

## Family First Credit Union Lending Policy Risk-Based Pricing Lending Policy

### Statement

The purpose of offering risk-based pricing is to help as many members as possible obtain loans at reasonable rates. We recognize that certain, less credit worthy members represent more risk than others. We also believe we have members who are being charged excessively high rates by other lenders, and that we could help these members through a managed risk-based pricing lending program. In doing so, we could save these members substantial money while helping them rebuild their credit. The Credit Union will not grant loans where the probability of repayment is questionable or doubtful.

As a result, Family First Credit Union has adopted a risk-based pricing lending program in order to become the lender of choice for all members by offering the best possible rate based on each member's individual credit score from a major credit bureau reflecting their overall credit history. Less credit worthy members benefit by qualifying for a loan with our credit union instead of being forced to resort to higher-cost alternatives such as finance companies. Members with a good credit history can qualify for a loan at a competitive rate so they do not finance elsewhere.

### Loan Types

Loans qualifying for risk-based pricing include all consumer loans except share-secured loans, certificate of deposit-secured loans and home equity lines of credit.

### Scoring

Scoring models will establish what rate to charge if the loan is approved. It is the policy and practice of Family First Credit Union not to discriminate on the basis of race, color, religion, national origin, sex, marital status, age (provided the applicant has the capacity to enter into a binding contract), receipt of public assistance income, exercise in good faith of any right under the Consumer Credit Protection Act, or any other class protected under any applicable federal or state laws. Therefore, we will use credit scores from a major credit bureau to determine pricing. The following table shows the score range and corresponding credit grade:

**Grade Rating by Credit Bureau Credit Score**

| Score           | Grade |
|-----------------|-------|
| 750+            | A     |
| 700-749         | B     |
| 650-699         | C     |
| 600-649         | D     |
| 599 or Lower    | E     |
| **0 or No Score | C     |

### **Rate Matching**

Credit union management has the authority, on a day to day basis, to match rates and terms on various loans if in his/her opinion the decision is prudent and beneficial to Family First Credit Union's loan portfolio.

### **Multiple Borrowers and Multiple Reports**

The Board of Directors has directed that credit scores are to be used in the following manner:

- a. When determining the interest rate for a loan, if two or more scores are offered, the Credit Union will observe the following criteria:
  - i. If the loan will have joint signers, the credit score (A, B, C, D, and E) will be based on the primary wage earner.
  - ii. If the loan will have a maker and co-maker (guarantor), the credit score (A, B, C, D, and E) will be based on the maker's score only.
- b. If no credit report or score is available, the Credit Union will assign a score of C.
- c. If two credit bureaus report two different scores, the Credit Union will use the score from the more detailed credit report which best indicates how the member pays.

### **Pricing and Monitoring**

Management will set and adjust the rate structure according to risk as represented by credit scores and corresponding credit grades. Losses according to score and grade will be tracked to help determine pricing. Rates will be reviewed quarterly for each score and credit grade category and in no case will the rate exceed the maximum allowable interest rate.

### **Rate Sheet Addendum**

A rate sheet addendum (sample attached) will be distributed to all lending personnel that will show our current rates with the date of approval and signature from the President or Vice President of Lending.

### **Distribution of Loans**

Using guidance from NCUA and the Georgia Credit Union League, industry best practices from CUNA and other reliable sources and based on our own historical charge-off data, management will create and maintain guidelines as to the acceptable amount of risk by type and grade of loans offered by:

- Dollar amount,
- As a percentage of our loan portfolio, and
- As a percentage of our net worth

In doing so, using quarterly reports from our data processing system, we will compare actual dollar amounts and percentages to our guidelines using our credit grade reports and will take corrective action in cases of unfavorable variances.

**Refinancing**

The Credit Union will refinance a member's loan at a more favorable rate provided the member can correct discrepancies in the credit report which improves the overall credit score.