Family First Credit Union
Lending Policy
Troubled Debt Restructure Loans (TDRs)

1. PREAMBLE

Family First Credit Union acknowledges it is sometimes necessary to renegotiate or restructure the terms of a loan to assist members who are unable to meet the original terms of their loan agreement. The renegotiation or restructure is done to maximize the potential for repayment of the loan and reduce possible losses. The terms of the renegotiation or restructure may consist of concessions to the member-borrower which are not readily available to the membership or public overall.

Modifications may include, but are not limited to: (a) interest rate concessions (for example, reducing the contractual interest rate for a period of time to make the payment more affordable); (b) modifying the term by extending the life of the loan beyond the original contractual life; (c) increasing the principal amount of the loan (including payments that are in arrears and/or other fees outstanding); (d) adding a balloon payment to the loan for future income review purposes; (e) deferring loan payments, etc.

Consistent with the culture and member service philosophies of Family First Credit Union, the Credit Union has a history of commitment to working with members to enable them to honor their contractual loan obligations with the Credit Union in a manner that is in the best interests of all parties.

Examples of this commitment include specific loan policies to assist members who have incurred financial difficulties from a reduction or loss of employment, as well as members who have incurred financial difficulties from other reasons. These policies involve loan modifications in which concessions are made to enable the members to meet their loan obligations during their period of financial hardship while at the same time maintaining safe and sound loan policies.

Changes in market conditions may materially increase the number of loan modifications and as a result will result in Generally Accepted Accounting Principles (GAAP) modifications being applied to loans on a large scale.

2. DEFINITIONS

A Troubled Debt Restructure Loan is a special classification of loans where the Credit Union makes modification(s) to a member's loan that it would not otherwise consider.

Non-Troubled Debt Restructure – If the borrower is currently servicing the existing debt and can obtain funds to pay-off the existing debt from sources other than existing creditors at an interest rate equal to current market rates and if Family First Credit Union has agreed to restructure the existing debt solely as a result of a decrease in the current market interest rate or for positive changes in the creditworthiness of the borrower since the loan was originated.

Troubled Debt Restructure – A restructuring of debt constitutes a troubled debt restructure (TDR) if for reasons related to the borrowers financial difficulties, a concession is granted. The concession may stem from an agreement between the Credit Union and the borrower or is imposed by law or a court, such as in bankruptcy proceedings. Thus, a TDR occurs when **both** of the following occur: (1) the borrower is experiencing financial difficulties and (2) a concession is granted on the loan.

3. GUIDANCE TO DETERMINE IF THE FINANCIAL DIFFICULTY AND THE MODIFICATION IS CONSIDERED A TROUBLED DEBT RESTRUCTURE

The following questions/answers should assist in indentifying financial difficulties:

1. Is the member currently in default on the subject loan?

2. Has the member declared or is in the process of declaring bankruptcy?

3. Does the member have insufficient cash flows to service the debt (both interest and principal) in accordance with the contractual terms of the existing agreement through maturity?

4. Can the member obtain funds from sources other than existing creditors at an interest rate equal to the current market interest rate for similar debt for a non-troubled debtor?

The following questions/answers should assist in determining if Family First Credit Union is granting a concession it would not otherwise consider:

1. Is there a reduction of the contractual rate?

2. Is there an extension of the maturity date at a contractual rate lower than the current rate for new debt with similar characteristics/risk?

3. Has there been a reduction of the outstanding principal balance (forgiveness of a portion of the principal)?

4. Has there been a reduction (forgiveness) of accrued interest?

5. Was there an addition of a contingent payment provision based on prospective events? For example, you will lower the rate if they pay the next year of payments timely.

6. Was there a substitute or new borrower/guarantor added to the loan that would not qualify for the loan at the current rate?

4. APPROVAL AUTHORITY

The President/CEO and the Chief Lending Officer shall have authority to approve loans under this policy and shall have the authority to authorize specific management employees to approve loans under this policy.

5. SPECIAL REPORTING AND ACCOUNTING TREATMENT

A. Allowance for Loan Losses

Those loans which have been classified as a Troubled Debt Restructure should receive specific consideration in the allowance for loan losses.

1. These loans should be segregated in the overall loan loss allowance calculation for ease of identification.

2. The loss in interest income resulting from restructuring which includes reduction of the interest rate over a period of time must be recognized in the allowance for loan losses. The loss recognition should consider the discounted rate versus the original rate and the difference in cash flows from the rate concession.

3. Any amount that is deemed “unsecured” (the amount of the loan balance which is greater than the appraised value of the collateral) should be reserved for at the unsecured loan loss rate.

4. Collateral dependent loans, (defined as where repayment or satisfaction of the loan is dependent on the sale of the collateral securing the loan), must be measured based on the fair value of the collateral (less costs to sell), regardless of whether foreclosure is probable.

5. In cases where Credit Union Management concludes that no allowance is needed, there will be documentation that the measurement process was appropriate and all available and relevant information was considered.

B. Reporting of Troubled Debt Restructure Loans

Once the loan is classified as a TDR, the loan will remain in this classification until maturity, refinancing, or default.

1. **NCUA Reporting -** The NCUA Call Report (NCUA 5300 report) requires loans which are considered in the Troubled Debt Restructure category to be

reported separately in both delinquent loans and under modified loans sections.

a. Delinquent Loans – Loans which have been modified and are classified as a Troubled Debt Restructure must be reported for a period of six months from the beginning of the modification plan date (date of first payment under the modification agreement) in the delinquent category on the call report which corresponds with the level of delinquency these loans were at when the modification was completed. After six months, if the loan is performing as per the terms of the modification they may be removed from the delinquency reporting on the call report. The tracking and reporting of this information will be provided to the accounting department by Lending and Collections management.

b. If a Troubled Debt Restructure loan subsequently becomes delinquent and ultimately a charge off it must be tracked and reported as such on the call report. The tracking and reporting of this information will be provided to the accounting department on a regular basis.

c. Troubled Debt Restructured Loans that result in a loss are to be included in the loss experience ratio of that loan's original classification.

2. **Credit Bureau Reporting –** Reporting to credit reporting agencies shall be in compliance with The Fair Credit reporting Act. Therefore, the loan shall be reported as it is performing under the restructured terms.

6. LOAN DOCUMENTATION

Family First Credit Union will ensure compliance with the appropriate regulations governing the specific loan type modified. In some cases, new types of loans may be offered to the member, i.e. convert a credit card loan to an unsecured loan, convert a home equity line of credit to a second mortgage, etc.

7. ATTORNEY REVIEW

If necessary, Family First Credit Union will have an attorney prepare the modification agreements to ensure that the Credit Union complies with respective federal and state regulations.

CALCULATION OF ALLOWANCE RESERVE PROCEDURE:

To calculate the “allowance reserve” for a specific TDR, the following steps should be taken:

1. Determine the current principal balance outstanding and remaining loan term.
2. Calculate monthly payments based on the current principal balance outstanding, the remaining term and the reduced interest rate.
3. Calculate the “present value of future cash flows” (PVFCF) using the variables calculated in step 2. and the original interest rate.
4. Subtract the PVFCF calculated in step 3. from the remaining principal balance outstanding.
5. The amount identified in step 4. is the amount of the allowance reserve that should be added to the allowance for loan loss calculation worksheet.