Family First Credit Union

Nonaccrual Loan Policy

Purpose

The Nonaccrual Loan Policy sets forth the guidelines for maintaining and accounting for nonaccrual loans. It is the policy of Family First Credit Union to maintain nonaccrual loans in accordance with Generally Accepted Accounting Principles (GAAP).

Objectives

A nonaccrual loan is defined as any loan that is 90 days or more past due and the collection of all principal and interest is in doubt, unless the loan is both well secured and in the process of collection. The objective of the Nonaccrual Loan Policy is to ensure Family First Credit Union:

- Maintains nonaccrual loans in accordance with GAAP
- Monitors nonaccrual loans for tracking purposes.

Review and Reporting

The Chief Financial Officer (CFO) will prepare and maintain a list of loans 90 days or more past due (nonaccrual loans) each month. The list of loans 90 days or more past due will include account number, name, loan type, days delinquent, next due date, delinquent amount, loan balance, interest rate and amount of interest due. The list will be distributed to the CEO, VP of Lending and the VP of Members' Solutions (senior management) for review on a monthly basis. The VP of Members' Solutions will provide an updated status of each borrower including the value of collateral and the probability of collection. The senior management team will meet to determine which accounts meet the requirements to be placed in nonaccrual status.

Accounting

General Ledger Accounting

Accrued loan interest should be both earned and realizable. Interest should not be accrued on loans 90 days or more past due. Accounting treatment includes reversing all previously accrued, but uncollected, interest applicable to loans 90 days or more past due against appropriated income and balance sheet accounts. For financial reporting purposes, the Credit Union will not accrue interest on loans 90 days or more delinquent.

Individual Loans

Generally, a loan is placed in nonaccrual status when it becomes 90 days or more past due. According to NCUA's nonaccrual requirements, when a loan reaches 90 days past due, previously accrued but uncollected interest is reversed or written off and payments are applied to principal first. An exception to the discontinuance of interest accrual occurs when the loan is both well secured and in process of collection.

Loans that are 90 days or more past due will not be placed in nonaccrual status if the following conditions exist:

- Secured loans where the borrower has filed bankruptcy. Once the bankruptcy plan is established, the credit union will write down the loan to the value to be paid through bankruptcy. Secured loans in bankruptcy are also classified as Troubled Debt Restructured Loans (TDRs).
- Secured loans in the process of collection where the repossession of collateral is in process or completed. Once the collateral is repossessed, the credit union will write down the loan balance to market value of the collateral.
- Unsecured loans where the collateral of a secured loan will cover the unsecured portion by cross collateral. Once the collateral is repossessed, the loan balances will be written down to the market value of the collateral if necessary.
- Loans where the member has a disability claim pending and the collection of principal and interest is probable.

When a bankruptcy is dismissed and the loan is 90 days or more past due, the credit union will repossess the collateral and the loan will be written down to the market value of the collateral.

When a payment is received on a loan in nonaccrual status, management must make a determination about whether the payment received should be recorded as a reduction of principal first or as interest income and a reduction of principal. If the ultimate collectability of the principal, wholly or partially, is in doubt, any payment received on a loan on which the accrual of interest has been suspended shall be applied to reduce principal to the extent necessary to eliminate such doubt.

The requirements for restoring a nonaccrual loan to accrual status include:

- The loan becomes both well secured and in the process of collection.
- The past due status is less than 90 days and the Credit Union is plausibly assured of repayment of the remaining contractual principal and interest within a reasonable time.
- The previously accrued but uncollected interest cannot be restored once the loan returns to accrual status.

In order to comply with NCUA's requirements for nonaccrual loans, the Credit Union must have the capability, safeguards and internal controls to implement these requirements. Additionally, the Credit Union's data processing system must have the capability to handle these types of accounts. The credit union's current data processing system does not have the capability to handle these accounts. However, when a loan, or group of loans, is determined to be in nonaccrual status, if the interest owed is determined to be material, the loan(s) will be placed in nonaccrual status, uncollected interest will be written off and payments will be applied to principal first. The "off-system" records will be maintained manually.

Authority / Oversight

Senior management is ultimately responsible for maintaining accounting records in accordance with GAAP. The Credit Union's outside CPA firm will review the procedures for monitoring and accounting for nonaccrual loans. Loans in nonaccrual status will be presented to the Board of Directors on a monthly basis.

Review

This policy must be reviewed at least annually by the Board of Directors.

Adopted ____________________ Date ____________________

Reviewed ____________________ Date ____________________