

Emergency Capital Investment Program Credit Union Subordinated Debt Term Sheet

Summary of Terms

Capitalized terms undefined in the term sheet are defined in the Definitions section of Treasury’s Application Instructions and Materials for the Emergency Capital Investment Program found here: [ECIP Application Instructions and Materials link](#)

Issuer	<p>The term “issuer” means a financial institution that, as of the date of submitting an application is both:</p> <ol style="list-style-type: none"> 1. A Community Development Financial Institution or Minority Depository Institution; and 2. A Federally Insured Credit Union (“Credit Union”).
Application	An institution must apply to the United States Department of the Treasury (“Treasury”) to be considered for investments from the Emergency Capital Investment Program (“ECIP”).
Financial Instrument	Unsecured subordinated debentures (“Subordinated Debt”) that do not constitute a class of stock or represent equity ownership in the issuer, but, if applicable and with the NCUA’s approval, may represent secondary capital (<i>see</i> “Regulatory Capital Treatment” below). The Subordinated Debt shall have a minimum denomination of \$1,000 and authorized denominations of integral multiples of \$1,000.
Regulatory Capital Treatment	<p>Secondary capital for low-income designated Credit Unions, as designated by the National Credit Union Administration (“NCUA”), provided such Credit Unions comply with applicable sections of 12 C.F.R. §701.34 and receive approval from the NCUA.</p> <p>None for all other Credit Unions.</p>
Investment Amount	<p><u>General limit per issuer:</u> \$250,000,000</p> <p><u>Additional limit for issuers with total assets of an amount:</u></p> <ul style="list-style-type: none"> > \$2BN: 7.5% of total assets ≤\$2BN and ≥\$500MM: 15% of total assets < \$500MM: 22.5% of total assets

	<p>“Total assets” means the total consolidated assets as reported on the most recent NCUA Call Report Form 5300 (“Call Report”).</p>
Ranking	<p><u>For low-income designated Credit Unions:</u></p> <p>As secondary capital, subordinate to all other claims, including those of shareholders, creditors and the National Credit Union Share Insurance Fund. In the event of the involuntary liquidation of the issuer, the Subordinated Debt will be subject to the payout priority for secondary capital as set forth in 12 CFR 709.5(b)(8) (or any successor provision).</p> <p><u>For other Credit Unions:</u></p> <p>Subordinate to all other claims, including those of shareholders, creditors and the National Credit Union Insurance Fund. The holder of the Subordinated Debt will agree to be subject to the same payout priority as set forth in 12 CFR 709.5(b)(8) (or any successor provision) for secondary capital, as though the Subordinated Debt were secondary capital, and will expressly waive any right to a higher payout priority, including, without limitation, the priority set forth in 12 CFR 709.5(b)(5) (or any successor provision).</p>
Target Communities	<p>“Target Communities” include Minority, Rural, and Urban Low-Income and Underserved Communities and to Low- and Moderate-Income borrowers, as defined in Treasury’s Application Instructions for ECIP.</p>
Qualified Lending	<p>“Qualified Lending” generally includes the following extensions of credit (including participations in such extensions of credit) to Target Communities:</p> <p>As reported to the NCUA in the Loans & Leases section of the Call Report:</p> <ul style="list-style-type: none"> (i) non-commercial loans and lines of credit; and (ii) commercial loans and lines of credit, <p>and, within these loan categories, excluding:</p> <ul style="list-style-type: none"> A. the portion of any loans held by the issuer for which the risk is assumed by a third party other than the U.S. Small Business

	<p>Administration, any other U.S. Government agency, or a U.S. Government-sponsored enterprise (for example, the portion of loans that have been participated); and</p> <p>B. any loan that is an extension or re-write of any existing loan, unless it involves an increase of 20% or more in the principal amount of the loan, in which case the entire loan amount, including the increase, is eligible for inclusion in qualified lending,</p> <p><u>While, further,</u> adding to the amount determined above the cumulative amount of net loan charge-offs with respect to Qualified Lending as measured since, and including, the quarter ended September 30, 2020.</p> <p>The amount of Qualified Lending, including the exclusions listed above, shall be calculated and reported on the date of Treasury’s Investment (“Investment Date”) by the issuer in a format specified by the Treasury (“Initial Supplemental Report”) and during each full quarter thereafter (“Quarterly Supplemental Report”) for the full lifetime of participation in the ECIP.</p> <p>The interest rate will be adjusted based on the lending growth criteria listed in these terms beginning the first payment date after the 24-month, no interest accrual period ends, and reported results will determine the interest rate due for the remainder of quarterly payments in the remaining thirteen years of investment. The first interest payment due will be a partial, pro-rata amount for accrual inclusive of the day beginning on the 24-month anniversary date.</p>
<p>Calculation of Lending Baseline</p>	<p>Not later than 10 business days prior to the Investment Date, the issuer shall submit an Initial Supplemental Report reporting Qualified Lending for the annual period ending on September 30, 2020. In calculating Qualified Lending, if any gains in Qualified Lending resulted from mergers and acquisitions or purchase of loans during any quarter during such four quarter period, the issuer shall recalculate Qualified Lending for the annual period ending on September 30, 2020 based upon instructions contained in the Initial Supplemental Report. The Qualified Lending reported for the annual period ending on September 30, 2020 shall be the baseline against which subsequent Qualified Lending is measured (“Baseline”).</p> <p>When applicable, at the beginning of each quarter that begins after the Investment Date, the Baseline will be increased by the amount of any gains in Qualified Lending realized by the issuer resulting from</p>

	mergers and acquisitions, or purchases of loans, as measured since, and including, the quarter ending on September 30, 2020.
Maturity	The date (“Maturity Date”) that is either fifteen or thirty years from the Investment Date, as selected by the issuer, and all Subordinated Debt issued to Treasury by the issuer must carry the same Maturity Date. On the Maturity Date, the issuer shall repay to Treasury the principal amount together with all accrued and unpaid interest on the Subordinated Debt.
Interest Rate	<p>The Subordinated Debt shall pay quarterly interest. No interest accrues, nor will any interest be due for the first 24 months following the Investment Date. Interest will begin to accrue on the 2-year anniversary of the Investment Date. The first (partial) quarterly payment will be due on the first interest payment date after that date. Thereafter, interest payments will reflect the issuer’s Qualified Lending compared to the Baseline. See interest rate table in Annex A.</p> <p>Interest will be payable quarterly in arrears on March 15, June 15, September 15 and December 15.</p>
Deferral	<p>Interest payments shall be deferred in any quarter if any of the following is true:</p> <ol style="list-style-type: none"> 1. The issuer fails to be classified as “well capitalized”, as defined in 12 CFR 702.102(a)(1) of the NCUA’s regulations (or any successor provision). 2. The issuer failed to achieve positive net income for the most recently completed quarter. 3. The issuer determines that the payment would be detrimental to the financial health of the institution and the CEO and CFO of the institution provide written notice, in a form reasonably satisfactory to the Secretary, of such determination and the basis thereof. <p>Deferred interest will be capitalized and interest will accrue on any deferred interest from the date of deferral to, but excluding, the date of payment, subject to the provisions set forth under “Liquidation” below. An issuer may elect to pay deferred interest on any interest payment date. Any unpaid deferred interest will be due and payable at maturity.</p>

	An issuer may request and Treasury, in its discretion, may provide a waiver from the deferral provisions if an issuer would like to pay interest that would otherwise be subject to deferral, provided such payments are in accordance with the NCUA’s regulations and subject to approval by the applicable NCUA Regional Director.
Redemption	<p>The Subordinated Debt may be redeemed at any time at the option of the issuer, subject to the approval of the NCUA (if then required under the regulations of the NCUA), and in any case where the Subordinated Debt is treated as secondary capital, subject to the requirements set forth in 12 CFR 701.34 (or any successor provision).</p> <p>All redemptions of Subordinated Debt must be made at 100% of the issue price, plus any accrued and unpaid interest as of the date of redemption (“Redemption Date”). All redemptions must be in amounts equal to at least 20% of the principal amount of originally issued debentures, or 100% of the principal amount of the then outstanding debentures (if less than 20% of the principal amount of originally issued debentures).</p> <p>Redemption procedures will be as set forth in the definitive ECIP investment agreement and related documentation.</p>
Provisions upon Nonpayment of Interest	<p><u>The following restrictions apply whenever interest payable on the Subordinated Debt has not been and will not be paid in full for any quarterly interest period:</u></p> <ol style="list-style-type: none"> 1. If the issuer will not pay interest, including because interest will be deferred, no later than 3 business days prior to the payment date, the Chief Executive Officer or Chief Financial Officer of the issuer will be required to provide written notice, in a form reasonably satisfactory to Treasury, informing Treasury and the NCUA the quarterly interest payment will not be made and include the reason for the issuer’s not making the interest payment; and 2. Beginning on the payment date for the unpaid interest, restrictions on capital distributions as described below will apply.

	<p><u>After five quarterly interest payments not paid in full:</u></p> <p>Whenever interest payments on the Subordinated Debt have not been paid for five quarterly interest payments or more (whether due to deferral or otherwise), and five quarterly interest payments, whether or not consecutive, are unpaid, the holder of the Subordinated Debt will have the right, but not the obligation, to appoint a representative to serve as an observer on the issuer’s board of directors. For the avoidance of doubt, such an observer will not have any rights granted to board members under the Federal Credit Union Act and/or the NCUA’s regulations or the Credit Union’s bylaws—the observer may attend board meetings, but shall not participate in, or contribute to discussions, of the board unless called upon by board members.</p> <p>This right will end once all accrued and unpaid interest for all past interest periods has been paid in full by the issuer and the issuer has timely paid interest, without deferral, for four consecutive subsequent quarterly interest periods.</p>
<p>Restrictions on Dividends and Redemptions</p>	<p>The issuer shall agree to comply with the rules and regulations of Treasury and the NCUA with respect to dividends, share buybacks and limits on capital distributions.</p> <p><u>In general:</u></p> <p>For as long as any Subordinated Debt is outstanding, no extraordinary or special dividends may be declared or paid by the issuer on any share accounts or any other capital instruments it is authorized to issue under applicable law, nor may any discretionary payments be made on any other securities or instruments that are <i>pari passu</i> with, or junior to, the Subordinated Debt with respect to distributions or ranking in liquidation, unless all accrued and unpaid interest for all past interest periods on the Subordinated Debt has been paid in full, and no deferred amounts are unpaid. Further, the issuer may not repurchase or redeem any other capital instruments, or any securities or instruments ranking <i>pari passu</i> with or junior to the Subordinated Debt (other than in the case of redemptions of membership share interests upon the voluntary or involuntary termination of membership by the issuer or its members, as applicable), unless all accrued and unpaid interest for all past interest periods on the Subordinated Debt has been paid in full.</p>

	<p>These restrictions would not prevent an issuer from making required, non-discretionary payments, such as payments at stated maturity in accordance with an instrument’s terms or payments of interest that may not be deferred. This exemption does not supersede otherwise applicable limitations or determinations with respect to distributions established by the NCUA.</p>
Restrictions on Executive Compensation	<p>The issuer and its covered officers and employees shall agree to comply with the rules and regulations of Treasury with respect to restrictions on executive compensation in addition to complying with relevant NCUA’s regulations, including, but not limited to, 12 CFR Part 750.</p>
Investment and Lending Plan	<p>The issuer shall provide to Treasury, the NCUA, and, if applicable, the issuer’s state regulatory agency, an Investment and Lending Plan at the time it submits its application for ECIP.</p>
Voting & Consent Rights	<p>The Subordinated Debt will carry no membership rights and be nonvoting.</p> <p>Treasury shall have consent rights with respect to (i) any amendments to the rights of the Subordinated Debt and (ii) any merger, share exchange, dissolution, or similar transaction which would adversely affect the rights of the Subordinated Debt (except, (x) in the case of a merger or dissolution of a low-income Credit Union, (other than merger into another low-income Credit Union) the procedures set forth in 12 CFR 701.34(b)(9) (or any successor provision) will apply, and (y) with respect to involuntary liquidations pursuant to 12 CFR Part 709 or emergency mergers pursuant to Appendix B to 12 CFR Part 701).</p>
Liquidation	<p>Upon the placement of the issuer into receivership or liquidation, or the appointment of a receiver, liquidating agent or other similar official (other than a conservator) for the issuer, the (i) accrual of interest after commencement of the liquidation or receivership proceedings, and (ii) the payment of principal and interest, will be determined accordance with 12 U.S.C. 1787 and the NCUA’s regulations in 12 CFR Part 709.</p>
Transferability	<p><u>By Treasury:</u></p> <p>There are no contractual restrictions on transfer of ownership of the Subordinated Debt by Treasury (or vehicles established and used by</p>

	<p>Treasury to purchase, hold, and sell investments) to a third party¹, provided that:</p> <ol style="list-style-type: none"> 1. Prior to any sale to a third party, the issuer shall have a right of first refusal to buy back the Subordinated Debt under terms that do not exceed a value as determined by an independent third party; 2. Treasury shall not sell more than 25% of the outstanding interests of the issuer to a single third party without the issuer’s consent, which may not be unreasonably withheld; 3. With the permission of the issuer, Treasury may transfer or sell the Subordinated Debt for no consideration or for a <i>de minimis</i> amount to a mission aligned nonprofit affiliate of an applicant that is an insured community development financial institution (“Eligible Nonprofit”); and 4. Treasury will not sell the investment (other than to an Eligible Nonprofit”) before the tenth anniversary of the Investment Date without issuer’s consent, which is not to be unreasonably withheld. In addition, Treasury would commit to an 18-month advance notice of intent to transfer the Subordinated Debt other than to an Eligible Nonprofit. <p><u>By Issuer:</u></p> <p>The issuer, subject to the receipt of any required regulatory approvals, may merge or sell all, or substantially all, of its assets, provided that the right of the Subordinated Debt and the obligations of the issuer relating thereto are assumed and an equivalent Subordinated Debt issued by the successor entity; provided, however, that in the event of the merger or other voluntary dissolution of a low-income Credit Union, (other than merger into another low-income Credit Union), the secondary capital account will be closed and paid out in accordance with 12 CFR 701.34(b)(9) (or any successor provision).</p> <p>The successor must also meet either the certified CDFI or MDI criteria to continue to participate in the ECIP unless prior Treasury approval is obtained. Treasury will issue guidance for how to account for qualified lending when two institutions merge.</p>

¹ The definition of 3rd party does not include a vehicle or entity controlled by the U.S. Department of the Treasury.

<p>Access and Information</p>	<p>The issuer will permit the holder of the Subordinated Debt, the holder’s designees, the Office of Inspector General of the Department of the Treasury, and the Comptroller General of the United States to examine the issuer’s corporate books and discuss matters relevant to the investment with principal officers, in each case after being provided with reasonable notice, subject to applicable laws and regulations that may limit the disclosure of certain information, including, but not limited to, 12 CFR Part 792 of the NCUA’s regulations.</p>
<p>Certifications</p>	<p>The issuer will provide the following certifications to Treasury:</p> <ol style="list-style-type: none"> 1. The issuer’s Chief Executive Officer and Chief Financial Officer, as well as the directors (trustees) of the issuer who attest to the issuer’s Call Report, will certify to Treasury that information provided on each Supplemental Report is accurate. 2. Following the Investment Date, within 120 days of the end of each fiscal year of the issuer during which a Supplemental Report is submitted, the issuer will submit to Treasury a certification that the processes and controls used to generate the Supplemental Reports are satisfactory. If the issuer is required to include an attestation as to the issuer’s internal control over financial reporting in connection with the filing of audited financial statements with any governmental or self-regulatory agency, the issuer shall provide an attestation with respect to the processes and controls used to generate the Supplemental Reports from its independent auditor in addition to the certification referred to in the preceding sentence. 3. Annually, until the Redemption Date (or Maturity Date, as applicable), the issuer will certify to Treasury that it is in compliance with the Customer Identification Program requirements set forth in 31 CFR 103.121 (or any successor provision). Issuers must submit valid and timely certifications to be eligible for any interest rate adjustment on the Subordinated Debt. 4. Annually, for the period required by Treasury’s rules and regulations, a certification by the issuer, executed by two of its senior executive officers (one of which must be the issuer’s Chief Executive Officer or Chief Financial Officer), that the

	<p>issuer is in compliance with each of the excessive compensation, severance pay and excessive or luxury expenditures requirements and limitations on capital distributions set forth in Treasury’s rules and regulations related thereto, as published and in effect at the time of the certification.</p>
Change in Law	<p>If, after a capital investment has been made in an issuer under ECIP, there is a final change in law or regulation that modifies the terms of the investment or program in a materially adverse respect for the eligible institution, the eligible institution may, after approval by the NCUA for the eligible institution, redeem the investment.</p>
Noncompliance	<p>An issuer’s noncompliance with the requirements of Treasury’s rules and regulations related to ECIP and the related ECIP investment agreement would result in (i) restrictions on capital distributions and (ii) certain governance-related remedies (e.g., observer rights). In addition, Treasury expects to inform the NCUA of an issuer’s noncompliance.</p>
Additional Information and Considerations	<p>These terms and conditions are preliminary and subject to change. Final terms and conditions will be found in the definitive closing documents.</p> <p>This document does not create a binding legal obligation. A binding obligation shall only arise pursuant to duly executed definitive documentation, subject to the satisfaction of closing conditions, including the absence of any material adverse change in the condition (financial or otherwise) of the issuer.</p>

Annex A: Interest Rate Table for Subordinated Debt

<u>Increase in Qualified Lending Compared to Baseline</u>	<u>First 8 Quarters</u>	<u>After 8 Quarters</u>	<u>After 10 Years</u>
Increase less than 200% of Capital Investment	0%	< 2.0% per annum	< 2.0% fixed*
Increase between 200% and 400% of Capital Investment	0%	< 1.25% per annum	< 1.25% fixed*
Increase greater than 400% of Capital Investment	0%	< 0.5% per annum	< 0.5% fixed*

* **Fixed rate after year 10.** After Year 10, the interest rate on Subordinated Debt is fixed until maturity based on the average annual increase in Qualified Lending in years 2 through 10 compared to the Baseline..