# Family First Credit Union

*Lending Policy*
*Member Business Loans*

**Purpose:**
The Board of Directors authorizes Family First Credit Union to engage in member business loans, either as an originator or participant, in accordance with the guidelines of this policy. All loan participation activities will be conducted in compliance with applicable state and federal regulations, within portfolio limitations of the approved loan policy, and in accordance with Asset Liability Management policy and strategy.

**Member Business Loan Defined:**
NCUA rules and regulations define any loan, line of credit or letter of credit, when added to other loans of any one borrower equals or exceed $50,000, and the proceeds are used for a commercial, corporate, business investment property or venture, or agricultural purpose as a business loan.

The following are not considered member business loans:
- A loan fully secured by a lien on a one to four family dwelling that is the member's primary residence
- A loan fully secured by shares in the credit union making the extension of credit or deposits in other financial institutions
- A loan where a federal or state agency (or its political subdivision) fully insures repayment, or fully guarantees repayment, or provides an advance commitment to purchase in full
- A loan granted by a corporate credit union or a credit union to another credit union or a Credit Union Service Organization

**U.S. General Services Administration (GSA) Leases:**
A GSA Lease is considered a "Full Faith and Credit" obligation of the United States Federal Government. Loans or refinances for property that are accompanied by a GSA Lease will be excluded from the business loan limits. To be excluded from Business Loan Limits, proof of additional underwriting will be documented in each GSA loan file. These additional requirements for GSA financing are as follows:
- The loan matures prior to the expiration of the GSA Lease.
- A Certificate of Good Standing from the Secretary of State where the Lessor is duly formed and in the jurisdiction where the property is located if the Lessor is an entity.
- Duly executed GSA Lease and any related instrument, document, and agreement to which it is party.
- A Certificate of Appointment for the Lease Contracting Officer who signed the most recent Supplemental Lease Agreement so long as it is endorsed with a

closing paragraph that states, "All other terms and conditions of the lease remain in full force and effect." Should the Certificate of Appointment be unavailable, due to the Lease Contracting Officer's departure from GSA, additional documentation will be requested from the current Lease Contracting Officer to ratify the validity of the lease endorsement.

- Validation of the Lease as a binding document with a Statement of Lease.
- Verification that the term of the GSA Lease does not exceed twenty (20) years.

**Authorized Loan Types and Limits:**

1. GSA buildings: Maximum total loans (including any unfunded commitments) in this category will not exceed 50% of the net worth of FFCU.
2. First and second mortgage loans secured by residential property that is held for rental and investment purposes: Maximum total loans (including any unfunded commitments) in this category will not exceed 25% of the net worth of FFCU.
3. First mortgage loans secured by commercial professional property that are owner occupied or non-owner occupied: Maximum total loans including any unfunded commitments) in this category will not exceed 100% of the net worth of FFCU.
4. Commercial business equipment loans: Maximum total loans (including any unfunded commitments in this category will not exceed 10% of the net worth of FFCU.
5. Automobile and truck loans used for business purposes: Maximum total loans (including any unfunded commitments) in this category will not exceed 50% of the net worth of FFCU.
6. Unsecured Business loans: Maximum total loans (including any unfunded commitments) in this category will not exceed 10% of the net worth of FFCU.
7. Construction and development loans for the development of commercial or residential real property: Maximum total loans (including any unfunded commitments) in this category will not exceed 10% of the net worth of FFCU.
8. Business loan participations. Business loan participations are able to be purchased provided the appropriate due diligence is performed in selecting partner credit unions and in approving the specific loan pieces being purchased. For regulatory purposes, business loan participations will not exceed 50% of current capital (net worth) to any one originator.

**Participations:**

The credit union may buy or sell loan participations in order to diversify concentrations of risk. Participations will be evidenced in writing by a participation agreement between the parties participating in the subject loan(s). Specific guidelines for loan participations are established in the Credit Union's Loan Participation Policy."

**Trade Area:**

The trade area for member business loans is limited to the Southeast Region, where we have participating credit union partners with area knowledge to inspect and monitor the member business loan and collateral. Member business loans secured by residential real property and credit card line of credit programs offered to non-natural person members for routine purposes which both may be made by the Credit Union in all fifty (50) United States and the District of Columbia, so long as the Credit Union complies with all "doing business" laws in that State applicable to the Credit Union, if any. The trade area for GSA loans is all fifty (50) states and territories of the United States.

**Interest Rates:**

The interest rate and terms will be set by the President/CEO and the Chief Lending Officer acting jointly. The President/CEO and the CLO jointly will have authority to change rates on an "as needed" basis to meet changing market conditions.

The following displays but are limited to the rates:

Mortgage loans for residential property held for rental and investment purposes:

- Rate to be set by management
- Maximum term - 15-year fixed or 30-year amortization with up to 10-year balloon
- Maximum 80% loan to value

Mortgage loans accompanied by GSA Lease:

- Rate to be set by management
- Maximum term - 15-year fixed or 30-year amortization with up to 10-year balloon
- Maximum 65% loan to value

Mortgage loans for commercial/professional property:

- Rate to be set by management
- Maximum term - 15-year fixed or 30-year amortization with up to 10-year balloon
- Maximum 80% loan to value

Business Equipment Loans:

- Rate to be set by management
- Maximum term - 10 years
- Maximum 80% loan to value

Automobile and Truck Loans:

- Rate to be set by management
- Maximum term - 66 months
- Up to 100% loan to value on cars, vans, pickup trucks, and SUV's
- Up to 90% on fleet vehicles
- Up to 90% on commercial vehicles for business purposes

Unsecured Loans:

- Rate to be set by management
- Maximum term - 4 years

Origination Fees:

- Charged on real estate secured loans
- Fee to be set by management

**Loan Limits:**

Total business loans (including any unfunded commitments) shall not exceed an amount equal to the lesser of 1.75 times FFCU's net worth or 12.25% of FFCU's total assets. Some loans exempt from the limit are listed under the Member Business Loan Definition.

The maximum loan amount to any one member or group of associated members (company) will not exceed an amount equal to 15% of FFCU's net worth. The maximum loan amount on real estate will not exceed 80% LTV ratio for all liens.

The aggregate of the unsecured outstanding member business loans to any one member or group of associated members will not exceed $100,000. The aggregate of all unsecured outstanding member business loans will not exceed 10% of FFCU's net worth.

**Loan Authority:**

The Credit Committee has the overall responsibility for the granting of loans and supervision of loans to members. The Credit Committee may also empower all or certain groups of loan officers to act together as a Loan Committee with authority to approve and deny loans.

The Management MBL Committee consists of President/CEO, CLO, and CFO who will review loans from the commercial expertise underwriter. If the committee approves to move forward, the President/CEO will present the member business loan opportunity to the credit committee for review. If approved, the committee or President/CEO will present to the board at the next board meeting.

The Credit Committee has the authority to approve member business loans or participation loans up to the maximum loan amount not to exceed an amount equal to 15% of FFCU's net worth to any one member or group of associated members (company).

**Commercial Expertise Required:**

FFCU will either use a staff member, independent contractor or another third party with a minimum of two years direct experience with the type of commercial lending involved for screening and underwriting Business Loans.

The actual decision to grant a loan will reside with FFCU and not with a contractor or other third party.

**Underwriting Standards & Requirements:**
A fundamental part of all loan evaluations will be determining the ability of the borrower(s) to repay the loan, the expectation of repayment and the protection provided by the collateral. To provide an adequate basis for loan evaluation, the following will be the minimum information required by the Credit Union to evaluate a request to make a member business loan or increase a member business loan or line of credit, except as hereinafter provided; as follows:

1. General Documentation Requirements for Underwriting:
   - 2-page application
   - Diagram/description of ownership structure of subject property (entities and individuals)
   - Professional experience for each principal and guarantor (resume)
   - Personal Financial Statement for each principal and guarantor signed and current within 60-days
   - Banking statements which verify personal liquidity on PFS for each principal and guarantor
   - A schedule of real-estate for each principal and guarantor
   - Authorization to release credit for each principal and guarantor. Spouse must also sign
   - Two most recent years' personal tax forms complete as submitted to IRS for each guarantor
   - Two most recent years' business tax forms as submitted to the IRS, for all business entities and related affiliates that roll to the personal taxes (SCHED E) for each guarantor. For entities with less than 20% passive ownership, the Schedule K's are sufficient
   - One 4506-T for each individual and each business entity, to validate tax forms
   - (attached)
   - Most recent year and YTD business financials (P&L and Balance Sheet) for each business entity/property
   - Business debt schedule(s) for non-real estate debt (as applicable).
   - Rent roll
   - Copies of all leases
   - 12-month tenant payment history
   - Most recent year tenant financials, if permitted by lease (required for % rent leases)
   - Credentials of property management and management agreement (if applicable)
   - Copy of recent mortgage statement and 12-month payment history (refinance)
   - Purchase agreement (acquisition)

- Franchise agreement (if applicable)
- Survey for the property (needed at time of appraisal / title)

2. Current personal financial statement of the borrowers or guarantors to determine substantive ability as a borrower or guarantor.
3. Cash flow analysis will be conducted on the borrowing entity to determine the entities ability to service the debt. Further, a global cash flow will be conducted on all of the borrower's materially owned entities and related liabilities to determine the overall adequacy of cash flows to service total debt.

4. Copies of the most recent two years Income tax returns or date of Inception, whichever is less, for the borrowing entity and copies of the most recent two years. Income tax returns for each of the proposed guarantors and/or principals. Personal and business tax returns will be verified with the IRS using the standard IRS 4506T form.

5. An analysis of the leverage related to the requested financing by industry type will be analyzed by comparable Industry using the Risk Management Association (RMA) statistical guide.

6. The value of the proposed collateral will be established and the loan-to-value analyzed to determine the adequacy of collateral coverage dependent on current environment, perceived risk related to collateral type, borrower or location.

For member business loans made to natural persons and secured by residential real estate (herein sometimes referred to as the "Residential Loans"); credit card line of credit programs offered to non-natural person members that are limited to routine purposes normally made available under those programs (herein sometimes referred to as the "Credit Card Programs"); and member business automobile and small truck loans made to natural and non-natural persons (herein sometimes referred to as the "Auto Loans"), the Board of the Directors of the Credit Union has determined that supporting loan documentation standards should differ from those set forth above. The Board of Directors of the Credit Union find that it is in the best interest of the Credit Union, and its members to tailor its supporting loan documentation guidelines for Residential Loans, Credit Card Programs and Auto Loans to those generally available for, and utilized by, institutional lenders doing business in the Credit Union's trade area. For this reason, the Board of Directors of the Credit Union find that the supporting loan documentation requirements for Residential Loans shall generally follow and conform to the supporting loan documentation guidelines for marketable residential mortgage loans, as set forth in the loan correspondent underwriting manuals promulgated by the Federal National Mortgage Association (FNMA") and the Federal Home Loan Mortgage Corporation ("FHLMC"), from time to time, but only to the extent inconsistent with the loan documentation guidelines set forth above. For Credit Card Programs and Auto Loans, the supporting loan documentation required by the Credit Union shall be of the type required by the Credit Union pursuant to and in accordance with its internal consumer loan policies and procedures, which policies and procedures are incorporated herein and made a part hereof by this reference.

**Collateral & Security Requirements:**

An attorney representing FFCU will close all loans secured by a first or second mortgage on real property. The following will be obtained as needed:

- A full commercial title examination and tax search of the property to determine that title is or will be vested in the borrower on the date of closing, and to confirm that there are no encumbrances affecting said title that is unacceptable to FFCU.
- A title insurance policy in the amount of the loan issued by a title insurance company approved by FFCU and its counsel and containing such endorsements thereto as FFCU or its counsel may require. FFCU's insured interest may not be subject or subordinate to any prior liens, encumbrances, restrictions or exceptions, other than those approved by FFCU.
- Survey of the property, if required for title insurance.
- Hazard insurance equal to the loan balance or full replacement value, whichever is less and shall contain no deductible in excess of $___ for all perils and contain a standard mortgagee loss payee endorsement naming FFCU as mortgagor.
- Flood insurance if the property is located within a flood hazard area under the National Flood Insurance Act containing no deductible in excess of $___ naming FFCU as mortgagor.
- Appraisal of property by an appraiser acceptable to the Credit Union. All appraisers utilized by the Credit Union shall be state certified or state licensed appraisers. For Business mortgage loans of $250,000 or less, it is permissible to accept the appraised value shown on the most recently issued tax statement as the appraised value if the loan to value is less than 60%.
- Non/Structured Recourse: The personal unconditional guarantee(s) (joint and several) of principals representing at least 51% of ownership when the Borrower is a non-natural person will be generally routine. An exception may be granted requiring either a structured recourse or non-recourse requirement when a loan demonstrates numerous substantial strengths in many of the following areas:

    1. Experienced borrowers in property types
    2. Low Loan to values (ideally below 70%)
    3. Long term or credit tenants
    4. Stable long term occupancy of 75% or higher
    5. Debt service ratios of 1.3:1 or higher
    6. Consumer credit scores of 725 or higher

7. Medical professionals in practice 5 years or longer

Additionally, there are numerous examples of quality commercial real estate owned by investment partnerships or REITS where ownership is distributed across many natural persons where personal recourse might not be available. The request would be evaluated using the criteria above as well as the strength of the entity as a business guarantor (where appropriate or applicable). Corporate owned entities will be evaluated based on the above as well as a minimum rating of BBB- or higher or Moody's Baa3 or higher.

- A first priority Assignment of Lease and Rents to FFCU of all leases, usufructs, and licenses now or hereafter existing with respect to the real property and all income and rents derived therefrom.
- A first priority Deed to Secure Debt, Mortgage or Deed of Trust (as applicable to the jurisdiction) and Security Agreement on the fee simple interest of the borrower in the property.
- Properly executed Note; Deed to Secure Debt, Mortgage or Deed of Trust (as applicable to the jurisdiction); UCC Financing Statement; and Loan Agreement. The Note; Deed to Secure Debt, Mortgage or Deed of Trust; and UCC Financing Statement to be recorded by the closing attorney.
- Articles of Incorporation and By-Laws if borrowing entity is a corporation. Partnership Agreement if the borrowing entity is a partnership. Articles of Organization and Operating Agreement if the borrowing entity is a Limited Liability Corporation.
- If the borrower is a legal entity other than a natural person, the borrower shall provide at or prior to closing, satisfactory resolutions and approvals to evidence the approval and authority to enter into the loan with FFCU and to bind the borrower and the corporate guarantor.
- Environmental screening report for all properties and Phase I environmental site assessment on loans over $500,000 (over $1,000,000 for and GSA loans) that is independent of the commercial appraisal. After reviewing this environmental site assessment, a Phase II or Phase III environmental assessment may be required.
- Opinion of Borrower's counsel for loans exceeding a principle amount of $1,000,000 prepared by borrower's independent third party counsel and who shall be licensed to practice in the property jurisdiction.

The minimum requirements for all business equipment financing except automobile and small truck loans are:

- A full description of the collateral including invoice and/or estimated market value, supplier or manufacturer descriptions and serial numbers.
- Tax and lien search of the borrower(s).
- Executed security agreement(s) covering the collateral to be recorded.
- Executed UCC filing and recording instruments to be properly recorded.

- Funds for the purchase of equipment will be disbursed directly to the equipment seller to preserve the priority of lien.
- Principals, other than a not for profit organization or those where NCUA grants a waiver, must provide their personal liability and guarantee.
- Building owners consent for access to premises and equipment if applicable.

## Risk Rating

As part of Family First's ongoing review process and in an effort to assess loan portfolio quality, risk rating procedures will be applied to each member business loan relationship in excess of $250,000 and monitored at minimum annually, based on the month in which it initially closed or month in which the last review was completed, for the life of the loan. The initial rating on member business loans will be assigned by the business loan department and noted during the underwriting of the loan. Periodic review will be performed thereafter to determine if it is recommended to adversely rate or to improve the rating of a particular loan. Any recommended change will be accomplished through the completion of a rated loan status report. In the event of a change in quality of a loan, which is rated (up or down), the change will need to be approved by the Management MBL Committee and ratified by the Credit Committee. The ratings used by Family First are as follows:

- Excellent: Loans fully secured with a certificate of deposit or other share account with no ability for the borrower to access these deposit funds.
- Above Average Loans: Loans with above average credit qualities including higher net worth, above average liquidity, above average cash flow or earnings and above average collateral position.
- Average Loans: Loans with average credit qualities.
- Watch Loans: Loans with potential weaknesses, which may, if not checked and corrected, weaken the collateral or inadequately protect the credit union's position at some future date. These loans may require resolution of the specific pending events before associated risk can be properly evaluated.
- Substandard Loans: Loans which are inadequately protected by the present sound net worth and paying capacity of the borrower or the collateral pledged. The credit risk in this situation relates to the possibility that some loss of principal or interest may occur if deficiencies are not corrected. These loans need to be brought to the attention of the Management MBL Committee to determine if the Allowance for Loan Loss (ALL) needs to be adjusted accordingly.\
- Doubtful Loans: Loans that are not presently protected by the current sound net worth or paying capacity of the borrower or by means of the collateral pledged to the extent that a substantial amount of principal may be lost if immediate actions to protect the credit union's position are not taken. In other words, the possibility of loss is high. In these situations, it should be somewhat clear as to

the credit union's loss exposure. These loans need to be brought to the attention of the Management MBL Committee to determine if the Allowance for Loan Loss (ALL) needs to be adjusted accordingly.

- Loss Loans: Loans which are considered uncollectible and continuance as a bankable asset is not warranted. Such loans should remain active no longer than it takes to receive the necessary approval for charge off. These loans need to be brought to the attention of the Management MBL Committee to determine if the Allowance for Loan Loss (ALL) needs to be adjusted accordingly.

At minimum, the following will be performed as part of the annual risk rating review for all member business loans:

- A cash flow analysis and other necessary analytical calculations to document the analysis of the financials including any adverse trends or other concerns.
- A review of the personal and/or business credit reports for borrowing entity and for each of the guarantors and/or principals.
- A review of any potential collateral weaknesses, Ex. delinquent property taxes, lapse in insurance, lien imperfections, loan to value etc.
- A review of the borrowing structure, Ex. any material change in a borrowing and/or guaranteeing business entity.
- If it is a loan on a GSA leased property, an analysis of the existing lease including any potential weaknesses which could cause the current tenant to vacate or terminate the lease in advance of its expiration date.

Once the annual risk rating review is performed the Risk Rating Matrix along with the Member Business Lending Risk Rating Procedures will be referenced to determine if the rating of loan should change or remain the same. The timing of the periodic reviews thereafter will be based on the rating and the reason for it.

### Approved Organizations (Sellers):

Family First is allowed to use financial institutions, brokerage firms, government entities, and financial groups to establish member business loans through participations. The credit committee must review and approve the organization (seller) before doing business with them. Family First is currently approved to use:

- CULS
- CUBS
- Coastal Carolina Credit Union
- Atlanta Postal Credit Union

Upon adding a new seller, The Management MLB Committee will complete the due diligence required from the participation policy and present the seller to the Credit Committee for approval. The new sellers will be added to the policy annually.

### Approved Underwriters:

Family First is allowed to use underwriters that have been approved in this policy to establish good quality loans that fit within our member business/participation loan policy.  The following underwriters are approved and have provided information on their expertise, work history, and resume:

- Credit Union Business Group
- Ty Glenham
- Atlanta Postal Credit Union

**Prohibited Loans:**

The following types of loans and/or borrowers are prohibited from receiving member business loans:

- Loans for the purpose of purchasing publicly traded stocks or commodities.
- Loans to purchase stock in a non-publicly traded company.
- Loans to FFCU's Officers (Vice President's Level and above) or any associated member or immediate family member of these employees.
- Loans to any director, unless the Board approves granting the loan and the director is not involved in the decision-making process

Member business loans may not be granted if any additional income received by FFCU or FFCU's Officers (Vice President's Level and above) is tied to the profit or sale of the business or commercial endeavor for which the loan is made.

**SBA & Secondary Market Commitments to Purchase:**

SBA 7 A and 504 loans may be originated for sale into the secondary market including loan types that would be normally prohibited by this policy i.e. franchises, restaurants etc. (loans to credit union insiders remain prohibited) subject to the following conditions.

That a written advance commitment from the SBA to purchase the second mortgage loan that would be originated by this transaction and a written advance commitment from a Commercial bank or similar secondary market entity to purchase the first mortgage loan originated by this transaction.

**Loan Administration:**

1. A credit file will be maintained for each borrower. This file will contain all credit documentation related to all loan or loans of the borrower. The note, security deeds or other security instruments will be maintained separately.

2. A tracking system will be maintained that will indicate upcoming maturities, and status of past due to payments (at 10 days, 30 days, 60 days and 90 days & over). A designated staff member will be responsible for following collections of all payments due. A record will also be kept of the past due payments history of each borrower.

3. Collection monitoring - The following is the minimum procedure for collection follow-up steps:

- There will be automatic past due notices mailed to the borrower at each of the following times; 15 days past due, 30 days past due, 60 days past due and 90 days past due.
- Upon a loan or payment reaching 30 days past due, an assigned staff member will contact the borrower by phone and seek payment. This personal following will continue until the account is brought current.

4. The terms of each loan will require that each Business Loan borrower annually furnish to the Credit Union a copy of both its year-end financial statements and Income Tax returns. The Credit Union will have a system of follow-up designed for the timely receipt and review of this information.

5. In cases of individual business loans secured by commercial real property or inventory or equipment other than automobiles or small trucks and having an unpaid balance of $300,000 or greater, a representative of the Credit Union will visit each business and facility on an annual basis to view and evaluate the collateral. A written report of such visit will be made a part of the credit file.

6. If any individual or borrowing entity is the borrower or guarantor of loans in more than one name, such files will be cross-referenced to keep up with the total debt obligations.

7. In the case of borrowers whose loans are secured by residential or commercial real property, the value and marketability of the collateral will be reviewed as follows:

- If the general economy or the real estate sector is involved in an economic turndown over a period of time and the Credit Union's management deems that a re-evaluation of the collateral is needed; the Credit Union will have the appraisal updated to determine the current value. Based upon the current value and the remaining loan balance, the adequacy of the collateral will be evaluated. Generally, a re-evaluation shall not be required for performing loans secured by residential real property unless FNMA or FHLMC would require such an evaluation for a similar type of loan.
- For loans that are demonstrating either regular past-due status or some other indications of possible financial question about the borrower, then the Credit Union management may, but shall not be required, to have the appraisal Valuation updated.

During periods in which real estate tends to increase in value or retain value, loans secured by residential real property shall not require an annual inspection or reevaluation of the collateral unless such inspection or re-evaluation is or would be required by FNMA or FHLMC for a similar type loan. For loans secured by commercial real property, a re-evaluation of the collateral shall only be required if any required annual inspection of the collateral discloses that the borrower is not maintaining the collateral as required by the loan documentation or if some question exists about financial condition and viability of the borrower, and the borrower's ability to pay its debts as they become due and payable.

For all other types of member business loans, other than loans secured by commercial or residential real property, the value and marketability of the collateral shall be reevaluated on an annual basis, except in the case of non-performing loans which will be monitored more frequently as the circumstances dictate on a case by case basis.

## Definitions

The following definitions apply to this Policy:

Associated Member - Any member with a shared ownership, investment, or other pecuniary interest in a business or commercial endeavor with the borrower.

Certificate of Appointment - FAR 53.301-1402 (48 C.F.R. Part 53, Standard Form 1402) Such Certificates of Appointment were in effect on the date on which the applicable contracting officer signed the GSA Lease and any supplemental lease agreements related thereto. Any dollar limitation on the authority is greater than the total lease obligations.

Fleet - A minimum of five vehicles used for commercial purposes for hire to transport people or property.

Immediate Family Member - A spouse, parents or children.
Lease Contracting Officer - An individual holding a valid Government-issued warrant providing authority to enter into and administer leases on the Government's behalf.

Loan to Value Ratio - The aggregate amount of all sums borrowed including outstanding balances plus any unfunded commitment(s) or line(s) of credit from all sources on an item of collateral used to secure the loan divided by the value of the collateral.

Net Worth - (When applied to Net Worth of Family First) is retained earnings as defined under generally accepted accounting principles. Retained earnings normally include undivided earnings, regular reserves and any other appropriations designated by management or regulatory authorities.

Net Worth - (When applied to Net Worth of a borrower) is the same as defined under generally accepted accounting principles. (total assets minus total liabilities).

Supplemental Lease Agreement (SLA) - Document used to change or modify an existing lease, such as for acquisition of additional space, partial release of space, revision in terms or rental payments, change in ownership or payee, or any other action that changes the lease.