

SECTION VIII

REAL ESTATE

Reviewed: July 2019

Approved: July 25, 2019

Red Crown Federal Credit Union
Policy Manual
Section VIII - Real Estate Loans

Table of Contents

	<u>Page</u>
Loan Products	1
Construction Loans	1
Percentage of Assets	2
Trade Area	2
Regulations/Laws.....	2
Personnel.....	2
Quality control	2
Pricing	3
Approvals.....	3
Debt Ratio	3
Processing/Underwriting/Closing	3
First Mortgage Loans.....	3
Second Mortgage Loans	3
Closing Documents.....	3
Documentation.....	3
Appraisals Policy	3
LTV/PMI.....	6
Fees	6
Foreclosure Policy	6
S.A.F.E. Act Policy.....	8
Appendix A	10

*Red Crown Federal Credit Union
Policy Manual
Section VIII - Real Estate Loans*

A. Loan Products

Red Crown Federal Credit Union shall offer conventional first and second mortgage loans to its members; in USDA / Rural Development, FHA and VA home loans will also be offered.

All mortgage loans shall be originated in conformity with the standards of the secondary market with the exception of second mortgage loans which are not currently saleable.

Up to thirty year Fixed and Adjustable rate conventional first mortgages shall be offered and may be sold upon closing to a secondary market investor. Maximum loan amount and loan to value limits are set by secondary market investor and subject to change with written notice.

Up to thirty year Fixed and Adjustable rate conventional mortgages may be retained in the Credit Union's portfolio, limited as noted in Appendix A.

Allowable purposes include the following:

Purchase money	Home improvement
Refinance loans	Educational expense
Permanent financing	Consumer purchases
(after construction)	Debt consolidation

All properties must be for owner-occupied primary residence, second home or investment properties. Multi-family units are not allowable.

Property offered as collateral must meet secondary market standards and/or member must adhere to repair requirements as detailed by Credit Union or investor.

1. Land Loans / Lot Loans
 - a. Terms up to 10 years
 - b. LTV up to 90% of appraised value or sales price; whichever is less.
(exceptions on a case-by-case basis)
 - c. Ratios up to a maximum of 45% Total Debt Ratio
 - d. Not assumable
2. Construction Loans
 - a. Interest only – Terms up to 12 months
 - b. 90% LTV maximum
 - c. Specifications and building plans required
 - d. Appraisal required from a licensed appraiser
 - e. Lien waivers required on all checks issued
 - f. Inspections will be performed after the completion of major accomplishments
3. Signature Authorization for Mortgage Sales
The following individuals are authorized to sign documents required for secondary market sales:

President / CEO
Vice President - Lending
Controller/CFO

Red Crown Federal Credit Union
Policy Manual
Section VIII - Real Estate Loans

B. Percentage of Assets

The following maximum percent of assets will be allocated to each of the loan types:

First Mortgage	20 %
Second Mortgage	10 %

Total real estate loans shall not exceed 25% of total assets and they shall not exceed 50% of total gross loans. When allocation has been reached, immediate measures will be taken to manage exposure (i.e., sell all new origination immediately to investor).

Management will review the amount allocated for each program on a quarterly basis to determine if revisions need to be made to the current percent of funds allocated. Recommendations will be made to the Board of Directors through ALCO for adjustments.

C. Trade Area

Loans may be granted to eligible members of Red Crown within 250 miles of a Red Crown facility.

D. Regulations/Laws

All loans shall be processed in compliance with all applicable regulations and statutes.

E. Personnel

The Board of Directors has authorized hiring mortgage loan secondary market expertise to work with lending staff and members to process, underwrite, close, and deliver mortgages as established by written policy and contract. Credit Union existing staff with at least thirty (30) hours of external secondary market real estate training will suffice for experienced real estate mortgage personnel for first and second mortgage product purposes.

F. Quality Control

Red Crown Management will review randomly selected loans for document completeness, quality of loans being made, and to ensure that Red Crown's risk is at a minimum in the areas of credit, collateral, and interest rates.

G. Pricing

Mortgage loans will be priced for sale to the secondary market by investor and are subject to change daily. Pricing for mortgage loans to be retained by Red Crown will be set by Management as needed.

H. Approvals

Approvals of all first mortgage loans will be made by, Automated Underwriter, Loan Committee, President/CEO, or Vice President – Lending (within their lending authority as referenced in Loan Policy. Exceptions to the above (i.e., derogatory credit, collateral issues, etc.) will be submitted to Loan Committee for approval.

Credit Criteria as referenced in the Loan Policy will be used on second mortgages.

Red Crown Federal Credit Union
Policy Manual
Section VIII - Real Estate Loans

I. Debt Ratio

Debt ratios for saleable mortgage loans will comply with current secondary market standards. These ratios will be referenced with other guidelines in Appendix A of the Real Estate Loan Policy.

J. Processing/Underwriting/Closing of Secondary Market Loans

1. First Mortgage Loans:

All mortgage loans shall be processed using Secondary Market (FNMA / FHLMC/FHLB) guidelines and procedures. All credit packages will be underwritten in accordance with secondary market guidelines. (See Loan Approval Guidelines referenced in Section H.)

2. Second Mortgage Loans

Will be processed under the same guidelines, but limited and alternative documentation may be used to support the credit packages and expedite the processing procedure on these type loans.

3. Closing Documents:

All mortgage loans shall be closed in accordance with the requirements of the secondary market. Title insurance coverage, a Title Opinion, or other applicable title work shall be obtained on all loans.

4. Documentation:

To include, but not limited to, residential mortgage credit report, hazard insurance policy prior to/or at closing, naming Credit Union as loss payee, title search/title insurance, and appraisal completed by licensed appraiser.

K. Appraisals Policy

Purpose: To establish an appraisal and evaluation program for real estate loans in accordance with all regulations including Regulation Z - Truth in Lending Act and the Dodd-Frank Wall Street Reform and Consumer Protection Act.

General policy statement: RCFCU's board of directors is responsible for adopting and reviewing policies that establish an effective real estate appraisal and evaluation program. RCFCU's real estate appraisal policy will be appropriate and commensurate with the size and the nature of FCU real estate program. RCFCU will adopt and maintain written real estate lending policies that are consistent with principles of safety and soundness.

1. Independence of Appraisal process

- a. The appraisal process will provide for the independence of the person ordering, performing and reviewing appraisals or evaluations. Due to size of credit union only three employees are involved in the real estate lending process. The Vice President of Lending will approve the loan and the Mortgage Loan Officer and/or Mortgage Loan Processor will work up, order the appraisal and close the loan. RCFCU staff does not perform appraisals.

*Red Crown Federal Credit Union
Policy Manual
Section VIII - Real Estate Loans*

- b. Appraisers will be independent from the loan production and collection processes and have no direct, indirect or prospective interest, financial or otherwise, in the property or transaction.
 - c. RCFCU may exchange information with appraisers and persons who perform evaluations, which may include providing a copy of the sales contract for a purchase transaction. RCFCU will not directly or indirectly coerce, influence, or otherwise encourage an appraiser or a person who performs an evaluation to misstate or misrepresent the value of the property.
 - d. RCFCU may request the appraiser who performs an evaluation to:
 - Consider additional information about the subject property or about comparable properties;
 - Provide additional supporting information about the basis for a valuation;
 - Correct factual errors in an appraisal.
 - e. RCFCU should avoid inappropriate actions that would compromise the independence of the collateral valuation function, including:
 - Communicating a predetermined, expected, or qualifying estimate of value, or a loan amount or target loan-to-value ratio to an appraiser or person performing an evaluation;
 - Specifying a minimum value requirement for the property that is needed to approve the loan or as a condition of ordering the valuation;
 - Conditioning a person's compensation on loan consummation;
 - Failing to compensate a person because a property is not valued at a certain amount;
 - Implying that current or future retention of a person's services depends on the amount at which the appraiser or person performing an evaluation values a property;
 - Excluding a person from consideration for future engagement because a property's reported market value does not meet a specified threshold.
2. Selection of appraisers
- a. RCFCU will obtain the following before approving an appraiser:
 - Resume- to include educational experience, appraisal education, real estate education, professional experience, certified residential appraiser number, and list of business references;
 - Copy of current certificate of Oklahoma Real Estate Appraiser Certificate.
 - b. Approval requirements:
 - Banking or credit union loan appraisal experience;
 - Appraiser is independent and has no direct, indirect, or prospective interest, financial or otherwise;
 - Appraisers will be approved by the board of directors;
 - Approved appraisers will be reviewed on an annual basis;
 - Appraisers for loans originated for secondary market sales are selected through a rotational service;
 - Appraisers for loans retained in the portfolio will be selected from RCFCU's approved appraiser list.

Red Crown Federal Credit Union
Policy Manual
Section VIII - Real Estate Loans

- c. RCFCU will use an engagement letter to order appraisals.
3. Transactions that require appraisals
 - a. All 1st and 2nd mortgages where lien is taken on real estate will require a Uniform Residential Appraisal Report.
 - b. Drive-by inspections can be used only in the following conditions:
 - Non-purchase money loan;
 - Loan to Value ratio of up to 80% including all liens;
 - Loan has to be retained at the credit union;
 - Non- construction loan;
 - RCFCU reserves the right to request full appraisal if a problem or question come up when conducting the drive-by.
 - c. Refinancing of existing loans must have an appraisal within 1 year of new application. Loan officer may request a more current appraisal at application if deemed necessary by economic conditions.
 4. Minimum Appraisal Standards

The appraisal must:

 - Conform to generally accepted appraisal standards as evidence by the USPAP promulgated By the Appraisal Standards Board of the Appraisal Foundation unless principles of safe and sound banking require compliance with stricter standards;
 - Be written and contain sufficient information and analysis to support the credit union's decision to engage in the transaction;
 - Analyze and report appropriate deductions and discounts for proposed construction or renovation;
 - Be based upon the definition of market value set forth in the appraisal regulation;
 - Be performed by state certified or licensed appraisers in accordance with requirement set forth in the appraisal regulation;
 - The appraiser will comply with the USPAP Scope of Work Rule.
 5. Reviewing Appraisals
 - a. RCFCU will designate a qualified employee to review appraisals.
 - b. Designee will be independent of the loan officer whom approved the loan.
 - c. Designee will have mortgage training and mortgage closing experience.
 - d. The total maximum adjustments to comparables will not exceed 25%.
 6. Resolution of Deficiencies
 - a. RCFCU will communicate any noted deficiencies to the appraiser or person who prepared the evaluation and request correction of such deficiencies.
 - b. The Credit Union will implement adequate internal controls to ensure that such communications do not result in any coercion or undue influence on the appraiser or person who performed the evaluation.

Red Crown Federal Credit Union
Policy Manual
Section VIII - Real Estate Loans

c. Address significant deficiencies in the appraisal that can not be resolved with the original appraiser by obtaining a second appraisal.

7. The following are approved, licensed appraisers that Red Crown may use.

Cottrell Real Estate Appraisals, LLC
Certified Residential Appraiser
Real Estate Appraisal Services of Tulsa, Inc.
Stowers Real Estate Appraisals
Michael J. Gray Appraisal Company
Ala Mode Appraisal Service

L. LTV/PMI

The Loan To Value (LTV) of all mortgage loans will be computed on the lesser of the sales price or appraised value of the subject property whichever applies. LTV requirements are subject to change based on loan programs being offered. (See Appendix A)

Any first mortgage loans greater than 80% LTV that will be sold on the secondary market will require the purchase of private mortgage insurance (PMI). Any first mortgage loan greater than 80% LTV that will be held in the Red Crown portfolio will not be required to purchase private mortgage insurance (PMI). This will be optional on a case-by-case basis.

M. Fees

All first mortgage loans are subject to normal processing fees to obtain credit documents for sale of loan to secondary market.

Second mortgage loans may require a flat fee to cover the cost of credit processing (i.e., credit report, appraisal, title report, etc.).

N. Foreclosure Policy

Foreclosure is sometimes unavoidable when working with real estate mortgage borrowers who are unable to meet their contractual payment obligations. RCFCU will consider the following loss mitigation strategies before foreclosure is pursued:

1. Loan Modification - See Policy Section VII – Lending Policy for criteria for loan modifications. Documentation of the borrower’s ability to qualify for loan modification will be retained in the loan file.
2. Pre-Foreclosure Short Sale. If the borrower has long-term financial problems and cannot afford even a modified loan, and the value of the property has fallen below the mortgage amount, the RCFCU may choose to release its mortgage and sell the home for less than the outstanding loan amount. In these situations, the credit union takes one hundred percent (100%) of the sale proceeds.
 - a. RCFCU will need to decide whether to release the borrower from any deficiency after the sale.

*Red Crown Federal Credit Union
Policy Manual
Section VIII - Real Estate Loans*

3. Deed in Lieu of Foreclosure. RCFCU may choose to accept a deed from borrower signing over title to the property in exchange for being released from his/her debt. The credit union will first obtain an appraisal to determine whether the current value makes this an attractive option, and will seek the advice of legal counsel to ensure that the transaction, as well as the documentation, is conducted properly. The mortgage release will not be filed until the property is sold.
4. Foreclosure. As a last resort, RCFCU will begin the process of foreclosing on the property. If it is determined that the credit union will foreclose on an asset, the credit union will do the following:
 - a. The credit union will engage a law firm experienced in foreclosure to process the foreclosure to ensure compliance with applicable regulations and laws;
 - b. Determine the fair market value of the property by appraisal;
 - c. Secure the foreclosed asset once the foreclosure has been successfully completed.
5. If RCFCU holds a subordinate lien, an evaluation of the property value and the status of the 1st lien will be made to determine which of the following options should be taken:
 - a. Wait for the 1st lien holder to complete the foreclosure process depending on the size of the 1st lien or if the foreclosure process has begun. In this case, the credit union could purchase the property at the Sheriff's Sale; or
 - b. Pay off the 1st lien holder and process the foreclosure itself.
 - c. It is understood and recognized by the Board of Directors that due to adverse market conditions a real estate loan that is in subordinate lien position has a higher loss potential than a real estate loan in 1st lien position. Because of this, it may be necessary to make the decision not to foreclose and write off the entire loan. RCFCU will seek other collection means in this case.
6. When the credit union becomes the title owner of an asset through a foreclosure, the asset will be transferred to the general ledger at its fair market value. Any deficiency will be charged off at the time of transfer.
7. Any complaints regarding a foreclosure process will be directed to the President/CEO.
8. All foreclosures will be reported to the Board of Directors.

Red Crown Federal Credit Union
Policy Manual
Section VIII - Real Estate Loans

O. S.A.F.E. Act Policy for Red Crown Federal Credit Union

It is the policy of Red Crown to comply with the requirements of the Secure and Fair Enforcement for Mortgage Licensing Act (S.A.F.E. Act). The S.A.F.E. Act requires any credit union employee who acts as a mortgage loan officer to register with the Nationwide Mortgage Licensing System and Registry (“Registry”), to use the Registry’s unique identifier as required and maintain this registration.

Red Crown Federal Credit Union’s Vice President of Lending will be designated as “Account Administrator”- the individual who will have full access to credit union and employee data. The Account Administrator will ensure that the following will be implemented and enforced:

1. Register Red Crown, keep registration information updated, and renew the information on an annual basis.
2. Identify those employees that meet the definition of Mortgage Loan Officer (MLO) and ensure that they are registered before performing any MLO duties.
3. Review requirements with Mortgage Lending Staff on an ongoing basis.
Review any employee criminal history background reports received through the Registry.
4. Ensure that an independent audit for compliance with the S.A.F.E. Act’s requirements is performed annually by credit union personnel outside of the mortgage department or by an outside party.

Mortgage Loan Originator. A mortgage loan originator (MLO) is an employee who takes a residential mortgage loan application and offers or negotiates the terms of a residential mortgage loan for compensation or gain. This definition does not include employees whose main job duties do not include mortgage loan origination and closing.

1. Employees in the following positions are required to be registered mortgage loan originators on the national Registry:
 - a. Mortgage Loan Manager
 - b. Mortgage Loan Officer
 - c. One designated credit committee member
 - d. Any other employee who acts as a MLO for more than 5 residential mortgage loans in the preceding 12 month period.
2. The term MLO does not include an individual who performs purely “administrative or clerical tasks” on behalf of an individual who is described above. “Administrative or clerical tasks” means the receipt, collection and distribution of information common for the processing or underwriting of a loan in the residential mortgage industry and communication with a member to obtain information necessary for the processing or underwriting of a residential mortgage loan.

Red Crown Federal Credit Union
Policy Manual
Section VIII - Real Estate Loans

Registration. Any employee who has been identified as an MLO must register on the Nationwide Mortgage Licensing System and Registry, maintain and renew that registration and obtain a unique identifier. This identifier will be used by the Registry to identify the MLO, track mortgage loan origination, and provide public access to the employment history and any disciplinary or enforcement actions against the MLO. Following the initial registration, the MLO must renew their registration annually between November 1 and December 31 of each year.

An MLO must provide the following information to the Registry as well as any additional information required by the Registry:

1. ID information including name, home address and contact information, principal business location address and contact information, Social Security number, gender, date of birth, and place of birth;
2. Financial services related employment history for the 10 years prior to the date of registration or renewal, including the date the MLO became an employee of Red Crown;
3. Any criminal convictions involving dishonesty, breach of trust, or money laundering; civil action in regard to financial services related activities, or disciplinary actions ordered by a state or federal regulatory agency;
4. Any suspension or revocation of an individual's professional license;
5. Fingerprints for submission to the Federal Bureau of Investigation. Fingerprints provided to the Registry that are less than 3 years old can be used to satisfy this requirement.

The Credit Union will not permit an employee who is subject to the registration requirements to act as a mortgage loan originator for the Credit Union unless such employee is registered with the Registry.

Use of a Unique Identifier.

1. RCFCU will make the credit union's unique identifier(s) and credit union name and the unique identifier(s) of its registered mortgage loan originator(s) available to members in a manner and method practicable to the Credit Union.
2. A registered mortgage loan originator must provide the credit union's name and unique identifier, and his/her own name and unique identifier to a member:
 - a. Upon request;
 - b. Before acting as a mortgage loan originator;
 - c. Through the originator's initial written communication with a member, if any, whether on paper or electronically; and
 - d. On each Regulation Z covered loan document.

Red Crown Federal Credit Union
Policy Manual
Section VIII - Real Estate Loans

Appendix A

**Red Crown Federal Credit Union
Policy Manual
Section VIII - Real Estate Loans**

Appendix A

REAL ESTATE LOAN PRODUCT	MAX TERM (Years)	MAXIMUM \$ / LTV	MAX.DEBT/ INC %
REAL ESTATE 1st Mortgage - Fixed ARM	30 30	NCUA Borrower Limit 90 % 90%	Total Pmts 45%
2nd Mortgage - Fixed	15	\$100,000 90%	Total Pmts 45%
Home Equity Lines	Draw 5 Repayment 10	\$100,000 80%	Total Pmts 45%

This loan product information is for portfolio loans. Individual exceptions to the above items may be approved by the Vice President - Lending, President/CEO, or with a majority of the Loan Committee.

Loans to be retained in Red Crown's portfolio in excess of 90% LTV may be required to obtain Mortgage insurance coverage.