

## **Charitable Donation Account (CDA)**

In December of 2013, the NCUA Board approved a final rule amending the incidental powers rule (Part 721) to clarify that a federal credit union is authorized to fund a CDA, a hybrid charitable and investment vehicle, as an activity incidental to the business for which a FCU is chartered, provided the account is primarily charitable in nature and meets other regulatory requirements.

A Charitable Donation Account ("CDA") investment allows a credit union to make a charitable contribution while allowing the contribution to pay for itself. Over the last 3-5 years, an investment in the CDA would have allowed a CU to increase its charitable contributions while retaining a net return significant higher than generated on its traditional investments. Please see below the Investment Return Chart.

Below are some frequently asked questions about the CDA which will help state credit union foundations respond to inquiries from credit unions;

- **What is a Charitable Donation Account Investment?** CDA is a hybrid investment which grants a federal credit union expanded investment powers to fund charitable contributions. To qualify as a CDA, the primary purpose of the investment must be to fund charitable contributions. To meet the primary purpose test, a minimum of 51% of the earnings and capital gains must be distributed to the National Coalition of Firefighters Credit Unions Inc., at a frequency of no less than five years. Our alliance with MEMBERS Trust Company allows for an annual distribution. Gains and interest in excess of the 51% are booked as investment income by the credit union.
- **Why did we partner with MEMBERS Trust Company ?** Since 1987, MEMBERS Trust Company, owned by America's Credit Unions and regulated by the Office of Comptroller of the Currency, has provided wealth management and investment services to members and credit unions. It currently manages over \$1.8 billion utilizing a professional investment team, whose members are experienced and holder of the prestigious CFA designation. MEMBERS Trust Company offered the first charitable hybrid investment in 2011 which became the genesis for the CDA. The trust company played a key role in advocating the issuance of the regulation which authorized the CDA for credit unions.
- **How does a credit union retain control over the CDA?** The credit union maintains authority over the investment management of the CDA; MEMBERS Trust Company will develop an Investment Policy Statement that is compatible with the credit union's risk tolerance, investment time horizon and business objectives for its CDA. Investment strategy may be changed at any time by the credit union by simply notifying MEMBERS Trust Company of the need to change the Investment Policy Statement. The CDA can be terminated at any time after distributing 51% of the total return earned up to the termination date as required by regulation.

- **How are contributions distributed (51% of investment return)?** Contributions from the CDA will be paid annually by MEMBERS Trust Company to the National Coalition of Firefighters Credit Unions Inc. on behalf of the credit union and to any other IRC 501(c)(3) entity as directed by the credit union.
- **How does the credit union book the investment on their individual financial statements?** The CDA should be recorded as an “other asset” using market value accounting (mark to market.) Dividends and income to the extent not paid out should be recorded as other investment income. Charitable contributions can be expensed or applied as an offset against income or dividends. Each credit union should consult its auditor to ensure compliance with GAAP.
- **How will NCUA require a CDA to be risk-weighted under the new risk-based capital proposal?** Currently, Mutual Funds and Exchange Traded Funds are given a risk weight of 300% but the proposed regulation provides for a look-through approach in which non- equity assets in the investment fund may be given a lower risk weight. Based on the current proposed regulation, the risk weight of the CDA utilizing the look-through approach is projected at 150%.
- **What is the minimum amount that can be invested?** The minimum investment is \$150,000.
- **Historical rate of return for this type of investment**  
This investment allows a credit union to make a charitable contribution and the contribution pays for itself. Over the last 3 years, an investment in the CDA would have allowed a CU to increase its charitable giving and generate an investment return higher than with traditional investments.

### *ETF Portfolio - Conservative Model 40% Equity & 60% Fixed income*

<b>Investment Returns</b>			
<i>Period</i>	<i>Total Investment Return</i>	<i>Charitable Donation =51% of Total Return</i>	<i>Net Total Return To Credit Unions</i>
2014	5.43%	2.77%	2.66%
2013	10.23%	5.22%	5.01%
2012	8.88%	4.53%	4.35%

- **Who do credit unions contact to make an investment?**  
Jason Ritzenthaler, CFA, CTFA  
Co-Chief Investment Officer  
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The illustration herein represents a return period of 12/31/10—12/31/13. ETF means Exchange Traded Funds. CD is part of the Certificate of Deposit Account Registry Service (CDARS<sup>®</sup>) offered through the Promontory Interfinancial Network. Rates of return assume a 51% contribution rate to the charity. MEMBERS Trust Company, FSB is a nationally owned CUSO regulated by the Office of the Comptroller of the Currency. **Nondeposit, investment products, including MEMBERS’ ETF Income portfolio, are not insured by the FDIC, NCUA or any other governmental agency and is subject to investment risk including possible loss of principle. Past performance is not indicative of future results.**