ATTACHMENT 2

Central Liquidity Facility
Credit Union Homeowners Affordability Relief Program
Term Sheet
December 9, 2008

This term sheet documents only conditions for participating in the Credit Union Homeowners Affordability Relief Program (CU HARP). The CU HARP does not supplant any laws, regulations, or safety and soundness regulatory guidance.

Central Liquidity Facility (CLF)

The CLF is a mixed-ownership government corporation under Title III of the Federal Credit Union Act. CLF serves to improve general financial stability by meeting the liquidity needs of credit unions and thereby encourage savings, support consumer and mortgage lending, and provide basic financial resources to all segments of the economy. 12 U.S.C. 1795.

Credit Union Homeowners Affordability Relief Program

The CLF will make advances under CU HARP up to $2 billion. CU HARP advances will have a maximum term of one year, will be invested in variable rate, matched term guaranteed senior debt of any participating corporate credit union with maximum terms of one year beyond the initial CU HARP advance, and will be fully secured by collateral of the borrowing credit union.

Eligible Collateral

Eligible collateral will include assets held by creditworthy credit unions.

Eligible Credit Unions

All creditworthy credit unions that are regular members of the CLF, or are covered for CLF membership by the agent group of corporate credit unions, may participate in CU HARP. Eligible credit unions must have a net worth ratio of at least six percent, after dilution by the requested advance amount (i.e., the net worth ratio is recalculated taking into account the prospective change in the balance sheet from the advance).

Transaction Structure

A credit union receiving a CU HARP advance must invest the proceeds in a CU HARP Note, which is a National Credit Union Share Insurance Fund (NCUSIF) guaranteed senior debt of a corporate credit union. Credit extensions under CU HARP will be in the form of recourse CLF advances secured by eligible collateral. Substitution of collateral during the term of the advance will be allowed at the discretion of the CLF. Initial CU HARP advances will mature on December 31, 2009. Creditworthy participating credit unions may apply for a rollover CU HARP advance to mature on December 31, 2010.[1] Applications for rollover must be made by November 30, 2009.

CU HARP advances will have interest payable semi-annually and will not be subject to re-margining requirements.

Haircuts

Collateral haircuts will be established by the agent corporate credit union for each class of eligible collateral. The minimum collateral will have a net book value equal to at least 200 percent of the advance amount. The credit union will pledge 100 percent of the CU HARP Note and 100 percent in other assets to meet the 200 percent collateral requirement.

Allocation

The AGR will offer $2 billion of advances under CU HARP on a one-time basis at the CLF advance rate. CU HARP advances will be awarded to borrowers on a pro rata subscription basis. Each subscription must include a desired advance amount, a subscription to invest in NCUSIF guaranteed senior debt of one or more participating corporate credit union(s), and a commitment to the terms of the CU HARP. The maximum amount of a credit union's requested subscription will not exceed the outstanding principal balance of first mortgage loans that are 30 or more days delinquent as of September 30, 2008. The CLF will announce participating corporate credit unions.

The CLF will reserve the right to reject or declare ineligible any subscription, in whole or in part, in its discretion. In this regard, the CLF will use existing procedures in determining creditworthiness.

The AGR and the agent corporate credit unions may not assess a fee for CU HARP advances.

Corporate credit unions desiring to participate must provide the AGR with notice and requested amounts by 2:00 pm CST on Friday, December 12, 2008. Credit unions must provide their agent corporate credit union with a subscription by 2:00 pm CST on Friday, December 19, 2008. Awards will be announced on Monday, December 29,

[1] The CLF's ability to fund a rollover CU HARP advance is subject to statutory borrowing limits.

2008. Funding and required investment transactions will occur simultaneously on January 2, 2009.

Pricing

The CLF advance rate equals the greater of: (a) the Primary Credit Rate at a Federal Reserve Bank discount window; and (b) the rate on a comparable maturity Treasury security plus 1/8th percent.

A credit union receiving a CU HARP advance must invest the proceeds in CU HARP Notes, which are NCUSIF guaranteed senior debt of a corporate credit union, and must agree to CU HARP requirements. The CU HARP Note rate is a complex variable rate with two components. The first component is indexed to the CLF advance rate and will reset on December 31, 2009. The second component is a bonus coupon up to one percent indexed to the credit union's documented rate break to individual members as explained in the CU HARP attachment. The CU HARP Notes mature on December 31, 2010.

Roles of Corporate Credit Unions

Each borrower must use a corporate credit union, which will act as agent for the borrower, to access the CU HARP program and must provide the agent or the AGR with a perfected first priority security interest in eligible collateral.

Role of the National Credit Union Share Insurance Fund

The NCUSIF will provide a guarantee of senior debt issued by participating corporate credit unions under the Temporary Corporate Credit Union Liquidity Guarantee Program (TCCULGP). THE NCUSIF guarantees senior debt of corporate credit unions issued by June 30, 2009, to mature on or before June 30, 2012.

Role of the CLF

The CLF will provide oversight to the AGR in administering the program and will fund advances by borrowing from the Federal Financing Bank (FFB). The FFB is under the supervision of the Secretary of the Treasury. The CU HARP advances will be made in the national economic interest pursuant to a determination of the NCUA Board, with the concurrence of the Board of Governors of the Federal Reserve System and the Secretary of the Treasury.

Termination Dates

The CLF will allow one rollover on December 31, 2009 based on creditworthiness. The NCUA Board, the Board of Governors of the Federal Reserve System, and the

Secretary of the Treasury may agree to extend CU HARP, after determining advances under the program continue to be in the national economic interest.

CU HARP Requirements

CU HARP Requirements are further specified on the Attachment.

Attachment
December 9, 2008

National Credit Union Administration (NCUA)
Credit Union Homeowners Mortgage Relief Program (CU HARP)

The CU HARP is intended to break the repeating cycle of delinquency, default, foreclosure, and diminished home prices. Under the CU HARP, credit unions will help eligible members hold onto their homes. NCUA and credit unions, working cooperatively, can begin this process.

> (1) NCUA, through the Central Liquidity Facility (CLF), will provide advances to eligible credit unions at lower rates than otherwise available through private sources. The CLF will offer CU HARP funds for a term of one year at a fixed rate, renewable for a term of one year. The credit union will invest those funds in a CU HARP Note that will provide a bonus up to one percent if the credit union provides interest rate relief to struggling homeowners.
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> (2) Participating credit unions will pass all of the benefit through to struggling homeowners. The credit union will also match the bonus, providing a rate break to the homeowner. This rate break temporarily lowers the monthly mortgage payment for up to two years. The credit union benefits by the reduced likelihood of default on mortgages.

<u>Eligible Credit Union Member</u>

1. An eligible credit union member must be in default or in danger of default on the first mortgage held, or originated and serviced but no longer held, on the balance sheet[1] by the credit union as of December 9, 2008, provided:
    a. The mortgage is 60 days or greater past due; or
    b. The mortgage is less than 60 days past due, but the credit union documents the mortgagor's household is experiencing a hardship (i.e., reduction in income) or undue hardship (e.g., illness or death in household impacting household income or resulting in significant medical expenses, etc.).
2. The current loan-to-value ratio, as assessed by the credit union, is greater than 80%.
3. The household's maximum income is no greater than 150% of the median household income for the ZIP code (or state, if greater than ZIP code) of the primary residence. [2]

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[1] Loans originated by the credit union and sold either in whole or part (as with a participation loan), where servicing is retained, may be modified only if otherwise not inconsistent with the master servicing agreement.
[2] Median household income for the ZIP code is from Decennial Census 2000 Summary File 3, Geographic Comparison Tables, "5-digit ZIP Code tabulation Area," GCT-P14. Income and Poverty in 1999: 2000. Median income for the state is from "Income of Households by State Using Two-Year Average Medians," Current Population Survey, U.S. Census Bureau. http://www.census.gov/hhes/www/income/incomestats.html#cps. This ZIP code data is also available on

4. The home is the member's primary residence, that is, owner occupied 1-4 family residential property (verified by the credit union).
5. The household provides proof of current income (verified by the credit union).
6. The mortgagor signs a modification agreement, agreeing not to draw on a second mortgage during the rate break period, without the prior written approval of the credit union based on documented hardship or undue hardship.

Credit Union Requirements

1. The credit union must document the interest savings resulting from reductions in rates on mortgages to eligible credit union members in the aggregate equal to two times the bonus of the CU HARP Note, or the bonus will be reduced.[3]
2. The credit union must lower mortgage interest rates, limited to a floor of 3%, to reach a target payment-to-income ratio (PTI) between 31% and 38%; provided, however, that the PTI can exceed 38% if the interest rate is reduced to the 3% floor. PTI is defined as the fully indexed, fully-amortizing principal, interest, taxes, and insurance payment including homeowner's association dues, ground rents, special assessments, and all subordinate liens as of December 9, 2008.
3. The credit union may extend a mortgage maturity to 40 years to reach the target PTI range.[4]
4. The credit union may reduce the principal balance on a mortgage to reach the target PTI range. A credit union reducing principal balance may provide for recapture of that principal reduction at maturity of the mortgage.
5. The credit union may provide for graduated increases in the mortgage interest rate after the rate break period at the option of the credit union to offset payment shock.

CU HARP Bonus

The CU HARP Note rate is a complex variable rate with two components. The first component is indexed to the CLF advance rate and will reset on December 31, 2009. The second component is a bonus coupon of a maximum of one percent indexed to one half of the credit union's documented rate break to individual members.

Application Procedure

Member credit unions electing to participate in the CU HARP will make application to the CLF using special CU HARP procedures. Regular members will make application

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http://mcdc2.missouri.edu/websas/dp3_2kmenus/us/. See also, American FactFinder, U.S. Census Bureau. http://factfinder.census.gov.

[3] The credit union's documentation is subject to verification by the credit union's primary regulator. The relevant state supervisory authority for a state-chartered credit union must consent to provide CLF with verification results upon request.

[4] Credit unions should be cognizant that loan modifications must comply with all applicable laws and should not adversely affect lien positions.

through any corporate credit union, rather than directly to CLF. Most credit unions are covered for membership by the agent group and will make application through their corporate credit union.

Bonus Coupon for Sufficient Documented Results of Member Loan Modifications[5]

The CU HARP Note rate will pay a bonus to the extent the credit union has timely modified existing mortgages to provide eligible members with realized reductions in interest payments equal to twice the bonus.

To qualify for the bonus coupon, a credit union must document the amount of interest saved by individual homeowners from the loan modifications made by the credit union. The credit union will receive, for example, $1 of bonus coupon for every $2 of benefit to the individual homeowner. The initial calculation period for the realized reduction in interest payments shall be 12 months, providing 6 months for credit unions to modify individual homeowner's loans. Thereafter, the bonus coupon calculation period shall be 6 months.

The credit union may apply realized reductions in interest payments in excess of twice the bonus in the current period to subsequent periods for purposes of determining subsequent bonus coupons.

Each bonus coupon equals the lesser of one half of the aggregate rate break provided to members or one half percent of the CU HARP Note. The realized reduction in interest payments on any modified eligible member mortgage will be disallowed in the event the CLF determines the credit union modified the mortgage terms to recapture any of the rate break.

A participating credit union must report its documented results to the corporate credit union at the end of the second month following the first 12 months after a CU HARP advance. The bonus coupon will be paid at the end of the following month. Subsequently, a participating credit union must report its documented results to the corporate credit union every six months; the bonus coupon will be paid one month later.

Specifically, for a CU HARP advance dated January 2, 2009, reporting will begin February 28, 2010 for the period ending December 31, 2009. The bonus will be paid on March 31, 2010. The second report is due by August 31, 2010 for the period ending June 30, 2010; the bonus coupon will be paid September 30, 2010. The final two reports are due February 28, 2011, and August 31, 2011 and bonus coupon payments

[5] A credit union must continue to comply with all applicable laws, regulations, and safety and soundness considerations for loan modifications. Contact your independent accountant, NCUA Regional Office, or State Supervisory Authority for questions regarding loan modifications.

will be on March 31, 2011, and September 30, 2011, after the return of principal on the CU HARP Note.

A participating credit union will provide the CLF or its agents (i.e., NCUA or State Supervisory Authority) with access to books and records to support the documented results. NCUA or the State Supervisory Authority will verify the documented results one time during the program and one time after the expiration date of the program.

<u>Duration</u>

The CLF will make CU HARP advances for a maximum term of one year, renewable for one year. Initial requests for CU HARP advances will be submitted on December 19, 2008. Approved advances will be funded on January 2, 2009, and mature on December 31, 2009. Rollover CU HARP advances will be made to creditworthy credit unions on December 31, 2009 and will mature on December 31, 2010.

<u>Benefit of the Rate Break to the Credit Union</u>

The benefit of the rate break to the credit union is a reduction in the expected probability of default on the modified mortgage. This benefit is difficult to quantify as a dollar amount.[6]

Since the credit union will match the benefit of the bonus, the CLF will permit the credit union to determine which loans to modify under the CU HARP, subject to the eligibility requirements, noted above.

The CLF encourages credit unions to extend the maturity and/or lower the payment amount (such as an interest only period for the duration of the rate break) to increase the likelihood of success of the member in performing on the modified mortgage.

The required match should serve to discipline a credit union to modify only loans in danger of default. There is a lack of data to perform a reliable net present value test.[7]

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[6] All else equal, a reduction in the expected probability of default (PD) results in a lower expected loss. The expected loss equals PD multiplied by the loss given default (LGD). However, to compute this change, one must estimate PD and LGD for the unmodified loan and for the modified loan. The current unstable environment for home prices calls into question the reliability of estimates based on historical periods (that is, there is an out-of-sample forecast problem). Further, the lower expected cash flow of the modified loan reduces the benefit.

[7] Under a simple net present value test, a depository institution modifies a loan if the expected value of a modified loan exceeds the expected value of an unmodified loan. To compute the expected loan values, one must estimate the probabilities of default and cure for unmodified loans and of performance and re-default for modified loans. The expected value of a modified loan is the sum of (a) the probability of performance times the present value of the modified cash flows and (b) the probability of re-default times the expected recovery on default. In an alternative NPV framework, a depository institution computes the expected value of a modified loan using conditional default rates and compares that value to the expected value of an unmodified loan using conditional cure rates.

The credit union must decide, based on their internal analysis, whether to extend a rate break on a particular mortgage, balancing the cost of the required match against their perceived benefit of a reduced probability of default. Thus, the credit union will allocate rate breaks to those borrowers it determines are most likely to provide a net benefit to the credit union.

Collateral Requirements:

The CLF generally will request collateral with a net book value equal to 200 percent of a CU HARP advance request. While this collateral amount exceeds the minimum regulatory amount of 110 percent of net book value, this increased cushion will better protect the CLF, its shareholders, and the Federal Financing Bank from loss.

Risks to Participating Natural Person Credit Unions:

Credit unions should be aware that participation in the CU HARP program carries risk.

> *(1) Each CU HARP advance matures in one year, but the CU HARP Note(s) purchased with the advance mature in two years. At the end of the first year, each participating credit union must apply for an extension of its CU HARP advance. If the credit union is still creditworthy, has available borrowing capacity under its statutory borrowing limit, and the CLF still has available borrowing capacity under its statutory limits, the CLF will grant the renewal request for an additional year. This is not a guaranteed renewal. In the event that its renewal request is not granted, a participating credit union must find some source of liquidity other than the CU HARP Note to repay the CLF advance.*
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> *(2) Some loans modified by a credit union pursuant to CU HARP may default despite the assistance provided to the borrower. It is possible losses could be higher on modified loans if subsequent recoveries on defaults decline markedly.*