

Family First Credit Union Lending Policy Charge-Off and Bankruptcy Policy

Purpose

The Charge Off Policy has three main purposes:

1. To insure the timely recognition of losses and adjustment for nonperforming assets;
2. To provide full and fair disclosure of statutory reserves on the financial statement;
3. To provide guidance for staff preparation of recommendations to the Board of Directors for charge-off action.

This policy is intended to cover the charge-off of loans (including credit card) and deposit losses.

Process

Every month, Family First Credit Union staff will prepare for the Board of Directors a written report of loans and deposit items recommended for charge-off. Prior to submission to the Board, each account will be reviewed by management. This report will be presented to the Board as part of the regular monthly board package. Action by the Board will be recorded in the Board meeting minutes and charged-off loans and deposit items will become a permanent attachment to the minutes.

Requirements

A loan or deposit item that reaches any status listed here should be referred to the Board of Directors and recommended for charge-off:

- The member/borrower(s), including co maker(s) or cosigner(s), has filed for Chapter 7 bankruptcy on an unsecured debt, and there is no indication the debt will be reaffirmed at or before the First Meeting of Creditors hearing. For those secured debts where collateral is surrendered or repossessed in Chapter 7 bankruptcy, any deficiency balance shall be submitted for charge-off in the next month after the collateral has been disposed of in a commercially reasonable manner. Unsecured debts having co makers or guarantors who did not file for bankruptcy shall not be submitted for charge-off unless and until the debt is later determined to be uncollectible.
- The member/borrower(s), including co maker(s) or guarantor(s), has filed for Chapter 13 or Chapter 11 bankruptcy and the debt is unsecured or under secured. If under secured, as determined by the bankruptcy court, the remaining unsecured portion of the debt will be charged-off after confirmation of the debtor's plan. Both unsecured and under secured debts shall be submitted for charge-off after receipt of the petition and after a claim has been filed with the

appropriate court. Secured debts that are included in a Chapter 13 or Chapter 11 Plan shall not be charged-off unless the collateral is surrendered or the court reduces the value of the secured claim. Unsecured debts included in a composition case that has a co maker or guarantor who did not file jointly with the debtor shall be submitted to the legal department or outside attorney to pursue the joint obligor.

- The borrower(s) is deceased and there is little or no likelihood of recovery from the estate or it has been determined that no estate will be opened. In the event an estate is opened, the member solutions staff will ensure that the estate has been properly and appropriately notified of the existence of the obligation and will file a claim with the appropriate probate court.
- The loan is a deficiency balance from the sale of collateral and the borrower(s) has indicated an unwillingness to make further payments.
- The loan has been assigned to a collection agency or outside attorney.
- The loan is 90 days or more delinquent with no payment in the last three (3) months, unless one or more of the following conditions exist:
 - i. The borrower is making monthly payments of at least 66 percent of the contractual payment, but cannot qualify for refinancing or re-aging by the Credit Union.
 - ii. The Credit Union or the member is waiting for settlement of a documented insurance/bond claim.
 - iii. The borrower is deceased and the Credit Union has substantial reason to expect settlement from the estate, comakers, guarantors, or relatives.
 - iv. The Credit Union is waiting for the proceeds from the sale of repossessed collateral.
- The loan has been determined to be uncollectible by the member solutions manager regardless of the number of months delinquent.
- The borrower(s) is determined to be a "skip" and the Credit Union has been unable to establish any contact with the borrower(s) for ninety days.
- All collection attempts on returned checks have failed.
- All collection attempts on an overdrawn account have failed.
- Fraud has been committed, and there is no realistic chance of recovery. Should any recommended charge-off not be approved by the Board, the action and reason(s) will be noted in the meeting minutes.

Post Charge-off Activity

Charging off a loan or deposit balance does not mean that the account should be forgotten. The debt is still an asset of the Credit Union; although, because of its doubtful value, it is not so reflected on the books. Charged-off debts (except bankruptcies) should be assigned to a collection agency, a collection attorney, or the Credit Union Staff Attorney.

Charged-off debts should be reviewed from time to time (including those debts assigned to a collection agency or outside attorney) to determine whether any changes

in the circumstances of the borrower or other party responsible for payment may make recovery possible.

Other Procedures

If a member has caused a loss to the Credit Union, services to that member will be discontinued. Staff will maintain records of delinquent and charged-off loans as directed, including (but not limited to) bankruptcy loss totals required by NCUA. Management will review other account relationships that a delinquent or charged-off borrower may have with the Credit Union. A listing of all charged-off loans will be reviewed annually by our Board approved external auditor.

Exceptions to the Charge-Off Policy

The "Charge-Off Exceptions Report" will be submitted to the Credit Committee on a quarterly basis by the Vice President of Member Solutions. The charge-off exceptions report will include all accounts that are 90 days delinquent or more and not charged-off. The report will give the member's name, the type of loan, (vehicle, unsecured, mortgage, credit card), the amount, the reason for the delinquency, (loss of job, reduced wages or hours, illness and disability) and the action which is our plan to save the loan from a loss and restore the member to a good standing within the Credit Union. The Credit Committee will approve the report and present it to the Board to be recorded in the minutes each quarter.

Settling a Charged-Off Account

When attempting to collect on a charged-off account, a Member Solutions Representative strives to collect the principal and accumulated interest.

When a member approaches a Member Solutions Representative to settle a charge-off, the proposal should be communicated to the president. At that time, it will be decided if the amount offered by the member is acceptable as payment in full.

If the settlement leaves an outstanding balance of \$600 or greater, a form 1099C will be completed and reported to the Internal Revenue Service, as required.

A member who has repaid in full the loss incurred by the Credit Union on an account may be eligible to reopen a share account and regain full membership status. In such a case, credit bureaus are informed to reflect the payment in full of the charged-off account.

If the amount of the settlement is not acceptable, the Member Solutions Representative will communicate with the member in an attempt to obtain a just and full repayment of both the principal and interest.

Review

Management will review this policy annually and make any recommendations for revision to the Board at the time of review.

Denial of Services Policy

It is the policy of Family First Credit Union to deny credit and other financial services to those members who have caused the Credit Union to incur a loss of any sort, and who have not voluntarily repaid the loss or are not in the process of voluntarily repaying the loss. This policy applies to all losses, whether the loss was by bankruptcy or otherwise.