

**Central Liquidity Facility
Credit Union System Investment Program
Program Overview
December 2009**

Background

In late November 2008, the NCUA Board determined that extensions of credit by the Central Liquidity Facility (CLF) for other than liquidity needs (OTLN) are in the national economic interest, and requested concurrence of the Board of Governors of the Federal Reserve System and the Secretary of the Treasury for non-liquidity needs lending authority through December 31, 2009. The NCUA has received concurrence from the Board of Governors of the Federal Reserve System and the Secretary of the Treasury, and in compliance with NCUA Rules and Regulations Section 725.23, will begin making OTLN-based loans that are in the national economic interest and will serve to improve liquidity in the credit union system.

On December 9, 2008, pursuant to the foregoing, the NCUA Board announced two new initiatives for CLF extensions of credit to credit unions for system liquidity needs. The two initiatives are the Credit Union System Investment Program (CU SIP), and the Credit Union Homeowners Affordability Relief Program. Funds for both programs would come from the Federal Financing Bank (FFB), which is operated by the Treasury Department. NCUA is authorized to borrow up to approximately \$41 billion from the FFB to fund CLF loans. Funds for these programs would not come from the Treasury's Troubled Asset Relief Program.

CU SIP Program Details

Under the CU SIP, participating creditworthy credit unions would borrow from the CLF and invest the proceeds in participating corporate credit unions. For participation in this program, the credit union receives a spread of 25 basis points.

Specifically, the CLF will make a secured, one year advance to the credit union (CLF Advance), which must, in turn, concurrently invest the proceeds in a fixed-rate, matched term, guaranteed CU SIP Note (SIP Note) issued by a participating corporate. The CLF Advance will bear the "CLF Advance Rate," which is equal to the greater of (a) the rate payable to the Federal Reserve for overnight discount window advances for institutions eligible for "Primary Credit"; or (b) the rate on a comparable maturity Treasury security, plus 1/8th percent. Meanwhile, the SIP Note will bear the CLF Advance Rate, plus 25 basis points. The CLF will offer such CLF Advances, and one or more participating corporates will offer to sell SIP Notes, on a monthly basis (each set of such simultaneous monthly transactions being collectively referred to as a Monthly Funding). The initial minimum level at which a credit union may participate in a Monthly Funding is \$1 million. The CLF will determine the size of each Monthly Funding (CU SIP Offering Amount).

The credit union will be required to use the proceeds of the CLF Advance solely to invest in a SIP Note. It is not necessary that the credit union be a member of the particular corporate in order to purchase and hold the SIP Notes of that corporate. Rather, the CLF will designate which corporate will issue SIP Notes to which credit unions. Each SIP Note will be fully guaranteed by the National Credit Union Share Insurance Fund (NCUSIF), pursuant to the Temporary Corporate Credit Union Liquidity Guarantee Program (TCCULGP).

As an OTLN loan, each CLF Advance must be collateralized by 200 percent of its initial face amount. Under the CU SIP, half of the collateral for each such CLF Advance will consist of 100 percent of the SIP Note in which the proceeds are invested, and an equal amount of the credit union's other assets, for a total of 200 percent of initial value of the CLF Advance. After borrowing the CLF Advance and purchasing the SIP Note, the participating credit unions must have a net worth ratio of at least 6 percent.

The cost of the transactions to the participating corporate will be the CLF Advance Rate, plus 100 basis points. This rate is comprised of (a) the rate payable on the SIP Note (CLF Advance, plus 25 basis points), plus (b) the applicable 75-basis point TCCULGP guarantee fee. The participating corporate will be required to use the proceeds of the sale and issuance of its SIP Notes to reduce its secured indebtedness to third parties.

The CLF has delegated certain functions under the program to U.S. Central Federal Credit Union (U.S. Central), in its capacity as agent group representative (AGR) for the corporates that are agents for the CLF. With respect to each Monthly Funding, the CLF will offer to make CLF Advances to one or more credit unions, and one or more participating corporates will offer to sell associated SIP Notes to those credit unions, in accordance with the following schedule:

Step	Day (by 2:00 pm, CST)	Action	Party
1	Second to last Friday of each month	Corporate must provide AGR (U.S. Central) with notice and requested amount	Corporate
2	Last Friday of each month	Credit union must provide corporate with completed subscription	Credit union
3	First Friday of each month	Awards of CLF Advances and SIP Note issuances announced	CLF
4	Second Friday of each month	Closing and funding of CLF Advance and SIP Note purchase and sale	CLF, AGR, Corporate, Credit union

Notwithstanding the above schedule, the initial Monthly Funding will require corporates that wish to participate to complete step 1 not later than 2:00 pm, CST, Friday, December 19, 2008, and credit unions to complete step 2 not later than 2:00 pm, CST, Friday, December 26, 2008. The CLF will complete step 3 by Monday, January 5, 2009, and step 4 will be completed on Friday, January 9, 2009. The CU SIP Offering Amount of the initial Monthly Funding is \$500 million, but may be increased at the discretion of the CLF if the offering is oversubscribed.

The CU SIP will terminate on June 30, 2009, with the Closing of the last Monthly Funding occurring on Friday, June 12, 2009, unless the NCUA Board extends the TCCULGP and the CU SIP through December 31, 2009.

It is imperative that corporates interested in participating in the initial Monthly Funding provide notice to U.S. Central on or before **2:00 pm, CST, Friday, December 19, 2008**. Forms for this notice will be made available by the CLF.

A credit union can find program materials posted on: <http://www.ncua.gov/CLF/index.htm>. If there are questions, a credit union should inquire at their corporate credit union. Corporate

credit unions with questions should call US Central FCU, the CLF's Agent Group Representative.