Family First Credit Union

Real Estate Lending Policy

Table of Contents

Family First Credit Union

Lending Policy

Fair Housing Act Policy

Purpose

The Fair Housing Act prohibits discrimination in the sale, rental, brokering, financing, or appraising of housing used primarily for personal residences. The Act prohibits discrimination in the financing of such dwellings on the basis of race, color, religion, sex, national origin, handicap, or family status of any applicant or other individual associated with the applicant or the property.

Policy Statement

It is the policy of Family First Credit Union that no applicant shall be refused the opportunity for or be discouraged from applying for a loan based on any of the prohibited bases. Additionally, these bases shall have no bearing on determining amounts, interest rates, terms, conditions, fees, extensions, collections, or other decisions with respect to granting or servicing a loan or the purchase of a loan. All credit-related decisions will be based on neutral credit factors such as the applicant's income, credit history, length and stability of employment, ratio of income to current and proposed financial obligations, and ratio of the proposed principal balance of the loan to the value of the proposed property security. Credit union employees will not use the services of an appraiser who is known to improperly consider any of the prohibited bases.

Unless a valid and well-documented exception exists, Family First Credit Union will not consider any of the following factors in connection with a real estate-related loan:

- The age or location of the dwelling;
- The age or location of dwellings in the neighborhood of the dwelling;
- The income level of residents in the neighborhood of the dwelling;
- ZIP code of the applicant's current residence;
- Previous home ownership.

Availability of Underwriting Standards

Family First Credit Union shall inform every member inquiring about a loan of the member's right to file a written loan application and to receive a copy of the credit union's loan underwriting standards and application procedures for all types of credit offered. The credit union's underwriting standards shall be clearly written and available at each of Family First Credit Union's offices. The loan underwriting standards and related business practices will be reviewed annually.

Availability of Real Estate Appraisals

Family First Credit Union will notify each applicant of his or her right to receive a copy of any appraisal used in connection with an applicant's real estate loan application. The appraisal will be available for a period of 25 months after the applicant has received a notice of action taken by the credit union on the real estate-related loan application. In compliance with new appraisal regulations, loan applicants will sign appraisal acknowledgement form once appraisal has been delivered to the applicant. Family First Credit Union will send the loan applicant a copy of their appraisal as soon as the finalized appraisal has been delivered to the credit union. Appraisal requirements now state that the loan applicant must receive a copy of their appraisal 3 business days prior to loan consummation. This rule also includes final inspections.

Advertising Policy Statement

When advertising real estate loans, the credit union shall clearly and conspicuously state that all real estate loans are granted without regard to the prohibited bases as defined in the regulation. Loan advertisements offering interest rates on first mortgage products must also show the APR. Included in the advertisement must be the loan scenario to which the rate and APR are being offered. All written advertisements will include a facsimile of the prescribed equal housing logo. All other types of advertisements, including oral advertisements, will include the phrase "An Equal Housing Lender" and the requirements found in NCUA *Rules and Regulations.*

Family First Credit Union

Lending Policy

Home Mortgage Disclosure Act Policy

Purpose

The Home Mortgage Disclosure Act (HMDA), implemented by Regulation C, became effective in 1975. This regulation requires disclosure of information that the credit union is otherwise prohibited from collecting, in order to verify that the credit union is meeting the lending needs of all members who are seeking residential mortgage-related credit.

Information Collected and Reported

Family First Credit Union requires that certain information will be noted on the Home Mortgage Disclosure Act loan application register (LAR) for loans originated or purchased by the credit union. Loans for unimproved land, construction or bridge loans used for interim financing in constructing a dwelling, or purchases of an interest in a pool of loans are excluded from this requirement.

The required information to be collected is:

- An identifying application or loan number and the date the application was received;
- The loan type, property type, and purpose of the loan;
- Whether the property is owner occupied;
- The loan amount;
- Whether the loan was a pre-approval and the action taken on the pre-approval;
- The location of the property by metropolitan statistical area (MSA), state, county, and census tract;
- Applicant information such as ethnicity, race, sex, and gross annual income;
- The type of entity that purchased the loan (if the credit union sold it within the calendar year);
- The reason the loan application was denied, if applicable;
- The rate spread (if the difference between the APR on the loan and yield on Treasury security with comparable maturity exceeds a certain threshold);
- HOEPA status (if applicable);
- Whether the loan is secured by a first lien, subordinate lien, or not secured by a lien.

Disclosure Requirements

By March 1st of each year, Family First Credit Union's complete loan application register for the preceding calendar year will be submitted to NCUA, along with the required transmittal documentation in an automated machine-readable format.

Within three business days after receipt of the mortgage loan disclosure statement from the FFIEC, prepared on the basis of the credit union's register pages, Family First Credit Union will make the disclosure statement available to the public at each branch office.

Family First Credit Union will make modified HMDA-LARs for the previous year available to the public by March 31 of each year and will provide the previous year's modified LARs within 30 days of receipt of a request received after March 1.

The credit union will display in the lobby of each branch location a notice stating that the credit union's HMDA data is available for inspection and copying.

Record Retention Requirements

Family First Credit Union will retain a copy of the HMDA-LAR pages submitted to the federal regulators for compilation for at least three years. The credit union will retain copies of the disclosure statement and make them available for a period of no less than five years.

Family First Credit Union

Lending Policy

Real Estate Settlement Procedures Act Policy

Purpose

The Real Estate Settlement Procedures Act (RESPA) was enacted to provide borrowers with information regarding the settlement costs of loans to finance the transfer of real property. Implemented by HUD's Regulation X, RESPA requires lenders to provide certain information to consumers in a particular form while at the same time prohibiting kickbacks and certain other practices.

RESPA applies to both first and subordinate mortgage loans and to mortgage refinances.

RESPA will be sent to loan applicants upon receiving and processing mortgage loan applications.

Policy Statement

All loan applications taken by Family First Credit Union, to be secured by a mortgage on a one to four-family residential structure, will comply with the following, unless the loan is exempt from RESPA by one of the conditions listed in the regulation.

- **Disclosures required at time of full application:**
  In order for the mortgage application to be considered a "full mortgage application", six pieces of information must be present on the application:
  1. Applicant name
  2. Income
  3. Social Security Number
  4. Property address
  5. Mortgage loan amount
  6. Estimated value of subject property

Family First Credit Union will provide the loan applicant with all required federal and state mortgage disclosures pertaining to RESPA and TILA as they apply to each loan product offered by Family First Credit Union.

Residential Mortgage Transactions - For residential mortgage transactions subject to the Real Estate Settlement Procedures Act (RESPA), as well as extensions of credit secured by a member's dwelling, the following rules will apply:

1. **RESPA Mortgage Loans**.
   a. **Disclosures** (for mortgage loans secured a member's primary residence that are subject to RESPA). All mortgage loan applications taken on or after August 1st 2015 will receive the new loan estimate which replaces the current Good Faith Estimate and Early TIL statement. This loan estimate will combine the GFE and TIL into one document that will better inform the applicant of the loan that they are being offered. This loan estimate must be delivered to the applicant no later than 3 business days from receiving the full loan application.
      i. **Good Faith Estimate of Settlement Costs**. A good faith estimate of expected closing costs such as loan origination fee, loan discount, appraisal fee, assumption fee, interest on per-day basis, attorneys' fees, title insurance, recording fees, survey and pest inspection. The Credit Union will deliver this estimate no later than 3 business days after receipt of written application.
      ii. **Settlement Procedures Special Information Booklet**. A booklet explaining settlement process and costs when applicable. Regulation X only requires this booklet for transactions involving the purchase of 1-4 family dwellings. The Credit Union will deliver this booklet no later than 3 business days after receipt of written application.
      iii. **Consumer Handbook on Adjustable Rate Mortgages** (if applicable). The Credit Union will deliver this booklet no later than 3 business days after receipt of written application.
      iv. **Uniform Settlement Statement**. HUD-1 closing statement clearly itemizing all charges imposed on the borrower and the seller at closing and charges paid outside of closing. The Credit Union will provide the statement at closing or one day before closing upon request.
      v. **Statement Regarding Transfer of Servicing Rights**. The Credit Union will provide this disclosure 15 days before the effective date of a loan transfer.
      vi. **Escrow Account Disclosures When Applicable**. The Credit Union will provide an Initial Escrow Statement within 45 days of closing. The Credit Union will also provide an Annual Escrow Statement within 30 days of the completion of the escrow account computation year. In addition, the Credit Union will provide HUD's "Consumer Disclosure for Voluntary Escrow Payments" whenever the Credit Union anticipates a substantial increase in bills paid out of the escrow account after the first year.
   b. **Early Truth-in-Lending Disclosures**. These early disclosures must be provided within 3 business days after receiving an application ("business day" is defined as the days on which the Credit Union offices are open to the

membership for carrying on substantially all of its business functions), and include the following:

i. Description of security interest;
ii. Required deposit balance when applicable;
iii. Credit sale disclosure if borrower purchases foreclosed property;
iv. Itemization of amount financed when requested;
v. Late payment penalty and reference to trust deed for default information;
vi. Adjustable mortgage rate disclosures if applicable;
vii. Notice of right of rescission when security constitutes the borrower's principal dwelling;
viii. Calculation of annual percentage rate, payment schedule, finance charge, total payments, and security interest charges. If specific terms are unknown, the Credit Union will provide the borrower with a good faith estimate. The Credit Union will recalculate the disclosures when the loan is consummated. If the recalculation of APR varies more than 1/8 of 1% from the good faith estimate, the Credit Union will re-disclose these items at closing; and
ix. The following statement, in a clear and conspicuous manner: "**You are not required to complete this agreement merely because you have received these disclosures or signed a loan application**."

Closing Disclosures

The settlement agent must provide the borrower with a completed HUD-1 or HUD-1A Settlement Statement form.

Escrow Accounts

Escrow accounts are not required by Family First Credit Union unless the loan is a higher priced mortgage loan. Beginning with applications received on or after **April 1, 2010**, the Credit Union will establish escrow accounts for taxes and insurance for all higher priced mortgage loans. Required hazard and flood insurance premiums will be escrowed when these products are required by the Credit Union. Based on Dodd-Frank Act requirements that amended the Truth in Lending Act escrow account will be maintained on higher priced mortgage loans for a period of not less than five (5) years.

Activities Prohibited by RESPA

No person employed by Family First Credit Union or acting on its behalf shall:

- Give or accept any fee, kickback, or item of value that in any way relates to the settlement of a mortgage loan; however, certain referrals may be permitted due to an affiliated business arrangement as long as the proper disclosures are provided;

- Give or accept a portion, split, or percentage of any fee(s) charged in connection with the settlement of a mortgage loan except for services actually performed;
- Charge a borrower for the preparation or distribution of the settlement statement, escrow account statements, or Truth-in-Lending disclosures;
- Require that a borrower use a specific title company for the purchase of title insurance as a condition to selling property the credit union owns;
- Require the borrower to maintain escrows for taxes, insurance, or other charges in excess of the amounts permitted by HUD;
- Make a mortgage loan to a borrower who is an agent, trustee, nominee, or other person acting in a "fiduciary capacity" without a prior condition that the borrower will, at all times during the processing of the loan application and the life of the loan, reveal to the credit union the identity of the person receiving the beneficial interest of the loan.

Record Retention Requirements

Family First Credit Union will retain all documents required by RESPA in accordance with the time periods set forth in the credit union's RESPA Audit Procedures.

Family First Credit Union

Lending Policy

S.A.F.E. Act Policy and Procedures

Introduction

It is the policy of Family First Credit Union to comply with the requirements of the Secure and Fair Enforcement for Mortgage Licensing Act (S.A.F.E. Act) and the statute's implementing regulations. The S.A.F.E. Act requires any credit union employee who acts as a residential "mortgage loan originator" (as defined in this policy) to register with the Nationwide Mortgage Licensing System and Registry, to use the Registry's unique identifier as required, and maintain this registration. Family First Credit Union requires all mortgage loan originators to follow its written policies and procedures to ensure compliance with these requirements.

Family First Credit Union's Chief Financial Officer will be designated as "Account Administrator" – the individual who will have full access to credit union and employee data. The Account Administrator will coordinate with appropriate staff to ensure the credit union establishes and maintains procedures to:

- Register the credit union, keep registration information updated, and renew the information on an annual basis.
- Identify new and existing employees who meet the definition of "mortgage loan originator" and ensure they are registered before performing any mortgage loan originator duties.
- Train new mortgage lending department staff on S.A.F.E. Act requirements prior to registration, and review requirements with existing staff prior to renewal.
- Confirm the adequacy of employee registrations, including updates and renewals, by comparisons with the credit union's own records.
- Develop systems for monitoring compliance with employees' registration and renewal requirements and procedures.
- Review employee criminal history background reports received through the Registry and maintain records of these reports and any actions taken with respect to applicable employees.
- Ensure that any third parties involved in mortgage loan origination have policies and procedures to comply with the S.A.F.E. Act, including appropriate licensing and/or registration of individuals acting as mortgage loan originators.
- Conduct an independent audit for compliance with the S.A.F.E. Act's requirements at least annually by credit union personnel outside of the mortgage department or by an outside party.

Mortgage Loan Originator

A mortgage loan originator is an employee who takes a residential mortgage loan application; and offers or negotiates the terms of a residential mortgage loan for compensation or gain. This definition does not include employees who perform purely administrative or clerical tasks in behalf of a mortgage loan originator.

Employees in the following positions are required to be registered mortgage loan originators on the national Registry:

- Mortgage loan managers/supervisors
- Mortgage loan officers
- One designated credit committee member
- Any other employee who acts as a mortgage loan originator for more than 5 residential mortgage loans in the preceding 12-month period.

Any mortgage loan originator who fails to comply with the credit union's S.A.F.E. Act policies and procedures will be prohibited from originating residential mortgage loans, may be transferred to another department, or face disciplinary action (up to and including termination).

Registration

Any employee who has been identified as a mortgage loan originator must register on the Nationwide Mortgage Licensing System and Registry, maintain and renew that registration and obtain a unique identifier (the number used by the Registry to identify the mortgage loan originator, track mortgage loan origination, and provide public access to the employment history and any disciplinary or enforcement actions against the mortgage loan originator). Following the initial registration, the mortgage loan originator must renew his/her registration annually between November 1st and December 31st of each year.

A mortgage loan originator must provide the following information to the Registry as well as any additional information required by the Registry:

- Identifying information, including: name and any other names used; home address and contact information; principal business location address and business contact information; Social Security number; gender; and date and place of birth.
- Financial services-related employment history for the 10 years prior to the date of registration or renewal, including the date the mortgage loan originator became an employee of the credit union.
- Any criminal convictions involving dishonesty, breach of trust, or money laundering; civil judicial actions in connection with financial services-related activities; or disciplinary actions or orders by a state or federal regulatory agency.
- Any suspension or revocation of an individual's professional license (e.g., attorney, account, state or federal contractor).
- Fingerprints in digital form (if practicable) for submission to the Federal Bureau of Investigation. Fingerprints provided to the Registry that are less than 3 years old may be used to satisfy this requirement.

Authorization and Attestation
Any employee registering, renewing or updating registration as a mortgage loan originator must authorize the Registry to obtain information related to any administrative, civil, or criminal actions; attest to the correctness of the information whether submitted by the employee or by the credit union on the employee's behalf; and authorize the Registry to make available to the public information regarding employment history and any disciplinary or enforcement acts that have been initiated against the mortgage loan originator.

Unique Identifier
The mortgage loan originator must provide the unique identifier to a member upon request, before acting as a mortgage loan originator, and through the mortgage loan originator's initial written (or electronic) communication with a member.

Record Retention
Authorization form and other data, including background record, submitted to the Registry will be maintained in employee's personnel file. Authorization form and background information may be reviewed by the independent auditor. Personnel file is maintained for 3 years after date of termination.

Vendor Due Diligence
Procedures designed to ensure that a third party with which it has arrangements related to mortgage loan originations also has policies and procedures to comply with the S.A.F.E. Act. Family First Credit Union will verify third party policy and procedures under S.A.F.E. Act.

The Chief Financial Officer will request a copy of the third party's policies and procedures pertaining to compliance with the S.A.F.E. Act annually between November 1st and December 31st.

In General, to assure the credit union's compliance with the S.A.F.E Act policy, the Board will review the procedures annually. All registered employees will be given a copy of this policy and asked to sign to acknowledge receipt and understanding of this policy annually prior to updating and reviewing Registry data. A copy of the signed document will be held in the employee personnel file.

Family First Credit Union

Lending Policy

Mortgage Lending Policy

General Policy Statement:

The Credit Union will originate residential real estate loans in compliance with all applicable federal and state laws and regulations. Mortgage loans will be held in portfolio or sold on the secondary market as directed by the Asset/Liability Management Committee.

General Guidelines

First and second mortgages may be granted to members of Family First Credit Union following the processes stated in the credit union's lending policy. Members may apply for these types of mortgage loans, as long as the membership requirements are met.

Real estate loans may be granted when funds are available but may not exceed 35 percent of the credit union's total assets.

Loan Types

The Credit Union offers the following types of residential real estate loans:

	Duration	**Terms**
First Mortgage	30 years	Fixed rate and payment
Second Mortgage	15 years	Fixed rate and payment, closed-end
HELOC	6 years	6 year repayment, open-end line of credit
Land Loan	15 years	Fixed rate and payment

Terms and Limits

Real estate loans may be granted up to the maximum mortgage limit set by the state's Department of Banking & Finance or by the credit union's credit committee with approval of the board of directors. Maximum limit per member for all loans secured by real estate is $500,000. Maximum terms are as follows:

The following positions have the authority to approve real estate loans and limits as follows:

President	$350,000
Chief Lending Officer	$250,000
Branch Manager	$ 75,000
Chief Financial Officer	$100,000
Three members of the credit committee	$500,000

Pricing of Fees and Interest Rates

Real estate loan pricing methods will be consistent with current market conditions and the credit union's ability to offer competitive products. Interest rates will be determined after considering the following factors:

- Rates of competing lenders in the credit union's market area;
- Rate of any mortgage company with which the credit union has entered into an agreement to originate or sell mortgages;
- The long-term anticipated cost of funds;
- The credit union's strategy for growth or shrinkage of the mortgage loan portfolio.

Mortgage interest rates are to be recommended by the Credit Union President and/or the Chief Lending Officer. This enables the credit union to respond to the volatility of the marketplace.

Types of Property

Real estate loan properties are intended to be owner-occupied and non-commercial as defined in secondary market guidelines. The following types of properties meet those guidelines:

- Single family;
- One- to four-family (with one unit occupied by the owner);
- Manufactured housing meeting the following criteria:
    1. The unit is permanently affixed to a foundation;
    2. Wheels, axles, and hitch are removed;
    3. Purchase of land and unit represent a single real estate transaction;
    4. Financing is evidenced by a mortgage or deed of trust in the land records; a combination of real estate mortgage and chattel or title registered with the Secretary of State is not acceptable;
    5. The unit and land must be taxed as real property;
    6. The unit must meet Federal Manufactured Home Construction and Safety Standards;
- Planned unit development;
- Condominium.

As real estate mortgages on unimproved land are not sold on the secondary market, granting of such loans will be subject in general to the same restrictions as all other first mortgage loans. Where second mortgage loans are more restrictive, those higher standards will apply. Those restrictions include, but are not limited to:

- A maximum term of ten years;
- An interest rate the same as a second mortgage.

In addition, requirements for first mortgages relative to purchase of property must be met.

Credit Insurance

Real estate loans to members may carry credit life and credit disability insurance that is serviced through an insurance company approved by the board of directors.

Assignment, Sale, and Transfer of Mortgages

Member real estate loans cannot be assigned without the written consent and approval of Family First Credit Union. Member real estate loans may not be assumed by other borrowers. The credit union may enter into an agreement to originate, close, fund, and otherwise process mortgages for sale to the following entities:

- Mortgage companies properly registered with and licensed by the State Commissioner of Savings and Residential Finance;
- Federal National Mortgage Association;
- Government National Mortgage Association
- Federal Home Loan Mortgage Association;
- Federal, state, and local housing authorities;
- Federal or state-chartered banks and savings and loan associations.

No sales shall be subject to recourse of repurchase except under the following conditions:

- Where the repurchase is at the seller's option;
- Where the agreement allows for the substitution of one loan for another;
- Where an agreement requires repurchase because of breach of warranty or misrepresentation.

Qualifying Borrowers

As of January 10th, 2014 Family First Credit Union has implemented the ruling from the CFPB regarding Regulation Z in regards to qualifying loan applicants. These changes to Reg Z require that we as the lender must make a reasonable, good-faith determination before or when you consummate a mortgage loan that the consumer has a reasonable ability to repay the loan. Qualified Mortgages have three types of requirements; restrictions on loan features, points and fees, and underwriting. One of the underwriting requirements under general definition for QM is that the applicant's total debt-to-income ratio is not higher than 43 percent. Factors that are taken into consideration are listed below:

- Credit history
- Mortgage loan payment
- Applicants income
- Applicants assets
- Employment status
- Property taxes and insurance
- Payments on simultaneous loans that are secured by the same property
- Other debt obligations, alimony, and child-support payments

QM's generally cannot contain certain risky features (i.e. interest only or negative amortization). Points and fees are limited on QM loans. QM loans do not apply to:

- open-end credit plans such as HELOC's
- reverse mortgages
- time shares
- Temporary or bridge loans with terms of 12 months or less
- Construction phase of 12 months or less
- Consumer credit transactions secured by vacant land

Loan officers will consider all criteria outlined in the credit underwriting standards. In particular, loan officers will focus on:

- Income stability;
- Monthly housing expense ratio and debt levels;
- Asset/net worth ratio;
- Down payment/closing costs; and
- Purpose of the loan.
- The signature(s) of borrower(s);
- The amount requested;
- The purchase price (where applicable);
- A listing of each borrower's assets and liabilities;
- A statement of each borrower's income;
- A specific identification of the property;
- An explanation of the source of each borrower's down payment

First and Second Mortgage, HELOC, and Unimproved Property Requirements and Documentation

1. Completed FNMA/FHCMC application.
2. Provide the required disclosures to the borrower within the timeframe prescribed by RESPA and federal regulatory agencies.
3. Retain a fee of $350 to cover the costs of an appraisal and obtaining a current credit report. (If that amount is insufficient to cover costs, management may adjust this fee to reflect actual costs.)
4. Obtain a current standard mortgage credit report on all parties applying for a loan.
5. Obtain current documentation for each party's employment income.
6. Obtain a current person's financial statement, if needed.
7. Follow the credit union's loan policy guidelines to determine if the member(s) is creditworthy and has the ability to repay.
8. Assuming the mortgage is to be granted, calculate and document the new debt ratios to determine if the borrower meets the credit union's debt guidelines based on the new mortgage payment. Calculations are based on gross income and are to follow standard underwriting guidelines of the secondary market: 36 percent for total debt and 28 percent housing debt.

9. Obtain a current written appraisal from an outside qualified, independent appraiser.
10. After obtaining the appraisal and determining market value, observe the following loan limits:
    - First mortgage - 100 percent
    - Second mortgage, closed-end - 100 percent (less amount of the first mortgage)
11. Obtain and attach an authorized signed loan approval form or send a loan denial form to the borrower.
12. Determine whether the subject property is located or will be located in a special flood hazard area (SFHA) and arrange for flood insurance if necessary.
13. Once the loan is properly approved, refer the loan to our closing attorney to obtain a title search and to prepare the closing documents.
14. The attorney will review all exceptions. Exceptions that would adversely affect the ability to sell the loan on the secondary market are cause to reject the application.
15. If all exceptions are correctable, provide a commitment form to the member stating the amount approved, rate, terms, and other requirements.
16. Before disbursing funds, obtain the following documents:
    - A valid deed;
    - A valid survey or title insurance location endorsement;
    - An insurance policy with the credit union listed as the loss payee/mortgagee and sufficient insurance to cover the property being mortgaged;
    - A valid signed mortgage/trust deed and security agreement that contain an accurate legal description of the property;
    - A valid signed mortgage/trust deed note that outlines the borrower's agreement to repay the note on the terms agreed and to give the credit union a valid security interest in the subject property;
    - A signed Truth-in-Lending disclosure;
    - A signed and completed settlement statement;
    - All documents to clear any exceptions in the title commitment;
    - A signed right of rescission form, if a non-purchase transaction;
    - All paid tax receipts or credits due;
    - All documents for proper payoffs of other outstanding loans;
    - Information to complete the Real Estate 1099 IRS form, including
        - The name of the person to receive the 1099;
        - The address of the recipient;
        - The recipient's Social Security number;
        - The amount of the transaction.
16. After completing the closing of the loan, ensure the prompt recording of the mortgage, releases of paid-off loans, and other appropriate documents in the proper county book of records.
17. Complete mortgage file, including a copy of the:
    - Final abstract or title insurance policy;
    - Final insurance policy;
    - Receipt of the recorded mortgage and releases.

Appraisals
Appraisers will use the Uniform Standards of Professional Appraisal Practice in determining market value and shall document the results of the appraisal on the FNMA/FHLMC Uniform Residential Appraisal Report. The appraiser shall be state-certified or licensed and have no interest in the subject property. The Credit Union will follow the requirements of NCUA Part 722 (Appraisals), pursuant to title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA), as well as Regulation Z appraisal requirements. Appraisers must have at least 5 years of experience in the appraisal industry and must be affiliated with either the Society of Real Estate Appraisers or the American Institute of Appraisers (as a candidate member or having either the SRA or RM designation).

Disclosures
Family First Credit Union will provide all loan applicants with all state and federal disclosures that are necessary for the loan transaction within the time restraints to which the applicable forms must be sent.

"Higher –Priced Mortgage Loans"
"Higher-priced mortgage loans" are defined as consumer-purpose, closed-end loans secured by a consumer's principal dwelling which have an annual percentage rate (APR) that exceed the "average prime offer rates" for a comparable transaction published by the Federal Reserve Board and by at least 1.5 percentage points for first-lien loans, or 3.5 percentage points for subordinate-lien loans (home equity lines of credit, reverse mortgages, construction-only loans and bridge loans are <u>excluded</u> from this definition).

a) **Average Prime Offer Rate**. The average prime offer rate will be published on the Internet each week and will be obtained from the Freddie Mac Primary Mortgage Markey Survey®. The published table will also include how to identify a comparable transaction.
b) **Protections Covering Higher-Priced Mortgage Loans**. For higher-priced mortgage loans, the following protections will apply:
    i. **Member's Ability to Repay**. The Credit Union will consider a member's ability to repay the loan's principal and interest, as well as the property taxes, homeowners insurance and similar mortgage-related expenses (i.e., homeowners association or condominium dues). This ability will be based on the member's reasonably expected income, employment, assets other than collateral, current obligations and mortgage-related obligations. Expectations for improvements in income or employment may be relied upon, but must be reasonable and verified with third-party documents (i.e., tax returns, payroll receipts, and/or account statements).
    ii. **Verification of Income and Assets**. The Credit Union will verify income and assets using reliable third-party documents. The Credit Union will never rely solely on an income statement from an applicant, and will never make even an isolated "no income, no asset" loan in the

higher-priced mortgage market. Ability to repay a higher-priced mortgage loan will be determined as follows:

1. Using the largest-scheduled payment of principal and interest in the first 7 years following consummation, and taking into account property taxes, insurance obligations and similar mortgage-related expenses;
2. Using at least one of two measures: (1) total debt-to-income ratio; or (2) the income the member will have after paying debt obligations.

iii. **Escrow for Taxes and Insurance**. Beginning with applications received on or after **April 1, 2010**, the Credit Union will establish escrow accounts for taxes and insurance for all higher priced mortgage loans. Required hazard and flood insurance premiums will be escrowed when these products are required by the Credit Union. Based on Dodd-Frank Act requirements that amended the Truth in Lending Act escrow account will be maintained on higher priced mortgage loans for a period of not less than five (5) years.

1. **Borrower's Right to Cancel.** Borrowers may cancel escrows sixty (60) months after loan consummation. The Credit Union will consult with its legal counsel as to whether an escrow cancellation fee may be imposed.
2. **Optional Insurance Items**. The Credit Union escrow optional insurance items chosen by members (and not otherwise required by the Credit Union).
3. **Administration**. The Real Estate Settlement Procedures Act (RESPA) applies to the administration of the escrow accounts.
4. **Condominiums**. Escrows for property taxes for first-lien higher-priced mortgage loans secured by condominium units will be required, unless the condominium's association maintains and pays for insurance through a master policy.
5. **Manufactured Housing**. Beginning with applications received on or after October 1, 2010, the Credit Union will require escrow accounts for all covered loans secured by manufactured housing, regardless of whether state law treats manufactured housing as personal or real property.

Determination and Notice of Flood Hazards

The Credit Union will comply with NCUA Part 760 regarding the determination of loans in areas having special flood hazards.

1. **Determination -** For all loans made, increased, extended or renewed that are secured by a building or mobile home located or to be located in a special flood hazard area, the Credit Union will complete the standard flood hazard determination form developed by the Director of the Federal Emergency Management Agency (FEMA). This applies to loan originations, extensions,

refinances, and renewals. The Credit Union will retain a copy of the completed form for as long as the Credit Union owns the loan.

2. **Fee -** The Credit Union may charge a reasonable fee for determining whether the building securing the loan or mobile home is, or will be located, in a special flood hazard area. The portion of the cost for the life-of-loan monitoring will be disclosed as a finance charge pursuant to Regulation Z.
3. **Notice -** If the building securing the loan or mobile home is in a special flood hazard area, the Credit Union must:
   a. Notify the borrower and the loan servicer of the special flood hazard within a reasonable time before completion of the transaction, the requirement for the purchase of flood insurance, whether flood insurance coverage is available from the National Flood Insurance Program, and whether federal disaster relief assistance may be available in the event of flooding. The Credit Union will retain a written receipt by the borrower and the loan servicer of this notice for as long as the Credit Union owns the loan. Notice may be provided to the servicer electronically.
   b. Notify the Director of FEMA, or the Director's designee, of the loan servicer. To ensure that the insurance policy is maintained in full force, the Credit Union will send this notice to the insurance carrier that issued the insurance policy so that the mortgagee endorsement can be updated. The Credit Union will notify the Director of FEMA of any change in the servicer of a loan within sixty (60) days after the effective date of the change.

Flood Insurance

The Credit Union will not make a loan secured by a building, or mobile home on a permanent foundation, that is located in a special flood hazard area for which flood insurance is available, unless the building is covered by flood insurance for the term of the loan. This applies to all originations, extensions, refinances, and renewals of loans over $5,000 or with a repayment term greater than a year.

1. **Term -** The borrower must maintain flood insurance for the term of the loan, unless flood map revisions determine that the underlying collateral is no longer in a designated flood hazard area.
2. **Coverage -** The policy amount must cover the loan amount or the maximum amount available under the National Flood Insurance Program, whichever is less.
3. **Escrow -** If the Credit Union escrows taxes and insurance, then it must also escrow the flood insurance premiums. The escrow account will be subject to the escrow requirements of the Real Estate Settlement Procedures Act (RESPA). Following receipt of notice from the Director of FEMA or other provider of flood insurance that premiums are due, the Credit Union will ensure that payment is made to the insurance provider from the escrow account on the date when such premiums are due.

4. **Notification; Forced Placement -** The Credit Union will determine whether flood insurance is required and promptly notify prospective borrowers of the need to acquire flood insurance within 45 days, at the borrower's expense. If the borrower fails to provide evidence of flood insurance within 45 days of notification, the Credit Union will purchase flood insurance for borrower at borrower's expense.
5. **Records -** The Credit Union will maintain records documenting the method used to determine the need for flood insurance and notices sent to borrowers.

Use of Third Party Brokers and Correspondents

Before entering into a relationship with a third party broker or correspondent, the Credit Union will adhere to its Vendor Due Diligence and Oversight policy.

1. **Due Diligence**. Specifically, with regard to mortgage brokers and correspondents, the Credit Union will perform the following due diligence:
    a. **Background Check -** The Credit Union will perform a background check on the business and the key individuals involved in the transactions. This check will include: complaints filed against those parties, licensure status (where applicable), and past and current lawsuits. The Credit Union will obtain this information from the Better Business Bureau, the Federal Trade Commission, state agencies, credit reporting agencies, and current and past clients.
    b. **Business Practices and Operations/Potential Conflicts of Interest** The Credit Union will determine whether the third party has a sound business model for long-term operations. The Credit Union will also determine who has a controlling interest over companies providing related services to the broker and/or correspondent (i.e., appraisers, title companies, insurance companies, etc.).
    c. **Financial Standing -** The Credit Union will investigate the third party's financial condition; will determine whether its cash flow is adequate; and will obtain independently audited financial statements.
    d. **Accounting Considerations**. The Credit Union will understand the sources of the third party's cash, as well as how cash flows through the third party's operation and between all of the parties involved. The Credit Union will obtain an independently verification of cash flows, and will ensure that every third party complies with Generally Accepted Accounting Principles (GAAP) in maintaining their account records.
    e. **Internal Controls**. The Credit Union will ensure that each third party has sound internal controls to help prevent fraud and abuse, as well as to ensure compliance with consumer laws and regulations.
    f. **Contracts and Legal Review**. The Credit Union will obtain a legal review of its contracts with brokers and correspondents, and will ensure that the following issues will be addressed:
        i. Adequate default, termination and escape clauses;

    ii. An agreement that the third party will comply with all applicable laws;
    iii. A stipulation that the third party will use its best efforts to ensure loans offered to borrowers are consistent with each borrower's needs, objectives and financial situation;
    iv. The Credit Union's right to not to purchase, or to put back on the broker or originator, any loans that fail to comply with the above standards;
    v. The Credit Union's contract or other agreement for credit transactions secured by a dwelling (including a home equity line of credit) will not include terms that require arbitration or any other non-judicial procedure to resolve any controversy or settle claims arising out of the transaction.
2. **Monitoring**. The Credit Union will monitor the relationship to ensure that the fees paid to third parties are legitimate; that mortgage applications are complete and do not contain fraud; that referral or unearned income of fees are legal and not contrary to RESPA prohibitions; and will review the quality of each loan by origination source in an effort to uncover incomplete packages and early payment defaults.
3. **Controls**. The Credit Union will ensure that adequate controls are in place in order to ensure:
    a. Adherence to board established lending policies and risk parameters. A sample of loans underwritten by brokers or correspondents will be reviewed for compliance with board policies, applicable regulations and written agreements to determine whether ongoing loan quality is maintained. Additional targeted loan reviews will be performed based on any performance concerns of a third party, such as increasing default rates, foreclosure rates, complaints, and/or higher than average fees charged to borrowers.
    b. Loan approval authority is not delegated to the broker, and that all loan underwriting criteria and subsequent modifications are approved by the Credit Union.
    c. Broker and correspondent reports are accurate, timely, and contain sufficient detail to adequately monitor activity.
    d. Loan fees, terms and practices are not predatory.
    e. The Credit Union is obtaining appraisals directly, or the quality of completed appraisals is adequate.

Servicing

1. **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.

    a. **Non-Conforming Payments**. In the event the Credit Union specifies, in writing, reasonable requirements for making payments, and a member makes a non-conforming payment, the Credit Union will credit the account within 5 days of receipt.
2. **Providing Loan Payoff Statements**. The Credit Union will provide a loan payoff statement within 5 days of a member's written or oral 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 5 days timeframe begins to run. The payoff statement may be sent electronically, by fax, or physical delivery.

Loan Watch

Since residential real estate loans constitute large balances and long maturities, they shall be monitored regularly so that the amount of obligation and potential percentage of portfolio is understood. Board reports closely monitor past dues and collection efforts.

Property Taxes Paid from Mortgage Escrow Accounts

If the Credit Union services mortgage loans, it will follow HUD's suggestions regarding annual versus installment disbursements for paying property taxes.

1. For each such loan, the Credit Union will total all payments associated with paying property taxes annually (if permitted) and all payments associated with paying in installments (if permitted).
2. If the total associated with annual payments is less, the Credit Union will pay the property taxes annually. If the total associated with paying in installments is less, the Credit Union will pay installments.

If funds in the escrow account are insufficient to make a property tax payment, the Credit Union will advance funds to make the payment unless the borrower is more than 30 days past due.

Subordination

Typically, subordination arises when there are two existing mortgages, a first mortgage and a second mortgage, and the mortgagor intends to refinance the first mortgage. If the holder of the second mortgage does not subordinate the lien of its mortgage to the new mortgage, the new lender will not refinance the first mortgage. However, the second mortgage holder does not want to release its mortgage and re-file, due to additional costs and priority problems, so it will subordinate its lien to the lien of the replacement mortgage. The Chief Lending Officer will complete a Subordination Agreement Review Worksheet to analyze the request. After a complete review, the credit union can agree to subordinate its lien position if it is in the Credit Union's best interest. Usually, the subordination is only allowed when a member is refinancing his or her first mortgage.

Other Guidelines

1. All mortgage loans will be in compliance with current guidelines regarding the Dodd-Frank Act, any additional guidelines implemented by the Consumer Finance Protection Bureau, and guidelines set in Real Estate Settlement Procedures Act. It is understood that all other conditions regarding real estate loans as prescribed in the bylaws and the state Department of Banking & Finance shall govern such granting.
2. The Family First Credit Union will not encourage default on an existing loan or other debt pending closing a home loan that refinances the existing loan or debt.
3. The Family First Credit Union will not charge a fee for early payoff or prepayment of a loan. Also, there will be no fee for quoting a payoff or faxing a payoff to another creditor. All requests must be answered within 5 business days.
4. It is understood that all exceptions to Family First Credit Union's real estate guidelines will be handled and approved by three members of the credit committee. Upon approval, these exceptions will be documented.

Consumer Complaints

If a complaint does arise involving any of the loan types, the following policies and procedures will be administered:

a) The chief lending officer and branch manager will review the complaint with the President. Then, if needed, we will present the complaint to our attorneys.

b) After full review from our attorneys, we will decide the best course of action to protect the credit union's best interests.

c) After full review, if Family First Credit Union is in violation of any regulations, we have the opportunity to cure the situation if mistakes are made under the law in good faith:

- Within 90 days of closing, and prior to receiving notice from the borrower of the compliance failure, for any AFLA violation
- Within 90 days of discovery, and prior to receiving any notice of the compliance failure, as long as the compliance failure was (1) not intentional, (2) resulted from a bona fide error, (3) notwithstanding the maintenance of procedures reasonably adopted to avoid such errors.

Closing Costs

1. The Credit Union will agree to pay all of the normal closing costs associated with the making of the Home Equity Line of Credit, provided that the Borrower takes one or more advances against the Line of Credit totaling at least $10,000 during the first twelve (12) months from the date hereof, and further provided that the Borrower maintains an outstanding principal balance on the Line of Credit of at least $10,000 for a period of at least ninety (90) days from the date the principal balance on the Line of Credit reaches a $10,000 principal balance.
2. The closing costs will be paid by the Credit Union on all other real estate loans

except First Mortgage Loans processed through Credit Union Financial Services (CUFS). Closing costs will include only standard costs including attorney's standard fee, title search and cost related to above. Any nonstandard conditions requiring additional cost will be paid by the member.

First Mortgage Loans
First Mortgage Loans are generally offered by the Credit Union through Independent Mortgage. After application is received, loan officer reviews length of employment, creditworthiness, loan application and credit report. Application package is then forwarded to Independent Mortgage for processing and closure of loan.

The Credit Union will review and keep on file Independent loan policies, maintenance policies, selling policies, contract obligations, license number and any other policies pertinent to Family First Credit Union.

If Independent Mortgage cannot provide an approval to a loan request or otherwise meet the member's needs, the Credit Union will review the application to determine whether or not we can hold the loan on our portfolio.

Home Equity Line of Credit General Policy
Home equity loans allow qualifying borrowers to obtain credit based on the equity in their home. The Credit Union offers open-end home equity loans. Open-end credit allows qualifying borrowers to draw against a pre-authorized line of credit.

HELOC Guidelines
Members who have at least three years of service with their employer may apply for up to 90% of the appraised value of their primary residence less the amount owed on a first mortgage. Minimum amount is $10,000.00. The annual percentage rate is the current WSJ Prime rate and is subject to change each June and December as the WSJ Prime rate changes. The annual percentage rate floor is currently 5 percent and the ceiling is currently 12.75%.

Home Equity Loan Account Management
The Credit Union will have risk management techniques that identify higher risk accounts and adverse changes in account risk profiles, in order to enable management to implement timely preventive action (i.e., freezing or reducing lines). Account management practices will be appropriate for the size of the portfolio and the risks associated with the types of home equity lending. Annually, the Credit Union will complete the "Home Equity Line of Credit Review Form" for all members that have a HELOC. The effective account management practices for all risk portfolios include the following:

a. Periodically refreshing credit risk scores on all members;
b. Periodically assessing utilization rates;

c. Periodically assessing payment patterns, including borrowers who make only minimum payments over a period of time, or those who rely on the line to keep payments current;
d. Monitoring home values by geographic area; and
e. Obtaining updated information on the collateral's value when significant market factors indicate a potential decline in home values, or when the borrower's payment performance deteriorates and greater reliance is placed on the collateral.
f. The Credit Union will conduct annual credit reviews of HELOC accounts to determine whether the line of credit should be continued, based on the borrower's current financial condition.
g. Authorizations of over-limit HELOCs will be restricted.

Fixed Rate Second Mortgages

Loans are available up to 15 years at a fixed rate. If approved, fixed rate loans can go over the 80% rule as follows:

80 - 90 % - 1.5 % premium added to published rate
90 - 100 % - 3.0 % premium added to published rate

There will be a premium or rate adjustment of 3% for any loans under $10,000.00. The term can be extended to 20 years based on creditworthiness.

Fixed Rate Second Mortgages – Special Conditions

Second mortgages under $20,000 where the loan-to-value ratio is less than or equal to 70 percent may use these less restrictive requirements:

- In place of a commitment and policy, a title search from a title company showing no adverse liens may be used.
- The appraisal need not be on the FNMA/FHLMC Uniform Residential Appraisal Report. It must still be prepared by an individual with no direct or indirect interest in the property. The report must provide an estimate of the market value of the subject property. Verifications of value as provided for under HELOC procedures may be used.
- Alternative verification procedures for employment and assets and liabilities may be used. Such procedures include telephone verification, use of pay stubs, and statements.

Unimproved Property Loans

Members may apply for a first mortgage loan to purchase, or a first mortgage loan to refinance an existing first mortgage loan on unimproved property located in Georgia for a maximum of 180 months. Normal down payment is 20 percent. Down payment can be adjusted based on creditworthiness.

1. **Credit Evaluation**

   Before making or recommending an unimproved real property loan, the loan officer will analyze and document the ability of the borrower to repay the loan. Each loan officer shall be responsible for obtaining sound valuations and approvals of collateral accepted as security for an unimproved real property loan.

2. **Collateral Requirements**
   All unimproved real property loan requests will contain an analysis of the Credit Union's collateral position. This will include, but is not limited to, the following specifics:
   a. **Valuation -** How the Credit Union determined the value of the collateral.
   b. **Appraisal**- Each loan application for raw land will require the standard land appraisal
   c. **Control -** How the Credit Union can exercise control over the collateral.
   d. **Examination -** On a periodic basis, the Credit Union will perform an examination of the value of the collateral. The Credit Union will examine the unimproved real property loans to determine that they are adequately collateralized based upon their current value and the outstanding loan balance.