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Help Wanted: Inside the Role of a Community Development Lending Policy Editor

Robert Spichiger

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A Capstone Project Submitted in Partial Fulfillment of the
Requirements of the Renée Crown University Honors Program at
Syracuse University

Robert Spichiger

Candidate for Bachelor of Science
and Renée Crown University Honors
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Honors Capstone Project in Accounting

Capstone Project Advisor: ______________________________
Ginger Wagner, Professor of Accounting Practice

Capstone Project Reader: ______________________________
Ron Ehrenreich, CEO of Syracuse Cooperative FCU

Honors Director: ______________________________
Dr. Danielle Smith, Director

Abstract

Students receiving professional degrees are often less motivated than their peers to graduate from the Renée Crown University Honors Program at Syracuse University. One possible explanation for this is that these students are discouraged by the requirement of writing an academic thesis. To remedy this issue and motivate more students from the Martin J. Whitman School of Management to graduate from the Honors Program, this project aims to serve as an example to future business students of one possible way to structure a professional thesis.

This paper is a critical reflection of the skills one develops while working at a Community Development Financial Institution (CDFI). I worked as a Community Development Lending Policy Editor at Syracuse Cooperative Federal Credit Union (Cooperative Federal), where I was responsible for verifying and updating the credit union's lending policy. The need for such a position arose from a variety of circumstances, including the upcoming retirement of the credit union's first and only CEO and recent changes in the business lending regulations imposed by the National Credit Union Administration (NCUA). Throughout my time at Cooperative Federal, I developed knowledge specific to the community development lending industry, technical skills that I can apply to my future professional, and workplace etiquette that will empower me to be an active and thoughtful employee.

Executive Summary

The Syracuse Cooperative Federal Credit Union (Cooperative Federal) opened in February 1982 with the mission of rebuilding the Syracuse city economy. Relying solely on a $30 contribution from a local activist group and the volunteerism of many "baby boomer" generation activists, Cooperative Federal set out to serve those who were unable to receive loans from other financial institutions, mainly due to prejudice and discrimination. By 2000, the U.S. Department of the Treasury classified the credit union as a Community Development Financial Institution (CDFI), recognizing that it is aimed at expanding economic opportunity in low- and moderate-income communities. Since then, Cooperative Federal has grown to include over $26 million in assets and has continued to serve as a resource to under-served communities.

During the current year, unique circumstances presented me the opportunity to work with Cooperative Federal and contribute to the continued growth of the organization. One such circumstance was that Ron Ehrenreich, the first and only CEO of Cooperative Federal, is planning on retiring in the near future and wanted to help make the transition of leadership as seamless as possible. In addition, a new rule was approved by the National Credit Union Administration (NCUA), an agency of the federal government, thus requiring Cooperative Federal to update its policy. Ehrenreich also saw the need to increase the accessibility of the credit union's lending policy because he noticed the department's staff had been unintentionally violating various policies. With the need for a clear, up-to-date policy gradually intensifying and a lending staff that was busy as ever, my work as Cooperative Federal's Community Development Lending Policy Editor served as a small, but important contribution to the organization.

While discussing general operational procedures and succession planning with Cooperative Federal's upper management, I learned the importance of reflecting on the past as a tool for bettering the future. Therefore, this thesis is a critical reflection of the industry-specific knowledge, technical skills, workplace etiquette, and perspective that I developed while working hands-on in community development lending. Accompanying this analysis are Cooperative Federal's new lending policy and the sources used to support the edits.

I began my work by familiarizing myself with the policy, and after scrutinizing almost every word of Cooperative Federal's 165-page lending policy, I finished my work by giving the credit union a clear and accurate policy. Being immersed in the vocabulary of the industry was possibly one of the most important aspects of my work because it not only helped me understand and edit Cooperative Federal's lending policy, but it also gave me the ability to be an active participant in conversations about the policy. These conversations served to expand my knowledge of the business procedures of CDFI-designated credit unions and made me comfortable asking my coworkers for help. The latter was especially beneficial when I was researching the NCUA's new rule regarding Business Lending with the goal of incorporating it into the new policy. Some major updates that needed to be included were changes in the classification of loans made for business purposes, the shifting of focus on monitoring and reporting from MBLs to Commercial Loans, the removal of a Construction and Development loan limit, and regarding the requirements of the Board of Directors and the lending staff. In addition to deciphering the rule and its specific requirements, I needed to be able to explain them, in speech and in writing, to other credit union employees in ways that were easy to understand.

To accomplish my goals, I needed to build upon my technical skills of reading, writing, editing, and researching. During the course of my work, I was exposed to Cooperative Federal's original policy, memorandums from the NCUA, reports written by various credit union leagues, and even select parts of the Uniform Commercial Code (UCC). Microsoft Office tools such as

OneDrive and Word's master document application allowed me to work more efficiently and collaboratively. While also building upon my hard skills, Cooperative Federal's collaborative corporate culture pushed me to develop the soft skills instrumental in the modern-era workplace. These soft skills include workplace etiquette such as sending appropriate emails, politely scheduling and speaking at meetings, and conducting oneself professionally. In short, the soft skills I developed, and specifically the weekly meetings I arranged with Ehrenreich, empowered me to verify the accuracy of the credit union's lending policy, increase the policy's accessibility, and aid in succession planning.

Community development lending is both a difficult and rewarding industry. It is important for the staff of any CDFI lending department to understand that they are loaning out the life savings of its members. This keeps in perspective the importance of making quality, low-risk loans and why abiding by a policy is important for consistency and quality service. In fact, detailed and well-thought-out policies are instrumental for credit unions that are attempting to rejuvenate the economies surrounding under-served communities because not only do they explain the limits of the law and the guidelines of credit union policy, but they also establish a level of trust between a credit union and its members. By taking part in the updating of Cooperative Federal's Community Development Lending Policy, I played an influential role in helping it fulfil its mission. As a result, I am proud of having taken part in this project, and I am excited about the positive impact it will have on the Syracuse city community, regardless of how small it may be.

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Preface

The purpose of this project is to increase interest and retention in the Renée Crown University Honors Program among students in Syracuse University's Whitman School of Management by challenging how students earning professional degrees think of their undergraduate theses. *Help Wanted: Inside the Role of a Community Development Lending Policy Editor* is meant to model a thesis specifically tailored to the experiences of a professional degree, while maintaining the academic rigor expected of the Honors Program. Professional degrees, for the purpose of this paper, are degrees that focus on real-world applications and aim to prepare students for careers in a specific field, such as law, education, or business. Accounting, for example, is a professional degree. Academic degrees, on the other hand, focus on a specific field of study and are typically more research-oriented than professional degrees. This research component and in many cases, the capstone projects already required by academic degree programs prepare students receiving academic degrees for their Honors theses by giving them the background and infrastructure they need to write an academic paper. Students earning professional degrees, on the other hand, develop backgrounds and infrastructure that are not accurately represented in an academic paper. Thus, an alternative thesis objective should be established for students earning professional degrees.

Comparable to academic degrees' research component, most professional degree programs require students to complete a project or internship in their field before graduating. Students enrolled in the Whitman School of Management must complete an internship as a graduation requirement. Below are the internship policies posted on the school's website:

1. "All Whitman students must complete at least one 120-hour internship as a graduation requirement.
2. The experience should add additional skills to a student's knowledge base.
3. Students should have the opportunity to develop and demonstrate action-oriented problem solving, critical thinking and persuasive business communication skills.
4. Students must be exposed to 'real' job situations relevant to their major.
5. Participating firms must provide a job description with desired qualifications.
6. Firms must provide supervision by a professional with educational and/or professional background in the field of the experience."

Honors students earning professional degrees should be able to use a critical reflection of their hands-on internship experience as the majority of their theses. An academic research paper demonstrates the skills developed by earning an academic degree, but those earning professional degrees have focused their academic careers on honing a different set of skills. If a thesis is supposed to demonstrate the skills a student developed throughout his or her time in college, then a report on a professional work experience should satisfy that requirement.

Acknowledgements

I would like to thank Ron Ehrenreich for welcoming me into the organization that is unbelievably important to him. And also, Ginger Wagner for being just the thesis advisor I needed and Karen Hall for helping me every step of the way since before I even began my thesis.

Introduction

Syracuse Cooperative Federal Credit Union

The Syracuse Cooperative Federal Credit Union (Cooperative Federal) officially opened its doors in February 1982, after a nine-month effort to secure pledges of support. Like all credit unions, Cooperative Federal is a non-profit financial institution that holds its members' deposits and generates revenue by lending this money out at low interest rates. One main difference between credit unions and for-profit financial institutions, such as banks, is that credit unions use their revenues solely to continue operations, redistributing any extra revenue to its members. Unlike other credit unions, however, Cooperative Federal is defined by the Department of the Treasury as a Community Development Financial Institution (CDFI). CDFIs are aimed at expanding economic opportunity in low- and moderate-income communities. Cooperative Federal's mission, to be specific, is to rebuild the Syracuse city economy by responsibly managing its members assets and serving people that are disenfranchised by conventional financial institutions, mainly due to discrimination. After all, Cooperative Federal's inception was the result of a $30 contribution from a local activist group and relentless volunteerism on the part of many "baby boomer" generation activists, including Ron Ehrenreich, Cooperative Federal's first CEO and Treasurer.

At first, Cooperative Federal's lending department was even located in Ehrenreich's house, while the rest of it operated out of a 5' by 6' space on the back porch of the Syracuse Real Food Co-operative (SRFC). The credit union has since grown to include four offices and three in-school branches throughout the Syracuse area. With more office space, its trade area has increased to include eleven counties, focusing primarily on the five-county region of Onondaga, Cayuga, Cortland, Madison, and Oswego counties. According to Cooperative Federal's 2017 Annual Report and Financial Statements, it deployed a total of $143 million in loans and owned over $26 million in assets. Cooperative Federal's growth is obvious evidence of sound business practices and a dedication to improving the lives of under-served communities in Central New York. However, there are many challenges to running such an organization, and a few unique opportunities afforded me the professional experience of working with Cooperative Federal and contributing to the continued growth of the organization.

The Community Development Lending Policy Editor

Ron Ehrenreich, the current CEO and Treasurer of Cooperative Federal, saw three main reasons to update the credit union's lending policy. First, he is planning on retiring in the near future and wants to help make the transition of leadership as seamless as possible. Having a clear and concise lending manual would empower the lending department to be self-sufficient during such a time, if necessary. Succession planning is especially important to the credit union at this point in time because Ehrenreich has been Cooperative Federal's first and only CEO and Treasurer. The process by which title and responsibility are transferred from Ehrenreich to Christina Suave, the future CEO of Cooperative Federal, will be unfamiliar and will set the precedent for how the organization reacts to and performs future transitions in leadership. A lending manual that specifically defines the roles of the CEO and the Treasurer, even if not separately assigning them, would alleviate stress on the transition by thoroughly outlining what must be done.

Another reason Cooperative Federal had to update its lending policy was the recent rule approved by the National Credit Union Administration (NCUA), an agency of the federal government. The new rule changes previous policy mostly as it relates to business purpose lending, such as loans given out for income-producing equipment or mortgages on commercial properties. It reshapes how these business purpose loans are classified and shifts the emphasis of risk management and loan monitoring from the classification labeled Member Business Loans to the slightly broader classification of Commercial Loans. As a result, Cooperative Federal's Business Lending policy needed to be edited to take into account the statutory changes.

In addition to its Business Lending policy, all of the other policies that make up Cooperative Federal's lending policy were slightly outdated and inconsistent in formatting. Thus, the third primary reason Cooperative Federal had to update its lending policy was to revise the document with the goals of amending outdated information and increasing its accessibility. In other words, the policy needed to be read over to make sure that all of the information in it was correct and presented in a way that is easy to understand.

With the need for an up-to-date policy gradually intensifying and a lending staff that is busy as ever, my work as Cooperative Federal's Community Development Lending Policy Editor served as a small, but important contribution to the organization. I first spent time familiarizing myself with Cooperative Federal's current policy and then uploaded it, section by section, to Google Drive from Microsoft Office. Then, I would read through the policy one section at a time, making changes to the formatting, wording, and presentation of information, in addition to researching its accuracy using resources such as NCUA regulations and memorandums, policies from other credit unions, and even portions of the Uniform Commercial Code. I specifically spent a decent amount of time updating the pricing information found in the Consumer Lending policy because it differed from the credit union's Loan Pricing Chart. Verifying this information, as well as creating tables in the policy in which to communicate that information, created frequent dialogue between Ehrenreich and me.

I met with Ehrenreich weekly to discuss how the policy influenced the credit union and how we could best reflect that in the boundaries it sets. Certain policies were quite simple to edit, but a few policies went through many cycles of revision. The ultimate goal of my professional experience with Cooperative Federal was to give the credit union an updated and easy-to-use policy. The new Business Lending policy is currently under review by the credit union's Board of Directors. Approval of the updated policy, as well as positive feedback from the lending staff, will be the basis on which success will be measured. If the update to the policy is successful, then the credit union can hope to have fewer instances of employee oversight in the future, increasing profitability and the quality of customer service.

A Critical Reflection

Deciding how to format my thesis and what details to include were, in some ways, the largest challenges I faced when putting together my final deliverable. In comparison to more traditional theses, my research and my voice are not always directly visible. While I initially found the lack of projects similar to mine to be daunting, my position at Cooperative Federal gave me the sense of accomplishment I needed to feel confident presenting my work on its lending policy. I derive this confidence from knowing that I scrutinized every word of a 165-page document, incorporating my research and my voice into the entire document, and that Cooperative Federal's updated policy, even if it contributes nothing to the academic community, actively contributes to the wellbeing of the Syracuse city community.

One important lesson I learned from Cooperative Federal's upper management is the importance of reflecting on the past as a tool for bettering the future. In fact, many of the changes I was asked to incorporate into the lending policy were the result of discussions and data analysis directed at figuring out what the credit union has done in the past and how it can improve in the future. Thus, in typical Cooperative Federal fashion, I would like to reflect on the industry-specific knowledge, technical skills, and workplace etiquette that I developed by working hands-on in community development lending.

Industry-Specific Knowledge

I began my work at Cooperative Federal with no previous lending experience and having taken only one college-level finance class. Regardless, I was quickly immersed in general lending vocabulary. Being immersed in the vocabulary of the industry not only helped me understand and edit Cooperative Federal's lending policy, but more importantly, it gave me the ability to be an active participant in conversations about the policy. For example, when I first began working at Cooperative Federal, I was unfamiliar with the difference between secured and unsecured loans. While easy to overcome, this hindered my productivity because I needed to consult Ron Ehrenreich on each edit I made. Now, I know that secured loans are those in which the borrower pledges collateral for the loan. In other words, a secured loan is when the credit union loans money to a borrower, but in exchange, the borrower gives the credit union collateral, or rights to some personal property. If the borrower fails to pay back the credit union, the credit union can seize the collateral as a way to protect itself from losing money. After learning to distinguish between secured and unsecured loans, I became more efficient in the work I completed on my own, and I began asking more thought-provoking questions during my meetings with Ehrenreich, helping to uncover more inconsistencies and outdated information in the policy.

In addition to helping me have conversations and ask questions about Cooperative Federal's policies, learning the vocabulary enabled me to understand more complex business and analytical procedures. One such business procedure was the collateralizing of a loan, in which the credit union must file a financial statement with the state of New York. This form, often called a UCC-1 (Uniform Commercial Code-1), gives notice to the State that the credit union has an interest in the property of the debtor. Another example, one relating to analytical procedures, is the credit union's use of the Loan-To-Value (LTV) ratio to measure the risk associated with making a loan. When the value is high, the dollar amount of the loan is large in comparison to the fair market value of the collateral. In other words, a high LTV ratio means that the loan is risky, whereas a low LTV ratio means that the loan is not as risky. Being able to hold intelligible conversations involving the credit union's day-to-day activities made me feel proud of my own growth and valued as an employee.

As a Cooperative Federal intern, my largest contribution was the edits that I made to the Business Lending policy. I was responsible for researching the NCUA's new rule and incorporating it into the policy in a way that the other credit union employees would understand easily. In summary, the rule changed how credit unions classify loans given out for business purposes, updated the statutory caps related to these classifications, and removed some policies that seem to have been restrictive. My first priority was to update the portion of the policy relating to classification because in terms of reporting and statutory caps, it is important for the lending staff to correctly classifies its loans. Thus, I defined the four categories of loans: (1) general Business Purpose Loans, (2) Commercial Loans, (3) Member Business Loans (MBLs), and (4)

Construction and Development Loans. While all Commercial Loans and MBLs are Business Purpose Loans, a loan must meet certain requirements to be classified as a Commercial Loan or MBL. One such requirement is that the loan must be worth over $50,000. Other requirements take into account the purpose of the loan. Although there is still overlap between the definitions of Commercial Loans and MBLs, the new Commercial Loan definition was designed to clarify the distinction between it and MBLs for the purposes of measuring the limit required by law.

CDFIs, however, are exempt from compliance with the aggregate MBL limit. Even before this, Cooperative Federal often overlooked the MBL cap, arguing that it was an arbitrary restriction imposed by the banking lobby. To Cooperative Federal, it is important to classify loans because certain loans are subject to different types of monitoring and risk rating systems, all of which is detailed in the policy. Other major updates that needed to be incorporated into the policy included the removal of a Construction and Development loan limit, clarifications of the requirements of the Board of Directors and lending staff, and the shift of monitoring and reporting focus from MBLs to Commercial Loans. While reading, it was interesting to see how the NCUA proposed and implemented these new rules. One similarity I noticed between the NCUA and the Financial Accounting Standards Board, which publishes the U.S. Generally Accepted Accounting Principles (GAAP), is that they both reach out to the community for comments before finalizing a proposed rule. It was exciting to be exposed not only to the inner workings of a credit union's lending department, but also to the national governing body of credit unions. Above it all, however, observing how Cooperative Federal reacted to changes within the industry demonstrated the dedication and flexibility with which CDFIs approach lending.

Technical Skills

I was initially relieved to learn that my project would rely on technical skills with which business students are already familiar: research, editing, Microsoft Office. With that being said, Ron Ehrenreich presented me with a new application of Microsoft Office on the very first day I visited the office. He gave me the lending policy in the form of a master document, one large Microsoft Word document that is made up of a collection of smaller Word documents. When each of the smaller documents is edited, the change is reflected in the master document. While I learned to navigate and rearrange Ehrenreich's master document, I further explored Microsoft Office by using OneDrive, an online platform on which Microsoft Office users can share and collaborate on files. Out of familiarity, I decided instead to upload the documents to Google Drive, a similar online service. In hindsight, I spent an unnecessary amount of time moving documents between Microsoft Office and Google Drive, messing with the formatting of the documents each time. In the future, I will likely use OneDrive to complete my work more professionally, efficiently, and even securely.

Aside from building upon my familiarity with Microsoft Office, my thesis also built upon my reading, writing, and research skills. During the course of my work, I read the Cooperative Federal original policy, memorandums from NCUA, reports written by various credit union leagues, and even select parts of the Uniform Commercial Code (UCC). My focus was on understanding the statutory requirements related to operating a credit union and any successful practices that have already been implemented. In truth, much of the policy remained the same. Identifying which policy procedures were working well and up-to-date with the NCUA regulations was a large portion of my work. Some policies, such as the Business Lending policy, needed dramatic revision, and while performing these revisions, I grew to appreciate the sources that were able to explain complicated subject matter with ease, whether through the use of tables, simple wording, or boldface colored fonts. These sources taught me the benefit of clear presentation, and this lesson was reinforced in the many meetings I had with Ehrenreich in which we added tables or bolded words to a policy to increase the accessibility of important information.

From then on, my admiration for my Cooperative Federal coworkers grew with each interesting Word document, Excel file, and fillable PDF that they shared with me. I appreciated these documents because they served as examples of how to communicate effectively. One of the largest challenges I faced when revising the lending policy was communicating the formal wording of NCUA regulations in language that the average person can understand. By talking with those who use Cooperative Federal's lending policy, I learned that having a policy with technical wording may not be the best way to present the information to the lending staff who uses it. A policy must be understood clearly in order to be implemented effectively. Thus, I strove to keep the end users, the credit union's lending staff, in mind when editing the wording and formatting of the policy.

This effort is evidenced in the policy by the number of tables, graphics, and bolded, underlined, or italicized text. The tables and graphics in the policy are designed to organize information and make it easy to locate, which would be beneficial to a credit union employee who has a simple question on the maximum amount or term of a loan. On the other hand, bolded, italicized, and underlined text is designed to grab the user's attention. Often times, this is done to highlight a piece of the policy that is newer information or that has been overlooked by the lending staff in the past. The tools and techniques I used to make Cooperative Federal's lending policy more accessible for the lending staff speak to the written communication skills that I developed while working at the credit union and can apply to many applications in the future.

<u>Workplace Etiquette</u>

Corporate culture is an underlying theme in many of my business classes because it affects more than just how employees treat one other. "The way we do things around here" affects how each employee does his/her work and the likelihood that he/she violates the business' various policies. For instance, if a number of employees in the lending department decide against properly documenting the loans that they give out, this has drastic negative consequences on the financial and legal position of the credit union. However, if these employees collectively decide that this violation of the credit union's policy is acceptable, regardless of the effect it has on the credit union, then the decision to do so creates a corporate culture that decreases the quality of the work done by the credit union as a whole.

As an accounting student, the majority of companies with which I have interacted most closely have been national accounting firms. These massive partnerships boast about giving their employees competitive salaries, financial support on the Uniform Certified Public Accountant (CPA) Examination, and lively corporate cultures. In reality, however, many accountants report feeling stifled and over-worked by the competitive corporate culture of national accounting firms. Therefore, I was unsure what to expect when I visited the Cooperative Federal office for the first time.

In general, being smaller than other business and financial institutions allows Cooperative Federal to have a more flexible and socially responsible corporate culture. For example, while I was evaluating the responsibilities of the credit union's lending department staff, Ehrenreich explained to me that one of the senior loan officers never denies or approves loans because she does not feel comfortable with that level of responsibility. As a solution, this employee prepares the loans and recommends to Ehrenreich whether or not the loan should be approved, a recommendation with which he rarely disagrees. By recognizing the strengths of this employee and adjusting her job responsibilities so that she feels comfortable in her role, Cooperative Federal separates itself from organizations with rigid corporate cultures. My role as the Community Development Lending Policy Editor, which allowed me to be present in the office part-time and work remotely other times, is just one more example of how Cooperative Federal's corporate culture is one of servitude and social responsibility. Cooperative Federal employees truly put their best effort into serving the community.

The credit union's dedication towards servitude has even spilled out of the minds of its employees and across the posters on the wall that decorate the office. After working with Ehrenreich for a while, I stopped seeing the credit union as an intimidating financial institution, and instead as an organization of activists. Just how Ehrenreich worked tirelessly to improve the credit union he built, I worked tirelessly throughout my college experience to improve the clubs and organizations with which I am involved as a student. For me, it was important to realize that working in the professional sphere and being part of a corporate culture are not alien to me and that my individuality can be an asset to an organization.

In addition to experiencing Cooperative Federal's corporate culture, I developed my routine professional skills, such as proofreading emails, scheduling meetings, and collaborating with coworkers. These soft skills were instrumental in updating Cooperative Federal's lending policy. For example, the weekly meetings I had with Ehrenreich served to hold me accountable for finishing my work and to provide me with feedback on that work. Without the opportunity to have my work reviewed, I never would have known if the work I was doing would really be used to benefit the credit union. At the very least, working with Ehrenreich was practice joining a new organization and overcoming the fear of asking for help.

Why My Work Matters

My work at the Syracuse Cooperative Federal Credit Union increased the accuracy and accessibility of the credit union's lending policy, aided in succession planning, and saved the credit union employees from the headaches caused by federal credit union examiners. From the operational perspective of the credit union, my work is important because the credit union relies on its lending policy to manage its members assets and abide by the NCUA rules and regulations. When lending staff members are unsure of a specific element of their works, the lending policy is one resource to which they can turn. By spending time getting to know the organization and the people who work within it, I was able to edit the policy to address the specific questions a lending staff member at a relatively small, CDFI-designated credit union would be likely to ask. In other words, I had a small part in empowering Cooperative Federal to serve disenfranchised communities in low- and medium-income areas.

Detailed and well-thought-out policies are instrumental for credit unions that are attempting to rejuvenate the economies surrounding under-served communities because not only do they explain the limits of the law and the guidelines of credit union policy, but they also establish a level of trust between a credit union and its members. While at Cooperative Federal, it was not easy to forget that the money the lending department was using to make loans was in reality, the life savings of its members. As a result, CDFIs must be attentive of their risk mitigation techniques and possess the ability to deal with extremely high delinquency rates. These challenges are specific to credit unions serving low-income areas, and the employees at Cooperative Federal proved to me that they were dedicated to improving the lives of the people in Syracuse by continually choosing to face these challenges every day.

Cooperative Federal's Community Development Lending Policy, therefore, is a tool to support the building of an economy and a cooperative community through home ownership, business expansion, and the teaching of responsible financial management. The contribution I made to Cooperative Federal's policy is an example of how a small amount of volunteerism can have a positive effect on many of others. If the importance of volunteerism was stressed in tall, corporate office buildings the same was it is in small, community development organizations, the business community as a whole would become more socially responsible. With more corporate social responsibility, many negative aspects of society, such as the fact that many financial institutions still rely on discriminatory practices when deciding to whom to make a loan, would be improved or resolved. The perspective I gained during this internship experience and the professional skills I developed along the way make me proud to have taken part in this project. I am excited about the positive impact it will have on the Syracuse city community, regardless of how small it may be.

Cooperative Federal Community Development Lending Policy

I. Lending Policy Objectives

A. Approval by the Board

1. 6/16/1998, 7/18/2000, 9/13/2001, 11/27/2001, 2/4/2004, 6/22/2004, 10/22/2007, 1/22/2008, 9/23/2008,

B. Goals

1. The credit union shall have the following constant goals and objectives in its lending program:
    a) To provide a source of credit for members for provident or productive purposes.
    b) To serve the needs of our members and our community by allowing the productive use of the aggregate savings of our members and the accumulated equity of the credit union.
    c) To advance the social responsibility goals of the credit union.
    d) To invest the optimum proportion of the credit union's assets in loans. This proportion will change with changing circumstances and is addressed in the credit union's assets and liabilities management (ALM) plan.
    e) To lend the credit union's funds at rates that assure an adequate return to meet our costs of dividends, expenses, losses, reserves and capital goals. Reserves and capital goals are addressed in the credit union's ALM plan.
    f) To deal with our members fairly and equitably, without dishonesty, fraud, exploitation, usury, profiteering, discrimination, nepotism or favoritism.
    g) To adjust our loan products, rates, available terms, collections and adjustments, and credit decisions to adequately manage the risks associated with lending. Our loan portfolio should be balanced and diversified to manage credit risk, collateral risk, interest rate risk, and other risks of lending.
    h) To do what is right and to comply with all applicable laws and regulations in our loans, loan products, loan policy, disclosures, and procedures. Whenever fairness or the rights of members are involved, we shall strive to make our practices exceed the standards of our competitors, law and regulation.

II. Regulatory Compliance

A. Overview

1. The policy of the credit union is to comply with the letter and intent of all applicable laws of the United States and of the State and all regulations promulgated thereunder.
2. This policy includes all facets of the granting of credit and making loans, the handling and processing of credit applications, credit inquiries, information concerning interest rates, credit terms and costs, collection and adjustments, earnings and penalties on shares and all other requirements of the Federal Consumer Credit Protection Act and associated regulations.

B. Membership

1. As required by law, membership in this credit union is open only to individuals who are included in the field of membership, as defined in the credit union charter.
2. No member will be denied any service of the credit union due to discrimination because of racial categorization, color, religion, national origin, sexual orientation, sex, marital status, or age (provided that the member is of legal age to enter into a binding agreement).
3. No officer or staff member of this credit union will, in any manner, discourage a member from submitting an application for credit. Staff may present such an opinion after a pre-qualifying interview. This credit union will accept and consider an application from any member who wishes to submit a request for credit.

C. Documentation

1. Ultimately all credit applications must be in writing. Verbal requests will not be honored for mortgage application.

III. Authorities and Responsibilities

A. Board of Directors

1. The "Board" is responsible for:
   a) Approving new members in the case that there is no Membership Officer in place
   b) Establishing and reviewing the lending policy of the credit union, which must be reviewed at least annually by the Board or by the CEO.
   c) Determining loan classifications and how interest rates are set for each class of loan.
   d) Establishing collateral requirements.
   e) Setting the maximum amount that may be loaned or provided in lines of credit. These are stated under each loan classification in the policy sections.
   f) Determining compensation for loan officers. This responsibility is delegated to the CEO.
   g) Reviewing and approving loans to any official of the credit union, where the official's total indebtedness to the credit union (excluding share secured loans) is above the amount specified by NCUA (now $20,000) prior to disbursal.
   h) Reviewing delinquent loans and reviewing target reportable delinquency rate. The Board's role in reviewing delinquent loans is further explained in the collections section of this policy.
   i) Establishing reserves for anticipated loan losses.
   j) Deciding if a loan is to be charged off.
   k) Reducing or canceling interest charges or principal amounts in the settlement of past-due accounts. This responsibility has been delegated to the CEO, who shall report to the Board on all loans with a reduction of interest or principal owed to the credit union.

B. Credit Committee

1. The "Committee" shall:
   a) Strive to serve the actual borrowing needs of the membership by meeting as frequently as necessary or delegating responsibilities to the loan officers. The Committee shall meet at least once each month.
   b) See that a written report of its activities is presented to the members at the annual meeting.
   c) Act upon applications submitted by members of the credit union for:
      (1) Loans, lines of credit, or credit cards.

(2) Requests for release of collateral.
(3) Waiver of late penalties.
(4) Extensions and refinancing of loans.

d) Review the following applications (with the exception of 100% share secured loans):
(1) The applicant is a Cooperative Federal staff, or person who has been staff within the last 24 months.
(2) The applicant is a Cooperative Federal official – a member of the Board, Credit Committee or Supervisory Committee.
(3) The applicant is a relative of, or has a deep-felt personal relationship with Cooperative Federal staff or officials.
(4) The loan is to be sold on the Secondary Market.
(5) The loan is a government guaranteed loan.

e) Appoint and establish the duties of loan officers by majority vote, which may include any of the approval authority of the Committee.

f) Review the actions taken by loan officers. At any meeting of the Committee, no more than one loan officer shall function as part of the Committee.

g) Grant exceptions to loan policy when the exception is in the interest of the credit union, in furtherance of its mission, and for the benefit of its membership. This authority is also delegated to the CEO and the Lending Manager.

h) Recommend changes in loan policy to the Board.

i) Receive all recommendations for credit denial for final action.

C. Financial Review Committee of the Board

1. The “Nit-Pickers” are responsible for:
   a) Reviewing the credit union’s Loan Pricing Chart.

D. Executive Committee

1. The Executive Committee must:
   a) Assume any responsibilities received from the Board or Committee.

E. CEO

1. The CEO will:
   a) Assume any responsibilities received from the Board or Committee.
   b) Set and review loan pricing, loan limits, and credit rating factors for all loan types in consideration of the credit union’s mission, policy, economic trends, employment conditions, market conditions, risk tolerance, concentration risk, liquidity, and other ALM factors.

c) Set discounts and add-on prices for relationship and collateral risk or risk reduction.
d) Approve loans in consideration of exceptional circumstances or compensating factors that warrant approval.
e) Review and adjust the internal collection procedures.

F. Loan Officers and Lending Staff

1. The lending staff is made up of the following credit union employees with varying levels of responsibilities:
   a) Lending Manager.
   b) Mortgage Officer.
   c) Consumer Loan Officer.
   d) Business Loan Officer.
   e) Mortgage Clerk.
   f) Collections Counselor.
   g) Business Loan Officer and Advisor.
   h) Collections Specialist.
2. The table below details the specific authorizations of each current lending department staff member:

Specific Loan Officer Approval Authorization as delegated by Credit Committee:						
Loan Officer	**Loans with Collateral**	**Loans w/o Collateral**	**Mortgages**	**Home Equity Loans**	**Business Secured**	**Business Unsecured**
	Auto, auto-equities, share secured, purchase money chattel.	*Signature loans, un-secured portion, cross-collateral only.*	*Loans secured by 1-3 Family Homes*	*HELOCs, Second mortgages*	*Equipment, vehicles, property, etc.*	*Working Capital, Lines of Credit*
Susan Hamilton	$30,000 w FSP Green. Yellow w/ 2nd Approval	$10,000 w FSP Green. Yellow w/ 2nd Approval	$125,000 A+, A, & B. All 2ndary Market Approvals	$50,000 w FSP Green A+, A, & B. Yellow w/ 2nd Approval		

Chris Barkley	$30,000 w FSP Green or Yellow	$10,000 w FSP Green or Yellow	All 2ndary Market Approvals		NonMBL $15,000 w FSP Green. Yellow w/ 2nd Approval	NonMBL $5,000 w FSP Green. Yellow w/ 2nd Approval “Step-Up” to $2500
Carlos Garcia	Credit Builder to $2,000 $15,000 w FSP Green. Yellow w/ 2nd Approval	$10,000 w FSP Green. Yellow w/ 2nd Approval $600 for Visa Check Card	All 2ndary Market Approvals		NonMBL $10,000 w FSP Green. Yellow w/ 2nd Approval	NonMBL $5,000 w FSP Green. Yellow w/ 2nd Approval “Step-Up” to $2500
Carolyn Evans-Dean	Credit Builder to $2,000 $15,000 w FSP Green. Yellow w/ 2nd Approval	$10,000 w FSP Green. Yellow w/ 2nd Approval$600 for Visa Check Card	All 2ndary Market Approvals		NonMBL $10,000; w FSP Green. Yellow w/ 2nd Approval	NonMBL $5,000 w FSP Green. Yellow w/ 2nd Approval “Step-Up” to $2500
Thom Dellwo	Credit Builder to $2,000 $15,000 w FSP Green. Yellow w/ 2nd Approval	$10,000 w FSP Green. Yellow w/ 2nd Approval $600 for Visa Check Card	All 2ndary Market Approvals		NonMBL $10,000; w FSP Green. Yellow w/ 2nd Approval	“Step-Up” to $2500
Deputy Loan Officers	Credit Builder to $2,000	$600 for Visa Check Card				
Ron Ehrenreich	Authorized to the credit union’s maximum on all consumer loans, business loans, home equities and mortgages. Can countersign any approval.					

IV. Applicant Eligibility

A. Requirements to Borrow

1. Applicants wishing to borrow must:
   a) Be a member of the credit union.
   b) Be in good standing.
   c) Have a full paid-in share in the credit union.
   d) Keep a full paid-in share for the life of the loan.
   e) Repay or be in the process of repaying any loss the member has caused to the credit union. This policy shall apply whether the loss was caused by bankruptcy or otherwise.
2. The Committee and loan officers should be aware of any collection actions that the credit union is taking so that new credit is not granted without full consideration.

B. Character

1. In general, the applicant's character is the most important factor when evaluating a loan application. The credit union will gather information relating to the applicant's honesty, integrity, stability and credit history by reviewing the applicant's record of repayment of previous loans from the credit union and from other creditors. Some specific considerations include:
   a) Credit Reports
      (1) When a credit report shows insufficient credit record, the credit union can directly contact financial references, such as a landlord, utility company, or doctor.
      (2) A new credit report is not necessary when the credit of the applicant has been reviewed within six months of the current application for most applicants or twelve months with applicants who have had a long record of good credit, or on share secured loans, or small loans of under $500 to applicants with a good previous loan record with the credit union and in other exceptional circumstances that should be noted on the application by the Committee or loan officers.
   b) Adverse Credit History
      (1) Any person applying for a loan with a past bankruptcy or judgment must be interviewed and must account in writing the circumstances of such bankruptcy(s) and/or judgment(s).
      (2) If a member has caused the credit union a loss, the member must fully repay the loss before becoming eligible for credit in accordance with the other loan policies and

standards. If the member is repaying the loss in installments and applies for new credit before payment of the final installment, the application will be reviewed in light of all relevant factors, including but not limited to the amount of the unpaid loss, the number and regularity of the installments made, the amount of credit and the purpose thereof, whether the credit requested is to be secured by collateral or comakers, and whether the application is received before the bankruptcy is discharged. If the bankruptcy has not been discharged, the member will be required to sign an enforceable reaffirmation before a loan is considered.

c) Opposing Discrimination

(1) When evaluating character, it is essential to avoid any discrimination because of racial category, color, religion, national origin, sexual orientation, gender, marital status, or age (provided that the member is of legal age to enter into a binding agreement). When evaluating character, the credit union should be aware that credit reports may be tainted by the discrimination of others.

C. Capacity to Repay

1. In general, the Committee or loan officer should follow the spirit of the 'ability-to-pay rule,' which only formally applies to mortgages, but is a good guide for all lending. Under the rule, lenders must generally find out, consider, and document a borrower's income, assets, employment, credit history and monthly expenses to figure out if a borrower can repay a loan. Some considerations and tools include:

a) Income

(1) The applicant's income should be sufficient to pay the loan according to the terms after debt payments and living expenses.

(2) The reliability of the income should be considered. Income from all reliable sources shall be treated the same, whether from employment, full or part time, or other source.

(3) The credit union should evaluate the member's ability to maintain an annual income level to support the loan payments.

(4) Nontaxable income should be "grossed-up," that is adjusted up from its net level to a comparable gross level (usual gross up is 25%).

(5) Self-employment income should be verified through analysis of tax returns or business records or some other suitable method noted on the application.
(6) Any anticipated reduction in income during the loan term should also be considered.

b) Debt Ratio
(1) In general, loan officers may approve loans where the debt ratio does not exceed 43%, unless disposable income is $5,000 a month or more. Loans with higher debt ratios may be approved by the Committee, Lending Manager or Treasurer in consideration of exceptional circumstances or compensating factors that warrant approval.
(2) The gross debt ratio is calculated by dividing the total monthly obligations including all housing expenses (PITI or rent), consumer loans, credit cards, child support, alimony, credit union loans, and the loan payment under consideration by the gross monthly income. Loans that are to be paid off with the proceeds are not included. Loans that are nearly paid off (ten or fewer remaining payments) may also be discounted if the impact of that payment on the borrower is inconsequential.
(3) The ratio is usually rounded and expressed as percent.
(4) In the case of a joint loan, the co-borrowers' combined income and debts may be used to qualify.
(5) The debt ratio is only a tool in estimating the applicant's capacity to repay. It is geared to the comfortable debt load of an average working person in average circumstances. It is a guide that must be interpreted in relation to the member's circumstance:
(a) Members with higher than average earnings can sustain a higher debt ratio.
(b) The member may have substantial net-worth sufficient to show an ability to repay the debts.
(c) The member may have a demonstrated ability to maintain a higher debt ratio and/or the demonstrated ability to accumulate savings and maintain a good credit history or a debt-free position.
(d) A member with rental income and expenses also has the debt ratio distorted. Adjustments for interest expense and depreciation may also be considered.

The net rental income or expense should be determined and used in the calculation of the debt ratio.

(e) The member may have a well-founded potential for increased earnings and advancement over the course of the loan, because of education or job training, even though just entering the job market.

(f) The member may make a large down payment (30% or more) in purchasing suitable items used to secure the loan. This should always be viewed in relation to the resale potential of the security, and other factors of the member's situation, such as credit history and income stability. A large down-payment may be considered as mitigating a higher debt ratio, but lending based solely on collateral is unwise.

(g) The member may have non-income expense-reduction — food stamps, lodging, company car, medical care reimbursement or may live with relatives or have a partner who shares expenses.

(h) The item being purchased may lead to additional expense reduction (for example, an energy efficient furnace) which may be considered.

(i) It is difficult to evaluate the capacity to repay of members who have income from self-employment or farming. In the traditional attempts to minimize taxation, what would otherwise be a personal expense is often paid out of business earnings, thereby reducing taxable business income. For example, vehicle payments or business use of the home are often paid out of business earnings. Depreciation of business assets is also a "paper expense" that does not decrease a member's capacity to repay. These normal practices distort the debt ratio unfavorably. In evaluating the member's capacity to repay, adjustments may be made insofar as personal expenses are paid as business expenses, and depreciation may also be discounted.

(j) It is also difficult to evaluate the capacity to repay of members who are graduate students with assistantships or fellowships. In evaluating the member's capacity to repay, adjustments may be made for a typical student's low-expense lifestyle, and therefore capacity to maintain a higher debt ratio. Such students also earn tuition, which is worth thousands of dollars but not counted as income in the debt ratio. Some students may also have potential for increased earnings upon completion. For these cases, the member maintaining good credit is a good indicator of the ability to manage with a higher debt ratio.

(k) A cosigner or comaker may help to compensate for the risks of a high debt ratio.

2. Additional Concerns
   a) The credit union shall avoid unsecured lending to members who have a pattern of characteristics that are warning signs for bankruptcy:
      (1) Pyramiding debt (new debt every few months)
      (2) High levels of unsecured debt
      (3) Few if any real assets (equity in home, car)
      (4) Changes in lifestyle (employment, salary, residence, spending habits)
      (5) Large signature loans
      (6) Lots of credit inquiries (shopping for new credit)
      (7) History of dealing with finance companies (lender of last resort)
      (8) A pocketful of plastic
      (9) Nothing to lose, everything to gain

D. Desirable Loans

1. Loans to individuals who meet our credit standards.
2. Short term loans (72 months and under) to individuals.
3. Short term loans (60 months and under) to small businesses, nonprofits, and cooperatives for the purchase of current assets or payment of expenses, with repayment ability from conversion of current assets.
4. Term loans to individuals, businesses, nonprofits, or cooperatives with repayment ability sufficient to amortize the loan in a period acceptable to both the credit union and the borrower.
5. Loans to purchase real estate, secured by a mortgage.
6. Loans secured by 1-4 family owner-occupied real estate or credit union shares.
7. Loans secured by assignments of contracted and verifiable income.

E. Less Desirable Loans

1. Loans with a higher risk factor than normal, while not prohibited, should only be given to loan applicants with decided strengths that are noted in the loan officer narrative. Some examples include:
    a) Loans to individuals or businesses on which the credit union has previously had a charge off, or on which the credit union has had to initiate legal action to force collection.
    b) Loans for a term longer than the economic or depreciable life of the assets used as security.
    c) Loans for speculative purposes.
    d) One-shot loans where no long-term relationship will be developed.
    e) Non-amortizing loans.

F. Prohibited Loans

1. Loans where the difference between the market value of the collateral and the loan balance exceeds the unsecured loan limit.
2. Loans secured by:
    a) Mobile homes (other than permanently installed or in a cooperatively owned parks).
    b) Off road motorized recreational vehicles.
    c) Floor plan liens.
    d) Individual Retirement Accounts (IRA).
    e) Keogh accounts.
    f) Individual Development Accounts (IDA).
    g) Household goods, jewelry, antiques, at works, etc. that are not in the possession of the credit union
3. Loans that are illegal or finance illegal enterprises.
4. Loans to individuals who are not credit union members.
5. Loans that violate applicable State or Federal laws or NCUA regulations.
6. Loans whose collateral is contested, unclear, or subject to another claim (except for real property second mortgages).
7. Loans secured by future payments on judgments or legal settlements in litigation.
8. Loans to a borrower whose integrity is questionable or against whom there is a substantial judgment or tax lien outstanding.
9. No credit will be extended to any member who has caused a loss unless the loss has been or is being repaid. This policy shall apply whether the loss was caused by bankruptcy or otherwise.

V. Pledged Securities

A. Collateral

1. Purpose
    a) Collateral is pledged security that the credit union can rely upon for compensation if the borrower defaults.
    b) Collateral helps to ensure a good loan, but does not make a bad loan good.
2. Acceptable Forms of Collateral
    a) Good collateral should be able to be readily turned into cash.
    b) The repayment schedule shall provide that the loan balance is reduced more quickly than the collateral depreciates.
    c) All property used as collateral must be secured by a sole lien on the property. Second liens are only acceptable on loans secured by real estate.
    d) A variety of collateral may be accepted by the credit union for securing a loan. Examples of acceptable collateral include:
        (1) Automobiles and other vehicles.
        (2) Personal property, such as household furnishings, tools, and appliances that the loan is used to purchase.
        (3) Personal property that is not purchased with the loan, but is held in the possession of the credit union.
3. Required Documentation
    a) Collateral must be adequately specified on the notes, security agreements, and truth-in-lending disclosures. Exact item names and manufacturers, item specifications, and model numbers and serial numbers (where applicable) shall be included in the documentation of each secured loan.
4. Valuation
    a) Items to be used as collateral should be evaluated to establish value.
    b) Collateral may have value determined by book value. An invoice, for example, may be used to establish the value.
    c) An independent appraisal may also be used to establish the value.
    d) Automobiles accepted for collateral that are more than 10 years old (determined by model year) must be inspected by a person authorized by the Committee and certified as to condition and expected useful life.
5. Insurance
    a) Borrowers must maintain insurance coverage for usual hazards with the credit union named as loss payee on all collateral securing

a loan of $4,000 or more. Such coverage must be kept in force by the borrower until the loan balance is reduced to $3,000 or less.

6. Borrower and Collateral Owner Responsibilities
   a) Borrower(s) and owner(s) are obligated to keep the property in good repair and use it carefully, not sell or lease or use it for security on another loan without first repaying the credit union loan, obtain the credit union's permission in writing in advance of making any major changes to the property, permit the credit union to inspect the property, make sure that no one else can damage or destroy ownership in the property, pay all taxes and fees on the property (such as registration fees).
   b) If the borrower or owner fails to meet these obligations, the credit union may, at any time, take these actions to protect its interests, but is not required to do so. Any expense that the credit union incurs for taking such actions will be added to the loan balance.
7. Statutory Collateral
   a) The credit union has an interest, up to the amount of a borrower's loan obligation, in the present or future shares of the borrower under the credit union's bylaws and the Federal Credit Union Act [12 U.S.C. § 1757(11)].
   b) Shares in any account that would lose special tax treatment under any law, if subject to this interest, are excluded from this interest. The statutory provision applies to all loans, including those nominally unsecured.
8. Cross Collateralization
   a) The credit union has a security interest in the property used as collateral. The credit union is given this security interest to secure payment and/or performance of all the borrower(s) current and future obligations to the credit union, any other loans the borrower previously received or will receive in the future from the credit union and any other amounts the borrower(s) owe the credit union now or in the future.
      (1) If the property includes household goods or a dwelling, the security interest secures only the loan made specifically using the household goods or dwelling.
   b) This security interest covers the property and any additions to it. It also covers any replacements for the property acquired within ten days from the date of the loan or any extensions, renewals, or refinancings of the loan. It includes any money received from selling the property or from insurance on the property.

B. Cosigners, Guarantors, and Sureties

1. Purpose
    a) A cosigner, guarantor, or endorser takes responsibility for repaying a loan if the borrower(s) fail(s) to meet obligations to the credit union.
    b) The financial strength of a cosigner can also serve as collateral when there is no physical collateral or when other collateral is not sufficient.
    c) A cosigner can help the credit union manage the risk of lending to a member whose financial characteristics may pose potential risks to the credit union. A cosigner, however, does not make a bad loan a good loan.
2. Standards for Evaluating Cosigners
    a) Cosigner do not need to be members of the credit union.
    b) Cosigners will be evaluated using the same standards as the member requesting credit.
    c) A cosigner should have characteristics that balance potential risks of the borrower.
        (1) For example, a cosigner for a borrower with a new job or irregular income should have stable income. Where the borrower does qualify, but is using the cosigner for a secured loan, character and either income or assets may be sufficient qualities for this cosigner.
    d) Geographical limits may be applied to a cosigner if warranted by the characteristics of the borrower.
        (1) For example, a borrower who is new in this area or who intends to leave town may be balanced by a local cosigner or a cosigner who has long established residence.
3. Specifying Cosigners
    a) The credit union may not specify that the cosigner must be a spouse or relative, nor may it specify a particular person as a cosigner [Reg. B].
4. Joint Loans
    a) Any loan made as a joint loan should be noted on the application documents at the time the loan is approved.

VI. Credit Rating

A. Purpose

1. In making loan decisions, the credit union uses the criteria found in the current lending policy and the best judgement of its loan officers and the Committee. The credit score of applicants is used to:
    a) Help evaluate creditworthiness of applicants.
    b) Determine loan or line amounts.
    c) Determine loan term and conditions.
    d) Determine pricing; rates, margins, and floors.
    e) Offer other products.
    f) Shape initial collection strategy.

B. Non-Discrimination Policy

1. To be sure that loan pricing is not discriminatory, the credit union will use the credit score from one or more of the three national credit reporting bureaus. These scores were developed by Fair Isaacs Company, a leader in developing scoring models and have been tested with thousands of credit files and found to be nondiscriminatory.

C. Credit Score as a Prediction Tool

1. Credit scores are designed to predict the probability that the borrower will become 60 days delinquent (or more) on some loan in a 12 month period of time.
2. Likelihood of Delinquency

Credit Score Range	Likelihood of Delinquency
800+	1%
750 - 799	2%
700 - 749	5%
650 - 699	15%
600 - 649	31%
550 - 599	51%
500 - 549	71%

0 - 499	87%

D. Documentation

1. In addition to the required loan documentation, such as applications, loan and collateral documents, and credit reports, credit files for loans using credit incentive pricing will include documentation of the rate computation, such as credit score, offering sheets, and rate calculation sheets to support the pricing decision. See Credit Incentive Loan Pricing policy for more information.

E. Credit Rating Tiers

1. For the purpose of determining a rate tier, the credit union will rate credit based solely on a credit score. The credit union will assign an applicant a credit rating of A++, A+, A, B, C, D, or E in accordance with the following rules:
    a) If there are multiple signers that are joint borrowers, the credit rating will be based on the average of the scores.
    b) If there is a cosigner or guarantor in addition to borrower(s), the credit rating will be based on the borrower(s) score(s) only.
    c) Applicants with no credit score, no collections, and no adverse public record will be assigned a D rating.
    d) Applicants with no credit score who have collections or adverse public record will be assigned an E rating, or if all collections and public records are currently resolved, a D rating.
    e) Applicants with a “thin score” (fewer than 5 trades), no adverse credit, no collections and no adverse public record will be assigned a rating based on the lower of the thin score or C.
    f) Applicants with a thin credit score who have adverse credit or collections or adverse public record will be assigned a rating of E, or if all adverse credit, collections and public records are currently resolved, a rating of D.
    g) If two or more credit reports are obtained, resulting in multiple scores, the credit union will assign a rating based on the average of two scores or the middle score in the case of three scores.
2. Credit Score Rating

Credit Score	**Credit Rating**
750 or greater	A++
730 - 749	A+

680 - 729	A
640 - 679	B
600 - 639	C
550 - 599	D
549 or less	E

VII. Loan Pricing and Limits

A. Loan Pricing Chart

1. Refer to the Loan Pricing Chart (a Microsoft Excel document) for all current:
    a) Loan prices
    b) Margins.
    c) Discount options.
    d) Discount limitations.
    e) Collateral risk add-on prices.
2. The Treasurer is responsible for updating the Loan Pricing Chart by reviewing and adjusting:
    a) Margins. The Treasurer shall set the margins, or rating factors, for all loan types in consideration of the risks and costs posed by each rating tier for each type of loan, including costs of relationship management during collections.
    b) Rates. The rates for each category of loans cannot exceed the limit established by the NCUA.
    c) Discount prices and maximums.
    d) Add-on prices.
3. The Loan Pricing Chart will be reviewed by the Nit-Pickers
4. Specific amounts referenced in this policy are ***examples*** of how the above information may be structured.

B. Credit Incentive Loan Pricing

1. Credit incentive pricing determines the interest rate on a loan based on the:
    a) Time value of money.
    b) Creditworthiness of the borrower.
2. The goals of credit incentive pricing are to:
    a) Reward responsible borrowers with lower interest rates.
    b) Incentivize all borrowers to maintain a good credit score.
3. Credit incentive pricing will be used for all loan types except:
    a) 100% Share Secured Loans, including credit builder loans.
    b) Mortgages for sale on the secondary market.
    c) Limited numbers of prime portfolio mortgages.
    d) Manufactured Home Loans in Resident Owned Communities.

C. Pricing Tiers

1. Different loan types may have different pricing structures, as shown in the Loan Pricing Chart.
2. The following table is an ***example*** of how rates may be structured.

Credit Rating	Margin

A++	Base Rate - 0.25% (-25 bp)
A+	Base Rate
A	Base Rate + 0.50% (50 bp)
B	Base Rate + 1.50% (150 bp)
C	Base Rate + 4.00% (400 bp)
D	Base Rate + 7.00% (700 bp)
E	Base Rate + 10.75% (1,075 bp)

a) The initial rating factors above are based on the work of Rex Johnson, (University of Lending) who has reviewed thousands of credit union loan files to come up with the rating factors above for fully secured loans.

3. Business loans will also be priced at prime plus a risk factor, usually between 0.00% and 8.00%.
    a) Business loans are risk-priced, but use different rules that focus on a more complex risk evaluation beyond just credit score, such as capitalization, leveraging, market trends, competition, experience, business plan soundness, and quality of collateral.
    b) Refer to the Business Loan Interest Rate Worksheet for more information.

D. **Relationship Discounts**

1. The following table is an ***example*** of the limits to combined discounts.

Credit Rating	**Maximum Discount**
A++, A+, and A	0.50%
B and C	1.00%
D and E	2.00%

2. ***Examples*** of discounts offered to borrowers include:
    a) 10 basis point discount off current rate for members with an active checking account and a VISA Check Card.

b) 25 basis point discount off current rate if loan is paid by payroll deduction or direct deposit, with automatic loan payment.
   (1) The rate (APR) will be increased if a loan is taken off of payroll deduction of direct deposit.
c) 10 basis point discount off current rate on new and "late model" vehicle loans for 10% down (maximum of 90% LTV ratio).
d) 15 basis point discount off current rate on new and "late model" vehicle loans for 20% down (maximum of 80% LTV ratio).
e) 10 basis point discount off current rate for Home Improvement Loan for CLTV ratio at or under 65%.
f) 15 basis point discount off current rate for Home Improvement Loan for CLTV ratio at or under 50%.
g) 10 basis point discount off current rate refinance car loan from another lender.

E. **Collateral Risk Add-Ons**

1. Loans secured by older vehicles will have an add-on to the rate unless the LTV is below 50%.
   a) The following table is an ***example*** of the add-on.

Vehicle Model	Add-On
5 Model Years or Older	0.50 bp
8 Model Years or Older	0.75 bp

2. Home Improvement and Auto Equity loans (CREF2) with high CLTV ratios will have an add-on to the rate.
   a) The following table is an ***example*** of the add-on.

Rating Tier	CLTV Higher Than	Add-On
All Tiers	100%	200 bp
All Tiers	85%	175 bp
All Tiers	80%	150 bp
All Tiers	75%	125 bp
C	70%	100 bp

D or E	60%	100 bp
E	50%	100 bp

b) High CLTV loans are exceptions that make business sense and pass exceptional underwriting.

F. **Presentation of Rates to Members and Quoting Payments**

1. When a discussing loan rates and related monthly payments with members quote the A++ rate until a current credit score is obtained,.
   a) Instruct the member that the rate and payment amount being quoted is the lowest rate and payment available to members with excellent credit. Tell them that the actual rate and payment amount they receive will reflect their individual credit and may be higher than the rate and payment amount you discuss(ed) initially.
   b) Also note that this will only be an estimate of a member's monthly payment, since the amount financed may vary due to any incurred closing costs or insurance or other additional products the member may elect to purchase.

G. **Matching Rates on Secured Consumer Loans**

1. The credit union reserves the right to match a competitor's interest rate on secured loans if the member is offered a more favorable interest rate elsewhere.
2. The borrower needs to provide the credit union with the documentation indicating the rate approved by the competitor. Written file documentation requirements shall include the name of the competitor, the interest rate obtained, and that the member(s) was approved for the transaction by the competitor.
3. At no time will the matched rate be lower than the rate currently offered for the risk score of the primary borrower. In matching rates, the credit union will not discount our regular rate by more than specified in the relationship discounts policy section.
4. No other discounts will apply.

VIII. Military Personnel Loans

A. Purpose

1. The credit union will comply with the Servicemembers Civil Relief Act (SCRA) of 2003 (50 U.S.C. 501 et seq.), the Department of Defense's Military Lending Act (MLA), and the NCUA Letter to Federally Insured Credit Unions (12-CU-07) "Mortgage Servicing Practices Impacting Military Homeowners." This legislation requires that the interest rate on loans incurred before military personnel began active duty be reduced to 6% for the duration of the active duty. It also affords additional protections to such personnel.
2. Additionally, the credit union will comply with any applicable state law that may cover a particular member.

B. SCRA Guidelines

1. Primary Coverage
    a) The Act protects persons on active duty in the Army, Air Force, Navy, Marine, and Coast Guard. This includes reserve units that are called to active duty and National Guard members that are called to active service by the President or the Secretary of Defense for a period longer than 30 days. "Active duty" can occur during peacetime, including active duty training (boot camp), training and education programs (ROTC), or a reserve component call-up (such as Operation Desert Shield in 1990-91).
2. Special Coverage
    a) Persons who are financially dependent on the service member, defined as the service member's spouse, child, or an individual for whom the service member provided more than one half of the individual's support for 180 days immediately preceding an application for SCRA relief.
    b) Cosigners, guarantors, or endorsers of debts incurred by the service member.
3. Debts Covered
    a) The SCRA applies to debts incurred by the service member before they entered into active duty. Thus, credit card charges made after active duty began are not subject to the protections of the Act.
4. Interest Rate Reduction
    a) On any covered debt incurred prior to active duty, the credit union must reduce the interest rate to 6% during the period of active duty.
        (1) The service member must provide the credit union with a written notice and military orders calling him/her to active

duty, as well as any orders further extending military service.

(2) The rate reduction takes effect when active duty began, not when the credit union receives notice of the active duty.

(3) "Interest" includes all service charges, renewal charges, fees or any other charges (except bona fide insurance).

(4) The credit union must reduce the amount of the payment on outstanding balances and cannot reduce the number of total payments to be made.

b) Under the Housing and Economic Recovery Act of 2008 (HERA), the 6% rate reduction for all obligations and liabilities consisting of a mortgage, deed of trust or other security in the nature of a mortgage, incurred during the period of active military service is to be extended until one year after active duty status.

c) The credit union must forgive any interest in excess of 6% that would have been incurred if no rate cap was in effect.

d) The 6% limit does not apply to new advances under an existing credit card or home equity line of credit program.

e) The credit union cannot automatically refuse to lower the rate. In order to challenge the rate reduction, the credit union can petition an appropriate court to authorize a higher interest rate. The credit union must show that the service member's ability to repay the loan is "not materially affected" by the active duty service.

f) The credit union may reinstate the original contract rate on non-mortgage loan debt outstanding balances as soon as the service member is no longer on active duty.

g) The credit union may reinstate the original contract rate on mortgage loan debt outstanding balances one year following the end of active duty service to the military.

h) Unless there is a joint obligation with the service member, dependents are generally not entitled to receive reduced rates of interest on loans, but may seek court protection to prevent foreclosure, repossession, or an out of court sale.

5. Renegotiation of Loan Contracts

a) Rather than collect the 6%, the credit union and the service member may choose to renegotiate the original loan contract. Under the SCRA, contracts may be modified, terminated, or cancelled, and the property which is security for an obligation may be repossessed, foreclosed, sold, or forfeited pursuant to a written agreement between the service member and the credit union that is entered into during or after the period of active duty. All decisions to renegotiate contracts shall be made by management.

6. Open-End Loans
   a) For open-end loans, a change-in-terms notice is required when the credit union reinstates the contractual rate. This notice may be sent when the credit union receives notice of active duty.
7. Closed-End Loans
   a) For closed-end loans, an additional disclosure is only required for variable-rate loans secured by a member's principal dwelling that have a term greater than one year. This notice must be sent at least 25 days and no more than 120 calendar days prior to the date that a payment at the new level is due, and includes the following information:
      (1) The current and prior interest rates.
      (2) The index values upon which the current and prior rates are based.
      (3) The extent to which the credit union has foregone an increase in the interest rate.
      (4) The contractual effects of the adjustment, including the payment due after the adjustment and a statement of the loan balance.
      (5) The payment, if different from the disclosure above, that would be required to fully amortize the loan at the new interest rate over the remainder of the loan term.
8. Payments Suspensions and Loan Extensions
   a) A service member may request a court to suspend loan payments that fall due during active duty. If the service member is being sued for repayment of an obligation, the court may authorize reduced or suspended payments.
   b) If such payments are suspended, the service member must begin making payments when active duty ends over an extended period of time authorized by the court. The maximum extension that may be authorized depends on the type of security:
      (1) Loans Secured by Real Estate
         (a) The maximum extension is the remaining term of the loan plus the period of active duty service.
      (2) Loans Secured by Personal Property
         (a) The maximum extension is no longer than the period of active duty service.

c) Loan payments that fall due after active duty terminates must be paid on time.

9. Restrictions on Default Judgments
   a) In order to obtain a default judgment, the credit union must provide an affidavit stating facts showing that the defendant is not in military service. If the statement is not filed, the judgment is voidable (i.e., can be set aside and reopened by the service member upon proper showing that he/she has been prejudiced because of military service in making a defense).
10. Reopening Default Judgments
    a) A service member may have a default judgment reopened if the judgment was entered during service or within 60 days after separation from service. The service member must apply to the same court that entered the judgment and must file within 90 days after his or her military service ends.
    b) Setting aside a default judgment will impair the rights or title to property that has been acquired by a bona fide purchaser. Thus, if a car is properly repossessed and resold to a bona fide purchaser, the defendant would not be able to reclaim the car, but could seek money damages from the credit union.
11. Prohibition of Foreclosures and Repossessions
    a) For covered debts secured by a service member's real or personal property, the credit union cannot foreclose on or repossess the security unless the credit union has first obtained prior authorization from a court, unless the service member and credit union entered into a loan agreement or modification after the member's active duty service that allows the credit union to foreclose on the loan and repossess the property.
12. Default Notification
    a) Pursuant to Section 688 of the National Defense Authorization Act for Fiscal Year 2006, the credit union will provide homeownership counseling notification (prepared by the Department of Housing and Urban Development [HUD]) to all members in default regarding the foreclosure rights of service members and their dependents under the SCRA. The notice must:
       (1) Be sent to all homeowners who are in default on a residential mortgage (HUD's counseling notification requirement only applies to a loan that is secured by the principal residence of the homeowner).

(2) Include the toll-free military one-source number to call if service members or their dependents require further assistance (1-800-342-9647).
(3) Be made within 45 days from the date of a missed payment was due, unless the homeowner pays the overdue amount before the expiration of the 45-day period.

b) In order to initiate a foreclosure under HERA, the credit union must wait twelve (12) months after a service member returns from active duty service.

13. Stay of Legal Proceedings

a) During service or within 90 days of separation, the service member can request a stay of any legal proceeding including enforcement of a judgment (e.g., execution, garnishment), or the court may enter a stay on its own motion. The court shall grant the stay unless the service member's active duty does not materially affect his or her ability to defend the proceeding. If the proceeding is stayed, the credit union cannot assess any fines or penalties against the service member while the stay is in effect. This protection applies to all of a service member's debts, including those incurred during active duty.

b) The fact that a service member applies for or is granted temporary relief from his/her obligations and liabilities pursuant to the SCRA may not in and of itself be the basis for any of the following by the credit union:
(1) A determination that the service member is unable to pay the obligation or liability under its terms.
(2) A denial or revocation of credit, change in the terms of an existing credit arrangement, or refusal to grant credit in substantially the same amount or on substantially the same terms requested.
(3) An adverse report related to the creditworthiness of the service member by or to a credit bureau.
(4) A note in the service member's record identifying him/her as a member of the National Guard or a Reserve component.
(5) A refusal to insure the service member.
(6) A change in terms offered or conditions required for the issuance of insurance.

14. Statute of Limitations

a) The time period in which a claim must be made is suspended during the period of military service, even if a claim arose prior to or during active duty service.

15. Eviction and Distress
    a) When the credit union becomes the owner of residential property that is rented to a service member, the credit union may not evict a service member or his/her dependents unless a court order is obtained.
    b) The credit union is also prohibited from subjecting the premises to “distress” (seizure of property to secure payment of overdue rent) during the period of military service.

16. Termination of Leases
    a) The SCRA permits service members to terminate a “covered lease” if he/she delivers written notice of termination, along with a copy of his/her military orders to the credit union or its agent. This notice must be delivered by hand, private business carrier, or U.S. Mail, posted prepaid, return receipt requested.
        (1) Real Property Leases
            (a) A “covered lease” of real property is a lease of premises occupied, or intended to be occupied, by a service member or his/her dependents for a “residential, professional, business, agricultural or similar purpose” and is either executed:
                (i) by or on behalf of a person who thereafter and during the term of the lease enters military service.
                (ii) by a service member while in military service who thereafter receives military orders for a permanent change of station or to deploy with a military unit for a period of at least 90 days.
            (b) For residential leases that provide for monthly rent payments, once the notice is delivered, the termination is effective 30 days after the next rental due date.
        (2) Motor Vehicle Leases
            (a) A “covered lease” is a lease of a motor vehicle uses, or intended to be used, by a service member or his/her dependents for personal or business transportation if:

(i) The lease is executed by or on behalf of a person who thereafter and during the term of the lease enters military service under a call or order specifying a period of not less than 180 days (or who enters service under such a call and, without a break in service, receives orders extending the period of military service to a period of not less than 180 days);

(ii) The service member, while in military service, executes the lease and later receives military orders for a permanent change of station or to deploy with a military unit for a period of not less than 180 days.

(b) Along with the termination notice, the service member must return the vehicle to the Credit Union no later than 15 days after the date of the delivery of the written notice.

(c) Termination is effective once the notice requirement and return of the vehicle are satisfied.

(d) Early termination fees are prohibited, but any taxes, summonses, title and registration fees or other lessee obligations, including reasonable charges for excessive wear and tear, use and mileage, etc. that are due and unpaid at the time of termination may be charged.

17. Installment Contracts
    a) If a service member has paid a deposit or installment of the purchase price prior to military service, the credit union may not, without a court order, exercise a right or option to terminate the contract or repossess the property for nonpayment that occurs prior to or during military service.
18. Protection of Dependents, Cosigners, Guarantors, and Endorsers
    a) If a legal proceeding is stayed, the court may extend the stay to any dependent, cosigner, guarantor, or endorser of the service member's debt.

C. MLA Guidelines

1. Covered Loans

a) The Credit Union will follow the Military Lending Act when granting “consumer credit” to service members and their dependents.
   (1) "Consumer credit" is credit offered or extended to a covered borrower primarily for personal, family, or household purposes and that is either:
      (a) subject to a finance charge
      (b) payable by a written agreement in more than four installments.
   (2) “Consumer credit” does not include:
      (a) A residential mortgage, which includes any credit transaction secured by an interest in a dwelling, including a transaction to finance the purchase or initial construction of the dwelling, any refinance transactions, home equity line of credit, or reverse mortgage.
      (b) Any credit transaction that is intended to finance the purchase of personal property when the credit is secured by the property being purchased.
      (c) Any credit transaction that is considered “exempt” under Regulation Z (other than a transaction exempt under 1026.29) or otherwise is not subject to disclosure requirements under Regulation Z.
      (d) Any credit transaction or account for credit which the credit union determines that a consumer is not a covered borrower by using a method and comply with the recordkeeping requirements.

2. Covered Borrowers
   a) A “covered borrower” is defined as a person with either of the following statuses at the time he/she/they becomes obligated on a consumer credit transaction:
      (1) A member of the armed forces who is serving on active duty pursuant to title 10, title 14, or title 32 of the United States Code under a call or order that does not specify a period of 30 days or less, or such a member serving on Active Guard and Reserve duty [as defined in 10 U.S.C. 101(d)(6)].
      (2) A “dependent” with respect to the covered member as described in subparagraph (A), (D), (E), or (I) of 10 U.S.C. 1072(2).

b) A covered borrower does not mean a consumer who is no longer a covered member or dependent of a covered member (even though he/she/they were a covered borrower at the time they became obligated on a consumer credit transaction or established an account for consumer credit).

c) The credit union may apply its own method to assess whether a consumer is a covered borrower. The credit union is provided a safe harbor and may conclusively determine whether credit is offered or extended to a covered borrower, by assessing the status using the following methods:

   (1) The credit union may verify the status of a consumer by using information related to that consumer in a database maintained by the Department of Defense. The credit union will need the consumer's last name, date of birth and social security number to perform the search. Historical lookbacks in this database by the credit union to ascertain whether the consumer was a covered borrower after a contract has been established is prohibited.

   (2) The credit union may also verify the status of a consumer by using a statement, code, or similar indicator describing the status (if any) contained in a consumer report obtained from the consumer reporting agency.

3. Recordkeeping

   a) The credit union making a determination regarding the status of a consumer by using one of the methods described above must timely create and maintain a record of the information obtained. The credit union may make the determination of covered status solely at the time consumer initiates the transaction or applies to establish the account or 30 days prior to that time, or at the time the credit union develops or processes a firm offer of credit that includes the status of the consumer as a covered borrower, so long as the consumer responds to that offer not later than 60 days after the time that the credit union had provided that offer to the consumer. If the consumer responds to the credit union's offer 60 days after the time the credit union provided it to the consumer, the credit union may act as though the consumer is initiating a new transaction.

4. Military Annual Percentage Rate (MAPR) Limitation

   a) The MAPR, defined as "the cost of consumer credit transactions expressed as an annual rate," and includes the following:

(1) Finance charges (as defined in Regulation Z) associated with the consumer credit;
(2) Any application fee charged to a covered borrower who applies for consumer credit, other than an application fee charged by the credit union when making a short-term, small amount loan, provided that the application fee is charged not more than once in any rolling 12 month period;
(3) Participation fees for a plan or arrangement for consumer credit;
(4) Credit insurance premiums or fees, including charges for single premium credit insurance;
(5) Fees for debt cancellation or debt suspension agreements; and
(6) Fees for credit-related ancillary products sold in connection with the credit transaction for closed-end credit or an account for open-end credit.
(7) Even if the above mentioned charges would be excluded from the finance charge calculation under Regulation Z, they shall still be included in the MAPR calculation.
(8) The MAPR may not exceed 36%.

5. Mandatory Disclosures
   a) The credit union must provide covered borrowers with a clear and conspicuous written disclosure in a form the member can keep.
   b) The disclosures (except for the Regulation Z disclosures) must be provided verbally before or at the time of consummation of the loan. For mail or internet transactions, the credit union complies with this requirement by providing a toll-free telephone number on or with the written disclosures that consumers may use to obtain the verbal disclosures, and the credit union provides the verbal disclosures to the covered borrowers upon request.
   c) The required disclosures must be kept separate from the Regulation Z disclosures.
   d) The written disclosures must be provided before consummation of the transaction. Disclosure of the MAPR in advertisements is not required.
   e) The refinancing or renewal of a covered loan requires new disclosures only when the transaction would be considered a new transaction that requires Regulation Z disclosures.
   f) The disclosures must include the following information:

(1) A statement of the MAPR applicable to the extension of consumer credit, which can be satisfied with the following model language: "Federal law provides important protections to members of the Armed Forces and their dependents relating to extension of consumer credit. In general, the cost of consumer credit to a member of the Armed Forces and his or her dependent may not exceed an annual percentage rate of 36 percent. This rate must include, as applicable to the credit transaction or account: The costs associated with credit insurance premiums; fees for ancillary products sold in connection with the credit transaction; any application fee charged (other than certain application fees for specified credit transactions or accounts); and any participation fee charged (other than certain participation fees for a credit card account).

(2) Any disclosures required by Regulation Z (which shall be provided in accordance with the requirements of Regulation Z that apply to that disclosure).

(3) A clear description of the payment obligation of the covered borrower, as applicable (i.e., payment statement or account-opening disclosure pursuant to Regulation Z).

6. Preemption
   a) This regulation would preempt any inconsistent state or federal law, rule or regulation, including any state usury law, unless such a law, rule or regulation provides additional protection to covered borrowers. States may not charge MAPRs that are higher than the limit for residents of the state, or permit the violation or waiver of any state consumer lending protection that is for the benefit of the residents of that state, solely on the basis of the covered borrower's non-resident or military status.
7. Limitations
   a) The rule prohibits the credit union and its assignees from the following activities:

(1) Requiring covered borrowers to waive their legal recourse under any applicable State of Federal law, including any provision of the Servicemembers Civil Relief Act.

(2) Requiring covered borrowers to submit to arbitration or imposing other onerous legal notice provisions if the event of a dispute.

(3) Demanding unreasonable legal notice as a condition for legal action.
(4) Using a check or other method of access to a deposit, savings, or other financial account maintained by the member. However, creditors may do the following:
(a) Require an EFT to repay the debt, unless otherwise prohibited by Regulation E.
(b) Require direct deposit of the covered borrower's salary as a condition of eligibility for credit, unless otherwise prohibited by law.
(c) Take a security interest in the funds that are deposited after the extension of credit in an account established in connection with the transaction.
(5) Requiring that the covered borrower establish an allotment to repay the obligation.
(6) Prohibiting the covered borrower from prepaying the debt, or charging a fee for prepaying all or part of the debt.

D. Mortgage Servicing Practices for Military Members with Permanent Change of Station Orders

1. Primary Coverage
a) The NCUA Letter to Credit Unions 12-CU-07 applies to military service members who have received mortgage services from the credit union and have received Permanent Change of Station orders from the military.
(1) Permanent Change of Station (PCS) orders require service members to move to a new duty station, are non-negotiable, and operate under short, strict timelines.
2. Loans Covered
a) The credit union will follow the guidance of NCUA Letter to Credit Unions 12-CU-07 for all mortgage loans and mortgage services provided to military service members.
(1) Mortgage services include managing a member's loan account and collecting and crediting monthly payments.
3. Servicing Assistance
a) The credit union will protect military homeowners with PCS orders by:
(1) Providing homeowners with accurate, clear, and readily understandable information about available assistance options they may qualify for, based on information known to the Credit Union.

(2) Provide a reasonable means for members to obtain information on the status for their request for assistance.
(3) Communicating the credit union's decisions on requesting assistance in a timely manner.
(4) The credit union will not ask a service member to waive their rights under the Servicemembers Civil Relief Act as a prerequisite to providing information about available assistance options or eligibility for assistance.
(5) The credit union will not advise service members who are current on their loans and able to make monthly payments to skip payments to create the appearance of financial distress in order to qualify for assistance.

E. Training

1. The credit union will provide specific training to employees to assist service members with loan and mortgage servicing issues, covering assistance programs and all of the options available to military service members.

IX. Consumer Lending

A. Overview

1. Fully Secured Loans
    a) Loans for the Purchase or Refinance of Vehicles, including New and "Late Model" Automobiles
    b) Stock Secured Loans
    c) Purchase Money Chattel
2. Personal Loans with Collateral
    a) General Personal Loans
    b) Loans for Used Vehicles
3. Signature Loans
4. Credit Builder Loans

B. Fully Secured Loans

1. Loans for the Purchase or Refinance of Vehicles, including New and "Late Model" Automobiles
    a) Loans must be secured by a first lien on the vehicle. Suitable vehicles include airplanes, automobiles, bicycles, boats, motorcycles, motor homes, trucks and vans.
        (1) "New" automobiles are defined as automobiles with a model year that matches the current calendar year.
        (2) "Late Model" automobiles are defined as automobiles with a model year that matches the past calendar year.
        (3) This classification excludes off-road motorized recreational vehicles.
        (4) For this loan classification, the vehicle should be of a general purpose — special business purpose vehicles are made as business purpose loans.
    b) An invoice, book value, or independent appraisal is necessary to establish the valuation of the vehicle.
    c) Borrowers will allow no additional liens to be placed on the vehicle during the time the loan is outstanding; the loan can be declared in default if this occurs and the credit union may demand payment-in-full.
    d) There is a rate bump for loans with a LTV ratio over 100%.
    e) Lease-Like-Loans are limited to 72 months.
    f) D and E credit ratings require Payment Reminder, as defined in the Opportunity Auto Lending policy.
2. Stock Secured Loans

a) Quality securities that are readily marketable may be accepted as collateral. Securities must be assignable, transferable, or usable as collateral.
b) All stock or bond secured loans must be approved by a Lending Manager and the Committee.
c) The credit union limits loans that are fully or partly secured by securities to $250,000 in a calendar quarter. Federal Reserve Board Reg. G requires special reporting if, in a calendar quarter, the credit union makes more than $250,000 in loans that are fully or partly secured by such securities. Margin-stock-secured credit is limited to less than $200,000 in credit extended in a calendar quarter, and an aggregate total of less than $500,000.
d) The market value of the securities must be determined before disbursing the loan and followed up during the loan.
e) Generally, securities should be listed on a major exchange; institutional, corporate, or municipal bonds may be accepted as collateral. Locally owned securities may not be listed with a major exchange, but traded over the counter. These are usually listed in the local paper. For unlisted securities, a broker's quote may be obtained but this is usually impractical for the follow up required. Such a loan should only be approved by the Lending Manager if the interests of the credit union are clearly served.
    (1) For example: low LTV, high balance to offset costs of quotes, member pays costs of quotes
f) Loans used to buy securities or to settle debts from buying securities are limited to 50% of the value of such stock. Loans with securities as collateral made for other purposes are limited by this credit union's policy to 70% of the value of the stock.
g) Loans are callable if the collateral value falls below the required limits. Value of the securities shall be checked at least semiannually.
h) These loans must comply with Federal Reserve Board Reg. that regulates purpose and margin requirements related to securities.

3. Purchase Money Chattel
    a) Chattel is personal property other than real estate, and it can be accepted as collateral on a loan.
    b) In order to use chattel as collateral, one of the two following conditions must be met:
        (1) The collateral is in the possession of the credit union.

(2) The property is purchased with the money the borrower receives as a loan.

(a) In this case, the credit union can file a UCC-1 to acquire a lien on the collateral.

c) 80% LTV ratio or lower required for the loan to be approved.

C. Personal Loans With Collateral

1. General Personal Loans

a) Personal loans can be secured by tangible collateral or by guarantors. Any form of acceptable property may be used as collateral, provided that the property meets the credit union's collateral requirements, can be adequately secured, is marketable, and its collateral value can be established.

b) Loan size should not exceed the resale value of the collateral, unless combined with an unsecured portion and blending the rates by the weighted value of secured and unsecured rates. The term of the loan should not exceed the economic life of the collateral.

2. Cooperative Federal Line of Credit

a) One specific type of personal loans is the variable rate line of credit.

b) The table below details the pricing of the line of credit for a member with A++ credit, refer to the Loan Pricing Chart for more information.

	Cooperative Federal Line of Credit
Margin	3.70 bp
Floor Interest Rate	8.49%
Maximum Amount	$20,000
Rates as Low as	9.20

3. Loans for Used Vehicles

a) Loans must be secured by a first lien on the vehicle. Suitable vehicles include airplanes, automobiles, bicycles, boats, motorcycles, motor homes, trucks and vans.

(1) Automobiles, in this section, refers to automobiles that have a model year older than last year's calendar year.

(2) This classification excludes off-road motorized recreational vehicles.

(3) For this loan classification, the vehicle should be of a general purpose — special business purpose vehicles are made as business purpose loans.

b) The lending staff should consider the condition, anticipated depreciation, and marketability of a vehicle when approving a loan. Although the credit union understands the advantages of buying a used vehicle, it also wants to dissuade members from purchasing vehicles that will not be suitable long term.

c) An invoice, book value, or independent appraisal is necessary to establish the valuation of the vehicle.

d) Borrowers will allow no additional liens to be placed on the vehicle during the time the loan is outstanding; the loan can be declared in default if this occurs and the credit union may demand payment-in-full.

e) There are rate bumps for loans with a LTV ratio over 100% and for vehicles older than five model years.

f) Lease-Like-Loan limited to vehicles 5 model years old or younger.

g) D and E credit ratings require Payment Reminder, as defined in the Opportunity Auto Lending policy.

D. Signature Loans

1. The credit union shall offer signature closed-end loans, credit cards, and lines-of-credit loans. These loans are secured by the statutory lien on shares and may be cross collateralized by other security.
2. The Treasurer will set the maximum amount of aggregate unsecured loans to any one member on the Loan Pricing Chart.
3. The credit union may make other reasonable conditions on applicants which are in the interests of the credit union regarding unsecured lending, including:
   a) Limiting approval to closed ended unsecured loans.
   b) Combining an unsecured amount with a secured portion of a loan.
   c) Adding an unsecured amount above the value of collateral and blending the rates by the weighted value of secured and unsecured rates.
   d) Requiring cosigner(s).
4. Special attention should be paid to avoid unsecured lending to members with factors which pose a risk of bankruptcy, such as spiraling credit, few assets relative to debt, etc.
5. For members with no credit score, loan officers may approve unsecured credit with these stipulations:
   a) Maximum aggregate unsecured credit limit of $1000 per member.

b) Good work/income history with six months on current job and good likelihood of continued employment or similar stability of income from other sources.
c) Alternative credit verification, including six months at current residence with direct verification of on-time rental or mortgage payments.
d) No past or present delinquent credit references.
e) Debt ratio of 43% or less.

E. Credit Builder Loans

1. Credit builder loans are secured by shares in the credit union.
2. Only cleared funds can be used as collateral in share secured loans.
3. The funds securing the loan must be held for the duration of the loan. Members may only withdraw funds from pledged accounts up to the balance of the loan, except for funds securing a line of credit or revolving credit where the funds must remain up to the maximum available credit.
4. There is no maximum amount for a share secured loan.
5. The maximum term is 20 years.
6. If the funds used to secure the loan are owned by a member other than the borrower, the owning member must sign as owner of collateral on both the note and disclosure.
7. Share secured loans may be denied if there are Federal or State levies on the credit report.
8. The rate of interest on share secured loans shall be 3.95% above the rate of the shares securing the loan.
9. Share secured loans are generally made with an adjustable interest rate feature to allow for changes in dividend rates on shares. Exceptions to the adjustable rate feature are made for:
   a) Short-term loans up to six months.
   b) Loans secured by shares that do not earn dividends (Omega Shares).
   c) Loans secured by certificates with the term of the certificate about equal or shorter than the term of the loan.
   d) Combined collateral loans where the shares are a small part of the collateral.

F. Maximum Amounts for Consumer Loans

1. The Treasurer, in consultation with the Lending Manager, may change the maximum amounts to reflect changes in market conditions, ALM considerations, and the credit union's risk based lending policy.
2. The following table shows the maximum loan amount per type of loan, as described in the Loan Pricing Chart:

Loan Type	Maximum Loan
Share Secured (100% share secured)	No Limit
New Vehicle	60% to 125% of Retail Book Value, depending on risk tier
Late Model Vehicle (current or last year's model)	60% to 125% of Retail Book Value, depending on risk tier
Used Vehicle (up to six model years old)	60% to 125% of Retail Book Value, depending on risk tier
Used Vehicle (more than six model years old)	60% to 125% of Retail Book Value, depending on risk tier
Personal Loan with Collateral	Resale Value
Cooperative Federal Line of Credit	$20,000 depending on risk tier
Signature Loans (aggregate per member)	$20,000 depending on risk tier

G. Maximum Terms for Consumer Loans

1. The Treasurer, in consultation with the Lending Manager, may the maximum terms to reflect changes in market conditions, ALM considerations, and the credit union's risk based lending policy.
2. The following table shows the maximum terms allowed for each type of loan, as described in the Loan Pricing Chart:

Loan Type	Maximum Term For A or Better Credit (in months)
Share Secured (100% share secured)	240
Manufactured Homes (mobile homes)	240
New Vehicle (>$35,000 and LTV ≤ 90%)	84
New Vehicle	72

Late Model Vehicle (last calendar year's model)	72
Used Vehicle (up to six model years old)	66
Used Vehicle (more than six model years old)	48
Personal Loan with Collateral	72
Signature Loan	72

H. Skip Payment

1. A one-month skipped payment may offer the member an opportunity to gain control of finances. Thus, skip payment programs are a win-win situation for both the credit union and its members, as the credit union is able to earn more fees and interest income while the member benefits with extra cash for a month.
2. Member Eligibility
    a) To be eligible for a skipped payment, the member must be a member in good standing with a minimum share balance of $5.00.
    b) Skipped payments will not generally be considered for any member who is currently delinquent or has been delinquent 60 days or greater in the past 12-month period. Any exception needs approval by the Lending Manager.
    c) Skip payments may be available up to two times per year.
3. Application
    a) Borrowers must complete a written request for a skipped payment. Approvals will be based on whether the member has met the credit union's eligibility criteria.
4. Eligible Loans
    a) Non-real estate related open-end consumer loans.
    b) Closed-end loans.
    c) Mortgages, Lease-Like-Auto loans, indirect loans, and business loans are not eligible.
5. Approval
    a) Skip payments must be authorized by the Treasurer/CEO, Lending Manager, or Senior Loan Officer.
6. Fees
    a) The credit union will charge members $25.00 for each skipped payment.

(1) For closed-end loans, the amount of the skip payment fee must be included in the calculation of the credit union's APR for usury purposes as it is considered a finance charge under Regulation Z.
(2) The fee is considered a finance charge regardless of whether the fee is paid in cash, deducted from the members share or share draft account, or added to the loan balance.

b) During the skipped period, members should still be charged interest and over-the-limit fees when applicable, but all late payment fees should be waived.

7. Disclosures for Closed-End Loans
   a) New or subsequent disclosures for skip payments on closed-end loans are not required. Generally, the only time new disclosures are required for closed-end loans is if a refinancing occurs (i.e., when an existing obligation is satisfied and replaced by a new obligation for the same borrower). New or subsequent disclosures are not necessary if the existing agreement is only being modified, for example, by lowering the payment or permitting a payment to be skipped.
   b) Although the fee for allowing a skipped payment is considered a finance charge, new disclosures are not required as long as the skipped payment is accomplished by amending the existing closed-end loan agreement rather than by a complete refinancing. Because new disclosures are not required, the inaccuracy created by imposition of the fee is not a Truth-in-Lending violation according to Regulation Z.
   c) The credit union will make members aware of a number of issues including:
      (1) Which loans and borrowers are eligible for skip a payment
      (2) Which month(s) a skip payment will be allowed
      (3) The amount of the fee
      (4) How the credit union will collect that fee
      (5) The effect the skip payment will have on increasing the total finance charges and extending the loan term.
8. Advertising
   a) A promotional piece advertising the skip payment offering may be sent as a letter for the member to sign and return to the credit union which acknowledges the member's desire to skip a particular loan payment and indicates that the member understands and agrees to the skip payment terms and conditions.

X. Opportunity Auto Lending

A. Purpose

1. The primary goal of the Opportunity Auto Lending program is to enable the credit union to meet more of the unmet needs in its community, such as:
   a) Serving members who are hired for new jobs by providing car loans so they can have transportation for work, including jobs arranged through workforce development nonprofits.
   b) Offering affordable credit for car purchases to members with lack of credit experience weak credit history, or other barriers to qualifying for a standard loan.
   c) Providing a cooperative alternative for members to:
      (1) Steer clear of predatory lenders.
      (2) Avoid the costly pitfalls associated with buy-here-pay-here car dealers.
      (3) Overcome widespread neglect and underservice by conventional lenders.
   d) Enabling most members of modest means to purchase reliable vehicles, instead of old, unreliable "clunker-junkers".
2. The second goal of Opportunity Auto Lending program is for the credit union to adequately manage and mitigate the risks associated with this innovative lending.
   a) Risks shall be evaluated, balanced, managed and mitigated on a program-wide level and on the level of the individual loan. While there are risks inherent in such lending, this is not an "anything goes" approach.
   b) There are several available components of this approach which shall be used to balance, compensate and/or mitigate risks associated with the individual borrower or with classes of borrowers (e.g. credit tiers or applicants with limited work experience).
   c) The credit union's risk -based loan pricing should cover the expenses of a hands-on delinquency management program needed for this lending.
   d) Some risks, such as lending to those getting a new job, may have to be mitigated by loan loss reserves from grant funds.
   e) This loan program, after anticipated expenses and loan losses, should generate positive net earnings to enable the credit union to build reserves, enabling such risk-taking needed to build the community.

B. Community-Based Partnerships

1. To reach out to those who would benefit most from these loans, the credit union will actively collaborate with workforce development nonprofits and programs like WorkTrain and other community centers and organizations that serve underserved neighborhoods, refugees, recent immigrants, farm workers, people trying to break out of poverty, and others in the community who are not well served by for-profit financial institutions.
2. Cooperative Federal is testing a referral relationship with Drivers Village at 5885 E Circle Dr, Cicero, NY 13039.
    a) Referrals should be made by loan officers directly to Nettie Taylor at nettiet@burdickcars.com. Nettie works in the "Finance First" department and her extension is 2734. The switchboard number is (877) 514-1748.
    b) **Do not refer in any other way, or market this relationship to members.** Send the member with preapproval for a dollar amount. Nettie will not try to steal our financing and will not try to put the member into a car that they cannot afford. Members who buy a car through Nettie will get a maintenance package valued at $500 for free. Loan officers should develop a working relationship with Nettie.

C. Financial Education

1. Financial education and/or counseling can be vital in helping members to manage on limited income, afford car payments, build positive credit experience, and achieve life goals. Guiding the member is an integral part of the lending process.
    a) The loan officer serves as a "consumer advisor" to the member by providing education on credit scores, debt ratios, car buying, and how to maintain a strong, positive relationship with the credit union. The loan officer also tries to understand why credit may be weak, pays attention to trajectory of the credit score, and considers plans that the member makes to improve their situation. This handholding develops a relationship with the member and also acts as a risk mitigation measure.
    b) Generally, participation in formal education and/or counseling is not mandatory. Any member with a credit score of 639 or lower, or with other weakness that would likely cause the loan to be denied at a conventional financial institution, is **strongly encouraged** to work with one of the credit union's financial counselors or with a

partner organization to establish a budget and a credit-building plan.

c) Financial education or counseling may be required as part of a loan approval for members with little credit experience, recent late payments, any late payment to the credit union, a history of repossession or bankruptcy, credit scores of 599 or lower, or other weakness that would likely cause the loan to be denied at a conventional financial institution.

d) Financial education offerings should include car-buying and maintaining your car workshops or online presentations.

D. Affordability and On-Time Payments

1. Affordability to the borrower is a key factor for member success and lower delinquency.
2. Loan officers may approve loans for this program where the debt ratio is at 43% or less.
    a) All policies in the Applicant Eligibility section of this policy apply. This includes the flexibility described in the Capacity to Repay subsection.
        (1) For example, a higher debt ratio may be acceptable if there is non-cash income or an expense reduction.
3. When underwriting the application, the following methods shall be used in the best combination to balance, compensate and/or mitigate risks associated with an individual borrower or with classes of borrowers (like credit tiers or applicants with limited work experience). Methods to keep the payment both affordable and paid-on-time include:
    a) Applicants for an Opportunity Auto loan are encouraged to obtain pre-approval.
    b) Selection of a car that is priced to be affordable to the borrower, providing reliable transportation. Opportunity Auto loan applicants are discouraged from picking a car as a status symbol or to fulfil some advertising fantasy.
    c) The Flex Auto Loan, offering lower monthly payments. While optional, the applicant may not be approved for conventional financing if payments are not affordable.
    d) Careful selection of the term of the loan, in consideration of the age and condition of the vehicle.
    e) Loan payment due date should correspond with the borrower's payday schedule. Payments can be weekly, bi-weekly or monthly.
    f) Direct deposit of income is required, if/when available.

g) All borrowers must be available to be reached by phone for reminder calls during reasonable hours specified by the member.

h) All borrowers must be insurable for automobile coverage and must have required liability, collision and comprehensive in accordance with credit union policy.

i) For borrowers with less than one year of satisfactory employment history, or equivalent income history, the credit union must secure loan loss reserves or otherwise mitigate risk (for example: a solid cosigner, a larger down payment).

E. Quality Vehicle Purchase

1. The Opportunity Auto Lending program is only for the purchase of quality vehicles that will provide useful service for at least the full term of the loan. Vehicles must be also be affordable to the member and be either:
    a) Affordable new cars purchased from a reputable dealer.
    b) Used, late model cars purchased from Enterprise Car Sales. Cooperative Federal has contracted with Enterprise Car Sales to bring a good selection of well-maintained, late model, used cars at No Haggle Pricing.
        (1) The “no haggle” pricing treats everyone equally and is an important feature since research has demonstrated frequent discriminatory outcomes in car negotiations, even with trained negotiators. Those without formal education or mastery of English, or those unfamiliar with U.S. commercial culture are likely to be at greater disadvantage in negotiated car pricing.
    c) Used, late model cars, up to 5 model years old, with less than 100,000 miles.
    d) Used, late model cars, up to 7 model years old, with less than 100,000 miles, if inspected and approved by a credit union authorized inspector. The inspection fee is paid by the member.

F. Lease-Like-Loan Option

1. To enable members to buy better cars with more affordable monthly payments, the credit union has revived its “Lease-Like” loan product. The Lease-Like-Loan can enable a member to get a better car with an affordable payment. It can also help an applicant qualify for approval by lowering debt ratios, and enabling the purchase of newer, better collateral for the loan.
2. The Lease-Like-Loan is optional; the member may choose to apply for traditional financing. Program fees may apply.

a) The program fee is $745. For borrowers in the WorkTrain program this fee is paid by a grant, and is not disclosed as a finance charge. For other borrowers it must be paid by the member, may be financed, and either way must be disclosed as a finance charge. When the loan is closed, this fee will be sent to AFG, to provide the residual value guarantee.

3. With a Lease-Like-Loan, instead of paying off the entire value of the car (plus interest), the member pays off only the expected depreciation (plus interest). This depreciation is the difference between the purchase price and the expected "residual value" at the end of the term of the loan.
    a) Technically, this is a balloon loan with an insured residual value of the vehicle.
4. The Lease-Like-Loan can be used with either new or used, late model cars up to 5 model years. The member will choose the car (within the credit union's Quality Vehicle Purchase guidelines), the term of the loan, and the anticipated annual mileage use. These choices will affect the monthly payment. The member will own the car, insure it, and care for it. Monthly payments are considerably lower than conventional loans.
5. The credit union must review a car history report on all used vehicles for the Lease-Like-Loan, as it excludes Grey Market or salvaged vehicles. Enterprise runs a CARFAX® vehicle history report on all of its cars.
6. Note that Lease-Like-Loan cannot use Skip-a-Pay or be extended without voiding the residual value guarantee.
7. At the end of the term, the member has a choice of selling the car, trading it in, or refinancing. Since the residual value is insured, the member will also have the option of simply turning the car in, though a fee may apply.
8. The borrower is responsible for excess mileage and any excess wear and tear.

G. Payment Reminder and Collateral Management System

1. As a condition of approval for some automobile loans, the credit union may require the installation of a telemetry device with a Collateral Management System that includes payment reminders, a starter disable function, and the potential use of GPS. This system can be used to:
    a) Remind the member when a payment is overdue by playing a tone when the car starts.
    b) Prevent the vehicle from starting if the member does not respond to payment reminders.
    c) Locate the vehicle if the borrower skips.

2. The goal of the payment reminder and Collateral Management System is to condition members to honor their commitment to pay the credit union. The goal is not to antagonize or patronize members.
3. The decision to require the telemetry device with GPS and use of a Collateral Management System must be based on reasonable consideration of the risks of lending and not any irrelevant or discriminatory reasons.
4. The Criteria for requiring this feature shall include:
    a) All “D” and “E” credit.
    b) All “C” credit with thin scores.
    c) All applicants with a history of repossession.
    d) All first-time vehicle buyers without three years positive credit history.
    e) All applicants with less than 1 year of income stability.
    f) And, if loan is denied for any reason, the Collateral Management can be offered if it would mitigate risks sufficiently to make the loan acceptable.

H. “Firm Closings”

1. In addition to signing documents, a firm closing on every loan can verify information, educate the borrower, and reinforce the value of membership. The loan closer should:
    a) Review all aspects of the loan – the payment amount, due date, interest rate, and who to contact if the member has a problem.
    b) Let the borrower know what happens if he/she is late making the payment and the importance of staying in touch if there are unanticipated problems, etc.
    c) Remind the borrower of the importance of rebuilding credit and that a good credit score can mean a lower interest rate and payment on future loans.
    d) Explain the cooperative nature of Cooperative Federal.
        (1) For example: “Members pool their saving to make loans available. We are lending you the life-savings of other members.”
    e) Tell the borrower this may be his/her last opportunity for a loan for a quality vehicle at a reasonable rate.

I. Following Up with a Member

1. Shortly after loan is closed, before first payment is due, the loan officer shall follow up with the member:
    a) Did everything go as expected?
        (1) It is the responsibility of the lending staff to listen to the member’s response. The member may report problems

finding affordable insurance, complain about the car dealer, or provide other feedback that may inform further development of Opportunity Lending program.

b) Reminder of the payment due date
    (1) Would the member like to set up auto transfer which cannot be required) or coupons?

c) Reminder of who to call if the member has unexpected problems.

XI. Real Estate Lending

A. Overview

1. The credit union offers the following loan classifications:
    a) Secondary Market Mortgages
    b) 5/1 In-House Hybrids
        (1) Primary Residence
        (2) Investor
        (3) Commercial
    c) Home Equity Line of Credit (HELOC)
        (1) Primary Residence
        (2) Investor
    d) Home Improvement and Auto Equity Loans (CREF2)
    e) Construction Loans

B. Secondary Market Mortgages

1. The credit union offers mortgages that are prepared for sale on the secondary mortgage market.
2. The Lending Manager will establish the pricing and fees on secondary market mortgages in conjunction with requirements of the secondary market, credit union costs and ability to provide this service, and in consideration of local market conditions.
3. Some secondary market mortgages may be kept in the credit union's portfolio when the Treasurer determines that this meets the asset liability management (ALM) goals of the credit union.

C. 5/1 In-House Hybrid

1. The Cooperative Federal 5/1 In-House Hybrid is the credit union's in-house first mortgage which features a fixed rate for the first five (5) years, followed by a one-year ARM for the remaining term.
2. This policy applies to the following three types of 5/1 Hybrids. Refer to the Cooperative Federal Loan Pricing Chart for the pricing of each classification.
    a) Primary Residence
        (1) Those offered to members as first mortgages for a residence that is or will become the member's primary residence.
        (2) In other words, owner occupied 1 to 3 family homes.
    b) Investor
        (1) Those offered to members for investment in 1, 2, 3, and 4 family homes, as well as mixed use properties.
    c) Commercial

(1) Those offered to members for small commercial properties in the credit union’s service area.

3. The credit union’s regular underwriting standards apply.
4. Interest rates will be based on an index plus a margin, rounded to the nearest 1/8 of 1%.
    a) If the rounded amount exceeds the annual or lifetime interest rate cap, the interest rate will not be rounded to the nearest 1/8 of 1%.
    b) The Index used is the average of interbank offered rates for one-year US dollar-denominated deposits in the London market (LIBOR) as published in The Wall Street Journal.
        (1) If the index ceases to be available, the credit union will choose a comparable index.
    c) The Treasurer will determine the margins offered on this loan type based on current market conditions and the creditworthiness of the borrower.
    d) The initial interest rate will be determined by the Lending Manager no later than five (5) days prior to the time the loan is closed. The Lending Manager will determine the rate based on market conditions existing at the time the rate is set and the credit risk posed by the borrower, as defined in the credit union’s Credit Incentive Pricing Policy.
    e) The initial interest rate is not necessarily based on the index used to make later adjustments, and it may or may not be rounded to the nearest 1/8 of 1%.
    f) The initial interest rate also may be a:
        (1) Discounted rate (less than the “index” plus the “margin”).
        (2) Premium rate (greater than the “index” plus the “margin”).
    g) The interest rate can change annually after the initial five (5) year period. Rate change dates occur at 12-month intervals.
        (1) To determine the change in rate, the credit union will use the most recent index available as of 45 days before a rate change date.
        (2) The rate cannot increase or decrease more than five percentage points (5.000%) from the initial interest rate after five years (the first change date).
        (3) After the first change date, the interest rate established as of any given change date cannot increased or decreased more than two percentage points (2.000%) from the interest rate in effect immediately preceding change date.

(4) The interest rate cannot increase or decrease in aggregate over the full term of the loan by more than five percentage points (5.000%) above or below the Initial Interest Rate.
(5) The interest rate will never go below the "Floor," which is set by the credit union prior to closing.

5. The monthly payment can change annually after the first five (5) years based on changes in the interest rate. Payment change dates occur one month after each annual interest rate change date.
    a) The borrower will be notified in writing at least 25, but not more than 120 days before the due date of a payment at a new level. This notice will contain information about the index, interest rates, payment amount, and loan balance.
    b) The payment will always be an amount sufficient to pay off (amortize) the loan over the term at the interest rate in effect at the time of the payments.
    c) All payments received will be applied first to late penalties and interest due on the outstanding loan balance, and then to reduce the principal.
6. The loan may be prepaid at any time without premium or penalty.
7. The credit union shall generally require that an escrow account be established and maintained over the life of the loan so that it has, on deposit, enough money to pay real property taxes and assessments, hazard insurance and mortgage insurance (if any), as they become due.
8. With the following exception, the loan may not be assumed by anyone and will become immediately due and payable if all or any part of the property mortgaged to the credit union is transferred:
    a) After the five year fixed rate period, the loan may be assumed with the prior written approval of the credit union.
9. There is a processing fee for 5/1 HYBRIDs. If the loan is denied, a portion of the processing fee may be refundable, based on the amount of work done on the application.
    a) The processing fee may be reduced for hardship.
10. See the 5/1 Hybrid Disclosure to be given with application, TIL, Good faith estimate of closing costs, Settlement Costs booklet, Adjustable rate disclosure booklet, Flood Insurance disclosure, ECOA, FCRA, Patriot Act, Servicing and Occupancy Disclosures.
11. The table below details and compares the three types of 5/1 Hybrids for a member with an A++ credit rating. Refer to the Loan Pricing Chart for pricing information.

Type of 5/1 Hybrid	Primary Residence	Investor**	Commercial**
Maximum Amount*	$300,000	$200,000	$200,000
Maximum Term	360 months	360 months**	360 months**
Margin (A++)	2.00 bp	3.75 bp	4.00 bp
Maximum LTV	80% (95% with mortgage insurance)	80%	80%
Floor Interest Rate	3.250%	4.000%	4.500%
***** *A higher maximum is possible through participation with another cooperating lender.* ***Business loans have a maximum term of 180 months; which may be achieved by limiting the term, or by having a balloon due at 180 months or less.*			

D. Home Equity Line of Credit (HELOC)

1. The credit union offers Home Equity Lines-Of-Credit as an adjustable rate credit line secured by a property.
2. This policy applies to the following two types of HELOCs. Refer to the Loan Pricing Chart for the pricing of each classification.
   a) Primary Residence
      (1) Those that are secured by a home that is or will be a member's primary residence.
   b) Investor
      (1) Those that are secured by an investment property.
3. The HELOC will have a five (5) year draw period and a ten (10) year repayment period. The credit union may, at its option, extend or renew the draw period.
4. Loan Manager approval is required to underwriting D and E credit ratings. Many borrowers in these categories are not credit worthy for such a product.
5. The HELOC will be variable rate with risk-based features. The maximum loan amount, CLTV, margin, and floor will reflect the borrowers' creditworthiness.
6. A monthly payment will be due during both the draw period and the repayment period.
   a) The minimum monthly payment is calculated on the unpaid principal balance and will be sufficient to repay the balance at the

current interest rate over the remaining term of the combined draw and repayment periods.

b) For simplicity of payment and processing, the minimum monthly payment will be rounded up to the next dollar.
c) If any amount drawn exceeds the credit limit, the excess amount must be paid in addition to the minimum monthly payment.
d) Fees, late charges, and past due amounts must be paid in addition to the minimum monthly payment.
e) No prepayment penalties exist.

7. This credit line has a variable rate feature, and as a result, the annual percentage rate (corresponding to the periodic rate) and the minimum monthly payment may change.
   a) The annual percentage rate is based on the value of an index.
      (1) The index is the Wall Street Journal Prime Rate as published in the Wall Street Journal.
      (2) When a range of rates has been published, the highest rate will be used.
   b) To determine the annual percentage rate that will apply to the line, the credit union adds a margin to the value of the index.
   c) The initial annual percentage is not “discounted.” It is based on the index and margin used for later rate adjustments.
   d) Interest rate information will be provided on the account statement.
8. Current regulations only permit risk pricing at the origination of a HELOC. The margin, interest rate, floor, maximum CLTV, and maximum credit line will all be based on the the risk category of the member which is in turn based on creditworthiness.
9. The Treasurer, in consultation with the Lending Manager, may change margins to reflect changes in market conditions, ALM considerations, and the credit union’s risk based lending policy.
10. The Treasurer, in consultation with the Lending Manager, may change loan limits to reflect changes in market conditions, ALM considerations, and the credit union’s risk based lending policy.
11. The Treasurer, in consultation with the Lending Manager, may change the interest rate floors to reflect changes in market conditions, ALM considerations, and the credit union’s risk based lending policy.
    a) Such changes in the floor will be applied going forward to new HELOCs.
12. The Treasurer, in consultation with the Lending Manager, may change the maximum CLTV ratios to reflect changes in market conditions, ALM considerations, and the credit union’s risk based lending policy.

13. The table below details and compares the two types of 5/1 HELOCs for a member with an A++ credit rating. Refer to the Loan Pricing Chart for pricing information.

Type of HELOC	**Primary Residence**	**Investor**
Maximum Amount	$200,000*	$200,000*
Maximum Term	180 months	180 months
Margin (A++)	-30 bp	1.30 bp
Maximum CLTV	75% without adjustment	75% without adjustment
Floor Interest Rate	2.95%	3.95%
***** *A higher maximum is possible through participation with another cooperating lender.*		

14. The maximum CLTV will be 75%, but it may be adjusted under the following two circumstances:
    a) If the credit union is the first mortgage holder and there are no other unsubordinated liens, the maximum CLTV is 80%.
    b) In exceptional circumstances, the Lending Manager may, if it is in the credit union's and the member's interest, approve a higher CLTV with a maximum of 85%.
        (1) The additional amount is underwritten as if it is unsecured.
15. The minimum advance is $250
16. Loan Fees:
    a) Account Set Up Fee: $99
    b) Annual Account Maintenance Fee: $48
    c) Re-Subordination Paperwork Fee: $28
        (1) Re-subordination shall only be approved by the credit union if it does not increase risk to the credit union.
    d) Late payment charges will be the greater of:
        (1) $28.
        (2) 5% of the repayment amount (monthly payment due).
    e) Other third party fees are the borrower's responsibility. The credit union may allow third party fees to be paid out of proceeds, at the discretion of the Lending Manager.

17. The following operational items are product features, but management may change these for operational reasons, such as efficiency and synchronization with the data processing system:
    a) These loans will be set up as billing loans.
    b) The Statement Closing Date will be the last day of the month.
    c) Statements will be generated on the first business day of the following month.
    d) Payments will be due on the 25th of the month, with no grace period.
        (1) The credit union may allow a courtesy period where no late charges are applied.
    e) The minimum monthly payment is $50.
    f) The credit union may provide a relationship incentive for automatic payment transfer on the HELOC.
    g) Access to the account for draws (advances) may be made by voucher withdrawal (over-the-counter), transfer to another account (for example to checking), special checks, or possibly, in the future, by debit card.
18. Depending on market conditions, the Treasurer, in consultation with the Lending Manager, may allow the following features:
    a) The credit union may offer to absorb some or all of the third party fees for a HELOC. When offered, the credit union shall require a minimum account balance at opening and a minimum maintained balance over a period of time. If the required balance is not maintained, the closing costs are recaptured by adding to the borrower's balance owing on the HELOC.
    b) The Account Maintenance Fee may be waived if the average balance on the account is $15,000 or greater.
    c) The Account Set Up may be waived if the HELOC is closed at the same time as a Purchase Mortgage or Refinance Mortgage on the same property.
19. The credit union can terminate a line, require payoff of the entire outstanding balance in one payment, and charge fees if:
    a) The borrower engages in fraud or material misrepresentation in connection with the line.
    b) The borrower does not meet the repayment terms.
    c) The borrower's action or inaction adversely affects the collateral or the credit union's rights in the collateral.
20. The credit union can refuse to make additional extensions of credit or reduce a credit limit if:

a) The value of the dwelling securing the line declines significantly below its appraised value for purposes of the line.
b) The credit union reasonably believes the borrower will not be able to meet the repayment requirements due to a material change in financial circumstances.
c) The borrower is in default of a material obligation in the agreement.
d) Government action prevents us from imposing the annual percentage rate provided for or impairs our security interest such that the value of the interest is less than 120 percent of the credit line.
e) A regulatory agency has notified us that continued advances would constitute an unsafe and unsound practice.
f) The maximum annual percentage rate is reached.

21. See the Disclosure "Important Terms of our Home Equity Line of Credit," which is to be given with application, HUD Settlement Costs brochure, "When Your Home is on the Line," and adjustable rate disclosure.

E. Home Improvement and Auto Equity Loans (CREF2)

1. The CREF2 is a Closed-end Real Estate loan with a Fixed rate. It is an old-fashioned product that typically used to be called a "second mortgage," "junior mortgage," or "home improvement mortgage."
   a) CREF2s use the equity in a home to secure a loan with a second or first mortgage.
2. The credit union may secure a loan with a mortgage "in abundance of caution," when there is other collateral, such as a vehicle, or when the loan would otherwise be made as unsecured or partly unsecured.
   a) In such cases, a mortgage is filed, but other precautions (such as title examination, title insurance, and appraisal) may be waived, and the LTV may be up to 100%.
3. The table below details the maximum-term CREF2 with an A++ credit rating. Refer to the Loan Pricing Chart for pricing information.

	CREF2
Maximum Amount	$100,000
Maximum Term	120 Months
Margin (A++)	-0.20 bp

Maximum CLTV	75% without adjustment
Rate as Low as	7.11%

4. The maximum CLTV depends on the risk tier, but it may be adjusted under the following two circumstances:
    a) If the credit union's loan is the first lien on the property, add 5% to the maximum CLTV.
    b) If the credit union's loan is the only lien on the property, add 5% to the maximum CLTV.

F. Construction Loans

1. Construction loans are permitted to finance the acquisition and construction of a one- to four-family residence to be occupied by the borrowing member(s).
2. Construction loans are limited to Onondaga and adjacent counties.
3. The credit union may decline any construction loan if sufficient staff time is not available, or if the project lacks coordination, resources, or has features that adversely affect marketability.
4. The member may act as the General Contractor if the member has sufficient experience and/or training. Evaluation and approval by the credit union is required for the member to act as general contractor.
5. Besides the regular lending standards, construction loans shall also meet the following requirements:
    a) Detailed cost estimates and building plans must be provided before loan approval.
    b) An appraisal based on plans and specs with follow-up inspection upon completion meeting both the requirements of the credit union's general real estate policy and NCUA's Rules and Regulations is required.
    c) A survey is required showing the location of planned improvements.
    d) An evaluation of the builder's quality (including financial stability, experience, and track record) is required before approval.
        (1) References, license or resume are required.
        (2) Two current lender references or builder financial statements are also required.
    e) Builder's risk insurance is required.
    f) Zoning approval and permits (water, sewer, etc.) must be acquired before loan disbursal.

g) A Builders Construction Contract must be signed by all parties before loan disbursal.
h) Equity of 30% must be provided by the member (funds expended and/or land and property value) before loan disbursal.
    (1) A purchase contract, appraisal, HUD-1 may be used to establish equity.
i) Funds are to be released in numerous draws as construction proceeds, with documentation and inspection of the phases of construction by a Lending Manager or another qualified person.
j) A disbursement schedule is to be signed at closing, specifying dates and the work to be completed for all draws.
k) The take-out commitment is good for up to six months, and may be extended by the credit union.

6. A one-point application fee is charged along with filing, title, legal fees & usual closing fees.
7. A Lender's Inspection Fee is charged besides appraiser's final inspection fee.
    a) Within the city of Syracuse, this fee is $100.
    b) Outside of the city of Syracuse, this fee is $150.
8. The loan limit for construction loans is $200,000.
    a) The credit committee may approve a loan up to the limit for 5/1 Hybrids with the concurrence of a lending manager if the member intends to apply for, and can be reasonably expected to qualify for, a secondary market refinance.
9. Secondary market standards and limits apply to all secondary market construction loans. Construction portfolio loans with secondary market approval of underwriting and closing may be made to the limits of the secondary market with approval of a lending manager and the treasurer.
    a) Such a construction portfolio loan must meet all of the credit union's standards for portfolio loans, and must fit within its ALM needs.

G. Title Insurance

1. The credit union shall require title insurance on all purchase or construction loans.
2. On non-purchase mortgages, title insurance may be waived by the credit union, provided that all of the following criteria are met:
    a) The uninsured risk to the credit union is $50,000 or less.
    b) The loan is secured by a one to four family residence.
    c) A title insurance policy has previously been obtained.

d) There are no disputes, judgments, or title questions unresolved (e.g., death of owner, conflict between owners).

e) The loan must not be in Madison County or in any other county with unresolved native Indian land claims. Onondaga County is acceptable, except on reservation land.

3. In all cases, except where the mortgage is used only "in abundance of caution," a stub search of the title will be conducted and reviewed.

H. Subject Property Valuation and Appraisals

1. Below are several minimum requirements when determining the value of the property:
   a) The method must include the location of the property, a description of the property, and its current or projected use.
   b) Any valuation method shall provide an estimate of the market value in its actual physical condition, use and zoning designation as of the effective date of the evaluation with any limiting conditions.
   c) The analysis that will be performed to determine the value of the property will be documented on a separate form.
   d) The credit union will describe supplemental information that will be considered when using an analytical method or technological tool.
2. The following table indicates the type of appraisal, Maximum LTV, Maximum loan amount, and the need for onsite visits:

Type Of Appraisal	Maximum LTV	Maximum Loan Amount	Onsite Visit Required
None	50%	$20,000	No
Full value assessment by tax authorities	60%	$50,000	Yes
Market analysis by real estate professional	70%	$50,000	Yes
Broker's Price Opinion (BPO)	75%	$50,000	Yes
Short form appraisal with inspection, no comparable photos	80%	$75,000	Yes
Full appraisals (as required on all loans greater than $100,000)	95%	To product limit	No

Full appraisals (from one (1) to three (3) years old where loan was with credit union)	80%	To product limit	Yes, if older than 2 years

I. Trade Area

1. The credit union will prioritize the promotion of sound business lending in the following areas:
    a) The city of Syracuse, as part of its community development efforts.
    b) Cayuga County.
    c) Cortland County.
    d) Madison County.
    e) Onondaga County.
    f) Oswego County.
2. The credit union will, in cooperation with NYS Empire State Development, make business loans outside Onondaga County.
3. In participation with other eligible partners or when the circumstances are judged by lending and financial management as good business, with low risk, with reasonable ability to monitor the loan, and in the best interests of the credit union and members the credit union will also make loans to small and micro businesses in its secondary target market which includes the counties of:
    a) Cayuga.
    b) Chemung.
    c) Cortland.
    d) Madison.
    e) Oneida.
    f) Onondaga.
    g) Oswego.
    h) Schuyler.
    i) Seneca.
    j) Tioga.
    k) Tompkins.
4. Business Loan Connection seeks to scale-up the credit union's collective loan deployment and fill service gaps throughout the above 11-county area.

J. Maximum LTV and CLTV Ratios

1. The table below summarizes the maximum Loan-To-Value (LTV) and Combined Loan-To-Value (CLTV) ratios that are accepted by the credit union, as found in the Loan Pricing Chart:

Type of Loan	Maximum	Maximum

	LTV	CLTV
First Mortgage, purchase without mortgage insurance	80%	100%
First Mortgage, purchase with mortgage insurance	95%	100%
First Mortgage, refinance without mortgage insurance	80%	100%
First Mortgage, refinance with mortgage insurance	95%	100%
Second Mortgage, including HELOC and CREF2 *	75% **	75% ***
Purchase Second Mortgage	80%	80%
** Small loans without regular payback obligations, such as Community Development loans or UNPA Grant Obligations, may have higher CLTV.* *** If an unsecured portion is combined with the secured using unsecured standards, or on auto-equity or similar loans, a higher LTV may be acceptable. Up to 100% may be acceptable for loans with a term of 144 months or less* **** If the credit union holds the first mortgage, a CLTV up to 80% may be acceptable.*		

K. Maximum Loan Amounts

1. The table below summarizes the maximum loan amounts that are given out by the credit union, as found in the Loan Pricing Chart:

Type of Loan	Maximum Amount
Secondary Market Mortgage closed by Cooperative Federal	10% of assets* per member
Secondary Market Mortgage closed by Secondary	Unlimited
Secondary Market Mortgage held in Portfolio	10% of assets* per member
5/1 Hybrid (Owner Occupied 1 or 2 Family Homes)	$300,000**
5/1 Hybrid (Investment in 1-4 Family Homes; Mixed Use)	$200,000**
5/1 Hybrid (Small Commercial Properties in Target Market)	$200,000**

HELOC (Primary Residence)	$200,000**
HELOC (Investor)	$200,000**
CREF2s	$100,000
Construction Loans	$200,000
** Limited to 10% of paid in shares and unimpaired capital.* ****** *A higher maximum is possible through participation with another cooperating lender.*	

L. Maximum Mortgage Terms

1. Secondary market terms will be used for pass through mortgages and portfolio mortgages prepared for sale on the secondary market.
2. The table below summarizes the maximum mortgage terms that are accepted by the credit union, as found in the Loan Pricing Chart:

Type of Mortgage	**Maximum Term (Months)**
5/1 Hybrid (Owner Occupied 1 or 2 Family Homes)	360
5/1 Hybrid (Investment in 1-4 Family Homes; Mixed Use)	360*
5/1 Hybrid (Small Commercial Properties in Syracuse)	360*
HELOC (Primary Residence)	180
HELOC (Investor)	180
CREF2	120
** Business loans have a maximum term of 180 months; which may be achieved by limiting the term, or by having a balloon due at 180 months or less.*	

XII. SAFE Act Compliance

A. Overview

1. The Secure and Fair Enforcement for Mortgage Licensing (SAFE) Act's primary goals are to:
    a) Provide more regulatory oversight for the mortgage loan industry.
    b) Enhance consumer protection and accessibility to information.
    c) Reduce mortgage loan fraud.
    d) Provide uniform license application and reporting requirements.
2. The Act specifically prohibits individuals employed by a depository institution from engaging in residential mortgage loan origination without first registering as a mortgage loan originator (MLO) and obtaining a unique identifier.
    a) The unique identifier will enable consumer access to an individual MLO's profile stored in the Nationwide Licensing System and Registry (NMLS), which includes:
        (1) Any publicly available information.
        (2) Any state mortgage licenses held (active or inactive).
        (3) Employment history.
        (4) Publicly adjudicated disciplinary and enforcement actions.
    b) The registration must remain current as long as the MLO is performing loan origination duties.
    c) The Act also prescribes specific duties for both the depository institution and individual mortgage loan originators.
3. An individual is considered a mortgage loan originator if they take residential mortgage loan applications and offer or negotiate the terms of the loan in exchange for compensation. Individuals only performing administrative or clerical tasks related to the loan (including making an underwriting decision or modifying terms of an existing loan as part of the credit union's loss mitigation efforts) are not considered MLOs.
4. Under the SAFE Act, only residential mortgage loans used for personal, family or household uses are covered and include:
    a) First mortgages.
    b) Second mortgages.
    c) Home equity lines of credit.
    d) Refinances.
    e) Reverse mortgages.
    f) Land purchased for the construction of a residence.
5. The SAFE Act was enacted as part of the Housing and Economic Recovery Act of 2008 and is implemented under Part 761 of NCUA's Rules & Regulations.

B. Policy Statement

1. It is the policy of Syracuse Cooperative Federal Credit Union to comply with the requirements of the Secure and Fair Enforcement for Mortgage Licensing Act (SAFE Act) and the implementing regulations of the statute, by requiring any credit union employee who acts in the capacity of a residential mortgage loan originator to both maintain a current registration with the Nationwide Mortgage Licensing System and Registry (NMLS) and adhere to Cooperative Federal's written policy and procedures.

C. Guidelines and Implementation

1. The Treasurer/CEO will be responsible for:
    a) The initial registry of the credit union, including providing the credit union's Research Statistics Supervision Discount (RSSD) ID (984995).
    b) Acting as the primary point of contact and a system administrator, along with the Lending Manager.
    c) Reviewing the criminal history background reports on employees received from the FBI through the Registry.
        (1) This responsibility may be delegated to the Assistant Treasurer.
    d) Taking appropriate action consistent with applicable law and rules and credit union policy.
        (1) This responsibility may be delegated to the Assistant Treasurer.
    e) Maintaining records of these reports and documenting any action taken.
        (1) This responsibility may be delegated to the Assistant Treasurer.
    f) Monitoring compliance with registration requirements, renewal requirements, and internal procedures by reviewing the records and tracking systems maintained by the Lending Manager at least annually.
        (1) This responsibility may be delegated to the Assistant Treasurer.
    g) Ensuring that any third party with which the credit union has arrangements related to mortgage origination has policies and procedures that comply with the SAFE Act, including appropriate licensing and/or registration of individuals acting as mortgage loan originators.

        (1) This is a shared responsibility between the Treasurer/CEO and the Lending Manager.

2. The Lending Manager will be responsible for:
    a) Identifying which employees of the credit union are required to be registered mortgage loan originators.
    b) Informing them of the registration and renewal requirements.
    c) Instructing them on how to comply with the requirements and procedures.
    d) Ensuring employees are registered within 60 days of employment.
    e) Assuring that licenses are renewed on an annual basis during the required period of November 1 and December 31.
    f) Verifying the accuracy and completeness of each employee's registration, updates, and renewals.
        (1) This responsibility may be delegated to the Assistant Treasurer.
        (2) This will be accomplished by confirming that the information supplied to the Registry corresponds to the information contained in the credit union's personnel records. This information may include:
            (a) Identifying information such as name (including nicknames and former names).
            (b) Home and business address.
            (c) Date of employment.
            (d) Contact information (including phone and email).
            (e) Social security number.
            (f) Gender.
            (g) Date and place of birth.
            (h) Financial services employment history.
            (i) Any related civil actions, arbitrations or regulatory actions.
    g) Confirming that Cooperative Federal's registration is renewed annually and updated within 30 days of when an individual ceases to be an employee of the credit union and/or when any other registration data changes.
    h) Ensuring that any third party with which the credit union has arrangements related to mortgage origination has policies and procedures that comply with the SAFE Act, including appropriate licensing and/or registration of individuals acting as mortgage loan originators.

(1) This is a shared responsibility between the Treasurer/CEO and the Lending Manager.

3. The Supervisory Committee will be responsible for:
    a) Conducting an independent testing of the credit union's policies and procedures for compliance with the SAFE Act on an annual basis.
4. Copies of the credit union's and employee's initial registration, renewals and/or updates will be maintained in a compliance file and will be considered in effect upon receipt of the Registry confirmation of the request.
5. The credit union will make the unique identifier(s) of its registered mortgage loan originator(s) available to its regulator/insurer, members, and other consumers in a variety of manners and methods (verbal and written). Mortgage loan originators will provide their unique identifier upon request, at the time of the initial communication with a member/consumer enquiring about a mortgage loan and in all subsequent written communications such as commitment letters, good faith estimates and disclosure statements.

XIII. Manufactured Home Loans with ROC-USA Loss Mitigation

A. Single Family "Welcome Home Loans" Program

1. Eligible Borrower Use
   a) The borrower may use the loan to purchase or refinance his/her primary residence.
      (1) When deciding to refinance, a borrower may choose a cash-out refinance to pay for rehabilitation.
   b) The borrower may have non-resident co-borrowers or cosigners.
2. Eligible Properties
   a) Single- and double-wide manufactured homes in approved Resident Owned Communities (ROCs).
   b) There is no limit on the age of the home.
3. Maximum Loan Amount
   a) $150,000.
4. Loan Terms
   a) 5 to 20 years.
5. Interest Rate
   a) 7.75% fixed rate.

B. Loan Underwriting

1. Maximum Loan-to-Value ratio:
   a) Up to 95% of the lesser of the purchase price or appraisal with at least 2% of loan amount from the borrower(s) own funds.
      (1) Down payment assistance, subsidy programs, and seller assistance are permitted.
   b) Up to 95% for the refinance of an existing mortgage.
   c) Up to 85% for cash out for rehabilitation refinances.
   d) Loan LTV maximums may exceed 95% for credit worthy applicant(s), and the borrower can finance closing costs with at least 2% of loan amount from borrower funds.
2. Mortgage Insurance
   a) No insurance is required.
3. Minimum FICO Score
   a) No minimum score FICO is required, but a potential borrower's credit history will be reviewed. Applicants whose mid-FICO score is less than 620 will have lower DTI ratio allowance. If there are multiple borrowers, the mid-FICO score of the lowest FICO-scored borrower will be used.
4. Alternative Credit Considered

a) Alternative credit verification may be considered, including direct verification of on-time rental or mortgage payments, utilities, phone and other obligations.

5. Maximum Debt to Income (DTI) Ratio
    a) For applicants with FICO scores at or over 620, the maximum DTI ratio is 31/42%.
    b) For applicants with a FICO score under 620, the maximum DTI ratio is 29/40%.
    c) The credit union will manually calculate the front end ratio, as FSP only calculates the back end ratio. Include the loan payment, monthly “lot rent” to the MH Park, homeowners insurance and flood insurance (if any) in the front end ratio.
    d) Back end debt ratio may be exceeded if there are compensating factors with Loan Manager or Treasurer approval.
6. Appraisal
    a) Applicants requesting a loan amount over $15,000 must be accompanied by an appraisal from DataComp.
    b) The credit union may require appraisals for loans under this amount when other underwriting weaknesses exist.
    c) All Manufactured Homes built before June 15, 1976 must be accompanied by an appraisal from DataComp, without regard for loan amount.
    d) The applicant must pay for the appraisal, which can be financed by the loan at closing.
    e) New units purchased from a reputable dealer may have value based on sales price with verification provided by the NADA New Manufactured Home Price Report.
    f) Units with loan amounts under $15,000 may be valued using the NADA Manufactured Home Value Report.
7. Disclosures
    a) A good faith estimate of closing costs will be provided on the date the application is submitted and three days before closing.

C. Loan Fees

1. The following costs are ***estimates***.
2. At Application
    a) Non-refundable Application Fee: $50.00
    b) Deposit for Appraisal: $365,00
    c) Credit Report Fee (per Person): $5.00
3. At Closing
    a) 1.00% Origination Fee: $250 and up

(1) This cost may be financed

b) Flood Zone Search and Certification: $25.00

(1) The credit union will order the flood insurance search and certification with the life of loan audit. The fee for the life of loan audit ($3) is the credit union's expense and is not charged to the borrower.

c) Appraisal: $365.00

d) Lien Filing: $40.00

e) UCC-1 Searches ($25 fee per search): $100.00

(1) UCC1 searches do not have to be done on a brand new manufactured home from the dealer. UCC1 searches must be done on each and all of the current owners of the MH for both re-sales, and refinances. A second search must be done on the day of the closing to make sure there are no surprise liens.

f) Escrow for Insurance Required

(1) 1/6 of Annual Homeowners Insurance Premium for a purchase, or number of months to renewal dates plus two months for a refinance.

g) Flood Insurance, if necessary

h) Homeowners Insurance Policy paid for one year for purchase, with 2 months remaining for renewal overlap.

i) Escrow for Flood Insurance, if necessary.

D. ROC-USA Loss Mitigation for Loan Pool

1. ROC-USA will provide loss mitigation of 25% of the total pool of up to $1,000,000 (Phase 1) loans used to finance manufactured home loans in ROCs (Resident Owned Communities) in New York State. ROC-USA will leave funds on deposit in an account with Cooperative Federal as security for this pool of loans to limit losses to Cooperative Federal from this lending program. ROC-USA will replenish this account as needed and according to the terms of the Agreement with Cooperative Federal.

XIV. Business Lending

A. Overview

1. Cooperative Federal offers the following classifications of business loans:
    a) Business Purpose Loans
    b) Commercial Loans
    c) Construction and Development Loans
    d) Member Business Loans (MBLs)
2. All business lending will be limited to qualified members for the purposes set forth in the guidelines of this policy.
3. Any exceptions made to this loan policy will be approved by the CEO and will be monitored accordingly.

B. Mission and Strategic Priorities

1. Cooperative Federal will have these priorities in business lending, consistent with its mission, strategy and capacity:
    a) Microbusiness
        (1) Providing loans to start, sustain, and grow 'microbusinesses' is an important part of efforts to revitalize the local economy and overcome poverty.
        (2) Meeting the borrowing needs of very small and undercapitalized businesses is a priority.
        (3) The Board recognizes that microbusiness loans to one borrower or group of associated borrowers can, and often does, exceed the threshold for NCUA's MBL category.
            (a) This threshold is arbitrary, outdated, and was imposed on credit unions by the banking lobby.
    b) Loans to Cooperatives and Nonprofit Organizations
        (1) A strategic and mission priority is lending to worker, consumer and housing cooperatives, land-trusts, resident owned communities, neighborhood associations, and nonprofit organizations.
        (2) These organizations can play a vital role in reinvesting in the local economy, building a cooperative economy, and providing social capital to rebuild community.
    c) Multifamily Rental Properties
        (1) Another strategic priority is lending to responsible landlords or nonprofits secured by one to four family dwellings.
        (2) Such lending helps to create and maintain affordable housing options in Syracuse.
    d) Owner Occupied Small Commercial Properties

(1) Reviving the use of small commercial properties, occupied by member-owned businesses or nonprofits, is a key part of neighborhood based development strategy.

e) In partnership with the Business Opportunity Fund, the credit union will prioritize business lending to business that meet the following descriptions:

(1) Businesses in low-income counties.

(a) Especially, cities with less than 80% of the area's median income:

(i) Syracuse.

(ii) Fulton.

(iii) Oswego.

(2) Business where the principal business owner is a minority, refugee, immigrant, or has been unable to obtain credit from conventional financial institutions based on discriminatory practices.

C. Trade Area

1. The credit union will operate within the trade area defined in its policy and as necessary to reach the priorities defined it is mission.We will have the following ranked geographical priorities for business lending:
   a) The credit union will actively promote sound business lending in the city of Syracuse as part of its community development efforts.
   b) The credit union will generally focus business loans to members' businesses that operate primarily in Onondaga County.
2. The credit union will, in cooperation with NYS Empire State Development, make business loans outside Onondaga County, prioritizing the following four counties:
   a) Cayuga.
   b) Cortland.
   c) Madison.
   d) Oswego.
3. In participation with other eligible partners or when the circumstances are judged by lending and financial management as good business, with low risk, with reasonable ability to monitor the loan, and in the best interests of the credit union and members the credit union will also make loans to small and micro businesses in its secondary target market which includes the counties of:
   a) Cayuga.
   b) Chemung.
   c) Cortland.

d) Madison.
e) Oneida.
f) Onondaga.
g) Oswego.
h) Schuyler.
i) Seneca.
j) Tioga.
k) Tompkins.

4. Business Loan Connection seeks to scale-up the credit union's collective loan deployment and fill service gaps throughout the above 11-county area.

D. Authority

1. The Board of Directors
   a) The Board has ultimate responsibility for the level of risk assumed by the credit union.
   b) The Board will approve the credit union's overall business lending strategy that addresses the level and nature of exposure acceptable to the credit union.
      (1) This will include evaluating resources to ensure staffing levels are appropriate for the level and complexity of the portfolio, understanding and remaining informed on the level of risk in the credit union's portfolio and establishing a suitable pricing model that integrates the credit union's overall asset liability management (ALM) program.
2. The Lending Staff
   a) The lending staff will be responsible for:
      (1) Implementing procedures and controls to effectively adhere to and monitor compliance with established lending policies and strategies.
      (2) Periodically reviewing information that identifies and quantifies the nature and level of risk based on the credit union's activities and borrowing relationships.
      (3) Adjusting strategies and policies to respond to changes in market conditions
      (4) Regularly reporting information to the Board.
      (5) Obtaining updated appraisals or collateral valuation when a loan or project is impaired or when market conditions are deemed to have deteriorated.
      (6) Regularly evaluating the degree of correlation between related business sectors and establishing internal lending

guidelines and concentration limits to control the credit union's overall risk exposure.

(7) Developing appropriate strategies for managing concentration levels by identifying specific adverse market conditions and creating feasible contingency plans to reduce or mitigate concentrations such as loan participations and whole loan sales.

E. Reports to the Board

1. Management will provide the Board with detailed reports of Commercial loans on a quarterly basis including:
   a) Past due delinquency report.
   b) Collection actions taken.
   c) Concentrations of business credit.
   d) Classified Business Loans.
      (1) Business loans will be classified in accordance with the credit union's guidelines.
      (2) In particular, classification is based on factors not limited to the delinquency.
      (3) Management is expected to obtain periodic financial statements and classify loans when businesses experience troubled cash flows.
      (4) In addition, management will classify loans with inadequate documentation and analysis.

F. Loan Officer Qualifications and Experience

1. Experience
   a) Such personnel will have underwriting and processing experience for the type of commercial lending in which the credit union is engaged.
   b) Experience should include overseeing and evaluating the performance of a commercial loan portfolio including rating and quantifying risk, and experience conducting collection and loss mitigation activities for the types of commercial lending in which the credit union is engaged.
   c) In order to ensure personnel have the appropriate experience, the credit union will utilize internal training and development, hiring qualified individuals with existing experience or utilizing the services of an outside party (e.g., a CUSO or other qualified third party).
2. Third Party Requirements

a) When using a third party to meet the experience requirement associated with qualified lending personnel, the following conditions will be met:
    (1) The third-party will not be affiliated or have a contractual relationship with the borrower or any associated borrowers.
    (2) The decision to grant a loan resides with the credit union.
    (3) The credit union staff exercises ongoing oversight over the third-party regularly by evaluating the quality of work.
    (4) The third-party arrangement complies with applicable regulation.

3. Loan Approval
    a) The credit union will ensure that loan approval authority is granted to employees with appropriate experience and proficiency in evaluating and understanding commercial loan risk.

G. Risk Management

1. Business Credit Risk Assessment
    a) The credit union will perform a credit risk assessment to identify potential concentrations by stratifying the portfolio into segments that have common risk characteristics or sensitivities to economic, financial or business developments.
    b) Concentrations will be by loan type, industry, collateral, geographic area, individual or associational group of borrowers, business lines, etc.
2. Business Credit Risk Ratings
    a) The credit union will perform a credit risk assessment to identify potential concentrations by stratifying the portfolio into segments that have common risk characteristics or sensitivities to economic, financial or business developments.
    b) Concentrations will be by loan type, industry, collateral, geographic area, individual or associational group of borrowers, business lines, etc.
    c) See the Commercial Loan Risk Rating policy for more information.
3. Loan Participation Risk Management
    a) The credit union will perform due diligence over the ongoing servicing at least annually, and will develop trigger points for action with originators when the loans do not perform in accordance with the loan documents (i.e. missing financial statements, noncompliance to loan covenants).
    b) See the Participation Loan policy for more information.

4. Market Analysis
    a) The credit union will periodically perform a market analysis for the various types of loans and geographic areas represented in its portfolio.
    b) The credit union will also perform a market analysis prior to entering new markets, pursuing new lending activities, and/or expanding into existing markets.
        (1) The credit union will obtain market information from sources such as:
            (a) Published research data, such as the census.
            (b) Government agencies.
            (c) Real estate appraisers and agents.
            (d) Information maintained by the property taxing authority.
            (e) Community development groups.
5. Portfolio Stress Testing and Sensitivity Analysis
    a) The credit union will perform portfolio level stress tests or sensitivity analysis, as a part of its ALM plan, to quantify the impact of changing economic conditions on asset quality, earnings and net worth.
    b) The credit union will also consider the sensitivity of portfolio segments with common risk characteristics to potential market conditions (e.g., loan type, collateral, geographic area, individual or associational group of borrowers, business lines, etc.).
6. Allowance Funding
    a) The credit union will ensure that the Allowance for Loan and Lease Losses (ALLL) is adequately funded in accordance with its ALLL policy.
    b) See the Allowance for Loan policy for more information.
7. Maintenance of Updated Financial and Analytic Information
    a) The credit union will maintain the borrowers' most recent financial statements, cash flow statements, rent rolls, guarantor personal statements (if applicable), tax return data, and other income performance information for all business loans including loan participations.
        (1) As real estate market conditions change, management will consider the continued relevance of appraisals performed during high growth periods, and update appraisal reports as necessary.

b) The credit union will also conduct periodic property inspections to ensure the collateral condition does not adversely impact the value.
c) See the Commercial Loan Monitoring policy for more information.

H. Definitions

1. Associated Borrower
   a) Any other person or entity who shares ownership, investment, or other pecuniary interest in a business or commercial endeavor with the borrower.
   b) There are exceptions for separate debts of such persons in the NCUA regulation that are included in this policy for partnerships, joint ventures, and associations. [See the NCUA Examiners Guide for a more comprehensive explanation.]
2. Business Purpose Loan
   a) All loans whose proceeds are used for a business purpose, even if excluded from the definition of Commercial or Member Business Loans, are referred to as "business purpose loans."
3. Consumer, Worker, or Community Cooperative
   a) Any cooperative organization that is eligible for a Cooperative Development Loan/Mortgage because it fulfills the credit union's goal of fostering cooperation through the development of cooperatively organized enterprise, service, culture, education or other community activities.
   b) The following principles should be followed, in general, by all cooperative community organizations that apply for cooperative development loans:
      (1) The organization must be democratic in its decision-making processes, with each member having only one vote.
         (a) Direct or representative democracy may be used.
         (b) Part-time workers may have part of a vote in workers cooperatives.
         (c) Potential members may have a reasonable trial period without vote or membership.
      (2) A limited return on capital invested in the cooperative (no more than the minimum commercial rate).
         (a) This means that the cooperative is not organized on the basis of profit-making.
         (b) In workers' cooperatives, compensation should be made primarily for work, not on the basis of capital invested.

(3) In organizations other than workers' cooperatives, worker self-management may be within policy parameters decided by membership constituent.

(4) Any surpluses are returned to members on the basis of patronage/consumption in consumer cooperatives (lower prices, or patronage dividend); labor in workers' cooperatives; or spending of such surplus for social purposes or education for cooperation.

(5) Membership is available to all those who regularly & fully participate in the activities of members.

   (a) Membership should not be restricted in any way which discriminates by any irrelevant criteria, or results in the exploitation of anyone's labor or participation.

   (b) Ownership should be broadly based relative to the type of cooperative.

(6) The organization must foster cooperation through cooperative processes, cooperative education, and mutual aid and cooperation among cooperatives.

(7) Cooperatives must not discriminate on the basis of race, creed, sex, age or sexual orientation.

4. Control
   a) A person or entity directly or indirectly, or acting through or together with one or more persons or entities that meets at least one of the following descriptions:

      (1) Owns, controls, or has the power to vote 25% or more of any class of voting securities of another person or entity.

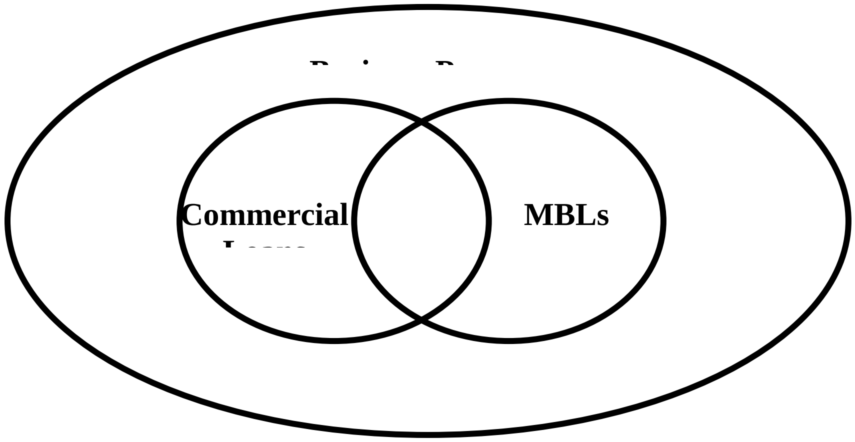
      (2) Controls, in any manner, the election of a majority of the directors, trustees, or other persons exercising similar functions of another person or entity.

      (3) Has the power to exercise a controlling influence over the management or policies of another person or entity.

5. Residential Property
   a) A house, condominium unit, cooperative unit, manufactured home (whether completed or under construction), or unimproved land zoned for one to four family residential use.
   b) A boat or motorhome is not residential property, even if used as a primary residence or timeshare property.

I. Classification of Business Purpose Loans

1. Below is a graphic depicting the relationship between Business Purpose, Commercial, and Member Business Loans:



2. Business Purpose Loan
   a) A business-related loan is a general term for all loans given out for a business purpose.
   b) Business purpose loans usually refers to those that do not fit the more specific definitions of a Commercial Loan or MBL.
      (1) These loans are often small loans that do not meet the definition of a commercial loan or MBL simply because they are less than $50,000.
3. Commercial Loan
   a) Any loan, line of credit, letter of credit (including any unfunded commitments), and any interest a credit union obtains in such loans made by another lender, to individuals, sole proprietorships, partnerships, corporations, or other business enterprises for commercial, industrial, agricultural, or professional purposes.
   b) Commercial loans are not for personal expenditure purposes.
   c) The following loans are excluded from the Commercial loan definition:
      (1) Loans made by one Federally Insured Credit Union (FICU) to another FICU.
      (2) Loans made by a FICU to a Credit Union Service Organization (CUSO).
      (3) Loans secured by a One to Four Family Residential Property (whether or not it is the borrower's primary residence).
      (4) Loans fully secured by shares in the credit union making the extension of credit or deposits in other financial intuitions.

(5) Loans secured by a vehicle manufactured for household use.

(6) Loans that would otherwise meet the definition, but when aggregated (outstanding balances plus unfunded commitments), less any portion secured by shares in a credit union to a borrower or an associated borrower, equal less than $50,000.

4. Construction and Development Loan
   a) Any financing arrangement to enable the borrower to acquire property or rights to property, including land or structures, with the intent to construct or renovate an income-producing property, such as residential housing for rental or sale, or a commercial building, such as may be used for commercial agricultural, industrial or other similar purposes.
   b) Also, a financing arrangement for the construction, major expansion, or renovation of the property types referenced in policy.
5. Member Business Loan (MBL)
   a) In general, MBLs are all Commercial Loans except the following, which are not considered MBLs and are not counted toward the credit union's aggregate member business lending limit:
      (1) Any loan in which a federal or state agency fully insures repayment, fully guarantees repayment, or provides an advance commitment to purchase the loan in full.
      (2) Any non-member commercial loan or non-member participation interest in a commercial loan made by another lender, provided the credit union acquired the non-member loans and participation interests in compliance with all relevant laws and regulations.
      (3) Any loan that is fully secured by a lien on a one to four family dwelling.
   b) The following loans are MBLs that do not qualify as commercial loans and are counted toward the credit union's aggregate member business lending limit:
      (1) Loans secured by a vehicle manufactured for household use that will be used for a commercial, corporate, or other business investment property or venture, or agricultural purposes if the outstanding aggregate net member business loan balance is $50,000 or greater.
6. The following table lists ***examples*** of Business Purpose, Commercial, and Member Business Loans:

	MBL	Commercial
Business Purpose Loans		
Loan fully secured by a 1- to 4- family residential property (**borrower's primary residence**)	No	No
Business loan with aggregate net member business loan balance less than $50,000	No	No
Commercial loan **fully secured by shares** in the credit union making the extension of credit or deposits in other financial institutions	No	No
MBLs (loans that count towards the statutory cap, but are not commercial loans subject to safety/soundness provisions):		
Member business loan secured by a 1- to 4- family residential property (**not the borrower's primary residence**)	Yes	No
Member business loan secured by a vehicle manufactured for household use (unless used to purchase fleet vehicles or vehicles to carry fare-paying passengers)	Yes	No
Commercial Loans (loans that are subject to safety/soundness provisions, but are not MBLs and do not count toward the statutory cap):		
Commercial loan in which a federal or state agency (or its political subdivision) fully insures repayment, fully guarantees repayment, or provides an advance commitment to purchase the loan in full	No	Yes
Non-member commercial loan or non-member participation interest in a commercial loan made by another lender	No	Yes

J. Loan Types

1. The credit union offers the following types of business purpose loans, refer to the Classification of Business Purpose Loans section for more information of classifying loans:
    a) Business purpose loans that are fully secured by shares in the credit union.

b) Business purpose personal loans.
c) Business purpose residential mortgages.
d) Business purpose HELOC.
e) Microenterprise loans.
f) Government guaranteed loans.
g) Business vehicle loans.
h) Business equipment loans.
i) Commercial property mortgage.
j) Investor HELOC
k) Investment property mortgage.
l) Cooperative development loans.
m) Cooperative development mortgage.
n) Community Development Financial Institution (CDFI) loans.
o) Participation commercial loans.
p) Bridge loans to state-funded nonprofits after state commitment.
q) Construction and development loans.

2. Business Purpose Loans that are Fully Secured by Shares in the Credit Union
   a) Only cleared funds can be used as collateral in share secured loans.
   b) Business purpose loans are not limited by the usual funds availability rules and must be fully cleared.
   c) The loan officer should consider the source of the funds and verify funds when in question.
   d) There is no maximum amount for a share secured loan.
   e) The maximum term for a share secured loan is 20 years.
   f) The funds securing the loan must be held for the duration of the loan.
      (1) Members may only withdraw funds from pledged accounts up to the balance of the loan, except for funds securing a line of credit or revolving credit where the funds must remain up to the maximum available credit.
   g) If the funds used to secure the loan are owned by a member other than the borrower, the owning member must sign as owner of collateral on both the note and disclosure.
   h) Share secured loans may be denied if there are Federal or State levies on the credit report.
   i) The rate of interest on share secured loans shall be 3.95% above the rate of the shares securing the loan.
   j) Share secured loans are generally made with an adjustable interest rate feature to allow for changes in dividend rates on shares.

Exceptions to the adjustable rate feature are made for the following types of loans:

(1) Short-term loans, up to six months.
(2) Loans secured by shares that do not earn dividends (Omega Shares).
(3) Loans secured by certificates with the term of the certificate about equal or shorter than the term of the loan.
(4) Combined collateral loans where the shares are a small part of the collateral.

3. Business Purpose Personal Loans
   a) The maximum loan amount is $20,000.
   b) This type of loan may be treated as a personal loan for required documents and collateral.
   c) The terms and standards for these loans are comparable to personal loans, including secured and unsecured loans and lines of credit.
   d) Often these loans use non-business income to qualify.
   e) Additional information, documentation and analysis may be necessary, based on the judgment of the business loan officer.
   f) New business income or speculated income is not generally used to qualify.
      (1) To consider any such income, two business loan officers must have a high level of confidence in the business plan, cash-flow analysis and projections if there is a suitable cosigner, suitable collateral or guarantees, or for loans with a maximum amount of $10,000.
   g) New business expenses or anticipated losses, however, shall be included when analyzing the borrower’s capacity to repay.
   h) Due to the nature and/or size of these loans, they do not usually require a commercial note, financial updates, or monitoring, based on the judgment of the business loan officer.
4. Business Purpose Residential Mortgages (member’s primary residence)
   a) Maximum loan amount and LTV shall be the same as the credit union’s regular residential loans.
   b) This type of loan may be treated as a regular residential mortgage loan for required documents and collateral.
   c) The terms and standards for these loans are comparable to residential mortgages.
   d) Additional information, documentation and analysis may be necessary, based on the judgment of the business loan officer.
   e) New business income or speculated income is not used to qualify.

f) New business expenses or anticipated losses, however, shall be included when analyzing the borrower's capacity to repay.
g) Due to the nature of these loans, they do not usually require a commercial note, financial updates, or monitoring, based on the judgment of the business loan officer.

5. Business Purpose HELOC (member's primary residence)
   a) Maximum loan amount and CLTV shall be the same as the credit union's regular residential HELOC loans.
      (1) Maximum amount: $200,000.
      (2) Maximum CLTV: 75% without adjustment
   b) This type of loan may be treated as a regular home equity loan for required documents and collateral.
   c) The terms and standards for these loans are comparable to HELOCs.
   d) Additional information, documentation and analysis may be necessary, based on the judgment of the business loan officer.
   e) New business income or speculated income is not used to qualify.
   f) New business expenses or anticipated losses, however, shall be included when analyzing the borrower's capacity to repay.
   g) Due to the nature and/or size of these loans, they do not usually require a commercial note, financial updates, or monitoring, based on the judgment of the business loan officer.
6. Microenterprise Loans
   a) The maximum loan amount is $35,000.
   b) This type of loan may use reduced or alternative documents, based on the judgment of the business loan officer.
   c) New business income or anticipated income may be used to qualify [to the extent such anticipated income is judged likely] if there is a suitable cosigner, suitable collateral or guarantees, or for loans with a maximum amount of $20,000.
   d) New business expenses or anticipated losses **should** be included when analyzing the borrower's capacity to repay.
   e) If there is adequate risk mitigation (for example, guarantees, collateral, cosigners, asset, attachable outside income), micro-enterprise loans may not require a commercial note, financial updates, or monitoring, based on the judgment of the business loan officer.
7. Government Guaranteed Loans
   a) Loans in which the repayment is fully guaranteed by, or where there is an advance commitment to purchase in full by any agency

of the federal government or of a state or any of its political subdivisions.

b) These loans use terms and standards of the agency providing the guarantee or the commitment to purchase.

c) Loans that are partially guaranteed as above are also subject to the credit union’s standards, documents and requirements.

d) The unguaranteed portion shall not exceed $50,000, or $100,000 for loans secured by equity in real estate.

8. Business Vehicle Loan
   a) The maximum loan amount is $75,000.
   b) The standards, documentation, collateral requirements, terms and conditions for these loans follow all business lending guidelines.
   c) These loans, unless under $30,000, should have a commercial note with business covenants, and unless under $50,000 periodic financial updates, and monitoring.
   d) Maximum LTV shall not exceed 80%.
      (1) An exception to this LTV limit is made when the collateral is a typical noncommercial vehicle with good marketability, like a pickup truck.
      (2) In this case, regular “consumer” vehicle collateral standards shall apply.
9. Business Equipment Loan
   a) The maximum loan amount is $50,000.
   b) The standards, documentation, collateral requirements, terms and conditions for these loans follow all business lending guidelines.
   c) These loans, unless under $10,000, should have a commercial note with business covenants, periodic financial updates, and monitoring.
   d) Maximum LTV shall not exceed 80%.
10. Commercial Property Mortgage (15 year maximum term or balloon)
   a) The maximum loan amount is $200,000, or $350,000 with participation.
   b) Commercial property purchase or refinance where the borrower has a demonstrated commitment to positive community development.
   c) The standards, documentation, collateral requirements, terms and conditions for these loans follow all business lending guidelines.
   d) These loans, unless under $10,000, should have a commercial note with business covenants, periodic financial updates, and monitoring.

   e) Maximum LTV shall not exceed 80%, unless mortgage insurance covers the remaining amount.
   f) Maximum LTV may be determined by the risk profile of the borrower and market conditions.
      (1) In a weak market, an LTV of 65% may be an appropriate limit.
      (2) Additional caution should be used with unique properties or those with limited resale potential.
         (a) For these properties an LTV of 50% may be appropriate if all other factors support the loan.

11. Investor HELOC (non-owner occupied residential investment property)
   a) The maximum loan amount is $200,000.
   b) Residential one- to four- family properties, where the borrower has a demonstrated commitment to positive community development.
   c) The standards, documentation, collateral requirements, terms and conditions for these loans follow all business lending guidelines.
   d) Cash out is limited to repairs and renovation; and debt consolidation when in the interest of the credit union.
   e) These loans, unless under $5,000, should have a commercial note with business covenants, periodic financial updates, and monitoring.
   f) Maximum CLTV shall not exceed 75%, or 80% if Cooperative Federal has the first mortgage.
12. Investment Property Mortgage (15 year maximum term or balloon)
   a) Residential one- to four- family properties, where the borrower has a demonstrated commitment to positive community development.
   b) The maximum loan amount is $200,000.
   c) The standards, documentation, collateral requirements, terms and conditions for these loans follow all business lending guidelines.
   d) These loans, unless under $5,000, should have a commercial note with business covenants, periodic financial updates, and monitoring.
   e) Maximum LTV shall not exceed 80%, unless mortgage insurance covers the remaining amount.
   f) Maximum LTV may be determined by the risk profile of the borrower.
13. Cooperative Development Loan, approved 2/14/83
   a) The maximum loan amount is $100,000.
   b) For consumer, worker, or community cooperatives meeting the credit union's definition.

c) The standards, documentation, collateral requirements, terms and conditions for these loans follow all business lending guidelines.
d) These loans, unless under $10,000, should have a commercial note with business covenants, periodic financial updates, and monitoring.
e) Maximum LTV shall not exceed 80%.

14. Cooperative Development Mortgage
    a) The maximum loan amount is $300,000.
    b) For consumer, worker or community cooperatives meeting our definition.
    c) The standards, documentation, collateral requirements, terms and conditions for these loans follow all business lending guidelines.
    d) These loans, unless under $10,000, should have a commercial note with business covenants, periodic financial updates, and monitoring.
    e) Maximum LTV shall not exceed 80%, unless mortgage insurance, shares, or other collateral covers the remaining amount.
15. Community Development Financial Institution (CDFI) Loans
    a) The maximum loan amount is $100,000.
    b) This loan is to provide loan capital for local Community Development Financial Institutions.
    c) The standards, documentation, collateral requirements, terms and conditions for these loans follow all business lending guidelines.
    d) Established CDFIs with significant assets may have collateral requirements waived up to the greater of $100,000 or 2.5% of our net worth.
        (1) The current rate for this loan is set at a 3.00% interest rate.
16. Participation Commercial Loans
    a) Loans that the credit union makes in conjunction with others.
    b) These loans must meet all the credit union’s standards and the standards of the other parties.
        (1) See the Loan Participations policy for more information.
17. Bridge Loan to State-Funded Nonprofits After State Commitment
    a) The maximum loan amount is $50,000, unless proceeds can be assigned or other security is provided.
    b) The standards, documentation, collateral requirements, terms and conditions for these loans follow all business lending guidelines.
    c) These loans, unless under $10,000, should have a commercial note with business covenants, periodic financial updates, and monitoring.

d) Maximum LTV shall not exceed 80%, unless proceeds can be assigned.

18. Construction & Development Loans
    a) The credit union will ensure collateral values associated with the construction/development project are properly determined and established.
        (1) Collateral value is the lesser of the project's:
            (a) "Cost to Complete" - the sum of all qualifying costs necessary to complete a construction project and documented in an approved construction budget, or
            (b) "Prospective Market Value" - the market value opinion determined by an independent appraiser in compliance with the relevant standards set forth in the Uniform Standards of Professional Appraisal Practice.
    b) Qualified personnel will conduct a review and approval of any line item construction budget prior to closing the loan.
    c) The credit union has a requisition and loan disbursement process.
        (1) Disbursement or release of funds occurs only after on-site inspections, documented by qualified personnel, certifying that requisitioned work for payment has been satisfactorily completed and remaining funds available to be disbursed from the loan is sufficient to complete the project.
        (2) Before disbursement, the credit union confirms that no intervening liens have been filed.

K. New Loan Types

1. This section lists the types of business purpose loans offered by the credit union.
    a) The different types are organized by whether they are generally business purpose, Commercial, or Member Business Loans.
        (1) Keep in mind the minimum $50,000 balance requirement to be classified as either a Commercial Loan or MBL.
        (2) When making a loan, be sure to classify it correctly using the criteria explained above.
    b) Management is authorized to make additional loan products available with similar risk profiles or with special risk mitigation, such as:
        (1) Dedicated loan loss reserves.
        (2) Guarantees.
        (3) Dedicated loan funds.

(4) Partially or fully securing deposits.

c) Business plans are required, unless waived by the Lending Manager or CEO, but may be scaled to the business, the loan type, and the purpose.

d) Note that loan maximums for each MBL is subject to the aggregate MBL portfolio limits.

L. Asset Mix

1. The maximum amount of credit union assets in relation to net worth that will be invested in Commercial and MBLs by category or type of loan is as follows:

Percent of:	Total Assets	Net Worth
Commercial Lines of Credit	100%	10%
Secured Commercial Loans	275%	40%
Unsecured Commercial Loans	50%	10%
Commercial Credit Cards	50%	10%
Total Commercial Loans and Lines of Credit*	275%	10%
Total Business Purpose Loans	375%	
Maximum MBL Participations Purchased from One Source	100%	100%

M. Statutory MBL Cap

1. Cooperative Federal is **exempt** from the MBL cap limitation because it is a Community Development Financial Institutions (CDFIs).

N. Documentation

1. The required documentation for all business loans is as follows:
   a) Written application.
   b) Recent credit report.
   c) Appropriate documentation for collateral.
2. Each request for an extension of credit or an increase in an existing loan or line of credit will be supported by the following documentation:
   a) Balance sheet.
   b) Cash flow analysis.
   c) Income statement.
   d) Tax data.

e) Leveraging analysis.
f) Comparison with industry average.
g) Business plan.
h) Financial statements for the individual borrower and his or her business.
   (1) The credit union prefers CPA prepared or compiled financial statements if available.
   (2) The credit union will review statement quality and will verify documentation is sufficient to support an accurate financial analysis and risk assessment.
i) Personal and business tax returns and supporting documentation.
j) Sources and uses of funds; detailed schedules of real estate, partnership investments, securities owned, and notes receivable, when possible; and any other appropriate documentation.
k) Projections when historic performance does not support projected debt payments, supported by reasonable rationale and at a minimum, a projected balance sheet and income and expense statement.

O. Periodic Updating

1. The credit union requires periodic updating of financial statements, tax returns, and related required loan documentation.

P. Collateral Requirements

1. In general, the collateral securing a business loan must:
   a) Be commensurate with the level of risk associated with the size and type of the loan.
   b) Be sufficient to ensure adequate loan balance protection along with appropriate risk sharing with borrower and principal(s).
   c) Have loan documentation with mitigating factors to offset the relevant risk, if the loan is not secured by collateral.
2. Securing Collateral for Commercial Loans and MBLs
   a) For loans secured by real property, the credit union will follow the same steps to secure the loan as it does for home equity loans.
   b) For loans secured by personal property, the credit union will follow the same steps to secure the loan as it follows for a consumer loan secured by that type of personal property.
3. Documentation for Loans Secured by Real Property
   a) The required documentation includes:
      (1) Completed appraisal report.

(a) Appraisal reports must be prepared for the credit union by a qualified appraiser within 120 days of loan application.
(b) Reports must also include pictures and rental data for property in the same general area.

(2) Clear title policy issued by a title company.
(3) Proof of owner's insurance with loss payable to the credit union.
(4) Deed of trust, recording, and closing documents.
(5) Evidence of flood insurance, if applicable.
(6) Proof of balance of first mortgage, if applicable.

4. Personal Guarantee
   a) The credit union may require the full and unconditional personal guarantee from the principal(s) who have a controlling interest in the borrowing entity.
   b) If a personal guarantee is not required, the credit union will document the loan file with mitigating factors that sufficiently offset the relevant risk.
5. Loan to Value (LTV) Ratio
   a) In terms of items of collateral, LTV ratio means refers to:

$$\frac{\left(\begin{array}{c}\text{the Aggregate Amount of All Sums}\\ \text{Borrowed and Secured by that Collateral*}\end{array}\right)}{\text{the Current Collateral Value}}$$

** including outstanding balances plus any unfunded commitment or line of credit from another lender that is senior to the credit union's position.*

   b) The following table shows the maximum LTV limits by loan category:

Type of Loan	**Maximum LTV**
Business Purpose Loans that are Fully Secured by Shares in the Credit Union	100%
Business Purpose Personal Loans	100%**
Business Purpose Residential Mortgages	80%

Business Purpose HELOC	75%*, unless Cooperative Federal owns the first mortgage (80%*) or exceptional circumstances
Microenterprise Loans	Up to 100% with caution
Government Guaranteed Loans	100%
Business Vehicle Loans	80%**
Business Equipment Loans.	80%
Commercial Property Mortgage	80%, unless mortgage insurance or other mitigation covers the remaining amount
Investor HELOC	75%*, unless Cooperative Federal own the first mortgage, in which case it is 80%*
Investment Property Mortgage	80%, unless mortgage insurance or other mitigation covers the remaining amount
Cooperative Development Loans	80% unless other mitigation covers the remaining amount
Cooperative Development Mortgage	80%, unless mortgage insurance, shares, or collateral covers the remaining amount
Community Development Financial Institution (CDFI) Loans	100%
Participation Commercial Loans	80% unless other mitigation covers the remaining amount
Bridge Loans to State-Funded Nonprofits after State Commitment	80%, unless proceeds can be assigned

Construction and development loans.	70% unless mortgage insurance or other mitigation covers the remaining amount
** CLTV ratio* ***Exceptions are possible based on other factors*	

6. Reevaluation
    a) The credit union will reevaluate the value and marketability of the collateral in accordance with its Commercial Loan Monitoring policy.
    b) The credit union will work with its auditors to determine a process for depreciating the collateral.

Q. Determination and Notice of Flood Hazards

1. Compliance
    a) The credit union will comply with NCUA Part 760 regarding the determination of loans in areas having special flood hazards.
2. Determination
    a) For all loans made, increased, extended or renewed that are secured by a building located or to be located in a special flood hazard area, the credit union will complete the standard flood hazard determination form developed by the Administrator of the Federal Emergency Management Agency (FEMA).
    b) This applies to loan originations, extensions, refinances, and renewals.
    c) The credit union will retain a copy of the completed form for as long as it owns the loan.
3. Fee
    a) The credit union may charge a reasonable fee for determining whether the building securing the loan is, or will be located, in a special flood hazard area.
    b) The portion of the cost for the life-of-loan flood zone monitoring will be disclosed as a finance charge pursuant to Regulation Z.
4. Notice
    a) If the building securing the loan is in a special flood hazard area, the credit union must:
        (1) Notify the borrower and the loan servicer of the special flood hazard within a reasonable time before completion of the transaction, the requirement for the purchase of flood insurance, whether flood insurance coverage is available from the National Flood Insurance Program, and whether

federal disaster relief assistance may be available in the event of flooding.

(a) The credit union will retain a written receipt by the borrower and the loan servicer of this notice for as long as it owns the loan.

(b) Notice may be provided to the servicer electronically.

(2) Notify the Administrator of FEMA, or their designee, of the loan servicer.

(a) To ensure that the insurance policy is maintained in full force, the credit union will send this notice to the insurance carrier that issued the insurance policy so that the mortgagee endorsement can be updated.

(b) The credit union will notify the Administrator of FEMA of any change in the servicer of a loan within sixty (60) days after the effective date of the change.

R. Flood Insurance

1. The credit union will not make a loan secured by a building, on a permanent foundation, that is located in a special flood hazard area for which flood insurance is available, unless the building is covered by flood insurance for the term of the loan.
    a) This applies to all originations, extensions, refinances, and renewals of loans over $5,000 or with a repayment term greater than a year.
2. The credit union is not required to obtain flood insurance for a structure (used for personal, family or household purposes) that is a part of a residential property, but detached from the primary residential structure and does not serve as a residence.
3. The credit union will determine whether flood insurance is required and promptly notify prospective borrowers of the need to acquire flood insurance within 45 days, at the borrower’s expense.
4. Term
    a) The borrower must maintain flood insurance for the term of the loan, unless flood map revisions determine that the underlying collateral is no longer in a designated flood hazard area.
5. Coverage
    a) The policy amount must cover the loan amount or the maximum amount available under the National Flood Insurance Program, whichever is less.

6. Escrow
    a) The credit union is not required to escrow for loans secured by residential improved real estate or a mobile home that is used as collateral for a business, commercial or agricultural purpose.
7. Forced Placement
    a) If the borrower fails to provide evidence of flood insurance within 45 days of notification, the credit union will purchase flood insurance for borrower at borrower's expense.
    b) If the borrower subsequently obtains sufficient flood insurance coverage, within 30 days of receipt of confirmation, the credit union will notify the insurance provider to terminate any insurance purchased by the credit union and refund to the borrower all premiums and fees paid by the borrower during the time both the borrower’s flood insurance and the credit union-paid flood insurance were in effect.
8. Records
    a) The credit union will maintain records documenting the method used to determine the need for flood insurance and notices sent to borrowers.

S. Loans to One Borrower

1. The aggregate amount of commercial loans to any one member or group of associated members will not exceed the greater of either:
    a) 15% of the credit union's net worth, or
    b) $100,000.
2. An additional 10% of the credit union’s net worth is permissible if the amount that exceeds the credit union’s 15% limit is fully secured at all times with a perfected security interest by readily marketable collateral.
3. The credit union can exclude any insured or guaranteed portion of a commercial loan made through a program in which a federal or state agency insures repayment, guarantees repayment, or provides an advance commitment to purchase the loan in full.

T. Underwriting Standards and Analysis of Borrower's Ability to Repay

1. The borrower must meet the credit union's general credit standards.
2. The credit union will maintain underwriting guidelines commensurate with the size, scope and complexity of its commercial loan portfolio.
3. In addition, loan officers will thoroughly analyze the borrower's ability to repay by addressing the entire cash flow picture and the following underwriting standards:

a) Personal financial analysis necessary to evaluate financial trends and condition of the borrower, including analysis of liquidity, leverage, asset validity, and cash flow.
b) Business analysis, including analysis of cash flow, asset validity, liquidity, leverage, and management.
c) Industry analysis, including but not limited to analysis of industry, competition, and peer group.
d) Due diligence of the principal(s) to determine whether any related interests may have a negative impact or place undue burden on the borrower and related interests with regard to meeting the debt obligations with the Credit Union.
e) Identification of special concerns that may affect a borrower's cash flow and net worth, such as pending marital dissolution or lavish lifestyle.

U. Interest Rates and Maturities

1. The CEO determines risk rating factors that determine appropriate interest rates and maturities for Commercial and MBLs.
2. The Financial Review Committee (Nitpickers) will periodically review the factors used to set interest rates and maturities for commercial and MBLs.
3. For more information on pricing, see the Business Loan Interest Rate Sheet.

V. Loan Monitoring

1. The credit union monitors Business Purpose using the reports and procedures for loans generally.
2. Commercial Loans and MBLs will be segregated from all other loans.
3. Refer to the Commercial Loan Monitoring policy for more information.

W. Loan Servicing

1. The credit union services such loans using its usual servicing facilities.

X. Follow-Up Procedures

1. The credit union follows up on such loans using its usual follow-up procedures.
2. The credit union collects on defaulted loans pursuant to its standard collection policies and guidelines.

Y. Disclosure

1. The credit union will disclose the number and aggregate dollar amount of Commercial Loans to credit union members at the annual meeting.

Z. Commercial Loan Workouts

1. The credit union will develop and maintain a ready network of legal, appraisal, real estate brokerage and property management professionals to handle prospective workouts.

2. Refer to the Workout Loans policy for more information on:
    a) Repayment plans.
    b) Temporary reductions of payment.
    c) Loan refinancing.
    d) Loan re-aging.
    e) Loan extension.
    f) Loan deferral.
    g) Debt Consolidation Loans.
    h) Skip payments.
    i) Loan collateralization.
    j) Loan rewrites.
    k) Forbearance.
    l) Make-whole pre-foreclosure sales.
    m) Deeds in lieu of foreclosure.
    n) Short sales.
    o) Short pay or refinances.
    p) Troubled Debt Restructure (TDR).

AA. Prohibited Business and Commercial Loans

1. No business or commercial loans will be granted to:
    a) Any senior management employee directly or indirectly involved in the credit union's commercial loan underwriting, servicing and collection process and any of their immediate family members.
    b) Any member meeting the definition of an associated borrower with respect to an employee or immediate family member listed above.
    c) Any compensated member of the Board of Directors, unless approved by the Board.
        (1) Said Director must recuse himself or herself from the decision-making process.
2. Equity Kickers and Joint Ventures
    a) The credit union shall not grant business or commercial loans where it or its senior management employees receives an amount tied to the profit or sale of the business or commercial endeavor for which the loan is made.
3. MBLs with a term of more than 15 years.
4. Loans secured by floor plan liens.
5. Loans that are illegal or finance illegal enterprises.
6. Loans to individuals who are not credit union members.
7. Loans that violate applicable State or Federal laws or NCUA regulations.
8. Loans secured by household goods, jewelry, antiques, art works, etc. unless it is in the possession of the credit union.

9. Loans whose collateral is contested, unclear, or subject to another claim (except for real property second mortgages).
10. Loans secured by future payments on judgments or legal settlements in litigation.
11. Loans to a borrower whose integrity is questionable or against whom there is a substantial judgment or tax liens outstanding.
12. No credit will be extended to any member who has caused us a loss unless the loss has been or is being repaid.
    a) This policy shall apply whether the loss was caused by bankruptcy or otherwise.

BB. Less Desirable Loans

1. Loans that fit this category are considered to have a higher risk factor than normal, and while not prohibited, such loan applicants should show decided strengths that are noted in the loan officer narrative:
    a) Loans to businesses that do not maintain their main transaction accounts with the credit union (exceptions for cause which must be documented).
    b) Loans to businesses which are undercapitalized.
    c) One-shot loans where no long-term relationship will be developed.
    d) Loans to unprofitable businesses.
    e) Non-amortizing loans.
2. In no event will a loan be granted where the difference between collateral market value and loan balance exceeds the unsecured loan limit.

CC. Provisionally Prohibited MBLs

1. Loans that fit this category are usually considered Less Desirable because of a higher risk factor than normal, but when the credit union's net worth ratio is below 7.0%, these loans are Provisionally Prohibited unless specific loss mitigation funds or guarantees are in place:
    a) Commercial Loans to individuals or businesses on which the credit union has previously had a charge off, or on which it has had to initiate legal action to force collection.
    b) Commercial Loans for a term longer than the economic or depreciable life of the assets used as security.
    c) Floor planning loans.
    d) MBLs secured by marketable securities.
    e) MBLs for new construction.

XV. Commercial Loan Risk Rating

A. Overview

1. The credit union will rate Commercial Loans on a continual and ongoing basis.
2. The rating system will provide for the review of the financial position of the borrower, as well as the overall performance of commercial real estate collateral.
3. The credit union will utilize loan history, updated financial data, the most current property operating statements, and the most current rent rolls to determine the loan risk rating.
4. Each loan over $50,000 shall be assigned a risk code by the Business Loan Officer at the time of application.
    a) This code shall be reviewed periodically.
5. On all Commercial Loans with an outstanding balance over $50,000, ratings shall be performed annually at the time of financial review or as deemed necessary by management.
6. A loan may be reviewed prior to its financial review period dependent upon repayment and risk factors ascertained by management.
7. Other factors that may be considered in rating include:
    a) Overall credit union account relationship.
    b) Analysis and financial trends.
    c) Length of term.
    d) Certainty of repayment source.
    e) Marketability of collateral.
    f) Deposits in the credit union.
    g) Past due taxes.
    h) Lack of insurance coverage.
    i) Breach of loan covenants.
8. No rating will be assigned without current documentation in the file to support the aspects of the risk classification.
    a) A loan may be placed on the Watch List pending requested documentation.
9. If a loan remains on the watch list for 6 consequent months due to pending documentation, the rating may be changed or downgraded.
    a) This will be based on the impact the requested information has on the overall risk rating the loan.
10. Risk rating is not a hard science and requires interpretation and judgement.

B. Rating Scale

1. The rating system is designed from 1 to 7, with 1 being the highest possible rating and 7 being the lowest negative rating.

2. The following table is a quick description of each rating and the corresponding risk associated with the loan:

Rating	Evaluation of Risk
1	Excellent
2	Satisfactory
3	Pass/Watch
4	Specialized Mention (Criticized Asset)
5	Substandard (Classified Asset)
6	Doubtful (Classified Asset)
7	Loss (Classified Asset)

C. Excellent

1. Credits rated "1" are loans secured by readily marketable collateral within proper advance rates, such as:
    a) Share-secured.
    b) Savings passbook.
    c) Certificates of deposit.
    d) Cash-value of life insurance.
    e) Broadly traded quality stocks and bonds.
    f) Government guaranteed loans.

D. Satisfactory

1. Credits rated "2" are those represented by a satisfactory capacity to pay interest and principal.
2. Most credit union loans (credits) will fall in this category.
3. Characteristics of 2 rated credits might include:
    a) Debt service coverage ratio above 1.20 with positive working capital during the most recent fiscal year.
    b) The borrower has been profitable during the most recent fiscal year with liquidity, leverage, and asset management ratios approximating peer levels.
    c) The LTV is adequate and is at or below NCUA maximum limits.
    d) Personal guarantors, if any, have adequate liquidity and net worth.
    e) Credit history is clear with no serious delinquencies.

f) The borrower has a stable and qualified management team in place, with informal succession plans.
g) The industry may be impacted by negative economic downturns, but has been in business long enough to adequately weather them.
h) The ability to refinance with another financial institution is clear.

E. Pass/Watch

1. Credits risk rated “3” are those made to borrowers which display the same characteristics as those rated Satisfactory, but one or two items require increased management attention.
2. Characteristics of “3” rated credits might include:
   a) Approval is based on projections.
   b) Borrower is a start-up company.
   c) There has been a change in key management personnel.
   d) Borrower is expanding rapidly through acquisitions, introduction of new products, or entering new market areas.
   e) Financial statements are stale making determination of current financial condition difficult.
      (1) Financial statements are considered stale if they are more than 18 months old and tax return extension periods have passed.

F. Special Mention (Criticized Asset)

1. Credit risks rated “4” are special mention assets because there are potential weaknesses that deserve management’s close attention.
   a) If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution’s credit position at some future date.
2. Special mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification. They pose elevated risk, but their weakness does not yet justify a substandard classification.
3. Although a special mention asset has a higher probability of default than a pass asset, its default is not imminent.
4. Special mention is not a compromise between pass and substandard and should not be used to avoid exercising such judgment.
5. A “4” risk rating might be appropriate where one or more of the following circumstances exist:
   a) Debt service coverage ratio is between 1.00 - 1.20 with negative working capital during the most recent fiscal year.
   b) Borrower is unprofitable most recent fiscal year with liquidity, leverage, and asset management ratios approximating peer levels.

c) Borrowers may be experiencing adverse operating trends (declining revenues or margins) or an ill-proportioned balance sheet (e.g., increasing inventory without an increase in sales, high leverage, tight liquidity).
d) LTV is adequate but close to the NCUA maximum limits.
e) Personal guarantors, if any, have limited liquidity and net worth.
f) Credit history shows some delinquencies.
g) Industry may be impacted by negative economic downturns but has not been in business long enough to adequately weather them.
h) Adverse economic or market conditions, such as interest rate increases or the entry of a new competitor, may also support a special mention rating.
i) Nonfinancial reasons for rating a credit exposure special mention include management problems, pending litigation, an ineffective loan agreement or other material structural weakness, and any other significant deviation from prudent lending practices.
j) Borrower would have difficulty refinancing with another financial institution given current financial condition.

G. Doubtful (Classified Asset)

1. An asset classified with a rating of “6” has all the weaknesses inherent in one classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.
2. Doubtful borrowers are usually in default, lack adequate liquidity or capital, and lack the resources necessary to remain an operating entity.
3. Because of high probability of loss, nonaccrual accounting treatment is required for doubtful assets.
4. Any Substandard/Non-Accruing loan which is not adequately protected by collateral should be rated as Doubtful.
5. A doubtful asset has a high probability of total or substantial loss, but because of specific pending events that may strengthen the asset, its classification as loss is deferred.
    a) Pending events can include mergers, acquisitions, liquidations, capital injections, the perfection of liens on additional collateral, the valuation of collateral, and refinancing.
    b) Generally, pending events should be resolved within a relatively short period and the ratings will be adjusted based on the new information.
6. Every effort should be made to confirm specific collateral values or other protection and safeguards against loss.

H. Loss (Classified Asset)

1. Assets with a rating of "7" are considered uncollectible and of such little value that their continuance as bankable assets is not warranted.
2. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be affected in the future.
3. With loss assets, the underlying borrowers are often in bankruptcy, have formally suspended debt repayments, or have otherwise ceased normal business operations.
4. Once an asset is classified as a loss, there is little prospect of collecting either its principal or interest. When access to collateral, rather than the value of the collateral, is a problem, a less severe classification maybe appropriate.
5. However, financial institutions should not maintain an asset on the balance sheet if realizing its value would require long-term litigation or other lengthy recovery efforts. Losses are to be recorded in the period an obligation becomes uncollectible.
6. Typically, examples of loans in which a charge-off may occur are:
   a) The credit union is in process of repossession and there appears to be a likely deficiency.
   b) The collateral securing the loan has been sold and there is an actual deficiency.
   c) The credit union is proceeding with lengthy legal action to collect its balance.
   d) The borrower has left the service area, and cannot be located.
   e) The borrower has filed bankruptcy and the credit union is either in an unsecured, or in a very weak collateral position.

I. Additional Considerations

1. The credit union will follow the below guidelines when risk rating loans:
   a) "Start-Up" type businesses would normally not be rated better than a "3".
      (1) However, strong collateral, cash injection, or strong equity position would positively impact the rating. Each loan will be evaluated on an individual basis.
2. Any loans made based on projections will be rated no better than a "3".
   a) Quarterly statements will be obtained to monitor performance against projections with the risk rating adjusted accordingly.
3. All loans within a single relationship are typically risk rated the same, with some minor exceptions (i.e., those secured by liquid collateral, SBA

guarantee, or portion of loan placed in Doubtful pending collateral valuation, etc…).

4. Loans lacking current financial statements (more than two years old after all extension periods have passed):
   a) Pass/Watch: Paying as agreed and acceptable LTV.
   b) Special Mention: Borrower was delinquent (or has a history of delinquency) and/or secondary support is weak (LTV over regulatory recommended levels).

XVI. Commercial Loan Monitoring

A. Overview

1. Commercial Loans (including applicable MBLs) shall be monitored and reviewed on an ongoing basis to an extent commensurate with the ongoing risk to the credit union.
2. Ongoing monitoring of Commercial Loans has the following main dimensions:
   a) Assuring asset quality for adequate collateral.
   b) Reviewing credit for future loans and lines of credit.
   c) Monitoring Commercial Loans for compliance with loan agreements and covenants, as applicable.
3. NCUA Rules and Regulations §723.6 (g) and strong business practices advice also address the need for Commercial Loan monitoring to analyze future loans and lines of credit.
   a) Such Commercial Loan monitoring shall be appropriate to the size of the credit union and the nature, scope and risk of its Commercial Loan activities.
4. The nature of post-loan monitoring for each particular Commercial Loan will depend upon several factors, such as:
   a) Market conditions.
   b) The loan's purpose.
   c) The size and complexity of the loan.
   d) The borrower's character and capacity to repay.
   e) The likelihood of the need for future loans and lines of credit.
5. Monitoring may include annual financial statements, credit reports, rent rosters, and other data when necessary.
6. There shall be a record kept of loan monitoring activities.
7. Lending staff should have quarterly business loan meetings to review Commercial Loan monitoring and other concerns.
8. Commercial Loan review findings must be communicated to the Treasurer/CEO, the Lending Manager, and the Credit Committee.
9. The Commercial Loan Watch List shall be updated and reported to the Board quarterly.
   a) A designated committee may be in charge of updating the Commercial Loan Watch List and presenting it to the Board.
10. The credit union has a separate monitoring schedules for the One to Three Family Residential Investment Properties (which comprise most of its MBL portfolio) and for other Commercial Loans.

B. Purpose

1. The primary goal of Commercial Loan monitoring is to have an annual independent review of Commercial Loans for compliance and quality assurance.
    a) As a small credit union, it is acceptable to have such reviews done internally by existing staff with the necessary two years of Commercial Loan experience in the kind of business loans being reviewed. [1]
    b) To maintain acceptable independence, the Commercial Loans under review must be reviewed by someone other than the approving Business Loan Officer.
    c) Any Commercial Loan greater than $50,000 will have the annual review conducted by T. Gschwender Associates, or similar qualified vendor.
2. The intent of this policy is to define risk-appropriate monitoring of Commercial Loans by loan characteristics.
    a) This allows the credit union to focus its attention where it will have the most impact.
    b) A maximal review of every Commercial Loan would not be cost effective, making the Commercial Loan program run at a financial loss.

C. Monitoring Financial Statements

1. In general, the frequency of financial statement analysis will be determined for each business borrower at approval and reevaluated at each review based on:
    a) The type of loan and the risks posed by that type
    b) The size of the loan.
    c) The level-of-risk rating.
    d) Loan performance.
    e) Any other relevant factors.
2. Any Commercial Loan of $50,000 or more shall be monitored at least annually.
3. Any Commercial Loan on the watch list shall be monitored at least annually.
4. For Commercial Loans made after February, 2015, loan closing documents require the borrower to provide updated financial information annually.

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[1] Frank Peretore, Esq.; Peretore & Peretore P.C.; May 17, 2011.

5. Financial statement analysis shall calculate debt service coverage ratio and review cash flow.
    a) In Commercial Loan loans over $100,000, and as appropriate to the business type, the analysis may include:
        (1) Inventory turnover.
        (2) Accounts receivable averaging.
        (3) Gross margin.
        (4) Inventory to working capital ratio.
        (5) Cost of sales.
        (6) Annual cycle.
        (7) Current ratio.
        (8) Quick ratio.
        (9) Debt to worth ratios.
        (10) An analysis of leveraging.
        (11) Comparison with industry averages.
6. The credit union will request financial information from Commercial Loan borrowers, including "Legacy Commercial Loans" (loans made before April 25, 2011, where loan closing documents did not require the borrower to provide updated financial information), using the following schedule:
    a) The first request is made using first class mail with address service between October 15 and November 1 of each year.
        (1) Business tax returns are due on October 15, so most small businesses will not have the previous year's returns completed before this date.
    b) A second request is made using first class mail with address service between January 15 and February 1.
        (1) Most small businesses will have their taxes completed by then, even with an extension.
        (2) Note that the IRS has changed its rules to allow an automatic five or six month extension for business returns.
7. Commercial Loan borrowers that have not provided updated financials by January 30 will receive phone calls from the credit union.
8. Commercial Loan businesses that have not provided financials by February 10 will be sent a certified letter demanding the financials to be sent between February 10 and February 25.
    a) This letter will state that the business and borrower(s) will not be granted addition credit, credit advances, or other consideration by the credit union unless updated financial information is provided.

9. Commercial Loans that have not provided updated financial by the end of February should be contacted in person, where feasible, by credit union staff.
10. If Commercial Loans made after February, 2015 do not provide updated financial information by March each year, the credit union will begin assessing the fees or penalties outlined in the loan documents.
11. For any Commercial Loan loans where financial statements are not available, the credit union will look for other indicators of financial distress, including:
    a) Checking taxes on the business property.
    b) Checking taxes on the borrower(s) primary residence.
    c) Visiting the business/rental property for signs of abandonment, vacancy, or significant deferred maintenance.
    d) Reviewing the business and personal accounts for evidence of income.

D. Monitoring Collateral

1. Collateral value and marketability shall be annually reevaluated, with frequency depending upon factors such as:
    a) The nature of the collateral and of the credit union's lien.
    b) LTV.
    c) Volatility in the market.
    d) Perishability.
    e) The condition of the business.
2. Collateral will be reevaluated at least every three years to determine marketability, unless one of the following conditions apply:
    a) This procedure will take place more often for loans with substandard rating.
    b) Real Estate collateral values will be evaluated annually.
3. A report of collateral valuation frequency for all Commercial Loans shall be updated and reported to the Board at least annually.
    a) A designated committee may be in charge of creating this report and presenting it to the Board.
4. In instances where the collateral value is deemed to fall below the outstanding balance of the loan or line of credit, the credit union may:
    a) Request additional collateral.
    b) Ask that the loan be paid down to the value of the collateral.
    c) Make an adjustment to the allowance account for the loss of collateral value
    d) Call the loan, if warranted and in the best interest of the credit union.

E. One to Three Family Residential Investment Property

1. MBLs that are secured by a One to Three Family Residential Investment Property (other than the borrower's residence) shall be subject to the following monitoring:
    a) Property taxes and insurance shall be verified at least annually.
        (1) The credit union has taxes and insurance escrowed on all Commercial Loans secured by residential properties. These loans will be reported as delinquent if escrows are not paid.
        (2) For older Commercial Loans that are secured by such properties without escrows, the credit union will do annual verification by review of tax assessment records and insurance renewal forms.
            (a) If these are not available, the borrower is obligated to provide proof of paid taxes and insurance. Failure to provide such records will make the loan in default.
        (3) On properties that do not have escrows, any Commercial Loans that are in default shall be required to have escrows established, unless there is a compelling reason.
    b) The credit union shall do an exterior inspection of the property.
        (1) If the LTV is 75% or more, this inspection shall be done every two (2) years.
        (2) If the LTV is between 75% and 50%, this inspection shall be done every three (3) years.
        (3) If the LTV is less than 50%, this inspection shall be done every five (5) years.
        (4) However, on loans that are repeatedly delinquent in the previous 12 months, this inspection shall be done at least annually.
        (5) Significant signs of abandonment, no occupancy, or deferred maintenance shall be reported and followed up. If these deficiencies are present, more frequent inspections and a higher level of inspection or assessment shall be considered, as well as other appropriate remedial action.
        (6) The credit union may require more extensive or frequent reviews if a MBL secured by a One to Three Family Residential Investment Property meets any of the following conditions:
            (a) It is in default.

(b) It has an unsatisfactory inspection that is not resolved in a timely manner.
(c) It is repeatedly delinquent.
(d) It is seriously delinquent.

(7) The reasons for requiring or not requiring such reviews shall be recorded in the Commercial Loan review record.

F. Four Family Residential Investment Property

1. MBLs that are secured by a Four Family Residential Investment Property (other than the borrower's residence) shall be subject to the same monitoring as One to Three Family Residential Investment Properties, with one addition requirement.
2. MBLs secured by a Four Family Residential Investment Property must abide by all fire safety regulations required by the state of New York and the city of Syracuse.
   a) The credit union may only offer these loans when it has the capacity to monitor the property for fire code compliance.

G. Other Commercial Loans

1. This section applies to all Commercial Loans not secured by One to Four Family Residential Investment Properties.
2. These Commercial Loans should be monitored annually.
3. The frequency and extent of monitoring should be determined at origination based on:
   a) The type of loan.
   b) Risks posed by the type of loan.
   c) The size of the loan.
   d) LTV.
   e) The level-of-risk rating of the individual loan.
4. At each review, the monitoring requirement shall also be reviewed and adjusted as necessary.
5. Monitoring considerations based on the loan's balance:
   a) Commercial Loans with balances over $100,000 will be reviewed at least annually.
   b) Commercial Loans with balances between $50,000 and $100,000 will be reviewed at least bi-annually.
   c) Commercial Loans with balances under $50,000 will be reviewed according to the other risk factors.
6. Monitoring considerations based on LTV:
   a) Commercial Loans without collateral and with balances over $20,000 will be reviewed on at least a semi-annual basis.

b) Secured Commercial Loans with balances over $50,000 and an LTV over 75% will be reviewed on at least an annual basis.

7. Monitoring considerations based on the type of loan:
   a) Commercial property mortgage Commercial Loans will have an annual review.
      (1) At minimum this will include a review of the borrower's income tax returns, property taxes, and insurance on the subject property.
   b) Commercial Loans that are bridge loans to state-funded nonprofits are monitored closely for contract compliance, with an annual financial review.
   c) Construction & development Commercial Loans are monitored closely, with an annual financial review.
      (1) Once construction is completed, these loans are reclassified as a regular Commercial Loan and are reviewed based upon other criteria that apply.
8. Monitoring considerations based on risk rating and delinquency:
   a) Commercial Loans with a substandard rating are monitored closely, with review at least semi-annually.
   b) Commercial Loans with a rating below substandard are typically monitored closely, monthly or more often.
   c) Commercial Loans with ongoing delinquency or those in default are typically monitored closely, monthly or more often.

XVII. Loan Participations

A. Purpose

1. This section establishes the requirements the credit union must satisfy to purchase a participation in a loan and applies to the purchase of a loan participation where the borrower is either a member or a non-member of the credit union and where a continuing contractual obligation between the seller and the credit union is contemplated.
    a) It does not apply to the purchase of an investment interest in a pool of loans.
2. For the purpose of this section, the following definitions apply:
    a) Associated borrower
        (1) Any borrower with a shared ownership, investment, or other pecuniary interest in a business or commercial endeavor with the borrower.
        (2) This includes guarantors, cosigners, major stakeholders, owners, investors, affiliates and other parties who have influence on the management, control, or operations of the borrower.
    b) Credit union
        (1) Any federal or state-chartered credit union.
    c) Credit union organization
        (1) Any Credit Union Service Organization (CUSO) meeting the requirements of §712 of NCUA Regulations.
        (2) This term does not include trade associations or membership organizations principally composed of credit unions.
    d) Eligible organization
        (1) A credit union, credit union organization, or financial organization.
    e) Financial organization
        (1) Any federally chartered or federally insured financial institution; and any state or federal government agency and its subdivisions.
    f) Loan participation
        (1) A loan where one or more eligible organizations participate pursuant to a written agreement with the originating lender, and the written agreement requires the originating lender's continuing participation throughout the life of the loan.
    g) Originating lender

(1) The participant with which the borrower initially or originally contracts for a loan and who, thereafter or concurrently with the funding of the loan, sells participations to other lenders.

B. Documentation

1. A loan participation agreement must:
   a) Be properly executed by authorized representatives of all parties under applicable law.
   b) Be properly authorized by the federally insured credit union's board of directors or, if the board has so delegated in its policy, a designated committee or senior management official, under the federally insured credit union's bylaws and all applicable law. Authorizations of the credit union’s interests are vested in the Executive Committee or by board resolution.
   c) Be retained in the credit union’s office (original or copies).
   d) Include provisions which, at a minimum, address the following:
      (1) Prior to purchase, the identification of the specific loan participation(s) being purchased, either directly in the agreement or through a document which is incorporated by reference into the agreement.
      (2) The interest that the originating lender will retain in the loan to be participated. If the originating lender is a federal credit union, the retained interest must be at least ten percent of the outstanding balance of the loan through the life of the loan. If the originating lender is any other type of eligible organization, the retained interest must be at least five percent of the outstanding balance of the loan through the life of the loan, unless a higher percentage is required under state law.
      (3) The location and custodian for original loan documents.
      (4) An explanation of the conditions under which parties to the agreement can gain access to financial and other performance information about a loan, the borrower, and the servicer so the parties can monitor the loan.
      (5) An explanation of the duties and responsibilities of the originating lender, servicer, and participants with respect to all aspects of the participation, including servicing, default, foreclosure, collection, and other matters involving the ongoing administration of the loan.

(6) Circumstances and conditions under which participants may replace the servicer.

C. Purchases

1. The credit union may purchase a participation interest in a loan from an eligible organization only if the loan is one the credit union is empowered to grant and the following additional conditions are satisfied:
    a) The purchase complies with all regulatory requirements to the same extent as if the credit union had originated the loan, including, for example, the loans-to-one-borrower provisions in §701.21(c)(5), and §723.8 of the member business loans rule in the NCUA Regulations.
    b) The credit union has executed a written loan participation agreement with the originating lender, and the agreement meets the minimum requirements for a loan participation agreement as required by the lending policy.
    c) The originating lender retains an interest in each participated loan. If the originating lender is a federal credit union, the retained interest must be at least ten percent of the outstanding balance of the loan through the life of the loan. If the originating lender is any other type of eligible organization, the retained interest must be at least 5 percent of the outstanding balance of the loan through the life of the loan, unless a higher percentage is required under applicable state law.
    d) The borrower becomes a member of one of the participating credit unions before the credit union purchases a participation interest in the loan.
    e) The purchase in compliance with:
        (1) The underwriting standards for loans that the credit union participates in by purchase shall be the same underwriting standards that the credit union uses for loans it issues to members that are not being participated. Other underwriting standards may be used if the participating lenders agree to the standards prior to the disbursement of the loan.
        (2) All of the maximum amount limitations as described in the credit union's lending policy.

D. Maximum Limitations

1. The aggregate amount of loan participations that may be purchased from any one originating lender, not to exceed the greater of $5,000,000 or 100

percent of the credit union's net worth, unless this amount is waived by the appropriate regional director.

2. The limit on the aggregate amount of loan participations that may be purchased with respect to a single borrower, or group of associated borrowers, not to exceed 15 percent of the credit union's net worth, unless waived by the appropriate regional director.
3. The limits on the amount of loan participations that may be purchased by each loan type, not to exceed a specified percentage of the credit union's net worth as detailed below:

Asset Class	**Maximum Dollar Amount**	**Maximum Percentage of Net Worth**
Commercial Real Estate	$200,000	100%
Residential Real Estate	$200,000	100%
Business Purpose Non-Real Estate	$50,000	20%
Maximum MBL Participations Purchased from One Source	-	100%

E. Member Participation Sales

1. The credit union may sell, in whole or in part, to any source, eligible obligations of its members, within the limitations of the board of directors' written sale policies, provided:
   a) The Board or Executive Committee approves the sale.
   b) A written agreement and a schedule of the eligible obligations covered by the agreement are retained at the credit union.

XVIII. Collections and Adjustments

A. Overview

1. The purpose of this policy is to set general guidelines for collection efforts, collateral repossession, referring accounts to attorneys or collection agencies, and charging off accounts to the allowance for loan losses.
2. The credit union recognizes that the average member may experience unexpected financial problems that cause that member to become delinquent with the credit union. The credit union believes in the honesty and integrity of its members and will work with a member experiencing a period of difficulty.
3. The credit union will also work to protect the assets of all its members with a fully developed collections program that starts with quality loan policies and is supported by vigorous follow-up on delinquent accounts.
4. Where responsible financial planning is exhibited by the member, satisfactory arrangements can normally be made to accommodate both the member and the credit union.
5. Every consideration should be given to retaining members when collecting loans. The credit union shall always consider the well-being of the member as part of a sound collection policy.
6. Policy and procedures relating to the collection of delinquent loans apply equally to all members.

B. Goals

1. Recognizing that a Community Development Credit Union (CDCU) will experience higher levels of delinquency than other credit unions, the goal of the collections efforts is to keep the credit union's reportable delinquency rate at a percentage below 5.0% of the total loan portfolio.
   a) This target level shall be reviewed and adjusted by the Board.
2. While a higher-than-average delinquency level may be acceptable for a CDCU, a higher loan loss rate is not. The goal of the credit union's collections efforts is to keep the net charge-offs to average loans ratio below the lower of peer average rates or 0.65%.
   a) While the peer ratio fluctuates with economic conditions, the credit union's goal is to minimize ultimate losses.
3. The collection process is also an opportunity to meet the needs of members. Collections should be done in a manner that demonstrates respect for the member, seeks to understand the member's situation, offers financial counseling and education, works to retain members, and strives to build member loyalty. Responsible members who are experiencing temporary difficulties can also be a source of new lending opportunities.

C. Responsibilities

1. The Board is responsible for:
   a) Setting lending and collection policy and goals and for oversight of the collection effort.
   b) Reviewing classified loans at least quarterly.
   c) Delegating the responsibility for late penalty exceptions.
   d) Reducing or canceling interest charges.
   e) Reducing principal amounts in settlement of past-due accounts.
   f) Approving charge-offs and deciding the appropriate allowance for loan losses, unless delegated to the Executive Committee.
2. The Treasurer/CEO, subject to Board confirmation, may:
   a) Act in transacting settlements where safety and recovery of principal is involved.
3. The Treasurer/CEO and Lending Manager share responsibility for:
   a) Coordinating the efforts of the credit union, in accordance with the philosophy and goals outlined in these policies.
   b) Reviewing and adjusting internal collection procedures to take into account the size of the credit union, its changing membership, its ability to reach its collections goals, and its evolving collection staff.
   c) Making day-to-day decisions relating to penalties and exceptions.
   d) Reviewing delinquent loan records each month.
   e) Reporting to the Board with a summary of delinquencies and extraordinary actions taken.
   f) Reviewing and revising all calculations, using best judgement regarding the appropriate classification of loans.
4. Collectors must:
   a) Work under the direction of the Lending Manager and Treasurer/CEO.
   b) Report all actions and recommendations to the Lending Manager.
   c) Review accounts according to review cycles established by the credit union.
   d) Exhaust all possible means of contacting every delinquent member.
   e) Find out why the member has not paid on time and resolve the problem.
   f) Quote correct payoff amounts.
   g) Complete each contact with a commitment by the member to make payments by a specific date.

h) Follow-up promptly and decisively on every promise made by a member.
i) Take careful and accurate notes that will be of future use handling the account.
j) Recommend assigning accounts out for repossession, when appropriate.
k) Recommend for liquidation of collateral, when appropriate.
l) Assign accounts to be sure the collateral is delivered to an appropriate location
m) Refer to the Lending Manager all cases when there is a doubt as to the proper course of action.
n) Review collection expenses.
o) Update non-financial data on the data processing system.
p) Review incoming bills from vendors and then forward to the Lending Manager for final approval before payments.

D. Distribution of Collection Work

1. The Lending Manager will assign sufficient staff, volunteers and outsourced resources to manage delinquency.
    a) To maximize the effectiveness of the credit union's collections, responsibilities for delinquent loans are distributed among collectors.
    b) Collectors often need to work odd hours, such as evenings or weekends, because this is when borrowers tend to be home.
    c) Responsibility for delinquent accounts will be assigned in a manner such that no one collector is responsible for more than 200 accounts.

E. The Role of a Collector

1. A collector plays a critical role at the credit union. Collection results affect credit union income and our approach to borrowers has a large impact on member relations. While a collector's primary responsibility is to collect from members who are not making payments on time, the collector also has other roles and objectives:
    a) Represent the credit union
        (1) A collector must be firm but fair with delinquent members, provide them with assistance in handling their financial responsibilities, display empathy but not necessarily sympathy with their financial difficulties, and finally, remember that he/she/they is constantly an ambassador of the Credit Union and that his/her/their approach to the job

should strengthen member relations with the credit union while protecting its public image.

b) Cost Efficiency

(1) The tools of collection: the telephone call, the letter, skip tracing, repossession and litigation, etc. should be applied in a logical sequence, which provides for the use of stronger tools as delinquency worsens.

(2) Be mindful of the high costs involved in making collection calls so that every second on the telephone can be spent as usefully as possible. Such a systematic approach assures that a creditor will have additional tools if the current approach does not bring the desired results.

F. Triage of Delinquent Accounts

1. To make the most efficient use of the internal collection effort, delinquent loans should be “triaged,” that is, divided into action categories:

a) Internal Collection

(1) Most loans will fall under this category and will be acted on by the collectors using the procedures discussed below in the “Internal Collections Procedures” section.

b) No Action Needed Now

(1) Some loans will not benefit from immediate collection action for some reason, often temporary. To conserve collection resources, collection efforts on these loans should be put on hold.

(2) Collectors should get approval for this status from the Lending Manager.

(3) Examples include:

(a) If a member is known to pay a few days late but never skips a payment, make a note, “Slow pay, under 30.”

(b) If it is known that a member is seriously ill, make a note, “Member ill, contact on DATE.”

(c) If a member has filed for bankruptcy, the collectors should take no action. Make a note: “BANKRUPTCY,” and refer the loan immediately to the Lending Manager.

c) Special Handling

(1) Bankruptcies

(a) All bankruptcies should be forwarded immediately to the Lending Manager who will assess each case and together with the Treasurer/CEO plan a course of action.

(2) Charged Off Loans

(a) Loans that are charged-off are often, but not always, sent for outside collection. Outside collection generally depends on the ability to attach income or assets.

(b) Some delinquent members do not have attachable income or assets and the credit union can usually have better results with internal collections even after charge off.

(3) External Collections:

(a) Loans that need an income execution, judgement, foreclosure, writ of replevin or other legal action are sent to a collection lawyer by the Lending Manager.

(4) Unworkable Loans

(a) Some loans are beyond the tools of the collector. Such loans include those that are being paid through outside collection services and loans that are subject to bankruptcy. Exclude non-workable accounts from regular collection work efforts.

(b) Flag or status non-workable accounts so that they can be readily identified for periodic monitoring rather than active collection efforts.

G. Collections Advice from the NCUA for CDCUs

1. NCUA advises examiners to understand the differences between regular credit unions and CDCUs. Since CDCUs experience higher delinquency rates, part of that advice relates to collections in well managed CDCUs. Here is the NCUA guidance:

   a) To mitigate the higher than average credit risk associated with nontraditional underwriting, a strong collection program is a must. A strong collection program for a CDCU should include the following:

      (1) Quick reaction, within a few days of a missed first payment.

      (2) Documented, repeated contacts with delinquent borrowers.

      (3) Firm, but fair, collection officer.

      (4) Accurate, timely delinquency reports.

      (5) If the borrower does not follow through with a promise to pay, follow up occurs within 48 hours. The collection

officer remains in contact with the borrower, understands the borrower's situation, and expects payment at some point.

(6) Procedures to work with longer-term delinquent borrowers who make regular loan payments and eventually refinance the loan.

(7) Keep in mind, workout loans/troubled debt restructuring cannot be classified as current loans. Under the Generally Accepted Accounting Principles (Statement of Accounting Standards No. 15 and No. 144), these loans are classified as non-performing because payments do not meet the original terms of the loan.

(8) After the borrower demonstrates an ability to repay under the restructured terms, then the credit union can refinance the loan with new loan terms. The financial institution regulatory agencies jointly define the demonstrated ability to repay as making timely, consistent full payments under the restructured terms for six consecutive months.

H. Collections Practices

1. All credit union collections activities must be legal, comply with NCUA Rules and Regulations and all other regulations, and be applied fairly and in a nondiscriminatory manner.
2. Managers should be aware that policies and practices that are not intended to discriminate can still have a discriminatory effect.
3. Credit union collectors shall use all reasonable and legally allowable means to collect delinquent loan payments from borrowers.
    a) Rules for internal collections are less restrictive than external collections.
4. The strategy for collections is designed in consideration of the typical membership characteristics of a designated Low Income Credit Union.
5. The strategy of collection practices include:
    a) Early Contact
        (1) Contact should be made within one or two days of a missed loan payment. For some members, contact before a payment is late can head off delinquency.
    b) Personal Contact
        (1) Phone or personal contact works best and should be emphasized. Send letters and notices as well.
    c) Frequent Contact

(1) Collectors should follow up every two or three days until the delinquent account is resolved. A minimum of two valid collection attempts (telephone call, letter, follow-up with attorney, transfer of funds, etc.) should be made each week for every delinquent borrower.

d) Follow-Up

(1) Collectors should follow up on the commitments a member makes and then breaks. If not, the credit union loses credibility with members and will have more charge-offs.

I. Documentation

1. Record every collection effort on the collections module of the data processing system. This "history" of collection efforts serves several purposes:
   a) Informs another collector who may assume responsibility for a loan of the collection status-to-date.
   b) Helps the Lending Manager when considering recommendations to escalate collection efforts.
   c) Documents employee performance and efforts to collect funds.
   d) Can be used in the credit union's defense if a member accuses the credit union of unacceptable practices.

J. Late Loans

1. A loan is due on the due date and can be considered late on the next day. Loans one day past the due date enter the collections process to give the collector advance notice of loans that may require action in the next few days, following the grace period.
2. All credit union loans have the following grace periods after the due date. If the loan is paid during the grace period, the system will treat the loan payment as if it were made on the due date. A late penalty is charged after the grace period expires.
   a) 7 days for loans and credit lines
   b) 15 days for mortgage loans
3. Review loans entering the collection work stream before the end of the grace period. Look for unusual circumstances or potential systems errors that might be causing the loan to "appear" past due (i.e. automatic transfer or payroll distribution set up incorrectly). Determine if loans are truly past due because of member nonpayment and prepare for collections efforts.
4. The first contact with delinquent borrowers is not required until loans are unpaid past the grace period.

5. Focus collection efforts on loans just becoming past due, within one or two days. Some members will respond to a reminder call before the end of the grace period.
6. Make every effort to elicit from a member a specific promise to make a payment. Anything less than a member's specific promise to repay usually results in more stalling and prolonged delinquency.
   a) Obtain from a delinquent member a promise to pay a specific amount (it must be a satisfactory payment amount, not a nominal gesture like $10) by a specific date.
   b) Note the promise to pay on the collection work card. Note the date by which the member has promised to pay.
   c) Schedule the next follow-up on a loan for the day after the promised pay date. This is a requirement. Promises must be followed up on or delinquent members will believe that the Collections Department is not serious about its efforts to obtain payment.

K. Tools and Techniques

1. While no one will not use all collection tools and techniques at the same time nor at every stage of a delinquency, all of the following should all be considered when the time and circumstances are appropriate:
   a) Telephone calls and messages.
   b) Custom collection letters.
   c) Transfers of credit union shares.
   d) Personal contacts.
   e) Contact with cosigners and coborrowers.
   f) Cross-collateralization.
   g) Repossession.
   h) Foreclosure.
   i) Extensions.
   j) Refinances and workout plans.
   k) Revoke access to open-end credit.
   l) Acceleration of loan payments.
   m) Legal action.
   n) Replevin.
   o) Skip tracing.
   p) Recommend membership expulsion to the Board.
   q) External Collections
   r) Late Penalties

L. Telephone Calls and Messages

1. Objectives of the Call or Message

   a) To determine the reasons for nonpayment and present a plan to resolve the situation.
   b) To establish a firm but practical date, if possible, when payment is to be made.
   c) To determine through appropriate questions and guidance that future payments will be made promptly.
2. The majority of time spent collecting will be on the telephone because it is the most important and widely used collection tool for a number of reasons:
   a) It puts the member at the credit union's direct disposal. The member will have to stop what they are doing to consider their financial situation and the request for payment that you are making.
   b) Questions and requests for action must be dealt with somehow by the member. If approached properly, the credit union most likely will achieve its objective.
   c) Direct communication with the member can give insight into the results to realistically be expected. Fact finding questions, combined with active listening, can give insight.
3. There are some telephone strategies that bring better collection results than others. The credit union will:
   a) Make initial contact with delinquent borrower(s) by telephone, first at the member's home, then at their place of employment. If unsuccessful at these numbers, contact personal references (if such information is available from the original loan application or any other application of the member). Also get the information from any other source available.
   b) If still unable to locate and establish contact with the member, begin "skip tracing" as discussed in Skip Tracing.
4. Collecting accounts using the telephone is a skill that can be learned, developed, and refined with practice. The ability to communicate effectively is key to success, and the credit union employee must be firm, but fair with the borrower. An effective collection call involves eleven steps:
   a) Before the call: Prepare fact-finding questions.
   b) Before the call: Determine your preliminary proposal.
   c) Before the call: Prepare an opening statement.
   d) Identify yourself and the Credit Union.
   e) State the reason for your call.
   f) Pause for member response.

   g) Ask fact-finding questions.
   h) Present your proposal.
   i) Overcome objections.
   j) Obtain commitment from the member.
   k) Close the call.
5. The central portion of any collection call is the action taken following the call itself. Effective follow-up requires close and constant attention.
   a) Note the promise to pay and the date by which the member has promised to pay on the collection system.
   b) Schedule the next follow-up on a loan for the day after the promised pay date.
   c) Promises must be followed up on or delinquent members will believe that the Collections Department is not serious about its efforts to obtain payment.

M. Custom Collection Letters (increasingly assertive)

1. While telephone or personal contact is the preferred method of communicating with members, mailing to members is also useful in the collection process.
2. When communicating by mail, "personalized" form letters instead of system generated notices are preferable. Letters should be reviewed by the Lending Manager, Treasurer/CEO, or Compliance Officer. While the collectors can send letters at any point that a loan is delinquent, non-performing members collection letters, as well as letters to any co-borrower or cosigner, are always sent at 30 days.
3. When sending members letters, the message increases in severity as a loan becomes increasingly delinquent.
4. Letters are based on standard form letters for consistency and compliance in wording. Personalization of the letter is to demonstrate a close relationship, understanding of the member's situation, and concern for their creditworthiness.
5. Mail the past due letters by first class mail with "address service requested." Record of the mailing should be kept in the member's file.
6. Mailings continue to be sent out at least every two weeks unless the member has filed for bankruptcy (after which most communications with the member must cease).
7. Legal Letters, Final Letters, and Collection Letters will be sent at the decision of the Lending Manager.

N. Transferring Available Shares to Make Full or Partial Payments (right of offset)

1. The Treasurer/CEO and Lending Manager are authorized to transfer any or all the member’s shares to the loan when an account is delinquent.
   a) This transfer may be made at any time, but should always be made prior to the transfer of the account to an attorney or collection agency.
2. Use transfers of available shares in the early stages of delinquency.
   a) The chances that funds will be available will diminish with the severity of a loan’s delinquency.
3. Transfer shares from the credit union accounts of primary borrowers and the accounts of cosigners and co-borrowers.
4. Do not take funds from any IRA accounts or Trust accounts.

O. Personal Contacts

1. Direct contact is meeting with the member in whatever way can be readily accomplished.

P. Contact with Cosigners and Co-borrowers

1. Notify cosigners and co-borrowers of the delinquent status of loans when they become 30 days past due.
2. Send the standard co-signer/co-borrower delinquency letters to cosigners and co-borrowers.
3. Use the same collection tools and techniques with cosigners and co-borrowers that one would with primary borrowers.
4. Remind cosigners and co-borrowers that they are equal to primary borrowers in their responsibility to keep loan payments current.

Q. Cross-collateralization

1. Cross-collateralization is when collateral for one loan is also serving as collateral for other loans. Cross-collateralization clauses in our loan agreements make collateral that secures the loan also serve as collateral for loans the credit union has made to the borrower in the past, and may make in the future. This transforms all past, present, and future loans into secured loans even if the credit union requires no additional collateral for any other loan.
2. The clauses do not apply to household goods used as collateral, or to real estate loans secured by the borrower’s dwelling. When closing a loan, always explain cross-collateralization to the member, unless cross collateralization does not apply to the loan.
3. If the security agreement includes a cross-collateralization clause, Reg. Z requires a Truth-in-Lending Act disclosure about the clause in documents for future loans that the clause may secure. According to Reg. Z, the

statement: "Collateral securing other loans with us may also secure this loan," qualifies as a valid disclosure.

a) For open-end loans, the disclosure is not required to appear in any specific place, but it must be included with all the other required initial disclosures.

b) For closed-end loans, the disclosure must appear with the "Fed box."

4. To give cross-collateralization clauses the best chance at securing loans, the credit union must:

a) Avoid labeling a loan as "unsecured" or "signature" in loan documentation and marketing materials.

b) Avoid referring to a loan as "unsecured" when talking with a borrower.

c) If using a cross-collateralization clause to secure a debt with collateral from a previous loan, refer to that specific collateral in the loan documents.

d) Point out the cross-collateralization clause to borrowers, and explain what it means.

e) Note in underwriting files when a loan decision relies on collateral from another loan, secured by a cross-collateralization clause.

f) Avoid relying on cross-collateralization clauses to secure separate debts made for consumer and business purposes, or real estate loans secured by the borrower’s dwelling.

g) Include Truth-in-Lending cross-collateralization disclosures in loan documents.

R. Repossession

1. Repossession of Collateral

a) The credit union may recover collateral or recover from a co-maker at any time a loan is delinquent.

b) Collateral shall normally be recovered if payment has not been made for three months without good cause.

c) Recovery from the co-maker shall normally be instituted within three months of default.

2. Repossession, Storage, and Sale of a Vehicle, Manufactured Home, or Boat

a) A credit union that makes loans on vehicles, manufactured homes or boats requiring titling, is inevitably going to be faced with repossession, regardless of the precautions taken.

(1) Make sure whomever handles repossessions has established experience in repossession procedures.

    b) Refer to the Repossession, Storage, and Sale of a Vehicle, Manufactured Home, or Boat for more information

S. Foreclosure

1. The repossession of real property (land and buildings, etc.) involves a legal process known as Foreclosure.
2. Delinquent mortgages require close monitoring and review by the Lending Manager.
3. Foreclosure may be warranted for a variety of reasons, which may include the collection standards of the mortgage insurance company, the property owner's failure to maintain the property or keep up insurance or tax payments, or the borrower's failure to make scheduled payments.
4. See the Foreclosed and Repossessed Assets Policy for more information

T. Extensions

1. Sometimes it is in the interest of the credit union to extend the term of the loan to make payments more achievable for the member.
2. Flex Loans cannot be extended without voiding the residual value guarantee.

U. Refinance or Workout Plans

1. Sometimes it is in the interest of the credit union to offer reduction of penalties to induce payment by a delinquent member.
2. Full consideration of other options available to the credit union should precede affecting such a settlement.
3. See the Workout Loans Policy for more information.

V. Revoke Access to Open-end Credit (between 31 - 60 days)

1. Revolving lines of credit should be evaluated for revocation once the delinquent account reaches 31 days.
    a) This should normally occur between 31 - 60 days past due.
2. Revocation may occur in conjunction with any default under the Loan Liner plan.
    a) Therefore, a delinquency associated with any consumer loan granted under the Plan may trigger line of credit revocation.
3. Once any line of credit is removed, an adverse action notice must be sent to the member informing them of the revocation and explanation.

W. Acceleration of Loan Payments

1. Sometimes it is in the interest of the credit union to demand the loan payment in full to protect the credit union's assets.

X. Legal Action

1. Sometimes it is in the interest of the credit union pursue legal action, either through lawsuits or small claims courts.

Y. Replevin

1. Replevin is a legal remedy in which a court requires a delinquent to return specific goods.
2. Sometimes replevin is referred to as "claim and delivery."

Z. Skip Tracing

1. A systematic effort will be made to locate the member who moves without giving the credit union a new address.
2. Immediate action is taken on this type of delinquent account since the potential for becoming a serious collection problem is great.

AA. Recommend Membership Expulsion to the Board

1. It is rarely in the interest of the credit union to recommend a member for expulsion, but the Board of Directors may expel a member upon recommendation from the lending staff.

BB. External Collections

1. When an account becomes 90 days delinquent, the account will be reviewed by the Treasurer and Lending Manager to determine whether all collection efforts within the credit union's capability have been made.
2. If no acceptable response is received when the loan is 90 days delinquent, a demand letter should be sent to the member by certified mail expressing:
    a) What he/she must do.
    b) The seriousness of the consequences of continued noncooperation.
    c) A deadline when the matter will be sent to an attorney or collection agency for further action.
3. Accounts deemed uncollectible by the credit union will be turned over to an attorney or collection agency.
4. A member with a delinquent loan shall be responsible for the full cost of collection of the loan, within the limits of law.
5. The collection fee is charged to the member's loan account immediately before sending it for outside collection.

CC. Late Penalties

1. Goals
    a) The credit union charges loan penalties to delinquent members to achieve two major objectives:
        (1) Loan penalties are charged to discourage the late payment of loans, thus minimizing loan delinquency protects the assets of all our members and avoiding the negative consequences to the credit union of a high rate of delinquency or additional charge-offs.
        (2) Late penalties pass the cost of routine collection and other costs of delinquency directly to members who are

behind,and this enables the credit union to offer the lowest feasible rates for members who pay on time.

2. Application:
    a) A member with a delinquent loan shall be responsible for the full cost of collection of the loan, within the limits of law.
    b) A full penalty should only be charged once per month.
        (1) No additional penalty is assessed if only past penalties are due.
    c) Policy and procedures relating to the collection of delinquent loans and waiver of penalties apply equally to all members.
    d) The Board recognizes that day-to-day consideration of waiver/reduction of penalties is determined on a case-by-case basis, seeking the intersection of individual circumstances and the best interests of the credit union.
    e) If a member wishes to appeal the decision of the Treasurer regarding penalties, he or she may appeal to the Board.
3. Calculations
    a) Any late penalty charged will be a minimum of 50 cents.
    b) Late penalties are calculated as follows:
        (1) Real Estate Loans
            (a) If the credit union has not received the full amount of any monthly payment by the end of fifteen (15) calendar days after the date it is due, the borrower(s) will be assessed a late charge.
            (b) The amount of the charge will be 5.00% of the payment due.
            (c) The member must pay this late charge promptly, but only once on each late payment.
        (2) All Other Loans
            (a) If the credit union has not received the full amount of any monthly payment by the end of seven (7)calendar days after the date it is due, the borrower(s) will be assessed a late charge.
            (b) The amount of the charge will be 20% of the interest due.
            (c) The member must pay this late charge promptly, but only once on each late payment.
4. Exceptions
    a) Waiver of Penalties

(1) In the event that a crisis in the member's life causes delinquency, penalties may be waived for a reasonable period of time.
    (a) This would include debilitating illness, the onset of a disability, a job-layoff (non-seasonal) or job termination, extraordinary expenses due to death or illness of an immediate family member, & serious accident.
    (b) Poor planning or irresponsibility on the part of the member does not constitute an emergency.
(2) In such an emergency, late penalties may be waived if the member is doing all of the following:
    (a) Acting responsibly.
    (b) Maintaining contact with credit union.
    (c) Making payments to the extent possible relative to the effect of the crisis.

b) Reduction of Penalties
   (1) If a delinquent member demonstrates renewed responsibility by making regular payments on a loan, the penalty may be reduced.
   (2) Upon the third payment of monthly consecutive full payments on a loan that is still in arrears, the penalty may be reduced to a nominal amount.
   (3) As long as regular monthly full payments are continued, the penalty shall continue at the reduced level.

XIX. Foreclosed and Repossessed Assets

A. Overview

1. The goals of the Foreclosed and Repossessed Assets (FRA) policy are to:
   a) Limit the risks associated with both residential and commercial FRA property.
   b) Protect member assets by acquiring, managing, and selling FRA property at a price that is comparable to its current fair value.
   c) Ensure compliance with applicable laws, regulations, and accounting practices.
2. The repossession of real property (land and buildings, etc.) involves a legal process known as Foreclosure. Foreclosure may be warranted for a variety of reasons, which may include the collection standards of the mortgage insurance company, the property owner's failure to maintain the property or keep up insurance or tax payments, or the borrower's failure to make scheduled payments.
   a) Therefore, delinquent mortgages require close monitoring and review by the Lending Manager.

B. Authority

1. The Board of Directors will:
   a) Have final say in all FRA policy matters and may change or amend any or all of these guidelines by a majority vote.
   b) Delegate the authority for foreclosure to the Treasurer with the advice of the Lending Manager.
      (1) The decision to initiate foreclose shall be made in consideration of the best interests of the credit union.
2. The law firm of Riehlman, Shafer and Shaw (RSS) is designated legal counsel in all foreclosure related matters.
   a) The phone number is as follows:
      (315) 696-6347

   b) The fax number is as follows:
      (315) 696-8918

   c) The mailing address is as follows:
      Riehlman, Shafer and Shaw

      397 Route 281

      P.O. Box 430

      Tully, NY 13159-0430

      Attn.: Meghan Riese

3. The specific roles of the Treasurer and Lending Manager are explained in the Procedures section.

C. Procedures

1. All mortgage loans that are 60 days or more past due are reviewed monthly by the Lending Manager for consideration of foreclosure.
2. Mortgage loans that have mortgage insurance must follow the collection procedures of the PMI company, unless the credit union obtains permission from the PMI company to do otherwise.
    a) The credit union will seek permission to delay foreclosure from the mortgage insurance company whenever the Lending Manager and Treasurer think that foreclosure is not the best course of action to collect the loan.
3. Approved counsel for foreclosures are Riehlman, Shafer and Shaw (RSS). When initiating foreclosure the credit union will provide RSS with the following documentation:
    a) Copy of the Note.
    b) Copy of the Mortgage and Riders.
    c) Copy of the data processing system loan screen showing payoff, interest rate, etc.
    d) A cover letter and RSS referral form.
4. The borrower(s) must be sent a Mortgage Acceleration Letter by RSS in accordance with the terms of the Note and Mortgage.
    a) This notifies the mortgagor that all arrearages must be paid within 30 days or the loan will be accelerated.
5. Upon receipt of the Summons and Complaint, the Treasurer will review and sign off.
6. All foreclosure-related expenses must be approved by the Lending Manager. A copy of each paid bill is retained in the mortgage file.
7. The Treasurer reviews and signs off on the final foreclosure judgment, which includes all principal and interest due, any taxes and liens paid, and all collectible legal expenses.
8. The referee will set a public foreclosure sale date, which usually occurs in the lobby of the County Courthouse.
9. The Treasurer will decide on the credit union’s auction bid price based on a market analysis of the:
    a) Resale value of the property.
    b) Consideration of the upset price.
    c) Estimated deficiency judgment value.
10. RSS will attend the sale, along with the Treasurer, Lending Manager or designated Cooperative Federal employee or official.

11. The property is sold to the highest bidder.
12. A 10% earnest deposit is required at the time of sale with the remaining balance due within 30 days.
13. The sale proceeds are applied to the credit union's judgment balance. If a deficiency balance exists, the credit union may pursue additional legal action to recover it.

D. Authorized Foreclosed and Repossessed Assets (FRA)

1. The credit union may own FRA under the following circumstances:
   a) Purchased at sales under judgments, decrees or mortgages when the property was security for debts previously contracted.
   b) Conveyance in satisfaction of debts previously contracted.
   c) In substance foreclosures, the credit union must treat certain troubled loans secured by real estate as FRA where the borrower has little or no equity and the sale of the property is the only source of repayment.
2. Maximum Amount
   a) The credit union may hold and manage FRA property not to exceed $1,000,000 at any given time.
3. Holding Period
   a) It is the intent of the credit union to sell the property as soon as possible.
4. Property Valuation
   a) The credit union will obtain written property valuations for FRA properties over $100,000.
   b) Independent appraisals by a licensed appraiser shall be obtained for FRA properties over $250,000.
5. Taxes and Insurance
   a) Real property taxes on property subject to foreclosure are to be paid as they come due.
   b) Fire, casualty, and liability insurance shall be purchased by the credit union as soon as possible from approved vendors.
   c) Coverage limits shall be sufficient to ensure the credit union's financial interest in the property.
6. Repairs and Improvements
   a) The credit union may make repairs and improvements to the property to protect its interest before and after the foreclosure takes place.
   b) The credit union will maintain accurate records documenting any repairs and improvements.

E. FRA Management

1. The Board delegates to the Treasurer/CEO the authority to determine on a case-by-case basis whether to:
    a) Cure the default on any prior loans or encumbrances and continue to make the payments or pay the entire prior encumbrance.
    b) Accept a deed in lieu of foreclosure.
    c) Settle or compromise subordinate encumbrances when doing so is in the best interest of the credit union.
2. The Treasurer/CEO or his/her designee will oversee day-to-day property management.
3. If FRA property is rented, the credit union will be responsible for payment of typical expenses associated with property ownership, subject to the terms and considerations of a controlling lease, if any.
4. The Board or a board committee will be informed of all significant aspects.

F. Strategy and Practice

1. Holding FRA property is not a core business function of the credit union.
    a) The goal is to protect member assets by acquiring and managing FRA property until such time as the property can be marketed for sale at a price that is reasonable in relation to its current fair value.
2. Pre-Foreclosure Property Management for Nonperforming Loans
    a) Assigned credit union staff will perform monthly site inspections and will document each visit in a memo to the mortgage file.
        (1) If found abandoned, staff may elect to secure the property to avoid damage and/or premature deterioration.
        (2) Note: It is illegal to evict a lawful tenant or owner prior to taking title to the mortgaged premises.
    b) If the property is secured as above, appropriate credit union staff will determine what on-going maintenance is needed (lawn care, cleaning, etc.) and will contract to complete any required maintenance in a timely fashion.
        (1) The property may be winterized and/or heated as conditions warrant, to minimize damage to the property.
    c) If the property is uninsured, obtain force-placed hazard and liability insurance naming the credit union as the loss-payee.
    d) All costs/expenses thus incurred will be accounted for as "Collections Expense" with appropriate description to identify the mortgaged property.
    e) If the deficiencies are subsequently cured and the mortgage has been restored to a performing status, it is recommended that the

underlying mortgage and property remain under close supervision for a period of up to one year.

G. Foreclosure Stage

1. This stage marks the beginning of formal legal action to foreclose the underlying mortgage and thereby transfer title to the credit union for ultimate disposition and sale. .
    a) Procedures to be performed by the attorney retained for such purposes are dictated by statute and will not be documented herein.
2. This stage ends with the transfer of title at the foreclosure sale either to a qualified buyer or the credit union.
3. During this stage, all activities in this stage must occur under the direct supervision of a Board approved attorney retained for this purpose.
4. Credit union staff is strongly advised to refer all account inquiries to the appropriate attorney.
5. Activities to be conducted during this period include:
    a) Continue monthly site inspections and fully document this activity in the mortgage file.
        (1) If the property is found to be abandoned, the credit union may elect to secure the property in order to preserve its collateral.
        (2) As before, staff is reminded that it is illegal to evict the lawful tenant and/or owner of the mortgaged premises.
    b) Continue a program of maintenance if required.
    c) Request monthly updates from the attorney retained for the foreclosure action and document the appropriate mortgage file.
    d) Credit union staff will contact licensed real estate professionals, as well as others familiar with the appropriate real estate market, to request that sales of comparable properties be reported to the credit union for analysis.
        (1) This activity will assist in the remarketing of the property as well as introduce the credit union to appropriate real estate professionals.
    e) All costs/expenses thus incurred will be accounted for as "Collections Expense" with appropriate description to identify the mortgaged property.

H. Post-Foreclosure Activities

1. These activities begin immediately after the transfer of title from the mortgagor to either a qualified buyer or to the credit union.
2. Should the credit union become the titled owner of the property, these activities end with the disposition and sale to a qualified buyer.

3. Thus, immediately secure the property to include the following:
    a) Change all locks and secure all windows/other access points, consider if an alarm system is warranted.
    b) Winterize the property and/or provide heat, if applicable.
    c) Provide utilities in the credit union's name as required to provide lighting and heat, if applicable.
    d) Notify local law enforcement that the property is vacant and request site inspections, if permitted.
    e) Review status of all existing appraisals/valuations. Obtain a written valuation of the property, if appropriate.
    f) Purchase force-placed hazard and liability insurance naming the credit union as owner of the property.
        (1) If force-placed insurance was previously in force, ensure that a refund is obtained for any unused insurance term.
4. Qualified personnel will inspect the property to determine what repairs and or modifications, if any, would result in the improved marketability of the property.
    a) This analysis must consider a cost/benefit analysis where benefits are estimated based upon improved sale price, reduced carrying costs due to a timely disposition, etc.
5. The appraiser should be consulted due to his/her expertise in this area.
6. Notify appropriate accounting department staff that the credit union has taken title to the property and prepare the following calculation:

Appraised Value

\- Cost of Improvements/Repairs

\- Cost of Estimated Insurance/Taxes (for one year)

\- Cost of Commissions and Legal Fees (estimated 10%)

\- Other Anticipated Costs (If Any)

Net Anticipated Proceeds on Sale

7. Compare the calculated Net Anticipated Proceeds on Sale with the mortgage "book value".
8. The lower value will be taken as the CREO asset value. Accounting staff will make the necessary entries to book the OREO at the lower figure.

   a. Thus, it may be necessary to "write down" the asset from its mortgage book value to the "Net Anticipated Proceeds on Sale" value, utilizing the appropriate charge-off procedure.

9. The credit union will seek up to three (3) Broker's Price Opinions (BPO) from qualified real estate salespersons with experience in the appropriate market, as well as a marketing plan for the sale of the property from each.
   a. The Lending Manager will review each proposal and either select a real estate professional to remarket the property or reject all proposals and seek alternative re-marketing proposals.
   b. Alternatives may include additional sales proposals, auction, private sale, etc.
   c. If a real estate salesperson is selected, the credit union may engage his/her services under a "Exclusive Brokerage" agreement for a period up to 120 days with subsequent renewals allowed at the discretion of the Lending Manager.
   d. The credit union may elect to retain the right to market the property privately without the need to pay a brokerage commission.
10. All expenses incurred in the maintenance, improvement, securitization, or other aspects of real estate ownership will be charged to the appropriate OREO Expense Account with a description of the expense, as well as an appropriate identification of the subject property.
11. Cancel insurance/refunds should be debited to the OREO Expense account.
12. Upon the sale and transfer of title of the subject property to a new owner, the accounting department will prepare the following calculations:

	Sale Price
-	Transfer Costs (Broker Commission, Legal Expenses, etc.)
+/-	Net Pro-rations
	Net Adjusted Proceeds
-	Collection Expenses Incurred
-	OREO Expenses Incurred
	Net Anticipated Proceeds on Sale

13. Compare the "Net Realized from Sale" with the OREO Asset Value (Carrying Value).
    a. Accounting staff will compute the Gain or Loss on Sale of OREO and prepare the appropriate accounting entries to record same.

I. Selling OREO Subject

1. For more information, refer to the OREO policy.
2. The credit union will sell OREO subject to the following guidelines:
    a) The selling price will be based on market comparatives and discounted cash flow analysis.
        (1) If the credit union can rent the property and earn an attractive rate of return, it may list the property at top price which may take a little longer to sell. Property that is declining in value will be sold at a discount.
        (2) If property is sold at a loss, the credit union may turn the account over for collections to recover the loss through a judgment.
        (3) The cost of this type of action could be as much as 50% of the balance owed.
        (4) The Treasurer/CEO will determine whether to pursue litigation.
    b) The credit union will decide whether to sell the property directly or list the property with a realtor on a case-by-case basis.
    c) The notice of sale will be posted in the credit union office.
    d) The credit union will not warranty or guarantee the property or dwelling in any form.
    e) As the property is sold, purchasers will be required to provide their own financing.
        (1) If the purchaser is a credit union member, he/she may have the opportunity to finance the property at the credit union at present rates and terms.
        (2) If the purchaser of the property is a credit union employee, Board Member, or Supervisory Committee Member, the sale will need Board of Directors' approval.
        (3) Notice will be posted in credit union office of all Other Real Estate Owned for sale.
    f) In order to sell some properties, the credit union may need to make a special offer.
        (1) The credit union may offer to carry the financing and offer better terms (these may be different than current loan policies).

(2) At that time the credit union may allow the purchaser to join the credit union.

g) When an OREO is held for a prolonged period of time in relation to normal market sales, usually two years or less, alternative disposal strategies should be considered.

XX. Repossession, Storage, and Sale of a Vehicle, Manufactured Home, or Boat

A. Repossession of a Vehicle, Manufactured Home, or Boat

1. As required by the Title Law, the Department of Motor Vehicles issues a Certificate of Title for 1973 or newer model vehicles; 1995 or newer manufactured homes that are at least 8 feet wide or 40 feet long when transported or 320 square feet when erected on a site; and 1987 or newer model boats that are 14 feet in length or longer, when an Application for Registration and Title or Application for Title is filed with the necessary documents and fees.
2. Before repossessing a vehicle, manufactured home, or boat, make sure:
   a) The member is in default.
   b) The member was sent at least three default notices and given a chance to cure the default before the repossession proceedings are started.
   c) To check the credit union's security interest. Verify that the credit union has proper documentation securing interest in the vehicle, manufactured home, or boat. This can be done through a lien with the Department of Motor Vehicle or through the security agreement on the loan documents.
3. To safely transport the vehicle, manufactured home, or boat, the credit union must use a towing service or purchase a set of transporter plates from the Department of Motor Vehicles.
4. The agency handling the repossession must have a properly executed Power of Attorney authorizing him/her to repossess the vehicle, manufactured home, or boat on the credit union's behalf.
5. If the vehicle, manufactured home, or boat is on private property and the credit union employee is told to leave the property, he/she must. At this point, the credit union can file a suit against the member.
6. Once the credit union takes possession of the vehicle, manufactured home, or boat:
   a) Personally appear at the police agency in the locality where the repossession occurred and notify the police agency of the repossession immediately following the repossession.
   b) Take an inventory on what items of personal property are in the vehicle, manufactured home, or boat. This should be done by two people, and photographs should be taken. Inform the member of the personal property and arrange for him/her to collect it.
   c) Record the odometer reading and take a picture of it, if applicable.

d) Within 24 hours, notify the owner of the vehicle, manufactured home, or boat of such repossession, by providing an Affidavit of Repossession (Exhibit B) either personally or by registered or certified mail, sent to such owner at his/her last known address.
e) Within 72 hours after the repossession, mail to the member a notice of right of redemption (Exhibit A). This notice informs the member of his/her right to redeem the vehicle, manufactured home, or boat and how to payoff his/her debt.

B. Storage of a Repossessed Vehicle, Manufactured Home, or Boat

1. The credit union must store the vehicle, manufactured home, or boat in a safe manner. If the vehicle, manufactured home, or boat is kept on credit union property, be sure to have the proper insurance in case of theft or damage.
2. If storing the vehicle, manufactured home, or boat off credit union property, apply the funds received for the vehicle, manufactured home or boat to the cost of storage.
3. Be sure the credit union sells the vehicle, manufactured home, or boat in a timely manner to minimize storage costs.

C. Sale of a Repossessed Vehicle, Manufactured Home, or Boat

1. The credit union can sell the vehicle, manufactured home, or boat through any of the following types of sales:
   a) Private Sale
      (1) A private sale has no set time or place.
   b) Sealed Bids
      (1) At least two, preferably three, bids should be taken and sale should be to the highest bidder. Keep a record of all bids, their amounts and the bidders. The credit union may close bidding after a reasonable period, regardless of the number of bids, and sell to the highest bidder.
   c) Retail Resellers
      (1) Another option is to place the vehicle, manufactured home, or boat on a retail reseller's lot for resale.
   d) Public Sale
      (1) A public sale is held on a specific date and time and at a designated place. Specify the date, time and place on the sale notice of a repossessed vehicle, manufactured home, or boat when the credit union is reselling the vehicle, manufactured home or boat at a public sale. If the sale date, time and place is canceled, a new notice must be sent out before a new, later sale can be held. The credit union may

purchase the vehicle, manufactured home, or boat at a public sale.

2. The member must be given a notice of sale after repossession and a "reasonable time" before the earliest time of disposition.
    a) This notice must be sent to all debtors and secondary obligors (i.e. guarantors-cosigners).
    b) "Reasonable time" is not defined for consumer goods (i.e. a vehicle), but 10-15 days should be sufficient.
    c) The notice of sale must also include:
        (1) Name of debtor and secured party.
        (2) Description of collateral.
        (3) Method of disposition (private or public sale).
        (4) Time and place of a public sale or the time after which any other disposition, such as private sale, is to be made.
        (5) Description of the liability for a deficiency of the person to whom notification is sent.
        (6) Telephone number from which the amount that must be paid to redeem the collateral is available.
        (7) Telephone number or mailing address from which additional information concerning the disposition and the obligation secured is available.
3. Regardless of the type of sale, the credit union will try to sell the vehicle, manufactured home, or boat in a commercially reasonable manner.
4. Although there is no obligation to advertise the sale, the credit union employee is required to get the highest sale price possible.
    a) Therefore, it is in the best interest of the credit union to notify as many interested individuals (including members) as possible about the pending sale.
5. Revised Article 9 of the Uniform Commercial Code provides a sample notice of disposition for the sale of consumer goods and must be sent to the member and any secondary obligors (Exhibit C).
    a) However, the credit union does not need to send this notice to any other secured parties or lien holders.
6. Credit Union as Seller and Creditor
    a) Under the Federal Trade Commission's (FTC's) "Holder-in-Due-Course" Rule, if the credit union is both the seller and the creditor, the member's consumer credit contract must contain specific language.

b) For example, when the credit union grants a loan to a member to purchase the repossessed vehicle, manufactured home or boat, the following notice must appear in 12-point boldface type:

Any Holder Of This Consumer Credit Contract Is Subject To All Claims And Defenses Which The Debtor Could Assert Against The Seller Of Goods Or Services Obtained Pursuant Hereto Or With The Proceeds Hereof. Recovery Hereunder By The Debtor Shall Not Exceed Amounts Paid By The Debtor Hereunder.

7. Disposition of Proceeds
    a) Once the sale has occurred, the proceeds of the disposition should be applied:
        (1) To expenses incurred in the repossession and sale.
        (2) To satisfy the obligation.
        (3) To satisfy subordinate obligations if an authenticated demand is received prior to the distribution.
8. Deficiency Calculation Notice
    a) If there is a deficiency balance owed to the credit union after the credit union sells the collateral and applies the proceeds from the sale to the loan balance, the credit union must send the member a notice of the deficiency balance and a detailed explanation of how it was calculated (Exhibit D).
    b) This explanation includes:
        (1) The outstanding debt before the disposition, calculated within 35 days before repossession.
        (2) The gross sale proceeds.
        (3) The obligation after deducting sale proceeds.
        (4) The sale and collection expenses added to the debt.
        (5) Any refunds or rebates credited against the debt and not included in the initial calculation of the debt before disposition.
        (6) The balance remaining after accounting for items 1 through 5.

D. After the Sale of the Vehicle, Manufactured Home, or Boat

1. The credit union must inform the new owner the vehicle, manufactured home or boat is sold “as is.”
2. The purchaser must be given a completed Form MV-950, “Affirmation of Repossession and Bill of Sale,” (Exhibit E) Form MV-901, and the previous owner’s title, if available.
    a) If there are any other open perfected liens on the vehicle, manufactured home, or boat and a lien release is not obtained, the

credit union must advise the purchaser of the outstanding lien(s) on the vehicle, manufactured home or boat.

(1) These liens will be carried forward on the purchaser's title at the time of issuance.

3. The credit union must apply the funds to any cost involved in the repossession, and then apply the remainder of the funds to the debt.
   a) If there is any money left over, it belongs to the member.
   b) If there is not enough money to pay off the loan, the member is still responsible for the debt.

XXI. Other Real Estate Owned (OREO) Policy

A. General OREO Policy Statement:

1. The Other Real Estate Owned (OREO) policy is designed to limit the risks associated with OREO property and ensure compliance with applicable laws, regulations, and accounting practices.

B. OREO Management

1. Responsibilities of the Board of Directors
    a) The Board will receive monthly reports on OREO properties, including the following information:
        (1) Borrower Name and Account Number.
        (2) Loan Origination Date.
        (3) Date of Foreclosure.
        (4) Loan Balance.
        (5) Property Address.
        (6) Status of Property Taxes.
        (7) Insurance Status.
        (8) MBL status.
        (9) GL Balance.
        (10) GL Balance History.
        (11) Cost of Repairs to Date.
        (12) Additional Known Repairs Needed and Estimated Cost.
        (13) Estimated Value after Repairs.
        (14) Source & Date of Most Recent Valuation.
        (15) Any potential write-down of value according to GAAP (Generally Accepted Accounting Principles).
        (16) Listed Price.
        (17) Listing Status and Agent.
        (18) Property Management.
        (19) Maintenance Info.
        (20) Whether and how property is secured.
        (21) How long property is for sale and timeframes for other asking prices.
2. The CEO will determine on a case-by-case basis whether to:
    a) Cure the default on any prior loans or encumbrances and continue to make the payments or pay the entire prior encumbrance.
    b) Settle or compromise subordinate encumbrances when doing so is in the best economic interest of the credit union.
3. The credit union will subcontract day-to-day property management to Home HeadQuarters.

a) For properties that Home HeadQuarters cannot manage, such as properties that are in another county, the credit union will contract with another vendor for property management.
b) The Board will be fully informed of all significant aspects of property management as part of a monthly OREO report.

4. The credit union will evict the prior owners of OREO properties as soon as legally possible.
    a) After prior owners have vacated the property, the credit union will do a property inspection.
    b) The credit union may rent the property and/or have someone live on the property.
        (1) It is best to have someone on the property to keep it from being vandalized and to ensure adequate insurance coverage as some insurance companies will not insure against some losses (such as vandalism) if the property is vacant.
    c) If it is not feasible to have someone live on the premises, proper precautions will be taken to prevent loss including but not limited to:
        (1) Disconnecting gas line.
        (2) Shutting off water main and draining all pipes.
        (3) Disconnecting electricity.
        (4) Securing of windows and doors.
        (5) Installing an alarm system, if necessary.

C. Authorized OREO

1. The credit union may own OREO when real property becomes other real estate owned through:
    a) Purchases at sales under judgments, decrees, or mortgages when the property was security for debts previously contracted through the credit union.
    b) Conveyance in satisfaction of debts previously contracted through the credit union.
    c) Purchase to secure debts previously contracted through the credit union.
2. Prior to taking on an OREO, the Collections Manager and CEO will review a property analysis that factors in current property value, outstanding taxes, repairs needed, and cost to sell.
    a) The credit union will seek to minimize losses, when determining whether or not to take on OREO property.
    b) A sample property analysis worksheet is appended to this policy.

D. Holding Period

1. It is the intent of the credit union to sell the property as soon as possible, ideally within one year of acquiring the property.
2. Generally, the credit union shall not retain the property longer than three years, except in unique circumstances.

E. Valuation and Accounting

1. When the credit union takes on an OREO property, the credit union will perform a written valuation within 60 days.
2. The credit union may use the following methods of valuation:
    a) An Automated Valuation Model, such as Freddie Mac Home Value Explorer.
    b) Onondaga County's valuation from its Real Property Tax Services database.
    c) A Broker's Price Opinion (BPO).
    d) An existing appraisal in combination with data regarding fluctuation in home values in the local market since that time.
    e) A full independent appraisal.
3. If not ordering an independent appraisal for a property, the credit union or its designated Property Management company will visit the property and write up notes regarding property condition and necessary repairs, which will be used in the written valuation analysis.
4. Real estate properties acquired through or in lieu of loan foreclosure are initially recorded at fair market value less estimated selling cost at the date of acquisition.
    a) Any write-downs based on the asset's fair market value at the date of acquisition are charged to the allowance for loan losses.
        (1) This adjustment must be performed within 60 days of taking title to the property.
5. After foreclosure, valuations are performed by management at least annually and property held for sale is carried at the lower of the new cost basis or updated fair market value less cost to sell.
6. After a property is sold, the credit union will apply the proceeds to the credit union asset account, offset any current period expenses, and then book either an additional loss or a gain on the sale.

F. Taxes and Insurance

1. Real property taxes on property subject to foreclosure are to be reviewed by the Collections Coordinator.
2. Generally, taxes will be paid as they come due except in cases where sale or disposal of property is imminent.

3. Hazard and liability insurance will be purchased by the credit union as soon as possible.
4. Flood insurance will be maintained on the property in accordance to the National Flood Insurance Reform Act.

G. Repairs and Improvements

1. The credit union may make repairs and improvements to the property to protect its interest before and after the foreclosure takes place.
2. The credit union's bookkeeping staff will maintain records documenting any repairs and improvements as well as maintenance expense.
3. Costs of significant property improvements are capitalized only if the improvements increase the fair market value of the property.
    a) Valuations are performed annually by management, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower of its cost or fair value less cost to sell.

H. Selling OREO

1. Sales Price
    a) The selling price will be based on market comparatives.
    b) If book value is lower than market comparatives, the credit union will consider factors such as the strength of the market and average time to sell in determining whether to lower the selling price below market comparatives.
2. While trying to sell the property, if the credit union can rent the property and earn an attractive rate of return, it may list the property at top price which may take a little longer to sell.
    a) The credit union may also rent the property to a tenant with an agreement to purchase at a later date, given certain conditions.
3. If there is not a purchase agreement in place within six months of listing, the credit union will decrease asking price by 10%.
    a) If there is not a purchase agreement in place within one year, the credit union will re-evaluate the listing agent and/or decrease the asking price again, taking into account recent market comparatives and property condition.
4. The credit union may work with non-profit housing organizations, when selling or improving an OREO property.
    a) For example, non-profit housing organizations may have funds to improve properties in targeted neighborhoods, or may make grants to low-to-moderate income homebuyers.
    b) In those instances, the timeframe for sale may be longer.

c) Plans and timeframes for sale for individual properties will be included in the monthly report to the board.

5. If property is sold at a loss, the credit union may turn the account over for collections to recover the loss through a judgment.
6. The CEO will determine whether to pursue litigation.

I. Real Estate Agents

1. The credit union will decide whether to sell the property directly or list the property with a realtor on a case-by-case basis.

J. Notice of Sale

1. Notice of sale may be posted in the credit union office and/or on its website.

K. Warranties

1. The credit union will not warranty or guarantee the property or dwelling in any form.

L. Financing

1. As property is sold, purchasers will be required to provide their own financing.
2. If the purchaser is a credit union member, he/she may have the opportunity to finance the property at the credit union at present rates and terms.
3. If the purchaser of the property is a credit union employee, Board Member, or Supervisory Committee Member, the sale will need Board of Directors' approval.

M. Special Offers

1. In order to sell some properties, the credit union may need to make a special offer.
2. The credit union may offer to carry the financing and offer better terms (these may be different than current loan policies).
3. The credit union may also make a loan to a nonmember when selling OREO property, and may classify the loan as an account receivable separately from loans to members.

N. Sample Foreclosure Analysis

1. Below is an example of a foreclosure analysis:

Foreclosure Analysis

			Source/Date, Notes
Outstanding Loan Balance, for loan secured by property	$	14,927.35	FSP, 8/2/2013
Back Taxes Owed	$	23,082.92	city is requesting $18,152.54 by 8/27/13 in order to not seize the property
Tax Liens Outstanding	$	11,834.00	Guardian Law
Repairs Needed	$	10,000.00	Ron - guesstimate after reviewing 4/29/13 appraisal/photos
Approximate monthly maintenance cost (include annual taxes if it will take a year to finish repairs and sell)	$	100.00	total estimate, CS
Est. # months needed to make repairs & get on market & sell		7	total estimate, CS
Estimated Sale Price, without repairs	$	38,000.00	4/29/13 appraisal
Estimated Sale Price, with repairs	$	43,000.00	4/29/13 appraisal - added back on the $5k cost to cure adjustment that was made
Attorney's Fees for Foreclosure	$	2,500.00	
Estimate for realtor/lawyer fees		10%	estimate

Option: Sell Immediately			
Estimate - number of months it will take to sell as-is		7	estimate, CS
Carrying cost, based on that time period		700	estimate, CS
Rental Income per month, if any			
Gain (Loss) for Immediate Sale	$	(18,844.27)	

Consider - Staff Time

Option: Repair then Sell		
Cost to Repair then Sell	$	51,210.27
Gain (Loss), estimated, if hold as OREO and repair before sale	$	(24,344.27)

Consider - Staff Time

Consider: Can Home HeadQuarters assist with renovation, if we can put a first-time, income-qualified homebuyer in the property?
Other non-profit partners?

Option: Charge Off Loan/Allow tax sale or seizure		
Gain (Loss), estimated	$	(14,927.35)

XXII. Workout Loans

A. Purpose

1. The credit union recognizes that unforeseen events, such as a prolonged illness, disability, death of family member, loss of employment, layoff or hours reduction, permanent pay cut, or significant increase in household expenses may present a financial hardship that has a serious impact on a borrower(s) ability to meet the agreed upon terms of their loan contract.
2. It is in the best interest of the borrower(s) and their credit standing to secure a more permanent solution for the difficulties presented by these events.
3. It is also in the best interest of the credit union to use appropriate tools to control and reduce loan defaults and the corresponding detrimental impact on earnings and capital.
4. The credit union is willing to work with members who have demonstrated good faith in repaying their debts and who may be experiencing a temporary or long-term change in financial condition.

B. Authority

1. The authority to approve workout loans is delegated to the Treasurer/CEO by the Board.
    a) The Treasurer/CEO may further designate portions of this authority to other staff.
2. Any rate or term concessions that are outside lending guidelines will require approval of the Treasurer/CEO unless otherwise stated in this policy.

C. Documentation

1. Proper documentation of all loan workout remedies will be retained by the credit union and will be in compliance with all applicable rules and regulations, including executed workout loan documents, written justification of workout and approval.
2. Specific documentation needed will vary with the type of workout and classification of the loan.

D. Reporting and Monitoring

1. Tracking and performance monitoring of all loan workouts will be performed by the lending department, with monthly reports distributed to the Treasurer/CEO.
2. Workout loans and troubled debt restructurings are not classified as current loans at origination. Under GAAP (SAS No. 15 and No. 144), these loans are classified as non-performing until the borrower demonstrates an ability to repay under the restructured terms by making

timely, consistent full payments under the restructured terms for 6 consecutive months.

a) Workout loans that are considered non-performing, as above, must be reported as non-performing on the NCUA 5300 (Call Report).

3. Workout loans and troubled debt restructurings are also reported separately on the NCUA 5300 (Call Report).
4. The Treasurer/CEO shall report to the Board on all troubled debt restructurings and workout loans where there is a reduction of interest or principal owed to the credit union.

E. Workout Programs Overview

1. Workout loans are loans that are restructured to resolve problems that are a cause of delinquency in existing loans.
2. A workout loan should protect the interests of the credit union. A loan workout can be considered as part of reaffirmation of debt in a bankruptcy.
3. The workout programs listed below, including blends of the following types, will be offered by the credit union as appropriate to the member's situation and financial capacity. Different approaches are taken in consumer lending, real estate lending and business lending.
4. The following table is a summary of the type of loan to which each workout program can be applied:

An X indicates that the workout program applies to that type of loan.	Repayment Plan	Temporary Reduction of Payments	Loan Refinance	Loan Re-aging	Loan Extension	Loan Deferral	Debt Consolidation Loan	Skip Payments	Loan Collateralization	Loan Rewrite	Forbearance	Make-Whole Pre-Foreclosure Sale	Deed in Lieu of Foreclosure	Short Sale	Short Pay or Short Refinance	Troubled Debt Restructure
Open-End Credit	X	X	X	X			X	X	X	X						X
Closed-End Credit	X	X	X		X	X	X	X	X	X						X
Non-Real Estate Secured Loans	X	X		X	X	X		X								X
Real Estate Loans	X										X	X	X	X	X	X

F. Repayment Plan

1. This is the preferred type of workout plan.
2. The debtor pays a portion of the arrearage and agrees to pay the rest in addition to the regular payment over a period of months. Usually, half of the arrearage plus any legal fees get paid up front with a promise to pay the rest of the arrearage in addition to the regular payment over several months.
3. The Treasurer, Lending Manager, or Senior Loan Officer may approve.

G. Temporary Reduction of Payments

1. A temporary reduction of payments is for a specified short period of time to help members experiencing temporary financial hardship due to death in the family, temporary layoff, or other calamity.
2. Payment schedule may be reduced for up to a 3-month time period.
3. Reduced payment amount must be sufficient to collect accrued interest monthly.
4. Limited to once in 5 years.
5. The Treasurer, Lending Manager, or Senior Loan Officer may approve.

H. Loan Refinance

1. Process a new loan to replace the existing loan with lower monthly payments. A loan refinance is often used when a member has had a reduction in income or an increase in expenses, or in situations where a member has a short time left to pay off the existing debt, but is still making the original high monthly payments.
2. The new debt must meet current rate and maturity standards.
3. The existing loan is paid off with the proceeds of the new loan.
4. No new money is advanced.
5. If the existing loan was delinquent, the new loan is considered as non-performing until six consecutive on-time payments at the new payment amount have been received (this may be before and/or after the refinance).
6. The Treasurer, Lending Manager, or Senior Loan Officer may approve.

I. Loan Re-aging

1. Re-aging is the practice of returning a delinquent, open-end account to current status without collecting the total amount of principal, interest, and fees that are contractually due. Re-aging should only be considered after the member has demonstrated a renewed willingness and ability to pay the loan by submitting six consecutive minimum monthly payments on time or in some circumstances in bankruptcy.
2. The borrower must make three consecutive minimum payments on time or the lump sum equivalent before being re-aged, or in the case of reaffirmation of bankruptcy or in a Chapter 13 bankruptcy when progressing according to plan.
3. The borrower must have capacity to repay future payments on time.
4. The re-aging will be formally documented in the member file and credit union records.
5. A loan should not be re-aged more than once within any 12-month period or twice within any 5-year period.
6. The re-aged balance should not exceed the pre-delinquency credit limit.

7. If the borrower is in a debt management plan, one additional re-aging may occur in a 5-year period in addition to the rule stated above.
8. The Treasurer, Lending Manager, or Senior Loan Officer may approve.

J. Loan Extension

1. Extending monthly payments on a closed-end loan and rolling back the maturity date by the number of months extended. Any fee assessed should be collected from the member, not added to the loan.
2. An extension of loan payments may be accomplished through moving the loan maturity date by the number of months extended.
3. A loan may be extended up to 60-days in a 12-month period.
4. loan should not be extended more than once within any 12-month period or twice within any 5-year period. Exceptions will not be made without good cause and authorization of the Treasurer/CEO.
5. A loan extension fee shall be charged and is payable by the member prior to the extension being granted. The fee may be waived for hardship or other reasonable cause by the Treasurer/CEO.
6. May not extend the term of indebtedness beyond the useful life of any collateral securing the loan, or beyond the maximum maturity limits established by the NCUA for that type of loan.
7. The Treasurer, Lending Manager, or Senior Loan Officer may approve.

K. Loan Deferral

1. This defers a contractually due payment on a closed-end loan without affecting the other terms of the loan, including maturity date. This is a temporary measure which anticipates either extension of term or change in monthly payment.
2. A deferral of loan payments may be accomplished by excusing the payment due without affecting the loan maturity.
3. A loan should not be deferred more than once within any 12-month period or twice within any 5-year period.
4. A payment may be deferred up to 60-days in a 12-month period.
5. A payment deferral fee shall be charged and is payable by the member prior to the deferral being granted. The fee may be waived for hardship or other reasonable cause by the Treasurer/CEO.
6. The Treasurer, Lending Manager, or Senior Loan Officer may approve.

L. Debt Consolidation Loan

1. In addition to refinancing an existing loan at the credit union, additional debt due to other creditors is included in the new loan. A debt consolidation loan is designed to reduce the monthly overall debt payments the member is paying. This program should only be considered for members who have demonstrated a willingness to pay.

2. Loan is completely replaced with a new loan.
3. Interest rate, maturity, payment amount, amortization, loan type are all subject to change.
4. Additional proceeds advanced to pay other creditors.
5. Limited to once in 5 years.
6. The Treasurer, Lending Manager, or Senior Loan Officer may approve.

M. Skip Payments

1. A one-month skipped payment may offer the member an opportunity to gain control of finances. Thus, skip payment programs are a win-win situation for both the credit union and its members, as the credit union is able to earn more fees and interest income while the member benefits with extra cash for a month.
2. Each member who is not currently delinquent and has not been delinquent 60 days or greater in the past 12-months may be eligible to skip a monthly payment.
3. Skip payments may be available up to two times per year.
4. Borrowers must complete a written request for a skipped payment.
5. Eligible Loans:
   a) Non-real estate related open-end consumer loans.
   b) Closed-end loans.
   c) Mortgages, Lease-Like-Auto loans, indirect loans, and business loans are not eligible.
6. Skip payments must be authorized by the Treasurer/CEO, Lending Manager, or Senior Loan Officer.
7. Any fee assessed for the skip payment must be disclosed as finance charge for the time period collected and an amended annual percentage rate (APR) disclosed that includes the finance charge.
8. During the skipped period members should still be charged interest and over-the-limit fees, if applicable, however late payment fees should be waived.
9. For more information, see the Skip Payment Section of the Consumer Lending Policy.

N. Loan Collateralization

1. The credit union replaces an unsecured loan with a secured loan using real property or personal property. This helps the member to achieve a lower interest rate and lower payment while providing the credit union with additional means to collect the debt.
2. Unsecured or under-collateralized loans may be rewritten to add or replace collateral and/or guarantor(s).

3. Proposed collateral and/or guarantors must be acceptable to credit union and meet current policy guidelines.
4. Existing loan is paid in full and replaced with a new loan.
5. Loan terms may vary.
6. The Treasurer, Lending Manager, or Senior Loan Officer may approve.

O. Loan Rewrite

1. The credit union re-underwrites an existing loan by significantly changing its terms, which may include payment amounts, interest rates, amortization schedules, or its final maturity.
2. Loan is completely replaced with a new loan
3. Interest rate, maturity, payment amount, amortization, loan type all subject to change
4. A loan should not be rewritten more than once within any 12-month period or twice within any 5-year period.
5. The Treasurer or Lending Manager may approve.

P. Forbearance

1. In exchange for money or the debtor taking some other action (perhaps listing the property with a real estate agent or making repairs) the credit union may agree to temporarily cease legal or other collection actions.
2. The Treasurer, Lending Manager, or Senior Loan Officer may approve.
3. All forbearance agreements must be in writing and fully executed by all parties.

Q. Make-Whole Pre-Foreclosure Sales

1. The debtor sells the property to prevent foreclosure. This is often combined with forbearance, stopping the foreclosure to allow a "slow-sale," that is, listing with a real estate agent, as opposed to a foreclosure auction.
2. The Treasurer, Lending Manager, or Senior Loan Officer may approve.

R. Deed in Lieu of Foreclosure

1. The debtor transfers ownership in the property to the credit union. This may be done in by the borrower to reduce a potential deficiency by avoiding the additional costs of a foreclosure or in exchange for forgiveness of some of the potential deficiencies.
2. A full title search must be done to avoid liens and judgments unknowingly passing to the credit union.
3. The Lending Manager is authorized to approve this approach only in situations where only late penalties are reduced or expenses forgiven.
4. Only the Treasurer can approve a reduction in interest or principal.

5. A cancellation of debt, except when discharged in bankruptcy, must be reported by the credit union to the IRS on a 1099C as it is equal to income to the member.

S. Short Sale

1. The property sells to a third party and the credit union may accept this price as full settlement of the debt.
2. The Lending Manager is authorized to approve this approach only in situations where only late penalties are reduced or expenses forgiven.
3. Only the Treasurer can approve a reduction in interest or principal.
4. A cancellation of debt, except when discharged in bankruptcy, must be reported by the credit union to the IRS on a 1099C as it is equal to income to the member.

T. Short Pay or Short Refinance

1. The borrower obtains an outside refinance of the property facing foreclosure for less than the full amount owed. The credit union only agrees to this if it is in its best interest.
2. The Lending Manager is authorized to approve this approach only in situations where only late penalties are reduced or expenses forgiven.
3. Only the Treasurer can approve a reduction in interest or principal.
4. A cancellation of debt, except when discharged in bankruptcy, must be reported by the credit union to the IRS on a 1099C as it is equal to income to the member.

U. Troubled Debt Restructure

1. Some workout loans are classified as a Troubled Debt Restructure (TDR). A TDR occurs when the credit union grants a concession to the debtor that it would not otherwise consider for reasons related to the borrower's financial difficulties.
2. A TDR is defined as including one or any combination of the following three forms:
    a) Modification of Terms
        (1) Reduction of the stated interest rate for the remaining original life of the debt.
        (2) Extension of the maturity date or dates at a stated interest rate lower than the current market rate for new debt with similar risk.
        (3) Reduction of the maturity value (principal amount) of the debt.
        (4) Reduction of accrued interest.

   b) Transfer from the borrower to the credit union of receivables from third parties, real estate, or other assets at fair market value to satisfy a debt fully or partially.
   c) Issuance or granting by the borrower of an equity interest to the credit union to satisfy a debt fully or partially, except for convertible debt.
3. Most commonly, TDRs consist of a modification of the loan terms, including a longer maturity and/or lower interest rate.
4. TDR is a loss mitigation option that will be used on a limited basis to facilitate borrower ability to repay the credit union under terms different than originally approved.
5. The Lending Manager will review all TDR requests and is responsible for tracking and monitoring in compliance with applicable rules and regulations.
6. The Treasurer/CEO must approve any TDR requests.

XXIII. Charge Offs

A. Timely Adjustments and Full and Fair Disclosure for Uncollectible Loans

1. In order to accurately reflect the financial condition of the credit union at the end of each accounting period (quarter), the credit union shall:
   a) Review the loan portfolio.
   b) Classify and devalue loans according to NCUA rules and regulations.
   c) Calculate the necessary amounts to assure adequate reserves (i.e., Allowance for Loan Losses {ALL} & Regular Reserves).
   d) Consider charge-offs against these reserve accounts every accounting period (quarter). [see NCUA's Rules and Regulations, Part 702, and Part 723.14 & 723.15 {formerly appendix to Section 701.21(h)}]
2. The Board should also review and take action on loans that are non-performing.

B. Non Performing Loans

1. Loans should be referred to the Board when any of the following conditions are met:
   a) The loan has been discharged in Chapter 7 bankruptcy, with no reaffirmation, and no payments received after the discharge.
   b) The loan is under the protection of Chapter 11 or Chapter 13 bankruptcy and no payment has been received for six consecutive months.
   c) The borrower has been deemed to have "skipped," and there has been no contact for 90 days.
   d) The loan has been assigned to a collection agency or attorney.
   e) The loan is six or more months delinquent and a full payment has not been received for 90 days (transfers from shares and proceeds from sale of collateral are not considered payments for this determination).
   f) The loan is a negative account balance, no payment has been received, and no possible course of action has become apparent.
   g) The loan is determined to be uncollectible regardless of the number of months delinquent.

C. Action on Uncollectible Loans

1. Non-performing loans meeting the criteria above should be reviewed to see if any are uncollectible.
2. Any loan that meets these criteria and is not deemed to be uncollectible should have the reason noted in the ALL report.
3. When a loan is deemed uncollectible, the credit union should:

a) Have the Board review the loan and charge the loan off against reserves.
b) Continue collection efforts, unless the debt was discharged in bankruptcy.
    (1) Such loans should usually be placed with a collection agency or attorney for continual follow-up and recovery.
c) Report the charged-off loan and subsequent reinstatement to a credit bureau.

D. Outside Collection

1. Charged-off accounts should usually be placed with an outside collection agency or attorney.
2. Some loans deemed unsuitable for outside collection may be retained for internal collections for a period. These loans should be charged off or the likely loss should be adequately reserved against.
    a) An example of a loan unsuitable for outside collection would be a borrower with no attachable income or assets.
3. When outside collection efforts have been unsuccessful, the credit union management may bring the loan back for additional inside collection efforts.

E. Charged-Off Loans

1. The delinquent member's obligation for paying principal, interest, penalties, and collection costs are not diminished by a charge-off, unless specifically authorized by the Board.
2. The Board shall consider such authorization only when the member has suffered a severe tragedy, such as the death of a breadwinner or an incapacitating disability.

F. Abandoning Collection Efforts

1. After the most vigorous collection efforts have failed and no possible course of action is apparent, the best thing to do is wait and try again next year. On such loans, the credit union should continue each and every year to take "significant, bona fide collection action" (beyond nominal or ministerial collection actions, such as automated mailing).
2. The credit union should abandon collection efforts only after the debt is legally unenforceable. Abandoning collection efforts triggers the IRS 1099c reporting requirements.

XXIV. Affordable Refund Anticipation Loan

A. Discontinuation

1. The Refund Anticipation Loan (RAL) program has been discontinued and is included in this policy solely for reference purposes.

B. Guidelines

1. The borrower must have their federal tax refund direct deposited into their Cooperative Federal savings account. Credit union staff and/or its Volunteer Income Tax Assistant (VITA) partners will counsel members on the costs of the RAL and the benefit of waiting to receive the federal tax refund through direct deposit or a check in the mail.
2. The RAL alternative will be a line-of-credit that is secured the member's federal tax refund. The RAL borrower will assign the right to the tax refund to the credit union. The maximum loan amount will be equal to the confirmed refund amount, less all fees, and anticipated interest for 25 days (and one share ($5) for new member accounts). There will be a fee to receive a RAL (currently $20).
3. The RAL interest rate will be the same as the rate for our regular (unsecured) line of credit.
4. Application must include confirmation of the federal tax refund amount from the IRS and confirmation that there are no liens against the taxpayer.
5. The state tax refund is not included in this program.
6. If the borrower wants to keep a line of credit after the RAL process is completed, regular underwriting standards for an unsecured line of credit will apply.

XXV. Syracuse Cooperative Adjustable Rate Mortgage

A. Discontinuation

1. The Syracuse Cooperative Adjustable Rate Mortgage (SCARM) program has been discontinued and is included in this policy solely for reference purposes.

B. Overview

1. The SCARM program was the credit union's adjustable rate first mortgage. These were offered to members as first mortgages for a residence that is or will become the member's primary residence. On a refinance, some small existing first mortgages may be permitted to remain, subject to LTV and CLTV standards (e.g. Community Development mortgages, UNPA grant enforcement mortgage).
2. The credit union's regular underwriting standards apply.
3. The minimum SCARM is $10,000.
4. The application fee for SCARMs, as of 12/01/2001, is $150. If the loan is denied, a portion of the application fee is refundable, based on the amount of work done on the application. The application fee may be waived for hardship.

C. Interest Rate

1. The interest rate will be based on an index plus a margin, rounded to the nearest 1/8 of 1% (unless the rounded amount exceeds annual or lifetime interest rate cap, in which case, the interest rate will not be rounded to the nearest 1/8 of 1%).
2. The interest rate is based on the index, the weekly average yield on US Treasury Securities adjusted to a constant maturity of one year, plus the margin of 4.000%.
    a) If the index ceases to be available, the credit union will then choose a comparable Index.
3. The initial interest rate is not necessarily based on the index used to make later adjustments and it may or may not be rounded to the nearest 1/8 of 1%.
    a) The initial interest rate may be a discounted rate, meaning it may be less than the "index" plus the "margin".
4. The initial interest rate will be set by the credit union not later than (5) days prior to the time the loan is closed. The Lending Manager will determine the initial rate, based on market conditions existing at the time the rate is set.
    a) As of 6/98, the initial rate is not discounted and is adjusted semiannually — changing market conditions could prompt a discounted initial rate.

5. The interest rate can change annually. Rate change dates occur at 12-month intervals starting on the first of October following closing. To determine the change in rate, the credit union will use the most recent index available as of 45 days before a rate change date.
6. The interest rate cannot increase or decrease more than 2 percentage points at each adjustment.
7. The interest rate cannot increase or decrease more than 6 percentage points over the term of the loan.

D. Payment and Changes

1. The monthly payment can change annually based on changes in the interest rate.
2. Payment change dates occur one month after each annual interest rate change date.
3. The borrower will be notified in writing at least 25, but not more than 120 days before the due date of a payment at a new level.
   a) This notice will contain information about the index and interest rates, payment amount, and loan balance. The payment will always be an amount sufficient to pay off (amortize) the loan over the term at the interest rate in effect at the time of the payments. All payments received will be applied first to interest due on the outstanding loan balance, and then to reduce the principal.
4. The SCARM loan may be prepaid at any time without premium or penalty. The credit union may require that an escrow account be established and maintained over the life of the loan so that it has on deposit enough money to pay real property taxes and assessments, hazard insurance and mortgage insurance (if any), as they become due.

E. Assumption and Due on Sale

1. The SCARM may not be assumed by anyone and will become immediately due and payable if all or any part of the property mortgaged to the credit union is transferred.

F. Disclosures

1. See the SCARM Disclosure to be given with application, TIL, Good faith estimate of closing costs, Settlement Costs booklet, Adjustable rate disclosure booklet.

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