Central Liquidity Facility
Credit Union Homeowners Affordability Relief 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, and the Credit Union Homeowners Affordability Relief Program (CU HARP). 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 HARP Program Details

The CU HARP is a two-year, $2 billion program intended to assist homeowners who are facing delinquency, default, or foreclosure on their mortgages, especially in the face of diminished home prices. Under CU HARP, participating creditworthy credit unions would borrow from the CLF, and receive as much as an additional 100-basis point spread over the cost of borrowing if they modify at-risk mortgages, primarily by lowering interest rates and corresponding monthly payments.

Under the CU HARP, the CLF will make a secured, one year advance to the credit union (CLF Advance), which is renewable for a term of one year. The credit union must, in turn, concurrently invest the proceeds in a two year guaranteed CU HARP Note (HARP 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 $1/8^{th}$ percent.

Meanwhile, the HARP Note rate is a complex variable rate with two components. The first component is the “CLF Advance Rate,” which will reset on December 31, 2009. The second component is a bonus coupon up to 1 percent, indexed to the credit union’s documented rate reduction to its members with respect to their distressed mortgages.

The credit union will be required to use the proceeds of the CLF Advance solely to invest in a HARP Note. It is not necessary that the credit union be a member of the particular corporate in order to purchase and hold the HARP Notes of that corporate. Rather, the CLF will designate which corporate will issue HARP Notes to which credit unions. Each HARP 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 HARP, half of the collateral for each such CLF Advance will consist of 100 percent of the HARP 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 HARP 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 up to 175 basis points. This rate is comprised of (a) the rate payable on the HARP Note (CLF Advance Rate), plus (b) the applicable 75-basis point TCCULGP guarantee fee. This cost also includes up to an additional 100 basis points, designed to match up to a similar amount of mortgage relief the participating credit union has extended to its members. Meanwhile, the participating corporate will be required to use the proceeds of the sale and issuance of its HARP Notes to reduce its secured indebtedness to third parties.

In implementing the CU HARP, both the NCUA and the CLF require assistance from the relevant state credit union regulator in verifying that state-chartered credit unions participating in the CU HARP are complying with the terms and conditions of CU HARP. More specifically, the credit union would agree to modify loan rates for primary-residence home mortgages that are 60 days or more past due (or where the credit union documents a mortgagor's hardship), and have a LTV ratio greater than 80 percent. The maximum income for each particular borrower may not be more than 150 percent of the median household income for the zip code or state. The credit union would be required to verify proof of current income and the borrower would have to agree not to draw on or take out a second mortgage during the two years. The payment to income ratio would be between 31 and 38 percent and the loan rates would have a floor of 3 percent. However, the payment to income ratio can exceed 38 percent if the interest rate is reduced to the floor of 3 percent. The maturity of the modified loan could be extended to 40 years. To qualify for the full amount of the additional 100 basis points on the HARP Note, the credit union must provide an aggregate realized rate reduction for home owners equivalent to 200 basis points on the HARP Note.

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. Under the CU HARP, 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 HARP Notes to those credit unions, in accordance with the following schedule:

Step	**Day (by 2:00 pm, CST)**	**Action**	**Party**
1	Friday, December 12, 2008	Corporate must provide AGR (U.S. Central) with notice and requested amount	Corporate
2	Friday, December 19, 2008	Credit union must provide corporate with completed subscription	Credit union
3	Monday, December 29, 2008	Awards of CLF Advances and HARP Note issuances announced	CLF
4	Friday, January 2, 2009	Closing and funding of CLF Advance and HARP Note purchase and sale	CLF, AGR, Corporate, Credit union

The maximum CU HARP offering amount is $2 billion; the offering will not be increased if it is oversubscribed. Rather, the awards will be allocated to eligible credit unions by the CLF in accordance with the CLF's published "Allocation Process and Formula," available on the NCUA's website.

It is imperative that corporates interested in participating in the CU HARP provide notice to U.S. Central on or before **2:00 pm, CST, Friday, December 12, 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.