## Sample Loan Policy

Loan Policy of XYX National Bank

The officers of the XYX National Bank (Bank), in making loans and in their direction of other Bank personnel engaged in the preparation, administration, and safekeeping of loan documents, shall be guided by this policy as amended by the Board of Directors at its regular meeting on May 3, 2010.

1. **Bank Objectives**
   1. The management of the Bank believes that sound loans represent a desirable and profitable means of employing the Bank’s funds. All such loans and extensions of credit shall be consistent with sound and prudent banking practices and in full conformity with applicable laws, regulations, rulings, and interpretations thereof, and shall be made without regard to race, sex, national origin or any other prohibited basis. This policy clearly enforces adherence to the ECOA.
      1. Authorized Bank employees are expected to make all such loans permitted by the resources of the Bank.
      2. Allocating resources for loans shall be determined by the Bank’s senior management in consultation with XYX Bankshares, provided that the Board of Directors agrees they shall be consistent with the maintenance of a sound capital structure, adequate liquidity, and appropriate profitability standards. Primary consideration will be given to existing and potential consumers within the areas defined in the Bank’s Community Reinvestment Act (CRA) statement when allocating resources.
   2. The Bank recognizes that lending of money entails reasonable business risks. Some losses are to be expected in the lending program.
      1. It is the policy of the Bank to maintain a reserve for future loan losses consistent with the policy set forth by XYX Bankshares, provided that the Board of Directors shall review quarterly such reserves to ensure they are sufficient and adequate to meet possible loan losses.
      2. Loans may be charged off, with the concurrence of the Chief Executive Officer. The amount charged off shall be the amount of exposure on the loan that the Bank has identified as uncollectible. The loss shall be taken at the end of the month in which the loss is identified. All loans charged off shall be reported to the Board of Directors at its next scheduled meeting.
2. **Determination and Administration of Loan Policy** 
   1. The Board of Directors shall be delegated the responsibility to review at the monthly meeting the administration of lending activities. As part of its regular responsibilities, and at its regular meeting, the Board of Directors shall:
      1. Review all approvals of and extensions of credit to any obligated party of the Bank, either directly or indirectly, where the total indebtedness exceeds $200,000. Participation loans in any amount also will be reviewed and approved.
      2. Review all delinquent loans above $25,000, including those in the commercial, correspondent, installment, and mortgage divisions.
      3. Review all loans determined by the Bank through its loan review process or by any regulatory authority as possessing unwarranted or more than normal risk.
      4. Approve the Chief Executive Officer’s recommendations for loans to be charged off.
      5. Review reports and exceptions that may be brought to its attention by the Loan Review Department.

6. Review exceptions to and interpretations of this loan policy*.*

7 Review all exceptions to compliance with laws and regulations as may be brought to its attention by the Bank’s Compliance Officer or others.

8. Review concentrations of credit where the obligations exceed 25 percent of the Bank’s equity, capital, and reserves.

* 1. The Officers Loan Committee shall meet each Wednesday and shall be composed of the Chief Executive Officer, the Chief Operating Officer, and the Senior Loan Officer. A quorum shall consist of two voting members. Other Officers of the Bank who have been delegated lending authority may attend meetings as nonvoting members. Responsibilities of this committee are
     1. To approve authorizations for and extensions of credit above an individual officer’s lending authority.
     2. To discuss and evaluate the recommendations of loans of a new or unusual nature, which may involve an interpretation of this policy, or where there is no existing credit approval.
     3. To review all transactions in the commercial, installment, or mortgage divisions exceeding $200,000 that are new loans or renewals.
     4. To review all maturing notes at an appropriate interval before maturity so that the committee may determine the disposition of such notes and the rates to be charged on any renewals or extensions.
     5. To provide a forum for the determination, analysis, and examination of pricing policies and strategies in the lending areas.
     6. To provide a forum for communication on subjects such as marketing, changes in laws and regulations, changes in economic conditions, review of the current asset/liability administration policies, and compliance with the Bank’s CRA Statement.
     7. To review all loans determined by the Bank’s loan review process or by any regulatory authority to possess unwarranted or more than normal credit risks.

C. Administration of the Bank’s lending activity shall be supervised by the Chief Executive Officer of the Bank (who shall be appointed by the Board of Directors) and the Chief Executive Officer shall follow the policies. The Chief Executive Officer shall seek the advice of the Board of Directors when in doubt as to credit decisions or questions involving the application of loan policies. The Chief Executive Officer shall be responsible for the development and administration of written procedures to implement this policy.

1. **Lending Authorities** 
   1. Although ultimate authority for all lending activities is vested in the Board of Directors, the Board hereby delegates the administration of these responsibilities to the Officers Loan Committee and delegates responsibilities for execution of the lending policy to loan officers by the establishment of lending authorities. A lending authority is the amount an individual officer may extend to any one obligor and shall include all direct loans, unfunded commitments, overdrafts, liabilities under letters of credit, and contingent liabilities (which may be described as “all direct and indirect liabilities”). Specifically excepted from this delegation of responsibility are all loans or credits to insiders or their interests (defined as executive officers, directors, principal stockholders or any of their interests) where the amount of credit extended by the Bank to such insider or interest(s) would result in an aggregate loan or commitment exceeding $25,000. Pursuant to the Board’s right to delegate authority, lending limits are delegated as follows:
      1. Chief Executive Officer—legal limit of the Bank.
      2. Officers Loan Committee (acting as a committee)—legal lending limit of the Bank.
      3. Credit approval authority for individual officers may be designated by the Chief Executive Officer up to $75,000.
      4. Lending officers may not combine their lending authority with another lending officer. A lending officer who does not have sufficient authority to approve a loan must seek the approval of an officer with sufficient authority or refer the loan to the Officers Loan Committee.

B. One of the purposes of this policy is to provide parameters of responsibilities under which each officer with lending authority may operate in the performance of his or her function as a lending representative of the Bank. All lending authorities granted herein, to any and all officers, will be accepted as a great responsibility to be exercised wisely.

C. Each officer shall initial all notes evidencing loans approved and administered by such officer. Where the requisite loan authority requires the initials of two officers, the officer primarily responsible for the lending relationship shall initial above the officer joining him or her.No note will be accepted for processing by the Loan Operations division of the Bank unless properly initialed

**IV. Lending and Market Areas to be Served**

A. One of the goals of the Bank’s lending policy is to meet the legitimate credit needs (as may be defined from time to time by the Bank) of the community we serve. Generally, that community includes all the metropolitan City X MSA area, and those towns where the Bank’s branches are located, as further defined in the Bank’s CRA Map in the file.

B. Effective ability to lend in varying geographic areas is a function of servicing requirements, credit risks, economies of scale in relation to transaction size, and incremental profitability of the credit transaction. Accordingly, various loan types will, because of their inherent nature, have different constraints.

1. Loans for consumer purposes will be made primarily in the metropolitan City X MSA area and in political subdivisions where any of the Bank’s branch offices are located.

2. Real estate loans will be made primarily in the metropolitan City X MSA area and in political subdivisions where any of the Bank’s branches are located.

3. Any secured loan (a secured loan is defined as a loan that is fully secured by readily marketable securities, passbooks, or similar deposit products, or the cash surrender value of life insurance) that involves primary collateral relied upon as the basis for making a loan may be made outside the normal lending area.

**V. Pricing**

A. Overall pricing policy will be formulated by the Chief Executive Officer and coordinated with the XYX Bankshares Asset/Liability Committee to ensure that the profitability objectives of both the Bank and XYX Bankshares are met in conformity and context one with the other.

**VI. Basis of Consumer Lending**

A. It is expected that the Bank will offer consumer loans of various types to meet the specific needs of the communities in its trading area. Unless secured by the equivalent of cash collateral (passbooks, stocks, bonds, certificate of deposit), these loans are to be considered unsecured. Secured consumer loans should normally not exceed terms of 60 months and the collateral requirements are the same as for business lending.

B. Unsecured consumer loans shall be made under normal consumer credit lending practices. A minimum term of 12 months and a minimum amount of $1,000 have been established for installment loans. Requests for terms less than these minimums will be considered under the Bank’s Revolving Credit program. Consumer installment loans will comply with the following additional guidelines:

1. Personal loans: Maximum amount $25,000; maximum term 60 months.

2. New automobiles: 90 percent of dealer cost; maximum term 60 months.

3. Used automobiles: based on model year:

a. Current or immediately previous model year: 80 percent NADA retail value; maximum term 48 months.

b. Models 2, 3, or 4 years old: 100 percent NADA loan value; maximum term 36 months.

c. Models 5 years and older: 100 percent NADA loan value; maximum term 24 months.

4. Home improvements (unsecured): Maximum amount $25,000; maximum term 84 months. (Amounts or terms in excess of the above must be secured by either a first or second mortgage on the owner-occupied building.)

5. Dealer-originated auto loans: Same requirements as for new and used automobiles on a direct loan.

6. Mobile homes

a. New: Maximum amount 90 percent of cost; maximum term 180 months.

b. Used: Maximum amount 75 percent of cost; maximum term 84 months.

7. Recreational vehicles and boats: Same requirements as for new and used automobiles.

8. Exceptions or requests not covered must be referred to the Officers Loan Committee for approval.

9. Loans may be made against the cash surrender value of life insurance

10. Loans may be secured by savings accounts, certificates of deposit in the Bank

11. Loans to individuals for consumer purposes are considered to be a desirable segment of the Bank’s lending activities. These loans are to be made in accordance with generally accepted principles of installment lending. Although the collateral available is an important part of the lending decision, the general principal source of repayment is recognized to be the availability of income flow to repay the loan. Generally, the following criteria are to be met:

a. Positive identification of each applicant is required. An investigation through an outside credit reporting agency and such other investigation as deemed necessary should show a history of satisfactory payments. A review of the Bank’s previous credit history with the applicant is required.

b. Both the amount and the source of the applicant’s income must be verified and analyzed to assist in evaluation of the ability to repay.

c. Stability is revealed by the tenure of the applicant’s employment and by such personal characteristics as financial reputation, bill-paying habits, and the amount and type of assets accumulated.

d. Willingness to pay shall be determined by past payment records. Any record of significant collection difficulties should be considered a reason to decline the application.

e. In some instances, the loan must be supported by the collateral offered. In those instances, an adequate loan-to-value margin shall be a condition precedent to the granting of the loan.

f. Loans of the following types are not considered desirable for the purposes of this Bank and will ordinarily be declined unless they are specifically approved as an exception to this policy.

1). Real estate mortgage loans secured by property out of the Bank’s recognized trade area, subject to exceptions outlined elsewhere.

2). Loans secured by stock in closely held corporations that has no ready market value.

3). Loans for speculative purposes, particularly to enable the consumer to speculate in the futures, securities, or commodities market.

4). Loans secured by unimproved land.

C. Revolving credit is a program that may be accessed either by overdrawing a regular checking account in the Bank or through special checks issued to accounts held by customers who have no checking account with the Bank. These loans will be made under normal consumer loan lending practices. Credit lines have a minimum amount of $1,000 and a maximum amount of $25,000.

**VII. Concentration of Credit**

A. Diversification of the loan portfolio is practical to the extent that it minimizes risk without adversely affecting sound credit opportunities and the legitimate credit needs of the community. Concentrations of credit to a particular industry and credit supported by the same or similar types of collateral (including, but not limited to, real estate within a small geographic area, or a large percentage of the dealer automobile loan portfolio attributable to one dealer) shall be reviewed by the Chief Executive Officer. Our objective will be to structure the Bank’s loan portfolio as follows:

Installment and consumer loans - 30%

Commercial loans - 40%

Agricultural loans - 10%

Real estate loans - 20%

B. Concentrations of credit are defined as obligations, direct or indirect, of the same or affiliated interests that represent 25 percent or more of the Bank’s total equity, capital, and reserves. The Board of Directors will review these concentrations of credit at least annually.

**VIII. Financial Guidelines**

A. In the interest of sound and prudent banking practice and to ensure adequate liquidity and appropriate profitability, the Chief Executive Officer shall recommend loan portfolio policy guidelines to the Board of Directors and be responsible for their administration. Included in such recommendations will be the relationship of risk-based assets and commitments to capital as defined by the Federal Reserve Board; loans as a percentage of deposits; and loans that have been rated by any regulatory authority as containing more than normal risk.

B. These recommendations shall also be communicated to the XYX Bankshares Asset/Liability Management Committee to ensure that they are consistent at all times with the goals and objectives of that committee.

**IX. Insider Transactions**

It is the policy of the Bank to encourage extensions of credit to its officers and directors or their interests provided that such extensions conform to this policy. Officers and directors shall conduct their business affairs with such standards of integrity that no conflict of interest exists or could reasonably be construed to exist. Each officer and director must be alert to the potential conflicts of interest where personal profit or gain might arise from relationships with consumers that might tend to interfere with the exercise of independent judgment in the handling of business for the Bank.

**X. Loan Review**

A. The loan review officers are responsible for reviewing the credit risk inherent in the lending activities of the Bank. The Loan Review Department of XYX Bankshares shall be relied upon for advice as needed. Any policies set forth by the Loan Review Department of XYX Bankshares shall be carried out by the loan officers. Any reviews made by XYX Bankshares of the loan department will be furnished to the Board of Directors, with copies made available to the CEO.

B. Review shall be conducted on a continuing basis for all loans made by the originating officer.

C. Loans previously charged off shall be reviewed within the loan department continuously and by the loan committee every six months until there is no longer any possibility of recovery.

**XI. Compliance**

A. The Compliance Officer of the Bank will ensure the adequacy of compliance by the Bank with all laws and regulations relative to lending, the extension of credit, and all other pertinent compliance areas. The Compliance Officer shall be appointed annually by the Board of Directors.

B. The Compliance Officer shall draw up a Compliance Plan to be approved by the Bank’s Board of Directors. Administration of the plan shall be the responsibility of the Compliance Officer, who shall report on the status of those responsibilities at least annually to the Board of Directors.

**XII. Exceptions to Policy**

A. In appropriately meeting the legitimate business needs of the community, there will be loan requests which, if granted, would represent exceptions, in whole or in part, to this policy. The system of organization and responsibilities herein established provides for the approval of such exceptions.

B. Each exception must be specifically recognized as an exception to policy and specifically reviewed and approved by the appropriate committee.

C. It is the responsibility of the loan officer to recognize, document, justify, and advocate those exceptions that he or she feels are warranted to properly meet the legitimate credit needs of the community within the framework of sound and prudent banking.

D. Each lending department will establish maximum exception levels and monitor exceptions not to exceed these levels.

**XIII. Consumer Privacy Policy**

Whereas XYX bank recognizes its clients’ expectations of financial privacy; and whereas preserving our clients’ trust is one of the core values of our bank and the banking community generally; we resolve to abide by the following guidelines for the responsible use and protection of our clients’ information:

1. We will always value the trust of our clients and the importance of keeping their personal financial information confidential.

2. We will provide our clients with our policy on using their personal financial information responsibly and protecting it.

3. We will hold our employees to the highest standard of conduct in ensuring the confidentiality of client information.

4. If any unsolicited medical information about our clients is received, we will not use that information in connection with any determination of the client’s eligibility for credit or any other unlawful purpose.

5. We will use information responsibly in order to provide our clients with significant benefits, including fraud prevention and improved products and services, and to comply with the law.

6. We will establish procedures to maintain accurate information and respond in a timely manner to client requests to change or correct information.

7. We will use a combination of safeguards to protect our clients against the criminal use of their confidential information and to prevent unauthorized access to it.

8. We will offer our clients the option of restricting information shared with third parties for marketing purposes and will honor their preference.

9. We will require the companies we do business with to abide by our privacy policy to maintain the confidentiality of our clients’ information.

10. We will not provide account numbers to companies outside our family of companies for marketing purposes.