

SECTION VII

LOANS

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Red Crown Federal Credit Union
Policy Manual
Section VII - Loans

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A. General Lending Policies

1. Red Crown Federal Credit Union is an equal opportunity lender and as such it will accept and process applications for loans without regard to the applicant's race, color, religion, national origin, sex, marital status, or legal age (provided that the applicant has the capacity to enter into a binding contract).
2. All lending policies have been developed for compliance with the NCUA, federal, and state regulations and guidelines as well as sound business practices.
3. All policies, procedures and changes to the same will be considered for compliance with federal rules and regulations as set out by the above mentioned agencies.
4. Applications for loans with Red Crown will be accepted from any member or potential member of legal age. Approval of the application is based on the decision of the Loan Committee or Loan Officer in relation to loan policy and underwriting guidelines. A potential member is anyone who is currently not a member of Red Crown, however qualifies for membership based on the credit union's charter.
5. Written notification will be prepared and delivered/mailed to the applicant on all credit denials within the time limit as referenced according to consumer credit regulations.
6. Any number of applications for a loan or combination of loans may be accepted from a member provided that:
 - a. The member may not have, at any one time, loans in excess of 10% Net Capital and total unimpaired surplus of credit union funds, including real estate related loans.
 - b. The member will not have, in excess of \$100,000 unsecured aggregate loans with Red Crown.
 - c. The member must have a verifiable, stable and consistent employment history and or a verifiable source of repayment.
7. For a collateralized loan, the member must own or will purchase unencumbered tangible asset(s) with loan value corresponding to that type of collateral as per Underwriting Guidelines. The acceptance of any security or collateral is at the discretion of the Loan Officer or Loan Committee.
8. Base loan rates and maximum terms corresponding to consumer loan products offered to the membership will be on the published Loan Rate sheet and corresponding items (i.e. loan-to-value ratios, etc.) will be listed in the Underwriting Guidelines. Management will set and adjust the base rates for the various consumer loan products according to local market. Rate spreads will be

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adjusted according to credit risk. Rates will be reviewed periodically for each consumer loan category and in no case will the rate exceed the maximum allowable interest rate. Tier 4 loans with credit scores of 600 or less shall not exceed 15% of the total consumer loan portfolio.

9. Income - will be considered from any legal verifiable source. Income verification on Tier 1 and Tier 2 borrowers is optional based on lender analysis. Current verification of income will be required on all new members that qualify for Tier 3 and Tier 4 pricing and on all existing members that the Loan Officer deems necessary due to changes in employment and/or income levels. Loan officer or Loan Committee will be responsible for determining there is sufficient income to substantiate the ongoing capacity of the member to repay the amount being requested, in addition to obligations, at the time of the application. A debt/income ratio will be calculated on all loan requests and will be in accordance with the Underwriting Guidelines.

10. Staff and Volunteer Loans
 - a. The Board of Directors appoints the Executive Committee to review and approve or deny a loan application to an official (member of Board of Directors or Supervisory committee) and Red Crown Staff on which they are a direct obligor or endorser, cosigner or guarantor where the aggregate of all loans exceeds \$20,000 less share or term share certificate secured as noted in the NCUA Rules and Regulations (Section 701.21).
 - b. The Board of Directors will ratify Executive Committee minutes on loan decisions as noted above at monthly board meetings.
 - c. All loan applications for Officials or Staff will be directed to the **Head of Lending** for processing.

In the absence of either the President/CEO or **Head of Lending**, the appointed staff member may act in their place.

B. Credit Bureau Reports

1. A credit report will be obtained from an accepted credit reporting agency or other necessary reporting agency on all new money requests or as deemed necessary by the loan officer. The member's history should reflect "intent to have satisfactory credit". Installment or revolving debts should have no more than 2X30 or 1X60 days late during the past 24 months. Any unpaid judgments, collection items, liens, charge offs, or garnishments **should be** addressed and determined if resolution is required. This analysis will be documented by the Lender.

2. Following a bankruptcy, members should have satisfactory credit for a minimum of 24 months before receiving a new loan. An exception to this requirement would be for members who had existing loans at Red Crown at the time of the bankruptcy, reaffirming the debt with regular payments.

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3. If a member has no previous credit or limited credit history, then the risk to warrant the approval of the loan must be offset with lower loan-to-value ratios, shorter terms, job history, and set maximum loan amounts as outlined in Underwriting Guidelines.

C. Loan Committee

1. The Loan Committee of Red Crown will consist of members composed from Red Crown loan staff and management.

The Loan Committee renders decisions on:

- a. Loan applications referred by Loan Officers for reasons such as credit approval authority, loan policy exceptions, etc.
 - b. Credit denial appeals.
 - c. The Loan Committee may reduce or remove the authority of a loan officer with reason due to performance.
2. The Loan Committee will render loan decisions with a majority vote of the Committee present (minimum of 3 required). The vote of the members for and against approval of the loan will be noted on the loan application.
 3. The Loan Committee may override decisions of the Loan Officers. Only the Board of Directors may override the decisions of the Loan Committee.
 4. Exceptions authorized in any portion of these policies may be granted by the **Head of Lending** or President/CEO with the exception noted on loan worksheet. Exceptions may be granted, but not limited to the following: Length of membership, loan to value, debt to income and compensating balances. The Loan Committee may limit the exception authority of the **Head of Lending** and the Board of Directors may limit the exception authority of the President/CEO if abuses or unsound practices become evident. **The Head of Lending** will maintain a log of loan exceptions.

The Loan Committee records all its decisions on the Loan worksheet. These worksheets will include the Committee's approvals or denials, counter-offers, and extensions. The documents are permanent and official records of Red Crown and these records will be available for review by the Supervisory Committee, regulators, and outside auditors.

D. Loan Officers

1. Loan Officers are assigned their credit approval authority based on the individual Loan Officer's experience and training. All approving officers, regardless of their level of authority, must adhere to the lending policies and guidelines established by the Board of Directors and overseen by management.

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2. Loan Officers may deny loan applications based on criteria as outlined in general lending policies.
3. Loan Officers will document their actions on the loan origination system. The **Head of** Lending is responsible for periodic review of loan documentation for compliance to lending policy.
4. A Loan Officer may not actually disburse the funds for any loan they approve.
5. The Loan **Document Manager** will be responsible for completing a standard checklist of documents to be maintained in the individual loan file as a permanent record and verifying that all applicable items are present.

E. Credit Approval

The level of Credit Approval Authority for lending staff will be set by the President/CEO and **Head of** Lending based on the individual's experience, training, education and performance, etc. These lending levels will be reviewed periodically and ratified by the Board. The following table outlines the various levels of credit approval authority with a definition of lending limits.

	Aggregate Unsecured	Secured	Aggregate Total
Loan Officer	\$ 5,000	\$40,000	\$ 75,000
Senior Loan Officer, Branch Mgr / Supervisor	\$15,000	\$ 60,000	\$ 100,000
Head of Lending	\$ 20,000	\$ 100,000	\$125,000
President	\$40,000	\$150,000	\$200,000
Loan Committee	\$ 50,000	\$500,000	10% Net Capital & Total Unimpaired Surplus
Executive Committee Board of Directors	\$100,000	\$1,000,000	10% Net Capital & Total Unimpaired Surplus

The "Unsecured limits" are the aggregate total of unsecured loans that each level of authority may approve individually.

The "Secured limits" for each level of authority are per individual loan with all loans not to exceed the "Aggregate Total."

The "Aggregate Total" is the total of all loans for a member that each level of authority may approve individually.

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The "Aggregate Total" and "Unsecured" limits amounts would include all account relationships of primary, guarantor, co-borrower, co-maker.

F. Loan Products Offered to Membership

Red Crown will offer unsecured and secured consumer loans supported by the individual member's credit worthiness according to Underwriting Guidelines in relation to loan-to-value ratios, debt-income ratios, maximum terms, maximum loan amounts, and other items that may be required corresponding to member's credit score obtained from credit reporting agency. These guidelines will be set by Management and reviewed by Delinquent Loan Committee and Board of Directors on a periodic basis. These guidelines may be adjusted as needed according to competition and credit risk of the portfolio.

1. Unsecured Loans will include the following products:

All unsecured loan products are designed for members who have proven credit history indicating sound repayment capabilities and solid net worth.

a. Signature Loans

Signature loans are unsecured loans for a specific purpose and set repayment term. A member should have only one signature loan at a time, unless exceptions warrant.

b. Line of Credit (LOC)

LOC loans are unsecured loans set up as revolving lines of credit. They can be used as overdraft protection for a member's checking account or other borrowing needs. LOC loans will be reviewed every two years. Review will determine if action needs to be taken in relation to that specific credit.

c. Credit Card Loans

Credit cards are offered to members as a revolving line of credit based on an approved credit limit. Credit limits are established at the discretion of a Loan Officer or Loan Committee based on a member's credit qualifications, under the same guidelines as any unsecured debt at the credit union. The credit card program is serviced by an approved outside credit card processor.

2. Secured Loans will include the following products:

All secured loans are based on the Underwriting Guidelines that contains loan-to-value ratios, debt-to-income ratios, and other items that may be required connected to a member's credit score as reflected on their credit bureau report. These guidelines will be set by Management and reviewed by Delinquent Loan Committee and Board of Directors on a periodic basis.

These guidelines may be adjusted as needed according to competition and credit risk of the portfolio. Red Crown will offer products such as extended service contracts, GAP insurance and debt protection that will enhance loans that are offered.

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a. Automobiles (New & Used)

New automobile financing is available to members based on Underwriting Guidelines in relation to loan-to-value and debt-to-income ratios. New automobile financing applies to all vehicles that have not been titled. Used automobiles are acceptable collateral for loans based on determination of value in relation to the loan amount. Loan amount will be subject to the loan-to-value ratio as outlined in the Underwriting Guidelines. Inspections of any used automobiles are at the discretion of the Loan Officer prior to funding and subject to the member's individual credit worthiness.

b. Recreational Vehicles (New & Used)

Recreational Vehicles will consist of the following: Motor Homes / Travel Trailers, Boats/Motors, Motorcycles, Personal Watercraft and ATV's.

Financing for new recreational vehicles is available to members based on Underwriting Guidelines in relation to loan-to-value and debt-to-income ratios. New RV financing applies to all recreational vehicles that have not been titled. Used recreational vehicles are acceptable collateral for loans based on determination of value in relation to the loan amount. Loan amount will be subject to the loan-to-value ratios as outlined in the Underwriting Guidelines. Inspections of any used recreational vehicles are at the discretion of the Loan Officer prior to funding and subject to the member's individual credit worthiness.

c. Share and Share Certificate Secured (pledge-RC deposits)

Members may pledge up to 100% of their unencumbered share or share certificate balance as collateral for a loan. Terms of the loans are subject to the terms of the pledged collateral.

d. Stock Secured (stock on NYSE or NASDAQ – 75% stock value)

Stock traded on the New York Stock Exchange or the NASDAQ may be pledged as collateral for a loan. The loan value must not exceed 75% of stock value at the time the loan is funded. Loan balances in relation to current stock value will be reviewed on a quarterly basis.

e. Consumer Goods

Financing for the purchase price of consumer goods (i.e. appliances, computers, household goods, lawn equipment, etc.) will be available to members based on the member's individual credit worthiness, as outlined in the Underwriting Guidelines.

f. Other Secured Loans

Other collateralized loans will be considered by the Loan Committee and/or Loan Officers on an individual basis.

3. Real Estate Loans

First and Second Mortgage loans are available to Red Crown members as

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outlined in section VIII of the policy manual.

G. Deferrals/Extensions on Loans

1. Requests from members for deferrals and extensions will be considered and are subject to approval of the originating Loan Officer or the Loan Officer assigned to the loan based on the guidelines outlined in this policy section. Examples of acceptable reasons are as follows:
 - (a) Loss of employment
 - (b) Illness
 - (c) Death in family
 - (d) Credit counseling in progress
 - (e) Vacation/Holiday
2. The number of months deferred and the length of time between deferral requests are subject to the following guidelines:
 - (a) On an annual basis, 2 deferrals/extensions may be made. A maximum of 2 months may be granted per year.
3. Secured loans
 - (a) Value of collateral should equal or exceed loan balance.
 - (b) Consideration should be given by Loan Officer to inspect collateral based on loan to value, prior payment history, and changes in members' financial abilities since granting the loan.
4. Obtaining a credit report is at the discretion of the loan officer based on the repayment history of the loan and the borrower's financial status at the time the request for deferral/extension is made.
5. A deferral fee *should* be collected on all monthly pay loans as outlined in the Fees and Service Charges policy.
6. Accrued interest is to be paid on extensions granted for single pay loans.
7. Extensions will not be considered during the first six months of the loan term unless supported by compensating factors which will be documented on the deferral agreement in the loan file.
8. Skip-A-Payment promotions are not subject to this deferral policy.

H. Monitoring Deferrals/Extensions - Delinquent Loans

1. Loans will be monitored for three (3) months after deferral/extension is granted.
2. Past due loans that are in excess of 30 days delinquent and have been deferred to current status will be placed on a watch list for monitoring purposes but will not be included in month-end delinquent loan totals until normally reported to committee.

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3. Activity on deferrals/extensions *should* be reported to Delinquent Loan Committee monthly.
4. Any deferrals, extensions, or refinances on delinquent loans require the approval of the *Head of* Lending, President/CEO, or majority of the Loan Committee.

I. Single Payment Loans

Single payment loans may be granted under existing loan criteria for specific purposes on a closed-end note. The purpose along with reason for granting the loan on a single payment basis should be noted on loan worksheet along with stated repayment sources. Under general conditions no member should be granted a single pay loan that would not be able to handle monthly payments in their ordinary debt to income ratio. (i.e., based on collateral, rate, and terms offered by Red Crown for amortized loans of similar nature, payments on amounts borrowed under single payment terms should be amortized and figured into members' debt ratio.) Single payment loans should adhere to the following guidelines:

1. *Unsecured single payment loans should* have a maturity date of 12 months or less.
2. If loan is not paid in full at maturity, the accrued interest plus 10% of the principal shall be paid before new loan is originated.
3. Loan will not be extended more than three times.

J. Loan Participation

The Board of Directors authorizes management, within the guidelines stipulated within this policy, to participate in loans originated by other credit unions.

Red Crown Federal Credit Union will participate with other credit unions granting loans to their members by funding a percentage of the total loan. It shall be a condition of each loan participation (LP), that the originating credit union complies with the NCUA Rules and Regulation Part 701.22 dealing with loan participations, as well as other NCUA lending regulations.

1. The Board delegates the decision-making authority with respect to loan participation to the Asset/Liability Committee (ALCO).
2. Persons in the following senior management positions are authorized to make purchases of loan participation consistent with the ALM and investment and/or participation policies:
President/CEO
Vice President
3. The Board of Directors recognizes its responsibility to approve and maintain a copy of the written loan participation agreement and a schedule of the loans covered by the agreement.
4. Accordingly, the Board directs the President or *Head of* Lending to provide a detailed listing of all loan participations purchased or committed to since the prior meeting through reports and minutes of the ALCO meeting. The ALCO minutes

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will be formally accepted by motion and made a part of Board minutes.

Types of loans in which Red crown participates will be of a purpose and type of loan in keeping with the existing lending policy of Red Crown. Loans will be of similar collateral, terms, and conditions as those in which Red crown would ordinarily make to our members.

Consideration will be given to loan type concentration of existing Red Crown member loans, with anticipation of future funding during the duration of the pool.

The maximum participation loan amount granted to one borrower is 10% of Red Crown Credit Union's net capital.

The total amount of capital permissible for each credit union is not to exceed 10% of Red Crown Federal Credit Union's Net Capital and Total Unimpaired Surplus.

The originating credit union must retain at least 10% of each loan participated.

Servicing of participated loans will typically be the responsibility of the originating credit union. Servicing responsibilities may be purchased with the pool provided proper review and consideration for such services have been made.

A master agreement shall be in place between Red Crown and the originating credit union before participating in loans with that credit union.

Due Diligence Examination:

All participation programs presented by credit unions are subject to the following minimum review:

1. A review of the past 24 month's financial performance of the originating credit union will be performed.
2. A review of loan policies and delinquency and collection procedures of the originating credit union will be performed.
3. References will be requested and verified in writing whenever the originating credit union has prior experience with participation.
4. On-site visits to the originating credit union will be done when cost effective. When an on-site visit by staff or a disinterested third party is prohibited by cost, senior management as designated by the Board may approve the loan participation purchase subject to the reviews outlined in Items 1-3. In addition, senior management can approve the purchase of the loan participation subject to the originating credit union's delinquency and charge-off ratios for the last 24 months if within 10% of Red Crown's ratios. In addition, the average Beacon credit score for the pool of loans would be 700 and above. Any participation that is outside these guidelines would require approval of ALCO prior to a purchase being made.
5. When possible, a review of each loan shall be conducted. If a random sampling is

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required, Red Crown management, not the originating credit union, will select loans.

6. Following initial review, management and/or ALCO may require additional due diligence as may be necessary.

Underwriting Expertise:

When the underwriting knowledge necessary is beyond the skills of in-house staff, a policy will be adopted that directs underwriters through the process.

K. Loan Modification

1. When a member exhibits the desire to fulfill his/her obligation, but is unable to meet the current terms of a loan, Red Crown will consider modifying a debt. The following criteria must be present before refinancing, modifying or deferring a delinquent loan will be considered:
 - a. Member must have kept in contact with Red Crown;
 - b. Current member information must be on file;
 - c. Collateral must be insured and
 - d. Member must exhibit ability to pay loan under new terms.
2. If the loan is or has been sixty days or more delinquent in the past six months, the members' ability and willingness to repay under the modified terms *should* be demonstrated by making three consecutive payments at the proposed reduced payment amount.
3. Loan modifications that may be made include:
 - a. Reduction of principal balance;
 - b. Rate increase or decrease;
 - c. Term increase
4. Loan Modification requests will be assessed on a case-by-case basis.
5. Loan Modifications will be allowed due to bankruptcy rulings. These modifications will adhere to the court ruling.
6. No new funds will be disbursed on a Loan Modification.
7. Loan Modifications must be approved by two of the following individuals: President/CEO, Collections Manager, and *Head* of Lending.

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**Red Crown Federal Credit Union
Business Lending Policy**

It shall be the policy of Red Crown Federal Red Crown to grant Member Business Loans (MBLs) to worthy businesses and their principals for any productive purpose, subject to the conditions and restrictions set forth in this policy and NCUA Regulation 723.

Red Crown will offer secured MBLs supported by satisfactory financial statements and identifiable source of repayment. Secured MBLs may be collateralized by:

- A. Vehicles
- B. Real Estate - Non-Development
- C. Real Estate - Development/Construction
- D. Agricultural
- E. Inventory
- F. Marketable Equipment
- G. Aircraft
- H. Marketable Securities
- I. Deposits
- J. Cash Value of Life Insurance
- K. Any other property, which adequately secures the debt and is readily marketable.

COMMERCIAL LOANS

Any loan, line of credit or 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, but not for personal expenditure purposes.

EXCLUDED

- A. Loans made by a corporate credit union
- B. Loans to another federally insured credit union
- C. Loans made to a credit union service organization
- D. Loans secured by a 1 to 4 family residential property (does not have to be borrower's primary residence)
- E. Loans fully secured by shares in the credit union or deposits in other Financial institutions
- F. Commercial loans \$50,000 or less

PROHIBITED

- A. Loans to 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.

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- B. Loans to any person meeting the definition of an associated borrow (section 723.2 paragraph 1)
- C. Loans to any compensated director, unless approved by Board.
- D. "Equity agreements/joint ventures", whereby Red Crown shares in the speculative profits of a loan.
- E. Conflicts of interest (section 723.7 paragraph "c")

UNDESIRABLE BUSINESS LOANS

Given that the credit union is knowingly aware, the following are some types of loans, which should be avoided, in Red Crown's normal lending practices:

- A. Loans to borrowers of questionable character, integrity or bad credit history.
- B. Loans to finance illegal or unethical enterprises.
- C. Any loan without a definite, realistic, achievable repayment program.
- D. "Speculative" loans, where repayment is subject to rapid asset appreciation, rather than earnings ability.
- E. "Equity Kickers", whereby Red Crown shares in the speculative profits of a loan.
- F. Loans secured by real estate containing substantial environmental risk, such as properties with underground storage facilities for potentially hazardous materials. (Example: gas stations)
- G. Loans to any business in which a member of Red Crown staff or Board of Directors or any member of their immediate families serves as a principal owner or shareholder.

MAXIMUM LOAN TO ONE MEMBER

Unless written approval is granted, the aggregate of outstanding MBLs to any one member or group of associated members shall not exceed 15 percent of Red Crown's reserves less allowance for loan losses account. Loan balances secured by deposits or guaranteed by a government agency will not be included in the calculation determining the 15 percent limit.

BUSINESS LOAN TRADE AREA

All MBLs will be made to businesses that maintain headquarters located in the Tulsa MSA or Mayes County. Those with headquarters outside the area, but have a significant Tulsa MSA or Mayes County market presence will be considered by the credit committee on an exception basis.

MAXIMUM AMOUNT OF MBLs TO ASSETS AND NET WORTH

The maximum amount of MBLs including any unfunded commitments is the lesser of 1.75 times Red Crown's net worth or 12.25percent of total assets. Loans exempted by NCUA rules and regulations by definition are also excluded from this classification as a MBL for purposes of this calculation. Unsecured MBL aggregate will not exceed 10 percent of net worth. No secured MBL category aggregate will exceed 100 percent of net worth except for construction development, which will not exceed 25 percent of net worth.

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BUSINESS LOAN COMMITTEE

The Business Loan Committee (BLC) will be comprised of the members of the Executive committee, President, *Head* of Lending, and one board approved designee.

The BLC will be responsible for reviewing and rendering decisions on member business loans proposed by loan staff with proper documentation and package requirements as outlined in this policy.

At least one of the members of the BLC must meet the business loan officer qualifications.

BUSINESS LOAN APPROVAL LIMITS

The BLC will approve Red Crown MBLs where a member's aggregate business loan balances exceeds \$100,000.

In the cases where a member's aggregate business loans total less than \$100,000, MBLs will be the combined responsibility of the President/CEO, *Head* of Lending, and board approved designee.

MBLs will be submitted to the BLC for which separate minutes will be kept and reported to the Board on a monthly basis.

SMALL BUSINESS ADMINISTRATION LOANS

Red Crown has obtained SBA Lender and SBA Express Lender Status. This will enable Red Crown to originate and guarantee certain credits that qualify for SBA status.

A majority of the BLC must be in agreement for approval of a MBL within the parameters set forth in this policy as relating to maximum loan amounts, maximum aggregate MBLs to principals, and type maximums within the member business loan portfolio.

COLLATERAL REQUIREMENTS

LOAN-TO-VALUE MAXIMUMS

The maximum loan-to-value ratios for business loans secured by a first lien are itemized on the LTV Collateral Review Chart contained in this policy. If Red Crown is in a second lien position, the equity requirement must be increased by at least 10%.

Factors such as the marketability of collateral should be considered in order to be more restrictive when circumstances warrant.

APPRAISAL AND VALUATION REQUIREMENTS

The appraisal and/or other documentation supporting the collateral value shall be maintained in the loan file. The following are generally accepted procedures for establishing collateral value:

- A. Real Estate
A full appraisal report shall be performed by a Credit Union designated appraiser and must be in full compliance with Section 722 of the NCUA Rules and Regulations.

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- B. New Vehicles
Credit Union must obtain a copy of the signed vehicle purchase agreement and/ or a qualified appraisal.
- C. Used Vehicles
The value may be determined by using the retail value disclosed in the N.A.D.A. official used vehicle guide (or other such publication) or a qualified appraisal.
- D. Agricultural
Loans for agricultural marketable equipment will be made with valuations provided by local dealers and other documented recognizable sources.
- E. Inventory
The collateral value will be calculated by taking the book value from the financial statements minus any part of the inventory that is obsolete or is not marketable. A qualified third party valuation report may be required if deemed necessary.
- F. New Equipment
The value may be determined by obtaining a copy of the signed purchase agreement and/or a qualified appraisal and/or compare the cost with another dealer.
- G. Used Equipment
The value may be determined by using the average retail value disclosed in professional or industry publications and/or a qualified appraisal.
- H. Aircraft
Valuation from a recognized appraisal guide is required.
- I. Securities
Marketable Securities will be valued by determining the market price through the Wall Street Journal, Brokerage Firm or other professional publication or service.
- J. Cash Value of Life Insurance Policy
Cash value will be verified through the Life Insurance Company.
- K. Deposits
Deposits will be verified through the subject financial institution.

SECURITY INTERESTS

All loans are to be properly documented in accordance with this policy and sound lending practices, and to assure that all security interests contemplated in the documentation are properly recorded and perfected. All liens will be perfected in accordance with state requirements. Lien entry forms will be required on titled vehicles. Filed mortgage will be required for Real Estate. UCC filing will be required for all other liens excluding titled vehicles

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LTV AND COLLATERAL REVIEW CHART

<u>Collateral Description</u>	<u>Maximum LTV</u>
A. New Vehicle.....	100%
B. Used Vehicle	100%
C. Real Estate (Non-Const/Dev).....	80%
Real Estate (Const/Dev).....	65%
D. Inventory (Raw Materials)	30%
Inventory (Work in process)	40%
Inventory (finished goods).....	50%
E. New Equipment	80%
F. Used Equipment.....	75%
G. Aircraft	75%
H. Marketable Securities (NYSE or NASDAQ)..	60%
I. Cash Value of Life Insurance Policy	80%
J. Deposits	100%

On a case-by-case basis, the Business Loan Committee may approve exceptions to this section of the loan policy so long as no regulations are violated and the reason for the exception is documented on the loan presentation summary.

ANALYSIS DOCUMENTATION

Documentation supporting each request for an extension of credit or any increase in an existing loan or line of credit shall include the following:

- A. Balance Sheet Analysis
- B. Cash Flow Analysis
- C. Income Statement Analysis
- D. Tax Return Analysis
- E. Leveraging Analysis
- F. Industry Comparisons, if applicable
- G. Periodic financial updates in accordance with the requirements set forth in Financial Statement Monitoring section of this policy.
- H. Satisfactory credit report of individuals giving their personal guarantees will be maintained.

LOAN FILE DOCUMENTATION

An MBL file will generally contain an initial and annual credit package. The credit package will consist of a Loan Presentation Summary, Relationship Summary, and credit analysis. Those MBLs with commitments over \$250,000 will also contain a credit narrative.

An MBL file will generally contain the following: (as applicable)

- Loan Presentation Summary with collateral analysis
- Relationship Summary
- Financial statements
- Personal financial statements
- Business and personal tax returns

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Documentation checklist
Open notes
Security Agreements
Financing statements
Collateral searches
Vehicle titles
Loan Agreements
Personal Guaranties – with respective satisfactory credit report.
Partnership, LLC or corporate resolutions
Evidence of good standing
Articles of Incorporation, Operating agreement or Partnership agreement
Evidence of hazard insurance
Life Insurance assignment
Real Estate Mortgage, appraisal, title opinion or search
Flood Search
Such other documents as is necessary to prove up the loan collateral documents.

BUSINESS LOAN MATURITIES

MBLs shall be granted for periods consistent with the purpose, security, source of repayment, creditworthiness of borrower and sound lending practices, subject to the following restrictions:

- A. Operating Expenses.....1 Year
- B. Working Capital.....5 Years
- C. Capital Expenditures.....10 Years
- D. Real Estate.....12 Years

Above will be followed unless SBA guarantee allows deviation.

BUSINESS LOAN GUARANTY REQUIREMENT

MBLs shall not be granted without the personal liability and guarantees of the principals, except where the borrower is a not-for-profit organization as defined by the Internal Revenue Service Code (26 U.S.C. 501).

Red Crown shall exercise caution when underwriting loans to not-for-profit organizations and will require personal guarantees whenever prudent lending practices warrant.

BUSINESS LOAN PRICING

The BLC is authorized to set interest rates on member business loans for amounts above \$100,000. They will strive to charge a rate on all loans that will assure the accomplishment of yield objectives commensurate with risk, economic and competitive conditions and objectives as set forth by Red Crown Board of Directors.

For MBLs below \$100,000, pricing will be the responsibility of the President and the *Head* of Lending.

In the establishment of a rate to be charged on a specific loan to a specific member, there are several factors that must be evaluated to determine the differential in the rate to be charged versus the standard or average rate. These factors would include the following:

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- A. Risk
The interest rate should account for the risk involved. In determining risk, such things as length of term, certainty of repayment source, marketability of collateral, character, and financial strength of borrower must be considered.
- B. Repayment Program
The longer the term of the loan, the more risk of nonpayment is involved; therefore, the higher the rate that should be charged. Repayment from a guaranteed source would obviously produce a lower rate than a loan to be repaid from future unknown earnings.
- C. Liquidity of Collateral
The rate should reflect the liquidity of the secondary source of repayment - namely collateral.
- D. Credit History
The member's previous repayment experience with Red Crown and their history provided by the Credit Bureau or an investigation of credit should be a prime consideration in any extension of credit.

LOAN-TO-VALUE RATIOS

With respect to construction and development loans, the loan amount shall not exceed 65% of the appraised value or the cash outlay, whichever is less. If the borrower has owned the land for at least one year, then the land equity may be based on the current appraised value.

MAXIMUM LOAN TERM

The term of a construction and/or development loan shall not exceed 24 months. If special circumstances require an extension beyond this maximum, then the Business Loan Committee must approve it.

CONSTRUCTION and DEVELOPMENT

- I. The borrower will be required to submit detailed construction/development plans and specifications.
- II. The borrower must also submit detailed cost estimates and/or bids in order to evidence the total cost necessary to complete the project. Such documentation shall be in sufficient detail to enable Red Crown to determine a reasonable draw schedule.

APPRAISAL REQUIREMENTS

Prior to loan approval, Red Crown shall have an appraisal completed by a Credit Union designated state licensed appraiser based on the construction and/or development plans and specifications. The appraisal must be completed in full compliance with Section 722 of the NCUA Rules and Regulations.

TITLE SEARCH REQUIREMENTS

The abstract will be extended and examined by Red Crown attorney just prior to closing. After closing, the abstract will be re-extended and a final title opinion obtained to verify lien position.

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DISBURSEMENT INSPECTION REQUIREMENTS

Prior to each loan disbursement, the appraiser or other independent qualified personnel will perform an on-site inspection. The purpose of the inspection is to (1) insure that the construction /development is progressing in accordance with the plans and specifications, and (2) to protect Red Crown from prematurely disbursing loan funds for material or work not yet performed.

Any evidence of noncompliance or other irregularity shall be reported immediately to the *Head* of Lending who will be responsible for taking the appropriate action.

A detailed record of each inspection shall be maintained in the loan file.

LOAN DISBURSEMENTS

The borrower's down payment/equity funds must be disbursed prior to the loan funds. After the borrowers funds have been exhausted, then the loan funds can be accessed and multiple disbursements made in accordance with the draw schedule and/or various stages of construction. Verification and documentation of the disbursement of the borrower's down payment/equity funds should be made prior to disbursement of loan proceeds.

LIEN WAIVERS AND BUILDING PERMITS

Documentation of lien waivers and building permits throughout the construction / development period should be maintained in the loan file.

FINANCIAL STATEMENT MONITORING

Updated financial statements and tax returns (both personal and business) shall be required on all member business loans at least on an annual basis. The BLC will require statements on a more frequent basis as determined by the committee, and commensurate with the risk. Each loan write-up will include a frequency for financial submissions.

If the loan is primarily secured by accounts receivable and/or inventory, then updated business financials will be required on a minimum of a quarterly basis.

Financial statement analysis documentation, loan comments and summaries shall be maintained in the loan file. Updated information will be required when circumstances warrant following financial statement review.

LOAN GRADING AND REVIEW

All newly originated MBLs will be graded in the underwriting process. The business loan officer will assign a grade to each loan using one of the 7 credit grades outlined below. In general all loan grades are based on repayment risk inherent in the primary source of repayment. Guarantors/co-signers can mitigate a more severe grade depending on the level of support after taking into consideration all credit fundamentals. MBLs over \$50,000 will be reviewed on an annual basis and the loan grade assignment will also be reviewed at this time.

Assessment and documentation of the adequacy of the Allowance for Loan Losses for MBLs is the responsibility of the President/CEO. All loans graded 1 through 3 will have a loss reserve allocated based on loss history for similarly collateralized consumer loans. Any loans graded 4 through 7 will have the following minimum loss allocation:

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Grade 4 - Special Mention: 2%

Grade 5 - Substandard: 10%

Grade 6 - Doubtful: 50%

Grade 7 - Loss: 100%

Risk grade 1 - Strong

Credits rated 1 exhibit externally prepared financial information with strong cash flow coverage and strong collateral position with a cushion over outstanding obligations, low reliance on leverage, stability in the industry or company performance, financial ratios exceeding industry norms, well established management and known to bank management, good internal reporting systems, and loans to individuals with net worth consisting of significant liquid assets and strong cash flow to meet maturing obligations. Guarantor credit scores will typically be 710 or greater. Real Estate related credits in this category will typically exhibit owner equity of 30% or more in all owned property, a subject loan to value ratio of 70% or less, and a debt service coverage ratio of 1.30 or greater. Global cash flow will be strong.

Risk grade 2 - Good

Credits rated 2 exhibit the ability to produce accurate timely financial information, show adequate cash flow coverage to meet maturing obligations, sufficient collateral, operating in industries with greater competition or cyclicity than credits graded 1. Financial ratios are satisfactory compared to industry norms and management is skilled in the industry.

Borrowers financial condition and performance is satisfactory but may possess a weak characteristic in one area (i.e. equity is not strong, or profitability is volatile). Financial leverage may be higher to industry but is mitigated by other factors such as an overabundance of cash flow to cover debt service. These are credits whose working capital lines cycle significantly. Loans to individuals with substantial net worth but the bulk of it is in illiquid assets with adequate cash flow to meet maturing obligations. Real Estate related credits in this category will typically exhibit equity of 20% or more in all owned property and a debt service coverage ratio of 1.20 or greater. Global cash flow will be adequate and sufficient to meet all obligations.

Risk grade 3 – Watch

Credits graded 3 are a pass credit category but reflect higher than average risk. These credits exhibit particular elements or characteristics which give rise to a need for closer attention and monitoring that could be industry, company, or minor management issues, but are not severe enough or financial performance related to warrant classified loan status. Examples include credits such as construction financing, credits with unproven cash flow coverage, or any kind of highly levered transaction. Cash flow is expected to provide coverage of required debt service during normal periods, but the cash flow is more leveraged than an acceptable credit, has lower debt coverage margins than better rated credits, or is declining. Other factors that could warrant category 3 include managerial or personal problems of company management, decline in the entire industry or local economic conditions, serious failure to provide financial information or other documentation as requested, issues regarding delinquency, overdrafts, or renewals, and any other issue that causes concern regarding the company.

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Risk grade 4 - Special Mention

The characteristics of a Special Mention MBL are potential weaknesses that, if left uncorrected may result in deterioration of the repayment prospect for the credit or in the credit union's credit position at some future date. Special mention assets are considered classified assets. Characteristics of Special Mention loans may include inadequate debt service coverage, annual losses, sustained non- seasonal negative performance to budget projections relating to declining sales, operating losses, shrinking margins, declining balance sheet ratios, including increasing debt-to-worth and trade debt issues. These adverse trends may be resulting from economic or market conditions such as rising interest rates or recession. Non financial (qualitative) factors such as management problems, significant potential litigation, material structural weaknesses, or any identified deviation from prudent lending practices may result in a Special Mention classification.

Risk grade 5 - Substandard

A loan classified substandard is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. The loan must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. The loan is characterized by the distinct possibility that the credit union will sustain some loss if the deficiency is not corrected.

Substandard assets require more intensive supervision by credit union management. They are generally characterized by current or expected unprofitable operations, inadequate debt service coverage, inadequate liquidity, marginal capitalization or serious violations of lending policy. Repayment may depend on collateral or other credit risk mitigants. Serious legal or managerial issues may result in a substandard grade. For some substandard assets, the likelihood of full collection of interest and principal may be in doubt and such assets should be placed in non-accrual.

All foreclosures, liquidations, and loans that are 90 days or more past due are considered at least Substandard regardless of collateral coverage.

Credit Grade 6 - Doubtful

A loan classified as doubtful has all the weaknesses inherent in one classified substandard, with the added characteristic that the weakness or weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors which may work to the advantage and strengthening of the loan, its classification as an estimated loss is deferred until its more exact status may be determined. Pending factors include proposed merger, acquisition or liquidation actions; capital injection; perfecting liens on collateral; and refinancing plans.

Credit Grade 7 - Loss

A loan classified loss is considered uncollectible and of such little value that its continuance as a loan is not warranted. This classification does not necessarily mean that the loan 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 occur in the future.

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Credits graded loss must be charged off by the end of each quarter.

DEPARTMENTAL PRACTICES

The *Head* of Lending is responsible for developing and maintaining departmental practices' and procedures' guidelines for use by personnel within the department. The guidelines will take into account documentation requirements, filing procedures and servicing procedures for various types of business loans.

RECORD KEEPING

MBLs shall be separately identified in the records of Red Crown and reported as such in financial and statistical reports required by the National Credit Union Administration.

BUSINESS CREDIT CARD ACCOUNTS

This Credit Union will offer business credit cards.

BUSINESS LOAN OFFICER QUALIFICATIONS

Because of the complexity of business lending, at least one member of the BLC shall have the following minimum qualifications:

- Bachelors Degree in Business or in Agriculture
- 2 years of Commercial/Ag lending experience
- Commercial/Ag representatives may not meet the above qualifications, but would have limited approval authority.

POLICY REVIEW AND APPROVAL

This policy shall be reviewed annually by the Board of Directors and amended as circumstances warrant.

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**Red Crown Federal Credit Union
Indirect Lending Policy**

PURPOSE

The Indirect Lending program is a point of sale financing program. It is intended to allow Credit Union members and potential members the ability to obtain financing at the same location where they make their auto purchase.

SCOPE

This policy will cover the purchase of retail installment contracts from all participating and approved Dealers. The Credit Union will use a third party that will assist with Dealer Agreements and all issues pertaining to the Indirect program excluding the approval process.

MEMBERSHIP ELIGIBILITY

The Indirect Lending program will be available to all current members and potential members that qualify under our Field of Membership requirements.

RESPONSIBILITY

Upon approval by the Board of Directors, the *Head* of Lending will be the primary responsible party for the Indirect program. The *Head* of Lending will be responsible for program oversight and for delegated authorities of Loan Officers.

RISK MANAGEMENT

The Credit Union will limit loans granted under this program to 60% of the total loan portfolio. The Indirect Program and Policy will be directed and approved by the Delinquent Loan Committee. Any increase in the percentage of purchased retail contract loans against the total loan portfolio will be reviewed and recommended to the Board of Directors by the Delinquent Loan Committee. The Board of Directors will approve all increases or decreases to the percentage of retail contract loans as compared to the total loan portfolio.

UNDERWRITING CRITERIA

Loans will be underwritten according to the parameters set out on the Dealer Rate Sheet. The Credit Union Loan Officer will review information presented by the Dealer. This will include credit reports and auto evaluation reports.

MONITORING

Management will evaluate the Indirect Lending Program on a monthly basis. A monthly report will be presented to the Delinquent Loan Committee and the Board of Directors that will contain the following:

1. Number of applications processed.
2. Number and dollar amount of loans approved.
3. Balance and percentage of total loans with the Indirect Program.
4. All other information deemed necessary by the Board of Directors.

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POLICY REVIEW

Indirect Lending Policy will be reviewed on an annual basis by the Delinquent Loan Committee and Board of Directors.

FUNDING

The funding of the loans will be based at the South office. All Indirect loan documents will be presented for payment at the South location. The funding of the loan will only be performed if all of the required documents are presented and are properly perfected. This process will follow the outline provided by the third party processor.

RESTRICTIONS

- The following restrictions will be enforced on the program:
- Tier 4 loans will not exceed 15% of the total indirect portfolio.
- Tier 3 loans will not exceed 20% of the total indirect portfolio.
- Debt to income maximums: 45% for all tiers. May approve up to 50% if credit score exceeds 700.
- Loan to value maximum will be 130% of NADA Retail with product, 120% without product.
- Payment to dealers will be 1% of total loan amount (Example: \$37,000 loan will result in a \$370 payment to the dealer.) This compensation may change from time to time. Any change will be approved by the Delinquent Loan Committee and the Board of Directors.
- Self employed borrowers must prove income through tax return evaluation if required by lender. This evaluation will be done by Credit Union.