attending training courses, purchasing on-line libraries, participating in webinars and having on-site trainers
 - Exposing student interns to credit union operations and management
 - Improving operations through the purchase of new technologies; and
 - Operating and participating in VITA Sites
 - What will the 2011 CDRLF TAG Initiatives be? In previous years they have focused on building internal capacity/building technology; enhancing member services initiative; staff, official, and board member training initiatives; student internship initiative; VITA initiative; urgent needs (viability of CU, such as if unexpected expenses, robbery, etc)
- ✓ When the information is available it is located at
<http://www.ncua.gov/Resources/CreditUnionDevelopment/Finance.aspx>
 - ✓ As of February 22, 2011 only the urgent needs grants are available

3. Accept Secondary (alternative) capital accounts (R&R 701.34)

Secondary capital is:

- An uninsured obligation
- Used to support lending and improve financial services
- Is included in the computation of Net worth for low-income designated credit unions
- Offered only to organizational investors, not natural persons
- Is a subordinated debt (like a borrowing transaction that must be repaid over time)
- Purpose of secondary capital: to enable LICUs to support greater lending and improve other financial services for Low-income groups (members and potential members)
- Minimum maturity of 5 years
- Accounts may not be used as a security on other obligations of the account holder
- Written secondary capital plan must be adopted and forwarded to the appropriate regional director for approval before accepting secondary capital

The secondary capital plan must at minimum:

- States the max aggregate amount of uninsured secondary capital the LICU plans to accept
- Identifies the purpose for which the aggregate secondary capital will be used and how it will be repaid
- Explains how the LICU will provide for liquidity to repay secondary capital upon maturity of the accounts
- Demonstrates that the planned uses for secondary capital conform to the LICU's strategic plan, business plan and budget
- Includes supporting pro forma financial statements including any off-balance sheet items covering a minimum of 24 months

4. Qualify for exception from the aggregate loan limit for member business loans (R&R 723.16/17)

- ✓ Per R&R 723.17 LICUs and CDFIs are one group of credit unions that qualify for an exception to the business loan aggregate loan limit
- ✓ The other exceptions are listed in the regulation and do not relate to the low-income credit union designation