Family First Credit Union
Lending Policy
Loan Participation Policy

Loan Participations
Family First Credit Union may enter into a loan participation in accordance with regulatory requirements. Prior to the purchase or sale of a participation interest, Family First Credit Union will enter into a written master participation agreement, which has been approved by the President, Chief Financial Officer and Vice President of Lending and executed by one of these corporate officers. The master agreement will be properly executed, retained in the Credit Union's office, and include provisions for identifying the participation loan(s) prior to their sale, either directly or by incorporation by reference. Legal opinions will be obtained on loan participation agreements.

GENERAL CONSIDERATIONS

- **Membership.** Family First Credit Union may participate in loans with members of any eligible organization including credit unions, credit union organizations, or financial organizations.
- **Yield.** Loan participations will not normally be considered unless the transaction will increase the asset yield available to the Credit Union.
- **Member Service.** Revenue neutral participations may be considered when the result of the transaction will sustain or improve member service.
- **Risk.** The risk assumed by the Credit Union through loan participation should be comparable to the risk it assumes through its normal business practices. Care should be taken to ensure that underwriting procedures, agreements, and future oversight practices of participation partners are handled with the same consideration as other credit union business activities.
- **Record Keeping and Documentation.** The Credit Union will ensure that adequate systems are in place to account for the loan participation transaction before an agreement is executed. The Credit Union will retain all loan participation records and documents in accordance with applicable record retention requirements for loan records.

Concentration Limits. The Credit Union has set the following concentration limits:

Trade Area: All considered the geographic location includes all counties outlining Fulton County, Georgia. Management will monitor and adjust to changing market conditions on an ongoing basis before expanding a trade area.

Loan participations purchased from one originating lender: Will not exceed the greater of $5,000,000 or 50% of the Credit Union's net worth.

Aggregate Loan Participations Purchased: Will not exceed the maximum guidelines established by the Concentrations Risk Policy included in the ALM Policy**. Currently 12.25% of Total Assets and 175% of Net Worth.**

Loan participations purchased with respect to a single borrower: Will not exceed 15% of the Credit Union's net worth.

1. **RISK ASSESSMENT AND STRATEGIC PLANNING – CREDIT UNION AS PARTICIPANT/PURCHASER.**
   Prior to entering into a loan participation agreement with a third party, Family First Credit Union will evaluate whether the program is compatible with the Board's risk tolerance, depth of staff experience and expertise, loan policies and overall strategic plan.

   Risk Assessment. The Credit Union's initial risk assessment will address the following issues:
   a. **Credit Risk.** When evaluating acceptable credit risk as a participant, the Credit Union will consider a broad range of issues, including the following:
      A. Credit scores.
      B. Loan-to-value limits.
      C. Cash flow analysis.
      D. Concentrations in volatile or unstable markets.
      E. Concentrations in geographical locations.
      F. Concentrations in certain types of investment properties.
      G. Feasibility of speculative development projects.
      H. Use of borrower information provided by brokers.
      I. Full analysis of appraisal assumptions and final valuations.
   b. **Interest Rate Risk.** Interest rate risk increases as the term of the loan extends. On an ongoing basis, the Credit Union will thoroughly evaluate the potential impact of extended maturities on the fair value of the Credit Union's balance sheet.
   c. **Reducing Rates and Terms.** A deterioration in a borrower's financial condition may prompt the consideration of a rate reduction. When this occurs, the Credit Union will re-evaluate its asset liability management (ALM) strategies.
   d. **Liquidity Risk.** The Credit Union will ensure that it has sufficient liquidity before participating in loans. Before participating, the Credit Union will evaluate the adequacy of the following:
      i. Liquidity to meet the members' future loan demand before purchasing loan participations.

ii. Management reporting systems to measure and monitor cash flows including disbursements and scheduled payments.
iii. Funding sources to meet all potential calls to fund loan disbursements.

e. **Transaction Risk.** The Credit Union will ensure that it has sufficient bond coverage for the new products and services. The Credit Union will also ensure that it adequately audits its loan participations and effectively implements its contingency and business recovery plans. Lastly, the Credit Union will properly account for and control cash flow streams between itself and its sellers.
f. **Compliance Risk.** The Credit Union will follow and monitor all of the regulations associated with loan participations, including the following:
   a. NCUA regulations applicable to loan participations.
   b. NCUA and CFPB regulations governing appraisals.
   c. State laws (where applicable).
   d. Bank Secrecy Act (related to mortgage fraud).
   e. Consumer protection laws and their associated regulations, such as Truth in Lending (Regulation Z), Equal Credit Opportunity Act (Regulation B), and the Real Estate Settlement Procedures Act (RESPA).
g. **Strategic Risk.** The Credit Union will assess whether its proposed relationships complement the Credit Union's overall mission and philosophy. The Credit Union will document how the relationship relates to its strategic plan, considering long-term goals, objectives and resource allocation requirements.
h. **Reputation Risk.** The Credit Union will mitigate potential loss by ensuring it has and employs adequate resources to meet the contractual commitments to sellers (i.e., business recovery plans, adequate staffing and internal controls). The Credit Union will also perform adequate due diligence on all sellers with whom the Credit Union participates.

2. **DUE DILIGENCE.**

The Credit Union will perform ongoing due diligence of its sellers as follows:

a. **Business Model.** When evaluating a seller's loan participation program, the Credit Union will be aware of recent or pending changes in the regulatory, technological and/or economic environments. The following factors will be considered:
b. **The Possibility of Conflicting Interests.** The Credit Union will ensure the product being purchased is within its established risk tolerance thresholds, including adherence to established underwriting standards.
c. **Financial Condition.** The Credit Union will obtain a demonstrated ability to repurchase a participation based on a review on Call Reports, Financial Performance Reports (FPRs) or other financial information.
d. **Time-Tested Products.** It is preferable to purchase participation

when the seller's loan portfolio has been through several economic cycles. As such, the Credit Union will strongly consider the additional risk taken when the seller is inexperienced in the product and/or the product has not weathered a full economic and interest rate cycle.

e. **Significant Staffing Changes.** The Credit Union will determine whether the seller has maintained sufficient experience in all types of loans being underwritten and serviced.
f. **Trade Area.** The Credit Union will ensure there is diversification in the trade area, underwriters are knowledgeable of market condition throughout the trade area, and the servicer has the ability to handle servicing effectively, especially in the case of default.
g. **Possibility of Loss of Control.** The Credit Union will ensure it has the mechanisms in place to maintain proper oversight over the party servicing loan participations.
h. **Third Party Sellers.** The Credit Union's management team will complete annual due diligence on third party sellers and document our reviews. We will review the following:
    i. Review annual audit
    ii. Review financial statements
    iii. Review relevant policies

Contract Issues and Legal Review

The Credit Union will obtain legal advice regarding the loan participation contract to ensure its legal and business interests are appropriately protected. Among other concerns that may arise, the contracts should address the following issues:

a. Representation and warranties that set out the promises on which the parties contract.
b. Specific remedies for breach (including the requirement of the seller to buy back loans with missing documents, loans made outside of policy, or those otherwise not in conformance with representations and warranties).
c. How risk will be shared among the participants, including whether the transaction qualifies, per Accounting Standards Codification (ASC) 860, Transfers and Servicing, for true sale accounting or is a secured borrowing.
d. How and when information will be shared and what actions require the mutual approval of both parties. Specifically, the contract should address the following:
    i. Credit documents and information that the seller is required to share with the Credit Union.
    ii. Status reports on payments and interest accrual.
    iii. Exit strategies.
    iv. Procedures for modifying loan terms.
    v. Standard loan covenants, including limiting the borrower's future loans, notification of adverse loan events, collection procedures, turnover in key staff, and other provisions necessary to effectively manage credit risk.
    vi. Type and percentage of the interest being sold.

vii. Evidence of the sale.
viii. Timing of the transaction closing.
ix. Method and timing of funding.
x. Originating lender's liability.
xi. Originating lender's servicing obligations.
xii. Originating lender's breach or default.
xiii. Control of changes to the original loan terms.
xiv. Borrower's default.

Loan Underwriting
The Credit Union will underwrite loans to its own standards, and will identify all risks that could materially influence the Credit Union's decision to participate. Instances where the Credit Union has limited experience in the type of loan purchased, approved vendors may be used to solidify underwriting. Any exceptions to the Credit Union's policies will be reported to the Board by management. Unless it is described in the seller's loan presentation or supported by loan documentation, the Credit Union will request the following information from the seller for member business loans (MBLs) and/or construction and development loans:

- Cash flow analysis with recent financial statements and tax returns, particularly for businesses and self-employed individuals.
- Documentation of all responsible parties and guarantors to the agreement (as many borrowers form a separate limited liability company for each investment property).
- Full disclosure of all associated borrowing relationships in order to meet regulatory requirements for loans to one borrower and to limit concentration risk.
- Verification that all conditions of approval have been satisfied before the loan was funded (which protects the enforceability of a take-out commitment for long-term financing).
- Current appraisal with completed appraisal audit/reviews that evidence appraisal assumptions were valid and relevant to the collateral property.
- Identification of borrower's equity sources for construction and development loans.
- Verification of progress inspections, as required by NCUA Part 723.3(c). The Credit Union will obtain copies of written inspection reports from sellers when construction draws are requested.

3. **RISK MEASUREMENT, MONITORING AND CONTROL – CREDIT UNION AS PARTICIPANT/PURCHASER.**
   - **Post-Closing Review.** The Credit Union will complete a post-closing review of all loan documents to determine that all terms and conditions are in accordance with the original terms presented. The seller will be notified of the Credit Union's findings and the corrective action desired whenever terms have

changed.

- **Understanding Terms of Agreements and Transactions.** Management will fully understand the terms of all loan participation agreements and underlying loan transactions, and will be able to explain them to all interested parties, including regulators.
- **Monitoring MBLs.** The Credit Union will monitor its MBLs for annual financial statement review.
- **Audits.** Where practicable, the Credit Union will obtain a third party audit or review of a seller's loan participation program. The Credit Union will obtain the regularly updated audits from the seller, along with the seller's written response to findings and recommendations for corrective action.
- **Liquidity Monitoring.** The Credit Union will regularly monitor the liquidity and financial health of originating organizations. The Credit Union will also monitor how CUSO's are structured and funded, along with the financial stability of the CUSO owners.

RISKS AND ISSUES – CREDIT UNION AS SELLER

Risk Assessment and Strategic Planning.

The Credit Union will employ the same due diligence as when it is the purchaser. The Credit Union will document its risk assessment and due diligence.

a. The Credit Union will ensure that management understands the terms of the loan participation agreement and underlying loan transactions, and will be able to explain them to all interested parties, including regulators.
b. The Credit Union will monitor potential liability from maturing balloon extensions or rollovers, particularly with multiple participants on large member business loans. As participants are not legally bound to continue funding extensions or rollovers, the Credit Union will ensure that it has sufficient liquidity in the event the participants decline to renew their involvement.

CUSO's.

The Credit Union may choose to use CUSO's or other approved firms to underwrite, document and service loans. The Credit Union will notify all participants when a loan is sourced through a loan broker and the borrower was not an existing member, in order to put participants on notice that information about the borrower may not be based on the Credit Union's direct knowledge. In these cases, the Credit Union will verify that all third-party reports, such as appraisals and environmental studies, were obtained in an arm's length, independent transaction, in full compliance with regulatory guidance.

Regulatory Compliance

In the event that a loan would exceed regulatory limits (i.e., NCUA Part 723), the Credit Union will make the loan approval conditioned on obtaining firm loan participation agreements from buying credit unions, or apply for a waiver before the participation is made. As recourse sales (if treated as secured borrowings) count toward regulatory limits, the Credit Union will distinguish between non-recourse and recourse transactions.

Full Disclosure
The Credit Union will fully disclose all available historical information about the borrower to potential buyers, including information about the collateral and any potential conflicts of interest. For ongoing participation relationships, the Credit Union will advise buying credit unions when underwriting standards have been modified.

Credit Administration
The Credit Union will take the following actions when borrowers fail to comply with loan agreement covenants:

- Timely notify the borrower, in writing, regarding events of technical default.
- Provide buying credit unions with the financial information required by the loan agreement.
- Report the results of loan monitoring to buying credit unions.

AS ORIGINATOR/SELLER
When the Credit Union acts as the originating lender in the loan participation, the following guidelines apply:

Minimum Loan Ownership
The Credit Union will retain a minimum of 10% ownership interest in any loan for the life of the loan.

Documentation
The original loan documents will be retained in the member's loan file. Copies of the original loan documents will be provided to participating institutions.

Servicing
The Credit Union will normally seek to retain the servicing of the loans, both to retain the service relationship with the member and to provide a source of revenue.

Repurchase Rights
Loans will normally be sold "without recourse".

AS PARTICIPANT/PURCHASER

Purchase Eligibility
The Credit Union may purchase a participation in a loan only from the participant with which the borrower initially or originally contracts for a loan.

Participating Interests

The Credit Union cannot participate its interest in a loan because it is not the originating lender.

Eligible Loans

The Credit Union will only purchase a participation in loans that are approved under the current loan policy.

Compatibility

The Credit Union will seek loan participants with compatible needs and business interests. Other credit unions will be given first consideration, but any financial institution allowed by law may become a loan participant provided they meet the provisions of this policy and Federal regulations.

Adherence with Policy

Regardless of how loan servicing and collection responsibilities are assigned in the loan participation agreement, the Credit Union will ensure that the loan is underwritten, processed and collected in accordance with the current loan policy.

Documentation

The Credit Union will retain the original, or a copy, of the written participation agreement and a schedule of the loans covered by the agreement.

a. The loan participation agreement must:
    i. Be properly executed.
    ii. Be properly authorized by the federally insured credit union's Board of Directors or, if the Board has delegated in its policy, a designated committee or senior management official.
    iii. Be retained in the federally insured credit union's office (original or copies).
    iv. Include the following additional provisions:
        - Prior to purchase, the identification of the specific loan participation(s) being purchased, either directly in the agreement or through a document which is incorporated by reference into the agreement.
        - The interest that the originating lender will retain in the loan to be participated. As we discussed earlier if the originating lender is a federal credit union, the retained interest must be at least 10 percent of the outstanding balance of the loan through the life of the loan. If the originating lender is any other type of eligible organization, the retained interest must be at least 5 percent of the outstanding balance of the loan through the life of the loan, unless a higher percentage is required under state law.

- The location and custodian for original loan documents.
- An explanation of the conditions for financial and other performance information about a loan so the loan can be monitored.
- An explanation of the duties and responsibilities of the originating lender, servicer, and participants with respect to all aspects of the participation, including servicing, default, foreclosure, collection, and ongoing administration of the loan.
- Circumstances and conditions under which participants may replace the servicer.