

Comprehensive Loan Policy of a Large Western Credit Union

Loan Committee Policies

The role of the loan committee, as appointed representatives of the membership, is to retain the ultimate responsibility for approval or refusal to grant loans to other members. The Loan Committee will delegate authority to approve loans to the Loan Officers they appoint in accordance with the limits established in these Loan Policies.

The Loan Committee is comprised of three appointed representatives members and additional alternate members. All will be appointed by the Board of Directors as needed. Alternate members serve in the absence of the regular members.

The Loan Committee will meet each normal credit union business day at approximately noon to deliberate on loan applications which are beyond the scope of delegated authority of the Loan Officers or loans which have been submitted to them by the Loan Officers. On all loans referred to the Loan Committee, the Loan Officer will make written recommendations for approval or disapproval.

After analyzing the application, the Loan Committee will approve, reject (giving a specific reason) or defer the application for additional information. The application with Loan Committee comments and decision will be returned to the appropriate Loan Officer, who will inform the member of the Loan Committee decision. Members who have their application rejected by the Loan Committee may request a personal interview with the Committee to discuss the application.

The Loan Committee has the responsibility to recommend changes in the loan policies to the Board of Directors. At all times, the Loan Committee operates within the parameters established by the Board of Directors.

Credit Evaluation

The member will be requested to complete the Financial Statement. Appendix A, to this policy. It is extremely important that the appropriate category at the top of the form be checked. The member must determine if he/she is applying for individual or joint credit, or if they will be relying on the income of another as the basis of repayment.

A credit report will be obtained on a member for the following reasons:

1. New member borrower with no previous report.

2. If the requested loan advance is over \$ 10,000.
3. All real estate loans -- first and second mortgage
4. When the Loan Officer or Loan Committee requests.

Determination of line-of-credit limits will be in compliance with Loan Committee Policy.

Loan Referrals to Loan Committee

A Loan Officer will refer a loan application to the Loan Committee when:

1. The Loan Officer's approval authority is restricted due to Board of Director or Loan Committee policies.
2. The Loan Officer believes the application should be rejected on the basis of credit worthiness.

When a Loan Officer refers a loan application to the Loan Committee, the form entitled "Loan Officer Referral to Loan Committee" will be completed indicating the Loan Officer's recommendation, and the reason for referring the application to the Loan Committee.

The Loan Committee will consider the Loan Officer's recommendation, analyze the current application and other pertinent information, and then take action to approve, reject or defer the application. If the application is rejected, the Loan Committee will note the action on the application and complete the ECOA form entitled "Statement of Refusal to Grant Loan".

If an application is deferred for additional information, the Loan Committee will note the specific information required on the bottom of the "Loan Officer Referral to Loan Committee" form. The interviewing Loan Officer will normally have the responsibility of informing the member of the Loan Committee's decision.

It is important to note that a Loan Officer or other staff members may refuse to accept or disapprove a loan application if that individual is not within the field of membership or noncompliance with policy.

Financial Counseling

Loan Officers will attempt to identify members whose financial statement might indicate a dangerous pattern of increasing indebtedness or excessive obligation. Debit consolidation loans or loans to pay bills are many times a good indication of such conditions.

The financial statement and loan folder of such a member should be given to the Loan Supervisor. The Loan Supervisor will contact the member to determine if they are interested in receiving assistance from the Credit Union in resolving their personal financial problems.

If the member wishes, the Loan Supervisor will set up an appointment for a counseling session.

The counseling should include:

1. Analyze the member's income in relation to his/her monthly payment obligation.
2. Assist members involved in creating a reasonable family budget.
3. Suggest possible techniques for reducing debt or making more efficient use of income.
4. Provide a debt consolidation loan if in the best interest of the member and within the guidelines of sound loan judgement.
5. Attempt to determine cause or causes of financial condition and when necessary refer to outside assistance consumer credit counseling, marriage, drug or alcohol abuse counseling, etc.

The Loan Supervisor or Loan Committee will limit counseling to personal financial matters only.

Appeals of Disapproved Loans

Members who have their application refused by the Loan Committee may request a personal interview to discuss the application. The member must request the interview in writing, outlining the additional information he wishes to present to the Loan Committee which would alter their judgement to approve the member's application. The letter will be presented to the Loan Officer who originally interviewed the member.

The Loan Committee will evaluate the letter to determine if a meeting with the member would be profitable to him/her.

Loan Officer Appointments

The Loan Committee has appointed the following individuals to act in the capacity of Loan Officer:

Warren Brown

John Persimmon

Cynthia Green

Hubert Orange

Bart C. Red

Janine White

Credit Approval Authority

A. Loans: The amounts shown represent the total new loan amount. If an existing loan payoff is to be included in the new loan, the total new loan amount is still limited to the above

amounts. Any insurance premiums, recording, filing, title and registration fees may exceed the loan approval authorities for any category, and may ever exceed loan policy limits set by the Board of Directors.

B. Credit Approval Authority: cannot be combined to increase loan amount.

C. Multiple Loan Authority: The overall credit authority for approval of two or more loans for one member is as follows:

1. Level I -- cannot approve multiple loans.
2. Level II -- \$10,000.00 excluding any amounts secured by shares and/or share certificate, or company stock.
3. Level III -- \$15,000.00 excluding any amounts secured by shares and/or share certificate, or company stock.
4. Level IV -- \$25,000.00 excluding any amounts secured by shares and/or share certificate, or company stock.
5. Level V -- \$75,000.00 excluding any amounts secured by shares and/or share certificate, or company stock.

D. When considering an additional separate loan for a present line-of-credit member, the member credit line, not the present unpaid balance, is used in determining the maximum multiple loan authority.

Obtaining Authority

Branch employee authority must be submitted in writing and approved by the Loan Committee.

Unsecured Loans

The only acceptable unsecured loan type is on a line of credit account. Members requiring "signature" money should apply for a line of credit account.

Loan Officer Lending Guidelines

The loan policies adopted by the Board of Directors are intended as maximum possible allowable dollar amounts and terms. In certain other cases, their maximum would result in unreasonable or unsound loans. The character and capacity of the borrowing member and the collateral offered for security must be carefully analyzed to arrive at a reasonable term of repayment.

The following guidelines have been developed to determine reasonable terms and minimum

monthly payments for a given item of collateral and dollar amount to be borrowed. Loan Officers may not grant loans to members on terms more liberal than the listed guidelines. The Loan Officer should always encourage members to request higher monthly payments in order to reduce finance charges whenever possible.

The application of a member requesting a term and payment more liberal than the guidelines listed below will be referred to the Loan Committee for approval/disapproval. Loans requested by members in dollar amounts over the maximum dollar amounts indicated in this guideline will also be referred to the Loan Committee for evaluation.

Combination signature and other collateral secured loans will not be made. Two or more separate loans will be required. Loan files in the Credit Union shall contain evidence of the value of any security provided by the borrower.

Establishing Credit Worthiness

In order to comply with the Equal Credit Opportunity Act, the member's secured or unsecured credit limit will be based solely on credit worthiness. In establishing this limit, two elements of the member's credit worthiness were taken into consideration:

Capacity: The individual's ability to repay based on the income in relation to payment obligations.

Character: The individual's attitude toward paying bills.

To determine the member's capacity for additional debt, the following computation will be performed analyzing the member's income in relation to his payment obligations. This computation will be performed on the reverse of the Financial Statement in the blocks provided:

Total Gross Monthly Income
30% (over \$2000.00) 20% (under \$2000.00)
Net Monthly Income
Total Debt Payments
Other Obligations
Estimated Monthly Living Expenses
Balance left over

Definitions

Total Gross Monthly Income: If a member is applying for individual credit, this item will include his/her gross monthly income before any deductions for taxes, F.I.C.A., etc. Additional income of a recurring nature each month will also be included here. Other income could include income from a part-time job, income from rental property, monthly income from investments, child support, or separate maintenance.

The loan officer should request the member to substantiate the other income with documentation of the certainty of the possible continuance of such income. If a member is applying for joint credit, the gross recurring other income of the joint borrower will be included with the gross income of the member borrower. The income of a member borrower or joint borrower can only be considered once by the credit union.

Total Debts: This item will include all recurring monthly payments or debt for which the member is either primarily or jointly responsible. Such payments could include mortgage or rent payments, on loans at credit unions, banks, savings & loans or finance companies; payments on credit cards such as Mastercard, Visa, or department store accounts.

Monthly payments for which the joint borrower is either primarily or jointly responsible will also be listed. However, a husband and wife will not list a debt twice if the wife is jointly responsible with the husband for that debt when she is applying as the joint borrower.

Other Obligations: These will include other recurring monthly payments for which the member borrower or joint borrower is responsible. Such obligations would include alimony, child support, or separated maintenance payments.

Estimated Monthly Living Expenses: This figure will be determined by consulting Appendix A of this policy. Appendix A was created as an approximation of what the indicated family types might spend for food, entertainment, utilities, insurance, clothing, gasoline, automobile maintenance, and home upkeep. Loan officers should take great care in considering an individual who shows no rent or house payment due to living with relatives, etc. These situations are normally temporary. Any long term loans should be referred to the Credit Committee.

Balance Left Over: This figure will actually determine the secured or unsecured credit limit for the member borrower. This policy converts this dollar amount left over to the unsecured credit limit in dollars.

The Loan Officer will refer to the Loan Committee members with the following situations:

1. A balance left over of under \$100.
2. Any bankruptcy within seven years.
3. Maximum debt ratio exceeded.

4. Consumer Credit Counseling Service within seven years.
5. Employment period less than six months with current employer.
6. A credit rating on any account of a "3" or greater.
7. Current garnishment.
8. Pending legal proceedings.
9. A previous delinquent account at the credit union.
10. A history of exceeding their open-end limit (loan draft account).
11. A history of overdrafting the share account operations.
12. Any loan rejection within the past year will go to the Loan Committee.
13. Other significant derogatory credit information.
14. Any member who requests a credit limit greater than that authorized by Policy #5002 must submit a new credit application and be referred to the Loan Committee.
15. All Mortgage Loan requests.
16. All loans to Credit Union officials in excess of \$5,000.00.
17. All employee loans except for share secured loans.
18. All unsecured loans in excess of \$5,000.

Signature Loans: Signature Loans may be approved up to \$10,000.00. A signature loan is referred to as Line of Credit. The balance left over after expenses will determine the type of loan and the amount a member may borrow on a Signature Loan.

Issuance of the VISA Credit Card

To be issued a Visa credit card, the member must comply with the following:

1. Apply and be approved for an unsecured line of credit of at least \$500.00.
2. Be a member in good standing.

3. Have a satisfactory credit history.
4. Be at least 18 years of age or have a qualified cosigner.

MSRP

MSRP is defined as Manufacturer's Suggested Retail Price.

Documentation of such price shall be included in loan file.

Definition of a New Car/Truck

To be considered new, a car or truck must meet the following criteria:

1. Have less than 3,000 miles on the odometer.
2. The model year must be within 18 months of the introduction date of the model. For example, a 1989 model vehicle introduced on October 1, 1988, will be considered a new car until March 31, 1990.

Used Car/Truck Valuation

Maximum of 70% of the NADA book retail price can be financed on a used car or truck. Current model year used vehicles not in the NADA book will be financed for the lesser of purchase price or a price determined from the new car price book at dealer cost. Vehicles no longer in the NADA book will not be financed. There are, of course, many automobiles of an antique or classic status which have attained outstanding value but are not contained in the NADA book due to their model year. It is many times difficult or impossible to determine a realistic loan value since certified classic vehicle appraisers are unavailable in this area.

Customized vehicles (generally vans with custom, non-manufacturer installed interiors) can only be valued at the NADA book retail value including manufacturer listed opinions only. To make up the difference between NADA value and purchase price created by the custom work, the member can borrow against a signature note loan.

The Loan Committee may approve loans on older used cars using the older car NADA or CPI book. Only the low figure from CPI will be used if the car is not listed in the NADA.

Valuation of Refinanced Collateral

The Board of Directors Loan Policies state for several types of used collateral that a particular per cent of purchase price will be financed. If the item of collateral is currently financed at this Credit Union or another financial institution the loan value will be the specific

percentage of the retail value in the NADA book.

Household Goods as Collateral

Generally household goods are of questionable loan value. Loan Department employees will encourage members to use the Visa line-of-credit or collateralized loan for the purchase of most household goods.

Employee Loans

All employee loan applications will be processed through the Branch Manager and/or President, dependent on position, and submitted to Loan Committee for review. The only exception to this will be share secured loans. Employee loans should be considered personal and confidential. Employees who process these loans should take care to keep this confidentiality.

Loans to New Members

Any employee of the company with less than six months employment with the company may be approved for a maximum signature limit of \$1,000.00. Credit union employees with less than three months employment with the Credit Union may be approved for a maximum signature limit of \$ 1,000.00.

The maximum allowable amount for secured loans may not exceed 50% of the members annual salary until their respective three or six months employment has been reached.

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