FAMILY FIRST CREDIT UNION
CONCENTRATION RISK POLICY

1. Authority and Purpose

The Asset Liability Management (ALM) policy, approved annually by the Board of Directors, establishes the overall framework for the management of various credit union risks. This Concentration Risk policy creates one reference point to provide direction on concentration risk issues and limits.

Family First Credit Union has a responsibility to identify, measure, monitor and control concentration risk in conjunction with credit, interest rate, liquidity and other risks. This responsibility also extends to material concentration risks with third party service providers as deemed appropriate. Third party service providers could include loan participation counter-parties, investment safe keeping entities, etc.

A risk concentration is defined as any single exposure or group of exposures with the potential to produce losses large enough, relative to net worth, to threaten the credit union's ability to maintain its core operations.

Avoiding concentrating too much in any single product or service is a core principle of effective risk management and when violated increases the risk of loss to the credit union. Too much reliance on any single product or service increases the potential for adverse consequences from "event risk." The financial industry has experienced event risk with issues such as housing market declines that significantly affect financial performance for many entities.

Every asset, liability, product, service, and third party vendor presents a risk of loss to the credit union under varying conditions or events. Some risks are less likely than others (such as government default on securities), and some risks present a greater risk to net worth (such as failure of a member business loan).

The purpose of this policy is to identify concentration risks in product or service lines, quantify the risk and set and manage appropriate concentration limits based on the analyses.

The credit union has determined that the concentration of loans represents the greatest risk to net worth, and this policy establishes limit ranges for the amount of loans outstanding in consumer, real estate, and business loan categories. Limits are also established for investments, borrowings and member savings, though the primary focus is on the loan portfolio.

2. Concentration Risk Philosophy, Measurement and Management

As outlined in the ALM policy, the guiding philosophy of this credit union is to control risks while pursuing acceptable methods of achieving maximum yields from earning assets in order to provide competitive dividends/interest to members on share and other savings accounts consistent with generally recognized safety and soundness criteria.

Accordingly, concentration risk limits will be set to optimize the relationship between member returns and recognized safety and soundness criteria. This policy also focuses on assuring sufficient net worth exists to protect the credit union.

Measuring concentration risk requires an assessment of individual risk components and the potential impacts of their correlation. Measurement systems quantify the risk in various scenarios to assess the impact on net worth. The credit union's ALM modeling process provides fundamental analyses for these assessments.

Managing concentration risk is achieved through:

- Establishing and utilizing risk-based limit setting.
- Correlating the limit setting to net worth, total assets and individual portfolios where appropriate.
- Monitoring and controlling the amount of net worth that is at risk.
- Using available risk transfer tools to mitigate net worth risk exposures (e.g. selling loans, participating with others to reduce loan risk, insurance, etc.).

Our approved concentration limits reflect our knowledge and level of expertise in the financial markets where we function. They can be adjusted from time to time to reflect changes in:

- Overall trends in the economy, both locally and nationally.
- Management expertise and depth of capacity to compete within market segments.
- The credit union's overall financial condition and net worth position.
- Member characteristics and behavior.
- The availability of risk mitigation tools.

The Concentration Risk Limits matrix included in this policy identifies the key concentration classes, and documents the credit unions acceptable concentration level.

3. Types of Concentration Risk

Detailed below are concentration risk categories across the credit union's operations including various limitations and characteristics of the portfolios.

Loans

First Mortgage Real Estate loans include 10 to 30 year fixed rate loans. If considered necessary, concentrations can be further divided by geographic location, interest rate, loan to value, etc.

Member business loans include residential real estate loans, which include first and second mortgages and home equity lines of credit. If considered necessary, concentrations can be further divided by geographic location, interest rate, loan to value and credit rating. There is a risk rating system in place for all member business loans.

Home equity loans include home equity lines of credit at various loan-to-value levels with variable rates and terms. Loans can be further evaluated by credit score, loan to value, etc.

Direct Auto loans include both new and used auto loans issued under various programs through direct delivery channels. Auto loan concentration characteristics may include risk based underwriting, loan to value relationships, credit score, etc. FFCU does not issue auto loans through indirect delivery channels.

Credit card loans include products with various terms and conditions with limits established based on underwriting criteria. (Refer to the credit card loan matrix by credit score and repayment ability.)

Loan Participations through Credit Union Loan Source (CULS) include loan pools (auto loans) purchased. The pools include loans with various terms and conditions with limits established based on credit score and other underwriting criteria. Total investments in CULS participations are limited to amounts approved by the regulators and the Board of directors.

Loan Limitations

The maximum loan to any one borrower for member business loans is 15% of net worth or the legal lending limit, whichever is smaller.

The maximum loan to any one borrower for first mortgage real estate loans is 15% of net worth or the legal lending limit, whichever is smaller.

The maximum loan to any one borrower for other real estate loans is 10% of net worth or the legal lending limit, whichever is smaller.

The aggregate maximum to any one borrower for other loan categories is limited to:

- Unsecured loans – 2% of net worth or the legal lending limit, whichever is smaller.
- Secured loans – 5% of net worth or the legal lending limit, whichever is smaller.

Total dollars invested in real estate loans are limited to 30% of total assets or 250% of net worth, whichever is smaller.

Total dollars invested in first mortgage loans are limited to 25% of total assets or 200% of net worth, whichever is smaller.
Total dollars invested in second mortgage loans (including HELOCs) are limited to 15% of total assets or 125% of net worth, whichever is smaller.

Total dollars invested in non-residential real estate loans is limited to 5% of total assets or 40% of net worth, whichever is smaller.

Total dollars invested in loans with maturity dates beyond 15 years is limited to 20% of total assets, or 150% of net worth, whichever is smaller.

Total dollars invested in unsecured loans is limited to 20% of total assets or 150% of net worth, whichever is smaller.

Total dollars invested in fixed rate assets (loans and investments) is limited to 90% of total assets.

Total dollars invested in CULS participation loans is limited to $6 million or 60% of net worth, whichever is smaller.

There are other loan concentrations that management will consider and evaluate going forward including the following:

- Loans by type and credit score, including loans below certain credit score levels.
- First and second mortgage real estate loans with a loan-to-value ratio above a certain threshold.
- Loans to a single borrower or group of borrowers aggregating across all loan types.

Further refinements will be made to the attached Concentration Risk Limits matrix based on the concentrations present and the potential credit and interest rate risks.

Investments

Investments include government guaranteed securities (agencies) and certificates of deposit with various financial institutions. Investments are concentrated in short-term certificates of deposit issued by corporate credit unions and other financial institutions.

The investment policy and ALM policy identifies specific limitation criteria for investments.

Borrowings

Borrowings include short-term liquidity advances from corporate credit unions. The credit union's available line of credit with Catalyst Corporate FCU is $11,500,000 (100% of net worth).

Member Deposits

Concentration of member deposits focuses primarily on rate sensitive money market accounts and certificates of deposit.

Third Party Vendor Oversight

Third-party providers include counter parties in participation loans and investment safe keeping entities.

The credit union has a vendor management process in place including appropriate due diligence steps to assure vendor risks are known. The credit union will undertake appropriate due diligence efforts on materially concentrated third party risks (prior to inception and on an ongoing basis) to ensure that they are properly identified and managed. Management has determined it is not necessary to capture these risks in the Concentration Risk Limits matrix at this time.

4. Concentration Risk Limits and Reporting

Concentration risk limits are outlined in the attached Concentration Risk Limits matrix. Management will update and review the assumptions in this matrix quarterly with the ALM Committee (ALCO) to assure their relevance and appropriateness for the credit union.

Changes will be made from time to time as considered necessary, and will be reported to the Board of Directors by the ALCO.

5. Compliance and Oversight

Risk measurements, including concentration risks are reviewed by the ALCO, with quarterly reporting to the Board of Directors. Measurements such as percentage of assets, target levels to total portfolio, or percentage of net worth will allow for developing trends to be clearly identified.

Elevated concentrations require that management prepare and present a situation analysis that is fact based, and identifies and assesses the developing trends, the root causes and their impacts. Any changes to established limits must be approved by the ALCO and subsequently reported to the Board of Directors. Changes should be timely, fully transparent and recognize the interdependencies of credit, interest rate, strategic, reputation, and liquidity risks.

As a concentration limit is approached, all available options to assure a sound strategic course correction will be evaluated. If a limit is exceeded, it will be reported at the next quarterly meeting of the ALCO and ultimately to the Board of Directors. Limits which have been exceeded will not necessarily trigger asset sales or actions simply to restore limitation compliance. Corrective actions will be based on situational analysis and sound strategy considering all relevant issues.

6. Scenario and Sensitivity Analysis

The credit union routinely performs portfolio level scenarios and sensitivity analyses to quantify the impact of changing economic conditions on asset quality, earnings and net worth. These issues are addressed in detail in the asset liability management and investment policies.

7. Review

This policy will be reviewed annually in conjunction with the review of the Asset Liability Management policy.