7100. LENDING POLICY

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TABLE OF CONTENTS

General Policy Statement

Resource One Credit Union will offer Consumer, Business, and Real Estate Loans to its members. When offering these loans, all applicable State and Federal rules, laws and regulations will be followed.

Resource One Credit Union will not discriminate against any member on the basis of race, color, religion, national origin, sex, sexual preference, marital status, age, or public assistance.

Minors under the age of 18 may submit a loan request; however the request must be submitted with a qualified co-borrower or co-signer that has reached the age of majority.

Non-members may apply for loans when the application facilitates the sale of recovered collateral or as a co-borrower or co-signer on loans to credit union members.

Credit Union services will not be extended to members, or businesses, that have caused the Credit Union a loss, regardless of the reason for the loss.

Lending Powers (91.701)

1. The Board of Directors will review, and approve, Lending Policy on an annual basis.

2. To avoid undue concentrations of risk the loan portfolio will be diversified in the following manner:

   a. Member Business Loans plus Nonmember Participation Investments (if applicable): 1.75 times Net Worth, 12.25% of Total Assets or as set by the Board of Directors; whichever is less.
   b. First Mortgage Loans: 15% of the Total Assets.
   c. All Other Mortgage Loans: 30% of the Total Assets.
   d. Consumer Loans (Secured plus Unsecured): That percent which constitutes the remainder of the portfolio.
   e. Risk Rated Loans: Loans with a rating of D and E will not exceed 25% of the total risk rated portfolio.

3. When underwriting Consumer Loans, the following standards will be applied:

   a. Verification of income and/or employment will be requested on an exception basis only. If it is determined that verification is vital to the loan decision; the information will be obtained and reviewed prior to the loan decision.
   b. A credit report will be reviewed and credit factors assessed when reviewing an application.
   c. Debt to income (DTI) ratio should generally not exceed 55%. Exceptions may be made with approval from an Assistant Underwriting Manager or higher, if the Loan Underwriter documents, verifies and provides justification for over-riding the standard before continuing with the request. If there is insufficient reason to make a DTI exception, the Loan Underwriter will ask for collateral, if the request is for an unsecured loan, or sufficient down payment if the request is for a secured loan.

4. Individual Lending Authority

   a. For the purpose of policy, a Loan Underwriter is defined as anyone with loan underwriting authority.
   b. The Board of Directors has set aggregate lending limits for each position as

described in **Attachment A**.

5. The collateral value for secured loans will be determined by the following:
    a. New Vehicles/Boats/RV/Motorcycle will be valued at invoice.
    b. Used Vehicles/Boats/RV/Motorcycle will be valued using NADA Clean Trade, Kelley Blue Book Clean Trade, or a similar provider.
    c. Stocks and Bonds will be valued using current quotes from the Dow Jones Industrial Index, NASDAQ or S&P 500, whichever source is appropriate
    d. Other Collateral: New will be valued at cost
    e. Other Collateral: Used will be valued by an appropriate authority

    If these sources do not provide a clear or accurate assessment of the collateral's value, another industry acceptable source may be used. The maximum Loan to Value (LTV) will not exceed 140%, excluding back end products. Exceptions may be made with approval from an Assistant Underwriting Manager or Higher.

6. A Cosigner is a guarantor who adds their signature as an accommodation to the Primary Obligor, does not enjoy in the benefits of the loan, but is equally responsible for the repayment of the loan regardless of positioning on the loan application. When reviewing a loan application, the Primary Obligor will be viewed as being primarily responsible for the repayment of the loan.

7. A Co-maker is a loan recipient who enjoys in the benefit of the loan. A Co-maker will be viewed as being equally responsible for the repayment of the loan.

8. A Non-member may be a Cosigner but may not be a Co-maker.

9. Maximum terms for each type of loan, except real estate and commercial loans, are:

a.	Boat, RV and Aircraft:	180 months
b.	Automobile:	84 months
c.	Motorcycle:	60 months
d.	All other collateralized loans:	60 months
e.	Unsecured loans:	60 months
f.	Unsecured Home Improvement Loans (Fully Insured)	180 months
g.	Lines of Credit:	Revolving, however, payments must be sufficient to amortize the outstanding balance over a reasonable period of time and not cause negative amortization.
h.	Credit Cards:	Revolving, however lines will be reviewed every two years to ensure underwriting criteria is met.

10. Terms may be extended up to six months, without raising the rate, to facilitate the purchase of back-end loan products. In no case will terms exceed 180 months.

11. Resource One Credit Union has chosen to be a risk-based lender in order to meet the lending needs of as many members as possible. When evaluating a consumer loan request, the rate charged to the member will be based on the Equifax Credit Score. When determining the rate to charge, if two or more scores are offered, the Credit Union will adhere to the following:

    a. When reviewing an application with a Co-maker the highest score will be used.
    b. When reviewing an application with a Cosigner, the Primary obligors score will be used.
    c. If one Equifax credit bureau is obtained, and two scores are offered, the score associated with the most current credit information will be used.

12. When determining the rate to charge, if there is no score, the Credit Union will adhere to the following:

a. Assign C rate when no score is the result of no credit (passing augmentation).
b. Assign E rate when no score is the result of derogatory credit (failing augmentation).

13. Any rate adjustment falling outside the Credit-Wise table rate requires approval, through the Lending Department, at an Assistant Manager level or higher. Rates may be adjusted to meet a competitor's rate or when a member has established relationships with Resource One Credit Union and those relationships have performed as agreed. Rates may also be discounted when back-end products are purchased or when a member has other primary relationships with Resource One Credit Union.

14. Members are required to provide comprehensive and collision insurance, naming Resource One Credit Union as lien holder, on all titled collateralized loans in which the loan request is more than $5,000. If it is determined by the Credit Union, or a third party tracking company, that a collateralized loan is not insured, the Credit Union may add collateral protection insurance to the loan or may repossess the uninsured collateral if the loan is in default.

15. Resource One Credit Union will file, or record, a lien on all pledged collateral. The liens, or recordings, will be filed with the appropriate State or Federal agency.

16. Resource One Credit Union will offer revolving and closed-end loans to its members. The maximum term for a closed-end loan will be 15 years, except as otherwise provided for under the Texas Administrative Code for State-Charted Credit Unions, Rule 91.701(d).

17. Resource One Credit Union will maintain files associated with all lending activity. These files can be retained in paper form, electronic form or a combination of the two.

18. The forms will be maintained in such a manner as to ensure Resource One Credit Union can make an informed lending decision, can assess risk on an ongoing basis and ensure that any claims against a member, guarantor, security holders, and collateral are legally enforceable.

19. The files will be maintained until the loan is paid off, and for any period afterward,

to comply with State and Federal records retention requirements.

Interest Rates (91.703)

1. The Board of Directors is responsible, but may delegate the responsibility to the Asset/Liability Committee, for setting in-house loan rates for Consumer, Member Business, and Real Estate Loans. The detailed loan rates will be contained in the ALM Committee Minutes and reported to the Board of Directors on a monthly basis. The Board of Directors may also authorize a refund of interest on loans under conditions it may prescribe.

2. Resource One Credit Union may provide for variable interest rates, as long as the factor or index governing the extent of the variation is not under the control of Resource One Credit Union and can be readily ascertained from sources available to the public or any other index approved in writing by the Commissioner which is not available to the public.

Real Estate Lending (91.704)

1. Resource One Credit Union will offer First Mortgages, Second Mortgages, Land, Construction, Home Improvement, Home Equity, Home Equity Lines of Credit (HELOC), Purchase and Purchase Money Seconds Real Estate Loans to its members. Additionally, the credit union may offer government program loans such as VA, FHA, and USDA loans. The Trade Area for Real Estate loans will be the State of Texas.

2. Pursuant to recent changes to Regulation Z by the Consumer Financial Protection Bureau (CFPB) the categories of "qualified" and "non-qualified" mortgages have been established. Resource One will offer both types of mortgages.

   "Qualified" Mortgages (QM) must meet eight Ability to Repay (ATR) factors. Those factors (as follows) will be reviewed and considered as a part of the underwriting process:

a. Current or reasonably expected income or assets other than the value of the property that secures the loan that the consumer will rely on to repay the loan.
b. Current employment status if relied on for assessing the repayment of the loan. Reasonable evidence must be acquired to support the information such as verifiable paystubs or tax returns.
c. The monthly payment for variable rate HELOC's must be fully-amortizing payments that are substantially equal payments between each interest rate adjustment that pay the accrued interest and a portion of the principal.. To qualify for a variable rate loan, the current margin and the prime index, plus 2% will be used.
d. Inclusion of any payment on a simultaneous loan secured by the same property.
e. Monthly payments for mortgage related obligations including but not limited to, property taxes, hazard or flood insurance and Home Owner Association fees

f. Current debt obligations, including things such as alimony and child support payments, in addition to typical re-occurring debts as shown on a credit report must be considered.
g. Monthly Debt-To-Income ratio (DTI) meaning the percentage of a consumer's monthly gross income that goes toward paying housing and all other monthly obligations.

h. Credit history consideration is not specifically described by the Ability to Repay (ATR) rule. A creditor should make every reasonable effort to verify and assess all obligations especially if these obligations make an impact on the consumer's ability to repay the loan. If documentation is used to determine an obligation then those documents should become a part of the permanent loan file.

CFPB Qualified Mortgages (QM) requirements also prohibit certain risky features and practices, such as negative amortization and interest-only periods and loan terms longer than 30 years.

For all types of QMs, points and fees shall not exceed 3 percent of the total loan amount, but higher thresholds are provided for loans below $100,000.

For a loan to be a QM, the points and fees may not exceed the points-and-fees caps. The points-and-fees caps are higher for smaller loans.

- 3 percent of the total loan amount for a loan greater than or equal to $100,000
- $3,000 for a loan greater than or equal to $60,000 but less than $100,000
- 5 percent of the total loan amount for a loan greater than or equal to $20,000 but less than $60,000
- $1,000 for a loan greater than or equal to $12,500 but less than $20,000
- 8 percent of the total loan amount for a loan less than $12,500

Dollar amounts listed above are adjusted annually for inflation and published each year in the Commentary to Regulation Z.

"Non-qualified" mortgages are those that fall outside the guidelines for Qualified Mortgages (QM) (listed above).

3. Resource One Credit Union reserves the right to modify, through a Modification Agreement, any of the qualifying real estate products.

4. Underwriting standards are as follows:

   a. The target debt to income ratio is 36% front (before) and 45% back (after).
   b. The target credit score is 620 and above.
   c. Home Owners Insurance is required in an amount of the loan less the value of the lot.
   d. The member must provide the following documents:
      1) Pay stubs

2) W-2 or
3) Two years tax returns for self-employed.
4) Home Owners Insurance
5) Documentation proving assets in an amount equal to two monthly payments when required.
6) Proof of cash needed at closing.

e. If the above factors do not meet target or requirements, the underwriter will fully review the documentation and make an exception, if justified and validated.

5. Deed of Trust will be recorded promptly after funding.

6. Private Mortgage Insurance (PMI) is required on loans with LTV greater than 80%. (NOTE: PMI requirement will not be based on race, color, religion, national origin, sex, sexual preference, marital status, age, or public assistance.)

7. Title Insurance is required on all Real Estate Loans over $100,000 and all purchase transactions and is optional on all other Real Estate Loans. A title search will be required for real estate loans without title insurance.

8. In those instances where escrow of insurance and taxes is a requirement of the loan; escrow will be administered through Resource One Credit Union's Real Estate Department or that entity assigned by Resource One Credit Union. Escrow analysis will be performed on an annual basis. In all cases, escrow requirements and administration will comply with Section 10 of the Real Estate Settlement Procedures Act.

9. Real Estate payoffs will be administered through Resource One Credit Union's Real Estate Department.

10. Delinquent Real Estate loans will be collected through Resource One Credit Union's Collection Department using normal collection practices. When a property falls under foreclosure proceedings the Real Estate Department will aid in facilitating the sale of the property while following foreclosure procedures.

11. All Real Estate Loans will be serviced by the Real Estate Department unless those loans are sold to a third party under a Servicing Released Clause or assigned to a third party for servicing.

12. While the Board of Directors establishes all Loan to Value (LTV) limits, in no case will those limits exceed the following:

    a. Unimproved land held for investment/speculation: 60% LTV
    b. Construction and Development: commercial, multifamily, and other nonresidential: 75% LTV
    c. Interim Construction: Owner-occupied residential real estate: 90% LTV
    d. Owner occupied residential real estate (other than home equity) 95% LTV
    e. Other residential real estate such as a second or vacation home 90% LTV
    f. Home Equity 80% LTV
    g. All other 80% LTV

13. Resource One Credit Union may make a loan in an amount up to 100% LTV if that part of the loan that exceeds the regulatory LTV limit is guaranteed or insured by a private corporation, organization or other entity.

14. Exceptions to LTV of this section are permitted for the following reasons:

    a. Loans that are covered through appropriate credit enhancements in the form of readily marketable collateral or other acceptable collateral.
    b. Loans guaranteed or insured by the U.S. Government or its agencies provided that the amount of the guaranty or insurance is at least equal to the portion of the loan that exceeds the regulatory LTV limit.
    c. Loans guaranteed, insured or otherwise backed by the full faith and credit of the state, a municipality, a county government, or an agency thereof, provided that the amount of the guaranty, insurance, or assurance is at least equal to the portion of the loan that exceeds the regulatory LTV limit.
    d. Loans that are to be sold promptly after origination, without recourse or limited recourse, to a financially responsible third party.
    e. Loans that are renewed, refinanced, or restructured without the advancement of new funds or an increase in the line of credit (except for reasonable closing costs) where consisted with safe and sound credit union practices and part of a clearly defined and well-documented program to achieve orderly liquidation of the debt, reduce risk of loss, or maximize recovery on the loan.
    f. Loans that facilitate the sale of real estate acquired by the Credit Union in the ordinary course of collecting a debt previously contracted in good faith.

15. Notwithstanding the 15 year maturity limit on lending transactions to members, the following maximum maturities for real estate lending transactions will apply:

    a. Improved residential Real Estate Loans (owner-occupied, first lien): 30 years.
    b. Improved residential Real Estate Loans (second or vacation home): 30 years.
    c. .
    d. Home Equity Loans: 20 years (second lien); 30 years (first lien).
    e. Home Improvement Loans: 20 years.
    f. All other Real Estate loans including Member Business Loans and Rental Homes: 15 years.

16. Mortgage Fraud Notice: Resource One Credit Union will provide, to each applicant for a home loan, a written notice at closing. The notice will be provided on a separate document, in at least 14-point type, and have the following or substantially similar language:

    - "Warning: Intentionally or knowingly making a materially false or misleading written statement to obtain property or credit, including a mortgage loan, is a violation of §32.32, Texas Penal Code, and, depending on the amount of the loan or value of the property, is punishable by imprisonment for a term of two years to 99 years and a fine not to exceed $10,000. "I/we, the undersigned home loan applicant(s), represent that I/we have received, read, and understand this notice of penalties for making a materially false or misleading written statement to obtain a home loan. "I/we represent that all statements and representations contained in my/our written home loan application, including statements or representations regarding my/our identity, employment, annual income, and intent to occupy the residential real property secured by the home loan, are true and correct as of the date of loan closing."

    On receipt of the notice, the applicant will verify the information and execute the notice. The credit union will keep the signed notice on file with the records required under §91.701 of the Texas Administrative Code.

17. Registration of Residential Mortgage Loan Originators. Title V of the Housing and

Economic Recovery Act of 2008 (Public Law 110-289) requires employees of Resource One Credit Union, who engage in the business of a mortgage loan originator, to register with the Nationwide Mortgage Licensing System and Registry and to obtain a unique identifier. Resource One Credit Union will comply with the requirements imposed by Part 761 of the NCUA Rules and Regulations.

Home Improvement Loans (91.705)

1. All loans, in which the proceeds are used to construct new improvements or renovate existing improvements on a homestead property, will also comply with the requirements of Section 50(a)(5), Article XVI, of the Texas Constitution.

Home Equity Loans (91.706)

1. Any loan secured by an encumbrance against the equity in a homestead property will comply with the terms and conditions set forth in Section 50, Article XVI, of the Texas Constitution.

Reverse Mortgages (91.707)

1. Resource One Credit Union does not offer Reverse Mortgages.

Real Estate Appraisals or Evaluations (91.708)

1. The Board of Directors is responsible for reviewing and adopting policies and procedures in order to establish and maintain an effective, independent real estate appraisal and evaluation program. This program will be in accordance to the guidelines set forth in National Credit Union Administration (NCUA) Letter to Credit Unions 10-CU-23.

2. When ordering an appraisal all orders will be placed with an Appraisal Management Company (AMC). Resource One Credit Union requires the following minimum criteria:

    a. The individual has neither a direct nor indirect interest, financial or otherwise, in the property or transaction and be able to render an unbiased opinion.
    b. The only communication between Resource One Credit Union and the appraiser will be conducted through the AMC only.

   c. The individual selected must also be competent to perform the appraisal based upon the individual's qualifications, experience, expertise and educational background.
   d. The individual selected must possess the appropriate State certification or license for the type of business being conducted as defined in NCUA Rules Part 722.2 (i) & (j).
   e. Due diligence will be performed on the Appraiser by the AMC prior to being assigned an order and ongoing evaluation will be performed to ensure qualifications remain in order.
   f. An annual review of the work performed by the Appraiser will be conducted by the AMC.

3. Resource One Credit Union employees who review appraisals and evaluations will:
   a. Possess the requisite education, expertise, and competence to perform the review commensurate with the complexity of the transaction, type of real property, and market.
   b. Be capable of assessing whether the appraisal or evaluation contains sufficient information and analysis to support the credit union’s decision to engage in the transaction.

4. LTV will be determined by one of the following methods:

   a. Appraisal,
   b. County or city tax assessment
   c. Comparable sales data, or
   d. Automated valuation method.

5. All appraisals will, at a minimum:

   a. Conform to generally accepted appraisal standards as evidenced by the Uniformed Standards of Professional Appraisal Practice;
   b. Be written and contain sufficient information and analysis to support the decision to engage in the transaction;
   c. Analyze and report appropriate deductions and discounts for proposed construction or renovation, partially leased buildings, non-market lease terms, and tract developments with unsold units;

   d. Be based upon market value which is defined as the most probable price which a property should bring in a competitive and open market under all conditions and requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably and assuming the price is not affected by undue stimulus, and
   e. Be performed by a State licensed or certified appraiser.

6. Real estate loans in which the transaction value exceeds $250,000. Appraisal reports will be in writing and conform to generally accepted appraisal standards as evidenced by the Uniform Standards of Professional Appraisal Practice promulgated by the Appraisal Standards board of the Appraisal Foundation, in Washington, D.C.:
   a. Residential - Resource One Credit Union will obtain a professional appraisal report by a state certified or licensed appraiser.
   b. Non-residential – Resource One Credit Union will obtain a professional appraisal report by a state certified appraiser.

7. Real estate loans with a transaction value of $250,000 or less: While the services of a state certified or licensed appraiser is not necessary; Resource One Credit Union will obtain an appropriate evaluation of real property collateral. The evaluation will be supported by a written estimate of market value either performed by a qualified individual who has demonstrated competency in performing evaluations, automated valuation method, or from tax appraisal data of a governmental entity. When using tax appraisal data, Resource One Credit Union will demonstrate that a valid correlation exists between the tax assessment data and the market value, based on the following criteria, as required in NCUA Letter 10-CU-23, page 35.
   a. Determine and document how the tax jurisdiction calculates the Tax Assessment Valuation (TAV) and how frequently property revaluations occur.
   b. Perform an analysis to determine the relationship between the TAV and the property market values for properties within a tax jurisdiction.
   c. Test and document how closely TAVs correlate to market value based on contemporaneous sales at the time of assessment and revalidate whether the correlation remains stable as of the effective date of the evaluation.

8. Existing Loans: In the case of renewal of a loan where there has been no obvious and material change in market conditions or physical aspects of the property that

threatens the adequacy of the real estate collateral protection after the transaction, and there is no advancement of additional funds, a written certification of current value by the original appraiser or an acceptable substitute, such as tax appraisal data of a governmental entity or automated valuation method, will be acceptable.

9. Other Appraisal Requirements. Resource One Credit Union will also comply with applicable real estate appraisal requirements contained within Part 722 of the NCUA Rules and Regulations.

10. Providing Appraisals to Applicants: Resource One Credit Union must provide applicants for first-lien loans on a dwelling with copies of appraisals, as well as other written valuations developed in connection with the application, whether or not the applicants request copies.

    a. Notification Requirements: After receiving the member's application, Resource One has three business days to notify the member of their right to receive a copy of the appraisal.
        - The Credit Union must promptly share copies of appraisals and other written valuations with the applicant. Promptly means promptly upon completion, or at least three (3) business days before consummation, whichever is earlier.
    b. Content of the Appraisal Notice: Resource One's Appraisal Notice will state:
        - "We may order an appraisal to determine the property's value and charge you for this appraisal. We will promptly give you a copy of any appraisal, even if your loan does not close. You can pay for an additional appraisal for your own use at your own cost."

    c. Waive Appraisal Right: The applicant can waive the right to receive copies of the appraisal or other written valuations in advance of the closing, but in those cases, The Credit Union must still deliver the copies at or prior to consummation.
    d. No Fee for Appraisal Copy: The Credit Union cannot charge a fee for the copy of the appraisal.
    e. Handling Loans That Do Not Close: If the Credit Union does not consummate the loan and the applicant has provided a waiver, the credit union has 30 days after it determines that the loan will not consummate to send the applicant a copy of the appraisal and/or other written valuations.

11. Crediting Payments: The Credit Union will credit all mortgage loan payments as of the date of receipt, except when a delay would not result in any charge to the member or in the reporting of negative information to a consumer reporting agency.

12. Providing Loan Payoff Statements: The Credit Union will provide a loan payoff statement within seven (7) days of a member's request. Prior to delivering this statement, the credit union will take reasonable measures to verify the identity of those purporting to act on behalf of a member, and will obtain the member's authorization to release information to any such persons before the seven day timeframe begins to run.

13. Error Resolution: The Credit Union will create procedures to comply with 12 CFR 1024.35 and the requirement to acknowledge in writing within five days a notice of error from a borrower. The credit union will correct an error within 30 days unless it is concluded after a reasonable investigation that no error occurred and notify the borrower of that finding.

14. Force-Placed Insurance: The Credit Union shall not charge a borrower for forced-placed insurance coverage unless it has a reasonable basis to believe the borrower has failed to maintain hazard insurance, as required by the loan agreement, and has provided required notices.

Member Business Loans (91.709)

1. Resource One Credit Union's primary Member Business Loan (MBL) target will be, but is not limited to, small businesses defined as those businesses:

    a. With gross annual sales, or revenues, between $500,000 and $10,000,000,
    b. are within 5 miles of our current branch locations and,
    c. have been in existence for at least two years.

2. As used in this section, the following words and terms shall have the following meanings, unless the context clearly indicates otherwise.
3.

    a. "Associated borrower" means any other person or entity with a shared ownership, investment, or other pecuniary interest in a business or commercial endeavor with the borrower.
    b. "Borrower" means a member or any other person named as a borrower, obligor, or debtor in a loan or extension of credit; or any other person, including, but not limited to, a co-maker, drawer, endorser, guarantor or surety who is considered to be a borrower under the requirements of subsection (k) of this section concerning aggregation and attribution for commercial loans.
    c. "Commercial loan" means a loan or an extension of credit to an individual, sole proprietorship, partnership, corporation, or business enterprise for commercial, industrial, agricultural, or professional purposes, including construction and development loans, any unfunded commitments, and any interest a credit union obtains in such loans made by another lender. A commercial loan does not include a loan made for personal expenditure purposes; a loan made by a corporate credit union; a loan made by a credit union to a federally insured credit union; a loan made by a credit union to a credit union service organization; a loan secured by a one to four family residential property (whether or not the residential property is the borrower's primary residence); a loan fully secured by shares in the credit union making the extension of credit or deposits in another financial institution; a loan secured by a vehicle manufactured for household use; and a loan that would otherwise meet the definition of commercial loan and which, when the aggregate outstanding balance plus unfunded commitments less any portion secured by shares in the credit union to a borrower, is equal to less than $50,000.
    d. "Construction and development loan" means 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. It also means a financing arrangement for the construction, major expansion or renovation of the property types referenced in policy.

e. “Control” means a person directly or indirectly, or acting through or together with one or more persons who:
    1) own, control, or have the power to vote twenty-five (25) percent or more of any class of voting securities of another person or entity;
    2) control, in any manner, the election of a majority of the directors, trustees, or other persons exercising similar functions of another person or entity; or
    3) have the power to exercise a controlling influence over the management or policies of another person or entity.

f. “Immediate family member” means a spouse or other family member living in the same household.

g. “Loan secured by a lien on a one to four family residential property” means a loan that, at origination, is secured wholly or substantially by a lien on a one to four family residential property for which the lien is central to the extension of the credit; that is the borrower would not have been extended credit in the same amount or on terms as favorable without the lien. A loan is wholly or substantially secured by a lien on a one to four family residential property if the estimated value of the real estate collateral at origination (after deducting any senior liens held by others) is greater than fifty (50) percent of the principal amount of the loan.

h. “Loan secured by a lien on a vehicle manufactured for household use” means a loan that, at origination, is secured wholly or substantially by a lien on a new and used passenger car or other vehicle such as a minivan, sport-utility vehicle, pickup truck, and similar light truck or heavy-duty truck generally manufactured for personal, family, or household use and not used as a fleet vehicle or to carry fare-paying passengers, for which the lien is central to the extension of credit. A lien is central to the extension of credit if the borrower would not have been extended credit in the same amount or on terms as favorable without the lien. A loan wholly or substantially secured by a lien on a vehicle manufactured for household use if the estimated value of the collateral at origination (after deducting any senior liens held by others) is greater than fifty (50) percent of the principal amount of the loan.

i. “Loan-to-value ratio for collateral” means the aggregate amount of all sums borrowed and secured by the collateral, including outstanding balances plus any unfunded commitment or line of credit from another lender that is senior to the credit union's lien, divided by the current collateral value. The current collateral value must be established by prudent and accepted commercial loan practices and comply with all regulatory requirements.

j. "Member business loan" means any commercial loan, except that the following commercial loans are not considered member business loans and are not counted toward the aggregate limit: any loan in which a federal or state agency fully insures repayment, fully guarantees repayment or provides an advance committee to purchase the loan in full; and 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. The following loans are **excluded** from the commercial loan definition, but are considered member business loans (if the outstanding aggregate new member business loan balance is $50,000 or greater) and are counted toward the Credit Union's aggregate member business lending limit: loans secured by a lien on a one to four family residential property that is not member's primary residence; and loans secured by a vehicle manufactured for household use that shall be used for a commercial, corporate, or other business investment property or venture, or agricultural purposes.

k. "Net worth" has the meaning assigned by 12 C.F.R. Part 702.2.

l. "Readily marketable collateral" means financial instruments and bullion that are salable under ordinary market conditions with reasonable promptness at a fair market value determined by quotations based upon actual transactions on an auction or similarly available daily bid and ask price market.

m. "Residential property" means a house, townhouse, condominium unit, cooperative unit, manufactured home, a combination of a home or dwelling unit and real property to be improved by the construction of such structures, or unimproved land zoned for one to four family residential use but does not include a boat, motor home, or timeshare property, even if used as a primary residence. This applies to such structure whether under construction or completed.

4. Commercial ventures in business less than three years or start-up businesses will be considered within the programs of the US Small Business Administration (SBA). Loans for young or new ventures, not within the SBA programs may be considered with substantial compensating factors exist. Those factors must be documented,

verified and justified by the Director of Commercial Lending, or higher authority, before proceeding with underwriting.

5. Other MBL considerations:

    a. Any interest Resource One Credit Union purchases in a loan, made by another lender to a Resource One Credit Union member, shall be classified as an MBL. (see Purchase and Sale of Member Loans of this Policy)
    b. Any interest Resource One Credit Union obtains in a <u>nonmember</u> loan will not be classified as an MBL but shall be considered a “Commercial Loan” (see Purchase and Sale of Member Loans of this Policy)
    c. MBL pricing will be monitored by the ALM Committee, recorded in minutes of the ALM Committee meeting and approved by the Board of Directors. The Director of Commercial Lending or the Commercial Lending Manager may negotiate interest rates and terms based on risk, member relationship and market; subject to State limits.
    d. It shall be the policy of the Credit Union to require the unlimited personal guarantee of all persons who own 20% or more of the business entity. In most cases these guarantees shall be unsecured, but may also be partially secured or fully secured.
    e. Guarantees may not be required on loans to non-profit organizations. Unguaranteed loans for non-profit organizations require approval by the Loan Committee when the loan exceeds $500,000 and requires ratification by the Board of Directors when the loan amount is in excess of $2,500,000.

6. In order for Resource One Credit Union to engage in Member Business Lending, the following conditions must be met:

    a. Net Worth Ratio must be greater than 6% for a collateralized MBL,
    b. Net Worth Ratio must be greater than 7% for an unsecured MBL,

7. The aggregate limit of Resource One Credit Union’s net MBL, excluding those loans exempt from the definition of a MBL, is the lesser of:

    a. 1.75 times Net Worth or,
    b. The limit approved by the Board of Directors (See Attachment B).

8. The aggregate amount of net MBL balances to any one member, or group of associated members, will not be more than 15% of the Credit Union's Net Worth (less the Allowance for Loan Losses account) or $100,000, whichever is higher.

9. The CU will seek to have all MBLs secured by collateral except the following:

   a. A credit card line of credit granted to non-natural persons that is limited to routine purposes normally made available under such lines of credit.
   b. A loan made by the credit union under the following conditions:
      1) The aggregate of the unsecured outstanding MBL to any one member, or group of associated members, does not exceed $250,000. An associated member is any member with a common ownership, investment, or other pecuniary interest in the business or agricultural endeavor for which the business loan is being made.
      2) The aggregate of all unsecured outstanding MBL does not exceed 10% of Net Worth.
      3) The Credit Union will maintain a Net Worth which is at least 7% for unsecured MBL lending.

10. The maximum loan to value (LTV) for an MBL should not exceed 80%, except when:

    a. The loan is secured by collateral on which Resource One Credit Union will have a first mortgage lien, and the loan is covered by private mortgage or equivalent type insurance, or insured, guaranteed, or subject to advance commitment to purchase, by any Federal or State agency or any political subdivision of this State, but in no case may the LTV exceed 95%; or
    b. The loan is to purchase a car, van, pickup truck, or sport utility vehicle and is not part of a fleet of vehicles, but the LTV and the term for this type of vehicle loan must be consistent with the depreciation schedule of any vehicle used for a particular type of business.
    c. In the case of Construction and Development loans, minimum equity will be 25% of the project being financed, as more fully described in the Construction and Development section below. This requirement will not apply to a loan to finance the construction of a single-family residence for the prospective homeowner.
    d. Collateral margins for MBLs secured by other business assets may be more stringent than the aforementioned target of 80%. These are detailed by asset class in paragraph 25 below.

e. The loan is intended to be unsecured. In those cases, the loan file will be documented identifying the mitigating factors that offset the relevant risk.

11. Types of MBLs offered and Collateral guidelines will fall into two broad categories, Term Loans and Lines of Credit either unsecured or secured. We will seek to further mitigate our risk and increase our income by pursuing these loans under the programs available to the CU through the US Small Business Administration. (Limits and concentrations are shown in a separate section below.)

- Commercial Lines of Credit

  Commercial lines of credit give the business owner flexibility to fund short-term cash flow shortfalls. Duration is typically one year or less, with interest only payments monthly. A Line of Credit will typically be secured by the short-term assets being funded such as Accounts Receivable and/or Inventory. The CU will consider an unsecured Line of Credit for a well-qualified borrower.
- Construction & Development

  Construction loans are similar to Lines of Credit in that a credit limit is determined and the loan is drawn on periodically. But unlike a revolving line of credit described above, it does not revolve. Appraisals will be required. A permanent take-out will be required from an acceptable financial institution. The CU may offer the permanent loan.
- Commercial Term Loans

  Commercial Term Loans and Leases will typically be used to fund the purchase of large fixed assets or to extract equity from fixed assets resulting in permanent working capital. As with a line of credit, a term loan/lease will be secured by the asset being purchased (or refinanced). Amortization will be guided by the useful life of the collateral and term will be limited by regulation which is currently 15 years. Unsecured loans will not exceed 36 months and be fully amortized (no unsecured balloon loans). R1CU will seek term loans that fall into the following categories:
  - Commercial Real Estate

    Examples: Owner occupied property, Investment rental property, office buildings, churches, apartments, industrial buildings, and retail centers, among others.
  - Equipment

    Examples: wreckers, forklifts, loaders, cranes, bulldozers, backhoe excavators, commercial lawn equipment, and other types of machinery and equipment.

- Vehicles
- Commercial Leases for fleets, equipment, and heavy machinery.
- Unsecured – for well-qualified borrowers such as those with a stable record of profitability, consistently strong debt service coverage ratio (DSCR), a low debt-to-worth ratio and financially strong guarantors.

a. The collateral, or assets, dealing with a secured loan must have the ability to:
   1) Be secured by a lien, or other proper filing, which will place Resource One Credit Union in a priority lien holder position. Second lien positions, or non-priority liens, will only be allowed if Resource One Credit Union is also the first, or priority, lien holder.
   2) Be readily liquidated through common commercial channels.
   3) Real estate collateral will be appraised or valued according to the Real Estate Appraisals or Evaluations section earlier in this document. However, it is recognized that there may be circumstances where it is appropriate to obtain an appraisal for loans under $250,000 although not required regulation.
   4) Assets such as heavy equipment or other large fixed assets will typically be valued via the purchase order/bill of sale or auction activity or dealer sales reports in the case of used equipment.
   5) Vehicles will be valued via the purchase order/bill of sale or various published used vehicle guides.
   6) Other business assets will be valued via the borrower's financial statements provided they contain the following attestation, "true and correct to the best of my knowledge and belief." Periodic statements shall be required in the case of account receivable or inventory collateral with the same attestation. Account receivable reports should include the name of the account/payer and balance. The balance should be segregated by age (i.e. <30 days, <60 days etc) and totaled. The CU reserves the right to request the addresses and contacts of a borrower's larger accounts. Inventory reports shall identify the inventory type, how much was "raw", work in process (WIP) and finished foods.

b. Secured Loans will be secured by placing Resource One Credit Union in a priority lien position, at the time of loan funding, through:

1) Proper recording of a Deed of Trust
2) Proper filing of a lien on titled collateral
3) Proper filing of a UCC-1 Financing Statement (Uniform Commercial Code)
4) Other documents that may be deemed appropriate

c. While Resource One seeks to serve its entire membership base, we shall focus on the following businesses. These are examples and not intended to be an exhaustive list:

1) Medical and Dental Offices and Practices
2) Convenience Stores
3) Manufacturing
4) Construction
5) Schools and Churches
6) Rental Property
7) Investment Property
8) Retail

R1CU will not actively pursue certain loans as they are either industries that statistically have higher rates of default, have higher environmental risk, or are not consistent with the CU's lending philosophy or mission. However, we also recognize that there may be acceptable risk within these less desirable industries. In those instances, the mitigating factors shall be clearly noted in the analysis. Examples of these industries include:

- Restaurants
- Dry cleaners, automotive repair facilities (high environmental risk)
- Businesses with no tangible, marketable collateral
- Loans secured solely by stock of closely held companies, which are not readily marketable
- Loans to a new business without an established record of performance, unless the loan is well collateralized with readily marketable collateral with substantiated valuations or guaranteed by the SBA
- Unsecured loans with no secondary sources of repayment

12. Categories of MBL that will not be offered are:

a. Loans relating to the “Adult Industry”.
b. Loans for illegal purposes.
c. Loans to entities posing an unacceptable environmental hazard as determined by an Environmental Impact Assessment.
d. Wholesale Floor plan loans.

13. The maximum amount of any given category or type of MBL, relative to the Credit Union’s Net Worth, Total Assets, or Board of Director’s aggregate requirement (6.a,b,c above or 91.709(e)), will be:

    a. Secured: 80% of the maximum aggregate amount. The credit union will limit the amount of secured business loans, as a percent of Net Worth, within the following mix restrictions and be monitored monthly in concentration risk analysis.
        1) Real Estate: 80% of the maximum secured amount broken down as follows and in terms of Net Worth:
            a) Medical and Dental Facilities: 15%
            b) Convenience Stores: 15%
            c) Manufacturing: 15%
            d) Schools and Churches: 15%
            e) Salons: 15%
            f) Rental Properties: 30%
            g) Investment Properties: 55%
            h) Restaurants: 15%
            i) Retail: 15%
        2) Equipment to include equipment for all loan types listed in 10 above: 10% of the maximum secured amount.
        3) Fleet Vehicles to include vehicles for all loan types listed in 10 above: 10% of the maximum secured amount.

    b. Unsecured: 10% of the maximum aggregate amount but not to exceed 10% of Net Worth.
    c. Unguaranteed MBLs and Commercial Loans: 2.5% of the CU’s Net Worth
    d. Construction loans and loans for the development of commercial or residential property: 10% of the maximum aggregate amount but not to exceed 15% of Net Worth.

In no case will the aggregate of all MBL exceed State maximums, or those maximums approved by the Board of Directors (**See** Attachment B**)**, whichever is less.

14. Construction and development of commercial or residential property are subject to the following additional requirements:

    a. The aggregate of the net member business loan balances for all construction and development loans must not exceed 15% of net worth. To determine the aggregate balances for purposes of this limitation, exclude any loan made to finance the construction of a single-family residence if a prospective homeowner has contracted to purchase the property and also exclude a loan to finance the construction of one single-family residence per member-borrower or group of associated member-borrowers, irrespective of the existence of a contractual commitment from a prospective homeowner to purchase the property;
    b. The member borrower on such loans must have a minimum of 25% equity interest in the project being financed. The CU shall use the lesser of the “cost to complete” or the “prospective value” of the project. Cost to Complete is the sum of all qualifying costs as documented in the construction budget. Qualifying Costs shall include the lesser of the appraised market value of the land or the purchase price plus the cost of any improvements, on or off-site improvements building construction, architect/design fees, permits, and site inspections This valuation shall not apply in the case of a loan made to finance the construction of a single-family residence if a prospective homeowner has contracted to purchase the property and in the case of one loan to a member-borrower or group of associated member-borrowers to finance the construction of a single-family residence, irrespective of the existence of a contractual commitment from a prospective homeowner to purchase the property. Instead the collateral requirements of this Section, Part 9, shall apply.
    c. In addition to assessing the borrower’s creditworthiness, as detailed elsewhere in this policy, the Credit Union shall look to the independent appraisal for an assessment of the project’s feasibility. However, the CU reserves the right to require a separate analysis depending on the size and complexity of the project.
    d. The funds will be released after on-site, written inspections by qualified personnel and according to a pre-approved draw schedule and any other conditions as set forth in the loan documentation. Additionally, the CU shall

perform a lien search prior to any disbursement. This search can be performed by CU staff or an outside service such as a title company.

e. Construction loans in excess of $1.5 million may require the use of a construction management firm depending on the nature, size and complexity of the project. They will perform a budget review, provide a performance guarantee, title updates, down-date endorsements, inspections, and funds control.

15. Resource One Credit Union recognizes Rental Properties acquired by businesses, for the purpose of generating income for that business, are different than loans for Rental Properties to members with a primary source of income unrelated to the income generated from the rental property. As such, loans made to members with another primary source of income are subject to the following additional requirements:

    a. The request will be evaluated by the MBL Department regardless of the dollar amount of the request.
    b. These loans may be underwritten in the Real Estate department, however, the final decision regarding approval or denial of the loan may only be made by an employee possessing the State mandated underwriting experience requirement for MBL.
    c. The property will be valued at purchase price, or appraised value at the time of property purchase; whichever is less.
    d. If the property is being renovated the value at completion of the project can be used if an appraisal can be readily obtained using a specific and detailed list of proposed renovations that are acceptable to the Appraiser and the credit union.
    e. Additionally, these types of loans will be serviced by Resource One Credit Union, maintained on the current Banking System and risk rated using Credit Score and Bankruptcy Score as outlined in Attachment D.

16. All amounts and percentages relating to Net Worth, Total Assets, amount of outstanding MBLs (total and by category and type), and amount of MBLs by individual member or group of associated members, will be calculated and reported to the ALM Committee on a monthly basis. The report will become part of the ALM Committee minutes and those minutes will be reported during the monthly meeting of the Board of Directors.

17. The Employees (s) charged with making and servicing MBL shall have direct experience in dealing with the categories and types of MBL offered that is

commensurate with their responsibilities. Specifically, the Director of Commercial Lending shall have a minimum of seven years of commercial lending experience, including increased lending authority, financial analytics, servicing experience, and collection and workout experience. The Commercial Lending Manager shall have a minimum of five years of commercial lending experience, including increased lending authority, financial analytics and servicing experience. Sr. Loan Administrator shall have a minimum of five years of loan documentation and servicing for the types of loans that the CU is currently offering. Each lender's individual loan authority is detailed in Appendix "A". A Loan Committee is comprised of the President/CEO, CFO, CLO, COO, Dir. Commercial Lending and the Commercial Loan Manager. The purpose of this Committee is to add an additional level of review of larger credits. Additionally the Committee will review delinquencies and Watch List credits. The Committee will meet monthly or more frequently as may be necessary to respond promptly to larger loan requests.

18. Resource One Credit Union can meet the experience requirements through various approaches, including the services of a Credit Union Service Organization (CUSO), an employee of another credit union, an independent contractor, or other third parties. However, the actual decision to grant a loan will reside with Resource One Credit Union which shall require a Director or Manager as described above. If a third party is used by Resource One Credit Union to meet the requirements of this section, the third party will be independent from the transaction and is prohibited from having a participation in the loan or an interest in the collateral securing the loan that the third party is responsible for reviewing, with the following exceptions:

    a. The third party may provide a service to Resource One Credit Union related to the transaction, such as loan servicing;
    b. The third party may provide the requisite experience to Resource One Credit Union and purchase a participation interest in a loan originated by Resource One Credit Union that the third party reviewed; or
    c. Resource One Credit Union may use the services of a CUSO that otherwise meets the requirements of this section even though the CUSO is not independent from the transaction, provided Resource One Credit Union has a controlling financial interest in the CUSO as determined under generally accepted accounting principles.

19. If the experience requirement is met through the use of a Credit Union Service Organization (CUSO), an employee of another credit union, an independent

contractor, or other third party; the recommendation provided by the third party will be followed. If a decision is made to override the third party's recommendation; those reasons will be fully documented and the request will be submitted to the next higher authority for approval.

20. Prior to granting a MBL, Resource One Credit Union will perform an initial analysis to support each request for an extension of credit or an increase in an existing loan or line of credit. In addition, Resource One Credit Union requires the receipt and periodic updating of documents to support the borrower's ongoing repayment ability. The minimum documentation required is:

    a. Balance Sheet
    b. Income Statement
    c. Income Tax data (Borrower and Guarantor)
    d. Other documentation as required
        1) Asset based credits will require periodic Borrower certified:
            a) Listing and aging of Accounts Receivable or
            b) Inventory report, as applicable

21. The extent of the financial information required shall be determined by the level of exposure and credit complexity. The CU reserves the right to request additional information as it deems appropriate to properly assess the proposed risk.
    a. $100,000 or less
        1) Most recent business tax return
            a) An internal interim income statement if tax return is over six months old
        2) Most recent personal tax return
        3) Personal Financial Statement from each guarantor (within 90 days)
        4) Purchase Order for the asset being purchased, if applicable
    b. >$100,000 to $500,000
        1) Three years of business tax returns
            a) An internal interim income statement and balance sheet if tax return is over six months old
        2) Three years of personal tax returns from each guarantor
        3) Personal Financial Statement from each guarantor (within 90 days)
        4) Purchase Order for the asset being purchased, if applicable
    c. Over $500,000
        1) All the items in 20(b) above PLUS

a) Three year-end Balance Sheets
b) Three year-end Income Statements

22. Statement Quality – For Borrowers with total credit exposure of $1 million or more, year-end, and Certified Public Accountant prepared compilations shall be required. Less than $1 million total exposure, borrower prepared statements with complete tax returns will be required.

23. The documentation will be analyzed to provide the following information:

    a. Cash Flow Analysis
    b. Debt Service Coverage
    c. Revenue Trends
    d. Expense Trends
    e. Profitability Trends
    f. Liquidity
    g. Debt to Worth
    h. Secondary Sources of Repayment
    i. Analysis of operating performance ratios and comparison with industry averages when applicable
    j. Other analysis as required

24. While minimum (Debt Service Coverage) DSC will vary from industry to industry, in no case will loans be granted to any member/business with a DSC ratio less than 1.25 times. As part of the underwriting process an industry standard DSC will be obtained for the type of credit being analyzed. If the industry standard minimum DSC is higher than 1.25 times; the higher ratio will be used.

    Both business credit reports (if available) and personal credit reports shall be obtained and reviewed in order to determine previous payment histories.

    In the event the borrower's past performance was less than satisfactory or it's a new business, borrower prepared projections shall be required.

25. Resource One Credit Union currently uses the Risk Rating Score originally provided by Texas Business Lending Group (TBLG) (See Attachment C). Effective with this policy revision, a second matrix has been added to differentiate between collateralized loans

and unsecured loans. Loans shall not be granted to any member/business scoring worse than four.

26. Collateral requirements for MBLs are subject to the following:

    a. Loan to Value (LTV) Ratios will conform to stated requirements in this Policy. The following guidelines will be applied for MBLs:
        - Non-Owner Occupied Commercial Real Estate (≤ 65%)
        - Non-Owner Occupied single family rental Real Estate (≤ 80%)
        - Owner Occupied Commercial Real Estate (≤ 75%)
        - Equipment (lesser of ≤ 70% of cost {not including shipping, taxes etc.} or value. Requests in excess of $150,000 may require a third party valuation)
        - Inventory (≤ 50% excluding work in progress)
        - Accounts Receivable – assignable & collectible (≤ 60% of eligible accounts < 60 days)
        - Marketable Securities (≤ 70% of the stock's trailing 12-month low market price. ≤ 50% for "margin stock" per Regulation U)
        - Vehicles – non-fleet (lesser of ≤ 90% of cost {not including transportation, title, taxes, dealer prep etc.} or value.
        - Share Secured (≤ 100%)

    b. An appraisal or valuation, title search, and insurance are required on all real estate secured MBL loans. A lien search and insurance will be required on all other types of collateral.
    c. Proper steps will be taken to ensure Resource One Credit Union is in a priority lien/deed position on all collateralized loans.
    d. No collateral value shall be given to Intangible Assets such as "goodwill", "customer lists", "copyrights" or " intellectual property" etc.
    e. The Credit Union shall not consider appraisals based on Going Concern Value aka Enterprise Value as they assume the business will continue operating indefinitely. In the event of foreclosure, the business will in most cases have failed, thus is no longer a "going concern".

27. Environmental Liability and Risk Management Program.

    a. Prior to making a MBL secured by non-residential real estate, an initial environmental risk analysis will be conducted as follows:

1) Completion of the Environmental Questionnaire by the Owners of the property, and,
2) Completion of an underwriter environmental risk assessment and/or public record search.
3) An onsite inspection by credit union staff in the MBL department may be warranted if the above assessments indicate a potential environmental condition. Upon inspection, if it is determined that the proposed project will have a substantial impact on soil contamination, air pollution, noise health effects, ecology (including endangered species), geological hazards, water pollution or there is a presence of underground tanks, a Transaction Screening Report will be obtained from an approved Environmental Consultant.

b. If, through the above analysis, it is determined that an Environmental Impact Assessment (EIA) Phase I is warranted, the services of a third party specializing in environmental assessments, will be engaged. The same applies to a third party Credit Union Service Organization (CUSO) that recommends an EIA Phase I be obtained. All assessments will reflect adequate consideration of the EPA All Appropriate Inquiry (AAI) Rule.

c. Ongoing monitoring will take place during each annual review of every MBL secured by non-residential real estate and non-titled equipment initially valued in excess of $100,000. An assessment is warranted;

1) At annual review,
2) When there are significant changes in business activity associated with increased risk of environmental liability associated with the collateral,
3) When there is a potential for environmental contamination to adversely affect the value of the collateral.
4) When an onsite inspection reveals possible environmental conditions.

d. If an environmental concern is identified a requirement will be placed upon the borrower(s), under the covenants of the contract, to resolve the environmental condition.

e. In addition an evaluation will be performed considering the potential costs and liability of the environmental contamination versus the value of the collateral.

This information will be used in reaching a decision to perform a loan workout or take title to the property by foreclosure or other means. It is recognized liability may increase significantly if title to real property, held as collateral, is taken. Based on the type of property involved, and included as part of the evaluation of the potential environmental costs and liability, an assessment of the property that meets the requirements of the Environmental Protection Agency (EPA) All Appropriate Inquiries (AAI) Rule will be performed in order to claim protection under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA).

28. To effectively monitor risk in the portfolio, independent reviews of the the overall commercial loan portfolio and risk management process will be conducted annually. The level of review shall be determined by loan size, loan type, payment record and Risk Rating. See below.

    a. Secured, balance $100,000 or less; frequency - every other year
        1) Review new credit report
        2) Review payment history
    b. Rental Properties (single family rentals), balance >$100,000 - $400,000, frequency - annually
        1) (a) 1 & 2 above
        2) New personal & business tax returns
    c. Commercial Real Estate and other secured, balance > $100,000, frequency - annually
        1) (b) 1,& 2 above
        2) Rent Roll (if applicable)
        3) Interim Income Statement
        4) Personal Financial Statement from guarantors
    d. Rental properties (single family rentals) balance > $400,000, frequency - annually
        1) All of (c) above
    e. Unsecured, balance <$250,000, frequency – annually
        1) All of (b) above

    However, all loans, regardless of type that are adversely Risk Rated shall be required to provide the information detailed in 27(c) above and reviewed according to the following schedule based on their Risk Rating.
    f. Annually for loans with a Risk Rating Score of **5** or better.

g. Bi-Annually for loans with a Risk Rating Score of **6**.
h. Quarterly for loans with a Risk Rating Score of **7** or higher.

These reviews will incorporate an examination of the following components. While incorporating the following components, the depth and detail of the analysis will be tailored to the inherent risk in the credit, the type and complexity of the credit and its industry.

a. Updated collateral assessment;
b. Documented site visit/inspection (with photos) – for Commercial Real Estate and Other Collateral;
c. Current collateral lien searches;
d. A review of the loan documents (e.g. verification of their existence and ensuring all documents are signed and dated, and that they pertain to the correct legal entity);
e. An analysis in narrative form, discussing the movements in the key financial ratios and trends, noting the reasons for changes and/or trends identified in the analysis of the current financial information;
f. An update of any changes in the borrower's operations, market or industry;
g. A discussion of the borrower's management;
h. A list of any loan covenants and the borrower's compliance thereto;
i. Assign the appropriate risk rating with comments to support the assigned risk rating;
j. Narrative from the Loan or Servicing Officer.

29. Based on the periodic reviews of MBLs, a "Watch List" will be maintained by the credit union to monitor the status or activity of loans identified as higher risk. Loans with questionable financial performance, covenant violations, delinquency issues, poor reporting, or presenting any other concerns will be monitored on this list. The list will be monitored, updated, and reviewed by the Loan Committee monthly. The Loan Committee may contribute to the managing of these credits by providing additional guidance to the Loan Officer to assist him/her in the management and resolution of the account. The Watch List will be updated promptly as the aforementioned risk factors are identified, with the exception of covenant violations, which will cause the credit to be included at the point the violation is identified. In most cases the deterioration would be identified during the annual review. However, when delinquencies arise or when the results of a site visit or a routine business call raise

concerns, such events may trigger a financial review with the resulting risk rating causing the credit to be added to the Watch list.

When a covenant violation is the sole reason for a loan's inclusion in the Watch List, the loan will be removed from the list when the violation is cleared. In the event that a violation continues beyond the "cure period" as defined in the loan documents, this will trigger a formal review, with any adjustment to risk rating resulting from said review.

When a loan is placed on the Watch List, an impairment analysis will be made that will take into consideration the risk rating. The results of the analysis being accrued according to the CU's existing ALLL policies as may be modified from time to time. Subsequent impairment analyses will be performed with each loan's risk rating change.

Once a loan is included on the Watch List, the Loan Officer will prepare an Action Plan. The Plan will include specific steps to be taken to more closely manage the credit. The specific steps will vary with the circumstances surrounding the credit. For example, a covenant violation may require a letter of Notice of the violation, a site visit and monitoring the cure period for further action. Delinquencies may require a site visit, Notice of Default, more frequent financial reporting, as well as a plan to cure the delinquency (e.g. temporally increasing the monthly payment for two or three months to bring the loan current).

As each business is different, the cause of their difficulties will be unique as well. Effective collection/resolution is best served by crafting a plan of action that is equally unique to the business and its specific challenges while improving the prospects of full repayment thereby protecting the CU in the process.

However, in general the following steps and timeframes would be followed based on the primary cause for the loan being placed on the list.

1. Once a loan is placed on the Watch List, the Loan Officer will meet with the principles, at the place of business, to discuss the identified concerns within 30 days. As stated elsewhere in the policy, the call/visit will be documented, with photos, and placed in the credit file.

2. Once placed on the Watch List all the loan documents will be reviewed by the Loan

Officer within 30 days. Exceptions will be noted on the Watch List and reported to the Commercial Loan Manager/Director Commercial Lending.

The typical causes for a credit to be placed on the Watch List are shown below with course of action guidelines:

- Loan to value (LTV) – This would typically be identified on the annual review. In those cases a revaluation of the collateral will be ordered within 30 days of completion of the review.

- Loan/collateral documentation – As soon as identified, corrected documentation will be prepared. The Loan Officer will meet with the Borrower and have the corrected documents signed within 15 days of their completion.

- Covenant violations – the Borrower will be put on Notice as soon as the violation is identified. Notice will include the nature of the violation and the required cure period. Failure to cure the violation within the defined cure period, including all allowable extensions (as per the loan documents) will trigger a full loan review and possible further downgrade in risk rating. Items such as an expired insurance policy will generate a call to the insurance company. If that fails to cure the violation, the previously mentioned process will be followed.

- Debt Service Coverage (DSC) - This assumes either current financial statements are in the CU's possession or an annual review is being performed with stale information. In either case, the Loan Officer will meet at the business with the principles to discuss the matter. This meeting will be held within 30 days of discovery. At that time, the most recent financial information will be requested and forward to the analyst for review. The Loan Officer will attempt work with the borrower to develop a plan to bring the DSC within policy guidelines. Financial reporting frequency will be increased to at least quarterly. It is recognized that certain credits (apartment complex as an example) will continue to pay as agreed while the DSC remains below policy or covenant minimums. In these cases, the Loan Officer will visit the business/property quarterly.

- Financial deterioration (a period of declining sales, net losses etc.) - The financial reporting frequency will be increased to at least quarterly as will the Loan Officer's visits. If not already completed, a documentation and collateral review will be completed. Collateral will be revalued within the first 60 days. The Loan Officer and Commercial Loan Manager will meet with the Director of Commercial Lending to plan the next course of action. Assuming the borrower is cooperative, a restructure or modification may be considered. Based on all the factors available, the decision may be made to place the credit management in the hands of the Director of Commercial Lending and in the most difficult circumstances refer the case to counsel.

- Delinquencies – Debt Service Coverage (DSC) violations typically result in delinquencies at some point as the outside resources are exhausted. If not already completed, a documentation and collateral review will be completed. Collateral will be revalued within the first 60 days. The Loan Officer and Commercial Loan Manager will meet with the Director of Commercial Lending to plan the next course of action. Assuming the borrower is cooperative, a restructure or modification may be considered. Based on all the factors available, the decision may be made to place the credit management in the hands of the Director of Commercial Lending and in the most difficult circumstances refer the case to counsel. Any loan over 90 days delinquent will be placed in non-accrual status.

30. Resource One Credit Union recognizes that all MBL exceeding the aggregate amount of $50,000 must be reported to the Texas Credit Union Department (TCUD). The Board of Directors also recognize, while some loans may cross the $50,000 threshold, these loans do not meet the definition of an MBL in spirit. These loans would be to members who typically receive income from a primary source, that income is reported on a W2 and the loan would result in income generation for the member. An example of this type of loans would be to purchase a single family rental property. As such, the Board of Directors finds it unreasonable, and waives the requirement for, ongoing financial statements from these types of borrowers with exposure is less than $400,000.

31. The Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Chief Lending Officer, Director of Commercial Lending, members of Senior Management and any associated member or immediate family member of such persons, are not eligible for MBLs. In addition, the Credit Union may not grant a member business loan:

    a. If any additional income received by the Credit Union or Senior Management employee is tied to the profit or sale of the business or commercial endeavor for which the loan is made.

b. To a compensated Director unless the Board of Directors approves granting the loan and the compensated Board of Director is excused from the decision making process.

32. If Resource One Credit Union makes a MBL as part of a Small Business Administration Guaranteed loan program, with loan requirements that are less restrictive than those required by Commission Rules, then the loan requirements of the relevant Small Business Administration guaranteed loan program will be followed. The underwriting guidelines detailed in the earlier sections of this policy will serve as a guide for underwriting an SBA loans as well. However, the following will apply to an SBA guaranteed loan in particular.

    An SBA guarantee is a means of enhancing a credit. It allows the Credit Union to consider loans to its members for new businesses, where there is insufficient collateral coverage, businesses that are more highly leveraged, among others. The SBA guarantee allows the Credit Union to focus on character, reputation and credit history of the applicant and its principals; management experience and depth. It also allows consideration of a business's future prospects by considering projected cash flow, future earnings potential and the future long term success of the business, in addition to its historical performance. In addition to a standard analysis of the credit, the underwriter will seek to justify the earnings, cash flow and repayment ability projections.

    The presence of an SBA guarantee does not make a poor credit risk a good credit risk. It is not a substitute for sound credit judgment. As such, SBA loans are not to be made to business with clear weaknesses (e.g. businesses with declining trends to such an extent that a reasonable person would conclude they are not reversible), businesses that are poorly managed or to new businesses where the principals lack any experience in the industry.

    The Credit Union will participate in the SBA's 7(a) program and their 504 program. Details of these programs change from time to time and will be found in the current SBA 50 10 manual.

    The SBA requires that "all available collateral" be taken in the 7(a) program. However, the SBA will not decline a request due to a lack of collateral. The Credit Union recognizes that the greater the investment the owner/principal makes to the business, the greater the likelihood of repayment. Therefore, the Credit Union will require a 15%

equity injection be made into the new business. For example, if the total cost to open the new business is $200,000, a $30,000 equity injection would be required.

The minimum equity injection in the 504 program is set by the SBA at 10%. The credit Union will abide by that minimum.

Recognizing that the success of a small business is typically dependent on the owner/manager, the Credit Union will require Key Man life insurance on the key owner/manager in an amount equal to the loan. The Loan Committee must approve any waiver of this requirement.

Due to the complexities involved in processing an SBA loan, the Credit Union will charge a reasonable fee for its services. This fee will not exceed $2,500.00. Any out of pocket fees (i.e. appraisal, environmental survey, credit reports etc.) will be collected prior to ordering the reports.

Under SBA regulations, an approved SBA Lender may approve loans throughout the country. However, the Credit Union will seek those loans for business that it can reasonably service. As stated earlier, we will seek those opportunities that are within 5 miles of a branch.

Lastly, the SBA requires periodic reporting of SBA activities via the 1502 Report, aka Colson Report. This will be completed monthly by the Commercial Loan Department's Administrative Staff, which will be responsible for its accuracy and timeliness.

33. MBL will be collected through Resource One Credit Union's Member Solutions Department using normal collection practices.

Business Credit Cards

Business credit cards will be offered to our business members and underwritten as currently described in the "Plastics" section below. However, the credit limits will not exceed $20,000 and where possible, a Small Business Administration (SBA) Express Guarantee will be obtained. Unlike our consumer cards, we reserve the right to request additional financial information if deemed necessary to mitigate our perceived risk.

Procedures

The Commercial Lending Department shall maintain written procedures to adequately administer the Commercial Loans and MBLs. These procedures shall include loan input and servicing, document and exception tracking, appraisal management, and reporting among others. The written procedures are kept separately from the policy and may be revised as systems, regulations and needs change.

Participations – Commercial Real Estate

1. Resource One concentrates on the development of commercial business in its trade area. Lending relationships are intended to be relationship oriented, not transaction oriented. From time to time it may be in the Credit Union's interests to enter into transactions with other financial institutions in order to accommodate the needs of larger borrowers, diversify geographic risk, and reposition the balance sheet to increase liquidity or to acquire additional earning assets. These transactions may be in the form of a Loan Participation.

2. A Commercial Real Estate Loan Participation is the sale or purchase of ownership interests in a single loan between two or more financial institutions. Participations purchased will be within Texas or 150 miles of our branches.

3. When purchasing a Participation it is important to determine if the Lead Lender, CUSO or other servicing entity have adequate experience in the effective servicing of Participation Loans. Therefore prior to considering a purchase offer, the Director of Commercial Lending or his/her designate, will collect and review the selling institution's due diligence package (financial reports, sample loan activity reports, resume's, etc.), obtain references and meet with key members of the selling institution's staff. It is expected that the selling institution have a minimum of 5 years' experience selling and servicing Participation Loans.

4. Resource One requires that all commercial real estate participations purchased or sold be on a pro-rata basis. When purchasing a Participation the CU will expect the lead lender to retain a minimum of 10% of the loan request. Additionally, any purchase by the CU will be for 25% of the loan as a minimum, subject to the portfolio limitation below. Therefore, no Participations are to be purchased or sold on a last-in, first-out basis. All commercial real estate participations sold will be without recourse. In the event of a sale, the Director of Commercial Lending or his/her designate will provide potential participants complete information to enable those institutions to make an

independent evaluation. No subjective representations are to be made to the participant regarding the quality of the credit.

5. When Credit Union considers purchasing a Participation, the CU must obtain complete information from the selling bank. The underwriting process is to mirror Credit Union's due diligence for all of its own credits.

6. Participations must be purchased in credits that meet the terms of the CU's policy. The credit analyst may consider information such as the Lead Lender's write-up, however he/she will prepare a complete independent credit write-up. In addition to the normal credit analysis, the CU will obtain copies of all pre and post-closing loan documentation. These documents will be reviewed, pre and post-closing, by the Commercial Lending Manager or the Director, and where appropriate, by the CU's legal counsel as well. For Commercial Real Estate transactions, an independent site inspection will be performed prior to approval.

7. All Commercial Real Estate Participations, purchased or sold, must have a participation agreement outlining expectations of the seller and buyer regarding servicing of the credit. Key elements of the agreement will include:

   - The selling institution will provide required financial and other information received from the borrower during the life of the loan in compliance with regulation and the Member/Borrower's specific Loan Agreement.
   - The selling institution will diligently service the credit to protect the interests of Resource One.
   - The selling institution will promptly distribute any payments received from the borrower to Resource One.
   - The selling institution will provide timely notification to Resource One in the event of any default by the borrower.

8. All Commercial Real Estate Participations purchased will be managed by the Commercial Lending Manager. Participations purchased will be limited to a total of $ 4 Million Dollars per fiscal year and to a maximum of $ 2 Million Dollars per transaction.

Participations – Auto Loans

1. The Credit Union recognizes the value of auto loan participations in maintaining

member service and/or improving financial performance. During periods of low loan demand, the Credit Union will consider purchasing interests in other institutions' auto loan portfolios as a means of increasing yield.

2. All loan participation activities will be conducted in compliance with applicable state and federal regulations, within portfolio limitations of the approved loan policy, and in accordance with Asset Liability Management policy and strategy.

3. The borrower must be a member of the Credit Union, or of another participating credit union before the loan participation is made.

4. The risk assumed by the Credit Union through a loan participation should be comparable to the risk it assumes through its normal business practices. Care should be taken to ensure that underwriting procedures, agreements, and future oversight practices of participation partners are handled with the same consideration as other Credit Union lending activities.

5. The Credit Union will ensure that adequate systems are in place to account for the loan participation transaction before an agreement is executed. The Credit Union will retain all loan participation records and documents in accordance with applicable record retention requirements for loan records.

6. When Credit Union considers purchasing a Participation, the CU must obtain complete information from the selling institution. The underwriting process is to mirror Credit Union’s due diligence for all of its own credits.

7. Participations purchased must meet the terms of the CU’s policy. The credit analyst may consider information such as the Lead Lender’s write-up, however he/she will prepare a complete independent credit write-up. In addition to the normal credit analysis, the CU will obtain copies of all pre and post-closing loan documentation. These documents will be reviewed, pre and post-closing, by the Chief Lending Officer, Manager or the Director, and where appropriate, by the CU’s legal counsel as well.

8. Concentration and Geographic location Restrictions

a. The aggregate total balances of auto loan participations purchased will not exceed 25% of the Credit Union's net worth.

b. Auto loan participations purchased from one originating lender: Will not exceed the lesser of $11,000,000 or 25% of the Credit Union's net worth.
c. Credit Quality – To reduce credit risk, the auto loan participation purchased must have a weighted average credit/FICO score of 720 or more.
d. Geographically restriction – All auto loans within the participation which makeup participations purchased are restricted to the State of Texas.

Overdraft Protection (91.710)

1. See Resource One Credit Union Policy 2500 Overdraft Privilege.

Purchase and Sale of Member Loans (91.711)

1. Resource One Credit Union may sell, or purchase, member loans. Prior to purchase the appropriate due diligence must be performed and the credit quality must be consistent with Resource One's underwriting standards.

2. Member loan sales may be utilized for liquidity and interest rate risk purposes. The credit union may sell long term fixed rate mortgages to a reputable third party such as Fannie Mae, Federal Home Loan Bank, or other private investors. Servicing rights may be retained or sold.

Plastic Cards (91.712)

1. Underwriting standards will be those listed under: Lending Powers (91.701). 3.

2. Each member's credit and payment history will be reviewed every 2 years to determine risk. This process involves, but is not limited to, review of credit and bankruptcy scores as well as current pay history with Resource One Credit Union.

3. Resource One Credit Union will review, on at least an annual basis, the plastic card program (credit and debit) with particular emphasis on:

   a. The amount of losses caused by theft and fraud;
   b. The loss prevention measures, and their adequacy, currently used;

c. The availability, and possible implementation, of other loss prevention measures such as card activation, card security codes, neural networks, and other evolving technology; and
d. A cost/benefit analysis of supplemental insurance coverage for theft and fraud losses.

4. The review will be documented, in writing, with any approved changes to the plastic card program being entered into the minutes of the Board meeting.

Indirect Financing of Motor Vehicles and Other Chattels (91.713)

1. Resource One Credit will offer an Indirect Lending Program to members to finance their new and used automobiles, auto leases, and recreational vehicles. The purpose of the Indirect Lending Program is to capture vehicle loans that are currently being financed by other financial institutions.

2. Loans approved through Indirect Lending will be tracked separately from other automobile loans. Loan applications will be reviewed and approved by credit union staff with any exceptions approved by an assistant lending manager or higher.

3. Membership eligibility is an important issue for Resource One Credit Union. The credit union will provide a current field of membership list to the Dealership. Although the Dealership will be responsible for determining whenever a prospective borrower is eligible for membership initially, the credit union staff will make the final determination on a borrower's membership eligibility. All borrowers must meet credit union membership requirements. All borrowers who are not members of the credit union will be required to become members.

4. The ALM Committee will regularly review competitive rate surveys and the Credit Union's established loan rates by credit score tier. Changes to the established tiered loan rates will be presented with recommendations to the Board of Directors as needed for approval.

5. The ALM Committee will regularly review the established rates, fees, loa/lease terms and LTVs. Exceptions to terms may be made with approval by an assistant lending manager or higher position.

6. The ALM Committee will regularly review the established dealer fee structure

which includes rate participation, flat fees and add on product offerings. Changes to the established dealer pricing and fee structure will be presented with recommendations to the Board of Directors monthly for approval.

7. Underwriting guidelines are established and approved by the Credit Union; and

8. The assignment of the retail installment/lease contract will occur as soon as possible after the member and the dealer sign the contract. No payments will be made to the dealership until the contract, application, and any other pertinent documentation is received from the dealer. Documentation shall be reviewed to ensure it meets all loan policy requirements and standards.

9. A concentration limit will be established for the overall indirect loan portfolio.

Leasing (91.714)

1. Resource One Credit Union will offer a Leasing Program to members to finance their new and used automobiles through D&M Leasing or other reputable lease partners.

2. The ALM Committee will regularly review the established rates, fees, lease terms and LTVs, Exceptions to terms may be made with approval by an assistant lending manager or higher position.

3. The Lease to Value will include ancillary products and acquisition fees.

4. Rates will be based on credit score, lease term and advance percentage.

5. Dealer compensation will be a flat fee percentage of the lease amount.

6. A residual loss occurs when the lease terminates and the value of the vehicle is less than the residual. To mitigate this risk, Resource One will establish an escrow account for residual value losses and require a RV (Residual Value) insurance policy on each lease listing Resource One as additional insured.

    a. An escrow account will be maintained at Resource One Credit Union and is funded at 1.5% of the contract RV of each booked lease. This amount is short-funded on each lease contract.

   b. If the account balance falls below the agreed to escrow balance, D&M will be required to pay additional funds into the escrow account to cause the escrow fund to equal or exceed the escrow balance. Additionally, D&M Leasing is guaranteeing the adjusted RV's. The Automotive Lease Guide (ALG) guide will be used to determine value.

7. Borrower(s) are required to secure and maintain insurance insuring the vehicle against casualty loss or theft listing the credit union as an additional insured and loss payee.

8. D&M will secure GAP coverage for each vehicle and will pay all premiums with coverage to pay for the potential shortfall liability in the lease transaction.

9. D&M will purchase residual value insurance coverage to provide indemnification for all or a portion of the residual value agreed to be paid to the credit union.

10. A concentration limit will be established for the lease portfolio.

Exceptions to General Lending Policy (91.715)

1. Resource One Credit Union may provide for the consideration of loan request from creditworthy members whose credit needs do not fit within previous general lending policies. In addition to the loan being prudently underwritten, the Board of Directors has established the following additional requirements:

   a. Approval of exception loans will be supported by a written justification that clearly sets forth all of the relevant credit factors that support the underwriting decision.

   b. The justification and approval documents for such loans will be maintained as a part of the permanent loan file.

   c. The CEO or CLO will approve all exception loans.

2. Resource One Credit Union will monitor compliance with Lending Policies and individually report exception loans to the Board of Directors.

3. Exception loans will be identified and their aggregate amount reported, at least annually, to the Board of Directors.

4. The aggregate amount of all such loans shall not exceed 10% of the Credit Union’s net worth.

Prohibited Fees (91.716)

1. The Credit Union will not make any loan or extend any credit if, either directly or indirectly, any commission, fee, or other compensation from any person or entity other than the credit union is to be received by the credit union's Directors, Committee Members, Senior Management Employees, Loan Underwriters, or any immediate family members of such individuals, in connection with underwriting, insuring, servicing, or collecting the loan or extension of credit.

More Stringent Restrictions (91.717)

1. Resource One Credit Union recognizes that the Commissioner may impose more stringent restrictions if the Commissioner determines that such restrictions are necessary to protect the safety and soundness of the credit union.

Charging Off or Setting up Reserves (91.718)

1. Resource One Credit Union's financial statements will provide for full and fair disclosure of all assets, liabilities, and members' equity, including such valuation allowance accounts as may be necessary to present fairly the financial position; and all income and expenses necessary to present fairly the results of operations for the period concerned.

2. All controls will be in place to consistently determine the allowance for loan and lease losses (ALLL) in accordance with its written policies, generally accepted accounting principles, and relevant supervisory guidance.

3. The methodology used to determine the amounts of an appropriate ALLL and provisions for loan and lease losses are in ALLL Procedure.

4. Adjustments to the ALLL will be made prior to the end of each calendar quarter in order to accurately reflect the loss exposure on the quarterly call reports.

Loans to Officials and Senior Management Employees (91.719)

1. For the purpose of this section, the term immediate family member includes the persons' spouse or any other person living in the same household.

2. For purposes of this section, Senior Management employees shall include the Chief Executive Officer, any assistant Chief Executive Officers (e.g. Vice Presidents and above), and the Chief Financial Officer.

3. The rates, terms, conditions, and availability of any loan or other extension of credit made to, or endorsed or guaranteed by a Board of Director, Senior Management or immediate family member of any such individual shall not be more favorable than the rates, terms, conditions, and availability of comparable loans or credit to other credit union members.

4. Before making a loan, extending credit, or becoming contractually liable to make a loan or extend credit to a Board of Director, Senior Management or immediate family member of such individual, the Board of Directors must approve the transaction if the loan or extension of credit or aggregate of outstanding loans and extensions of credit to any one person, the person's business interest, and the members of the person's immediate family is greater than 15% of the Credit Union's Net Worth. A loan fully secured by shares in the Credit Union, or deposits in other financial institutions, shall not be subject to, or included in the aggregate amounts included in this section.

5. The aggregate of all outstanding loans or extensions of credit made to, or endorsed or guaranteed by all Board of Directors, Senior Management and immediate family members of such individuals shall not exceed 20% of the Credit Union's total assets. These requirements will apply unless waived in writing by the State Commissioner for good cause shown.

6. At least annually, the CLO shall make a report to the Board of Directors on the outstanding indebtedness of all Board of Directors, Senior Management and immediate family members of such individuals. The Board's review will be included as part of the minutes of the meeting at which the report was presented. The report shall include:

   a. The amount of each indebtedness;
   b. A description of the terms and conditions (including the interest rate, the original amount and date, maturity date, payment terms, security, if any, and any other unusual term or condition) of each extension of credit.

7. At the discretion of the Board, the reporting requirements for these types of loans may be waived for any individual if the aggregate of outstanding loans and extensions of credit to that person, the person's business interests, and the members of the person's immediate family do not exceed the greater of $25,000.00 or 0.25% of the Credit Union's Net Worth.

Small-Dollar Short-Term Credit (91.720)

1. The goal of these types of loans is to help Members avoid, or transition away from, reliance on high cost debt. These loans will be at an established interest rate regardless of credit score, have low fees, and have payments that will reduce the principal balance of the loan. As such, these loans are not eligible for Skip-A-Payments or Extensions.

2. Terms will be 6 months or less, the rate will be 18% and the amount financed will not exceed $1,100.

3. Underwriting considerations will focus on the Members history with Resource One Credit Union and the member's ability to repay the loan within the designated timeframe. Due to the small dollar amount of these loans, and in order to expedite the request, the Member need only show proof of recurring income.

4. The aggregate total of streamlined underwritten small dollar loans will not exceed 20% of Net Worth.

5. Late fees may be charged. In addition, other fees may be charged but in no case will those fees exceed $20. If this type of loan is refinanced, the fee can only be charged once in a 180 day period.

6. Payments will be structured in a manner that reduces the principal owed. For closed-end products, loans will be structured to provide for affordable and

amortizing payments. Lines of credit will require minimum payments that pay off principal. Excessive renewals or the prolonged failure to reduce the outstanding balance are signs that the loan is not meeting the member's credit needs and will be considered an unsound practice.

7. These loans can include a savings component. The funds in the savings account may also serve as a pledge against the loan.

Default Insurance (91.721)

1. This policy governs a special category of insured auto loan used for the purchase of a new automobile or light truck, or for purchase or refinance of a used automobile or light truck, using the Lenders Protection Program (LPP) default insurance and risk-based pricing program. This program provides special default insurance policies purchased by the lender for eligible loans, at its expense, that will reduce loan losses in the event of borrower default. The cost of the default insurance is not added to the loan balance or directly charged to the consumer. The insurance is a credit enhancement tool that allows the lender to extend loans on a wider range of favorable terms to borrowers with credit problems, limited credit, little or no down payment, and/or lower credit scores. The program features proprietary insurance and underwriting criteria and program guidelines as established, maintained and administered by Open Lending, LLC, the company that owns and markets the Lenders Protection Program. In addition, risk-based pricing tools are provided that allow the lender to assign an interest rate appropriate to the risk level and costs associated with the loan and the target yields established by the lender. Resource One Credit Union will have established procedures and processes when default insurance is utilized.

Insurance for Members (91.402)

1. Resource One Credit Union offers insurance products available to its members, including insurance products at the individual member's expense. The purchase of any type of insurance coverage by the member must be voluntary, and shall be listed as a flat charge line item on the member’s loan contract. Insurance products added to the loan after consummation of the agreement shall require a signed election and loan addendum stating the amount paid or added to the loan amount, and shall be kept on file. The insurance products offered are subject to the following conditions:

a. Insurance may be required on a loan if the coverage and the charges for the insurance bear a reasonable relationship to:
   1) The value of the collateral;
   2) The existing hazards or risk of loss, damage, or destruction; and
   3) The amount, term, and conditions of the loan.
b. If the insurance is a condition of a loan, the member will be given written notice that clearly and conspicuously states:
   1) That insurance is required in connection with the loan; and
   2) That the member may purchase or provide the insurance from a carrier of the member's choice, or the member may assign any existing insurance coverage.
c. A Board of Director, Senior Management or Employee may not accept anything of value directly from an insurance agent, insurance company, or other insurance provider offered to induce the sell, or offer to sell, insurance or other related products or services to the members.
d. If an existing loan is renewed, and the member is sold new credit life or disability insurance, the prior insurance will be cancelled and the member will receive a refund or credit of the unearned premium or identifiable charge before selling the new insurance to the member.
e. The Employee selling, or offering for sale, any insurance product must be at all times appropriately qualified and licensed under applicable State insurance licensing standards with regard to the specific products being sold or recommended.

2. It is an unsafe and unsound practice for any, Board of Director, Senior Management or Employee who is involved in the sale of insurance products to members, to take advantage of that business opportunity for personal profit. Recommendations to members to buy insurance will be based on the benefits of the policy, not the compensation received from the sale.

3. A Board of Director, Senior Management or Employee may not engage in any practice that would lead a member to believe that a loan or extension of credit is conditional upon either:

   a. The purchase of an insurance product from the credit union or any of its affiliates; or
   b. An agreement by the member not to obtain, or a prohibition on the member

from obtaining, an insurance product from an unaffiliated entity.

Debt Cancellation Products; Federal Parity (91.403)

1. Resource One Credit Union offers Debt Cancellation products to its members. These loan products are optional and are not presented as a condition to loan approval.

2. Resource One Credit Union will offer this insurance from insurers authorized to do business in the State of Texas.

3. The debt cancellation product will be offered on a flat charge basis. The charge will be listed on the member's contract, as a line item, and will be in accordance to the GAP Cost Schedule maintained in the consumer lending areas. Should the member wish to terminate coverage the member will be directed to the insurer to obtain any available refund. All refunds will be calculated using the actuarial method.

4. In the event the member chooses to purchase a debt cancellation product, a Debt Cancellation Contract requiring the member's signature will be processed at the time the loan is initially granted. The original contract will be retained in the member's loan file. A copy of the contact will be given to the member as an attachment to the loan documents. A copy of the contract and the insurer's fee will be forwarded to the insurer in accordance to their guidelines.

Collections

1. Resource One Credit Union will collect delinquent accounts, utilizing all methods available, while adhering to State and Federal guidelines, laws, rules, and regulations.

2. A loan is considered delinquent when a payment becomes past due. Collection efforts will begin when the Credit Union deems necessary and will not end until the delinquency has been cured.

3. In the event collateral is repossessed, disposal of that collateral will be in compliance with State and Federal guidelines, rules, laws, and regulations.

4. A Member filing bankruptcy will have all accounts and/or loans managed under the particular terms of the bankruptcy. Loans that are reaffirmed will be brought to a current status to match the repayment plan once regular payments under the plan begin, and any ordered cram down balance will be charged off. The Credit Union, at all times, will adhere to applicable State and Federal bankruptcy laws, rules, and regulations.

5. Workouts, which include extensions and rewrites, will be utilized at Resource One Credit Union's discretion when it is determined that such a solution is in the best interest of the member and the Credit Union. Workouts will be administered as follows:

    a. The Credit Union recognizes that the Skip-A-Pay program is a marketing promotion and as such is not considered an extension and does not fall under any of the guidelines of Lending Policy. However, when granting an extension, the member's use of Skip-A-Pays will be considered.
    b. In general, extensions should be limited to 60 days (two monthly payments) per twelve-month period. The extensions can be granted back-to-back or individually throughout the twelve month period.
    c. At any point when there are credit insurance claims, vehicle insurance claims, or GAP claims pending, extensions may be used to keep the members account current until the claims are settled. The maximum number of extensions does not apply in this situation.
    d. Rewrites/Workouts will be used to increase the probability of repayment or reduce possible losses. In general, the maximum term of a workout loan should not exceed 48 months. Standard rates, terms and underwriting criteria are not factors when evaluating a request of this nature.
    e. The Assistant Member Solutions Manager, or higher authority, will approve all due date changes, extensions, rewrites, and workouts. The Assistant Member Solutions Manager, or higher authority, will also approve any exceptions to the above criteria. Exceptions will be documented and the request will be sent to the proper underwriting authority for final review and approval.

f. In the event the Workout/Rewrite involves Real Estate (either consumer of commercial), the following considerations apply:
   1) The Workout should improve prospects for repayment of principal and interest,
   2) The Workout should be supported by a comprehensive analysis of the borrower’s willingness and ability to repay,
   3) Evaluation of the support provided by the guarantor(s) and
   4) Obtaining a current value of the collateral if applicable.
   5) Any loans that are modified due to the members’ inability to meet the original terms of the loan will be tracked and reported.

g. If the Workout/Rewrite involving Real Estate (either consumer of commercial), is not successful and foreclosure is the only remaining solution, the following conditions will apply:
   1) Verify that all deeds have been properly documented and recorded,
   2) Before executing foreclosure affidavits, verify all information supporting the foreclosure is accurate,
   3) Ensure the Board of Directors is informed of the number and volume of foreclosures in process and
   4) Documentation of all efforts to a Workout and/or Modify real estate loans in order to avoid foreclosure.

6. When all collections efforts have been exhausted, and no other avenue to collect a delinquent loan remains, the loan balance will be charged off.

7. The Member Solutions Department will collect all Consumer, Real Estate and Member Business Loans. The Managers of these departments will be utilized in collection efforts.

8. Outside sources may be needed to assist in collection efforts from time to time. These sources may be, but are not limited to, the following:
   a. Recovery agencies,
   b. Skip tracers and investigators,
   c. Attorneys and legal experts,
   d. Appraisers and
   e. Real Estate professionals.

Attachment A

LOAN AUTHORIZATION LIMITS

Board of Directors
Up to State Charter prescribed limits for all classifications

	Consumer	**Real Estate**	**Commercial**	**Unsecured Consumer**	**Unsecured (All other loan classifications)**
Loan Committee	$1,000,000	$2,000,000	$ 4,000,000*	$250,000	$250,000
President/CEO/CFO	$1,000,000	$2,000,000	$0	$100,000	$0
COO	$1,000,000	$0	$0	$100,000	$0
CLO	$1,000,000	$1,500,000	$ 500,000	$ 200,000	$ 200,000
Director of Commercial	$750,000	$ 1,000,000	$ 500,000	$ 200,000	$ 200,000
Director of Real Estate	$500,000	$1,000,000	$0	$100,000	$100,000
Consumer Loan Manager	$750,000	$0	$0	$50,000	$0
Assistant Loan Manager	$200,000			$30,000	$0
Asst. Real Estate Manager	$500,000	$500,000	$0	$25,000	$0
Underwriter - Consumer	$125,000	$0	$0	$25,000	$0
Underwriter - Real Estate	$0	$500,000	$0	$25,000	$0
Director of Sales & Service	$50,000	$0	$0	$5,000	$0

**Commercial loans exceeding $2,500,000 will require ratification from the board of directors*

Attachment B

Guidelines for Member Business Loan Portfolio Limits and Risk Concentration

When Net Worth Ratio[1] is	The % of Regulatory Maximum MBL Limit[2] is	And Acceptable Risk Rating Grade [3] will be
< 7.15%	0.00%	1 - 2
7.15%	20.00%	1 - 3
7.25%	40.00%	1 - 4
7.50%	60.00%	1 – 6
7.75%	70.00%	1 – 6
8.00%	80.00%	1 – 6
8.25%	90.00%	1 – 6
> 8.50%	100.00%	1 - 6

The table above serves as a guideline to mitigate risk to the credit union's net worth resulting from rapid portfolio growth and excessive default and credit risk. Due to the fluctuating nature of the net worth ratio, this table should be used as a guideline for management as opposed to Board policy.

Footnotes:

1. **Net Worth Ratio** - "Total Reserves + Undivided Earnings / Total Assets"
2. **Regulatory Maximum MBL Limit** – The lesser of "12.25% X Total Assets" or 1.75% of Net Worth.
3. **Risk Rating Grade** - Individual MBLs are assigned a "Risk Grade" ranging from (1 – 9). A risk grade of "1" indicates that a strong borrower with little or no default risk. A risk grade of "9" indicates a MBL that is nearing charge off status.

Attachment C

Risk Rating Guide (3rd Party Credit Union Service Organization Serviced MBL as revised 07/16/13)

RISK RATING	**SUMMARY OF RISK RATING**
1	High Quality/Cash Secured
2	Excellent
3	Above Average
4	Acceptable/Satisfactory
5	Special Mention/Watch List
6	Regulatory Substandard A (Continue Interest Accrual): Probability of Loss: < 20% and Chance of Payment Default: > 20% but < 50%
7	Regulatory Substandard B (Stop Interest Accrual): Probability of Loss: <20% and Chance of Payment Default: > 25% but < 50%
8	Regulatory Doubtful (Stop Interest Accrual): Probability of Loss: >50% and Chance of Payment Default: > 25% but < 50%
9	Regulatory Loss: Probability of Being Uncollectible: => 75% and should be classified as a loss and promptly charged off

A detailed description of the risk rating is contained in MBL Procedures.

Attachment D

Risk Rating Guide (Resource One Credit Union Serviced MBL)

CREDIT SCORE	BANKRUPTCY SCORE	RISK RATING
680 and Above	300 and Above	Superior
640-679	250-299	Satisfactory
601-639	220-249	Acceptable
600 and Under	219 and Under	Poor

Attachment E

Risk Grade Worksheet

Preparer's Name: ______________________

Date: ______________________

Borrower Name: ______________________

F/S Date: ______________________

Risk Grade	Cash Flow Coverage	Leverage	Liquidity	Industry Experience	Credit Score (Equifax)	Membership History
1	> 2.10	0-1.00	40%+ liquidity to total debt	10+ Years	740+	10+ Years
2	1.81-2.10	1.01-2.00	30% - 39% liquidity to total debt	5-10 Years	719-739	5-10 Years
3	1.51-1.80	2.01-3.00	20% - 29% liquidity to total debt	4-5 Years	675-719	4-5 Years
4	1.35-1.50	3.01-3.50	15%+ liquidity to total debt	3-4 Years	635-674	3-4 Years
5	1.21-1.34	3.51-4.00	10%+ liquidity to total debt	2-3 Years	620-634	2-3 Years
6	1.06-1.20	4.01-4.50	8%+ liquidity to total debt	1 -2 Years	600-619	1 -2 Years
7	0.91-1.05	4.51-5.00	6%+ liquidity to total debt	10-12 Months	580-599	10-12 Months
8	0.76-0.90	5.01-5.50	4%+ liquidity to total debt	4-9 Months	560-579	4-9 Months
9	≤ 0.75	5.51+	<4% liquidity to total debt	0-3 months	≤559	0-3 months
Result						
						2
RG						
Weight	25%	20%	25%	5%	20%	5%
				Risk Grade	0.0000	
						Final Recommendation

Attachment F

Risk Grade Worksheet - Real Estate

Preparer's Name: ________________________________

Date: ________________________________

Borrower Name: ________________________________

F/S Date: ________________________________

Risk Grade	Cash Flow Coverage	Loan to Value	Liquidity	Industry Experience	Credit Score (Equifax)	Membership History
1	> 2.10	<55%	40%+ liquidity to total debt	10+ Years	740+	10+ Years
2	1.81-2.10	<60%	30% - 39% liquidity to total debt	5-10 Years	719-739	5-10 Years
3	1.51-1.80	<70%	20% - 29% liquidity to total debt	4-5 Years	675-719	4-5 Years
4	1.35-1.50	<75%	15%+ liquidity to total debt	3-4 Years	635-674	3-4 Years
5	1.21-1.34	<80%	10%+ liquidity to total debt	2-3 Years	620-634	2-3 Years
6	1.06-1.20	<85%	8%+ liquidity to total debt	1 -2 Years	600-619	1 -2 Years
7	0.91-1.05	<90%	6%+ liquidity to total debt	10-12 Months	580-599	10-12 Months
8	0.76-0.90	<95%	4%+ liquidity to total debt	4-9 Months	560-579	4-9 Months
9	≤ 0.75	95% and over	<4% liquidity to total debt	0-3 months	≤ 559	0-3 months
Result						
RG						
Weight	30%	35%	5%	5%	20%	5%

Risk Grade	**0.0000**	
		Final Recommendation

Historical Record of Policy Changes

Note: For policy changes from August 2010 thru December 2013 see separate document titled "7100 Lending Historical Changes 2010-2013."

Date Revised: **January 2014**
Date Ratified: **January 2014**

Added to the Member Business Loans section:

Member Business Loans (91.709)

Member Business Loans (page 30), bullet 24: Expanded the section relating to reviews, added bullets A-J.

Member Business Loans (page 31), bullet 25: Expanded the section relating to loan committee.

Updated "Director of Lending" to "Chief Lending Officer" throughout the policy.

Date Revised: **March 2014**
Date Ratified: **March 2014**

Added to the Real Estate Lending section:

Real Estate Lending (91.704)

Real Estate Lending (page 8), bullet 2: This section has been updated to reflect the required changes based on recent changes to Regulation Z by the Consumer Financial Protection Bureau (CFPB) the categories of "qualified" and "non-qualified" mortgages have been established.

Real Estate Appraisals or Evaluations (91.708)

Real Estate Appraisals or Evaluations (page 13) bullet 11-16: This section was revised to include changes in regulation that pertain to providing appraisals to applications (bullet #11), crediting payments (bullet #12), providing loan payoff statements (bullet #13), error resolution (bullet #14), forced placed insurance (bullet #15) and title companies (bullet #16).

Date Revised: **July 2014**
Date Ratified: **July 2014**

Added to the Member Business Loans Section:

Member Business Loans (91.709)

- There was insufficient detail in the current Member Business Loan policy or written procedures documenting how collateral valuations will be determined in cases where an appraisal is not required. Addressed on page 21, section 10 A.
- The Supplementary Facts of the examination with an effective date of 03.31.2014 contained multiple recommendations from the examiners to strengthen the member business loan section. Each recommendation has been implemented throughout the policy.

Date Revised: **April 2015**
Date Ratified: **April 2015**

Added to the Member Business Loans Section:

Member Business Loans (91.709)

29. Added language after the first sentence, starting with the words “The underwriting guidelines detailed in the earlier sections of this policy will serve as a guide for underwriting an SBA loans as well” and concluding at the end of the bullet.

Date Revised: **November 2015**
Date Ratified: **November 2015**

Attachment A, Loan Authorization Limits:

This change to the policy below is in response to an email sent by Jim Brisendine to the Board on October 28. The board was asked to approve a change to the loan authorization schedule. The request was approved unanimously. The change in the policy is indicated in red. The loan approval limit for the Directors of Sales & Service on consumer loans was increased from $5,000 to $50,000.

Director of Sales & Service

Consumer	Real Estate	Commercial	Unsecured-(Consumer Only)
~~$5,000~~ $50,000	$0	$0	$5,000

Date Revised: **June 2016**
Date Ratified: **June 2016**

Added Participation Section (page 36-37) bullets 1 through 8.

Date Revised: **December 2016**
Date Ratified: **December 2016**

Member Business Loans (91.709)

The following changes appear on pages 21 thru 43.

Section 2 – New section. This incorporates definitions used in the revised regulations. They have expanded the definition of "borrower" to include guarantors and endorsers. Most notable here is the use of a new term, "commercial loan." The term "commercial loan" includes government guaranteed loans such as SBA loan and non-member participations, which are excluded from the definition of MBLs.

Section 5(c) –This referred to participation loans being included in MBL balance calculations. This is no longer the case in the new interpretation, thus this paragraph has been deleted.

Section 9 – The new regulation no longer specifically requires collateral. This revision softens our previous prescriptive collateral language. Additionally, paragraph b(1) increases our maximum unsecured loan limit from $100,000 to $250,000. Note: the new regulation has removed the limitation entirely provided the risks are adequately mitigated. Maintaining a stated limit reflects a conservative credit philosophy.

Section 10 – Due to the previously prescriptive requirements for specific LTV maximums, those maximums were stated in the previous policy. The new language softens the requirement to a guideline suggesting our intent to take collateral. Paragraph "c" retains the 25% equity requirement for C&D loans and points to the C&D loan section for the calculation methodology. A new paragraph "e" was added to speak to the fact that unsecured loans are now allowed.

Section 11 – In the preamble, "requirement" has been replaced with "guidelines" to reflect the new interpretations. Account Receivable and Inventory financing were added to types of credit needs funded by lines of credit.

Section 13 – A new paragraph "c" was added to specify that unsecured MBLs and commercial loans will not exceed 2.5% of the CU's N/W. If the ALM Committee prefers a lower limit, their guidance will replace this recommended percentage.

Section 20 – Paragraph "c" was enhanced to specify that Tax Returns will be required from the Borrower AND the Guarantor. Paragraph "d" now specifies the additional info required for asset based credits such as account receivable listing and inventory reports.

Section 21 – New section. We now state that for relationships of $1 million or more, we will require CPA prepared Compilation statements annually.

Section 23 – The minimum Debt Service Coverage Ratio is being lowered to 1.25 times from 1.4 times. This adjustment is being made primarily due to competitive pressures. Secondarily, the portfolio that has been built in the past few years has proven to be sound and thus capable of supporting a slight increase in risk profile.

Section 24 – Reflects changes to the Texas Business Lenders' Group (TBLG) Risk Ratings. Our minimum risk rating for approval is lowered to "4" from "3". This change was overlooked when TBLG changed their matrix a while back and reflect our past practices.

Section 25 – Paragraph "a", 3rd bullet, Owner Occupied Commercial Real Estate is now 75% to make it consistent with the advance rate on a Construction & Development loan.

Section 29 – Originally the Board waived the requirement for initial and ongoing financial statements on Rental Properties. This change reflects our practice of obtaining financials at inception. Additionally, as the portfolio has grown, we've benefited from lending relationships with multiple properties and significant aggregate balances outstanding. Prudent credit risk management requires the lender to stay abreast of the borrower's financial condition in an effort to not be surprised by any deterioration in financial performance. Thus, on an ongoing basis we will require updated financial information for relationships equal to or over $400,000.

Section 32 – Reflects the change in the Collection Department's title.

Business Credit Cards – New section. The credit union will be offering business members R1 VISA cards in 2017. The limit will be capped at $20,000 and they will be underwritten using existing guidelines. Additionally, where possible, we will obtain and SBA Express Guarantee (50% guarantee under the Express program) on these cards. At the same time, we will reserve the right to request updated financial information.

Attachment A – Revised the unsecured limit for the loan committee from $100,000 to $250,000 to reflect changes previously discussed.

Date Revised: **May 2017**

Date Ratified: May 2017

Lending Powers (91.701)

Section 5 & 6 (page 5) – Clarified the position on determining collateral value and ownership.

Member Business Loans (91.709)

The following changes appear on pages 20 thru 40:

Section 2 – Enhanced definitions.

Section 4 – This section was rewritten.

Section 4 (d) – This is a new addition that specifies that we will require a personal guarantee from all persons who own 20% or more of a business entity which has always been our practice.

Section 6 –The revisions to the regulation removed the 12.25% of asset test. We are now limited to 1.75 times our Net Worth.

Section 8 (b)(1) – Clarified that the maximum unsecured loan to any one member or group of associated members is $250,000. The previous reference to a percentage of Net Worth created a textual conflict.

Section 8 (b)(3) – Clarified that the credit union will maintain a Net Worth of at least 7% in order to offer unsecured MBL loans.

Section 10 –The new regulation provides guidance on how to value account receivable A/R as collateral on lines of credit. Therefore, the phrase referring to them as being "considered unsecured" has been deleted.

Section 10 Unsecured – Added language to define a "well-qualified borrower".

Section 10 (a)(4) – Added "dealer sales reports" as a method of determining the value of certain equipment.

Section 10 (a)(6) – Added the specific detail to be included in any A/R or Inventory reports when those assets are collateral.

Section 10 (c) – Revised the introductory sentence to state “our desire is to serve our entire membership base”. Added a sentence that provides room for us to make loans on our list of “less desirable” industries, provided there are clear mitigating factors (i.e. restaurants, dry cleaners, auto repair shops etc.).

Section 12 (a) (2) & (3) – Textual change caused by earlier additions. Section 10 is now section 11.

Section 13 (b-d) – The new regulations allow for certain costs to be included in “costs to complete”. Added section (c) regarding the feasibility of a project and section (d) regarding lien searches and disbursements.

Section 16 – The new regulation wants the CU to be certain that the staff involved with approving or processing MBLs have the necessary experience to properly administer the types of credits the CU is offering. Previously the regulation specified a “minimum of two-years experience”. That was woefully inadequate. Therefore, the two year requirement has been revised.

Section 20 – This is a new addition. The regulation now allows us to set what type and how much financial information we will require to underwrite a loan request. It is intended to vary with the size and complexity of the request.

Section 22 – The new regulation requires that we specify the types of performance indicators we will review in our analysis.

Section 23 – Added that we will use both personal and business credit reports if available, as well as, projections when warranted (i.e. a new business) in our analysis.

Section 24 – Added that we will be using two Risk Rating matrices going forward; one for secured loans and one for unsecured loans.

Section 25 –Subsection (d) was added to state that intangible assets will not be given any collateral value. Subsection (e) was added to state that we would not consider an appraisal based on a Going Concern Value. Going Concern Value assumes the business will continue indefinitely. However, in foreclosure the business has failed in most cases, thus is no longer a “going concern.”

Section 27 – This section addresses ongoing monitoring of risk in the portfolio. The revision balances credit risk, expense and the need for efficiency.

Section 28 – Changed the requirement that the Commercial Loan Committee manages the Watch List.

Section 29 – Revised the last paragraph to address the occasional rent house owned by a member with traditional outside employment/income – not a real estate professional – as not being an MBL in spirit. However, we state that we will require updated financial information when the combined exposure exceeds $400,000. That amount should cover four homes in most cases. It is felt that beyond that, the member is actually running a "business" and should be reviewed similarly. Additionally, we removed the reference to "hobby business" (we have not done any) and "other income generating purposes" (too broad).

Procedures

(Page 44) – New section stating that we will maintain written procedures and that they will be separate from this policy.

Insurance for Members (91.402)

Section 1 (page 49) - Revised the requirement of a separate signed contract for insurance.

Debt Cancellation Products; Federal Parity (91.403)

Section 5 (page 51) - Revised the requirement of a separate signed contract for insurance.

Attachment F

Added a second Risk Grade worksheet for Real Estate loans.

Date Revised: **May 2018**
Date Ratified: **May 2018**

Lending Powers (91.701)

Section 9, Added Bullet F (page 6) – Added "Unsecured Home Improvement Loans (Fully Insured)" with the 180-month maximum term.
Section 9, Bullet H (page 6) – Corrected language to "Revolving, however, lines will be reviewed every two years to ~~insure~~ ensure underwriting criteria is met."

Lending Powers (91.701)

9. Maximum terms for each type of loan, except real estate and commercial loans, are:

a. Boat, RV and Aircraft:	180 months
b. Automobile:	84 months
c. Motorcycle:	60 months
d. All other collateralized loans:	60 months
e. Unsecured loans;	60 months
f. Unsecured Home Improvement Loans (Fully Insured)	180 months
g. Lines of Credit:	Revolving, however, payments must be sufficient to amortize the outstanding balance over a reasonable period of time and not cause negative amortization.
h. Credit Cards:	Revolving, however lines will be reviewed every two years to ~~insure~~ ensure underwriting criteria is met.

Date Revised: **September 2018**
Date Ratified: **September 2018**