POLICY MANUAL

MOUNTAIN AMERICA
CREDIT UNION

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Section A – Board of Directors Responsibilities

The Board of Directors (the Board) is legally and ethically responsible for the operations of Mountain America Federal Credit Union herein referred to as MACU. Their duties include:

10.00 Overview

10.01 Policy
Annually review and approve all policies.

10.02 Management
Require that MACU is capably managed by a knowledgeable President/CEO.

10.03 Soundness
Annually review and approve the strategic plan. Approve the business plan and budget developed from the strategic plan.

10.04 Communication
Communicate performance and business expectations of MACU to the President/CEO.

The Board will require that the President/CEO of MACU (President/CEO):

10.05 Operations
Monitors and ensures the financial soundness and the continuity of MACU with input from a robust Asset Liability Management Committee (ALCO).

10.06 Laws/Regulations/Board Policy
Complies with all applicable laws, regulations, and Board policy.

10.07 Membership
Adheres to the membership requirements of the charter.

10.08 Loans

Makes prudent loans and encourages member financial responsibility.

10.09 Reserves

Provides adequate financial reserves to cover delinquent loans and other losses.

10.10 Safety

Protects against unauthorized or illegal acts through bonding programs and sound operational rules and procedures.

10.11 Insurance

Provides adequate insurance to cover risks. [1] [2]

10.12 Mergers

Conducts full due diligence on perspective merger partners that are well capitalized or can provide any one of the following benefits:

- Additional desirable field of membership,
- Opportunity to add a beneficial select employer group,
- Located in a strategic region and or,
- Defensive move to protect against unwanted competition.

Management must have the approval of the Board before taking any action that may bind MACU to a merger.

[1] Ref: Utah Code
[2] Ref: NCUA

20.00 Education and Ethics

20.01 Educational Conferences

The Board will receive an annual budget to cover costs of educational conferences and travel. The Board chair will be kept informed of the budget expenditures. It is recommended that each Board member and a partner of choice be allowed to attend two out-of-state conferences per year.

Board members should attend state association or MACU sponsored educational seminars.

Conference and travel arrangements will be coordinated with the executive staff office.

Receipts (including Visa ®) must be submitted to the Assistant Board Secretary within 30 days after the end of the conference or expenditure, whichever is later. To ensure proper accounting and adherence to federal regulations, expenditures should be accompanied by a receipt. Reimbursement for "out of pocket" expenses should be submitted on a MACU Reimbursement Form. The expenses must be supported by a receipt for sums in excess of IRS guidelines.

Within six months of initial election or appointment, a director shall complete an appropriate finance and accounting practices course. This will provide the director with the ability to read and understand MACU's balance sheet and income statement and to ask appropriate, substantive questions of management and auditors.

20.02 Compensation

No director will receive any compensation for services as a member of said Board. The secretary, treasurer or their assistant may receive such compensation as the Board may authorize.[3]

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[3] Ref: Articles of Incorporation, Article X, Section 10.

20.03 Hiring of Relatives

Any relative of the Board will not be eligible for employment or appointment to the supervisory committee. (See Section B – Human Resources, subsection 10.3 for definition of relative.)

20.04 Conflicts of Interest

Members of the Board have an obligation to conduct the business of MACU within the guidelines as stated in the Code of Conduct Policy, Section B – Human Resources, subsection 80 of this manual.

20.05 Disclosure of Confidential Information

Any member of the Board who improperly uses or discloses confidential MACU information will be subject to disciplinary action, up to and including removal from the Board.

30.00 Meetings

30.01 Regular

Regular meetings of the Board will be held at least monthly and minutes of the meeting shall be kept.[4]

30.02 Special

Special meetings of the Board may be called by a majority of the Board, or the Chairman of the Board. [5]

30.03 Annual

A meeting of the membership will be held annually. Election of directors to the Board will be held at the annual meeting. [6]

30.04 Confidentiality

Confidential materials given to the Board, including minutes of the meetings, are strictly confidential and should not be shared with anyone.

30.05 President

All meetings of the Board will be attended by the President/CEO or his designate with the exception of those meetings in which the President/CEO is evaluated or reviewed.

30.06 Executive Session

The Chairman of the Board may call an executive session (Board members only with President/CEO) meeting at any time.

30.07 Election of Board Officers

At the first Board meeting, after the annual meeting of the members, the directors will elect from their number the board officers specified by the Bylaws. The Board will elect from their number a financial officer who

[4] Ref: Article IV, Bylaws
[5] Ref: Article IV, Bylaws
[6] Ref: Article IV, Bylaws

will be responsible to obtain adequate fidelity coverage for officers and employees having custody of or handling funds.

40.00 Supervisory Committee

40.01 Term and Eligibility

Appointees to the supervisory committee will hold office until the next annual meeting of the members. The President/CEO or other employees of MACU may not be appointed to the supervisory committee.

40.02 Removal of Members

A. The Board, by majority vote, may suspend any or all members of the supervisory committee when they fail to meet their responsibilities as required by law. The Board will fill vacancies created by such removal.

B. In not less than seven nor more than fourteen days after the suspension of any member of the supervisory committee, the Board will present the matter to the membership of MACU at a special meeting. At the special meeting the members may sustain the action of the Board and remove the member of the supervisory committee or reinstate the member.

40.03 Duties

Duties of the supervisory committee include:

A. Retaining a certified public accounting firm to conduct a financial examination of MACU at least annually. The examination shall include an inspection of MACU's books, securities, cash, accounts, and loans;

B. Ascertaining that action by the Board or officers is in conformity with the bylaws and policy of MACU;

C. Arranging for supplemental audits and examinations it considers necessary or are required by the regulator or the Board. These audits shall include a verification of owner accounts in accordance with generally accepted accounting principles (GAAP);

D. Providing written reports to the Board of its findings following each audit or examination; and

E. Submitting a summary of the annual audit at the members' annual meeting.

40.04 Suspension of Directors, Board Officers, and Members of the Credit Committee

A. By unanimous vote of the supervisory committee, it may suspend any director, Board officer, or member of the credit committee for cause. In not less than seven nor more than fourteen days after the suspension of any director, Board officer, and members of the credit committee, the supervisory committee will present the matter to the members of MACU at a special meeting. At the special meeting the members may sustain the action of the supervisory committee and remove the suspended director, Board officer, and or members of the credit committee, permanently, or reinstate the same.

B. It, by a majority vote, may call a special meeting of the members of MACU to consider a violation of the provisions of the Credit Union Act, the regulations, the charter or the bylaws of MACU, or to consider any practice of MACU which the committee deems to be unsafe or unauthorized.

SECTION B – HUMAN RESOURCES

10.00 Employee Relations

Human resources strives to hire individuals who will foster MACU's core values.

10.01 Harassment

All claims of harassment will be investigated and be subject to disciplinary action, up to and including termination of employment.

10.02 Discrimination

Anyone found to be engaging in any type of unlawful discrimination will be subject to disciplinary action, up to and including termination of employment.

10.03 Hiring of Relatives

Relatives of employees are eligible for employment with MACU, upon management's approval, so long as their work assignments do not lie within a direct or indirect reporting relationship to the current employee. Any relative of a member of the executive team, supervisory committee, or Board will not be eligible for employment. The executive team is any employee holding the title of Executive Vice President or above.

For the purpose of this Policy, a relative is any of the following persons:

Spouse	Mother-in-law	Grandparent
Parent	Father-in-law	Grandchild
Child	Brother/Sister-in-law	Uncle
Brother/Sister	Step Brother/Sister	Aunt
Step Parent	Step Child	Niece/Nephew

Employees who are cohabitating with the above listed relatives will be considered relatives for the purposes of this policy.

10.04 Medical Examinations

Employees may be required to take medical examinations to determine fitness for duty, as defined by their job description, without expense to the employee.

10.05 Conflicts of Interest

Employees will conduct business within the guidelines as stated in the *Code of Conduct Policy, Section B-80* of this manual.

10.06 Disclosure of Confidential Information

Any employee who improperly uses or discloses confidential MACU information will be subject to disciplinary action, up to and including termination of employment and possible civil liability and/or criminal prosecution.

20.00 Records Status

20.01 Employee Files

MACU maintains a file on each employee. These files are the property of MACU and access to the information they contain is restricted. Employees who wish to review their own files may contact the Human Resource Department manager.

20.02 Employment Reference Checks

Any release of employee information will be coordinated with Human Resources.

Responses to written and verbal inquiries about a former employee's work record or performance will confirm only dates of employment and position(s) held. No further employment data will be released without written authorization and release signed by the individual who is the subject of the inquiry.

The only written reference information authorized by MACU will be that provided through the Human Resource Department.

20.03 Employee Data Changes

It is the responsibility of each employee to promptly notify MACU of any changes in employee data. Personal mailing addresses, telephone numbers, number and names of dependents, individuals to be contacted in the event of an emergency, and other such status reports should be accurate and current at all times.

30.00 Benefits

30.01 Eligible Employees

All employees hired to work on a regular basis are entitled to MACU benefits according to the qualifications set by the specific Summary Plan Description. Employees hired for a limited time frame are generally not eligible for MACU benefits, except where required by applicable law.

30.02 Benefits

MACU strives to provide a competitive benefit package as allowed or directed by law.

30.03 Leave Benefits

Paid Time Off (earned PTO) is available to eligible employees. Short Term and Long Term Disability benefits may be available to eligible employees.

30.04 Educational Assistance

MACU may provide full or partial reimbursement of tuition for eligible employees to attend business related educational courses, training and certification programs, which are related to the employee's current job duties.

30.05 Loan Origination Fee and Interest Rate

An employee may request a mortgage loan for their personal residence to be processed or refinanced once per 24 months with no or reduced fees. Interest rates may also be discounted on mortgage and consumer loans. Interest rates shall be no lower than the Applicable Federal Rate published by the Internal Revenue Service.

40.00 Timekeeping/Payroll

40.01 Timekeeping

An accurate record of time worked to calculate employee pay and benefits will be maintained as the law requires.

40.02 Method of Payment

Employee pay will be deposited electronically into their account. Employees will receive or have access to an itemized statement of wages.

40.03 Employment Termination

Employment with MACU is based on mutual consent; both the employee and MACU have the right to terminate employment at will, with or without cause, at any time. Employee benefits will be affected by employment termination in the following manner: All accrued and vested benefits due and payable at termination will be paid. Some benefits may continue at the employee's expense if the employee so chooses. The employee will be notified in writing of the benefits that may continue and of the terms, conditions and limitations of such continuance.

50.00 Safety

50.01 Safety

Employees will notify their supervisor immediately of any accident or injury received on the job regardless of how insignificant. Appropriate action will be taken by MACU. Employees are expected to maintain a safe working environment. They should immediately inform their supervisor of any potential safety concerns. All reported concerns will be examined and addressed and appropriate records kept.

50.02 Disabilities

MACU will review and make reasonable accommodation for employees with disabilities when it does not impose undue hardship on MACU. Appropriate documentation should be submitted with the accommodation request.

60.00 Leave of Absence

60.01 Medical and Family Leave

MACU provides employees medical leave of absence as required by federal and state law and regulations. A physician's statement may be required.

If an employee fails to report to work at the next regularly scheduled work day at the end of the leave, and fails to notify MACU of his/her inability to return to work, MACU will assume the employee has voluntarily resigned.

60.02 Military Leave

Regular full-time employees will be granted an unpaid military leave of absence as required by law to attend scheduled drills, training or called to active duty with the U.S. military.

70.00 Employee Conduct

70.01 Discrimination/Harassment

MACU will provide a work environment that is free of unlawful discrimination and/harassment.

70.02 Personal Appearance

During business hours, employees are expected to present a clean, neat, professional appearance and to dress according to the defined requirements of their positions.

70.03 Security Inspections

MACU will maintain a work environment that is free of illegal drugs, alcohol, tobacco, vaping materials, explosives, or other improper materials. Firearms are not permitted to be carried by anyone other than authorized security personnel, law enforcement officers or concealed weapon permit holders.

70.04 Disciplinary Policy

MACU will apply discipline and uphold performance standards in a consistent and reasonable manner. MACU will apply its policies and standards considering each individual’s situation and circumstance with the intent to treat all individuals fairly without regard to any protected class or group.

80.00 Code of Conduct

80.01 General Code of Conduct

Any employee, officer, director, committee member, agent, or attorney (Officials) are expected to conduct all MACU business with honesty, fairness, and integrity, and conform to all applicable laws, rules and regulations. In addition, Officials must maintain high ethical standards and avoid actions that could directly or indirectly be damaging to MACU.

80.02 Financial Records

All records prepared by, or under the direction of MACU, are the responsibility of Officials and must conform to MACU's policies and procedures. The records must conform to GAAP. The intent is to ensure that the MACU records are accurate and do not contain any false or misleading information.

80.03 MACU Property

MACU's assets and property such as office supplies, equipment, and facilities are to be used for MACU business unless authorized by the appropriate department manager.

80.04 Personal Business

Officials should not engage in personal business on MACU premises during work hours. Exceptions are normal personal or family maintenance activities requiring insignificant amounts of time.

80.05 Conflicts of Interest

Officials must not participate in any activities that conflict with their responsibilities at MACU. Conflict of interest is defined as any activity or personal interest that influences or appears to influence the objective analysis and decisions of the person involved. Examples of conflicts of interest include but are not limited to:

A. Officials or their family members, (as defined in the Bylaws) who work for or consult for a MACU supplier or competitor.

B. Officials who receive gifts, loans, compensation, or any other special preference from a person or entity who want to do business with MACU.

C. Officials who serve as officers in organizations that compete with, sell products or services to, or purchase products or services from MACU. The Bank Bribery Act of 1985, Section 215 requires in part that whoever:

1. Corruptly gives, offers, or promises anything of value to any person, with intent to influence or reward an officer, official, employee, agent, or attorney of a financial institution in connection with any business or transaction of such institution; or

2. As an officer, official, employee, agent, or attorney of a financial institution, corruptly solicits or demands for the benefit of any person, or corruptly accepts or agrees to accept anything of value from any person, intending to be influenced or rewarded in connection with any business or transaction or such institution, shall be guilty of an offense.

As an Official you are prohibited from 1) soliciting for yourself or for a third party (other than MACU itself) anything of value from anyone in return for any business, service, or confidential information of MACU, and from 2) accepting anything of value (other than bona fide salary, wages and fees, or other compensation paid, or expenses paid or reimbursed in the usual course of business) from anyone in connection with the business of MACU either before or after a transaction is discussed or consummated.

If an Official is offered or receives something of value beyond the exceptions listed in this policy, the Official must disclose that fact in writing. MACU employees and officers below the title of executive vice president report to the President/CEO for his determination whether what is accepted is reasonable and does not pose a threat to the integrity of MACU. All other Officials report to the MACU Board at the next scheduled Board meeting. The Board will review the disclosures and determine what is accepted as reasonable and does not pose a threat to the integrity of MACU.

Officials will annually disclose to MACU all potential conflicts of interest, including those in which they have been inadvertently placed due to either business or personal relationships with members, suppliers, business associates, or competitors of MACU. The purpose of this policy is to prohibit Officials from self-dealing or otherwise trading on their positions with MACU or accepting from one doing or seeking to do business within MACU a business opportunity not available to other persons or made available because of such Official's position with MACU.

No MACU director or member of the supervisory committee will be eligible for MACU employment until they have been out of the office for two years unless unanimously approved by the Board.

EXCEPTIONS OFFICIALS MAY ACCEPT:

A. Gifts, gratuities, amenities, or favors based on obvious family or personal relationship (such as those between parents, children, or spouse of an Official) where the circumstances make it clear that it is those relationships rather than the business of MACU concerned which are the motivating factor;

B. Refreshment, or entertainment, all of reasonable value and in the course of a meeting or the occasion the purpose of which is to hold a bona fide business discussion, provided these expenses would be paid for by MACU, if not paid for by the other party as a reasonable business expense;

C. Loans from banks or financial institutions on customary terms to finance proper and usual activities of Officials, such as home mortgage loans, except where prohibited by law;

D. Advertising or promotional material of reasonable value, such as pens, pencils, note pads, key chains, calendars, and similar items not exceeding approximately $250 of value;

E. Discounts or rebates on merchandise or services that do not exceed those available to other members;

F. Gifts, not exceeding $250, that are related to commonly recognized events or occasions, such as promotion, new job, wedding, retirement, Christmas, or bar mitzvah; and

G. Civic, charitable, educational, or religious organizational awards for recognition of service and accomplishment.

Individually, the Board may approve other circumstances in which Officials may accept something of value in connection with MACU business. Approval must be in writing, along with full written documentation of all relevant facts and consistent with the Bank Bribery statute.

80.06 Personal Transactions

Officials are not permitted to personally process or post entries to their own MACU accounts and to the MACU accounts of relatives as identified in Section B. (10.3) of this manual. These transactions must be received and processed by someone else who is authorized to handle such transactions.

A. Officials are expected to handle their personal financial affairs in a proper and timely manner so as not to reflect negatively on their integrity or MACU's public image.

B. Credit will be extended to Officials, on terms the same as prevailing terms for comparable transactions with members of MACU. Exceptions for employees are permissible when discounts or other fee waivers are approved by the Board and are part of MACU's loan or compensation policies.

C. Credit terms involving Officials should involve the same degree of risk repayment as loans approved for members at large.

D. Officials should not use their position with MACU to bias the objective analysis of credit decisions.

80.07 Statement of Compliance

This code of conduct shall be reviewed annually by each Official and each shall sign a statement of compliance to certify that the individual:

A. Has read and understands these standards,

B. Is aware that not complying with these standards may result in disciplinary action, including termination or removal, and

C. Is presently in compliance with these standards and has no exceptions (other than those disclosed in writing to the appropriate Official(s) as outlined herein).

80.08 Statement of Compliance Form

1. I have read and understand the code of conduct policy.

2. I am aware that non-compliance with the code of conduct policy may result in disciplinary action including termination or removal.

3. I am presently in compliance with the code of conduct policy with the following exceptions: (if none, write none on line a):

   a. ______________________________

   b. ______________________________

   c. ______________________________

   d. ______________________________

   e. ______________________________

____
SIGNATURE

____
PRINT OR TYPE SIGNATURE

____
DATE

SECTION C – SECURITY

10.00 Operational Security Program

10.01 Establishing Program

MACU will establish and maintain an Operational Security Program (OSP) in accordance with directions provided by the National Credit Union Administration's Rules and Regulations.[7] The OSP will be reviewed to ensure the security and confidentiality of member records, assist in identifying persons who commit or attempt crimes, and prevent destruction of vital records.

10.02 Operational Security Officer

The Board hereby designates the President/CEO to oversee the OSP. The President/CEO will designate an Operational Security Officer (OSO). The OSO will perform an annual review of MACU's compliance with the OSP.

10.03 Security Compliance

The Board hereby authorizes a Security Committee composed of the OSO (chair of the committee), and at least two other members of senior management, to meet at least quarterly to discuss and update MACU security related issues.

10.04 Certification of Compliance

The President/CEO will certify compliance with the OSP annually to the NCUA.

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[7] Authority: Part 748 of the National Credit Union Administration

20.00 Information Systems Security Program (ISSP)

20.01 Establishing Program

MACU will establish and maintain an ISSP in compliance with Federal Law[8], the National Credit Union Administration, and other Federal regulatory agencies that have established standards for financial institutions regarding administrative, technical, and physical safeguards of member records and information. The ISSP safeguards:

- the security and confidentiality of member information;
- protects against any anticipated threats or hazards to the security or integrity of member information; and
- protects against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any member and document record retention and disposal procedures.

20.02 President/CEO Responsibilities

The Board hereby designates the President/CEO to implement, maintain, and oversee MACU's ISSP and to direct that a report in writing be given annually on the status and effectiveness of the program.

[8] Authority: Sections 501 and 505 of the Gramm Leach Bliley Act, titled "Protection of Nonpublic Personal Information:

30.00 Incident Response Program – For Unauthorized Access

30.01 Establishing Program

In compliance with federal law, MACU will establish and maintain an Incident Response Program to monitor and remediate unauthorized access to member information and to notify members of such access that could result in substantial harm or inconvenience to the member.

30.02 Monitoring Logs

Logs shall be monitored periodically for evidence of any unauthorized access. Any anomalies will be documented, reviewed and resolved.

30.03 Board Notification

Management will notify the Board of any unauthorized access to a MACU system at or before the next regularly scheduled Board meeting.

40.00 Robbery Program

40.01 Robbery Program

MACU will establish and maintain a Robbery Program in accordance with applicable regulatory guidance and industry standards. The Robbery Program will establish procedures and protocol which address employee requirements prior to, during, and post robbery. The procedures are designed to protect employees, members and MACU's assets.

40.02 President/CEO Responsibilities

The Board designates the President/CEO to implement, maintain, and oversee MACU's Robbery Program.

50.00 Safety and Security Program (SSP)

50.01 SSP

MACU will establish and maintain a SSP in accordance with applicable regulatory guidance and industry standards. The SSP will establish procedures and protocol which address conduct during security incidents and is designed to protect employees, members and credit union assets. At a minimum, the SSP will address the following security incidents: fire, bomb threat, power outage, burglary, alarm procedures, extortion, physical threat, armed intruder, unauthorized persons and key control.

50.02 President/CEO Responsibilities

The Board designates the President/CEO to implement, maintain and oversee MACU's SSP.

60.00 Fraud

60.01 Fraud Reporting

All claims of internal fraud will be reported to and investigated by Human Resources and Fraud Management. All appropriate agencies will be notified and reporting completed as required. The supervisory committee/Internal Audit will be notified of all significant internal frauds, as defined by procedure.

60.02 Member Fraud

All fraud claims perpetrated by and/or against MACU members will be processed by Fraud Management. MACU will establish processes and procedures that reasonably prevent and detect member fraud. All appropriate agencies will be notified and reporting completed as required.

60.03 SilentWhistle

All reports received through MACU's SilentWhistle reporting system will be triaged through Operational Compliance. Investigatory referrals will be made to the appropriate entities for investigation disposition. Operational Compliance will maintain appropriate records as to referrals, investigation, and disposition, and complete reporting as required. Level four reports, as defined by procedure, will be reported to the Supervisory Committee.

60.04 President/CEO Responsibilities

The Board designates the President/CEO to implement, maintain and oversee MACU's fraud management function.

70.00 Bond/Insurance

70.01 Establishing Bond

MACU will obtain and maintain insurance policy(s) and bond policy(s) with appropriate limits to adequately protect MACU.

70.02 President/CEO Responsibilities

The Board hereby designates the President/CEO to maintain and oversee MACU's insurance/bond function.

SECTION D – ASSET-LIABILITY MANAGEMENT

10.00 Interest Rate Risk Policy

10.01 Statement of Need & Definition

The Board requires a strong Asset-Liability Management (ALM) and Interest Rate Risk (IRR) Policy.

10.02 Purpose

This IRR Policy sets the objectives and guidelines to be followed by Management and the Asset-Liability Management Committee (ALCO) in the overall management of MACU's IRR.

10.03 Objectives

The IRR Policy objective is to ensure the following conditions exist over all phases of the interest rate/liquidity cycle:

A. Safe and sound financial performance such that the integrity and reputation of MACU are maintained,
B. Adequate liquidity and funding to meet unexpected cash needs,
C. Fair and equitable treatment of both savers and borrowers, and
D. IRR that is measured, monitored and controlled.

10.04 Responsibilities

The Board and Executive Team formulate IRR policies, procedures and guidelines. The Board delegates authority to Management to conduct ALM operations that are consistent with this policy. The Board provides necessary governance and oversight. The ALCO assists Management in the process of managing IRR and assists the Board in its oversight responsibility. Members of the ALCO consist of the following and will be chaired by a member of the Board:

A. Credit Union President/CEO,
B. Credit Union Chief Operations Officer,
C. Credit Union Chief Financial Officer,

D. Members of the Board as annually designated by the Board Chair, and
E. Credit Union staff as assigned by the President/CEO.

10.05 ALCO Functions

The specific functions of the ALCO are:

A. **Examines Impact of Changing Interest Rates.** IRR is evaluated by focusing on the impact of changing interest rates on the Shocked Net Economic Value (NEV) ratio, shocked % change (sensitivity) from the current NEV, shocked % change in net interest income (NII), and other financial performance ratios.
B. **Monitors Liquidity Position.** The interaction of loans, investments, shares, and changing interest rates affect MACU's liquidity position. The behavior of embedded options in the balance sheet also affects the current and shocked liquidity profile. ALM analyses need to reflect the impact of embedded options such as mortgage loan and mortgage-backed security (MBS) prepayments, callable investment behavior changes, and depositors' ability to prematurely withdraw certificates. On-going ALM analyses will be used by Management and the ALCO to monitor liquidity. A separate Liquidity Policy (LP), Investment Policy and Contingency Funding Plan (CFP) are in place.
C. **Monitors Historical Key Ratios, Peer Comparisons & Statistics.** Ratios and statistics related to income performance, IRR and liquidity will be reviewed to monitor trends and other aspects of financial performance.
D. **Reviews & Monitors Competitive Position.** Management and ALCO will review and monitor the rates charged and paid by competing financial institutions - The objectives of this review are to:
    1. Compare the rates paid on money market accounts (MMAs), Money Market Mutual Funds and certificates to local competition,
    2. Compare rates charged on loans by local competition, keeping risk-based pricing issues in mind, when applicable,

3. Ensure that dividend rates paid and interest rates charged are fair and equitable to both savers and borrowers, and
4. Assist in the liquidity management process.

E. **Reviews & Monitors Concentration Risk Policy (CRP) for Compliance.** On a quarterly basis, Management will prepare, and the Board and ALCO will review, the Concentration Risk Policy Report (CRPR), an Appendix of the CRP, for compliance with concentration limits. Periodically, there may be conflicts between the concentration limits in the CRPR, and the NEV and Income Simulation results in an ALM analysis. In such cases the more restrictive limit will prevail.

F. **Reviews Underlying Assumptions & Sensitivity Analyses.** The ALCO will review, at least annually, key modeling assumptions for reasonableness. Management has the authority to adjust modeling inputs and assumptions commensurate with changing market conditions. Assumptions are disclosed in the ALM reports provided to the ALCO and the Board. Sensitivity analyses will be used to review the impact of changes to material assumptions on the ALM results.

G. **Reviews Scenario Analyses.** The ALCO will, at least annually, review scenario analyses which may include substantial changes to the balance sheet or external economic factors.

   For any proposed material changes to the balance sheet, the ALCO will review scenario analyses prior to implementation to determine if the effects of such changes to NEV, NII and other key ratios would remain within policy guidelines.

10.06 IRR Guidelines

The Board has set triggers[9] and risk tolerance guidelines that provide Management and the ALCO with operational latitude and yet specify the degree of IRR that is acceptable to the Board.

[9] The triggers are thresholds that, when reached, indicate Management and the ALCO should increase their focus on the IRR since a risk tolerance guideline is being approached.

A. **Separation of Duties.** When possible, the responsibility for conducting ALM modeling will be separated from the individual responsible for risk-taking. The VP Internal Audit will determine if separation of duties is possible and implemented as appropriate. Findings will be reported to the Board, as needed.
B. **NEV & Income Simulation.** The primary guidelines for IRR management are Shocked NEV[10] and multi-year Income Simulation[11] measurement methodologies.

The following are suggested procedural considerations in the development of the Shocked NEV and Income Simulation:

Non-maturity shares (NMS) are share drafts, regular shares, IRA shares and MMAs. Reflecting the behavioral attributes of NMS is important in risk measurement because collectively they tend to behave like longer-term deposits even though they do not have contractual maturities and are immediately withdrawable. The drafts and regular shares tend to pay low or no dividend rates and changes in the rates tend to lag the market in a rising rate environment. Those risk-reducing attributes are less prominent in rate-sensitive MMAs as reflected in the ALM Modeling Guidelines below.

NMS typically make up a large portion of the liabilities and heavily influence the Shocked NEV Ratio[12] and the % change in the NEV. NMS categories may behave differently in the future than they have in the past.

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[10] The Shocked NEV is the shocked market value of assets minus the shocked market value of liabilities.

[11] The income simulation projects the earning power of the assets and liabilities with no shock test applied and then with a hypothetical shock test applied so the future repricing interaction of the assets and liabilities can be examined relative to the no shock (commonly known as base case), in which rates are assumed to be unchanged. An Income Simulation analysis does not produce a forecast of future income. Rather, it is an estimate of the directional sensitivity of NII, net income and ultimate statutory capital due to the repricing interaction of existing assets and liabilities over time in a hypothetical yield curve shift.

[12] The Shocked NEV Ratio is the Shocked NEV divided by the shocked market value of assets.

As such, building in a margin of safety in the NMS Average Maturity and Discount Rate assumptions is prudent.

To build in a margin of safety in its IRR modeling, MACU will use as guidelines the following minimum rate sensitivity factors (RSFs), maximum lags and sources for discount rates. In addition, MACU will use the ***shorter*** of:

- Its own historical average maturities or;
- The following average maturities for each NMS account:

ALM MODELING GUIDELINES in a +/-300BP TEST

NMS Category	Maximum Average Maturity	Minimum RSF +/-300bp	Maximum Lag Term	Source for Discount Rates
Share Drafts (Non-Dividend Bearing)	3 Years	0.00/0.00	N/A	3-Year FR Federal Home Loan Bank (FHLB) Advance Rate
Dividend-Bearing Share Drafts	3 Years	0.05/0.00	6 Months	3-Year FR FHLB Advance Rate
Regular Shares	3 Years	0.10/0.00	6 Months	3-Year FR FHLB Advance Rate
IRA Money Market	3 Years	0.40/0.20	2 Months	3-Year FR FHLB Advance Rate
Money Market	2 Years	0.70/0.35	2 Months	Fed Funds Target or Overnight Borrowing Rate

All of the NMS assumptions are disclosed on the *Non-Maturity Share Premium Report*.

Material deviations from the ALM Modeling Guidelines must be documented and disclosed to the ALCO and the Board with an explanation.

An RSF of 0.00 (or a non-rate sensitive classification) on any NMS category reflects a commitment to maintain the current offering rate on the category regardless of changes in external interest rates. Disclosure of such a commitment and assumption is important since it causes a larger "shocked premium" in the NEV analysis in rising rate shock tests.

The minimum RSFs in the foregoing table may not be sufficiently high to reflect the portion of the +300 Basis Point (BP) shock test that passes through to a change in a particular NMS rate. Judgment must be used when determining whether higher RSFs than the minimum should be applied. A lag in anticipated offering rate changes is intended to reflect Management's expected rate-setting behavior in relation to the shock test.

The minimum RSFs and the maximum lags are not mandates to change offering rates in a particular manner as external rates change. The Guidelines are for the purpose of modeling the hypothetical +/-300BP shock test based on expected behavior.

The source of the discount rate for drafts, regular shares, and IRA MMAs will be a fixed-rate FHLB advance rate for the closest corresponding maturity to the assumed average maturity of the category.

The source of the discount rate for MMAs will be either the Fed Funds Target or an overnight borrowing rate because of the faster repricing that is reflected through a high RSF on MMAs.

Setting a lower discount rate on NMS than the discount rate shown in the Modeling Guidelines would still be consistent with the Guidelines since a lower discount rate is more conservative.

1. **NEV Guidelines & Triggers**
   In an Immediate, Parallel +/-300BP Shock Test, the NEV results will satisfy the following guidelines:

   a. The minimum Shocked NEV Ratio guideline is 6%. Every effort will be made to prevent this ratio from falling below the minimum on a sustained basis. The trigger point for the Shocked NEV Ratio is 6.5%.
      and
   b. The maximum percentage decline guideline in the dollar amount of the Shocked NEV from the dollar amount of the Current NEV (NEV Sensitivity) is 35%. The trigger point for NEV Sensitivity is 30%.

These NEV triggers and guidelines are based on the NMS Valuation Model being activated in MACU's ALM software and the assumptions on NMS being consistent with the ALM Modeling Guidelines. MACU's shocked NEV results are shown on the *ALM Dashboards: Policy Limits*. In addition to satisfying the NEV Guidelines, Guideline 2 below must be satisfied.

2. **Income Simulation Guideline &Trigger**
   In a 12-Month Ramped +/-300 BP Shock Test the NII volatility will satisfy the following guidelines:

   a. Maximum decline of 20% in shocked projected NII each year over the next two years from the base case projected NII which assumes rates are unchanged over the next 12 months. Trigger point decline of 18% in the shocked projected NII each year over the next two years from the base case for the projected NII which assumes rates are unchanged over the next 12 months.

The 5-year income simulation results appear on the *ALM Dashboards: Policy Limits* and the *IRR Analysis: 5-Year Income Simulation*. While the income simulation guidelines are limited to years 1 and 2, results from a 5-year income simulation will be reported. In the event of a projected decline in NII in the hypothetical shock test, the projected speed of recovery in NII will be reviewed. A significant and prolonged decline in the projected NII may be evidence of a more severe IRR problem whereas a rapid recovery may indicate a lower degree of risk.

The ALM Modeling Guidelines and triggers are subject to change at the discretion of the Board as the rate environment, economic conditions, strategic plan and regulatory environment change.

NII is unaffected by operating expenses, fee and other income, or the provision for loan losses. Therefore, the % change in NII is a more appropriate measure of risk than the % change in Net Income (NI). However, the effects of shock tests on projected NI is shown for informational purposes.

C. **Action Steps**. The Board recognizes that a significant shift in interest rates alone may cause a previously acceptable Shocked NEV Ratio to decline to a lower and perhaps unacceptable level in the shock test. In a declining Shocked NEV Ratio environment, the following action steps will be followed:
   1. If an NEV or Income Simulation trigger is reached, Management and the ALCO will increase their focus on the IRR,
   2. If a guideline for NEV or Income Simulation is reached or exceeded the Board will be notified at the next Board meeting,
   3. If an action is necessary to prevent or correct a NEV and/or a projected NII problems, Management and/or the ALCO will formulate and present corrective strategies to the Board as soon as possible, (What-If ALM analyses may be produced to assist in the development of such strategies.)
   4. The appropriate strategy or combination of strategies will depend on a variety of factors including but not limited to:
      a. The specific cause(s) of the IRR problem,
      b. The economic and interest rate environments,
      c. Financial performance,
      d. Net worth,
      e. The competitive environment, and
      f. The risk/return tradeoffs.
   5. Once the cause of the problem has been identified, strategies will be developed for corrective action. Strategies may include but are not limited to:
      a. Reduce fixed-rate mortgage lending activity or sell mortgage loans,
      b. Alter investment strategies or sell investments,

c. Review the liability structure and/or funding strategies,
d. Review share pricing strategies,
e. Review loan pricing and/or loan marketing strategies, and
f. Shrink assets to increase net worth.

These or other strategies and potential tradeoffs will be analyzed by the ALCO when it appears that action may be needed. The Board recognizes that risk-reducing strategies may have adverse income effects and it may take time to correct an IRR problem.

D. **Forecasting Interest Rates.** The policy of MACU is not to forecast interest rates but to position the balance sheet structure such that earning power and liquidity are not adversely affected in a significant, sustained manner by changes in interest rates.

E. **Setting Rates on Liabilities.** MMAs are designed to provide members with liquidity and yields that are reflective of money market conditions at both the local and national level. Similarly, the rates on certificates should normally be competitive and changed to reflect market conditions. The nature of these accounts is such that the rates may need to be reviewed and reset as often as necessary. Accordingly, the Board delegates to Management the authority to set the rates on MMAs and certificates on an as-needed basis. The resulting rates are to be ratified by the Board at the next Board meeting. The rates will be set in a manner consistent with the following criteria:
1. Conditions in the national money markets, including the average rate paid by money market mutual funds,
2. Rates offered by local depository financial institutions for similar products, and
3. The financial condition, overall ALM position and financial goals of MACU.

10.07 Net Worth Adequacy[13]

MACU's policy is to maintain a minimum Net Worth ratio (at book value) of 7%. If the Net Worth Ratio falls below this minimum, Management will develop and implement a Net Worth Restoration Plan.

10.08 Reporting

Management and/or the ALCO Chairperson will report to the Board on the ALM position at least quarterly. The following will be reviewed by ALCO and reported to the Board:

A. The IRR relative to the guidelines within this Policy,
B. Liquidity ratios compared to the guidelines in the LP,
C. Material changes to the underlying assumptions of the ALM model, and
D. Any other significant shifts in the monitored ALM reports.

10.09 Model Validation

A validation of the ALM Model will be performed at least once every two years and reported to the Board. The ALCO will determine the form of the validation and who will perform the validation. The three separate and independent forms of an ALM validation are:

A. **An Independent Review of the ALM Process**.
   This review may be conducted by internal - staff or by third parties. If conducted internally, the reviewer must have knowledge of IRR principles and must be independent of the risk-taking process. The review will encompass policy compliance, reasonableness of assumptions and soundness of the ALM process.
B. **Backtesting**
   This is the process of comparing ALM model predictions with subsequent actual results. This may be performed by internal staff or by third parties, and
C. **Second Opinion ALM Analysis**

[13] Net Worth preservation may be a financial goal but external forces such as unwanted asset growth and/or loan losses can make net worth preservation more challenging. In addition, since concentration limits in the CRP for categories with credit risk are stated as a % of Net Worth, preserving net worth is even more important.

This method involves obtaining an ALM analysis from a third party and comparing the IRR results to those of MACU's ALM Model, understanding that the second opinion analysis may be dissimilar due to different underlying ALM assumptions.

10.10 Exceptions

Deviations from the guidelines in this policy may occur because of external forces that are beyond the control of Management and the ALCO. The intent of this policy is to provide a framework for the establishment of an effective ALM process. Major exceptions to this policy and the guidelines will be reported to the ALCO and the Board at the next meeting.

20.00 Liquidity Policy

20.01 Purpose

This LP of MACU sets the objectives, guidelines, and strategies to be followed in the management of the day-to-day liquidity position.

20.02 Responsibilities

The Board delegates decision-making authority to the President/CEO to conduct day-to-day liquidity and cash management activities. However, liquidity management problems that extend beyond day-to-day operations will involve consultation with the ALCO. A CFP has been approved for use in a liquidity crisis.

20.03 Objectives

Liquidity is the ability to obtain cash or otherwise convert assets to cash with low transaction costs and minimal risk of loss in order to meet financial obligations. Liquidity management involves the complex interaction of both sides of the balance sheet, off-balance sheet arrangements, access to financial markets, internal decisions, and external forces beyond the control of management.

20.04 Liquidity Strategies

Some of these strategies are preventative and are used to avoid or minimize a liquidity problem. Other strategies are reactive and may be implemented in response to liquidity pressure. The strategies will differ in terms of the implementation time, costs, risks, and financial or regulatory implications.

A. **ALM Position.** The day-to-day liquidity management process is balance sheet based. Accordingly, the most important liquidity strategy is a sound ALM position. Such a position generally includes maintaining "a balance sheet cushion of highly liquid assets" (NCUA Letter 13-CU-10), including a safeguard of cash and cash equivalents such as short-term investments and overnight deposits. A sound ALM position is also reflected by the ability to change MMA and certificate rates consistent with market conditions to minimize share outflows without significantly impairing MACU's earning power. Similarly, a high degree of IRR, as evaluated using the ALM reports, could impair or limit MACU's ability to respond to a liquidity problem or crisis.

Notwithstanding the ALM position, MACU may only be able to minimize but not completely eliminate liquidity pressure that results from external events beyond the control of Management. This may necessitate the use of multiple liquidity strategies.

B. **Monitor Loan Rates and Loans/Assets Ratio.** One of MACU's primary objectives is to make loans to its members. Management reviews and adjusts loan rates to achieve a sustainable balance between loan demand, loan runoff, share growth, other cash flows and the Loans/Assets ratio.

New loan volume that exceeds the runoff of existing loans could contribute to a liquidity problem if the Loans/Assets ratio is already high. Management will monitor the net volume of new loans relative to the projected runoff of existing loans. When and if the Loans/Assets ratio increases to a level that adversely affects liquidity, Management may raise certain loan rates to curtail loan demand and preserve or restore liquidity.

C. **Review the Contingency Funding Stress Tests.** To understand the balance sheet's ability to withstand hypothetical, stressful situations of severe share outflows, the Contingency Funding Stress Tests Report and the Shocked Contingency Funding Stress Tests Report produced by MACU's ALM model will be reviewed by ALCO and the Board. Such reports can assist in determining whether or not severe share outflows pose a serious liquidity threat. A liquidity crisis can arise for different reasons regardless of the rate environment.

Although the parameters of the tests can be tailored to specific conditions, the following are the default tests:

Test 1: No rate change & 10% of shares flow out over 3 months
Test 2: No rate change & 20% of shares flow out over 6 months
Test 3: +300BP Shock Test & 10% of shares flow out over 3 months
Test 4: +300BP Shock Test & 20% of shares flow out over 6 months

To test the ability of the on-balance sheet liquidity to cover the outflows, unused borrowing capacity will not be reflected initially in the Contingency Funding Stress Tests. (What-Ifs can be utilized to reflect the incremental impact of unused borrowing capacity on the overall liquidity.)

The projected monthly Liquidity Coverage Ratios shown for each of the four stress tests are indicators of how the balance sheet would handle such outflows. Judgment must be used to interpret not only the monthly Liquidity Coverage Ratio but also the speed of recovery of this ratio. The severity of the hypothetical stress test will be considered when attempting to determine whether or not corrective action is needed. There are no industry standards for contingency funding stress testing limits, so judgment is required. Such tests are an integral part of a sound ALM process and liquidity planning.

D. **Monitoring of Liquidity Profile.** Management will proactively monitor liquidity reports for evidence of any existing or plausible liquidity weakness.

E. **Monitor MMA and Certificate Rates.** Offering rates on MMAs and certificates will be monitored and adjusted to remain competitive in the local and national markets and to manage share growth. MMA balances can be volatile particularly in a rising rate environment if the rates are not raised sufficiently to retain rate sensitive shares. For this reason, a higher RSF is typically applied to MMAs and certificates than to regular shares in rising rate shock tests produced in ALM analyses.

A well-laddered certificate program is a preventative, ongoing liquidity strategy. Certificates are important from a liquidity and IRR-management standpoint. Certificates are intended to lock in funds for a fixed time and at a fixed cost. Certificates should also have adequate early withdrawal penalties.

F. **Certificate Special Offerings.** In response to liquidity pressure, there are also two reactive variations of certificate strategies:

1. **Certificate Specials**.
   Management may offer certificate specials at above-market rates. If offered, such certificate specials will be for a "limited time" if Management wishes to stop the offering when a desired amount of funds has been raised.[14] Adequate early withdrawal penalties will be imposed on certificate specials.
2. **Non-Member Certificates**.
   Management may offer Non-Member Certificates to other institutions. The maturities of these funds will be diversified over time to avoid a large amount maturing within a concentrated period and causing future liquidity pressure. Adequate early withdrawal penalties will be imposed on Non-Member Certificates.

G. **Investment Portfolio Management.** The investment portfolio may be used in the following ways to manage liquidity:

1. **Maturity Structure**. The primary role of the investment portfolio is to provide liquidity by means of a reasonably laddered structure with predictable cash flows. A preventative strategy is to maintain a laddered structure that reflects a balance between the size of the portfolio, block size, the overall ALM position and income needs. Generally, a smaller portfolio relative to total assets will emphasize

[14] To avoid shifting the current liquidity pressure to a single point in the future, such specials should be diversified over more than one maturity.

liquidity through a shorter ladder with fewer securities containing embedded options. A larger portfolio will emphasize both liquidity and income using longer laddered maturities and may include callable bonds and/or MBS.

2. **Sale of Securities**. The sale of securities is a reactive strategy. The extent to which securities may be sold to meet liquidity needs depends on the accounting classification and the extent of market losses resulting from the sale. Accordingly, Management will review the accounting classification (Available-for-Sale (AFS) or Held-to-Maturity (HTM)) of any securities to determine if there is a sufficient amount classified as AFS. Liquidity problems may be accompanied by rising interest rates that depress bond values. Furthermore, certain investments like non-negotiable certificates of other institutions may not be marketable.

H. **Borrowing Power.** Short-term borrowings from Corporate Credit Unions, Federal Home Loan Banks, or other sources may be utilized to complement day-to-day cash management or cope with a liquidity problem. However, a large amount of short-term borrowings increases IRR because the costs associated with such borrowings can change on short notice. When borrowings are expected to be sizable and sustained, Management will consider laddered, fixed-rate term advances to diversify the maturity structure to slow the repricing of the borrowings and minimize the liquidity risk of such borrowings maturing.

Unused borrowing power backed by sufficient collateral is an important part of liquidity planning.

MACU, as a FICU with assets of more than $250M must, at least annually, conduct advance planning and testing of contingent funding source(s).

I. **Sale of Mortgage Loans.** Management will consider the sale of new mortgage loans simultaneously upon origination when any of the following conditions arise:
   1. The Loans/Assets ratio exceeds 87%, and/or
   2. The IRR of additional holdings is excessive according to Income Simulation and/or Shocked NEV results.

   A liquidity crisis could be caused by, or arise during, a rising rate environment. That rate environment, in turn, may cause market value losses on mortgage loans. Thus, the sale of existing mortgage loans in reaction to a liquidity crisis may not be an effective strategy because of the realization of such losses. Furthermore, the sale of such loans may also be a time-consuming process which may not provide immediate liquidity relief. Such loans may be more effectively used as collateral for borrowings.

J. **Loan Participations.** A potential source of liquidity is the sale of loans via loan participations without recourse, though such sales can take considerable time to consummate. The credit quality of the loans, the rates on the loans, the indirect dealer fees paid and broker fees affect the gain or loss that would be realized at the time of sale.

20.05 Liquidity Guidelines

The nature of a liquidity crisis is such that external factors are beyond the control of Management. In such situations, the CFP will become the governing liquidity management document until the crisis subsides. During normal economic conditions, the following Liquidity Guidelines will be followed:

A. **Guidelines**
   1. **ALM Position**. MACU's ALM position will be in compliance with the Risk Guidelines and ratios specified in the IRR Policy.
   2. **Loan Rates and the Loans/Assets Ratio**. This ratio should ordinarily not exceed 87%.

3. **MMA and Certificate Rates**. These rates will be adjusted to remain competitive in the local and national markets. However, there may be times of excessive liquidity that causes Management and the ALCO to pursue a strategy of inducing share outflows.
4. **Cash + Short Term Investments/Assets Ratio**. This ratio will not be less than 7%. The investment maturities within this minimum will be relatively short (maturing within one year) for liquidity purposes.
5. **Cash on Hand/Assets Ratio**. This ratio will not go below 0.50%.
6. **Non-Member Deposits Ratio**. As limited by §701.32 of NCUA Regulations, this ratio will not exceed 50 percent of the net amount of paid-in and unimpaired capital and surplus less any public unit and nonmember shares..
7. **Borrowed Funds/Total Liabilities & Net Worth Ratio**. For the purpose of day-to-day cash management, this percentage will not exceed 10%. Exceptions may be granted by the Board as part of an approved ALM strategy. Due to their IRR and liquidity risk, callable/convertible advances are not permitted.
8. **Operational Liquidity**. Operational liquidity (overnight cash on deposit) will be maintained above 110% of the largest daily amount of "inclearings plus" (defined as cash outflows from draft/ACH inclearings and credit/debit card settlements) within the past 6-month period.
9. **Basic Surplus (Deficit)**. As measured in the Basic Surplus (Deficit) Liquidity report, the Basic (Core) Surplus (primary, on-balance sheet liquidity) will not be less than 0%. Additionally, the Basic Surplus with Borrowing Capacity (primary + secondary liquidity) will not be less than 14%.
10. **Liquidity Gap.** Management will attempt to maintain a positive liquidity gap under both shocked and unshocked scenarios over a 12-month horizon. Management will avoid any negative gap under either scenario for more than 3 consecutive months.

11. **Liquidity Coverage Ratio.** As measured in the Dynamic Sources & Uses report, the base Liquidity Coverage Ratio (maturing assets divided by maturing liabilities) will not average less than 2.0 over a 12-month horizon. Additionally, the Liquidity Coverage Ratio with Borrowing Capacity (maturing assets + secondary liquidity divided by maturing liabilities) will not average less than 10.0 over a 12-month horizon.
12. **Borrowing Analysis, Authorizations and Limits.** Prior to borrowing, Management will perform an initial cost/benefit analysis of borrowings vs. obtaining shares, as well as the various available types/sources of borrowings. Additionally, if MACU remains in a borrowing position longer than 30 days, Management will perform ongoing analysis. The following borrowing authorizations and limits apply:
    a. **VP Accounting**: Up to 0.50% of assets for up to one week, with approval from the VP Finance, Controller, CFO, EVP or the President/CEO.
    b. **VP Finance, Controller or CFO**: Up to policy limits and for a time period most advantageous to MACU, with approval from two of: Controller, CFO, EVP or the President/CEO. The same individual initiating the borrowing cannot also approve it.
13. **Testing Access to Borrowing/Funding Alternatives**. Management will test available funding sources at least annually and test results will be documented and presented to the ALCO for review.

B. **Implementation & Reporting**
Management and the ALCO will review relevant information to monitor the liquidity position and the related guidelines. Significant changes in the liquidity position, both actual and projected, will be reported to the Board at the next meeting. If necessary, strategies designed to minimize liquidity problems will be presented.

Cash/borrowing balances are to be reported daily to the Accounting Manager, VP Accounting, VP Finance, Controller and CFO. High and low cash balances as well as borrowings will be reported monthly to the Board.

In addition to the reports available from MACU's ALM software, Management prepares and ALCO reviews certain reports that provide information regarding liquidity:

1. **Liquidity Review**. Using historical Call Report data, Management will prepare quarterly Liquidity Review reports, which will be reviewed by Management and the ALCO. The report contains multi-period graphs of key ratios with next-period directional trend lines, with analysis and explanation, compared against NCUA guidelines and applicable MACU policy limits.
2. **Basic Surplus (Deficit) Liquidity**. Management will prepare, and the ALCO will review, a quarterly Basic Surplus (Deficit) Liquidity report, calculating the Basic Surplus and the Basic Surplus with Borrowing Capacity, measured against the limits defined in the liquidity guidelines above.
3. **Operational Liquidity Projection (12-Month)**. Using a historical database containing daily balances of cash, borrowings, and "inclearings plus", Management prepares monthly 12-Month Operational Liquidity Projection reports, which will be reviewed by Management and the ALCO. The report contains actual balances for the most recent 30 days' operational liquidity and "inclearings plus", as well as a 12-month projection of operational liquidity adjusted for certain strategic cash flows, measured against the targeted operational liquidity limit as defined above.
4. **Dynamic Sources & Uses (12-Month)**. Management will prepare, and the ALCO will review, a quarterly 12-Month Dynamic Sources & Uses report, which will provide a base

liquidity forecast as well as dynamic forecasts based on both budgeted growth and recent observed annualized growth. A set of stressed scenarios will then be applied to each forecast. Such scenarios will include institutional crisis, systemic crisis and a stress test. Stress factors will include – but not be limited to – accelerated share outflow, increased utilization of unfunded commitments, additional loan growth and haircuts to existing credit lines.

5. **CRPR**. As mentioned in the IRR policy, Management will prepare, and the Board and ALCO will review, a quarterly CRPR for compliance with concentration limits, including the liquidity management guidelines above.

20.06 Exceptions

The intent of this policy is to provide a framework for the establishment of an effective liquidity management process. In the unlikely event of a liquidity crisis caused by internal or external conditions, the separate Board-approved CFP will become the governing liquidity document. Major exceptions to the LP and the related guidelines will be reported to the ALCO and the Board at the next meeting.

30.00 Investment Policy

30.01 Purpose

This Investment Policy[15] sets objectives and guidelines to be followed by Management and the ALCO in the day-to-day administration of MACU investment activities.

30.02 Responsibilities

The Board delegates decision-making authority with respect to specific investments to the President/CEO or his designee for implementing investment policies and executing day-to-day investment decisions. All investment decisions will be consistent with this Policy. The Board further delegates authority to the ALCO to act as liaison between the Board and Management in investment-related matters. The investment-related responsibilities of the ALCO are:

A. Monitor investment decisions for compliance with this Policy, and
B. Review this Policy and recommend changes to the Board when appropriate.

30.03 Objectives

The primary objective of the investment portfolio is to provide safety, liquidity and income consistent with income needs, liquidity needs, and IRR limits.

30.04 Portfolio Composition

The portfolio will have the following characteristics:

A. A low degree of default risk,
B. A low degree of price risk resulting from changes in interest rates,
C. A reasonably high degree of liquidity and/or marketability, and
D. All investments compliant with regulatory directives.

[15] This policy is based on the NCUA Rules and Regulations Part 703.

30.05 Authorized Investments[16]

The following issuers of investments are legally permitted and authorized by the Board:

A. U. S. Treasury and Small Business Administration (SBA) Bonds.
B. U. S. Government Agencies:
   1. Federal Farm Credit Banks (FFCB),
   2. Federal Home Loan Banks (FHLB),
   3. Fannie Mae (FNMA),
   4. Freddie Mac (FHLMC), and
   5. Ginnie Mae (GNMA).
C. Corporate Credit Unions. Annually, MACU will review the Net Worth level, investment portfolio composition, financial performance and risk profile of Corporate Credit Union(s) utilized by MACU.[17]
D. Federally Insured Bank and Credit Union Deposits. Deposits should not exceed the federal insurance limit.
E. Uninsured Overnight Depository Funds in a Federally-Insured Domestic Financial Institution.
F. Uninsured Financial Institution Certificates and Investments:
   1. Quality Criteria for Uninsured Investments. These investments, negotiable and non-negotiable, may be purchased in an amount exceeding the federal insurance limit provided that at the time of purchase the investments have a *Fitch Individual* rating of A- or greater, a *Moody's* rating of A3 or greater, or a *S&P* rating of A3 or greater. MACU will use a '2 out of 3' criteria for the purchase decision.
   2. Types of Uninsured Financial Institution Certificates and Investments. The following instruments are permissible provided they meet the quality criteria specified above:

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[16] The Portfolio Composition characteristics limit the types of investments that may be acquired: e.g., the yield on investments is secondary to liquidity and safety; regulations may constrain certain investment activity; maturity constraints and diversification requirements may further curtail investments.
[17] This information is available on the NCUA 5310 Report.

a. Uninsured Certificates—Domestic. These are deposits that exceed the federal insurance limit,
b. Bank Notes. These are bank-level, senior, unsecured promissory notes issued by domestic banks, and
c. Federal Funds Sold. This is the sale of overnight or very short-term, uninsured, immediately available funds to a commercial bank.

30.06 Interest Rate Risk, Credit Risk and Pre-Acquisition Guidelines

Investment-related IRR guidelines are specified with respect to individual securities, the investment portfolio and the impact of such risk on MACU. Certain securities as indicated below are subject to a more comprehensive pre-acquisition analysis, and certain securities may be subject to a periodic, on-going analysis.

A. Maturity and Average Life of Individual Securities. The investments in the portfolio are subject to the constraints regarding maturity and average life in this section. In the case of MBS, the average life restrictions are at the time of purchase.
   1. Non-Amortizing Bonds, Certificates and Notes. Management is restricted to securities whose maximum remaining weighted average maturity is 5 years.[18]
   2. Agency Passthroughs and SBA Bonds. These are Agency-backed amortizing residential and commercial MBS. SBAs are government-guaranteed amortizing bonds. The average life of passthroughs may not exceed 6 years at the time of purchase assuming a no-shock scenario and the corresponding Bloomberg median prepayment speeds.[19] The

[18] The purpose of this restriction is to reduce the risk of loss (realized or unrealized) and liquidity risk resulting from an increase in the level of interest rates. This restriction applies to both callable and non-callable non-amortizing investments.

[19] Some examples of these types of securities are fixed-rate passthroughs, ARMs, Hybrid ARMs, Balloons, and so-called Delegated Underwriting & Servicing (DUS) bonds.

average life of SBAs depends on the assumed prepayment speed (CPR) and may not exceed 6 years at the time of purchase.

3. Agency Collateralized Mortgage Obligations (CMOs). Agency CMOs are multi-class securities backed by Agency passthrough securities. The underlying passthrough securities are divided into different tranches with various cash flow patterns and repayment characteristics. Certain well-protected CMO tranches have a higher priority than other less-protected tranches. Other types of CMOs may pay off sequentially. The average life of these CMOs at the time of purchase may not exceed 6 years assuming a no-shock scenario and the corresponding Bloomberg median prepayment speeds.[20]

B. IRR of Investments in Relation to Net Worth. Given an immediate and sustained parallel +/-300BPs shock, the projected decline in the market value of the investment portfolio will not exceed 1.5 times MACU's Net Worth ratio. Additionally, at the time of purchase, the projected decline in market value of any individual investment, given a similar +/- 300BP shock, will not exceed 2.5 times MACU's Net Worth ratio.

C. IRR of Investments in Relation to Earnings. The IRR of the entire portfolio with respect to earnings will be monitored by using both rising and, when appropriate, falling rate shock tests. This monitoring will include a periodic analysis of the responsiveness of investment income to shock tests, as well as changes in market value.

D. Passthroughs are subject to pre-acquisition analysis[21] which includes, at a minimum,

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[20] Section 30.8 of this Policy describes unauthorized CMO investments.

[21] The purpose of pre-acquisition analysis is to ensure that management obtains sufficient information regarding a security's complexity and risks prior to purchase. Using standard rate shocks of +/-300BPs, the following will be analyzed: price risk, extension/contraction risk, and if purchased at a premium or discount, yield sensitivity. Some CMOs are well-protected tranches whose cash flows and, thus, average life does not extend or contract materially as interest rates increase or decrease.

1. Bloomberg Description (DES) page(s);
2. Bloomberg Yield Table (YT) page(s);
    a. YTH – Historical
    b. YT – Vector Analysis
    c. YT – CPR Ramp
3. Bloomberg Cash Flow Graph (CFG) or Cash Flow Table (CFT);
4. Bloomberg Graduated Risk Assessment Derivative Evaluation (GRAD) page;
5. Bloomberg Valuation (BVAL) page;
6. Bloomberg All Quotes (ALLQ) page; and
7. A review of the cap constraints (if a variable-rate security).

E. CMOs are subject to pre-acquisition analysis which includes, at a minimum,
1. Bloomberg Description (DES) pages;
2. Bloomberg Weighted Average Life Graph (WALG);
    a. BOB – Bloomberg OAS Base (PSA/CPR)
    b. BOU – Bloomberg OAS Up
    c. BOD – Bloomberg OAS Down
3. Bloomberg Collateral Agency Generic Prepayments (CPH);
4. Bloomberg Yield Table (YT) page(s);
    a. YT – Bloomberg Default
    b. YTH – Historical
    c. YT – Vector Analysis
    d. YT – CPR Ramp
5. Bloomberg Cash Flow Graph (CFG) or Cash Flow Table (CFT);
6. Bloomberg Graduated Risk Assessment Derivative Evaluation (GRAD) and FMED pages;
7. Bloomberg Summary (SUM) page;
8. Bloomberg Valuation (BVAL) page;
9. Bloomberg All Quotes (ALLQ) page; and
10. A review of the cap constraints (if a variable-rate security).

Well-protected CMOs have less price risk, liquidity risk, and income risk compared to riskier, lower priority CMOs that extend or contact significantly as interest rates change.

F. SBA Bonds are subject to pre-acquisition analysis which includes, at a minimum,
    1. Bloomberg Description (DES) page(s); and
    2. Bloomberg Yield Table (YT) page(s).

G. Callable Investments are subject to pre-acquisition analysis which includes, at a minimum,
    1. Bloomberg Description (DES) pages which show the call features and characteristics;
    2. Bloomberg Yield-to-Call (YTC) page; and
    3. A determination of the spread over the corresponding maturity non-callable Agency and Treasury bonds.[22]

H. Other considerations in managing a callable investment portfolio are:
    1. Call structures within the portfolio will be diversified to the extent possible,
    2. Callable bonds acquired at a premium will be amortized to the next call date,
    3. Callable bonds acquired at a discount will be amortized to maturity, and
    4. When an ALM analysis is conducted, the impact of the callable portfolio on the overall ALM position will be analyzed for rising and falling rates. Also, the potential adverse effect of callables on income and liquidity will be analyzed.

I. Uninsured Bank-Related Certificates and Investments are subject to pre-acquisition analysis which includes, at a minimum, (when applicable):
    1. A determination of the spread over the corresponding maturity non-callable Agency and Treasury bonds,
    2. Bloomberg Description (DES) pages,
    3. Bloomberg Credit Profile (CRPR) pages,
    4. Bloomberg Yield Analysis (YA) pages,
    5. Bloomberg Yield Analysis Spread (YAS) pages,

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[22] For example, if a 3-year callable is being purchased, the yield on a 3-year non-callable Agency and 3-year Treasury will be obtained.

6. Securities-related research, and/or
7. An internal and/or external credit risk assessment.

J. Investment Authorizations and Limits. The Controller, CFO and President/CEO may approve investment purchases. Approval will be documented in a pre-acquisition analysis as described above, subject to the following authorizations and limits:
   1. For purchases up to and including $50 million, two signatures are required from the Controller, CFO, or President/CEO, and
   2. For purchases greater than $50 million, all three signatures are required.

K. Managing Credit Risk. When purchasing a security with an element of credit risk, Management will conduct and document an analysis that reasonably concludes the security is at least investment grade:
   1. Definition. As defined by NCUA Regulations §703.2, investment grade means the issuer of a security has an adequate capacity to meet the financial commitments under the security for the projected life of the asset or exposure, even under adverse economic conditions. An issuer has an adequate capacity to meet financial commitments if the risk of default by the obligor is low and the full and timely repayment of principal and interest on the security is expected, and
   2. Evaluation of Creditworthiness. MACU may consider any or all of the following factors, to the extent appropriate, with respect to the credit risk of a security: Credit spreads, securities-related research, internal or external credit risk assessments, default statistics, inclusion on an index, priorities and enhancements, price, yield and/or volume, and/or asset class-specific factors. This list of factors is not exhaustive or mutually exclusive.

30.07 Diversification Requirements

To avoid concentration of funds in an entity that is subject to default risk, the following limitations are to be followed:

A. U.S. Treasury, GNMA, and SBA securities have the direct and explicit backing of the U.S. Government. As such, they are considered riskless from a credit standpoint and may be held in unlimited amounts.
A. U.S. Government Agency securities include those issued by FNMA, FHLMC, FHLB, and the FFCB system. These issuers have the indirect and implicit backing of the U.S. Government and therefore are generally viewed by the market as virtually riskless from a credit standpoint. Other securities or investments may be backed or insured by the FDIC or NCUA up to an insured or guaranteed amount and are deemed to be riskless from a credit standpoint. Non-callable and non-amortizing securities from these issuers may be held in unlimited amounts.
B. Most of the above issuers also finance their activities by issuing a variety of more complex debt structures that can cause the timing of the return of the principal to vary depending on the interest rate environment.
C. The limits on these securities, or lack thereof, are summarized as follows:
    1. <u>Corporate Credit Unions</u>. Investment in any Corporate Credit Union, excluding overnight depository funds, is limited to 15% of Net Worth. The aggregate amount invested in Corporate Credit Unions, excluding overnight depository funds, is limited to 65% of Net Worth.
    2. <u>Federal Reserve Deposits</u>. These are deemed to be riskless and such deposits are unlimited.
    3. <u>Complex Deposit Instruments</u>. The following instruments are considered complex and are each limited to 65% of net worth:
        a. Agency Callable Bonds & Callable Bank CDs,
        b. Agency CMOs,
        c. Agency Balloon Securities,
        d. Agency Passthrough Securities, and
        e. SBA Bonds.

4. Federally Insured Bank and Credit Union Deposits. Individual deposits that are insured by the FDIC or NCUA are limited to the insured amount per institution.
5. Uninsured Overnight Depository Funds in a Single Financial Institution. The uninsured overnight depository funds in a single financial institution are limited to 100% of Net Worth since such investments are not riskless. Overnight deposits can be withdrawn immediately, thus reducing the risk.
6. Uninsured Financial Institution Deposits and Investments. The combined uninsured deposits and investments in a single financial institution are limited to 15% of Net Worth. The aggregate amount invested in uninsured financial institution deposits and investments, excluding overnight depository funds, is limited to 65% of Net Worth.

The limits in this Policy and the CRP are judgmentally determined to provide for diversification and to minimize concentrations in investments that have structural properties that could be problematic. The limits are not goals nor do they necessarily mean that it is appropriate to reach the indicated limits. The actual optimum level for each instrument with structural risk may be lower as determined by on-going IRR and liquidity assessments.

30.08 Unauthorized Transactions and Investments

The following transactions or securities are prohibited:

A. Support-level tranches of CMOs, even if such CMOs are Agency-backed,
B. Municipal Bonds,
C. Corporate Bonds. These are unsecured obligations of a Corporation,
D. Private-Label (non-Agency) Residential or Commercial MBS. These securities are not backed by any Government Agency,
E. Inverse CMO Floaters. The interest rate on this type of CMO is variable but moves in the opposite direction to that of the index,

F. Equity Securities. Common stock, preferred stock, and debt securities with equity participation through a conversion feature or warrants,
G. Zero Coupon Bonds (interest exceeding four years). Such bonds bear no contractual interest,
H. Futures Contracts. A futures contract is an agreement calling for a fixed price, future delivery of standardized securities, usually Treasury and Agency issues,
I. Short Sales. This is the sale of a security that is not owned by MACU,
J. Adjusted Trades. This is a method of hiding an investment loss by selling a security at a fictitiously high price to a dealer and simultaneously buying another overpriced security from the same dealer,
K. Interest-only (IOs) and Principal-only (POs). IOs and POs are stripped mortgage backed instruments,
L. Residuals. This security is the excess cash flow from a MBS after all other payments have been satisfied,
M. When-Issued Trading. This is the purchase and sale of a security between the announcement date of the sale and the settlement date,
N. Pair-Offs. A pair off results from the purchase and sale of the same security prior to the settlement date, and
O. Dual-Index Bonds. The interest rate on these bonds is linked to dual-indexes such that the contractual rate can be adversely affected by a shift in both the level and structure of interest rates.

30.09 General Portfolio Policies

A. **Trading Activity Prohibited**. Trading securities with the intent to profit from short-term swings in interest rates is prohibited. However, this does not mean that all securities must be held to maturity, as explained below.
B. **ASC 320 Considerations.** The accounting standard for investments is Accounting Standard Codification (ASC) 320 which requires that each security at the time of purchase be classified in one of the following categories: a) *HTM*, b) *AFS*, or c) *Trading*. However, the

Trading category is prohibited by this Policy. In order for securities to be classified in the *HTM* category, MACU must have the positive intent and ability to hold the securities to maturity. These securities will be carried at amortized cost. Securities classified as *AFS* will be carried at market value with the *Accumulated Unrealized Gains/Losses on Available-for-Sale Securities* reflected in a separate Net Worth account.

Management may, at its discretion, classify certain investments as either *HTM* or *AFS* for liquidity purposes. In this classification process, Management will take into consideration MACU's investment maturity structure, liquidity position, cash flows, and borrowing power. MACU reserves the right to sell *HTM* securities with a remaining maturity of six months or less without tainting the portfolio. Likewise, for amortizing bonds such as MBS, if 85% of the original purchase amount has been paid back the MBS can be sold without tainting the portfolio, as these small blocks are uneconomical to service in terms of accounting and safekeeping expenses. MACU also reserves the right to sell any securities regardless of the classification if there is deterioration in credit quality. Corporate Credit Union investments and non-negotiable (direct-wire) CDs are not considered securities and therefore are not subject to requirements in this section. Generally, an investment with a Committee on Uniform Securities Identification Procedures (CUSIP) number will be considered a security and classified as *HTM* or *AFS*.

C. **Block Size Guidelines.** When the block size of a non-amortizing investment is too small, lower yields, higher administrative costs, and/or less effective execution are often the result. When the block size of a non-amortizing investment is too big, a large amount of funds may be concentrated in a few maturities rather than being diversified or laddered over different maturity dates, thus increasing liquidity and reinvestment risk. To minimize these problems and risks, the block size of non-amortizing investments will not exceed 1.00% of total assets. Other restrictions in this Policy also apply such as the insurance limit in the case of bank or credit union certificates. This guideline on block size does not apply to

Agency-backed Passthrough securities because of the monthly return of principal via contractual payments and prepayments. Accordingly, the block size of passthroughs is at the discretion of Management.

This guideline on block size also does not apply to Agency-backed CMOs. The block size of CMOs is at the discretion of Management. The block size will be determined based on the type of CMO, its structure, and the size of the rest of the investment portfolio and its structure.

D. **Conflicts of Interest.** Officials and their relatives, will not receive anything of value in connection with its investment transactions. An immediate family member is defined for the purpose of this section as a spouse or other family member living in the same household. This prohibition also applies to any other employee directly involved with investments, unless the Board determines in writing that the employee's involvement does not present a conflict of interest. This prohibition does not include compensation for employees. All transactions must be at arm’s length and in the best interest of MACU. (Source: NCUA Reg 703.17)

E. **Multiple Offers/Bids.** Multiple offers will be obtained when buying securities and multiple bids will be obtained when selling securities. Multiple offers are unnecessary on new syndicate offers where the price is the same from all Broker/Dealers (BDs). When multiple offers or bids are not available for a specific security, a quote for a security with very similar characteristics may be used as a guide.

F. **Reporting Requirements.** In addition to the standard monthly portfolio report to the Board showing the amount, coupon, maturity, yield, amortized value and other basic information related to each investment, special reporting may be required depending on the characteristics of the individual securities and the aggregate amount of such securities relative to Net Worth. Complex securities are those with the following characteristics and require special reporting: call feature, amortizing, remaining maturity greater than three years, and coupon rates linked to multiple indexes or inversely linked to an index.

1. **Level I Reporting.** When all the investments held are non-negotiable (direct wire) certificates and/or Corporate CU deposits, a list of these investments is sufficient and no special reporting is necessary. Any such investments with complex characteristics must be listed on a quarterly report to the Board.
2. **Level II Reporting.** When the sum of the complex securities (at par value) with the special characteristics stated above is *less than Net Worth* at book value as shown on the financial statement, the monthly report to the ALCO or the Board will show the following:
    a. Characteristics of each security,
    b. Market value,
    c. Gain or loss since purchase,
    d. Change in market value since prior month, and
    e. Sum of all securities with the special characteristics cited above.
3. **Level III Reporting.** When the sum of the complex securities with the special characteristics cited above is *greater than Net Worth* at book value as shown on the financial statement, the report to ALCO or the Board will show the following:
    a. Items 2 (a. – e.) above on a monthly basis,
    b. Quarterly Shock Test Report showing the market value effect of a +/-300BP parallel shift in rates for each security and the portfolio as a whole in percentage and dollar terms, and
    c. The impact of the Shock Test in (b.) above on Net Worth in both dollar and percentage terms.

The value of certain types of investments may be subject to permanent impairment. This means that it is unlikely that all amounts due according to the contractual terms of the instrument will be collected. Such events are usually related to credit problems of the issuer. This is known as other-than-temporary-impairment (OTTI). In the event that OTTI occurs, the Board will be informed at the next Board meeting and the appropriate accounting treatment implemented. Additionally, Management will maintain an

Investment Watch List, which will be reported to the ALCO and Board on a monthly basis.

G. **Variable-Rate Investment Indexes.** Variable-rate investments are permissible and must be linked directly to a domestic index. Examples of such indexes are the Prime Rate, Constant Maturity Treasury, Treasury Bills, London Interbank Offered Rate (LIBOR) or its generally-accepted replacement index, the secured overnight financing rate (SOFR) and the 11th District Cost of Funds Index (COFI).

30.10 Other Procedures

A. **Investment Firms**. Securities transactions will be conducted with securities firms that are registered with The Financial Industry Regulatory Authority (FINRA) and carry Securities Investor Protection Corporation (SIPC) insurance.
B. **Payment, Delivery, and Safekeeping of Securities**. The following policies will be followed:
    1. When a central account such as a Corporate Credit Union, or bank, is used for the purpose of holding and/or clearing securities, a Deliver versus Payment (DVP) account will be established with the BDs. Accurate DVP instructions will be maintained in order to facilitate these transactions.
    2. When securities are bought from a particular brokerage firm and held with that firm or the firm's clearing agent, MACU will maintain a regular cash account with the brokerage firm. Confirmation statements will verify each transaction and complete statements regarding the account will be received on a monthly basis, or quarterly if there has been no activity in the account.
    3. Regardless of their form, Federal Reserve book-entry, physical, or held in a privately operated book-entry system such as the Depository Trust Corporation (DTC) or a similar institution, securities may be held in the street name with a reputable securities or securities clearing firm.
C. **Approved BDs, Limits and Custody/Safekeeping Agents**.

1. Approved BDs. The following BDs are approved to conduct investment transactions:
    a. Morgan Stanley,
    b. Multi-Bank Securities, Inc.,
    c. LPL Financial,
    d. CU Investment Solutions, LLC,
    e. Cantor Fitzgerald & Co.,
    f. FTN Financial Securities Corp,
    g. UBS Financial Services, and
    h. Raymond James.

   Other BDs may be approved by Management and ratified by the Board. BDs approved in this manner may be added by means of an Addendum to this Policy.
2. Limits. There are no limits on the amount of funds invested or types of investments made through the individual BDs. The amounts invested or types of investments made through a particular BD will be at the discretion of Management and based on product offerings, pricing, execution, market information, expertise, and/or other services provided by the individual BD.
3. Custody/Safekeeping. The following custody/safekeeping agents are approved:
    a. Federal Reserve Bank (FRB), and
    b. Morgan Stanley.

   Other custody/safekeeping agents may be approved by Management and ratified by the Board at a subsequent Board meeting. Agents approved in this manner may be added by means of an Addendum to this Policy.
4. Review of BDs. Annually, MACU will obtain and review due diligence materials and FINRA BrokerCheck reports for each approved BD and their sales representatives.
5. Review of Custody/Safekeeping Agent. Annually, MACU will analyze the ability of the custody/safekeeping agent to fulfill its custodial responsibilities, as evidenced by capital strength, liquidity, and operating results. MACU will obtain and review current financial data, annual reports, external

assessments of creditworthiness, relevant disclosure documents, and/or other sources of financial information.

30.11 Exceptions

Minor policy exceptions may arise from time to time. Such exceptions must be reported to the ALCO and the Board at the next meeting. In the event an investment that is held is no longer permissible pursuant to this Policy but legal under the regulations, the Board will be notified at the next meeting. If the investment is no longer legal, the regulators and the Board will be notified within five days.

40.00 Concentration Risk Policy

40.01 Purpose

MACU's CRP sets concentration limits on certain products where high concentrations could result in financial exposure. It also identifies how concentration risks will be monitored and controlled.

40.02 Responsibilities

The Board delegates decision-making authority to the President/CEO for implementation and executing CRP day-to-day decisions. All concentration risk decisions will be consistent with this Policy and its Appendix, the CRPR. The Board also delegates authority to the ALCO to act as liaison between the Board and Management in CRP matters. In addition to the ALM functions specified in the IRR Policy, the CRP functions of ALCO are:

A. Periodically monitor and review CRP criteria and standards,
B. Quarterly review concentration levels as shown in the CRPR relative to the established risk limits,
C. Include the CRPR in the Board packet quarterly,
D. Review this Policy at least annually or as needed and recommend changes to the Board when appropriate, and
E. Ensure that the annual budget is consistent with the concentration limits set in the CRPR.

40.03 Concentration Risk

Concentration risk results from a significant reliance on particular products and/or services such that unforeseen negative "events" could cause serious financial and/or reputational problems and threaten MACU's ability to maintain its core operations.

40.04 Determining Risk Limits

A. **Asset Category Considerations**
For loans, the primary focus of concentration risk limits is on credit risk, that is, the impact of potential charge-offs and impairments.

When setting an aggregate limit for a major loan category, this limit is independent of the sub-category limits. Therefore, the sub-categories do not necessarily sum to the aggregate limit. However, weighted sub-categories limits should sum to the aggregate limit.

Investments with credit risk will be analyzed by Management on a regular basis to monitor investment quality. Ratings may be used in the pre-acquisition process, but they may not be the sole basis on which the purchase decision is made or for justifying the continued holding of a security or a particular portfolio concentration.

B. **Liability Category Considerations**

Liability limits are based on their size relative to total Assets. In the case of liability concentrations, the focus is on IRR and liquidity risk. The core share categories of non-dividend bearing drafts, dividend-bearing drafts and regular shares are unlimited in the CRPR. It is assumed that these collective accounts represent stable balances despite the fact that such funds can be withdrawn with no notice. As a practical matter, the aggregate balances in these accounts tend to behave as if they are long-term shares. However, a possible exception to the unlimited classification is a draft account paying an unusually high rate.

The appropriate amount in certificates and the length of the certificate portfolio will depend primarily on the amount in long-term fixed-rate loans and long-term investments and the extent to which the corresponding IRR must be mitigated. Certificates lock in funds for a fixed period at a fixed cost and are risk-reducing with respect to IRR and liquidity risk. Furthermore, many members routinely roll over their certificates at maturity. Despite these desirable features, due to their higher cost, certificates are limited in the CRPR.

When evaluating the potential for liquidity risk and setting limits on liability categories, Management and the Board will consider the following possible areas of concern:

1. Insufficient early withdrawal penalties on certificates,
2. Material amount in large shares, that is, those exceeding $100,000, and
3. Consistently paying above-market certificate rates, thus attracting large amounts of abnormally rate-sensitive funds.

To the extent that these characteristics exist, such limits may be lower than would otherwise be the case. Management will also attempt to avoid promotions that result in a large amount of certificates maturing within a concentrated period of time.

The following types of certificates are problematic from the standpoint of increasing IRR and liquidity risk and, if offered, must be limited:

1. Step-Up Certificates,
2. Bump-Up Certificates (if offered at par), and
3. Add-In Certificates.

The Liquidity Guideline for Borrowed Funds in the CRPR and in the LP is based on normal liquidity conditions. However, in a liquidity crisis, the CFP supersedes the guideline until normal liquidity conditions return.

C. **Role of Judgment**
Management and the Board recognize that in addition to analytics, setting appropriate concentration limits requires the use of sound judgment and good faith estimates as to the appropriateness of any limits. Accordingly, such limits and the rationale thereof will be reviewed at least annually and revised as deemed necessary.

40.05 Balance Sheet Concentration Risk

A. **Overview**
The framework for the balance sheet risk limits is in the CRPR. For the purpose of this Policy, risk limits on loan and investment categories with credit risk are defined as a percentage of Net

Worth. Using Net Worth as the computational base, a corresponding percentage of Assets will be produced as an informational item in the CRPR. The current assets and Net Worth are specified in the CRPR on a quarterly basis.

Concentration limits on MMAs, certificates and borrowings are expressed in the CRPR as a percentage of Assets rather than as a percentage of Net Worth, since these categories do not have credit risk. When setting limits on these liability categories the focus is on liquidity risk and IRR, both of which are affected by the size of the liability accounts relative to the entire balance sheet.

B. **Asset Categories**

Conflicts may arise between the CRP's limits and other limits in the IRR, LP, and/or Investment Management policies. In such cases, the more restrictive limit(s) will prevail.

For certain categories, an aggregate concentration limit is also specified.

Layers of risk in lending can increase concentration risk exposure. Therefore, it is important that not only underwriting standards and loan portfolio quality be considered when setting and reviewing concentration risk limits, but also the risk within a balance sheet category.

Management will pursue or maintain a conservative implementation strategy to compensate for the degree of credit risk. This could be in the form of more stringent credit standards for that category or lower limits on another category to compensate for the elevated risk.

MACU will use risk rating systems to help minimize risk. Consumer loans will use established credit tiers as a means for tracking and evaluating risk. These tiers will be reviewed and evaluated on a regular basis. A score card will be used and validated to determine the predictability of default. Residential Real Estate Loans will use automated underwriting systems as a means of evaluating risk. Member Business Loans will use a scorecard or a risk rating assessment to measure and track risk based on the complexity of the credit.

MACU will use one or more of the following agencies as a tool in determining credit: Experian, Equifax, and Trans Union. MACU will monitor credit score migration from loan origination and report trends to the Board on a quarterly basis for all Consumer and Residential Real Estate loans. Credit score migration for Member Business loans will be monitored and reported to the Board at least annually.

Property values on secured real estate loans will be evaluated regularly depending upon the size and complexity of the particular lending portfolio. Property values may be determined by using one or more of the following methods: Automated valuation model (AVM), Brokers price opinion (BPO), tax notices, real estate appraisals, internal property evaluations or through vendors who specialize in determining property values. Portfolio property value updates for Residential Real Estate will be reported quarterly to the Board.

When investments have structural risk and are backed directly by the US Government or implicitly by an Agency of the Government, the categories have a limit expressed as a percentage of Assets in the CRPR and the Investment Policy.

C. **Liability Categories**

Concentration limits are specified as a percentage of Assets and are in the context of liquidity risk and IRR rather than credit risk. The IRR component of liabilities is monitored and reported to the Board monthly using periodic ALM analyses including Income Simulation and NEV.

There is no limit to regular shares, non-dividend bearing drafts, and traditional dividend bearing drafts. MMAs are, by definition, rate-sensitive and potentially more volatile than other liabilities, so the size of MMAs is limited as a percentage of Assets. In ALM analyses a relatively high RSF is applied to MMAs since the MMA rates are assumed to be repriced sufficiently to retain the shares.

Non-Member Deposits are limited in the LP. In a separate CFP a higher concentration may be permitted in Non-Member Deposits to cope with a liquidity crisis.

Regular member & IRA certificates are limited in the CRPR as a percentage of Assets due to the higher cost of funds and related regulatory concerns.

The percentage of Assets that can be in borrowed funds during normal liquidity circumstances is in the LP and in the CRPR. However, during a liquidity crisis the CFP supersedes the borrowing limit in the LP and the CRPR.

40.06 Other Concentration Risks

In addition to the asset and liability components in the balance sheet, other concentrations may exist due to external relationships that are difficult to quantify in terms of Net Worth or total Assets. MACU depends on such relationships for a variety of necessary products and services, care must be exercised to determine and monitor the existence of such risk. Among these categories may be the following:

A. Credit Union Service Organizations (CUSOs),
B. Corporate Credit Union(s),
C. Federal Home Loan Bank (FHLB),
D. Federal Reserve Bank (FRB),
E. Loan Participations,
    1. Loans acquired under participation agreements must be monitored for underwriting quality, the overall amount in such loans, and the total amount from each loan originator.

MACU will use its own rating system to assess the loans being acquired through a participation arrangement.
2. Loans sold with recourse are prohibited.

F. Insurance Companies underlying Business Owned Life Insurance (BOLI), and
G. Maximum loans and lines of credit to a member.

The more dependent MACU is on a third party to carry out core operations, the more due diligence is needed to understand the dependency.

Unlike most other providers of services, Cooperative-type organizations (Corporate Credit Unions, FHLBs, FRB) may require some form of investment to utilize their services. This may be a risk factor depending on the size of the investment. Also, the extent to which the services are heavily and exclusively utilized may be a risk factor due to the dependency on the services to maintain core operations. The existence of alternative providers or the lack thereof, are considerations in the risk assessment. To the extent that there are no other alternative providers of a service, the concentration risk in that provider must be understood. Management will at least annually assess these relationships in the context of concentration risk and the dependency on these providers to sustain core operations.

40.07 Compliance, Reporting & Corrective Action

When deviations occur, corrective strategies will be developed by Management and presented to the Board. The necessary strategies to bring about compliance will be implemented recognizing that contractual obligations must also be honored and disruptions to relationships must be minimized. The strategies that Management will implement at the time a concentration limit is approached or exceeded will depend on the circumstances, environment and alternative strategies available at the time.

The ALCO will review the concentrations in relation to the limits in the CRPR and report to the Board on a quarterly basis, including any concentration(s) exceeding the Policy limits as well as any recommended courses of action. Approved limits are to be consistent with the Board-approved budget and/or Strategic Plan.

40.08 Exceptions

Minor policy exceptions may arise from time to time. Significant, on-going deviations from this Policy will be reported to the ALCO and the Board at the next meeting.

50.00 Contingency Funding Plan

50.01 Purpose

The Board and Management of MACU recognize the importance of liquidity in day-to-day operations. MACU's LP contains guidelines and limits that are followed during normal periods of liquidity. However, in order to deal effectively with a liquidity crisis, this CFP has been developed.

50.02 Responsibility

This CFP will be activated by Management in the event of a liquidity crisis as defined in Section 50.5(B) and at that time supersedes the LP. The ALCO and Board will be notified by Management that the CFP is being activated. A Crisis Management Team (CMT) will be formed upon activation of the CFP and is responsible for its implementation. The composition of the CMT is discussed in Section 50.5(D).

The President/CEO will report to the Board at the next monthly Board meeting on the status of the liquidity crisis, the strategies that have been pursued or are in process, and the progress since the last update. The President/CEO and Board Chair will determine whether the Board needs to be updated more frequently than the regularly scheduled meetings. Such updates may be done electronically for efficiency. The President/CEO may delegate to the ALCO the authority to report to the Board regarding the liquidity crisis.

50.03 Objectives

An objective of this CFP is to provide a managerial framework to maintain core operations during a liquidity crisis.

NCUA Regulation 741.12, *Liquidity and Contingency Funding Plans*, commonly referred to as the "Liquidity Rule", requires MACU to have a "federal source of emergency liquidity funding" from either the Federal Reserve Discount Window (FRDW) or the Central Liquidity Fund (CLF). Another objective of this CFP is to meet the requirements of the

Regulation along with pursuing a best practice for sound liquidity management in crisis situations.

Cash flow projections, maintaining diversified funding sources, maintaining a cushion of unencumbered liquid assets and having a CFP are suggested tools for measuring and managing liquidity.

50.04 Resources

A. **Sources of Funding**

MACU recognizes the possible need for funding that exceeds day-to-day sources, such as share growth and loan and investment runoff. For this reason, MACU has created a funding program that identifies wholesale funding sources that may be used in an emergency. Maintaining unused borrowing power is critical so that in a liquidity crisis such borrowings are available.

In periods of liquidity crises, Management may utilize the following sources of borrowings:

1. FHLB Advances,
2. Corporate CU Borrowings, and
3. FRDW.

Aggregate borrowings are limited by Regulation 12 CFR 741.2, *Maximum Borrowing Authority.*

The capacity to utilize any of the above sources for borrowings is subject to the availability of collateral, and in the case of the FHLB and Corporate CUs their ability to lend, at any given time. FHLBs require that stock be purchased as a condition of being a member and borrowing.

As the lender of last resort, the FRDW may not be priced competitively in normal economic environments. The FRDW may be available in a crisis, typically only providing liquidity over a short period, typically overnight. MACU does not expect to use it except in times of crisis; as such, this facility will be a key CFP funding source. The FRDW can be utilized for same-day funds subject to collateral requirements. Such overnight loans from the FRDW may be renewed but rollovers are expected to be brief in duration.

If it is expected to take MACU an extended period of time to pay down such borrowings after the crisis subsides, laddered FHLB fixed-rate term or amortizing advances could be considered to reduce the IRR associated with sizable overnight borrowings in a rising rate environment.

Concentrations in borrowings during a liquidity crisis and while the balance sheet is recovering from such a crisis may exceed the limits in the LP and in the CRPR.

B. **Borrowing Structure**

Borrowing terms, structures and collateral requirements of the funding sources listed above are subject to change and will be evaluated, analyzed, and compared to other alternative sources at the time such funding is needed. The borrowing structure pursued in a liquidity crisis will depend on the interest rate environment, the anticipated severity and duration of the crisis, the relative borrowing costs, and the availability of collateral and funding structures available at the time. The maturities of crisis-related borrowings will typically be short-term. This would leave the balance sheet in a position such that the borrowings could be quickly repaid or restructured once the crisis has passed. Long-term funding may not be an effective strategy for what could be a short-term crisis. However, variable-rate overnight borrowings are a volatile source of liquidity from a cost of funds standpoint and on-going, sizable overnight borrowings can cause an IRR problem if interest rates were to rise. Management will assess the liquidity crisis and weigh these considerations and attempt to diversify the funding sources and maturity structure of the borrowings if it appears that significant borrowings will be on-going for an extended period. Fixed-rate funding may be laddered in an attempt to avoid too much in overnight borrowings or too much maturing within a concentrated period, and to reduce IRR.

C. **Offering Rates**
In a liquidity crisis, sufficiently high loan rates could be set to curtail loan demand, helping to avoid exacerbating the liquidity problems caused by share outflows. Additionally, sufficiently high MMA and certificate rates could be set, or certificate specials could be offered, in an attempt to slow share outflows.

D. **Role of Investment Portfolio**
A small portfolio as a percentage of total assets generally will have short maturities to ensure that a portion of assets is highly liquid. For collateral purposes, a portion of an investment portfolio maintained in Agency-backed securities may be prudent. US Treasuries, GNMAs or other Agency-backed securities may be used as collateral for borrowings. Treasury and Agency securities that are not pledged as collateral could be sold for liquidity but losses may be realized depending on their structure and the rate environment. These are some of the tradeoffs that must be analyzed during a crisis and cannot be pre-determined in a CFP. The potential sale of AFS and HTM securities is an asset-based approach to a liquidity crisis. The sale of HTM securities may "taint" the remaining portfolio thus requiring that all securities be reclassified to AFS.

E. **Non-Member Certificates or Deposits from other Credit Unions**
Non-member Certificates or deposits from other credit unions may also be used when member deposits are insufficient or ineffective from a cost standpoint in a liquidity crisis. These deposits may be more volatile and rate-sensitive than core member shares.

F. **Role of Loan Sales and Participations**
In a systemic liquidity crisis, the sale or participation of loans held in the portfolio is unlikely to be an effective strategy due to the execution time, risk of losses due to price risk, and a lack of liquidity in other institutions.

50.05 Execution

A. **Stress Events.** Liquidity stress events are unexpected situations or business conditions that may increase liquidity risk. The events may be institution-specific or arise from external factors and may include:
   1. Inability to fund asset growth,
   2. Inability to renew or replace maturing funding liabilities,
   3. Members unexpectedly exercising options to withdraw shares or exercise off-balance-sheet commitments,
   4. Changes in market value, deterioration in asset quality, and/or price volatility of various asset types,
   5. Changes in economic conditions, market perception, adverse publicity, or dislocations in the financial markets,
   6. Disturbances in payment and settlement systems due to operational or local disasters, or acts of war including terrorism,
   7. Concentration risk problems, and/or
   8. Improper controls or poor decisions.

B. **Crisis Levels.** For purposes of this CFP, MACU defines the following levels or stages of crisis in the order of stress severity:
   1. Ordinary Course of Business,
   2. Short-Term Crisis. A short-term crisis could generally be described as significant net cash outflows (equal to 3% of shares) occurring over a relatively short period, such as one month,
   3. Intermediate-Term Crisis. An intermediate-term crisis could generally be described as significant net cash outflows (equal to 10% of shares) occurring over a longer period, such as one quarter, and
   4. Long-Term Crisis. A long-term crisis could generally be described as significant net cash outflows (equal to 20% of shares) occurring over an extended period, such as two quarters.

In the Ordinary Course of Business, the LP will be the governing Policy; as such, there is no need for execution of the CFP until and unless the Short-Term Crisis level is reached or approached. Therefore, additional discussion of the Ordinary Course of Business level is not necessary in the remainder of this section.

C. **Early-Warning Indicators.** Management will monitor for potential liquidity stress events by using early-warning indicators and event triggers tailored to MACU's liquidity risk profile. The early recognition of potential events allows MACU to position itself into progressive states of readiness as the event evolves, while providing a framework to report or communicate within MACU and to outside parties. Early-warning indicators may include, but are not limited to:
   1. Significant loan demand and/or share withdrawals,
   2. Significant declines in operational liquidity,
   3. Increased reliance on borrowings, non-member deposits or other volatile liabilities,
   4. Increased funding or utilization of off-balance-sheet items or contingent liabilities,
   5. Decreasing Net Worth approaching the "adequately-capitalized" PCA threshold, and/or
   6. Negative publicity.

Management will monitor these indicators with reports which may include, but are not limited to: daily cash balance reports, weekly/month-end Share, Loan & Delinquency reports, certain reports from MACU's ALM software (including the Liquidity Gap and Contingency Funding Stress Test reports), and the Liquidity Review, Basic Surplus (Deficit) Liquidity, Operational Liquidity Projection (12-Month) and Dynamic Sources & Uses (12-Month) reports, described in the LP.

Such early-warning indicators will signal a potential migration from the Ordinary Course of Business to the Short-Term Crisis stage. Separate indicators are not applicable to the Intermediate-Term and Long-Term Crisis stages, as the differences between these stages are only differences of duration and the level of severity. Once the "crisis" levels have been reached, early-warning indicators become less relevant as estimates, potential actions, reporting and communications become more prominent.

D. **Crisis Management Team.** The crisis level defines the CMT. Frequent communication and reporting among team members, the ALCO, the Board, other affected managers, and/or external parties, optimize the effectiveness of a contingency plan during an adverse liquidity event by ensuring that business decisions are coordinated to minimize further disruptions to liquidity.

At a minimum, the CMT for the following crisis levels will consist of:

1. Short-Term Crisis: CFO, Controller, VP Finance, VP Accounting,
2. Intermediate-Term Crisis: President/CEO, Executive VPs (including the CFO), Controller, VP Finance, VP Accounting, Public Relations staff, Internal Communications staff, and
3. Long-Term Crisis: Same team as Intermediate-Term Crisis.

E. **Estimates.** A critical element of the CFP is the quantitative projection and evaluation of expected funding needs and funding capacity during the stress event. This entails an analysis of the potential erosion in funding at alternative stages or severity levels of the stress event and the potential cash flow mismatches that may occur during the various stress levels.

In assessing such funding mismatches, Management may utilize any or all of the reports listed in 50.5.C.

In using these reports, Management will attempt to incorporate realistic assessments of the behavior of members and non-member providers of funds during the event, taking into account the type, duration and severity of each crisis scenario. These analyses will include all material on-and off-balance-sheet cash flows and their related effects. The result will be a realistic analysis of cash inflows, outflows, and funds availability at different time intervals during each potential liquidity stress event, in order to measure MACU's ability to fund operations.

F. **Potential Actions/Responses.** The potential actions taken by Management to execute the various elements of the CFP for given levels of stress will depend upon the crisis level, as well as the type, duration and severity of the crisis event:

1. <u>Short-Term Crisis:</u> To replenish liquidity in a short-term crisis that is local or specific to MACU, the CMT would consider advances from the FHLB and/or Corporate Credit Union(s), which are the most likely available sources. For a more systemic or national crisis, the CMT would also consider advances from the FRDW, as it is not commonly used in times of normal liquidity and will be fully available in a crisis. The order in which the CMT utilizes these sources would depend on availability, price efficiency, available collateral and maturity.
2. <u>Intermediate-Term Crisis</u>: In an intermediate-term crisis, MACU's liquidity position would have deteriorated as the crisis persists; however, the sources of funds mentioned above could generally still be available in a crisis that is local or specific to MACU, though certain sources could still be available even in a more systemic or national crisis. In addition to those sources of funds, the CMT could also consider member certificate specials, sales of loan participations and/or non-member deposits.
3. <u>Long-Term Crisis</u>: A long-term crisis could further reduce or eliminate certain sources of funds mentioned above, as MACU's liquidity position would have continued to deteriorate as the crisis persists. In such a crisis, the CMT could also consider laddered borrowings or fixed-rate amortizing advances to diversity the borrowings. The sale of securities, loans, loan pools and/or other assets could also be considered in a prolonged crisis.

G. **Reporting Requirements.** The CFP provides for more frequent and more detailed reporting as the stress situation intensifies, as follows:

1. Short-Term Crisis: In a short-term liquidity crisis, the CMT will report to the ALCO and to the Board at the next meeting.
   In addition to the liquidity reports available from MACU's ALM software, the CMT will provide other liquidity reports:
      a. Liquidity Review,
      b. Basic Surplus (Deficit) Liquidity,
      c. Operational Liquidity Projection (12-Month), and
      d. Dynamic Sources & Uses (12-Month).
2. Intermediate-Term Crisis: In an intermediate-term liquidity crisis, the CMT will provide updated versions of the reports listed above to the ALCO and to the Board weekly as updated information becomes available. Additional reports will also be provided, as follows:
      a. Cash/Borrowing Balances, and
      b. Share, Loan & Delinquency Analysis.
   Additionally, as certain sources of funds may be reduced or eliminated at this stage, the CMT will also provide a supplemental weekly report of funds availability, by source.
3. Long-Term Crisis: In a long-term liquidity crisis, the CMT will provide updated versions of the reports listed above to the ALCO and to the Board, daily as updated information becomes available.

H. **Communications.** To mitigate the potential for reputation contagion when liquidity problems arise, effective communication with internal and external stakeholders is of vital importance.

1. Short-Term Crisis: In a short-term liquidity crisis, there is not yet a need for widespread internal or external communication. The CMT will regularly inform the President/CEO, Executive VPs and the ALCO of the crisis and the actions taken by the Team.

2. <u>Intermediate-Term Crisis</u>: In an intermediate-term liquidity crisis, the CMT now includes representatives from Internal Communications and Public Relations.
    a. <u>Internal Communications</u>: The CMT will work with Internal Communications to design messages to help MACU employees understand the crisis and the actions taken by the CMT. Such messages may be delivered through one or more of MACU's electronic delivery channels. Additionally, the CMT will regularly inform the Senior VPs and the ALCO about the crisis and related actions.
    b. <u>External Communications:</u>
        i. Regulator: The CFO and/or the President/CEO will proactively initiate communication with local NCUA representatives (most likely the examiner-in-charge) at the outset of the intermediate-term crisis, and will provide updates as requested or as needed,
        ii. <u>Major Funds Providers</u>: The CFO or VP Finance will communicate with his/her senior-level contacts at each major funds provider to determine continued availability of funds, and
        iii. <u>Press</u>: Depending on the type, duration and severity of the crisis, MACU may or may not receive press inquiries. The Public Relations member(s) of the CMT will manage any such press inquiries.
3. <u>Long-Term Crisis</u>: In a long-term liquidity crisis, the CMT would respond as in the Intermediate scenario above; however, certain additional external communications would be:
    a. <u>Press</u>: The Public Relations member(s) of the CMT will expect regular and pointed press inquiries.
    b. <u>Membership:</u> Depending on the type, duration and severity of the crisis, the President/CEO and

the CFO will work with internal staff to craft a message for the membership, explaining the liquidity crisis and Management's actions, if necessary.

50.06 Testing

Various elements of the CFP will be tested to assess their reliability under times of stress. As MACU may rarely use the types of funds identified as standby sources of liquidity in stress situations, Management will test or utilize the operational elements of these sources at least annually.

During real stress events, prior market access testing does not guarantee that these funding sources will remain available within the same time frames and/or on the same terms.

50.07 Review

This Policy will be reviewed at least annually by Management, the ALCO, and the Board to determine its appropriateness for the size and complexity of MACU.

60.00 Other Real Estate Owned

60.01 Importance

The Board and Management of MACU recognize the importance of handling Other Real Estate Owned (OREO) property in a safe and sound manner.

60.02 President/CEO Responsibilities

The Board designates the President/CEO to oversee MACU's OREO process and ensure that personnel are properly qualified to manage, monitor and report on the OREO activities.

60.03 OREO Activities

A. Maintain records which include for each property:
   1. Intended holding period,
   2. Written Broker Price Opinion (BPO)/fair value,
   3. MACU's authorization to expend funds to improve and protect the property,
   4. Property marketing and disposition plan, and
   5. Property management plan.
B. Set internal controls and authorization limits for all OREOs,
C. Keep accounting for OREOs according to Generally Accepted Accounting Principles (GAAP),
D. Provide the status of each OREO property to the Board monthly, and
E. Ensure that the OREO property records are kept according to GAAP.

60.04 Monitoring

MACU will monitor/manage the Foreclosed & Repossessed Assets (FRA).

SECTION E – LOANS

10.00 Fair Lending Policy

MACU is committed to fair lending practices and subscribes to all efforts to ensure the consistent and equitable application of our policies and programs. MACU promotes equal access to all credit products and services. MACU will not unlawfully discriminate in any aspect of a credit transaction e.g. applications for the granting, withholding, extending, renewing of credit, or in establishing the terms of interest rates, terms or conditions of any form of credit. Discrimination on the basis of the following: race, creed, color, national origin, sexual orientation, military status, age, sex, marital status, religion, disability, and or family status will not be tolerated.

MACU's commitment to fair lending practices includes following the published guidelines of the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC) in the calculation and treatment of maternity, paternity, and pregnancy leave income and identifying when the regular employment income of a borrower or co-borrower on leave may be considered.

This policy extends to all aspects of our loan business.

10.01 Employee Training

MACU employees are educated about our Fair Lending Policy.

A. Employees will receive annual training on MACU's fair lending policy.
B. Mortgage Underwriters and Loan Officers receive semi-annual training.

10.02 Credit Application

MACU’s credit application will not make inquiry, directly or indirectly, which expresses any limitation or discrimination as to any protected class as described in Subsection 10.00. MACU will do the following:

A. Not inquire about an applicant's family planning matters,
B. Consider all sources of income and not discount based on the protected categories,
C. Will not discriminate against a married person because the applicant does not use their spouse's surname,
D. Not deny credit in circumstances where other applicants of like overall creditworthiness are granted credit, and
E. Not impose special requirements or conditions where similar conditions are not required of other applicants of like overall creditworthiness.

10.03 Underwriting

Underwriting guidelines are established to promote and ensure consistency throughout all classes of applicants. The guidelines address all aspects of the underwriting process, including collateral standards, credit, income and sources of funds, income documentation and other factors relevant to the underwriting decision. If an applicant does not meet underwriting guidelines, the applicant will be provided alternative lending options whenever possible. The underwriting guidelines are periodically reviewed to ensure they meet current regulatory and credit standards.

Additionally, underwriting guidelines will consider applicants with non-traditional credit histories and we will offer help equally to all applicants who do not meet minimum underwriting guidelines. Documentation of such help is required.

No credit decision will be based on race, creed, color, national origin, sexual orientation, military status, age, sex, marital status, religion, disability, and or family status. Additionally, the fact that income derives, in whole or in part, from a public assistance program or that the applicant’s exercise, in good faith, any right under the Consumer Credit Protection Act is not a basis for an underwriting decision. Discrimination of any borrower based on any of these factors is specifically prohibited.

20.00 Loan Committee

20.01 Purpose

The Loan Committee will review and approve loans, modifications, establish rates for Member Business Loans, and recommend policy and procedures.

20.02 Organization

Signing members of the Loan Committee are: President/CEO, all EVPs, SVP of Lending, VP of Business Lending, VP of Consumer Lending, VP of Home Equity Lending, VP Credit, VP of Mortgage Services and VP of SBA Operations. The SVP/Chief Risk Officer is a member of the Loan Committee, but has no signing authority.

20.03 Minutes

Minutes of each meeting will be recorded and retained according to federal and state regulations.

20.04 Signing Authority

One (1) signing member of the Loan Committee, designated underwriter or automated approval process as outlined in individual department procedures will approve aggregated consumer loans, residential real estate loans, home equity loans, member business loans, residential construction loans, and commercial construction loans less than $750,000 within their appropriate departments. Loans $750,000 or greater in the aggregate will be approved by three (3) signing members of the Loan Committee. Single purpose loans of $50,000 or less will be exempted from the aggregate requirement and will be approved as described above. Loans sold on the secondary market will not be included in the aggregate calculation.

20.05 Report to Board

Any exceptions of MACU's conformance to the limits outlined in this loan policy will be reported to the Board at least quarterly.

30.00 Consumer Loans

30.01 Regulations

MACU will conduct its consumer lending according to the rules, regulations, and guidelines set by NCUA, federal and state regulations. While no written policy can cover all possible situations, instances where this policy statement is silent will be guided by common sense, best business practice, sound procedures and prudence when issuing consumer loans. Credit reports are required on all consumer loans with the exception of certain short-term signature loans.

30.02 Line of Credit

All unsecured loans and lines of credit will be limited to a collective sum of $100,000 per member.

30.03 Interest Rates/Fees

Rates for consumer loans are recommended by the VPs over the applicable area and the SVP of Lending and then approved by Management. Any normal fees and charges associated with the appropriate service type may be charged to the member.

30.04 Compliance

The Compliance Department, in conjunction with the SVP of Lending, will insure that MACU loans are in compliance with all applicable laws, regulations, and MACU policies and procedures.

30.05 Loan Types

Types of consumer loans offered by MACU will consist of, but not be limited to, the following:

A. Auto loans,
B. Indirect loans,
C. Recreational vehicle loans,
D. Unsecured signature loans,
E. Credit Cards,
F. Home Equity Loans and Lines of Credit,

G. Student Loans, and
H. Overdraft Lines of Credit.

30.06 Loan Criteria

MACU will observe the following criteria as it relates to consumer loans:

A. Loan to values (LTV) on vehicle loans will not exceed 150% of the National Auto Dealers Association (NADA) Official Used Car Guide (Pacific Northwest Edition) Clean Retail value, or 150% of Black Book Invoice value, including all applicable advances for Gap insurance, warranties, tax, title, license, back end adds and negative trade equity,
B. Maximum loan-to-value ratios on Home Equity loans are outlined in Subsection 30.8(I),
C. Debt-to-income ratios will not exceed 50% based on all applicants' allowable gross monthly income and all associated monthly debt payments,
D. Primary credit score (defined as the score of the primary wage earner) will not be below a 520 Fair Isaac (FICO) score. MACU currently uses the FICO version 2 score. In the event of another score being used, the score with similar statistical odds will be observed as a cutoff, and
E. Any exceptions to the above must be approved by a signing member of Loan Committee or by a corporate underwriter.

30.07 Indirect Lending

MACU lends to members via indirect channels. An indirect channel is defined as any method whereby a third party, such as an auto dealer, submits an application to MACU on behalf of the member and subsequently assigns the contract to MACU. The following applies:

A. MACU controls all underwriting criteria and decisions relating to applications received via indirect channels,
B. MACU follows all regulations relating to the opening of new accounts by way of indirect channels,

C. MACU monitors the providers of indirect applications to ensure compliance. Reports regarding this monitoring will be provided monthly to senior management and quarterly to the Board,
D. Lending criteria for indirect loans follows other consumer criteria outlined in Subsection 30.6 with the exceptions of:
E. Maximum loan-to-value will not exceed 115% of factory invoice (new) or NADA Clean Retail (used) plus acceptable back end adds. Acceptable back end adds will consist of the following:
    1. Extended service contracts,
    2. Tax, title, license,
    3. Credit life and disability,
    4. Gap insurance,
    5. Theft deterrent,
    6. $100 maximum per product on sealants,
    7. Dealer installed equipment or accessories may be added to value at dealer cost only,
    8. Maximum amounts for the back end products will be updated from time to time and be presented on the dealer rate sheet, and
    9. Loan-to-value inclusive of all applicable back end adds will not exceed limits as defined in Subsection 30.6(A), and
F. MACU may provide for a dealer compensation program.

30.08 Home Equity Loan Guidelines

MACU offers Home Equity loans and lines of credit to its members. The following applies to Home Equity lending:

A. MACU offers first and second trust deeds with fixed rate, variable rate, and revolving lines of credit,
B. MACU will be in a first or second position. MACU will not loan behind a contract. Any exception will be approved by three (3) signing members of the Loan Committee,
C. MACU requires appraisals on all home equity loans over $250,000,
D. MACU loans on the following types of property:
    1. Single family housing,
    2. Single condominium units,
    3. Single planned-unit-developments (PUD),

4. 1-4 unit family residences if owner occupied, and
5. Manufactured housing.

E. MACU will not lend on mobile homes or properties subject to leasehold estates,

F. MACU requires flood insurance showing MACU as loss payee is required if the property is located in a Federal Emergency Management Agency (FEMA) designated special flood hazard area,

G. MACU will order appraisals in compliance with NCUA rules and regulations,

H. The following are authorized to sign all reconveyance of trust deeds, release of mortgages, partial reconveyances or subordinations on behalf of MACU unless such authority is delegated in writing to a servicer or title company by one (1) of the authorized signers,
   1. President/CEO,
   2. EVPs,
   3. SVP of Lending,
   4. VPs of Mortgage Services, Consumer Lending, Home Equity Lending, Business Lending,
   5. VPs of Asset Management/Collections and SBA Operations, and
   6. AVPs or Managers of Consumer Lending, Mortgage Services, Home Equity Lending and Consumer Loan Servicing.

I. Maximum loan-to-value ratios for the different home equity lending programs offered by MACU are:

1.	Home Equity revolving lines of credit,	100% CLTV*
2.	Owner occupied non-revolving loans in first lien position,	100% LTV
3.	Owner occupied non-revolving loans in second lien position, and	100% CLTV
4.	Non-owner occupied non-revolving loans in first lien position.	80% LTV

   * Combined Loan to Value

J. Upon approval of the SVP of Lending, or two (2) signing members of the Loan Committee, LTV can be increased to NCUA regulated maximums.

30.09 Modifications

MACU may modify existing consumer and home equity loans for members determined to be in a hardship status that may adversely affect their ability to repay the existing loan. These loans may be designated as workout loans.

Workout loans may be modified by extending terms, lowering interest rates, extending due dates, deferring payments, modifying payments, lowering principal balances, writing deficiencies on sale into signature loans or any combination of the above. Other means of modification may be employed. The modification shall be approved by either the VP of Consumer Lending, AVP of Consumer Lending, VP of Home Equity Lending, AVP of Home Equity Lending, Manager of Home Equity Lending, AVP of Consumer Loan Servicing, Assistant Manager of Consumer Loan Servicing, Manager of Consumer Lending or a Consumer Lending Senior Credit Analyst. Updated credit reports are required on all workout loan applications.

A. The following criteria apply to all consumer loans:

1. MACU will not lower an interest rate below 1%, nor will an interest rate exceed 18%,
2. MACU will review the available verification of income to determine member's ability to repay. Member's hardship situation and expressed willingness to repay will be documented,
3. MACU will not authorize additional advances to finance unpaid interest and credit union fees as per NCUA Rules and Regulations Part 741 Appendix C,
4. Workout loan modification periods may last for a duration of up to six (6) months,
5. If workout status is a repeat request by the member, the member's ability and willingness to repay will be reevaluated. Additional modifications will be considered if member expresses the willingness to repay combined with an evaluation of the performance of their existing

modification and an evaluation that additional modifications will improve collectability, and

6. Troubled Debt Restructuring (TDR) program limits are established in the Concentration Risk Policy Report. This report is reviewed quarterly by the Board as part of the Asset Liability Management committee meeting. While reviewing this report, the Board will determine if TDRs are within established limits. If any program limits are exceeded, the Board will evaluate the effectiveness of MACU's loan workout program and analyze the implication to the organization's financial condition. The Board may make adjustments to the overall business strategy based on their findings.

B. The following additional criteria apply to vehicle loans:
   1. MACU will attempt to create a workout loan plan that keeps pace with estimated depreciation on a vehicle. Depreciation will be estimated by historical rates using NADA book values,
   2. MACU will attempt to achieve a target payment to income ratio of 30%, or the member's requested payment, whichever is higher. If this is met, the duration of the workout period could last up to six (6) months,
   3. In the event that the above target payment-to-income levels cannot be met, yet a member expresses a willingness to make a modified payment, MACU may allow the modification up to three (3) months, and
   4. The maximum number of times an individual loan may be restructured is six (6). Any exceptions to the foregoing require approval of at least one (1) signing member of Loan Committee.

C. The following additional criteria apply to unsecured loans (except Student Loans):
   1. Any modification to an unsecured loan payment must at minimum cover monthly interest,

2. MACU will attempt to achieve a target payment to income ratio of 30%, or the member's requested payment, whichever is higher. If this is met, the duration of the workout period could be up to six (6) months,
3. In the event that the above target payment-to-income levels cannot be met, yet a member expresses a willingness to make a modified payment, MACU will allow the modification up to three (3) months, and
4. The maximum number of times an individual loan maybe restructured is six (6). Any exceptions to the foregoing require approval of at least one (1) signing member of Loan Committee.

D. The following additional criteria apply to Home Equity loans:

1. MACU will attempt to achieve a target housing ratio of 35% including first and second liens, taxes, insurance and mortgage insurance (MI),
2. Work out modification periods are for a duration of six (6) consecutive months or less. After a maximum of six (6) consecutive months of workout modifications is reached, loans in a workout status may be reevaluated to determine if a permanent modification is necessary. A maximum of six (6) workouts will be granted on any one (1) home equity loan. Any exceptions to the foregoing require approval of at least one (1) signing member of Loan Committee.
3. To reach the target housing ratio, MACU may extend the amortization up to three hundred sixty (360) months, followed by lowering the interest rate in increments of .25% to a minimum of 1%,
4. An updated valuation will be performed via tax notice, Automated Valuation Model (AVM) or appraisal,
5. An updated title search will be performed in order to determine the presence of any other liens and to verify the continued position of MACU, and
6. MACU will perform a net present value calculation on all Jumbo Home Equity loans (as defined by the Federal

Housing Agency) to determine if the modification cost is less than the estimated cost of foreclosure.

E. The following additional criteria apply to Student Loans:
   1. Any modification to a student loan payment must cover the monthly interest,
   2. MACU will attempt to achieve a target payment where at least half of the payment will be applied to principal. If this is met, the duration of the workout period may be up to six (6) months,
   3. In the event that the above target payment cannot be met, yet a member expresses a willingness to make a modified payment, MACU may allow the modification up to three (3) months, and
   4. The maximum number of times an individual loan may be restructured is six (6). Any exceptions to the foregoing require approval of at least one (1) signing member of Loan Committee.

30.10 SAFE Act

MACU will conform to the issued rules implementing the Secure and Fair Enforcement for Mortgage Licensing (SAFE) Act. The President/CEO is responsible for such conformance.

30.11 Qualified Mortgages

MACU may originate closed end home equity loans as Qualified Mortgages as defined by § 1026.43 of Regulation Z. MACU may, in certain circumstances, originate non-Qualified Mortgages, the specifics of which will be defined by procedure.

40.00 Real Estate

40.01 Regulations

MACU will conduct its real estate lending according to the rules, regulations, lending guidelines of the NCUA, secondary market guidelines, and federal and state laws.

40.02 Deeds

MACU may offer first and second trust deeds with fixed rate, variable rate, and revolving lines of credit.

40.03 Lien Position

MACU will be in a first or second position. MACU will not loan behind a contract. Any exception must be approved by three (3) signing members of the Loan Committee.

40.04 Interest Rates/Fees

Rates for secondary market real estate loans are established by the marketplace. Rates for portfolio real estate loans are recommended by the VP of Mortgage Services and the SVP of Lending and then approved by Management and/or the Loan Committee. Any normal fees and charges associated with the appropriate service type may be charged to the member.

40.05 Title Insurance and Appraisal Reports

Title insurance and full appraisal reports are required on all real estate loans over $250,000 and on all first mortgage loans, regardless of the loan amount.

40.06 Property Types

MACU may loan on the following types of property:

A. Single family housing,
B. Single condominium units,
C. Single planned-unit-developments (PUD),
D. 1-4 unit family residences if owner occupied,

E. Manufactured housing, and
F. Non-owner occupied/investment.

40.07 Mobile Home

MACU will not lend on mobile homes or properties subject to leasehold estates.

40.08 Insurance

Hazard insurance is required on all real estate loans (except improved building lots) showing MACU as loss payee. Flood insurance showing MACU as loss payee is required if the property is located in a Federal Emergency Management Agency (FEMA) designated special flood hazard area.

40.09 Closing

A title company or attorney must close any loan changing ownership.

40.10 Reconveyance

The following are authorized to sign reconveyance of trust deeds, release of mortgages, or partial reconveyances or subordinations on behalf of MACU unless such authority is delegated in writing to a servicer or title company by one (1) of the authorized signers:

A. President/CEO,
B. EVPs,
C. SVP of Lending,
D. VPs of Mortgage Services, Consumer Lending, Home Equity Lending, Business Lending,
E. VPs of Asset Management/Collections and SBA Operations, and
F. AVPs of Consumer Lending, Mortgage Services.

40.11 Unassumable Real Estate Loans

Real Estate loans are generally not assumable. MACU currently holds Portfolio loans, including FHA which are eligible for assumption. All assumptions must be approved by a MACU underwriter and signed by the Underwriting Manager.

40.12 Portfolio Limits

MACU's real estate loan portfolio will not exceed 50% of MACU assets. In addition, MACU will limit certain loan types. See Concentration Risk Policy for details.

40.13 Portfolio Guidelines

The following represents the maximum loan-to-value (LTV), combined loan-to-value (CLTV), debt-to-income (DTI) ratio and minimum credit score requirements for the different portfolio-retained lending programs offered by MACU:

Loan Types	Max. DTI	Max LTV/CLTV	Min. credit score
First mortgage with MI	50%	Up to 100%*	620
First mortgage w/o MI	50%	Up to 100%	620
High LTV Refinance	50%	125%	640
Second mortgage	50%	Up to 105%	620
Non-owner occupied First Mortgage or Second Mortgage	50%	Up to 90%	620
Improved residential Building lots	50%	80%	640
100% 1st time homebuyer	50%	Up to 100%	640
Residential construction loans	50%	97%	620
Bridge loans	50%	Up to 90% CLTV	640
In-portfolio FHA	50%	97%	580
In-portfolio VA	50%	100%	580

*Per Mortgage Insurance Guidelines

Any exceptions to the policy limits must be approved by the Mortgage Underwriting Manager, AVP of Mortgage Operations or one (1) signing member of Loan Committee as defined in Subsection 20.02, for loan amounts less than $750,000 or by three (3) signing members of the Loan Committee if the loan is $750,000 or greater.
Mortgage loans sold on the secondary market will be underwritten to investor guidelines and may exceed the limitations shown within policy.

40.14 MACU Portfolio Home Modification Program (MPHMP)

Modifications:

When a member has suffered some type of financial hardship that has caused his/her mortgage to become delinquent and the loan is subject to the Home Affordability Modification Program (HAMP), the member will work directly with Dovenmuehle Mortgage Inc. (DMI) to address the default or pending default. DMI strictly follows HAMP guidelines. MACU employees are not involved in these modification procedures.

MPHMP Eligibility:

MACU has created its own version of HAMP called the MACU Portfolio Home Modification Program (MPHMP) for all MACU portfolio loans. This program is in place for members who have suffered some sort of financial hardship that has caused their mortgage loan to become delinquent.

Eligibility for the modification is based on the following criteria:

1. Mortgage is a first lien originated prior to January 1, 2009,
2. The loan has not been previously modified,
3. The loan is in default, is delinquent or default appears eminent,
4. The loan must be for a primary residence and must be currently owner occupied,
5. The property cannot be vacant and/or condemned,
6. Borrower(s) must return a fully completed hardship packet with all required documentation attached. Supporting documentation must be less than 90 days old,

7. Borrower(s) must have a mortgage payment ratio (not including second liens) greater than 35%. Payment includes taxes, hazard insurance, and flood insurance (when required),
8. Borrower(s) agree to set up escrow for taxes, hazard insurance and flood insurance (when required) prior to the beginning of the trial period if one does not exist,
9. Borrower(s) must have sufficient income to support the new debt,
10. Borrower(s) may be required to fully execute a MPHMP trial period plan prior to being accepted into the program, and
11. Borrower(s) currently in foreclosure can participate in the MPHMP. MACU agrees not to conduct a trustee's sale during the trial period; however, any pending foreclosure action will not be dismissed and will be immediately resumed from the point at which it was suspended if each trial period payment is not paid as agreed.

Trial Period Procedures:

Members that are approved for a trial period plan will sign the Home Modification Trial Period Plan agreement. Members in a trial plan must make the modified mortgage payment as agreed for a three (3) month period. During this period any foreclosure proceedings will be put on hold, credit will continue to be reported based on the current disposition of the loan, and application of loan payments will be delayed according to the Home Modification Trial Period Plan agreement.

If the member successfully completes the trial period, the loan modification may proceed. Failure to successfully complete the trial period will result in a denied request for modification. MACU will allow up to two (2) modification extensions for a total of thirty-six (36) months. At the end of the thirty-six (36) month term an exit strategy will be determined and a complete credit package will be reviewed to determine repayment ability. Any extension past the thirty-six (36) month term must be signed by the VP of Mortgage Services.

Payment Reduction Estimator for MPHMP

Total monthly payment on first lien/primary residence (includes PITI and HOA)	$
Enter gross monthly income (before any adjustments)	$
CALCULATE	
Current DTI	
Target DTI under MPHMP	35%
Potential new payment	$
Potential monthly payment	$

MODIFICATION *WILL* OR *WILL NOT* LOWER YOUR MONTHLY PAYMENT

40.15 Construction Lending

MACU may lend on residential properties for construction purposes.

Residential Construction:

A. MACU will comply with NCUA real estate rules, regulations, and practices in transacting construction lending,
B. MACU may lend on properties on which construction has already commenced (broken priority), upon approval of the Mortgage Operations Manager, VP of Mortgage Services, or SVP of Lending. In all cases, a title company must insure MACU is in first lien position,
C. The mortgage underwriter or one (1) signing member of the Loan Committee may approve construction loans less than $750,000. Three (3) signing members of the Loan Committee must approve construction loans resulting in aggregate total real estate loans of $750,000 or greater,
D. MACU may allow borrower(s) to build their own home, without a general contractor, based upon their qualifications. A request to be their own contractor must be submitted by the member and

reviewed and accepted by the mortgage underwriting manager, the mortgage operations manager, or the VP of Mortgage Services,

E. MACU will charge appropriate fees for construction loans, and
F. MACU requires the contractor on residential construction loans to be reviewed annually as to compliance to MACU's and Government's requirements. Any exception to this policy must be approved by a signing member of the Loan Committee.

40.16 SAFE Act

MACU will conform to the issued rules implementing the SAFE Act. The President/CEO is responsible for such conformance.

40.17 Qualified Mortgages

MACU may originate Qualified Mortgages for dwellings as defined by § 1026.43 of Regulation Z. MACU may, for an instant short-term loan, originate non-Qualified Mortgages, the specifics of which will be defined by procedure.

50.00 Employee Loans

A. Employee loans which are not approved by MACU's automated underwriting system, must be approved by a corporate underwriter within their normal loan authority or one (1) signer of Loan Committee. All employee loans in the aggregate of $750,000 or greater will require three (3) signers of the Loan Committee.
B. Loans in excess of $50,000 granted to members of the Board, Supervisory Committee, President/CEO and the SVP of Lending must be approved by the Board.
C. Loans to EVPs, SVPs (except as described in item B above) and VPs will be approved by two (2) signers of Loan Committee if less than $750,000.
D. Employee loans that are share secured (except as described in item B above) are exempt from the requirements above and do not require any special approval.

60.00 Business Loans

60.01 State, Federal & SBA Regulations

MACU actively pursues strategic business lending. No written policy can cover all possible situations. Instances where this policy statement is silent, common sense, best business practice, sound procedures and prudence shall be the primary considerations governing MACU's business lending activities.

MACU will conduct its business lending according to the rules, regulations, and guidelines set by NCUA (Section 723), federal and state regulatory agencies, and sound business practices.

MACU will comply with the law regarding equal credit opportunity. We will not discriminate against any applicant, discourage any application for credit, or delay a decision upon any application for credit on the basis of race, creed, color, national origin, sexual orientation, military status, age, sex, marital status, religion, disability, and or family status; or for anyone exercising any rights in good faith under any consumer protection law.

MACU will conduct its Small Business Administration (SBA) lending in accordance with all rules, regulations, collateral requirements, maturity limitations, interest-rate requirements and guidelines set by the SBA's Standard Operating Procedures (SOP), NCUA and federal and state regulatory agencies and sound business practices.

60.02 Business Loan Definitions

This policy applies to all business loans originated or purchased by MACU. Per NCUA (Section 723), one subset of business loans is now titled Commercial Loans (CLs), another subset of business loans is titled Member Business Loans (MBLs).

CLs include loans made to a business entity and loans made primarily for business purposes. CLs must be underwritten using the business lending guidelines detailed in this policy.

MBLs include any CL except:

1. Loans secured by 1-4 residential property,
2. Loans fully secured by shares in MACU or deposits in other institutions,
3. Loans secured by a vehicle manufactured for household use only, and
4. Loans that would otherwise be considered CLs when the aggregate outstanding borrower's balances are equal to or less than $50,000.

The underwriting requirements and technical definitions of all business loans are described herein. All business loans are reportable on the 5300 Call Report except those exempted by regulation.

Technical Definitions of CLs and MBLs

For purposes of asset classification, CLs are defined by NCUA Regulation 723.2 as any loan, line of credit, or letter of credit (including unfunded commitments) and any interest a credit union obtains in such loans made by another lender, to individuals, sole proprietorships, partnerships, corporations, or other business enterprises for commercial, industrial, agricultural, or professional purposes, but not for personal expenditure purposes.

Accordingly, the various types of business loans and their related exceptions can be broken down into three categories.

B. A. The first category includes loans that are not classified as CLs. These are the business purpose *exceptions* that survived from the previous NCUA Regulation 723, none of which are included in the calculation of the MBL Cap. The exceptions include:
    1. Loans fully secured by a lien on the borrower's primary residence,
    2. Loans fully secured by shares in MACU making the extension of credit, or deposits in other financial institutions,

3. Loan(s) to a member or an associated member as defined in NCUA (Section 723) which, when the net member business loan balances are added together, are equal to or less than $50,000,
4. Loans granted by a corporate credit union to MACU, and
5. Loans made by MACU to another federally insured credit union or credit union service organization.

C. The second category includes loans that are still considered MBLs for reporting purposes but are not considered CLs. These include a loan secured by a vehicle manufactured for household use that will be used for a commercial, corporation or other business investment property or venture, or agricultural purpose, if the outstanding aggregate net member balance is $50,000 or greater.

These loans may be underwritten using the guidelines for their respective product types.

The Board and Management will ensure MACU has the resources in place to provide the proper expertise to evaluate the borrower throughout the loan term and ensure that MACU has:

A. Properly underwritten all credit requests,
B. Assigned a current risk rating to each credit,
C. Put in place a current risk management system that applies to both new loans and the entire commercial portfolio,
D. Appropriate periodic or annual review analysis and conclusions,
E. Periodic reviews by third party commercial loan experts as deemed necessary by Senior Management, and
F. Sufficient loan loss reserve methods and funding.

60.03 Business Lending Approval

Business loan approval will be by a minimum of three (3) signing members of the Loan Committee for aggregated loans $750,000 or greater or for policy exceptions. Aggregated loans less than $750,000 will require only one (1) signing member of the Loan Committee unless the request is within the designated loan authority of the individual or matrix approving the loan.

Interest rates are set by the Loan Committee and reevaluated from time to time based on changing market conditions and the needs of MACU. MACU business loans will have a maximum term of fifteen (15) years unless a longer term is in accordance with SBA rules and regulations.

Personnel involved in underwriting, processing, approving, collecting and administering CLs will have a minimum of two (2) years experience and sufficient qualifications in making and administering business loans or will be closely supervised by qualified individuals with at least such experience.

60.04 Business Loan Types

The types of MACU Business Loans includes:

A. Owner occupied and non-owner occupied commercial real estate, revolving lines of credit, fixed term and construction loans,
B. Owner occupied and non-owner occupied residential real estate, fixed term revolving lines of credit and construction loans,
C. Secured and unsecured business loans and government guaranteed loans (SBA and other programs),
D. Agricultural equipment and real estate loans, and
E. Fleet Vehicle lending.

60.05 Business Loan Concentration Limits

Concentration limits for Member Business Loans will be set in accordance with Section D 40.02 of this Policy. Established concentration limits will be listed, monitored and reported on the CRPR, an Appendix to this Policy.

60.06 Business Loan Categories/Property Types

MACU may grant business loans, at the maximum aggregate Business Loan–to-Value (LTV) shown for the property types or categories listed below.

Property Types	Maximum LTV
Multi-Family	80%
Residential Non-Owner Occ. (1-4 units)	80%
Retail	80%
Office	80%
Industrial/Warehouse	80%
Storage Units	80%
Convenience Stores/Gas Stations	75%
Raw Ground	50%
Unsecured	N/A
SBA 7A	SBA Guidelines
SBA 504	60%
Other Government Guaranteed Loans	Gov. Guidelines
Charter Schools	75%
Hospitality	75%
Other (Nursing Homes, Specialty, etc.)	75%

60.07 Business Loans – Unsecured

MACU makes unsecured business loans as long as MACU is well capitalized as defined by NCUA rules and regulations. Unsecured business credit extended to members are typically made using the credit card and SBA products, which will be subject to the business credit card and SBA underwriting procedures.

60.08 Prohibitions on Loan Types

The following loan types are prohibited:

A. Real Estate development loans for residential subdivisions,
B. Dry Cleaners where the dry cleaning is being done on site,
C. Any loan where the environmental risks appear to outweigh the loan benefits, and

D. Any loan where the method of obtaining operating income or activity on the premise is prohibited by law or regulation.

Exceptions to these loan types shall be approved by three (3) signers of the Loan Committee.

60.09 Ineligible Borrowers

The following are prohibited from receiving a CL:

A. Compensated directors,
B. The President/CEO, EVPs, SVPs, VPs, who are directly or indirectly involved in MACU's commercial loan underwriting, servicing or collection of consumer loans and a family member consisting of their spouse or family member living in the same household, and
C. All entities/individuals prohibited by NCUA regulations.

MACU will not grant a business loan if any additional income known by MACU, received by senior management employees is tied to the profit or sale of the business or commercial endeavor for which the loan is made.

60.10 Construction and Development Loans

Construction loans are permitted provided the borrowers have qualified for and have a commitment for the long- term loan. Details pertaining to Construction Loans are found in the Construction Loan procedures manual. For the purposes of this section, a construction or development loan means any financing arrangement to enable the borrower to acquire property or rights to property, including land or structures, with the intent to construct or renovate an income producing property, such as residential housing for rental or sale, or a commercial building, such as may be used for commercial, agricultural, industrial, or other similar purposes. It also means a financing arrangement for the construction, major expansion or renovation of the property types referenced in this section. A loan to finance maintenance, repairs, or improvements to an existing income producing property that does not change its use or materially impact the property is not a construction or development loan.

A. MACU will not lend on commercial properties on which construction has already commenced (broken priority). Exceptions to this policy may be granted by three (3) signing members of Loan Committee.
B. For commercial construction loans, one (1) signing member of the Loan Committee can approve construction loans less than $750,000. Three (3) signing members of the Loan Committee will approve commercial construction loans resulting in aggregate total loans of $750,000 or greater.
C. The cost breakdown must be approved by the construction loan manager prior to final approval of any commercial construction loan.
D. Collateral valuation, for Construction and Development Loans will be based on the lessor of cost-to-complete or appraised market value. The appraisal will be reviewed by the construction loan manager to ensure that the lot value and the appraised value are in line with the cost breakdown, square footage is in line with the plans, the legal description is accurate, the names are correct, and any other reviews necessary to ensure MACU has acceptable collateral. Appraised value will be determined in accordance with Section E- 60.11 of this Policy.
E. Members must have a minimum of 20% equity in the value of the project, except as allowed by SBA programs or authorized by three (3) members of the Loan Committee.
F. Each commercial construction loan will require a project and contractor review. The review will be completed by the construction loan manager, or other qualified MACU employee with at least two (2) years- experience in real estate loans, or for those loans MACU deems complex, the review may be assigned to a qualified third party with no conflict of interest and at least two (2) years-experience in real estate loans. The extent of the review will be based on the complexity and size of the project and on MACUs previous experience with the contractor.
G. MACU will comply with NCUA real estate rules, regulations and practices in transacting commercial construction lending.
H. In the case of construction loan draws;

1. Each disbursement request will be made on a construction loan draw request form and signed by at least one of the borrowers.
2. Staff will validate and approve the eligibility of the draw based on cost breakdown, previously paid draws, potential overpayment, budget, inspections, and the ability to fully fund the project with remaining available funds. Discrepancies will be resolved.
3. Each commercial construction loan will be subject to a regular inspection process. Due to the unique nature of construction loans, the regularity, type and depth of inspections will be determined on an individual project basis. Inspections will be obtained from independent experienced inspectors or based upon a recent inspection by a qualified MACU employee, as determined appropriate by the Construction Loan Manager. Inspection Reports will certify the work that has been completed and will be included with the loan file.
4. As part of the closing process, MACU will request the premium be included for any CLTA 122 Date Down Endorsements, or ALTA 32/33 in Arizona and Nevada, on the Settlement Statements at closing and paid to the title company when the loan is funded. Alterations in the number of required date down endorsements may be considered based on the complexity and time frame of the project. The date down endorsement will update the title policy and verify whether any intervening liens have been filed on a project. When processing draws, staff will review the file to determine if a new date down is desired and order it from the title company. Each date down endorsement received from the title company will be reviewed to determine if any new liens have been filed. New lien filings should be addressed or resolved before proceeding with additional draws.

I. MACU will review and approve of any line item construction budget prior to closing.

60.11 MACU Membership Guidelines

A. In the case of a business loan where the borrower is an entity, or an individual, that entity must be a member of MACU.
B. At least one (1) individual who holds an interest in such borrower-entity must guarantee the loan.
C. MACU will require those individuals or entities who own a majority (51%) of the borrowing entity to provide their guarantee. Also, each Business Loan requires a written personal, unconditional guarantee from all individuals or entities that possess a 20% or greater ownership interest in such borrower-entity. For any Business Loan secured by a vehicle, an unconditional personal guarantee will be required from at least one individual that possesses a 25% or greater interest in such borrower-entity.
D. Loans with less than a full personal guarantee will be supported by sufficient mitigating factors, such as:
    1. Superior debt service coverage ratio,
    2. Low loan-to-value ratio,
    3. The borrower has a strong balance sheet with a conservative debt-to-worth ratio and an abundance of business collateral. Pro rata or proportional guarantees may be most appropriate,
    4. The loan is supported by marketable real estate collateral which has long term or corporate guaranteed leases from seasoned or credit (national brand) tenants in place, and or
    5. Other conditions, acceptable to the Loan Committee, that provide sufficient mitigating factors.
E. Any exception to the personal guarantee may be granted for not-for-profit and non-profit organizations, as defined by Internal Revenue Code where there are no owners. In certain situations; limited, partial, or the complete waiver of guarantees may be considered. These will only be allowed in the presence of exceptional credit strength that must be documented thoroughly in the credit presentation. Examples of this, but not limited to it would be a high debt service coverage ratio (DSCR), (greater than 1.50) low LTV, (less than 60%) high liquidity or net worth, etc.
F. Personal guarantees should not be waived for loans on single-use properties that cannot be easily converted to an alternate use.

G. Loans with less than a full personal guarantee must be approved in accordance with Subsection E-60.3 and reported in accordance with Subsection F-190.6.

60.12 Business Loan Underwriting and Documentation

All necessary documentation, credit analysis, and collateral requirements will be compiled in accordance with state and NCUA rules and regulations.

Financial underwriting analysis will be performed on each business loan. Subtle differences for each property type will be at the discretion of the underwriting manager or department manager. All CLs will be analyzed including strengths and weaknesses, income, assets, liabilities, net worth, cash flow and when appropriate UCA cash flow, DSCR, industry averages (if applicable), LTV, leases, property type and condition, guarantor cash flow, net worth and liquidity and then approved in accordance with Subsection 60.3. MBLs will be underwritten according to the MBL guidelines for such loans and are not subject to the underwriting requirements for CLs.

MACU will verify business ownership interests. MACU will obtain title insurance on all business loans secured by real estate.

Collateral requirements include:

A. Loan-to-value ratios,
B. Determination of value,
C. Determination of ownership, and
D. Steps to secure various types of collateral and other documentation as needed.

The collateral requirements will be monitored and obtained by the business lending group. MACU will adhere to NCUA rules and regulations contained in 12 CFR Part 722 and the Uniform Standards of Professional Appraisal Practice (USPAP) for all real estate appraisals and will perform an appropriate evaluation of the value of any smaller real estate and non-real estate collateral that does not require an appraisal.

Real estate loans $500,000 and above require a state certified or licensed appraiser.

Two exceptions to this requirement are permitted:

A. In cases where multiple properties individually valued at under $500,000, are used to secure a commercial related transaction of $1,000,000 or less or
B. When the Loan Committee waives the appraisal requirement for any commercial related transaction of $1,000,000 or less.

When an appraisal, on a commercial property, is used it will be reviewed by third party review appraiser to ensure the property is properly valued.

Due to the potential risk and liabilities associated with loans secured by real estate on which a hazardous waste problem may exist, the following procedures will be followed:

A. An environmental assessment from a third-party environmental vendor will be obtained to check for potential environmental situations,
B. An employee of MACU will personally inspect all proposed collateral property and will offer an opinion as to the risk factor associated with the property, and
C. If any of these procedures bring to light potential problem areas, management or the Loan Committee will make a determination whether or not to initiate a Phase I or Phase II Hazardous Waste Report.

Collateral valuation requirements and loan-to-value limits, for loans secured by collateral, other than Real Estate, will be based as follows:

A. New Vehicles - 100% of Net Book Value or 80% of Orderly Liquidated Appraisal,
B. New Equipment - 75% of Net Book Value or 80% of Orderly Liquidation Appraisal,

C. Used Vehicles - 100% of Net Book Value or 80% of Orderly Liquidated Appraisal,
D. Used Equipment - 50% of Net Book Value or 80% of Orderly Liquidation Appraisal,
E. Trading Assets - Inventory 25%, Receivables 60%,
F. New Business Use Vehicles (car, truck, van or SUV manufactured primarily for household use being used for business purposes) – 140% of invoice + invoice value of conversion costs. Maximum number of five (5) financed vehicles to any one member, after which LTVs may be limited under fleet guidelines, and
G. Used Business Use Vehicles (car, truck, van or SUV manufactured primarily for household use being used for business purposes) – 140% of wholesale + 60% value of an conversion costs. Maximum number of five (5) financed vehicles to any one member, after which LTVs may be limited under fleet lending guidelines.

Exceptions to these loan types will be approved in accordance with Subsection E-60.3 and reported in accordance with Subsection F-190.6.

A risk rating or loan grade will be assigned when the loan is initially analyzed and may be updated at the annual review or financial review. A change in the original rating may either occur as the loan review process is performed, as a matter of routine, resulting from a change in payment status, change in the borrower’s financial condition or some other factor affecting the quality of the loan. Loan Committee will be notified of all upgrade and downgrade changes of the unsatisfactory loan grades 6-8.

60.13 Annual Review and Financial Review Guidelines

An annual review will be completed within sixty (60) days of a loan's anniversary date. Loans with principal balance greater than $250,000 and all participated loans will require a financial review. (Although loans over $250,000 and under $500,000 will only require a summary financial review). The financial review will be performed at a reasonable time after the updated financial information is received. Sufficient effort will be made to obtain updated financial statements and current rent rolls (if applicable) annually by contacting the borrower and/or guarantors. The annual review will contain the current balance of the loan, payment history, updated credit scores, LTV and a risk rating or loan grade. Annual reviews should identify potential weaknesses or deterioration in the loans. Loan note covenants will include a provision for borrower to promptly provide financial statements, reports, tax returns or any other information reasonably required to complete a financial or annual review.

60.14 Credit Analysis

A prudent credit extension philosophy is based upon the strength and trend analysis of several fundamental lending criteria that offer insight into a borrower's ability to satisfactorily handle a credit obligation. These fundamental criteria include, but are not limited to cash flow, (when appropriate, Uniform Credit Analysis (UCA) cash flow), management, collateral, leverage, liquidity, profitability, payment performance, industry trends and or market conditions, stress testing, risk ratings and credit scores.

MACU will observe the following criteria in the credit analysis of business loans:

A. A DSCR of 1.25 or greater will be required based on the annual cash flow of the business. Global cash flow may additionally be used to determine additional repayment capacity. If the historic DSCR does not meet the minimum DSCR and borrower prepared projections are relied upon, they must be supported by reasonable rationale and include at least a projected balance sheet and income and expense statement. SBA guarantees may be considered as mitigation for historical DSCR below 1.25 or for loans that are based solely on projections,
B. Primary credit score (defined as the score of the primary guarantor) will not be below a 520 FICO score. MACU currently uses the FICO version 2 score. In the event of another score being used, the score with similar statistical odds will be observed as a cutoff,
C. Business financial information required from applicants will include at a minimum 3 years' business tax returns for all new loan requests. There is an exception if the business entity has not been operating for that length of time. Any other exceptions will be approved by the VP or AVP of the Business Lending department.

Where appropriate and as determined by management, MACU may require further validation of information by a CPA in the form of compiled, reviewed, or audited financial statements in accordance with GAAP. Loan requests greater than $10 million will require audited or reviewed financial statements at a minimum.

D. In the due diligence process, borrowers will be evaluated on their ability to meet the debt obligation. For loans less than $4 Million, the evaluation will be based on the combined resources of borrowers and guarantors. For loans greater than $4 Million, in the aggregate, the evaluation will be based on a global review of borrowers and guarantors.
E. When historic performance does not support the borrowers projected debt payment, the projection must be supported by reasonable rationale and, at a minimum, must include a projected balance sheet and income and expense statement.
F. Other appropriate risk assessment including analysis of the impact of current market conditions on the borrower and associated borrowers.
G. Credit risk rating will be assigned, using the Commercial Loan Grading Matrix, to commercial loans at the inception of the loan and reviewed as required.

Grading within the matrix may include factors that evaluate borrower and guarantor business performance, borrower/property DSCR, net worth and liquidity, loan-to-value, credit scores, guarantor strength, payment history, and global DSCR.

MACU will use a risk rating scale of 1-8 to reflect the overall risk that the proposed or existing loan represents. Ratings from 1-4 represent pass credits. Rating 5 is watch but acceptable, and ratings from 6-8 will be categorized as classified loans. Ratings are as follows:

1 (Excellent) – Excellent profitability (DSCR > 3.00), substantial liquidity and net worth, extremely strong collateral value (LTV < 40%), and clean credit history (no late payments & FICO > 800).

2 (Strong) – Very strong profitability (DSCR > 2.00), considerable liquidity and net worth, strong collateral value (LTV < 50%), and clean credit history (no late payments & FICO > 750).

3 (Good) – Good profitability (DSCR > 1.35), solid liquidity and net worth, good collateral value (LTV < 60%), and a credit history with limited late payments and a FICO > 700).

4 (Satisfactory) – Satisfactory profitability (DSCR > 1.25), adequate liquidity and net worth, collateral value near or at the maximum allowable LTV, and an acceptable credit and payment history, typically FICO > 675.

5 (Watch/Acceptable) – Some aspects of the business or loan performance have deteriorated. Profitability is declining (DSCR between 0.75 and 1.25), limited liquidity and net worth, collateral at or slightly above maximum allowable LTV, and some derogatory credit and payment history, FICO still above 645.

6 (Substandard) – Many or all aspects of the business and guarantors have deteriorated. Profitability (DSCR between 0 and 0.75), liquidity and net worth is nearly nonexistent, collateral value is declining (LTV between 75% and 100%), and significant derogatory credit and payment history, FICO is generally below 645.

7 (Doubtful) – Due to poor payment history and all financial measures remain well below standards, collection is improbable and foreclosure is in process and imminent.

8 (Loss) – All collection activity has been ineffective and charge-offs is pending. Sale value of collateral will result in a loss for the Credit Union.

The Loan Committee is responsible for the oversight and ensuring that the Commercial Loan Grading Matrix accurately assesses the risk of a loan when presented for approval.

Any exceptions to these criteria, unless otherwise indicated above, must be approved in accordance with Subsection E-60.3 and reported in accordance with Subsection F-190.6.

60.15 Interest Rates and Origination Fees

All business loans will be assessed market rates of interest and market origination fees. (All rates are set by the Loan Committee.) SBA business loans will carry a maturity consistent with the SBA SSOP. CLs will carry a maturity consistent with the purpose, security, credit worthiness of the borrower, and sound lending policies.

60.16 Servicing and Collection

Business loans will be monitored, serviced, foreclosed and collected following standard industry procedures. (Refer to servicing or collection procedures manual.)

60.17 Modification Guidelines

MACU may modify existing MBLs determined to be in a hardship status that may adversely affect their ability to repay the existing loan. These loans may be designated as workout loans or TDRs.

TDR program limits are established in the Concentration Risk Policy Report. This report is reviewed quarterly by the Board as part of the Asset Liability Management Committee meeting. While reviewing this report, the Board will determine if TDRs are within established limits. If any program limits are exceeded, the Board will evaluate the effectiveness of MACU's loan workout program and analyze the implication to MACU's financial condition. At that time the Board may make adjustments to the overall business strategy based on their findings.

Workout loans will vary, depending on the size, complexity of the loan and the level of risk. The following will be considered for eligibility:

A. The loan is in default or default appears imminent,
B. Member(s) must fully document existing financial condition via tax returns, financial statements and leases/rent rolls,

C. New credit reports will be obtained and reviewed as part of the workout analysis,
D. Member(s) must provide verification of hardship, expressed willingness to repay and address changes being made to resolve the hardship, and
E. Every modification beyond the initial modification will require additional updated documentation, including but not limited to the borrower's renewed willingness and ability to repay the loan.

Workout loans may be modified by any of the following methods (or combination thereof) but not limited to:

A. Deferring payments,
B. Changing to interest-only,
C. Extending terms,
D. Lowering interest rates,
E. Extending due dates,
F. Modifying payments,
G. Lowering principal balances, and/or
H. Writing deficiencies on sale into signature loans.

The modification will be approved by three (3) signing members of Loan Committee for MBLs $750,000 and above in aggregate loan balances. MBLs in aggregate loan balances under $750,000 may be approved by one (1) signing member of Loan Committee. Regardless of loan balance, workout modifications beyond the initial approval must be approved by three (3) signing members of Loan Committee.

It is the intent of MACU to fully evaluate each situation and determine a course of action that will benefit both the member and MACU. Other means of modification may be employed. The following criteria apply to all MBL workout loans:

A. Workout loan modification periods may initially be up to twelve (12) months in duration. After this initial period, the loan may be reevaluated to determine if a longer modification term is necessary. The maximum number of times a loan may be modified is six (6).

Any additional modifications over this amount shall be approved by three (3) signing members of Loan Committee,

B. An in-house real estate valuation will also be performed prior to the approval of any workout loan,
C. Modification approvals will rely heavily on the updated financial review and will ensure workout actions are based on the borrower's renewed willingness and projected ability to repay the loan. While the debt service coverage ratio is used to determine the borrower's ability to repay, it is a static point in time; discussions with the borrower as to changes in sales/rents, collateral value and occupancy, together with market trends and economic conditions will be factored into the workout decision. In the event the debt service coverage ratio is substandard, yet a member expresses a willingness to make a modified payment, MACU may allow the modification to proceed. In this situation, the maximum duration for a modification will be nine (9) months,
D. Workout loans will not exceed 15% of the net worth of MACU,
E. MACU will not lower an interest rate below 1% or increase a rate above 18%, and
F. MACU will not finance unpaid interest and credit union fees in the loan balance; however third party fees such as force-placed insurance or property taxes may be financed into the modification.

60.18 Reporting to Members/Board on Aggregate

The aggregate amount of business loans will be disclosed annually to MACU members and monthly to the Board.

60.19 Policy Exceptions

Exceptions to this Policy must be approved in accordance with Subsection E-60.3. Reasons for exceptions shall be documented. Loan exceptions shall be identified, reported in accordance with Subsection F-190.6 and tracked on internal management reports.

60.20 MACU Trade Area

MACU's trade area for business lending will primarily consist of the Intermountain West of the United States. Exceptions to this will be examined on a case by case basis and approved by three (3) signing members of the Loan Committee. Purchased participation loans may be outside MACU's trade area.

60.21 Participation Policy

MACU may participate in business loans with eligible financial organizations and will insure that all participation loans are subject to MACU's underwriting standards and NCUA business loan regulations. Purchasing loans will require approval by three (3) signing members of the Loan Committee. Selling loans will be approved by the VP of Business Lending and one (1) of the following, the SVP of Lending or an EVP or the President/CEO. The originating lender will loan only to its members, retain an interest of at least 10% of the face amount of the loan and retain the original or copies of the loan documents. Each participation loan will have an individual participation agreement signed by MACU and the purchasing/selling organization.

60.22 Authorization

The President/CEO, EVPs, the SVP of Lending, the VP of Business Lending, the VP of Mortgage Services, the VP of Consumer Lending, the VP of Home Equity Lending, the VP of Asset Management/Collections, the AVP of CRE and the AVP of SBA Operations are authorized to sign all reconveyance of trust deeds, release of mortgages, partial reconveyances or subordinations on behalf of MACU for business loans unless such authority is delegated to a servicer or title company by one (1) of the aforementioned authorized signers.

60.23 Fleet Vehicles

A business vehicle is one that is primarily used for business purposes. NCUA has defined a vehicle fleet as five or more vehicles that are centrally controlled and used for a business purpose. Advances on fleet or for hire vehicles will be handled in the consumer loan department and will be underwritten as commercial loans. (Refer to fleet vehicle procedures.)

Non-fleet vehicles that are typically driven for a combination of business and personal uses are classified as MBLs, not CLs. MACU may choose to mirror their existing consumer lending policy. Loans on this type of vehicle, while still considered MBLs, do not have to be underwritten using Commercial Loan standards.

60.24 Policy Review

The Board will review and approve this policy annually.

70.00 Asset Management/Collections

70.01 Asset Management/Collection Policy

The Asset Management/Collection Department collects on all delinquent loans unless outsourced or assigned to another party by written contract.

70.02 Regulations

Asset Management/Collections will comply with all applicable state and federal laws and regulations regarding loan collections.

70.03 Charge Offs

Charged off loans will be reported monthly to the Board for ratification.

70.04 Credit Reporting

Delinquent obligations of the maker, co-maker and guarantor will be reported to Experian, Transunion and Equifax credit reporting agencies.

70.05 Consumer Debt Counseling

MACU will consider and respond to outside consumer debt counseling service upon written request from the member.

70.06 Extensions – Delinquent Loans

Any re-write or extension on delinquent loans more than thirty (30) days past due must be in accordance with applicable loan modification policy.

70.07 Foreclosure Process

All accounts being referred to foreclosure must have an analysis form prepared and authorized as follows:

A. Loan balances of $200,000 or less can be approved by either a Manager of Asset Management/Collections or AVP of Asset Management/Collections,
B. Loan balances over $200,000 but less than $500,000 may be approved by any one (1) of the following: VP of Asset Management/Collections, VP of Mortgage Services, VP of Business

Lending, or VP of SBA Operations, VP of Consumer Lending or VP of Home Equity Lending,

C. Loan balances of $500,000 or greater must have four (4) signers comprised of one (1) EVP, one (1) SVP and any two (2) of the following, VP of Asset Management/Collections, VP of Business Lending, VP of SBA Operations, VP of Mortgage Services, VP of Consumer Lending or VP of Home Equity Lending,

D. Any anticipated loss associated with the foreclosure action must comply with the Charge Off Policy outlined in Section E-Loans, Subsection 80.11, 80.12, and 80.13, and

E. Approval for foreclosure on loans that are outsourced or serviced by an outside servicer will follow the foreclosure criteria established in their respective contracts.

70.08 Foreclosure Approval

Management is authorized to approve foreclosures or short sales, however, any foreclosure or short sale with an estimated loss of $300,000, or more will be approved by the Board.

80.00 Charge off Policy

80.01 Non-Performing Loans

Any non-performing loan, not secured by real estate, more than six (6) months past due without a payment of at least 75 percent of a regular monthly installment within the last ninety (90) days will be charged off. Loans that are involved in legal proceedings or bankruptcy status may be exceptions. Unsecured loans in legal proceedings, bankruptcy, or assigned to collection agencies will be charged off after three hundred sixty five (365) days of delinquency.

80.02 Recovery of Collateral – non RE

Non-real estate secured loans will be assessed for recovery of the collateral by the time they reach ninety (90) days or more delinquent. Collateral should be recovered no later than the 120th day of delinquency. After liquidation of the collateral has occurred, all appropriate refunds and credits should be collected within ninety (90) days. The remaining deficiency balance will be charged off. No deficiency balance should remain as an active account longer than ninety (90) days after liquidation of the collateral. Loans that are involved in legal proceedings or bankruptcy status may be exceptions.

80.03 Recovery of Collateral – RE

Loans secured by real estate should commence legal proceedings to recover the collateral as soon as possible but such proceedings should be commenced within one hundred eighty (180) days of delinquency. Exceptions may include loans in a workout status, bankruptcy or other legal proceeding preventing MACU from recovering the collateral. Any real estate secured loan that has reached three hundred sixty-five (365) days delinquent and the collateral has not been recovered will be charged off. Charge off exceptions may include loans in bankruptcy, legal and foreclosure proceedings with demonstrated recoverable equity.

80.04 Workout or TDR Loans

All loans in a workout or Troubled Debt Restructure (TDR) status that are at least ninety (90) days delinquent and have exceeded ninety (90) days without a full payment will be charged off. The collateral for TDR or workout loans that exceed one hundred eighty (180) days delinquency will be recovered and the loan charged off.

Exceptions may include loans that are involved in legal proceedings, or in bankruptcy and have entered the workout program in the last thirty (30) days or loans that are current in the workout repayment plan.

80.05 Skip Accounts

Any account where MACU has had no contact in the prior ninety (90) days may be termed as a "skip account". These accounts may be worked up to sixty (60) additional days due to the specialized and time consuming nature of "skip trace" activities. If after sixty (60) days the member and/or collateral has not been located, the account will be charged off.

80.06 Bankruptcy

Any loan that has been discharged in a bankruptcy proceeding and the collateral has been recovered will be charged off. Loans that have been reaffirmed or are on a voluntary repayment plan may be excluded.

80.07 Negative Share Accounts

Negative share accounts will be charged off between forty five (45) and sixty (60) days of becoming negative.

80.08 Deceased Member Loans

Any unsecured loan where the member is deceased should be charged off. Collateralized loans of deceased members will have collateral recovered and determination made whether an estate recovery is possible.

80.09 EVP of Operations/SVP Lending Exceptions

The EVP of Operations and the SVP of Lending may grant exceptions to the charge-off policy when they can demonstrate there is a reasonable likelihood of repayment.

80.10 Charge Off Authority from Board

The Board authorizes the President/CEO delegated authority to charge off uncollectable loans according to Generally Accepted Accounting Principles (GAAP).

80.11 AVP Asset Management/Collections/SBA Authority

The AVP of Asset Management/Collections and the AVP of SBA Operations will have authority to charge off loans up to and including $50,000 per loan and a monthly cumulative total of the budgeted monthly loan loss provision. The Asset Management/Collection department managers will have authority to charge off loans up to and including $25,000 per loan and a monthly accumulative total of the budgeted monthly loan loss provision.

80.12 VP Charge Off Authority

The VP of Mortgage Services, VP of Consumer Lending, VP of Home Equity Lending, VP of Business Lending, the VP of SBA Operations and the VP of Asset Management/Collections will have the authority to charge off loans up to and including $75,000 per loan.

80.13 SVP Charge Off Authority

The SVP of Lending or an EVP will have authority to charge off loans up to and including $100,000 per loan. Charge offs over $100,000 will need three (3) signatures consisting of the following signers, at least one (1) EVP, one (1) SVP and one (1) VP. Losses in excess of $300,000, or more must be approved by the Board.

80.13.01 Short Sale Offers

Management is authorized to accept real estate short sale offers with a maximum loss that is less than $300,000 to MACU. A minimum of three (3) signatures of at least one (1) EVP, one (1) SVP, and one (1) VP will be required and will also approve the corresponding loan charge-off. As soon as MACU receives the proceeds from the sale of the property, the charge-offs will be recorded and reported to the Board for ratification. Short Sale losses in excess of $300,000 must be approved by the Board.

80.14 Board Reporting

Charged off loans will be reported to the Board monthly for ratification.

80.15 Conflict of Interest

The President/CEO, EVPs, SVP of Lending, VPs of any lending area, VP of Asset Management/Collections, AVP of Asset Management/Collections or Managers of Asset Management/Collections may not charge off any loan when the charge off may constitute a conflict of interest, e.g., family member as defined in Section E, Subsection 60.9 or business partner.

80.16 Allowance for Loan & Lease Loss Account

MACU management will determine the monthly provision amount to be placed in the Allowance for Loan and Lease Loss account according to GAAP. This amount, along with the account balance, will be reported on the monthly financial statement.

80.17 Allowance for Loan & Lease Account Audit

The Allowance for Loan and Lease Loss account, and the methodology for its calculations, will be audited at least annually by MACU's Internal Auditor and/or a contracted external auditor.

80.18 Impairment Analysis

Management considers all non-homogeneous loans, as defined by GAAP, in its portfolio over ninety (90) days past due to be impaired, and therefore, subject to impairment analysis under the provisions of GAAP.

80.19 Board Reporting Over $25,000

Any loan in excess of $25,000 that is delinquent in excess of two hundred seventy (270) days and not charged off will be reported to the Board at least quarterly.

80.20 Allowance for Loan and Lease Loss (ALLL)

To determine the adequacy of the Allowance for Loan Loss Account, under GAAP, management may judgmentally adjust the historical loss factors, by category, to more accurately reflect the state of the current loan portfolio, as well as changes in trends and conditions. The worksheet used for estimating the Allowance for Loan and Lease Loss (ALLL) containing the loss factors by category will be part of the monthly board packet.

80.21 TDR Accounting and Reporting

Management will utilize an internally developed or commercial program for TDR accounting and reporting.

90.00 Loan Workouts, Nonaccruals and TDR Policy

90.01 Regulatory Requirements

MACU shall comply with NCUA Rules and Regulations 12 C.F.R. Part 741.3(b)(2) and Appendix B to Part 741 with regard to loan workouts, nonaccruals, and Troubled Debt Restructured (TDR) loans.

90.02 Eligibility Requirements

Loan modification policies and/or procedures, that outline the criteria and conditions in which a member meets workout loan eligibility, will be established for each individual loan type (i.e. consumer loans, real estate loans, and member business loans).

A. Workout decisions will be based on a borrower's ability and willingness to repay,
B. Policies or procedures will include a limit on the number of times an individual loan may be modified,
C. Valid reasons for multiple modifications will be documented, and
D. MACU will not authorize additional advances to finance unpaid interest and credit union fees.

90.03 Troubled Debt Restructuring

In a TDR, MACU grants the borrower a concession that MACU would not otherwise consider, due to economic or legal reasons related to the borrower's financial difficulties. This concession either may be in the form of an agreement between the borrower and MACU, or required by law or a court.

While TDR may be in the best interest of the borrower (i.e., financial assistance, avoidance of repossession or foreclosure), MACU will enter into a TDR when it is also in its own best interest.

90.04 Considerations

MACU may be able to recover more from repossession or foreclosure and resale than from a TDR. However, in an effort to assist members with their financial difficulties, avoid the cost of collection efforts and increase member retention, MACU may take the following into consideration when deciding whether to enter into a TDR with a member:

A. The borrower's willingness and ability to repay a restructured loan,
B. The amount delinquent,
C. The length of time the loan is past due,
D. The value and condition of the collateral (i.e., whether there is damage that would significantly affect its resale value), and
E. Current economic conditions.

90.05 Accounting for TDRs

MACU properly accounts for and reports its TDRs according to the requirements of ASC 310-40, *Troubled Debt Restructurings by Creditors.* MACU will account for the restructured loan in accordance with the provisions of ASC 310-10-35, *Impairment Measurement* (loans will be considered "impaired" when it is probable that MACU will be unable to collect all amounts due according to the original contract terms of the loan agreement).

Accounting for TDRs as a Part of a Bankruptcy.

When a member with a restricted debt files bankruptcy, MACU will do the following:

1. Chapter 7 – MACU will immediately charge off the portion of the debt discharged by the bankruptcy court.
2. Chapter 13 – MACU will report the restructured loan as delinquent, based on the original loan agreement, until the member makes six (6) consecutive payments under the bankruptcy plan.

90.06 Nonaccrual

A. **Nonaccrual of Interest**. MACU will cease accruing interest on a loan when it becomes 90 days or more past due, unless the loan is both well-secured and in the process of collection. Additionally, loans are to be placed in nonaccrual status if maintained on a Cash (or Cost Recovery) basis because of deterioration in the financial condition of the borrower, or for which payment in full of principal or interest is not expected.

B. **Restoration to Accrual on all loans except Member Business Workouts.** In restoring loans to accrual status, if any interest payments received while the loan was in nonaccrual status and were applied to reduce the recorded investment in the loan, the application of these payments to the loan's recorded investment will not be reversed (and interest income will not be credited). A nonaccrual loan may be returned to accrual status when:
   1. The loan is past due less than 90 days, GAAP does not require it to be maintained on the Cash or Cost Recovery basis, and MACU is plausibly assured of repayment of the remaining contractual principal and interest within a reasonable period. When it otherwise becomes well-secured and in the process of collection; or
   2. The asset is a purchased impaired loan and it meets the criteria under GAAP for accrual of income under the interest method specified therein.

C. **Restoration of Accrual Status on Member Business Loan Workouts**. In restoring member business loans to accrual status, if any interest payments received while the loan was in nonaccrual status and were applied to reduce the recorded investment in the loan, the application of these payments to the loan's recorded investment will not be reversed (and interest income will not be credited).
   A member business loan workout will return to accrual status when MACU can complete a formal restructure with a current, well-documented credit evaluation of the borrower's financial condition and prospects for repayment under the revised terms. The evaluation will consider the borrower's "sustained historical repayment performance" for a minimum of six timely consecutive payments comprised of principal and interest.
   1. In returning the member business loan workout to accrual status, MACU may take into account the sustained historical repayment performance for a reasonable time prior to the restructuring.

2. All identified losses will be charged-off.

D. **Interest.** While in nonaccrual status, some or all of the cash interest payments received may be treated as income on a cash basis as long as the remaining recorded investment in the loan (i.e. after charge-off of identified losses, if any) is deemed to be fully collectable.

90.07 Monitoring and Reporting Requirements

Loan workout limits are established and reported in the Concentration Risk Policy Report, an Appendix to Policy Section D 40 - Asset Liability Management. The report is reviewed quarterly, by the Board, as part of the Asset Liability Management committee meeting. While reviewing this report, the Board will determine if loan workouts and TDRs are within established limits. If any program limits are exceeded, the Board will evaluate the effectiveness of MACU's loan workout program and analyze the implication to MACU's financial condition. At that time, the Board may adjust the overall business strategy based on their findings.

100.00 Credit Reporting

100.01 Data Governance Committee

The MACU Data Governance Committee (DGC) oversees adherence to the credit reporting requirements of the Fair Credit Reporting Act (FCRA).

The committee members are: VP of Home Equity Lending, VP of Consumer Lending, VP of Asset Management, VP of Lending Compliance and AVP of SBA Operations.

100.02 Credit Reporting Data File Review

DGC directs periodic review of credit reporting data file to verify its accuracy.

100.03 Changes to Credit Reporting Processes

The DGC reviews and updates the credit reporting process.

100.04 Files to Credit Reporting Agencies

MACU provides a periodic consumer credit reporting file to Credit Reporting Agencies (CRAs) that contain the status and details of the originated loans.

100.05 Credit Reporting Dispute Management

Under the direction of the DGC, the Consumer Loan Servicing Team oversees the credit reporting dispute management process.

SECTION F – OPERATIONS

10.00 Member Eligibility

10.01 Criteria

Any person as defined by MACU's Bylaws and MACU's charter is eligible to become a member.

10.02 Tax ID Number

A valid tax identification number or social security number is required on primary and joint member records.

10.03 Signature

Member's signatures/e-signatures are required on membership documents, which will be permanently retained.

10.04 Disclosures

All federal and state disclosure requirements will be met.

10.05 Accounts

Accounts are not transferable.

10.06 Fee

A non-refundable membership fee may be charged.

10.07 Abusive Members

In the event that any member of MACU will engage in any type of abusive conduct, the Board authorizes Management in its sole discretion, to impose sanctions as indicated in the Abusive Member Procedure. If sanctions include expulsion from MACU, Article XIV of MACU's Bylaws will be exercised.

10.08 Account Security

MACU establishes and maintains accounts in accordance with all applicable Federal and State security laws.

20.00 Overdraft Privilege Program

20.01 Overdraft Privilege Program

MACU will establish and maintain an Overdraft Privilege Program in compliance with Federal Law, the NCUA, and other Federal regulatory agencies.

The Board authorizes Management to establish a $750 per checking account overdraft privilege amount, not to exceed a cumulative amount of 5% of MACU's assets. If total overdrafts exceed 3% of MACU's assets, Management will monitor overdrafts on a daily basis. If total overdrafts exceed 4% of MACU's assets, Management will begin to limit total overdrafts to assure that total overdrafts do not exceed 5% of assets.

The time limit for a member to either deposit funds or obtain an approved loan from MACU to cover each overdraft shall be no more than 45 calendar days.

The Board designates the President/CEO to maintain and oversee MACU's Overdraft Privilege Program.

30.00 Joint Accounts

30.01 Criteria

All joint account members will be treated equally regardless of contributions, with right of survivorship.

30.02 Removal

All owners must consent to changes in account ownership via physical or electronic signature. Physical signatures not obtained in a branch must be notarized.

40.00 Dormant Accounts

40.01 Activation or Closing Efforts

MACU continuously works to activate or close inactive or small balance accounts.

40.02 Inactive Accounts

If an account has been inactive for a period of twelve (12) months, a fee may be charged.

40.03 Bad Address

An account that has a bad address may be charged a non-refundable, semi-annual research fee. When all funds in the account have been depleted, the account may be closed.

50.00 Closed Accounts

50.01 For Cause

An account may be closed by MACU at any time for cause.

50.02 Policy

An account will not be closed until all other services are closed.

60.00 Account Statements

60.01 Delivery of Statements

As required by law, a periodic statement of account activity will be delivered to members either by U.S. mail or made available by electronic means.

70.00 Information Technology

70.01 Offsite Backup

MACU's Information Technology (IT) Department will maintain computer records of MACU transactions and accounts and periodically verify off-site retention and recoverability of back-up files.

80.00 Item Processing

80.01 Regulations

Checks, Automated Clearing House (ACH), and payrolls are processed in accordance with state and federal laws and National Automated Clearing House Association (NACHA) rules, and regulations.

80.02 Remote Deposit Capture

MACU may offer Remote Deposit Capture products and services that allow approved members to process scanned images of checks. Remote Deposit Capture processes will comply with all related laws and regulations.

80.03 Member/Business ACH Origination

MACU, an Originating Depository Financial Institution within NACHA rules, may offer Member/Business ACH Origination products and services that allow approved members to submit entries electronically through the ACH. Member/Business ACH Origination processes must comply with NACHA rules, all related laws, and regulations.

90.00 Vital Records Retention Program

90.01 Establishing Program

MACU will establish and maintain a Vital Records Retention Program in compliance with federal and state retention timeframe guidelines for records listed on MACU's Retention Schedule. The vital records of MACU will be secured and preserved in accordance with industry standards so that they may be retrieved and reviewed as required by authorized personnel.

90.02 President/CEO Responsibilities

The Board designates the President/CEO to implement, maintain, and oversee MACU's Vital Records Retention Program and provide annually a schedule authorizing the retention/disposal of records to those holding those records.

100.00 Member Privacy

100.01 Gramm-Leach-Bliley Act

MACU will protect the privacy of all member information and will adhere to the requirements of the Gramm-Leach-Bliley Act of 1999 (GLB) and have all administrative, technical, and physical safeguards in place to:

A. Protect the security and confidentiality of members' records and information,

B. Protect against any anticipated threats or hazards to the security or integrity of such records, and

C. Protect against unauthorized access to or use of such records or information.

100.02 Collection & Disclosure

MACU will comply with NCUA rules and regulations under sections 12 CFR §1016 Consumer Financial Information (Reg P) and 12 CFR §748. MACU will provide the GLB required statement to all new members when they open their account.

110.00 Bank Secrecy Act/Anti-Money Laundering Act

110.01 BSA/AML/OFAC Guidelines

MACU will establish and maintain a Bank Secrecy Act/Anti-Money Laundering (BSA/AML) Program in accordance with required federal regulations and the Federal Financial Institutions Examination Council (FFIEC) Bank Secrecy Act/Anti-Money Laundering Examination manual. The program will be appropriate to the size and complexity of MACU and will include the following internal controls:

A. Procedures and processes to manage, monitor and control risks,
B. Independent review performed by a qualified party,
C. Customer Identification Program to form a reasonable belief of customer identity,
D. Designated Bank Secrecy Act Officer,
E. Training Program that is specific to job duties and is individually documented,
F. Perform initial and ongoing Customer Due Diligence, and
G. Identify and verify Beneficial Owners.

110.02 BSA/AML/OFAC

MACU will comply with all aspects of the BSA/AML Act, including the U.S.A. Patriot Act and Office of Foreign Assets Control (OFAC) regulations. Regulatory requirements include:

A. Records must be maintained for 5 years,
B. BSA Reporting to Financial Crimes Enforcement Network (CTR, designation of exempt persons for CTRs, and SARs), and
C. Suspicious Activity Monitoring for unusual or suspicious activity.

110.03 President/CEO Responsibilities

The Board designates the President/CEO to create, implement, maintain and oversee MACU's BSA/AML Act Program.

120.00 Business Continuity Plan

120.01 Guidelines

MACU will establish and maintain a Business Continuity Plan (BCP) in accordance with guidelines from the NCUA and the FFIEC that is appropriate to the size and complexity of MACU. The BCP's intent is to protect the employees' safety and the members' financial records, minimize financial loss and mitigate the negative impact that disruptions can have on operations and reputation. The BCP will allow MACU the ability to remain in compliance with applicable laws and regulations during a disruption of service. The BCP will be based on risk to MACU using a Business Impact Analysis (BIA) to identify critical MACU functions and processes.

120.02 President/CEO Responsibilities

The Board designates the President/CEO to create, implement, maintain and oversee MACU's BCP.

120.03 Declaration/Initiation of BCP

It is the responsibility of the President/CEO or his designee to declare an emergency and initiate the BCP.

130.00 Consumer Electronic Funds ACH/Wire Risk

130.01 Participation and Risk Mitigation

MACU will participate in ACH and Wire Transfer Networks for MACU and its members. MACU will adhere to the Standard Entry Class codes and the NACHA rules. Any International ACH Transaction (IAT) will be subject to OFAC screening and compliance. MACU will be a receiver only and not an originator of IAT. Any suspect items will be investigated and cleared before the items will be posted to any account.

130.02 Internal Controls

The Board designates the President/CEO the responsibility to develop, implement, review, update and test internal controls to manage ACH/Wire risk and to effectively recover from such risk. Internal controls will include procedures written in accordance with this policy.

130.03 Management Review

A. Reports – Management will review the functions of ACH and wire transfers and promptly report any policy violation to the Board.
B. Monitoring – The Board designates the President/CEO the responsibility for regular review of MACU's Electronic Funds Transfer (EFT) program in accordance with the written procedures and guidelines.
C. Internal Audits – The Supervisory Committee will oversee an annual comprehensive ACH and Wire audit. Internal Audit will review and ensure compliance with policies and procedures, applicable rules, regulations, and laws; and that appropriate controls are in place to minimize risk. Internal Audit will submit its findings to the Board through its normal reporting procedures.

140.00 Non-Deposit Investments

140.01 Purpose

MACU will establish and maintain a policy regarding non-deposit investments made available to members.

140.02 Written Agreements

MACU will maintain a written agreement (the agreement) with any entity(s) involved in the sale of non-deposit investments to MACU members on MACU premises.

140.03 Compliance

All agreements will comply with federal and state regulations and will be monitored annually for compliance by MACU management.

140.04 Information Monitoring

MACU management will monitor advertising, brochures, disclosures, and any other information, which is given to members to ensure compliance with the agreement and regulations.

140.05 Non-deposit Guideline Procedures

A. Program Management
   1. Individuals employed in the sales of non-deposit investment products will conform their activities as outlined in this policy and procedures, the agreement and MACU policies.
   2. When MACU enters into any agreement with an entity(s) to offer non-deposit investment products, the agreement will clearly outline the duties of each party. The agreement will clearly state that any entity(s) will comply with all applicable regulations. Furthermore, the agreement will provide for access to records by MACU management and regulators to verify compliance.

3. Any representatives of any entity(s) selling non-deposit investment products on MACU premises will be employees of the entity(s).
4. The types of products the entity(s) may sell include: brokerage services, advisory accounts and insurance.
5. All laws, and regulations, will be adhered to in the offering of non-deposit investment products including:

Brokerage Services

a. Financial Industry Regulatory Authority (FINRA) rules and regulations, including the Rules of Fair Practice,
b. Securities and Exchange Commission (SEC) Rules and Regulations,
c. Securities Act of 1933,
d. Securities Exchange Act of 1934,
e. Municipal Securities Rule Making Board as it relates to municipal securities trading,
f. Exchange Rules and Regulations as applicable,
g. Federal Reserve Regulations as they apply to the extension of credit will be observed (Reg T), and
h. US Department of Labor, Fiduciary rules.

Annuity Products

a. Federal Reserve Reg Y 12CFR §225.25 (b) (8),
b. Federal Reserve Act Sec. 13, paragraph 11,
c. Federal Reserve Letter Rulings,
d. Comptroller of the Currency Banking Circular 274 and other OCC Letter Rulings, and
e. Utah Insurance Code.

Asset Allocation Accounts – if applicable

a. Investment Company Act of 1940,
b. Securities Act of the State of Utah,
c. Comptroller of the Currency Banking Circular 274 and other OCC Rulings, and
d. Federal Reserve Letter Rulings.

6. The Board designates the President/CEO to supervise the program and provide the monitoring of the entity(s) for compliance with applicable laws at least annually.

B. MACU will allow information on members to be used internally for the purpose of marketing non-deposit investment products to those members. The agreement will prohibit the use of member information for any other purpose.

C. The entity(s) will market non-deposit investment products in a manner that does not mislead nor confuse members as to the nature of the products or the risks. Branch employees who accept deposits will be allowed to refer members to personnel involved with the sale of non-deposit investment products. Branch employees are strictly prohibited from offering investment advice.

D. To avoid member confusion about these products, MACU will physically separate the personnel involved with receiving retail deposits from those selling retail non-deposit investment products wherever possible. MACU does not presently, nor does it intend to offer, non-deposit investment products with a product name identical to MACU's name.

E. Complete and accurate disclosures will be provided in promoting the MACU non-deposit investment product.
   1. When selling, advertising or otherwise marketing uninsured investment products to members, the following disclosures will be made. Products:
      a. Are Not NCUA insured,
      b. Are Not obligations of MACU,
      c. Are Not guaranteed by MACU, and
      d. Involve investment risks, including the possible loss of principal.
   2. A signed statement by the member(s), which acknowledges the disclosure, will be obtained from the member(s) at the

time a retail non-deposit investment account is opened.

3. Disclosures will conspicuously be used in all written and/or oral presentations, advertising, promotion materials, prospectuses and periodic statements.

F. Sales people of the entity will determine whether a product being recommended is an appropriate investment for the member(s).

Suitability inquiries will be documented consistent with the FINRA Rule of Fair Practices concerning the member's financial status, tax status, and investment objectives.

G. It will be the responsibility of the entity's program manager to ensure that their sales personnel are properly qualified and adequately trained to sell non-deposit investment products. Background checks will be performed by an independent third party prior to hiring. MACU management reserves the right but not the responsibility to monitor the non-deposit investment entity(s) personnel.

H. MACU management reserves the right to evaluate the compensation of sales people who sell non-deposit investment products.

I. MACU employees who refer members to non-deposit investment sales entity(s) will not be rewarded based on the success of the sale.

J. The entity(s) will comply with all applicable state and federal restrictions on transactions involving fiduciary accounts.

All applicable provisions of the Employee Retirement Income Security Act (ERISA) of 1974, including its prohibited transaction provision will be followed.

K. MACU will establish and maintain a compliance program which includes the policy, procedures, regulations, NCUA Letter 150 or its successor and entity's contract or agreement.

The compliance function will be performed independently of those involved with investment product sales and management.

The compliance program will include a system to monitor member complaints and to periodically review member accounts to detect and prevent abrasive practices. These compliance audits may be performed by MACU's Internal Auditor.

150.00 Vendor Management Program

150.01 Purpose

MACU will establish and maintain a Vendor Management Program (VMP) in accordance with guidelines from the NCUA and the FFIEC. This program will provide the framework by which management will oversee its vendor relationships. All such relationships will be reviewed based on the vendor criticality. The VMP will allow MACU to identify and mitigate risks when establishing and maintaining vendor contracts/affiliations. Information relating to the VMP will be reported monthly to MACU Management. Information will include, new vendor relationships established, ongoing due diligence, and risk ratings. MACU Management will receive detailed reporting on each completed vendor assessment. Contracts will go through the VMP and be reviewed by Risk Management before being signed.

150.02 President/CEO Responsibilities

The Board designates the President/CEO to create, implement, maintain, and oversee MACU's VMP.

160.00 Enterprise Risk Management Program

160.01 Purpose

MACU will establish and maintain an Enterprise Risk Management Program (ERMP). The ERMP is designed to ensure that all elements of the risk management process are in place and operating effectively across all risk categories. The management of risks will be integrated into the operations and culture of MACU. The ERMP will allow MACU to identify and mitigate risks for new products/services/programs/processes and for the periodic risk review of existing products/services/programs/processes.

160.02 President/CEO Responsibilities

The Board designates the President/CEO to create, implement, maintain, and oversee MACU's ERMP.

160.03 Risk Appetite and Tolerance

MACU will establish risk appetite and tolerance statements to guide and direct credit union activities. These risk categories will follow regulatory guidance and include credit, interest rate, liquidity, transaction, compliance, technology, legal, reputational, and strategic risk. The risk appetite will be reviewed and approved annually by the Risk Committee and the Board.

An exception to the risk appetite will require a review to be conducted, documented, and, if deemed necessary, an action plan will be developed within 30 days, detailing the steps to address the issues leading to the exception and corrective action necessary to bring the metric within tolerance.

A risk metric or issue may be escalated, regardless of whether a risk appetite limit or trigger has caused an exception.

160.04 Risk Committee

MACU will establish a Risk Committee to meet at least quarterly. The committee will:

A. Review and approve MACU's risk appetite and tolerance at least annually,
B. Review and approve the annual ERMP,
C. Review pending and completed risk assessments,
D. Receive presentations and other information to understand the significant and emerging risks to which MACU is exposed,
E. Oversee significant new initiatives from the point that they are proposed, ensuring that the incremental risk profile is consistent with stated risk appetite and overall business strategy, and
F. Develop and maintain a Risk Committee Charter.

160.05 Reporting

Regular reporting of the Risk Committee meetings and the ERMP will be presented to Management and the Board. In addition, analytics and aggregate reporting of risk assessment results, which include top and emerging risks, to assist with decision making and various risk initiatives will be provided.

The risk management team will use an industry accepted Governance, Risk, and Compliance (GRC) system for risk assessments and monitoring. This will assist in providing Management and the Board with better information to effectively manage the organization and make better informed business decisions.

170.00 Identity Theft Red Flag Program

170.01 Purpose

MACU will establish and maintain an Identity Theft Red Flag Prevention Program (The Program) that is designed to detect, prevent and mitigate identity theft in connection with the opening of an account or any existing account.

170.02 Identification

The Program will identify potential theft activities and Red Flag them for subsequent investigation and action. The activities to be Red Flagged include, but are not limited to:

A. Credit Report Address Discrepancies,
B. Alerts, Notifications or Warning from a Consumer Reporting Agency,
C. Suspicious Documents,
D. Suspicious Personal Identifying Information,
E. Unusual Use of, or Suspicious Activity Related to the Account, and
F. Suspected compromise of MACU Member Information.

170.03 Response

The Program should detect the suspicious activity, and allow response in a timely manner to prevent and mitigate identity theft.

170.04 Updating Program

The Program should be appropriately updated to reflect changes in risks to members or to the safety and soundness of MACU from identity theft.

170.05 Authority for Program

The Board designates the President/CEO to create, implement, maintain, and oversee MACU's Identity Theft Red Flag Program.

180.00 Complaint Process Program

180.01 Complaint Process Program

MACU will establish and maintain a Complaint Process Program (CPP) in compliance with regulatory standards. The CPP shall establish procedures and protocol which addresses the capture, analysis, remediation, and reporting of member and agency/regulatory complaints.

180.02 President/CEO Responsibilities

The Board designates the President/CEO of MACU to implement, maintain and oversee MACU's CPP.

190.00 Credit Risk Management

190.01 General

Credit risk is the potential loss associated with a borrower or counterparty failing to meet its obligations in accordance with agreed terms. The goal of credit risk management is to maintain MACU's credit risk exposure within acceptable parameters.

The Board recognizes that MACU must manage the credit risk inherent in the entire portfolio as well as for individual loans. This Credit Risk Management Policy (CRMP) establishes limits and safeguards consistent with the risk appetite framework established by the Risk Committee. The Board delegates authority to Management and the Risk Committee to oversee essential operations and procedures for the safe administration of credit.

190.02 Credit Committee

The Credit Committee provides feedback and assistance to the Risk Committee in its oversight of MACU policies and activities relating to the identification, assessment, measurement, monitoring and management of credit and credit risk. Additionally, the Credit Committee provides support and information for lending business units to manage credit risk.

The Credit Committee members are EVPs, SVP/Chief Risk Officer, SVP of Lending, SVP/Controller, VP of Credit, VP of Business Lending, VP of Consumer Loans, VP of Home Equity Lending, VP of Mortgage Services, VP Asset Management, and VP Lending Compliance.

Minutes of each meeting are recorded and retained.

An Executive Summary of Credit Risk, that includes current and emerging credit risks identified by the Credit Committee, or any of its members, will be provided to the Board and Risk Committee on at least a quarterly basis.

190.03 Credit Risk Environment

A. **Credit Risk Strategy.** The credit risk strategy is based on MACU's risk appetite and tolerance. This environment supports a strong credit organization. Credit quality is emphasized in all economic conditions and at varying levels of MACU's net worth.

In the establishment of underwriting criteria, Management shall take into account the cyclical aspects of the economy and the resulting shifts in the composition and quality of the overall credit portfolio. The strategy must be viable in the long-run and through various economic cycles.

B. **Credit Asset Concentration Limits.** MACU places broad limits on loan concentration by collateral type. The ultimate credit risk of the institution is dependent upon additional factors such as lending, underwriting and collection policies. However, MACU seeks to avoid undue concentration by collateral that could be affected by sector related economic shocks.

Credit concentration risk limits are recorded and monitored in the Policy Concentration Risk Policy Report (CRPR), an Appendix to Policy Section D 40 – Asset Liability Management. Concentration risk limits are measured and reported by staff quarterly to the Board, Asset-Liability Management Committee (ALCO), and Risk Committee. The ALCO will review and monitor the CRPR in accordance with Policy Section D 10.5(E) ALCO Functions, Review and Monitor Concentration Risk Policy (CPR) for Compliance.

When any concentration limit measurement exceeds ninety (90) percent of the limit, the responsible lending business unit shall identify how it plans to address it. The Credit and Risk Committees will be informed of the exceeded threshold and provided the general steps the lending business unit is taking to address it.

C. **New Product and Activity Risk.** Prior to launching a new lending line of business, the proposal will have a thorough risk assessment to ensure that the credit granting activity meets the Credit Risk

Strategy identified above. Lending business unit leaders will work with the Risk Management team in completing the assessment.

190.04 Credit Granting Requirements

A. **Loan Grading.** All MACU lending activities involve setting a tiered pricing structure that assigns loan interest rates based on an applicant's credit and risk of non-payment. Risk-based pricing is applied to all consumer, student, home equity, SBA, MBL and commercial loans.

Individual consumer, student and home equity loan pricing is established on a tiered scoring matrix based on an empirically derived scoring model. Additional non-discriminatory factors (i.e., LTV, condition of collateral, applicant job time, etc.) contribute to risk price adjustments.

Pricing for each individual commercial, MBL and SBA loan is determined on a case-by-case basis by the Loan Committee or authorized approver. MACU evaluates each commercial, MBL and SBA loan on a loan-grading matrix. The Loan Committee or authorized approver considers the loan grade when making pricing decisions.

B. **Conflict.** A change to any law, regulation or requirement by federal, state or governmental regulatory agency, that is determined by Management to be in conflict with any MACU credit granting or lending policy will become a temporary amendment to policy until the policy can be formally amended.

C. **Loan Limits.** The aggregated loan balance(s), including unused lines of credit or unfunded construction commitments, will not exceed the "Limits to One Person/Organization" established and reported in the CRPR, an Appendix to Policy Section D 40 – Asset Liability Management. In no case will this limit exceed the limit imposed by NCUA Rules and Regulations 12 CFR Part 701.21(c)(5).

Unsecured aggregated loan balance(s), including unused lines of credit, will not exceed $100,000 to any member (one person or organization).

Three (3) signing members of the Loan Committee are required to approve any loan $750,000 or greater in the aggregate to any member. Single purpose loans of $50,000 or less are exempt from the aggregate requirement if approved by one (1) signing member of the Loan Committee, designated underwriter or automated approval process as outlined in individual department procedures.

Loans to any member (one person or organization) will include all loans the member is personally obligated to or has given a personal guarantee.

190.05 Credit Administration

A. **Administration of Credit Risk Bearing Portfolios.** Credit administration is a critical element in maintaining the safety and soundness of MACU.

   Management will ensure that documentation for each credit decision includes all the information necessary to: minimize fraud, ascertain the value of any collateral, financial condition of the borrower, the history of the credit, as well as sufficient information to track the decisions made.

   Loan documents and requirements will be sufficient to enforce MACU's ability to collect from the borrower, perfect security interest in collateral, and ensure that borrower obtains appropriate hazard insurance to protect collateral.

B. **High-Risk Loans.** The risk level of a previously granted loan may increase due to one or more factors. Each lending business unit will define the criteria that classifies a loan as high-risk and be able to identify individual loans that meet the criteria. Consideration may be given to deteriorating credit scores of borrowers, high LTV, loss of collateral, delinquency, negative shares or other factors that have changed since approval of original loan or line of credit.

C. **Restricting Previously Granted Credit.** MACU does not restrict previously granted credit for members who continue to meet all payment obligations of their loan or credit card agreements. However, MACU may restrict previously granted credit on high-risk loans, or on any other type of loan or line of credit, when Management becomes aware of an eminent or emerging risk to a specific loan product, concentration or that presents a systemic risk to MACU.

   Restrictions may include the temporary or permanent reduction or elimination of a credit limit, suspension of new credit to high-risk borrowers or borrowers with a high-risk loan, or the discontinuation of a specific loan product. Restrictions will apply universally to all loans meeting the selected criteria for restriction. Selection criteria will not violate law or regulation.

190.06 Credit and Lending Policy Exceptions

Three (3) signing members of the Loan Committee must approve any Credit Risk Management or Loan Policy exception unless otherwise indicated within individual loan policies.

Lending business units will report credit and lending policy exceptions to the VP of Credit for loans $500,000 or greater. Exceptions are summarized and recorded in the Executive Summary of Credit Risk identified in Sub-section F-190.02 – Credit Committee, above.

SECTION G – ACCOUNTING

10.00 Accounting Policy

10.01 Accounting Policy

MACU's financial records will be kept according to accounting principles generally accepted in the United States of America (GAAP) unless superseded by regulatory accounting directives.

SECTION H – MARKETING

10.00 Brand

10.01 Brand Development, Management and Protection

MACU will establish and maintain brand guidelines, communication content, and appropriate graphic representation (logo, etc.) to protect the MACU brand.

10.02 Compliance with Regulations

All official advertising statements will comply with 12 CFR 740.

10.03 Brand Usage

All requests to use MACU's name or image will be vetted by the President/CEO (or by those whom he designates).

20.00 Communication

20.01 Communication Plan

The Marketing/PR teams are responsible to draft communications of a sensitive or urgent nature. These include responses to the media involving robberies or any other critical situations. The PR team will draft talking points for the appropriate subject matter expert or the executive spokesperson selected to address the media or general public. These communications will be shared, where necessary, with the Internal Communications team to assist in the development of internal messaging. Final communications are approved by the President/CEO (or by those whom he designates) where appropriate.

30.00 Reputation

30.01 Reputational Risk

Issues involving potential reputational risk will be vetted by the President/CEO (or by those whom he designates). Other departments will be advised and or consulted on a situational basis.

30.02 Spokespersons

The PR team will select appropriate spokespersons to represent MACU when necessary. Selected spokespersons will receive annual media training.

40.00 Social Media

40.01 Social Media Communications

MACU will utilize social media to engage with members and the general public to extend the MACU brand and market products and services.

SECTION: H – MARKETING
SUBSECTION: 50.0 SPONSORSHIPS
DATE: September 1, 1993
REVIEWED DECEMBER 2020

50.00 Sponsorships

50.01 Event Sponsorships

MACU will select and sponsor community and organization events that help build and support the MACU brand.

SECTION I – INFORMATION TECHNOLOGY

10.00 Computer Usage

10.01 Copyright Law and License Agreements

MACU will uphold all copyright and other laws regarding computer software and applications. MACU employees will use software only in accordance with license agreements. The making, acquisition or use of unauthorized copies of computer software is not permitted. Any MACU-owned computing device attached to the MACU network may be audited at any time for software copyright compliance.

10.02 Authorized Hardware and Software

MACU will use only authorized software, services, and hardware in its automated systems. This authorized software and hardware includes the following:

10.02.01 Hardware/Services/Software Defined

Hardware, services, and licensed software purchased or leased by MACU for MACU use, whether hosted by MACU or by a third-party.

10.02.02 Software Written by Employees

Software written by MACU employees or our contractors for MACU use.

10.02.03 Open Source Software

Software whose source code is available for modification or enhancement by anyone.

10.03 Unauthorized Use of Hardware and Software

Use of unauthorized software, services, or hardware is prohibited on MACU computing systems. Unauthorized software and hardware includes; computer games of any kind; any software and hardware purchased or owned by individual employees; any software that is not installed by Information Technology (IT) and all software and hardware that violates copyright or licensing agreements including single and multiple user agreements. Employees may purchase, at their own expense, personal applications (apps) for their MACU provided tablets and smartphones but MACU reserves the right to audit apps installed by using a mobile device management solution and remove any that pose a risk to MACU.

10.03.01 Connection and Documentation

Any hardware, not purchased by MACU, that will be connected to MACU's network or systems, other than those devices connecting to the guest Wi-Fi network, must be connected by the IT Team and have Management approval.

10.03.02 MACU Inspection Authority

MACU reserves the right to inspect any and all hardware, software, and files stored in or connected to any areas of MACU's network to verify compliance.

10.04 Company Software and Data Files

All software and data files, in any form, developed for MACU or developed with MACU resources and or personnel are MACU's property. MACU retains exclusive ownership and possession.

10.05 Data Security (ISSP)

MACU will establish and maintain an Information System Security Program (ISSP) that addresses data security. Each employee has the individual responsibility to safeguard sensitive data through safe computing practices. See IT for the most current safe computing practices. Sensitive data is (1) any information which by itself, or in combination with other information, could be used to cause harm to MACU or its members and (2) any information concerning a member or member's account which is not public information.

10.06 Ownership of Hardware and Software

Computers, software and data are not to be removed from MACU premises, except when approved by the employee's Senior Manager. All proprietary information on MACU computer systems is owned by MACU, and is not to be removed, sold or used for any other purposes.

Management approval and coordination with IT is required for all network connectivity links with MACU computers with the exception of guest Wi-Fi access.

10.07 Personal Use of Company Computer Systems

MACU owned computers may be used for professional affiliations and educational uses with supervisor's approval. Educational use must be done on the employee's own time.

10.08 Malware Protection

Software that has not been authorized or certified by MACU to be malware free is specifically prohibited from being executed on MACU computers.

10.08.01 Installation of Anti-Malware Software

Anti-malware software will be installed on all devices which may be affected by malware. Devices used by MACU will be periodically reviewed for appropriate protection by IT.

10.08.02 Updating Anti-Malware Software

Anti-malware software will be automatically updated regularly.

10.08.03 No Disabling of Anti-Malware Software

Employees will not disable anti-malware software on MACU systems.

10.09 Internet Usage

Internet use from any MACU resource is primarily limited to a qualified business use.

MACU reserves the right and has the capability to monitor and record all internet usage on MACU's network. Software is used to block known inappropriate internet sites. No employee or guest should have any expectation of privacy as to internet usage to include the guest Wi-Fi network.

10.09.01 Explicit Material

Sexually explicit material will not be viewed, archived, stored, distributed, edited, or recorded using MACU's network or computing resources. MACU identifies inappropriate or sexually explicit internet sites. Access to those sites is prohibited.

10.09.02 Software **Filters**

MACU uses software and data to identify inappropriate or sexually explicit internet sites. Access to those sites is prohibited.

10.09.03 Applicable Laws

Employees must not knowingly use internet facilities and computing resources in violation of U.S. laws and regulations, or those of any state, city, or other local jurisdiction.

10.09.04 Illegal Materials

Employees may not use MACU facilities to download or distribute illegal software or data.

10.09.05 Malware

Employees may not use internet facilities to deliberately propagate any malware including but not limited to viruses, worms, Trojan horses, or backdoor programs.

10.09.06 Authorized Spokespeople in News/Chat Rooms/Blogs/ Social Networks

Only employees or officials authorized to speak to the media, analysts, or in public gatherings on behalf of MACU can speak/write in the name of the company to any "news group" or "chat room", "blog", or on social network sites, including those owned by MACU. Employees posting content related to MACU or its services on social networking sites shall identify themselves as MACU employees and should be clear that their views do not represent those of MACU, fellow employees, members or people working on behalf of MACU.

10.09.07 Unauthorized Uses

It is prohibited to use company internet access facilities to commit infractions, such as misuse of company assets or resources, sexual harassment, unauthorized public speaking, and misappropriation or theft of intellectual property.

10.10 Electronic Communication Usage

Electronic communication such as email and chat from any MACU resource is primarily limited to a qualified business use.

10.10.01 Ownership of Electronic Communication Messages

MACU owns all electronic communication correspondence sent on its networking resources.

10.10.02 Monitoring and Retention of Communication Messages

Employees should not have any expectation of privacy as to electronic communication such as email, instant message, or chat. MACU management may monitor communication channels periodically and take appropriate enforcement action when necessary. MACU retains copies of electronic correspondence for at least twenty four (24) months.

10.10.03 Transmission of Sensitive Information

Restricted or confidential customer or corporate-related information (e.g., personally identifiable information {PII}, sensitive human resources information, money transfers and instructions, and account numbers) must not be sent through unencrypted electronic communication.

10.10.04 SPAM and Blocks

MACU will monitor electronic communication for potential SPAM and blocks suspected inappropriate electronic communication.

10.11 Password Policy

An employee's security code (logon, password and electronic signature) is equivalent to the employee's legal signature. Employees will be personally accountable for all actions performed under their respective security code.

10.11.01 Password Makeup

Passwords will be 15 characters or more in length.

10.11.02 Protection of Personal Security Codes

Personal security codes are not to be disclosed in written or verbal form to anyone for any reason. This includes fellow employees, helpdesk staff, system administrators and members of management. No superior shall request such code to be disclosed.

10.11.03 Expiration of Network Passwords

Passwords do not expire unless they have been reported as compromised. Passwords cannot be reused.

10.11.04 Use of Biometrics

Biometrics are allowed as an alternate to inputting passwords, however, this does not replace any password policies.

20.00 Computer Operations Policy

20.01 Password Security

20.01.01 Access to Systems

Access to all systems will require a valid user ID and password and/or biometrics or tokens.

20.01.02 Suspension of User ID

Entering a designated number of invalid passwords will suspend the User ID, generate a violation log entry, and require reactivation by IT or support personnel upon verification and authentication by the user.

20.01.03 Deletion or Suspension of User IDs

All operating system or application user IDs not assigned to an individual user will be deleted or disabled within 30 days.

20.01.04 Password Protection

Users will not provide their password to anyone including IT staff. Any such requests should be reported to the VP of Information Security.

20.01.05 Storing Passwords

Passwords will not be stored in readable form in batch files, automatic login scripts, software macros, terminal function keys, and computers without access control or in other locations where unauthorized persons might discover them.

20.01.06 Locking Terminals

Terminals will automatically be locked after a period of inactivity. Employees will lock their workstations prior to leaving them unattended.

20.01.07 Password Reuse

Users should not reuse passwords on different MACU systems. Passwords on any MACU systems should not be the same as any passwords on employees' personal systems.

20.01.08 Application Protection

All applications must either be password protected or the method to access the application must be password protected, e.g. by network login/Single Sign-On (SSO).

20.01.09 Data Steward Designation

Data stewards shall be designated in writing by Management, and shall have the responsibility for defining access levels to the systems within their stewardship. System access lists shall be reviewed and updated periodically by the data stewards.

20.01.10 Administrative Passwords

Administrative access and passwords will be limited to those with a specific business need. Administrative access to systems will be logged and periodically reviewed.

20.02 Physical Security

20.02.01 Access to Datacenters and Network Equipment

Access to datacenters and network equipment locations containing critical and confidential information resources will be physically restricted. Employees will have access to these secure areas consistent with their assigned duties. Access to datacenters shall be logged and periodically reviewed for compliance.

20.02.02 Secure Areas

Server and network equipment shall be located in secure areas. They shall be constructed such that they are protected against fire, water damage, and vandalism. Doors to computer facilities shall automatically lock/secure immediately after they have been opened. Doors are alarmed and monitored. Alerts are investigated and resolved.

20.03 Network Support and Maintenance

Purchase of any software, service, or hardware which is to be connected to the MACU network, will go through Risk Management's Vendor Management process.

20.04 Risk Management of Outsourced Technology Services

In accordance with all NCUA letters and regulations, each MACU employee responsible for managing relationships with technology service providers will implement an oversight program to monitor each service provider's controls, condition, and performance.

20.05 Remote Access

20.05.01 Access from Outside Locations

MACU information systems will be made accessible to approved users and vendors from locations outside MACU.

20.05.02 Passwords

Passwords for remote access will meet, at a minimum, the same policies and standards for all MACU systems (see Password Security section 20.1).

20.05.03 Remote Access

Whenever possible, remote access for use by system vendors will be turned off except when specifically arranged with the vendor. Remote access will only be granted through MACU approved methods and will be logged and subject to review. Multi-Factor Authentication (MFA) will be used where appropriate.

20.06 Logging and Monitoring of Security Events

20.06.01 Security Logs

All production application systems, which handle MACU information, will generate security logs.

20.06.02 Comprehensive Logs

All privileged system commands will be traceable to specific individuals via the use of comprehensive logs.

20.06.03 Consolidation and Review of Logs

Logs will be consolidated, correlated, and reviewed regularly. Anomalies will be logged, researched and resolved.

20.07 Intrusion Detection/Prevention Policies

20.07.01 Intrusion Detection Systems

MACU will deploy and monitor intrusion detection systems (IDS) on external connection points and critical servers. In the event a possible intrusion is detected, management will be notified and the intrusion investigated and resolved.

20.07.02 Documentation of Procedures

Procedures will be documented to respond to potential intrusion, and will be executed through an Incident Response Program.

20.08 Company Control

20.08.01 Business Case for new Software/Services/Hardware

A business case for any new software, service, or hardware will be documented and prioritized by management.

20.08.02 Review and Authorization

Any new software, service, or hardware deployed will be reviewed and authorized by IT prior to deployment.

20.08.03 Change Control Board

A change control board including IT, Security, and relevant business units will review and approve all changes that may potentially have a negative impact to MACU prior to deployment.

20.08.04 Back-Out Plan

A back-out plan will be documented and tested for any change to a critical system prior to deployment.

20.08.05 Emergency Change Control

An emergency change control process will be documented.

20.08.06 Configuration of Devices

Standard configurations are documented for any category of devices deployed at MACU.

20.08.07 Systems Patched and Updated

All systems will be patched and updated on a timely basis under the direction of IT.

20.08.08 System Development Lifecycle

System development lifecycles are documented and approved by management.

20.08.09 Disaster Recovery

Any new system will be reviewed and determination made as to how it will be recovered in the event of a disaster.

20.08.10 Systems End of Life

Any system that is being replaced will be reviewed for data archiving and maintenance of that archival.

20.09 Data Processing Security

20.09.01 Categorization and Assessment

All sensitive data shall be categorized and assessed for classification and privacy of members.

20.09.02 Data Loss Prevention

Data Loss Prevention (DLP) will be in place to monitor and prevent confidential data from being sent out of MACU's network.

20.09.03 Employees Assigned Duties

Employees will have data system and computer room access consistent with their assigned duties.

20.09.04 System Back-up

Periodic, full back-ups of critical MACU data, including but not limited to; core banking, mortgage servicing, call center, authentication systems, website and mobile applications, HR systems, and messaging systems will be completed. These data back-ups will be stored in at least two geographically separate sites for redundancy. Backup media will be encrypted.

20.09.05 Data Back-up Retention

Data back-ups will be retained for a period of time based on the categorization of the data.

20.10 Security

20.10.01 Security Training Program

MACU has established and executes a security training program for its employees that includes training during new hire orientation and periodic training throughout the year.

20.10.02 Monitoring

MACU proactively monitors for potential vulnerabilities and takes action to remediate threats.

20.11 Employee Owned Devices

20.11.01 Limited Access

Employee owned devices may have limited connectivity to the MACU network. This includes connecting to MACU's email systems for authorized employees. This access may be revoked at any time.

20.11.02 Support

Employee owned devices are not supported by MACU IT.

20.12 Wireless

20.12.01 Encryption

All internal wireless connections will be secured by strong encryption.

20.12.02 Username and Password Secured

Internet-only wireless connections will only be accessible to those who accept the acceptable-use terms. Access to internal wireless connections will be secured by appropriate authentication.

20.12.03 Wireless Access Points

Wireless Access Points (WAPs) are monitored for new or rogue WAPs. Any unauthorized WAPs are investigated and resolved.

20.13 Logical Access

20.13.01 Approval and Documentation

All access to MACU systems must be approved. Documentation of approvals shall be based on a least-privilege access basis and will be maintained.

20.13.02 Data Stewards

Data stewards will be identified as logical access approvers.

20.13.03 Documented Reviews

Access to MACU systems will be regularly reviewed and updated by data stewards. Reviews shall be documented.

20.13.04 Termination of Employee System Access

Controls will be in place to ensure that as employees are terminated their access to MACU systems are disabled immediately.

20.13.05 Role Changes

Controls will be in place to ensure that as employees change roles and responsibilities at MACU their system access levels are adjusted appropriately.

20.14 Networks

20.14.01 Border Devices Monitored

Border access devices, such as firewalls, intrusion detection/prevention systems, proxy servers, session border controllers, boarder routers, etc., will be monitored periodically for their integrity.

20.14.02 Internal Network Protection

Internal MACU networks will be protected by appropriate border devices to restrict access to authorized traffic.

20.14.03 Approval for Changes

Changes to border devices will be approved by the VP of Information Security or designee prior to implementation.