

**Community Development
Capital Initiative**

**CDFI Credit Unions
Senior Securities**

Summary of Terms of CDCI Senior Securities

- Issuer:** A qualifying credit union (“QCU”) that (i) is chartered under the Federal Credit Union Act or under the laws of any State, the District of Columbia or any territory or possession of the United States; (ii) if not chartered under the Federal Credit Union Act, has its deposits insured by the National Credit Union Share Insurance Fund; (iii) has a low-income designation per 12 C.F.R. 701.34; (iv) is not a corporate credit union as defined in 12 C.F.R. 704.2; (v) collectively with all of its affiliates satisfies the requirements of 12 C.F.R. 1805.200(b); and (vi) is a regulated community development financial institution currently certified by the Community Development Financial Institution Fund (the “Fund”) of the United States Department of the Treasury (“UST”) pursuant to 12 C.F.R. 1805.201(a) as having met the eligibility requirements of the Fund’s Community Development Financial Institutions Program (“CDFI”). **UST will determine the eligibility of each QCU and allocation of funds for QCUs after consultation with the National Credit Union Administration (“NCUA”) and, in the case of a state-chartered QCU, the appropriate State Supervisory Authority (“SSA”).**
- Initial Holder:** UST.
- Security:** Unsecured subordinated debentures (“CDCI Senior Securities”) that do not constitute a class of stock or represent equity ownership in the issuing QCU, but constitute secondary capital accounts of the QCU within the meaning of 12 U.S.C. 1790d(o)(2)(B). Each debenture representing a CDCI Senior Security shall be in the principal amount of \$1,000.
- Size of Offering:** Each QCU may issue CDCI Senior Securities with an aggregate principal amount (the “Principal Amount”) equal to not more than three and a half percent (3.5%) of its total assets and not more than fifty percent (50%) of the capital and surplus of the QCU.
- Any QCU that, in applying to qualify for this program, is determined by its primary regulators to require additional capital in order to be a “viable” financial institution, shall be required to receive capital (“Private Capital”) from one or more private, non-government investors prior to or concurrently with any purchase of CDCI Senior Securities by UST, such

that the sum of the Private Capital and the amount of CDCI Senior Securities issued to such QCU under this program shall be sufficient to establish the QCU's "viability" on a pro-forma basis. Such QCU receiving Private Capital shall only be eligible to issue CDCI Senior Securities in an aggregate amount equal to, on a dollar-for-dollar basis, the amount of Private Capital it received; provided that the amount of CDCI Senior Securities issued shall not be greater than three and a half percent (3.5%) of the QCU's total assets and not more than fifty percent (50%) of the capital and surplus of the QCU; provided further that any Private Capital shall be subordinate to the CDCI Senior Securities, on terms satisfactory to UST.

Ranking: Subordinate to all other claims against the QCU, including the claims of creditors, shareholders, and the National Credit Union Share Insurance Fund; available to cover operating losses realized by the QCU that exceed its net available reserves (exclusive of secondary capital and allowance accounts for loan and lease losses); and not subject to restoration or replenishment under any circumstances.

Regulatory Capital Status: Qualifies as "net worth" of the issuing QCU per 12 U.S.C. 1790d(o).

Maturity: Either eight (8) or thirteen (13) years from the date of the investment (the "Maturity Date").¹ On the Maturity Date, the QCU shall repay to UST the Principal Amount, together with all accrued and unpaid interest.

Interest Rate: CDCI Senior Securities maturing eight (8) years from the date of the investment shall pay cumulative interest at a rate of two percent (2%) per annum until the Maturity Date, and, to the extent not repaid on or prior to the Maturity Date, thereafter at a default rate of nine percent (9%) per annum. CDCI Senior Securities maturing thirteen (13) years from the date of the investment shall pay cumulative interest at a rate of two percent (2%) per annum until the eighth (8th) anniversary of the date of issuance, and thereafter at a rate of nine percent (9%) per annum.

Interest shall be payable quarterly in arrears on February 15, May 15, August 15 and November 15 of each year. Interest on the CDCI Senior Securities shall be computed on the basis of a 360-day year consisting of twelve 30-day months.

Redemption: CDCI Senior Securities shall be redeemable at 100% of the issue price, plus any accrued and unpaid interest. All redemptions shall be subject to the approval of NCUA and, in the case of a state-chartered QCU, the appropriate SSA.

¹ Each applying QCU shall be required to elect, in its sole discretion, to issue CDCI Senior Securities with either an eight (8) year or a thirteen (13) year maturity.

Restrictions on Dividends and Redemptions:

Subject to certain exceptions, for as long as any CDCI Senior Securities are outstanding, no special dividends may be declared or paid by the QCU on any share accounts or any other capital instruments it is authorized to issue under applicable law. Further, the QCU may not repurchase or redeem any other capital instruments authorized under applicable law (other than other maturing secondary capital accounts), unless all accrued and unpaid interest for all past interest periods on the CDCI Senior Securities is paid in full.

Remedies Upon Event of Default:

Principal and accrued interest may become immediately due and payable (i.e., accelerated) upon the occurrence of an Event of Default.

Voting Rights:

CDCI Senior Securities shall carry no voting or membership rights in the QCU.

Closing Conditions:

The obligation of UST to purchase any CDCI Senior Securities shall be subject to the satisfaction of customary closing conditions, including, among other things, (i) the QCU having not breached any representation, warranty or covenant set forth in the documents governing any obligations of such QCU then outstanding under the Troubled Asset Relief Program (“TARP Obligations”), as determined by UST; (ii) all amounts then due and payable under any of the QCU’s TARP Obligations have been paid in full; and (iii) (x) receipt of approval from the NCUA and any applicable SSA for the issuance of such CDCI Senior Securities and (y) the satisfaction of any conditions for such issuance imposed by the NCUA or any applicable SSA in connection with granting such approval.

CDFI Covenants:

Each QCU shall covenant that (i) the Fund has not withdrawn or qualified its certification that such QCU meets the requirements of 12 C.F.R. 1805.200(b) and 12 C.F.R. 1805.201(b)(1)-(6), (ii) it and all of its affiliates collectively meet the eligibility requirements of 12 C.F.R. 1805, (iii) its primary mission is promoting community development, as may be determined by UST from time to time based on the criteria set forth in 12 C.F.R. 1805.201(b)(1), (iv) its predominant business activity is the provision, in arms-length transactions, of “Financial Products”, “Development Services” and/or other similar financing, (v) it serves a “Target Market” by serving one or more “Investment Areas” and/or “Targeted Populations” as may be determined by UST from time to time substantially in the manner set forth in 12 C.F.R. 1805.201(b)(3), (vi) it directly, through an affiliate, or through a contract with another provider, provides “Development Services” in conjunction with its “Financial Products”, (vii) it maintains accountability to residents of its “Investment

Area(s)” or “Targeted Population(s)” through representation on its governing board or directors or otherwise and (viii) it is not an agency or instrumentality of the United States, or any State or political subdivision thereof, as described in 12 C.F.R. 1805.201(b)(6). The terms “Financial Products”, “Development Services”, “Target Market”, “Investment Areas” and “Targeted Populations” are used herein in the same manner as such terms are used in 12 C.F.R. 105.201(b).

Each QCU shall also deliver to UST (x) on the date that is 180 days after the closing date of this investment, and (y) annually at the end of each fiscal year of such QCU (i) reports and other documents sufficient to evidence such QCU’s status as a CDFI including its compliance with the Fund’s requirements for CDFIs and (ii) a certification that such QCU remains in compliance with the foregoing covenants.² Additionally, each QCU shall be required to notify UST immediately of any breach of the foregoing covenants.

Remedies for breaches of the foregoing covenants shall be set forth in the definitive documentation for the CDCI Senior Securities.

Access and Information:

So long as UST or any of its affiliates holds CDCI Senior Securities having a face amount of at least ten percent (10%) of its initial investment, each QCU shall permit UST and its agents, consultants, contractors and advisors (x), acting through the NCUA and any applicable SSA, or otherwise to the extent necessary to manage, evaluate or transfer UST’s investment, to examine its corporate books and make copies thereof and to discuss the affairs, finances and accounts of such QCU with the principal officers of such QCU, upon reasonable notice and at such reasonable times and as often as UST may reasonably request and (y) review any information material to UST’s investment provided by such QCU to its regulators.

At any time that any CDCI Senior Securities are outstanding, each QCU shall deliver to UST (i) annually at the end of each fiscal year of such QCU, an audited (to the extent available) consolidated balance sheet of such QCU as of such fiscal year, and audited consolidated statements of income, retained earnings and cash flows of such QCU for such year, prepared in accordance with GAAP and setting forth in each case in comparative form the figures for the previous fiscal year; and (ii) copies of any quarterly reports provided to other equity holders of such QCU or the QCU’s management. Additionally, to the extent a QCU receives an

² To the extent that the QCU changes its form of organization at any time such that the QCU itself is no longer certified as a CDFI by the Fund but one or more affiliate of such QCU is certified as a CDFI by the Fund, among other things, the QCU shall be required to certify on an annual basis that each certified affiliate is in compliance with the foregoing covenants.

assessment on its internal controls from its auditors at any time during any period in which UST or any of its affiliates holds CDCI Senior Securities, a copy of such assessment shall also be provided to UST.

On an annual basis during any period in which UST or any of its affiliates holds CDCI Senior Securities, each QCU shall be required to complete and deliver to UST a survey, in a form specified by UST, describing, among other things, how it has utilized the capital it received in connection with the issuance of the CDCI Senior Securities and the effects of such capital on the operations and status of the QCU.

Events of Default: Placement of the issuing QCU into receivership, conservatorship or liquidation by NCUA or, in the case of a state-chartered QCU, the appropriate SSA.

**Transparency,
Executive
Compensation and
Employ American
Workers Act:**

Each QCU shall take all necessary action to ensure that it and its executive officers, respectively, are in compliance with (i) all UST guidelines regarding transparency, reporting and monitoring; (ii) Section 111 of the EESA, as implemented by the TARP Standards for Compensation and Corporate Governance set forth in 31 C.F.R. Part 30, all rules, regulations and guidance issued thereunder; (iii) the provisions of the Employ American Workers Act (Section 1611 of Division A, Title XVI of the American Recovery and Reinvestment Act of 2009), Public Law No. 111-5, effective as of February 17, 2009; and (iv) in the case of (ii) and (iii), all rules, regulations and guidance issued thereunder.

**Affiliate
Transactions:**

For as long as UST or any of its affiliates holds any debt or equity securities (including the CDCI Senior Securities) of the QCU, the QCU will not enter into a transaction with related persons (within the meaning of Item 404 under the SEC's Regulation S-K) unless such transaction is (i) on terms no less favorable to the QCU and its subsidiaries than could be obtained from an unaffiliated third party, and (ii) has been approved by the board of directors of the QCU but only if the board of directors maintains written documentation supporting its determination that the transaction complies with subparagraph (i) of this paragraph.

Warrant: Subject to the requirements of Section 113(d)(3)(A) of the Emergency Economic Stabilization Act, QCU's participating in this program shall not be required to issue warrants to UST.