

**Emergency Capital Investment Program**  
**Subordinated Debt Term Sheet (Mutuals and S Corps)**

*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](#)

<b>Issuer</b>	<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"> <li>1. A Community Development Financial Institution (“CDFI”) or Minority Depository Institution (“MDI”); and</li> <li>2. (i) a Bank Holding Company (“BHC”), (ii) a Savings and Loan Holding Company (“SLHC”), or (iii) an Insured Depository Institution that is either (a) not controlled by a BHC or SLHC at all or (b) not controlled by a BHC or SLHC that qualifies as a CDFI or MDI.</li> </ol> <p>For S Corps only – that has made a valid election to be taxed under Subchapter S of Chapter 1 of the U.S. Internal Revenue Code.</p>
<b>Application</b>	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”).
<b>Security</b>	Unsecured subordinated debentures (“Subordinated Debt”) that do not constitute a class of stock or represent equity ownership in the issuer. The Subordinated Debt shall have a minimum denomination of \$1,000 and authorized denominations of integral multiples of \$1,000.
<b>Regulatory Capital Treatment</b>	Tier 2
<b>Investment Amount</b>	<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> <p style="padding-left: 40px;">&gt; \$2BN: 7.5% of total assets</p> <p style="padding-left: 40px;">≤\$2BN and ≥\$500MM: 15% of total assets</p>

	<p align="center"><b>&lt; \$500MM: 22.5% of total assets</b></p> <p>“Total assets” means (i) for issuers that file reporting Form FR Y-9C, the total consolidated assets as reported in Schedule HC of the FR Y-9C, (ii) for issuers that file a Consolidated Report of Condition and Income (“Call Report”), the total assets as reported on Schedule RC of the Call Report, and (iii) for issuers that file on reporting Form FR Y-9SP, the higher of the (1) total assets reported in Schedule SC of the FR Y-9SP and (2) total assets reported in the Call Report of such issuer’s primary insured depository institution subsidiary).</p>
<b>Ranking (Mutuals)</b>	<p>In a receivership, bankruptcy, insolvency, liquidation, or similar proceeding, the Subordinated Debt will rank senior to mutual capital certificates (and any other capital instruments authorized under applicable law). The Subordinated Debt shall be expressly subordinated to: (i) if issued by a bank or savings association, claims of depositors and the issuer’s other debt obligations to its general and secured creditors; and (ii) if issued by a holding company, the issuer’s debt obligations to its general and secured creditors.</p> <p>The Subordinated Debt is not secured, not covered by a guarantee of the federally-regulated institution or of an affiliate of the federally-regulated institution, and not subject to any other arrangement that legally or economically enhances the seniority of the instrument in relation to more senior claims.</p>
<b>Ranking (S Corps)</b>	<p>In a receivership, bankruptcy, insolvency, liquidation, or similar proceeding, the Subordinated Debt will rank senior to common stock (and any other class of equity, as applicable if a change in corporate form, relevant law or tax election permits other classes of equity). The Subordinated Debt shall be expressly subordinated to: (i) if issued by a bank or savings association, claims of depositors and the issuer’s other debt obligations to its general and secured creditors; and (ii) if issued by a holding company, the issuer’s debt obligations to its general and secured creditors.</p> <p>The Subordinated Debt is not secured, not covered by a guarantee of the federally-regulated institution or of an affiliate of the federally-regulated institution, and not subject to any other arrangement that legally or economically enhances the seniority of the instrument in relation to more senior claims.</p>

<b>Target Communities</b>	<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>
<b>Qualified Lending</b>	<p>“Qualified Lending” means the following extensions of credit (including participations in such extensions of credit) to Target Communities:</p> <p>As reported to the issuer’s primary federal regulator or, in the case of a holding company that files on Form FR Y-9SP, the primary federal regulator for its insured depository institution subsidiaries (numerical cross references are to Call Report items in Schedule RC-C and FR Y-9C items in Schedule HC-C (Loans and Lease Financing Receivables)):</p> <ul style="list-style-type: none"> <li>(i) all loans secured by real estate; <ul style="list-style-type: none"> <li>a. construction, land development, and other land loans (1.a(1)–(2));</li> <li>b. loans secured by farmland (1.b);</li> <li>c. loans secured by 1–4 family residential properties (1.c(1), 1.c(2)(a)–(b));</li> <li>d. loans secured by multifamily (5 or more) residential properties (1.d);</li> <li>e. loans secured by nonfarm nonresidential properties (1.d)</li> </ul> </li> <li>(ii) loans to finance agricultural production and other loans to farmers (3.);</li> <li>(iii) commercial and industrial loans (4.);</li> <li>(iv) loans to individuals for households, family, and other personal expenditures (6.a-d); and</li> <li>(v) lease financing receivables (10.),</li> </ul> <p>and, within these loan categories, excluding:</p> <ul style="list-style-type: none"> <li>A. any loans made under the Paycheck Protection Program;</li> <li>B. 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</li> </ul>

	<p>Business 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>C. 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 of the loan, in which case the entire loan amount, including the increase, would be 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 total amount of Qualified Lending, including the exclusions listed above, shall be calculated and reported 10 business days before the date of Treasury’s investment (“Investment Date”) by the issuer in a format specified by 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 payment due will be a partial, pro-rata amount for accrual inclusive of the day beginning on the 24-month anniversary date.</p>
<p><b>Calculation of Lending Baseline</b></p>	<p>Not later than 10 business days prior to the Investment Date, the issuer shall submit an Initial Investment and Lending Plan 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</p>

	<p>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 mergers and acquisitions, or purchases of loans, as measured since, and including, the quarter ending on September 30, 2020.</p>
<b>Maturity</b>	<p>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.</p>
<b>Interest Rate</b>	<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 <b>Annex A</b>.</p> <p>Interest will be payable quarterly in arrears on March 15, June 15, September 15 and December 15.</p>
<b>Deferral</b>	<p>Interest payments shall be deferred in any quarter if any of the following are true:</p> <ol style="list-style-type: none"> <li>1. The issuer fails to be classified as “well capitalized”, as defined in its primary federal regulator’s applicable regulations.</li> <li>2. The issuer failed to achieve positive net income for the most recently completed quarter.</li> <li>3. The issuer is subject to distribution limitations under the capital rules applicable to it (e.g., 12 CFR 3.11; 12 CFR 217.11 or 12 CFR 324.11).</li> </ol>

	<p>4. 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> <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. 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> <p>An issuer may, in its discretion, provide Treasury notice that it waives the deferral provision with respect to any interest payment date, and may pay interest that would otherwise be subject to deferral. However, notwithstanding any waiver, an issuer’s distributions must adhere to the distribution limitations of the primary federal regulator.</p>
<p><b>Redemption</b></p>	<p>The Subordinated Debt may be redeemed at the option of the issuer on or after the fifth anniversary of issuance (or earlier in the event of loss of regulatory capital treatment—see “<i>Change in Law</i>” below), subject to the approval of the issuer’s primary federal regulator and in accordance with the federal banking agencies’ regulatory capital regulations.</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>
<p><b>Provisions upon Nonpayment of Interest</b></p>	<p><u>The following restrictions apply whenever interest payable on the Subordinated Debt has not been and will not be paid for any quarterly interest period:</u></p> <ol style="list-style-type: none"> <li>1. If the issuer does 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</li> </ol>

	<p>to Treasury, informing Treasury that the quarterly interest payment will not be made and include the reason for the issuer not making the interest payment; and</p> <p>2. Beginning on the payment date for the unpaid interest, restrictions on capital distributions as described below.</p> <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. 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><u>After six quarterly dividends not paid in full:</u></p> <p>Whenever interest payments on the Subordinated Debt have not been paid for six quarterly interest payments or more (whether due to deferral or otherwise), and six quarterly interest payments, whether or not consecutive, are unpaid, the holder of the Subordinated Debt will have the right, but not the obligation, to elect two directors to the issuer’s board of directors. 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><b>Restrictions on Dividends and Share Repurchases (Mutuals)</b></p>	<p>The issuer shall agree to comply with the rules and regulations of Treasury and the issuer’s primary federal regulator 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 dividends may be declared or paid by the issuer on any mutual capital certificates or other capital instruments it is authorized to issue under applicable law, nor may any discretionary payments</p>

	<p>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.</p> <p>Further, the issuer may not repurchase or redeem any mutual capital certificates or other capital instruments, or any securities or instruments ranking <i>pari passu</i> with or junior to the Subordinated Debt, 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.</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 an issuer’s primary federal regulator.</p>
<p><b>Restrictions on Dividends and Share Repurchases (S Corps)</b></p>	<p>The issuer shall agree to comply with the rules and regulations of Treasury and the issuer’s primary federal regulator with respect to dividends, share buybacks and other capital distributions.</p> <p><u>In general:</u></p> <p>For as long as any Subordinated Debt is outstanding, no dividends may be declared or paid by the issuer on any securities or other instruments it is authorized to issue under applicable law, nor may the issuer make 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.</p> <p>Further, the issuer may not repurchase or redeem any securities or instruments ranking <i>pari passu</i> with or junior to the Subordinated Debt, including common stock or an equivalent equity interest, unless all accrued and unpaid interest for all past</p>

	<p>interest periods on the Subordinated Debt has been paid in full, and no deferred amounts are unpaid.</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 an issuer’s primary federal regulator.</p> <p>Notwithstanding anything to the contrary above, any issuer that is an S corporation may make capital distributions, or purchase or redeem non-senior securities, to the extent reasonably required to cover its owners’ tax obligations in respect of the entity’s earnings. Such distributions shall be subject to an annual reconciliation, with any surplus or deficiency to be deducted or added to distributions, as applicable, in the following year. This exemption for tax-related distributions does not supersede otherwise applicable limitations or determinations with respect to distributions established by an issuer’s primary federal regulator.</p>
<b>Restrictions on Executive Compensation</b>	The issuer and its covered officers and employees shall agree to comply with the rules and regulations and of Treasury with respect to restrictions on executive compensation.
<b>Investment and Lending Plan</b>	Issuer shall provide to Treasury, the primary federal regulator, and, if applicable, the issuer’s state banking agency, an Investment and Lending Plan at the time it submits its application for ECIP.
<b>Voting &amp; Consent Rights</b>	<p>The Subordinated Debt will 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, exchange, dissolution, or similar transaction which would affect the rights of the Subordinated Debt.</p>
<b>Acceleration</b>	Upon placement of the issuer or, in the case of a holding company, a significant insured depository institution subsidiary, into receivership or liquidation or the appointment of a receiver, liquidating agent or other similar official (other than a conservator in respect of an insured depository institution),

	principal and accrued interest will become immediately due and payable (i.e., accelerated).
<b>Transferability</b>	<p><u>By Treasury:</u></p> <p>No contractual restrictions on transfer by the Treasury (or vehicles established and used by Treasury to purchase, hold, and sell investments), provided that:</p> <ol style="list-style-type: none"> <li>1. Prior to any sale to a third party<sup>1</sup>, 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, conditional upon prior approval by the issuer’s primary federal regulator, as applicable;</li> <li>2. Treasury shall not sell more than 25% of the outstanding Subordinated Debt to a single third party without the issuer’s consent, which may not be unreasonably withheld;</li> <li>3. With the permission of the issuer, the Treasury may transfer or sell the Subordinated Debt for no considerations 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</li> <li>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 investment other than to an Eligible Nonprofit.</li> </ol> <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.</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</p>

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

	how to account for qualified lending when two institutions merge.
<b>Access and Information</b>	The issuer will permit the holder of the Subordinated Debt, the holder's designees, the 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 limiting the disclosure of information.
<b>Certifications</b>	<p>The issuer will provide the following certifications to Treasury:</p> <ol style="list-style-type: none"> <li>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 (or those of its insured depositories, in the case of a holding company), will certify to Treasury that information provided on each Supplemental Report is accurate.</li> <li>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.</li> <li>3. Annually, until the Redemption Date, 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.</li> </ol>

	<p>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 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>
<b>Change in Law</b>	<p>If, after a capital investment has been made in an eligible institution under ECIP, there is a final change in law or regulation that results in loss of regulatory capital treatment for the investment or a tax event, the issuer may, with the approval of its primary federal regulator, redeem the investment.</p>
<b>Noncompliance</b>	<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 and director rights) In addition, Treasury expects to inform the issuer’s primary federal regulator of the issuer’s apparent noncompliance.</p>
<b>Additional Information and Considerations</b>	<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 Issued by a Subchapter S Corp**

<u>Increase in Qualified Lending Compared to Baseline</u>	<u>First 8 Quarters</u>	<u>Quarter 9 to 10 Years</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..