

RPI EMPLOYEES' FEDERAL CREDIT UNION (RPIEFCU) LOAN DELINQUENCY POLICY & PROCEDURE

January 23, 2012

I. Philosophy

- A. The RPI Employees' Federal Credit Union must implement and maintain an effective control process of all loans in order to safeguard the funds entrusted to it by its members.
- B. The credit union philosophy of helping members to help themselves should be considered when the causes of delinquency are determined and collection can be implemented through adequate financial planning.
- C. Every consideration should be given to retaining members when collecting loans. The credit union shall always consider the well being of the member as part of a sound collection policy.
- D. Where responsible financial planning is exhibited by the member, satisfactory arrangements can be made to accommodate the member.
- E. As a thrift institution, the RPI Employees Federal Credit Union shall encourage regular payments and inform its members of the additional cost of using money through periods of neglected principal payments. This shall be conveyed to the credit union membership verbally at the annual meeting and in writing in the April newsletter.
- F. Vigorous collection action within limits of the New York State Consumer Act shall be initiated when it is indicated that members have no intent to fulfill their obligation.

II. Collections Officer

The Collections Officer shall be responsible for:

- reviewing collection procedures developed by management,
- reviewing, on a monthly basis, the report of delinquent accounts prepared by the credit union staff,
- Referring problem accounts and matters of policy related to delinquent accounts to the Board of Directors.

III. Collections

- A. The Collections Officer is responsible for the coordination of the collection efforts of the RPI Employees Federal Credit Union in accordance with the philosophy outlined in the policies set forth by the Board of Directors.
- B. Policy and procedures relating to the collection of delinquent loans and interest apply to all members, equally.
- C. Delinquent loans, including interest, of individuals who have left the field of membership are to be followed-up relentlessly.
- D. Collection procedures should always proceed with the goal of member retention. These procedures shall include provisions for determination of the causes of delinquency and for cooperation with the member to the fullest extent possible without incurring a financial loss to the credit union in order that the member may repay the loan.
- E. Collateral shall normally be recovered if payment is not being made for three consecutive months without good cause following the provisions of the New York State Consumer Act.
- F. Recovery from the co-maker shall be instituted within three months of default.

IV. Sale of Repossessed Goods

The provision of the New York State Consumer Act and Uniform Commercial Code shall be followed in any recovery.

Following surrender of goods:

- 1. Notify debtor(s) by certified mail of auction sale date, time and place.
- 2. Post notice of sale on bulletin board inside credit union office at least 15 days prior to sale. When major assets are to be sold, appropriate additional notice shall be given.
- 3. Conduct public auction sales within 30 days following proper notice using an authorized agency.
- 4. Bids may be presented in writing or in person.
- 5. The credit union reserves the right to bid to protect its interest.
- 6. No warranty or guaranty shall be given. Property is sold "as is".

V. Procedure Policies

- A. Necessary precautions shall be taken in the granting of loans to eliminate the risk of delinquency. These shall include: complete applications, credit checks on all loans, a current credit risk report, underwriting, and explanation of terms.
- B. Staff training shall include an understanding of delinquency control.
- C. Delinquent loan records shall be examined each month and properly marked for delinquency control.
- D. A report of accounts delinquent 30 days or more in arrears shall be submitted to the Board of Directors through the Collections Officer each month via the delinquency report.
- E. The manager is required to report to the board in accordance with delinquent loan policies any board member, committee member, staff, or member of their immediate family who has an account delinquent more than 30 days. Such members should be notified of the president/manager's duty to report such delinquency prior to the board report. Failure on the part of the manager to knowingly report delinquency under these provisions shall be cause for dismissal of the manager.

VI. Special Problems

Special problems shall be referred to the Collections Officer before referral is made to a collection agency or attorney for court action unless it is within the judgment of the manager that immediate action be taken in the interest of the credit union.

Only the Board of Directors has the authority to reduce or cancel interest charges or reduce principal amounts in settlement of past-due accounts. The manager, subject to written board confirmation, may act in transacting settlements where safety and recovery of principal is involved.

VII. Write-Off of Delinquent Loans

- A. All loans considered uncollectible shall be charged to the regular reserve by the Board of Directors on recommendation of the Collections Officer.
- B. All uncollectible loans shall be written off at the monthly board meeting following 90 days delinquency. More frequent write-offs can be made on recommendation of the Collections Officer.
- C. Collection efforts shall be continued on such loans. They shall be placed in the hands of a collection agency or attorney for continual follow-up and recovery.
- D. Charged-off accounts and subsequent reinstatements shall be reported to the credit agencies.

- E. Charged-off accounts shall be placed with a collection agency for continued follow-up.
- F. The credit union shall retain the unpaid loan balance of accounts discharged in bankruptcy. If a partial settlement has been negotiated in lieu of recovering collateral and a separate loan established, the credit union shall charge off the unpaid balance after the settlement loan balance is paid in full and the member elects not to reaffirm or pay the remaining loan balance.

VIII. Delinquency Notice

- A. When a loan payment is 10 days delinquent, the borrower is to be sent a letter demanding payment, with a 2-week deadline. (sample attached) This letter is to be followed by a telephone call one week after the letter is mailed, if there has been no response from the borrower.
- B. When a loan payment is 40 days delinquent, the borrower is to be sent a second, somewhat stronger letter, again demanding payment in 2 weeks. (sample attached) This letter is again to be followed by a telephone call one week after the letter is mailed, if there has been no response from the borrower.
- C. When a loan payment is 70 days delinquent, the borrower is to be sent a third, stronger yet, letter, again demanding payment in 2 weeks (sample attached). This letter is once again to be followed with a phone call one week after the letter is mailed, if there has been no response from the borrower.
- D. When a loan payment is 100 days delinquent, the borrower is to be sent a 4th letter, which is a notice of default (sample attached). It is to be sent by certified mail/return receipt. At the board meeting following 90 days delinquency, approval will be sought to charge off the loan.

Sample copies of the delinquent loan letters are in Appendix A.

- E. When a loan payment is 110 days delinquent, depending on the loan balance, it will either be turned over to the credit union's attorney, who will seek a judgment, and pursue collection, or the credit union manager will bring action in small claims court. In the case of secured loans, repossession proceedings will begin at this time.
- F. Repossession of secured property
 - 1. The credit union will contract with the appropriate local agency, depending on the location of the secured property, to repossess the property.
 - 2. The credit union will arrange for insurance coverage to go into effect on the property, using a local agency.
 - 3. The instructions to the repossession agency will be to develop and send a condition report to the credit union within 3 days of the pickup.

4. TCAR will be used for storing and showing motor vehicles.
5. Edmonds will be the guide used for determining the fair market value of motor vehicles where listed. Other sources will be used as necessary.
6. The minimum and asking prices will be determined by the board, with the advice of the manager.
7. Notice of the sale will be placed in the credit union office and on the website, plus listings in local selling outlets as necessary.
8. The property may be sold to any interested party.

G. Partial payments

- a. The minimum monthly payment is the interest due.
- b. If the minimum monthly payment is not made, the loan delinquency clock moves forward as described above.

IX. Collected Accounts

Loans collected in full through action of an attorney or collection agency shall be marked “paid”. Expenses of collection shall be charged to “legal and collection” expense.

X. Share Transfers

Management shall normally be authorized to transfer all shares to the loan when an account is in arrears 30 days or more, upon proper notice to the member, prior to the transfer of the account to an attorney or collection agency.

Reviewed 3/97
Reviewed 11/97
Reviewed 8/05
Reviewed 5/08
Reviewed 12/10
Reviewed and Approved 1/24/2011
Reviewed and Approved 1/23/2012

Appendix A

Copies of Sample Delinquent Loan Letters

INITIAL CONTACT LETTER SAMPLE

Date

Name

Address

City, State, Zip

Dear Name:

Your loan account is past due.

The amount of the delinquency is \$.

I am sure this is just an oversight, and would appreciate a check from you by the close of business on **January 28, 2011**. As a reminder, in accordance with our loan policy, all delinquent loans are automatically assessed a \$15.00 late fee on the 15th of each month.

If for some reason you are unable to pay, please call me at (518) 276-6591.

If your check is already on the way, please disregard this letter.

Sincerely,

Joanne Esposito
Manager

SECOND CONTACT LETTER SAMPLE

Date

Name

Address

City, State, Zip

Dear _____:

I write to remind you of our contractual agreement with regard to your delinquent loan account.

As of today's date this account is forty-two (42) days delinquent. The overdue amount \$.

As previously noted, we continue to be willing to work with you to resolve this matter; however, if you continually ignore our requests for payment on this overdue amount, we will be forced to commence collection proceedings to ensure payment.

I trust you will take the opportunity to contact the Credit Union Office at (518) 276-6591 or by email esposj2@rpi.edu in order that arrangements can be made to bring your account up to date.

This matter demands your immediate attention.

Sincerely yours,

Joanne Esposito
Manager

Cc: Chair, Credit Committee

THIRD CONTACT LETTER SAMPLE

Date

Name

Address

City, State, Zip

Dear _____:

I write to remind you of our contractual agreement with regard to your delinquent loan account.

As of today's date this account is seventy-four (74) days delinquent. The overdue amount \$.

This amount includes \$45.00 in late fee charges. As long as your account remains delinquent this fee will automatically be added on the 15th of each month.

Name, we are willing to work with you to resolve this matter; however, if you continue to ignore our request for payment or to contact this office to make payment arrangements, we will be forced to turn the matter over to our attorney.

I trust you will take the opportunity to contact the Credit Union Office by **Friday, January 28, 2011** in order that arrangements can be made to bring your account up to date.

This matter demands your immediate attention.

Sincerely yours,

Joanne Esposito

Manager

Cc: Chair, Credit Committee

FINAL CONTACT LETTER SAMPLE

CERTIFIED MAIL –RETURN RECEIPT REQUESTED

Date

Name

Address

City, State, Zip

Dear _____:

Your Credit Union Loan dated (origination date) is in default. As of today's date this account is ninety-one (91) days delinquent. The overdue amount is \$.

Unless the full delinquent amount plus the April 2010 payment is received by Friday, April 30, 2010 your account will be turned over to our Attorney for Collection.

During a recent Audit of the Credit Union's Loan Portfolio, all delinquent loans were thoroughly reviewed. It was the suggestion of the Auditor that any loan delinquent more than 90 days is considered in default and a request for authorization to charge off the remaining balance is presented to the Board of Directors.

The Credit Union would like very much to have worked with you to resolve this matter without resorting to outside action. We were willing to negotiate; however, with your erratic payment history and no consideration given to a consistent payment plan, the Credit Union is left with no alternative but to pursue this course of action.

The Promissory Note you signed when the loan was granted is a legal contract between you and the RPI Employees' Federal Credit Union, with all of the duties and obligations of both parties clearly spelled out. In accordance with the promissory note you are required to pay all collection agency fees and/or attorney fees.

Name
Date
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_____, we continue to be willing to work with you to resolve this matter. Please take the opportunity to call the Credit Union office (518) 276-6591 or e-mail me at esposj2@rpi.edu in order that arrangements can be made to bring your account up to date.

Sincerely yours,

Joanne Esposito
Manager

Cc: Chair, Credit Committee
President, RPIEFCU
Paul C. Pastore, Esq.