RISK-BASED LENDING MODEL POLICY

The Credit Union offers an assortment of lending products to its membership, however; it recognizes that in order to remain competitive it must offer loan rates based on member's risk with lower rates being offered to members with the best credit and higher rates being offered to members with lower credit ratings. This risk can be measured using commercially available systems, which have been tested and validated. In most cases, this measurement will be based on the Fair Isaac ("FICO") scores.

The Credit Union's risk based lending philosophy is not intended to allow the Credit Union to grant "bad loans." It assumes that proper pricing and conservative terms may justify making loans to higher risk borrowers. The purpose of this Risk Based Lending Policy ("RBL Policy") is to offer loans to low risk, average, and higher risk borrowers. The key to the success of the RBL Policy is to ensure that loan rates correctly reflect the risks and costs involved. Higher interest rates are offered to members that represent a higher risk and lower interest rates are offered to members who represent a lower risk. The RBL Policy also manages risk by granting loans with lower, loan-to-value ratios and shorter repayment terms for higher risk loans. The different interest rates charged to loan applicants are based on the risk that applicants present to the Credit Union based upon statistically validated scoring models provided by independent credit reporting agencies such as FICO. The purpose of the RBL Policy is to enable the Credit Union to become the lender of choice for all members by offering the best possible interest rate based upon each individual's credit history. Less creditworthy members benefit by qualifying for a loan with the Credit Union instead of resorting to higher-cost alternatives such as finance companies and auto manufacturers.

Some advantages of Risk-Based Pricing are:

1. Higher loan volume, which will result in higher profitability and capital accumulation.
2. Granting credit to a wider range of members.
3. Increased competitiveness compared to other lenders.

The Credit Union will use the FICO score in combination with debt-to-income ratios to determine the level of risk. FICO scores are widely used and are usually non-discriminatory, but rejected loans must be carefully reviewed for possible discrimination and in particular, to verify that there is not a violation of the "effects test" of Regulation B of the Equal Credit Opportunity Act.

FICO risk scores rank members according to the likelihood that their credit obligations will be paid as expected.

Refer to the tables below which use credit scores and debt-to-income ratios to determine the interest rate to be offered to each loan applicant.

The interest rates for the loans shown on the following tables are determined by using the FICO score found on the member's credit report in conjunction with the member's overall debt-to-income ratio, overall unsecured debt-to-income ratio for Credit Union loans and the member's unsecured debt-to-income ratio. If any of the limits are exceeded, exceptions may be made on a case-by-case basis provided compensating factors can be proven and are documented in writing. Such compensating factors may be, but are not limited to, available assets, repayment history on similar loans, closure of open credit lines which would result in lower FICO scores, amount of credit inquiries not resulting in loans, etc.

The Credit Union will not grant loans where the probability of repayment is doubtful. The FICO score in conjunction with the debt-to-income ratio will normally be used to determine the risk involved in granting credit to the applicant. Members must fit the listed criteria to be considered for a loan. Any members that do not fit any of the lending criteria will be sent an adverse action letter explaining the reason for loan denial. Members may at that time submit a written request to the Credit Committee for reconsideration with a letter explaining their reason. The Credit Committee will review the members' suggestions/approvals on a case-by-case basis.

Consumer Loan Credit Categories/Limits

(Note: The figures set forth below are sample figures for your consideration)

NEW AUTOMOBILE, TRUCK, RV LOANS	TERM OF LOAN	FINANCING %	CREDIT RISK CATEGORY
Up to $75,000.00	Up to 72 months	*100% of retail value	A Credit Only
$0 – 25,000.00	Up to 60 months	*100%	B Credit
$0 – 20,000.00	Up to 48 months	*90%	C Credit

USED AUTOMOBILE, TRUCK, RV LOANS	TERM OF LOAN	FINANCING %	CREDIT RISK CATEGORY
Up to $50,000.00	Up to 48 months	*100% of retail value	A Credit Only
$0 – 25,000.00	Up to 48 months	*95%	B Credit
$0 – 20,000.00	Up to 36 months	*90%	C Credit

*Financing amount includes Tax, Title & Insurance.

SHARE/CERTIFICATE SECURED LOANS	**TERM OF LOAN**	**FINANCING %**	**CREDIT RISK CATEGORY**
Up to $100,000.00	Up to 144 months or to CD maturity date	100%	A Credit Only
****$0 – 10,000.00** ****Exception to Policy**	Up to 60 months or to CD maturity date	100%	B & C Credit WITH SAME INTEREST RATE

VISA/MASTERCARD, GOLD, PLATINUM LOANS	TERM OF LOAN	FINANCING %	CREDIT RISK CATEGORY
Visa Platinum*	N/A	N/A	A+ Credit Only A, B & C Credit Not Eligible
Visa Gold			
$5,000 - 20,000.00	N/A	N/A	A Credit Only
$5,000 - 10,000.00	N/A	N/A	B Credit C Credit Not Eligible
MasterCard			
$5,000 – 10,000.00	N/A	N/A	A Credit Only
$2,500 - 5,000.00	N/A	N/A	B Credit
$500 – 2,500.00	N/A	N/A	C Credit
MasterCard Secured			
$500.00 – 1,000.00	N/A	N/A	Any Credit Category

*Visa Platinum is for A+credit members only

SIGNATURE LOAN	TERM OF LOAN	FINANCING %	CREDIT RISK CATEGORY
Up to $15,000.00	Up to 60 months	N/A	A Credit Only
$5,000 - 10,000.00	Up to 48 months	N/A	B Credit
$0 – 5,000.00	Up to 36 months	N/A	C Credit

****Debt Consolidation loans are to a maximum of $5,000.00 up to 48 months**

FLEXLINE	TERM OF LOAN	FINANCING %	CREDIT RISK CATEGORY
Up to $10,000.00	N/A	N/A	A Credit Only
$2,500 - 5,000.00	N/A	N/A	B Credit
$500 - 2,500.00	N/A	N/A	C Credit

READY LOAN	TERM OF LOAN	FINANCING %	CREDIT RISK CATEGORY
Up to $1,200.00	Up to 12 months	N/A	A, B & C Credit

AUTOMOBILE LEASING	TERM OF LOAN	FINANCING %	CREDIT RISK CATEGORY
Up to limit	Up to 48 months	N/A	A Credit Only
$0 – 15,000.00	Up to 36 months	N/A	B & C Credit

BANKRUPTCY POLICY.

The Credit Union does not, under the policy below, consider for approval members that have filed for bankruptcy. However, if the bankruptcy did not cause a loss to the Credit Union and/or was reaffirmed, we will consider reestablishing a relationship with the member and review the application. The member must prove they have reestablished credit and are an acceptable credit risk. Examples would include no late payments within the previous three years on any credit accounts. The member must also prove that the bankruptcy has been discharged and provide a list of all affected credit accounts.

JOB STABILITY.

Job or residence stability is an important factor in the approval of consumer credit loans/lines. The Credit Union shall make it a policy to review all applicants with frequent job or address changes. This policy shall not determine alone the approval or denial of a loan, however frequent job and/or address changes will be considered risky behavior and reviewed accordingly. Documentation stating the reason for the frequent changes will be necessary for the underwriting process.

CO-BORROWER GUIDELINES.

In the event that the score of a co-borrower is different than that of the borrower, the rate assigned to the credit granted will be determined by the score of the borrower with the greatest contribution of income used to qualify the applicants. For example, if the borrower contributes 60% of the income and the co-borrower 40%, the score of the borrower will be used. This policy is based on the theory that income is the greatest factor affecting the future repayment of the loan.

GUARANTOR GUIDELINES.

In some cases, a guarantor is required as a condition of granting loan approval. This is typically because (a) the Credit Union has decided that the risk is high and will not grant the loan without a guarantor to mitigate that risk or (b) the borrower has an insufficient credit history and risk cannot be determined. In the first situation, the rate will be determined based on the risk of the borrowing member. In the second case, credit has not been established and the borrower is less likely to go delinquent since there are not any credit obligations. In this scenario, the Credit Union will give the member the benefit of the doubt and grant the member an “A” credit interest rate.

REPRICING INTEREST RATES.

The Credit Union will allow the membership to request review of their credit after two full years of repayment. Upon review, if the risk is determined to have gone down, the rate may be adjusted one time per loan. All requests for review must be submitted in writing and may be reviewed by the underwriting staff.

The FICO score will be used for all loan types.

(Note: The figures set forth below are sample figures for your consideration. The "Published" rate is established by the Credit Union as necessary.)

A+Credit Interest Rate (700 and up)

Published rate only

A Credit Interest Rate (600 and up)

Unsecured Loans/Lines		Published rate
Overall Debt to Income Ratio (D/I)	35% and below	
Credit Union D/I	25% and below	
Unsecured D/I	35% of combined annual income	
Secured/Collateralized Loans/Lines		Published rate
Overall D/I	45% and below	
Credit Union D/I	25% and below	
Unsecured D/I	35% of combined annual income	

B Credit Interest Rate (600 to 659)

Unsecured Loans/Lines		Published rate plus 1.00%
Overall D/I	40% and below	
Credit Union D/I	30% and below	
Unsecured D/I	35% of combined annual income	
Secured/Collateralized Loans/Lines		Published rate plus 0.75%
Overall D/I	45% and below	
Credit Union D/I	30% and below	
Unsecured D/I	35% of combined annual income	

C Credit Interest Rate (520 to 599)

Unsecured Loans/Lines		Published rate plus 3.00%
Overall D/I	45% and below	
Credit Union D/I	35% and below	
Unsecured D/I	40% of combined annual income	
Secured/Collateralized Loans/Lines		Published rate plus 1.50%
Overall D/I	50% and below	
Credit Union D/I	35% and below	
Unsecured D/I	40% of combined annual income	

D Credit Interest Rate (480-519)

D Credit loans will be approved **ONLY** under the most unusual circumstances. Approval will be done by the Manager of Lending/VP Lending upon written dispute of a loan denial and review of the loan. Should approval be given, the rate will be Published rate plus _____% for Unsecured Loans/Lines and Published rate plus ____% for Secured/Collateralized Loans/Lines

At no time will the interest rate exceed the maximum allowed by the Federal Credit Union Act which currently is 15%.

TRAINING OF EMPLOYEES AND OFFICIALS.

Use of the Credit Union's RBL Policy will increase the need for credit counseling with Credit Union members. To have an effective Program, the Credit Union staff must understand the philosophy of Risk-Based Lending. All loan officers will receive training concerning use of the Credit Union's RBL Policy. Training will include reading NCUA Letter # 124 and participation in seminars offered by CUNA and other trade associations.

All Credit Union loans are subject to regulations and laws designed to protect the member. The Equal Credit Opportunity Act, the Fair Housing Act and the Fair Credit Reporting Act are examples of federal laws designed to make credit equally available to all credit worthy borrowers. These laws prohibit discrimination against applicants based on race, color, religion, national origin, sex, marital status, age (provided the applicant has the ability to enter into a binding contract), receipt of public assistance income, or the exercise in good faith of any rights under the Consumer Credit Protection Act (the CCPA includes Regulation Z and Regulation B as well as other consumer laws). In addition, the Federal Housing Act prohibits discrimination on the basis of familial status and handicap status. To operate a successful RBL Policy, the Credit Union must comply with ECOA, FHA and the Fair Credit Reporting Act, as well as other applicable laws and regulations.

The ECOA applies to all aspects of a consumer credit transaction including advertising, inquiries, the application process, administration of loan accounts, treatment of delinquent accounts, collection practices, etc. The Credit Union's RBL Policy consumer compliance requirements are no different than the consumer compliance requirements for other Credit Union lending programs. However, it is important in processing loans under the Credit Union's RBL Policy that all Credit Union employees be aware of the three key factors that courts have identified for proving discrimination under the ECOA. These factors are:

- Overt Discrimination which occurs when a lender blatantly discriminates on a prohibited basis as described above (race, color, religion, etc.);

- Disparate Treatment which includes overt, as well as more subtle disparities in treatment resulting from treating applicants differently on a prohibited basis. This is more likely to occur when dealing with marginally qualified applicants and is sometimes referred to as the "quality of assistance" provided to an applicant. A difference in treatment, not proof of prejudice or a conscious intent to discriminate is required to be shown to prove discrimination;

- Disparate Impact can be shown when a practice is applied consistently to all loan applicants, but the practice has a discriminatory effect on a prohibited basis that is not justified by a business purpose. Disparate impact is more likely to occur as a result of use of a long-standing written policy or procedure.

QUALITY CONTROL PROCEDURES.

All RBL Policy loans will be coded by risk tier (A, B, and C) with A loans being the highest quality and "C" the lowest risk. The Vice President of Lending will be responsible for monitoring delinquencies and losses by each tier. Reports will be made to senior management and the Board of Directors at the end of each calendar quarter. If delinquency and losses are above _______%, the RBL Policy will be adjusted. In the event delinquency or losses for any tier exceed ______%, the RBL Policy for that risk tier will stop immediately until such time as senior management is satisfied that the criteria for the risk tier has been adjusted to reduce the loan losses. Delinquency monitoring reports will be retained for at least twenty-four months.

The net income contribution of each tier shall be analyzed every calendar quarter and will be reported to the Board of Directors along with the delinquency report. The purpose of the analysis of the income contribution will be to determine whether the loan criteria established by the Credit Union (risk and return) are correct.

All rejected loan applications from the RBL Policy will be reevaluated by _____________ ______. In particular, the applications will be evaluated to confirm that the RBL Policy is not violating the "effects test". ____________________ will also be responsible for monitoring complaints from members concerning the RBL Policy for signs of potential discrimination or problems with the Credit Union staff.

Every six months the RBL Policy, procedures and overall program shall be reevaluated and a report prepared by senior management for submission to the Board of Directors will evaluate the RBL Policy and recommend any necessary changes.

Every six months self-assessment tests will be conducted by ______________________________ to review the RBL Policy overall program compliance. The "self-testing" program will also evaluate the treatment of RBL applicants, both members whose loans are approved and members whose loans are rejected.

The loan officers who participate in the RBL Policy will meet monthly with the collection staff of the Credit Union to discuss the performance of the RBL Policy and in particular to discuss problems with delinquency in the various loan tiers. The report of this meeting shall be forwarded to senior management for evaluation monthly.

The Credit Union will implement "self-testing" procedures. The Credit Union will arrange for "tester" or "shoppers" to periodically pose as loan applicants to determine how applicants are treated by Credit Union employees.

MAXIMUM LIMITS.

The maximum dollar limits on the three RBL tiers are as follows:

Tier A	Maximum Dollar Amount of Loans _____________
Tier B	Maximum Dollar Amount of Loans _____________
Tier C	Maximum Dollar Amount of Loans _____________

In addition to the overall maximum limits set forth above, to ensure diversification, the Credit Union has established the following additional limits:

1. The maximum aggregate amount available to loan to borrowers in the A, B and C classification is as follows:

Tier A	$ _________________
Tier B	$ _________________
Tier C	$ _________________

2. The maximum limit per RBL borrower is $_______________________. RBL loans will be tracked by the Credit Union and periodic evaluation of the program will be conducted to change the limits as necessary. The dollar limits set forth in this section of the RBL Policy shall be reevaluated, and changed as necessary, at least every six months.

UNDERWRITING.

The Credit Union has selected a numeric credit scoring system derived by an impartial third party (a credit reporting agency) to remove any questions of discrimination in applying the RBL Policy criteria to a loan applicant. Accordingly, loan officers must use the criteria set forth in this RBL Policy and loan officers do not have authority to make exceptions to the RBL Policy. The reason for no exceptions to the RBL Policy is to avoid potential equal credit opportunity act violations.

THRESHOLD FOR DISCONTINUANCE OF THE PROGRAM.

In the event delinquency and loan loss ratios exceed _____________%, or capital levels for the Credit Union drop below ________________% or there are net losses for the specific risk tiers as set forth below, the program shall be discontinued in whole, or in part, depending upon which threshold is exceeded.

MONITORING AND FOLLOW-UP.

The Credit Union will establish a tracking mechanism to monitor performance of the RBL loans by assigning computer codes based upon each loan risk tier (A through C). Particular attention will be focused on the highest risk category loans (tier C). In the event the maximum loan limits referred to in this RBL Policy or the maximum delinquency levels or minimum capital levels as set forth in this RBL Policy are exceeded, management shall promptly discontinue or adjust the Program as necessary. In addition, the quality control program will be conducted at least every six months to ensure that the “effects test” is not violated. The objective of the testing is to determine the best way to grant risk-based loans with the least discriminatory effect.