

Operations Manual - Printable Master

CU PolicyPro Master Model Policies

Table of Contents

- [Chapter 1000: Administrative](#)
 - [Policy 1100: Leadership](#)
 - [Policy 1110: Mission Statement](#)
 - [Policy 1120: Vision Statement](#)
 - [Policy 1130: Credit Union Values](#)
 - [Policy 1140: Credit Union History](#)
 - [Policy 1150: Field of Membership](#)
 - [Policy 1160: Strategic Planning](#)
 - [Policy 1170: Equal Opportunity Statement](#)
 - [Policy 1200: Organization](#)
 - [Policy 1205: Board of Director's Duties](#)
 - [Policy 1210: Compensation, Reimbursement And Indemnification](#)
 - [Policy 1220: Bond and Insurance Coverage](#)
 - [Policy 1230: Regulatory Compliance](#)
 - [Policy 1235: Education & Volunteer Training Guidelines](#)
 - [Policy 1240: Enterprise-Wide Risk Management](#)
 - [Policy 1300: Audits](#)
 - [Policy 1400: Legal Counsel](#)
 - [Policy 1500: Staffing](#)
 - [Policy 1505: Whistleblowing Protection Policy](#)
 - [Policy 1510: Nepotism](#)
 - [Policy 1520: Succession Planning](#)
 - [Policy 1530: Employee Use of Social Media](#)
 - [Policy 1531: Credit Union Use of Social Media](#)
 - [Policy 1540: Complaint Policy for Federally Chartered Credit Unions](#)
 - [Policy 1541: Complaint Policy for State Chartered Credit Unions](#)
 - [Policy 1600: Code of Ethics and Diversity](#)
 - [Policy 1610: Confidential Information](#)
 - [Policy 1615: Privacy](#)
 - [Policy 1616: Anti-Phishing](#)
 - [Policy 1620: Conflict of Interest](#)
 - [Policy 1640: Credit Union Assets](#)
 - [Policy 1645: Fraud](#)
 - [Policy 1650: Gifts, Bribes, or Kickbacks](#)
 - [Policy 1680: Political Contributions](#)
 - [Policy 1685: Software Licensing](#)
- [Chapter 2000: Operations](#)
 - [Policy 2100: General Operations Policies](#)
 - [Policy 2110: Bank Secrecy Act/Anti-Money Laundering Program](#)
 - [Policy 2112: BSA - Marijuana-Related Business Accounts](#)
 - [Policy 2113: BSA – Not Servicing Marijuana-Related Business Accounts](#)
 - [Policy 2120: Cash](#)
 - [Policy 2125: Teller Over/Short](#)
 - [Policy 2130: Dual Control](#)
 - [Policy 2140: Purchasing](#)
 - [Policy 2145: Office of Foreign Asset Control](#)
 - [Policy 2150: Signing Authority](#)

- [Policy 2185: Third Party Due Diligence & Oversight](#)
- [Policy 2190: Disaster Contingency Planning](#)
- [Policy 2191: Chain of Command](#)
- [Policy 2192: Emergency Powers](#)
- [Policy 2193: Statement of Decision Criteria](#)
- [Policy 2195: Pandemic Influenza Preparedness & Response](#)
- [Policy 2200: Member Services](#)
- [Policy 2205: Unlawful Internet Gambling](#)
- [Policy 2210: Accounts](#)
- [Policy 2211: Business Accounts](#)
- [Policy 2212: Individual Retirement Arrangements](#)
- [Policy 2213: Trust Accounts](#)
- [Policy 2214: Health Savings Accounts](#)
- [Policy 2215: Account Ownership](#)
- [Policy 2216: Deceased Depositor Issues & Estate Accounts](#)
- [Policy 2217: Negative Account Balances](#)
- [Policy 2218: Dormant Accounts](#)
- [Policy 2220: E-Commerce](#)
- [Policy 2221: Website](#)
- [Policy 2222: Electronic Communications/Acceptable Use](#)
- [Policy 2223: Children's Online Privacy Protection](#)
- [Policy 2225: Remote Banking](#)
- [Policy 2226: E-Statements](#)
- [Policy 2227: Electronic Signatures](#)
- [Policy 2232: Member Expulsion](#)
- [Policy 2235: Member Abuse](#)
- [Policy 2240: Member in Good Standing](#)
- [Policy 2245: Protecting the Elderly and Vulnerable from Fraud](#)
- [Policy 2270: Safe Deposit Boxes](#)
- [Policy 2271: Biometric Safe Deposit Boxes](#)
- [Policy 2280: Share Insurance](#)
- [Policy 2290: Wire Transfers](#)
- [Policy 2300: Share Draft Accounts](#)
- [Policy 2310: Share Draft Telephone Inquiries](#)
- [Policy 2400: Funds Availability](#)
- [Policy 2401: Collection of Checks Procedure](#)
- [Policy 2500: Truth-In-Savings](#)
- [Policy 2600: Electronic Fund Transfers](#)
- [Policy 2605: International Remittance Transfers](#)
- [Policy 2610: ACH Operations](#)
- [Policy 2611: ACH Management](#)
- [Policy 2612: ACH Audit](#)
- [Policy 2615: ATM/Debit Cards](#)
- [Policy 2620: Remote Deposit Capture](#)
- [Policy 2700: Garnishment of Federal Benefit Payments](#)
- [Policy 2705: IRS Levies](#)
- [Chapter 3000: Accounting](#)
 - [Policy 3105: Accounts Payable](#)
 - [Policy 3110: Operating Charge Offs](#)
 - [Policy 3115: Credit Union Owned Credit Cards](#)
 - [Policy 3125: Financial Institution Reconciliations](#)

- [Policy 3130: Fixed Assets](#)
- [Policy 3135: Interest Income](#)
- [Policy 3145: Payroll](#)
- [Policy 3155: Travel Reimbursement](#)
- [Policy 3160: Unclaimed Property](#)
- [Policy 3165: Loan Workouts and Nonaccrual Standards](#)
- [Policy 3170: Troubled Debt Restructure](#)
- [Chapter 4000: Security](#)
 - [Policy 4100: General Security Procedures](#)
 - [Policy 4110: Burglary](#)
 - [Policy 4120: Information Security](#)
 - [Policy 4125: Incident Response](#)
 - [Policy 4130: Kidnap / Hostage / Extortion](#)
 - [Policy 4140: Robbery Procedures](#)
 - [Policy 4150: Workplace Violence](#)
 - [Policy 4160: Bomb Threats](#)
 - [Policy 4200: Security Devices](#)
 - [Policy 4300: Computer Security & Control](#)
 - [Policy 4305: Configuration Management](#)
 - [Policy 4310: Patch Management](#)
 - [Policy 4315: Firewalls](#)
 - [Policy 4320: Computer Hardware And Software Acquisition](#)
 - [Policy 4340: Remote Access](#)
 - [Policy 4350: Cloud Computing](#)
- [Chapter 5000: Asset/Liability Management](#)
 - [Policy 5100: General Asset/Liability Management](#)
 - [Policy 5110: ALCO Key Objectives](#)
 - [Policy 5120: Budgeted Asset/Liability Structure](#)
 - [Policy 5200: Liquidity Risk Management](#)
 - [Policy 5205: Small Asset Liquidity Risk Management](#)
 - [Policy 5300: Interest Rate Risk Management](#)
 - [Policy 5400: Capital Management](#)
 - [Policy 5500: Ownership of Fixed Assets](#)
- [Chapter 6000: Investments](#)
 - [Policy 6100: General Investment Policy](#)
 - [Policy 6105: ASC 320 Compliance](#)
 - [Policy 6110: Broker-Dealer Relations](#)
 - [Policy 6115: Concentration Risk](#)
 - [Policy 6120: Investment Accounting](#)
 - [Policy 6130: Investment Controls and Monitoring](#)
 - [Policy 6150: Safekeeping of Investments](#)
 - [Policy 6200: Investment Portfolio](#)
 - [Policy 6210: Authorized Investments](#)
 - [Policy 6215: Derivative Investments](#)
 - [Policy 6220: Non-Deposit Investment Products](#)
- [Chapter 7000: Lending](#)
 - [Policy 7100: General Lending Policy](#)
 - [Policy 7101: Loans](#)
 - [Policy 7102: Performance Ratios](#)
 - [Policy 7105: Collateral](#)
 - [Policy 7110: Loan Concentrations](#)

- [Policy 7115: Credit Underwriting Standards](#)
- [Policy 7120: Fair Lending](#)
- [Policy 7125: Loan Application](#)
- [Policy 7130: Loan Authorization](#)
- [Policy 7135: Loan Documentation](#)
- [Policy 7140: Loan Insurance](#)
- [Policy 7145: Loan Limits](#)
- [Policy 7150: Loan Portfolio Mix](#)
- [Policy 7155: Loan Quality Board Reports](#)
- [Policy 7160: Loans to Insiders](#)
- [Policy 7165: Pricing and Terms](#)
- [Policy 7170: Risk-Based Lending](#)
- [Policy 7175: Anti-Steering in Lending Practices](#)
- [Policy 7180: Anti-Predatory Lending Policy](#)
- [Policy 7200: Consumer Loans](#)
- [Policy 7205: Automobile Loans](#)
- [Policy 7206: Lease-Like Loans](#)
- [Policy 7210: Credit Cards](#)
- [Policy 7213: Military Personnel Loans](#)
- [Policy 7215: Overdraft Protection \(Courtesy Pay\)](#)
- [Policy 7217: Payday Lending](#)
- [Policy 7218: Payday Alternative Loans \(PALs\)](#)
- [Policy 7220: Rapid Refund Loans](#)
- [Policy 7225: Recreational Vehicle Loans](#)
- [Policy 7230: Share Secured Loans](#)
- [Policy 7235: Stock-Secured Loans](#)
- [Policy 7240: Student Loans](#)
- [Policy 7244: Integrated Mortgage Disclosures](#)
- [Policy 7245: Truth-in-Lending Disclosures for Closed-End Credit](#)
- [Policy 7250: Truth-in-Lending Disclosures for Open-Ended Credit](#)
- [Policy 7251: Regulation Z - Home Equity Plans](#)
- [Policy 7255: Personal Loans](#)
- [Policy 7260: Multi-Featured Loan Programs](#)
- [Policy 7270: Skip Payment Program](#)
- [Policy 7301: Registration of Mortgage Loan Originators \(S.A.F.E. Act\)](#)
- [Policy 7302: Real Estate Appraisals](#)
- [Policy 7303: Real Estate Appraisals - Appendices](#)
- [Policy 7305: Environmental Risk Management](#)
- [Policy 7310: Construction Loans](#)
- [Policy 7315: Commercial Real Estate Loan Workouts](#)
- [Policy 7320: Home Equity Loans](#)
- [Policy 7330: Residential Real Estate Loans](#)
- [Policy 7331: Non-Traditional Residential Real Estate Loans](#)
- [Policy 7332: Loan Originator Compensation](#)
- [Policy 7335: Loans Secured by Unimproved Property](#)
- [Policy 7350: Ability to Repay](#)
- [Policy 7351: Small Creditor Ability to Repay](#)
- [Policy 7360: Mortgage Servicing Rules](#)
- [Policy 7361: Small Servicer Mortgage Servicing Rules](#)
- [Policy 7370: HOEPA Rule Requirement](#)
- [Policy 7410: Indirect Dealer Financing](#)

- [Policy 7415: Sub-Prime Auto Indirect Auto Lending Policy](#)
- [Policy 7420: Member Business Loans/Commercial Lending](#)
- [Policy 7425: Member Business Credit Cards](#)
- [Policy 7430: Participation Loans](#)
- [Policy 7510: Collection Process](#)
- [Policy 7520: Collection Staff Members and Responsibilities](#)
- [Policy 7600: Loan Review and Classification](#)
- [Policy 7615: Allowance for Loan and Lease Losses](#)
- [Policy 7616: Loan Extensions](#)
- [Policy 7620: Loan Charge-Offs](#)
- [Policy 7625: Residential Real Estate Loss Mitigation Strategies](#)
- [Policy 7630: Multi-Dimensional Loan Portfolio Analysis](#)
- [Chapter 8000: Other Real Estate Owned \(OREO\)](#)
 - [Policy 8100: General OREO Policy](#)
 - [Policy 8110: Accounting Treatment of OREO](#)
 - [Policy 8120: Eviction of OREO Inhabitants](#)
 - [Policy 8130: Resale of OREO](#)
- [Chapter 9000: Federal Regulations](#)
 - [Policy 9110: Equal Credit Opportunity Act - Regulation B](#)
 - [Policy 9120: Fair Debt Collection Practices Act](#)
 - [Policy 9130: Holder in Due Course Rule](#)
 - [Policy 9150: Unfair, Deceptive, or Abusive Acts or Practices](#)
 - [Policy 9200: Home Mortgage Disclosure Act - Regulation C](#)
 - [Policy 9210: Real Estate Settlement Procedures Act - HUD Regulation X](#)
 - [Policy 9220: Home Ownership and Equity Protection Act](#)
 - [Policy 9300: Bank Bribery Act](#)
 - [Policy 9400: Equal Employment Opportunity Act](#)
 - [Policy 9420: Monetary Control Act - Regulation D](#)
 - [Policy 9500: Americans with Disabilities Act](#)
 - [Policy 9600: Telephone Consumer Protection Act and Junk Fax Prevention Act](#)
- [Chapter 10000: Records Retention](#)
 - [Policy 10001: Table 1 - Corporate Records](#)
 - [Policy 10002: Table 2 - Collection & Delinquency Records](#)
 - [Policy 10003: Table 3 - Data Processing Records](#)
 - [Policy 10004: Table 4 - Electronic Funds Transfer Records](#)
 - [Policy 10005: Table 5 - General Accounting Records](#)
 - [Policy 10006: Table 6 - Insurance & Bond Records](#)
 - [Policy 10007: Table 7 - Lending Records](#)
 - [Policy 10008: Table 8 - Negotiable Instruments Records](#)
 - [Policy 10009: Table 9 - Personnel & Employment Records](#)
 - [Policy 10010: Table 10 - Security Records](#)
 - [Policy 10011: Table 11 - Member Account Records](#)
 - [Policy 10012: Table 12 - Tax Records](#)
 - [Policy 10100: Records Retention](#)
- [Chapter 11000: Fair Credit Reporting Act \(FCRA\)](#)
 - [Policy 11001: Fair Credit Reporting Act](#)
 - [Policy 11002: Furnishing Information To Credit Reporting Agencies](#)
 - [Policy 11003: Accuracy And Integrity Of Information Reported](#)
 - [Policy 11004: Pre-Screened Offers Of Credit Or Insurance](#)
 - [Policy 11005: FCRA Adverse Action Requirements](#)
 - [Policy 11006: Receipt Of Notice Of Dispute Of Accuracy Information](#)

- [Policy 11009: Identity Theft Red Flag Guidelines](#)
- [Policy 11010: Risk Based Pricing](#)
- [Policy 11012: Disclosure Of Information To Victims Of Identity Theft](#)
- [Policy 11015: Obtaining and Using Medical Information](#)
- [Policy 11016: Affiliate Marketing Rules](#)

Chapter 1000: Administrative

Duly Approved by Credit Union

BOARD OF DIRECTORS

Approval Date:

- [Policy 1100: Leadership](#)
- [Policy 1110: Mission Statement](#)
- [Policy 1120: Vision Statement](#)
- [Policy 1130: Credit Union Values](#)
- [Policy 1140: Credit Union History](#)
- [Policy 1150: Field of Membership](#)
- [Policy 1160: Strategic Planning](#)
- [Policy 1170: Equal Opportunity Statement](#)
- [Policy 1200: Organization](#)
- [Policy 1205: Board of Director's Duties](#)
- [Policy 1210: Compensation, Reimbursement And Indemnification](#)
- [Policy 1220: Bond and Insurance Coverage](#)
- [Policy 1230: Regulatory Compliance](#)
- [Policy 1235: Education & Volunteer Training Guidelines](#)
- [Policy 1240: Enterprise-Wide Risk Management](#)
- [Policy 1300: Audits](#)
- [Policy 1400: Legal Counsel](#)
- [Policy 1500: Staffing](#)
- [Policy 1505: Whistleblowing Protection Policy](#)
- [Policy 1510: Nepotism](#)
- [Policy 1520: Succession Planning](#)
- [Policy 1530: Employee Use of Social Media](#)
- [Policy 1531: Credit Union Use of Social Media](#)
- [Policy 1540: Complaint Policy for Federally Chartered Credit Unions](#)
- [Policy 1541: Complaint Policy for State Chartered Credit Unions](#)
- [Policy 1600: Code of Ethics and Diversity](#)
- [Policy 1610: Confidential Information](#)
- [Policy 1615: Privacy](#)
- [Policy 1616: Anti-Phishing](#)
- [Policy 1620: Conflict of Interest](#)
- [Policy 1640: Credit Union Assets](#)
- [Policy 1645: Fraud](#)
- [Policy 1650: Gifts, Bribes, or Kickbacks](#)
- [Policy 1680: Political Contributions](#)
- [Policy 1685: Software Licensing](#)

Policy 1100: Leadership

Revised Date: 01/01/2004

Model Policy Revised Date: 01/01/2004

Model Policy Reviewed Date: 06/27/2014

[CUnion] (Credit Union) acknowledges its place in the financial services industry. The competitive environment in which we operate is constantly changing and presenting new challenges. It is imperative that the Board of Directors and management team of the Credit Union demonstrate leadership. The policy statements and information contained in this section of the manual represent tangible expressions of that leadership.

Policy 1110: Mission Statement

[1110-1]

Policy 1120: Vision Statement

[1120-1]

Policy 1130: Credit Union Values

[1130-1]

Policy 1140: Credit Union History

[1140-1]

Policy 1150: Field of Membership

Revised Date: 03/30/2017

Model Policy Revised Date: 03/30/2017

1. FIELD OF MEMBERSHIP

[1150-1]

2. VERIFICATION OF MEMBERSHIP ELIGIBILITY. [CUname] (Credit Union) will verify the eligibility of prospective members seeking membership with the Credit Union.

A. **Occupation-Based (Select Employee Group) Eligibility.** Employees, retirees (the SEG(s)) volunteers, and their immediate family members and spouses of persons who died while in the field of membership, as well as organizations of such persons, are eligible for membership with the Credit Union. Employees of an entity with a contractual relationship (or equivalent) with that group or with a legal entity that has a controlling ownership interest in that entity are also eligible for membership. The Credit Union will review [1150-2] to determine whether the prospective member meets the occupation-based membership eligibility.

B. **Education-Based Eligibility.** Employees of and students attending [the school], volunteers, their immediate family members and spouses of persons who died while in the field of membership are eligible for membership with the Credit Union. The Credit Union will review [1150-3] to determine whether the prospective member meets the education-based membership eligibility.

C. **Association-Based Eligibility.** Employees and businesses of the association, as well as the association are eligible for membership in the Credit Union. The Credit Union will review [1150-4] to determine whether the prospective member meets the association-based membership eligibility.

D. **Community-Based Eligibility.** People (including businesses) who live, work, worship or attend school in the community, as well as their immediate family members and spouses of persons who died while in the field of membership are eligible for membership with the Credit Union. The Credit Union will review [1150-5] to determine whether the prospective member meets the community-based membership eligibility.

E. **Trade, Industry or Profession (TIP)-Based Eligibility.** Employees, (including employees of other legal entities that are related to the legal entity within the field of membership by contract or by having a strong dependency relationship and work with the employees in the field of membership and are within the same industry) independent contractors, volunteers or self-employed persons who work regularly in the licensed industry, corporations, retirees, as well as spouses of persons who died while in the field of membership, and the immediate family members within the TIP are eligible for membership with the Credit Union. The Credit Union will review [1150-6] to determine whether the prospective member meets the TIP-based membership eligibility.

3. **ARMED FORCES.** Honorably discharged veterans are eligible for membership in the Credit Union for any Armed Services of the United States in the Credit Union's charter.

4. **ONCE A MEMBER, ALWAYS A MEMBER.** Once a person becomes a member of the Credit Union, such a person may remain a member of the Credit Union until the person chooses to withdraw or is expelled from the membership of the Credit Union.

Policy 1160: Strategic Planning

Revised Date: 07/01/2009

Model Policy Revised Date: 07/01/2009

Model Policy Reviewed Date: 06/27/2014

General Policy Statement:

The Board recognizes that planning for the future is imperative. Understanding past performance, current conditions and future trends provide a rational approach to effective business planning.

[CUNAME] (Credit Union) will participate in an annual planning process designed to identify and prioritize vital strategic objectives. The results of the annual process will be summarized and adopted as the Strategic Plan for the Credit Union. Management business plans and budgets should be formulated within the scope and intent of the Strategic Plan. The planning process should involve all directors, key management staff and volunteers, as appropriate.

Guidelines:

1. **RESPONSIBILITY.** The Board of Directors is responsible for reviewing and approving the Strategic Plan. The [1160-1] is responsible for managing the planning process and developing the plan.
2. **PREPARATION.** Effective strategic planning requires both research and informed discussion. The Credit Union will design the planning process to include adequate research in critical areas. Research results will be summarized and disseminated prior to the planning session.
3. **STRUCTURE.** The Credit Union will conduct a Strategic Planning Session each year. The length and structure of the session will be based on the anticipated planning issues. The Credit Union may hold the planning session in an outside facility to minimize interruption and promote creative thinking. When possible, the Credit Union will obtain a facilitator to conduct the strategic planning session.
4. **HORIZON AND TIME FRAME.** The Strategic Plan will be updated annually to cover a [1160-2] year horizon. The updated plan will normally be reviewed by the Board during the month of [1160-3]. Business plans and budgets for the next operating period will be prepared within the scope and direction of the updated Strategic Plan.
5. **SCOPE.** The Strategic Plan will establish objectives for all key areas of Credit Union operations and performance. However, the plan will remain strategic in nature. The number and detail of strategic objectives will be carefully considered to ensure they provide direction on what should be accomplished rather than details on how. The objectives will be flexible enough to be responsive to change and events, but will retain the overall direction when adjusted. The Board will approve the Strategic Plan and measure its implementation and progress.
 - A. At a minimum the plan will consider:
 - i. Member Services
 - ii. Financial Performance
 - iii. Operational Effectiveness/Regulatory Compliance

- iv. Human Resources
- v. Technology
- vi. Facilities
- vii. Security
- viii. Disaster Planning
- ix. Investments Policy
- x. Interest Rates
- xi. Loan Maximums
- xii. Staffing – Adequacy and Needs
- xiii. Board/Staff Training Needs

B. The Board will develop action plans to achieve each of the objectives. Based on needs and trends, the Board may develop specific supporting plans in critical or rapidly changing areas.

6. **COMMUNICATION.** In order to carry out the objectives and strategies of the Strategic Plan, management will communicate the final Plan to all personnel. Duties will be assigned, and job descriptions will be adjusted when necessary to achieve results.

7. **MEASUREMENT.** The Credit Union will establish measurable goals in an effort to achieve the results of the Strategic Plan. These goals may change, depending on the business and/or economic climate. Regardless of whether these goals increase, decrease or remain static throughout the term of the Strategic Plan, sufficient explanation of the goals will be provided. Measurement for each of these goals will be established by [1160-4].

8. **PLAN REVIEW.**

A. **Quarterly Report.** The [1160-5] will provide a quarterly report to the Board on the progress made in the achievement of goals and any substantive adjustments made to the Plan.

B. **Annual Review.** The Board will review the Plan annually to evaluate the strategies, measure the progress of implementation and make any adjustments that may be necessary.

Policy 1170: Equal Opportunity Statement

Revised Date: 06/27/2014

Model Policy Revised Date: 06/27/2014

[CUName] (Credit Union) is an equal opportunity business, lender and employer and complies with The Americans with Disabilities Act, The Age Discrimination in Employment Act, Title VII, the federal Civil Rights Acts, the Equal Pay Act, the Equal Credit Opportunity Act, the Equal Housing Act and all other applicable state and federal anti-discrimination laws.

Policy 1200: Organization

Revised Date: 06/27/2014

Model Policy Revised Date: 06/27/2014

General Policy Statement:

[CUName] (Credit Union) is managed by a Board of Directors assisted by committees as set forth in the Credit Union's bylaws.

Guidelines:

1. BOARD OF DIRECTORS.

- A. The Board of Directors consists of an odd number of directors, at least five in number, who are elected by the Credit Union members.
- B. The Board is ultimately responsible for all the operations of the Credit Union.
- C. The Board shall elect from their number the Board Officers specified in the bylaws, and also shall elect from their number a financial officer.

2. **GOVERNANCE.** The Board of Directors is responsible for the general direction and control of the affairs of the Credit Union.

3. COMMITTEES.

- A. The Board **shall** appoint the following committees to assist it:
 - i. A Supervisory Committee consisting of not less than three nor more than five members.
 - ii. Where the Bylaws so provide, an Executive Committee of not less than three directors.
- B. The Board **may** appoint the following committees to assist it:
 - i. Where the bylaws so provide, a Credit Committee consisting of an odd number of members of the Credit Union, but which shall not include more than one loan officer.
 - ii. An Asset/Liability Management Committee.
 - iii. An Investment Committee.
 - iv. A Nominating Committee
 - v. Such other committees as the Board deems appropriate.

4. BYLAWS AND MEETING MINUTES

- A. The Credit Union will keep a current set of bylaws and minutes of the meetings of the Board and its committees.

B. The Board and the committees will follow the bylaws in carrying out their responsibilities, electing or appointing their members, filling vacancies, and holding meetings.

5. **QUALIFICATIONS.** Any member over the age of 18 may serve as a director or committee member subject to the approval of the Credit Union's examiners and bonding company. However, no person shall serve as a director, officer, committee member, or employee of the Credit Union who has been convicted of any criminal offense involving dishonesty or breach of trust.

6. **ELECTIONS.**

A. The Credit Union will follow the election procedures in accordance with its bylaws as follows:

[1200-1]

7. **RECORD RETENTION.** See Policy 10001, Table 1 for retention schedule of corporate records.

Policy 1205: Board of Director's Duties

Revised Date: 09/30/2014

Model Policy Revised Date: 09/30/2014

General Policy Statement:

The Board of Directors of a Credit Union is charged with the general direction and control of the institution. [CUName] (Credit Union) recognizes the importance of the fiduciary duties of a director of the Credit Union and will support directors with needed support and training to meet their duties.

1. GENERAL DUTIES OF DIRECTORS.

- A. The Board of Directors is responsible for the general direction and control of the Credit Union. The Board may delegate operational functions to management, but not the responsibility for the Credit Union's direction.
- B. A director must carry out his or her duties in good faith, in a manner reasonably believed to be in the best interests of the membership, and with such care, including reasonable inquiry, as an ordinarily prudent person in a like position would use under similar circumstances.
- C. A director must administer the affairs of the Credit Union fairly and impartially and without discrimination in favor of or against any particular member.
- D. A director must have at least a working familiarity with basic finance and accounting practices, including the ability to read and understand the Credit Union's balance sheet and income statement and the ability to ask, as appropriate, substantive questions of management and auditors.
- E. A director must direct the operations of the Credit Union in conformity with the [Federal or State] Credit Union Act, NCUA's Rules and Regulations, other applicable laws, and sound business practices.
- F. A director may rely on information prepared or presented by employees or consultants the director reasonably believes to be reliable and competent and who merit confidence in the particular functions performed.
- G. The Board of Directors will promote a culture of compliance within the Credit Union based on FinCEN's requirements in correlation with the Bank Secrecy Act (see Policy 2110 – Bank Secrecy Act/Anti Money Laundering Policy).

2. **FIDUCIARY DUTY.** The key measures of the Credit Union's success or failure are represented in the Credit Union's financial statements. As such, a director must understand these financial statements to participate in a meaningful manner in the direction and control of the institution.

- A. At a minimum, a director should be able to examine the Credit Union's balance sheet, income statement and be able to answer the following questions:
 - i. What does this line item mean?
 - ii. Why is it important to the Credit Union?

iii. Is the value of the line item changing over time? If so, what does that change (either positive or negative) mean?

iv. Is the change important to the Credit Union?

B. Board members, at the time of election or appointment, or within a reasonable time thereafter (not to exceed six months), must have at least a working familiarity with basic finance and accounting practices, including the ability to read and understand the Credit Union's balance sheet and income statement and to ask, as appropriate, substantive questions of management and the internal and external auditors.

i. Board members who were elected or appointed who do not possess the requisite financial skills have six months from election or appointment date to obtain them.

ii. Board members who already understand their Credit Union's financial statements and risk controls will not have to do anything further to meet the financial requirements of NCUA's Directors' Duties Rule.

3. **RISK DUTY.** A Credit Union director must understand the specific activities in which his or her Credit Union engages. In particular, a director must understand not only how these activities generate revenue for the Credit Union but also the various risks associated with these activities that could lead to financial loss.

A. To do their job in a meaningful manner, it is essential that directors understand the risks found in depository institutions:

i. Credit,

ii. Liquidity,

iii. Interest rate,

iv. Compliance,

v. Strategic,

vi. Transaction, and

vii. Reputation risk.

B. Directors must understand the internal control structures at the Credit Union that limit and control these risks.

4. **MANAGEMENT DUTIES.**

A. The Board must directly exercise its authority to hire, fire, determine duties, set compensation, and discipline senior management.

B. The Board must ensure that appropriate policies are in place to guide senior management in the execution of their duties.

C. The Board may delegate other management functions to senior management.

D. Directors must ensure they are properly informed about what is happening in the Credit Union based on the input, information and reports of senior management, the supervisory committee and internal and external auditors. Where necessary, the Board may also request Credit Union employees provide information directly to the Board, and not through senior management.

i. The Board may hire consultants that report directly to the Board, and not to senior management.

5. **GOOD FAITH DUTY.** A director must carry out his or her duties in good faith, in a manner reasonably believed to be in the best interests of the membership of the Credit Union, and with such care, including reasonable inquiry, as an ordinarily prudent person in a like position would use under similar circumstances.

A. Directors should take care not to violate the law, and not to be involved in decisions that benefit the director personally.

B. Directors should focus on the best interests of the membership as a whole.

Policy 1210: Compensation, Reimbursement And Indemnification

Revised Date: 06/27/2014

Model Policy Revised Date: 06/27/2014

General Policy Statement:

No member of the Board or of any committee may be compensated for performing their duties or responsibilities as a Board or committee member except as permitted by applicable law and as authorized by the Credit Union's Bylaws. Employees and volunteers may be reimbursed for normal and customary expenses, (see Policy 3155 - Travel Reimbursement), incurred in the performance of their Credit Union duties.

The Board or the Executive Committee of the Board, if applicable, shall establish the compensation of the President/CEO. The President/CEO shall be responsible for establishing and administering the compensation and benefits of the Credit Union employees, in accordance with this policy.

[CUNAME] (Credit Union) recognizes the value of continuing education and training for employees and volunteers. It is the policy of the Credit Union to provide training and educational opportunities in accordance with the guidelines outlined in the Credit Union's Education & Volunteer Training Guidelines policy (See Policy 1235) as time and resources permit.

Guidelines:

1. COMPENSATION.

- A. **Employees.** The President/CEO shall be responsible for administering the compensation and benefits for the Credit Union employees within the budget guidelines and these policy guidelines.
- B. **Loan Originator Compensation.** The Credit Union will ensure that it complies with Regulation Z in an effort to protect its members from unfair or abusive mortgage lending practices and will follow the guidance and requirements of the Credit Union's Loan Originator Compensation Policy (See Policy 7332).
- C. **Volunteers/Board of Directors.** No member of the Board or of any committee may be compensated for performing their duties or responsibilities as a Board or committee member except as permitted by applicable law and as authorized by the Credit Union's Bylaws. Compensation does **not** include the following:
 - i. **Insurance.** Compensation does not include reasonable health, accident, or similar insurance protection supplied to Board members or committee members at Credit Union expense. Such insurance, however, must:
 - a. Exclude life insurance;
 - b. Be limited to areas of risk, including accidental death and dismemberment, to which a Credit Union official is exposed by reason of carrying out the duties of the official's position; and
 - c. Cease immediately upon the insured's leaving office, without providing residual benefits other than from pending claims, if any except that the Credit Union will comply with federal and state laws providing departing officials the right to maintain health insurance coverage at

their own expense.

ii. **Other Reimbursements.** The reimbursement of reasonable and proper expenses incurred in the execution of the duties of the Board or committee member's position. Each such reimbursement, however, must:

- a. Be for an expense determined by the Board to be necessary or appropriate to carry out the official business of the Credit Union.
- b. Must be in accordance with the written policies and procedures, including documentation requirements, established by the Board.

iii. **Indemnification and Related Insurance.** Consistent with the information below, such indemnification is not considered to be compensation.

2. **INDEMNIFICATION.** Officials and current and former employees may be indemnified for expenses reasonably incurred in connection with judicial or administrative proceedings to which they are or may become parties by reason of the performance of their official duties.

- A. The Credit Union will purchase and maintain insurance on behalf of its officials and employees against any liability asserted against them and expenses incurred by them in their official capacities and arising out of the performance of their official duties to the extent permitted by law.

3. **TAX IMPLICATIONS.** Where appropriate, the Credit Union will issue an IRS Form 1099 or other applicable tax form for travel reimbursement purposes. The Credit Union will consult with its tax expert to ensure compliance with IRS requirements.

Policy 1220: Bond and Insurance Coverage

Revised Date: 06/27/2014

Model Policy Revised Date: 06/27/2014

General Policy Statement:

The Board recognizes the risks associated with doing business in today's financial industry and acknowledges its responsibility to protect the assets of [CUNAME] (Credit Union). It is the policy of this Credit Union to regularly review the risks, analyze the potential for loss, and provide insurance coverage that appropriately covers the risk of financial loss. Such insurance coverage will meet the minimum regulatory requirements applicable to the Credit Union.

Guidelines

1. **RESPONSIBILITY.** The Board of Directors is responsible to review and approve the insurance coverage of the Credit Union at least annually. The President is responsible to conduct an annual review of insurance coverage and deliver a report to the Board.
2. **COVERAGES.** The type and amount of specific coverage will be determined by the Board as a result of its annual insurance review and will meet the minimum regulatory requirements applicable to the Credit Union. While additional coverage may be approved by the Board, it is the policy of the Credit Union to provide coverage in at least the following areas:
 - A. **Bond Coverage.** The Credit Union will provide bond coverage, including fraud and dishonesty coverage, for all operational areas where significant loss potential exists. The bond will cover the performance of all employees and all officers having custody of or handling Credit Union funds. The specific coverage and amounts will be determined annually based on current operations and risks.
 - B. **Director, Volunteer & Employee Coverage.** The Credit Union will provide insurance to protect employees and volunteers from liability in the performance of their Credit Union duties.
 - C. **Employment Practices Liability Coverage.** The Credit Union will provide coverage against claims arising from its employment practices.
 - D. **Casualty Coverage.** Where the cost of the premium is appropriate for the coverage provided, the Credit Union will provide insurance to protect the assets of the Credit Union. Such assets will include loan collateral, physical facilities, equipment, etc.
 - E. **Business Continuity Coverage.** The Credit Union will estimate the expenses of continuing operations in the event its primary facilities and equipment are lost. It will obtain insurance to cover these expenses.
 - F. **Workers' Compensation Insurance.** The Credit Union will provide workers' compensation insurance in accordance with the law.
3. **DOCUMENTATION.** The Credit Union will establish a method for recording the content and results of its insurance review. All documentation will be retained until all audits and regulatory examinations have been completed for the period in which the insurance review was valid, or longer if deemed appropriate by management.

4. **REGULATORY COMPLIANCE.** The Credit Union will work with all appropriate regulatory agencies to ensure that the bond insurance coverages provided meet the minimum regulatory requirements.

Policy 1230: Regulatory Compliance

Revised Date: 03/30/2017

Model Policy Revised Date: 03/30/2017

General Policy Statement:

[CUName] (Credit Union) is committed to understanding and complying with the laws and regulations that govern its operation. The purpose of this policy is to formalize that commitment, assign responsibility, and authorize general compliance activities. In order to assist with this formalized commitment, the Credit Union has a compliance management system in place, inclusive of a compliance program addressing the guidelines within policy, along with processes and procedures to manage consumer compliance risk, support compliance and ultimately prevent any harm to the Credit Union's members, and consumers generally.

Guidelines:

1. RESPONSIBILITY.

- A. While the Board of Directors is responsible for the overall performance of the Credit Union, authority to design and administer the compliance program is granted to the CEO/President.
- B. The CEO/President is assigned the role of Compliance Officer, unless this role is formally assigned by the CEO/President to another member of the management team.
- C. Effective compliance requires the contribution of each employee at each stage of the product lifecycle, from product creation, implementation and service/administration. All employees are responsible to learn, understand and comply with the laws and regulations that affect their area of responsibility.

2. **COMPLIANCE EXPERTISE.** The CEO/President is responsible in ensuring the Compliance Officer has knowledge of consumer compliance laws and regulations, including emerging risks that may impact the Credit Union's products and services. The Compliance Officer will continue to build the compliance expertise of the entire Credit Union with authorized activities including internal staff training, attendance at compliance schools and seminars, subscription to compliance update services, etc. Funding for such compliance activities that exceeds management's spending authority must be approved as part of the annual budget or through separate action by the Board.

3. **ANNUAL COMPLIANCE REVIEW.** The Compliance Officer will annually undertake a written review of the level of compliance of the Credit Union. The scope of this review is broad and should include federal laws and regulations, state laws and regulations, and key management practices related to compliance.

4. **COMPLIANCE MANAGEMENT SYSTEM.** The Credit Union will have an effective and proactive consumer compliance system in place that supports compliance across all lines of business. The Credit Union's compliance management system will include procedures and processes, including the annual compliance review, to self-identify any potential compliance weaknesses and take corrective action promptly to address those weaknesses.

5. **REPORTING.** The CEO/President or the Compliance Officer under the direction of the CEO/President will present the results of the annual compliance review to the Board of Directors. The report will at a minimum include: the level of compliance with each item, prioritized actions recommended to improve compliance, and projected time frames to complete recommended actions. A copy of the annual compliance review will be

maintained until completion of the regulatory examination following the compliance review and until all corrective actions have been completed and verified, and then as long thereafter as deemed necessary by the CEO/President.

6. **TRAINING.** The CEO/President, or the Compliance Officer under the direction of the CEO/President, will develop and execute a plan to systematically train the Credit Union staff in all of the laws and regulations relevant to their respective positions. The frequency and depth of training will be determined by the needs of the staff and the importance of the law or regulation. Training will be updated proactively as laws and regulations change and/or in advance of new products or services to ensure compliance responsibilities are effectively communicated.
7. **CONFIDENTIALITY.** All documents and work papers used in the compliance review, including the compliance report, shall be confidential and may only be shared and reviewed with legal counsel and as such shall be privileged documents. No compliance review documents or reports shall be disclosed to any member, third party or regulatory agency, except legal counsel.
8. **THIRD-PARTY DUE DILIGENCE.** The Credit Union conducts appropriate due diligence in accordance with the Third Party and Due Diligence & Oversight Policy – (Policy 2185), including oversight and review to ensure compliance with consumer protection laws.
9. **CONSUMER COMPLAINT RESPONSE.** The Credit Union will comply with their Complaint Policy (Policy 1540 – Complaint Policy for Federally Chartered Credit Unions or Policy 1541 for State Chartered Credit Unions) and will have procedures to ensure complaints are investigated and responses are prompt and thorough. Management understands the importance of identifying potential consumer harm, Credit Union deficiencies and service issues through the complaint process and takes corrective action appropriate with the size and scope of the results.

Policy 1235: Education & Volunteer Training Guidelines

Revised Date: 08/29/2013

Model Policy Revised Date: 08/29/2013

Model Policy Reviewed Date: 06/27/2014

General Policy Statement:

[CUName] (Credit Union) recognizes the importance of obtaining ongoing education in order to more effectively serve the membership. The Credit Union encourages staff and Board attendance at education sessions aimed to assist in this endeavor.

The following conferences, seminars and courses have been identified as valuable opportunities for volunteers and employees. Attendance or participation must be authorized through the regular budgeting process or through separate Board approval.

1. VOLUNTEERS.

A. Board members, at the time of election or appointment, or within a reasonable time thereafter (not to exceed six months), must have at least a working familiarity with basic finance and accounting practices, including the ability to read and understand the Credit Union's balance sheet and income statement and to ask, as appropriate, substantive questions of management and the internal and external auditors.

i. Board members who were elected or appointed who do not possess the requisite financial skills have six months from election or appointment date to obtain them.

B. Expenses associated with the following education and training activities will normally be approved:

i. League Annual Meeting

ii. League Chapter Meetings

iii. CUNA's Volunteer Achievement Program (VAP)

iv. CUNA's Volunteer Lending Program (VLP)

v. Any additional financial education training provided by vendors, college courses or other opportunities at colleges or universities.

2. **EMPLOYEES.** Expenses associated with the following education and training activities will be considered for approval:

A. League Annual Meeting

B. League Educational Programs

C. CUNA's Staff Training and Recognition Program (STAR)

D. CUNA's Management Enrichment Training Program (MERIT)

E. CUNA's Certified Credit Union Executive Program (CCUE) (Management employees only)

F. CUES Membership (Management employees only)

3. **ATTENDANCE.** The purpose of sending Credit Union representatives to conferences, seminars and courses is to strengthen the Credit Union by improving the knowledge and experience of the attendees. Representatives are required to attend scheduled classes and meetings. Failure to do so constitutes a violation of trust and improper use of Credit Union resources.

A. Employees who fail to attend scheduled classes or meetings may be subject to disciplinary action, up to and including termination.

B. Volunteers who fail to attend scheduled classes or meetings may not be eligible for full expense reimbursement.

Policy 1240: Enterprise-Wide Risk Management

Revised Date: 06/27/2014

Model Policy Revised Date: 06/27/2014

General Policy Statement:

[CUName] (Credit Union) considers the management of risk to be an integral part of good management and has committed to embedding risk management into existing practices and business processes so that it becomes part of the Credit Union's culture and is not viewed as an independent activity. Over time, this will allow everyone at the Credit Union to be involved in the disciplined management of risk.

The purpose of this policy is to outline the Credit Union's comprehensive Enterprise-Wide Risk Management (ERM) program in order to maintain the safety and soundness of the Credit Union.

Guidelines:

1. RESPONSIBILITIES.

- A. **Board of Directors.** The Board is responsible for approving and overseeing the Credit Union's risk management activities and has the ultimate decision-making authority. Operational responsibilities will be delegated to management and the ERM Committee.
- B. **Management.** Management is responsible for maintaining the ERM program, including the evaluation of the Credit Union's operational and financial condition, and for keeping the Board informed of all existing and potential risks. Management's specific responsibilities include the following:
 - i. Implementing the Board's strategic direction within the Credit Union's risk tolerance framework.
 - ii. Developing formal policies that are compatible with the Credit Union's strategic goals and risk tolerance framework.
 - iii. Overseeing the development and maintenance of timely, accurate and informative reports to the Board.
 - iv. Allocating sufficient resources for an effective ERM program.
 - v. Ensuring effective communication of, and adherence to, the Credit Union's strategic direction and risk tolerances throughout the organization.
- C. **The ERM Committee.** The ERM Committee is responsible for the oversight of identifying, managing and monitoring risks faced by the Credit Union, and for ensuring that the Credit Union maintains a culture of risk awareness, identification and management that is ingrained in the Credit Union's staff.
- D. **Audit Committee.** The Audit Committee is responsible for reporting information to the Board, the professional accounting requirements, internal and external audit functions, and recommending the appointment of the external auditor to the Board.
- E. **Credit Union Staff.** All employees are responsible for risk management at the Credit Union. All executives, managers, staff, and contractors have an important role in managing risk across the enterprise.

They are expected to make and support risk-informed decisions and remain vigilant in watching out for emerging risk issues that could jeopardize the Credit Union's success. To the extent that any employee or contract staff becomes aware of what appears to be a significant risk-related issue, the employee should notify his or her supervisor or contracting officer's technical representative so that action may be taken as appropriate.

2. IDENTIFICATION OF RISKS.

- A. **Credit Risk.** Credit Risk is the risk of default on expected repayments of loans or investments. Example: Though we commonly identify credit risk with the chance that a member will not fully repay a loan, this risk is also present in investments. If a Credit Union has uninsured, overnight funds invested in another financial institution or entity, the invested funds are at risk. If the financial institution holding the overnight funds fails or is taken into conservatorship, the Credit Union stands to lose its funds as well as any accrued interest. Performing due diligence on institutions where funds are invested is just as important as evaluating the credit history of a potential borrower.
- B. **Interest Rate Risk.** Interest Rate Risk is the risk that changes in market rates will negatively impact the income statement and balance sheet. Example: If market rates increase, the Credit Union may find itself increasing dividend rates in order to stay competitive. If the Credit Union is holding a significant concentration of long-term investments and long-term loans, it may be unable to raise loan rates and make higher-yielding investments. Increasing expenses without being able to similarly increase income would seriously decrease net income.
- C. **Liquidity Risk.** Liquidity Risk is the risk of an inability to fund obligations as they come due. Example: If a Credit Union receives a large increase in share deposits and quickly loans it out or invests it, without considering the reasons for the increase and the likelihood the funds could be withdrawn as quickly as they were deposited, the Credit Union could be forced to borrow or pay above market dividend rates to meet demands for subsequent withdrawals.
- D. **Transaction Risk.** Transaction Risk is the risk of fraud or operational problems in transaction processing, which results in an inability to deliver products, remain competitive and manage information. Example: If one Credit Union staff member has responsibility for gathering information, completing and verifying the accuracy of the bank reconciliation, the risk that the information will be incorrect (due to error or intentional misstatement) is greater than if the duties for completing and validating are assigned to more than one individual.
- E. **Compliance Risk.** Compliance Risk is the risk of violations and noncompliance with applicable laws and regulations resulting in fines, penalties, payment or damages. Example: If the Credit Union does not properly train staff regarding compliance with the Bank Secrecy Act, one result could be tellers failing to file required reports for large cash deposits. Failure to properly report could result in substantial penalties.
- F. **Strategic Risk.** Strategic Risk is the risk of adverse business decisions through management's actions or inactions. Example: If management decides to add three new branches while emphasizing marketing of e-commerce services without a well-conceived business plan to demonstrate how these potentially conflicting initiatives can be accommodated, the membership could increase their use of electronic services rather than face-to-face transactions at the new branches. This has the potential, if not well planned, to result in the new branches being unprofitable.
- G. **Reputation Risk.** Reputation Risk is the risk of negative public opinion or perception leading to a loss of confidence and/or severance of relationships. Example: If management implements a real estate lending program without setting appropriate individual and overall loan limits, the Credit Union might be able to

fund only a limited number of large real estate loans before it runs out of available funds. The Credit Union might have to significantly scale back the program or even cease real estate lending for a temporary period. The members could perceive this temporary cessation as a sign the Credit Union is having financial problems, resulting in members leaving the Credit Union or requesting large share withdrawals.

3. **RISK ASSESSMENTS.** The Credit Union will perform risk assessments regarding each of the above risks in order to determine the Credit Union's tolerances for each. Risks will measure the nature, complexity and volume as "low," "medium," or "high." The objectives of risk assessments are to protect the Credit Union in the event that the safety and soundness of the Credit Union is threatened.

A. **Scope.** The scope of assessments will help identify potential risks/threats and the vulnerability of the Credit Union to those risks. The Credit Union will also address its controls as "strong," "acceptable," or "weak." Direction of risk indicates the likelihood of change to the risk profile as "increasing," "stable," or "decreasing."

B. **Communication.** The risk assessments will be communicated to all staff members in order to promote staff involvement at every level and maintain a culture of risk management within the Credit Union.

4. **RISK TOLERANCES.** The Credit Union will establish risk tolerances for each of the above risks, and will operate by managing its risks within acceptable bounds relative to the Credit Union's capital position. Exceptions to policies will be viewed by the Board with an eye toward whether the Credit Union's risk tolerances would remain at acceptable levels. The Credit Union will establish within its risk tolerance framework the proper response plans to risk, such as risk transfer, risk acceptance and risk avoidance.

5. **MONITORING AND REVIEW.** The Credit Union will monitor and review all aspects of the risk management process, including internal/external audits, loan reviews, variance analyses and key ratios to address the Credit Union's changing risk profile. The Credit Union will also do the following to enable the Board to consider whether management is operating within established risk limits:

A. Analyze and learn lessons from events, changes, and trends.

B. Detect changes in the external and internal context including changes to the risk itself.

C. Ensure that the risk controls and treatment measures are effective in both design and operation.

D. Document loss events that represent actual risk to the Credit Union, capturing event impact, root cause analysis, and the controls and activities to prevent future occurrences.

E. Identify emerging risks.

F. Perform an insurance review to ensure proper levels of protection from potential loss.

6. **RISK TRAINING.** Everyone in the organization has some role in risk management - it is necessary that risk culture, risk taking, and risk responsibilities be clearly understood at all levels of the business for the various business roles and the risks they encounter and manage. The Credit Union will establish an ongoing risk training and awareness program to communicate and educate risk to employees and business partners.

Policy 1300: Audits

Revised Date: 03/28/2015

Model Policy Revised Date: 03/28/2015

General Policy Statement:

The Supervisory Committee is responsible for ensuring the accuracy and fairness of [CUNAME]'s (Credit Union) financial statements and the safety of the members' assets. To this end, the Supervisory Committee will make or cause to be made an annual audit; will cause the members' accounts to be verified at least once every two years; and will determine whether proper internal controls are being maintained.

Guidelines:

1. ANNUAL AUDIT.

A. Auditing Standards. The person or persons who perform the annual audit must:

- i. Have adequate training and experience as an auditor, taking into account the size and complexity of the Credit Union.
- ii. Exercise reasonable care in performing the audit and preparing the audit report.
- iii. Adequately plan the audit. If assistants are used, they must be properly supervised.
- iv. Obtain sufficient evidence for the items under audit.

B. Auditing Scope. The person or persons performing the annual audit should:

- i. Understand the Credit Union's internal control structure.
 1. The Credit Union's internal control structure includes its control environment, accounting system, and control procedures. Examples of control procedures include daily reconciliations of all loans, deposit, and related interest trial balances with the general ledger; daily balancing of tellers' and vault cash; and dual controls over such items as vault cash, consigned items, dormant account information, and investment records.
 2. The internal control structure must be understood sufficiently to plan the audit and to determine the nature, timing, and extent of tests to be performed.
- ii. Assess the level of control risk.
 1. Control risk may be assessed at the maximum level if the Credit Union's policies and procedures are unlikely to be effective or because evaluating their effectiveness would be inefficient.
 2. A lower level of control risk may be assessed based on evidence of the effectiveness of both the design and operation of a specific policy or procedure.

C. Ways to Satisfy the Audit Requirement. Subject to the foregoing auditing standards and scope, the

Supervisory Committee can satisfy the annual audit requirement as set forth in the following section.

- i. **Federal or State-Chartered Credit Union with Asset Size of \$500 Million or More.** An annual audit of the Credit Union's financial statements must be performed ("opinion audit") in accordance with Generally Accepted Auditing Standards (GAAS) by and independent person who is licensed to do so by the State of jurisdiction in which the Credit Union is principally located.
- ii. **State-Chartered Credit Union with Less Than \$500 million.** An annual Supervisory Committee audit or an audit as prescribed by the State of jurisdiction in which the Credit Union is located is required, whichever is more stringent.
- iii. **Federal Chartered Credit Union with Less Than \$500 Million, but Greater Than \$10 Million.** The Supervisory Committee may:
 1. Perform the audit itself;
 2. Have the Credit Union's independent, internal auditor perform the audit;
 3. Recruit a member or volunteer who is not in the business of performing compensated audits for credit unions to perform the audit; or
 4. Contract with an independent, licensed CPA to perform an "opinion audit" of the Credit Union's financial statements in accordance with GAAS.
 - a. GAAS is promulgated by the American Institute of Certified Public Accountants (AICPA).
 - b. Copies of GAAS may be obtained from the AICPA website; <http://www.aicpa.org>.
- iv. **Federal Chartered Credit Union with Less Than \$10 Million.** The annual audit may be performed by the Supervisory Committee, using one of the following:
 1. **Balance Sheet Audit.** A balance sheet audit performed by a person who is licensed to do business in the state where the Credit Union is principally located;
 2. **Report on Examination of Internal Control Over Call Reporting.** An engagement and report on management's written assertions concerning the effectiveness of internal control over financial reporting in the Credit Union's most recently filed semiannual or year-end Call Report, performed by a person who is licensed to do business in the state where the Credit Union is principally located, and in which management specifies the criteria on which it based its evaluation of internal control; or
 3. **Audit Per Supervisory Committee.** An audit performed by the Supervisory Committee, its internal auditor, or any other qualified person (such as a CPA, public accountant, league auditor, credit union auditing consultant, retired financial institutions examiner, etc.) in accordance with the procedures prescribed in NCUA's Supervisory Committee Guide. Qualified persons who are not State-licensed cannot provide assurance services.
- v. Contract with an independent, licensed CPA or an independent, compensated auditor to perform specified procedures. If performed by a CPA, such an arrangement must be an "agreed-upon procedures engagement." A "compensated auditor" means an accounting or auditing professional

who performs more than one compensated Supervisory Committee audit per year.

1. The specified procedures must, either by themselves or in combination with procedures performed by the Supervisory Committee, meet the auditing scope stated above.
2. If the specified procedures are concerned with the items listed below, the scope of the audit also must satisfy GAAS for expressing an opinion on the financial statements taken as a whole:
 - a. Internal controls,
 - b. Cash,
 - c. Loans,
 - d. Investments,
 - e. Related party transactions,

D. Report. If the audit is performed by the Supervisory Committee or its designated, uncompensated representative, the Supervisory Committee must prepare a written report of the audit. If the audit is performed by a CPA or compensated auditor, then the CPA or auditor must prepare the report and deliver it directly to the Supervisory Committee. The Supervisory Committee will provide the audit report to the Board of Directors. For credit unions with assets of \$10 million or more, all reports and statements filed with the NCUA Board must follow GAAP.

E. Engagement Letter. If the Supervisory Committee contracts with a CPA or compensated auditor, then the CPA or auditor must sign an engagement letter *{Note: A Sample Engagement Letter is available in the CU PolicyPro Resources area under TOOLS > General}*. At a minimum, the engagement letter must:

- i. Specify the terms, conditions, and objectives of the engagement.
- ii. Identify the basis of the accounting to be used (for example, Generally Accepted Accounting Principles (GAAP) for credit unions with assets of \$10 million or more or Regulatory Accounting Practices (RAP)).
- iii. If the audit is not an opinion audit, include an appendix setting forth the procedures to be performed.
- iv. Specify the rate of, or total, compensation to be paid for the audit.
- v. Provide that the CPA or auditor shall, upon completion of the engagement, deliver to the Supervisory Committee a written report of the audit. The report must include:
 1. Any internal control reportable conditions and
 2. Any irregularities or illegal acts
 3. Which come to the auditor's attention during the normal course of the audit.
- vi. Specify a target date for delivery of the written report, not to exceed 120 days from the date of the

calendar or fiscal year-end under audit (period covered), unless the Supervisory Committee obtains a waiver from the regulator.

- vii. Certify that the NCUA staff, and/or the State Credit Union supervisor if applicable will be provided unconditional access to the auditor's complete set of original working papers at the Credit Union.
- viii. Acknowledge that the auditor will retain the working papers for at least three years after the auditor's written report.
- ix. If the engagement is to perform an Supervisory Committee audit, either certify that the audit satisfies the requirements of a complete Supervisory Committee audit or, if it excludes any financial statement elements, accounts, or items required to fulfill the scope of a Supervisory Committee audit, then:
 - 1. Identify the elements, accounts, or items and attributes excluded from the audit.
 - 2. State that, because of the exclusions, the resulting audit will not, by itself, fulfill the complete scope of a Supervisory Committee audit.
 - 3. Caution that the Supervisory Committee will remain responsible for fulfilling the scope of a Supervisory Committee audit with respect to the excluded elements, accounts, or items and attributes.

2. VERIFICATION OF MEMBERS' ACCOUNTS. At least once every two years, the Supervisory Committee will cause to be verified, under controlled conditions, all passbooks and members' accounts against the records of the Credit Union's treasurer. The verification shall be made using any of the following methods:

- A. A controlled verification of 100% of members' share and loan accounts.
- B. A random sampling of members' accounts.
 - i. The method used should provide a sample that represents the population from which the sample was selected. It should also provide each dollar in the population an equal chance of being selected.
 - ii. The size of the sample should be sufficiently large in both number and scope to provide assurance that the General Ledger Accounts are fairly stated in relation to the financial statements taken as a whole.
 - iii. If the evidence provided by confirmations alone is not sufficient, additional procedures should be performed.
- C. If the auditor is an independent, licensed CPA, then the auditor may use non-statistical sampling methods consistent with *applicable* GAAS.
 - i. The sample size should be sufficiently large in both number and scope to provide assurance that the General Ledger Accounts are fairly stated in relation to the financial statements taken as a whole.
 - ii. If the evidence provided by confirmations alone is not sufficient, additional procedures should be performed.
 - iii. The auditor must document the sampling procedures and provide evidence to NCUA, if requested,

that the method used is consistent with applicable generally accepted auditing standards.

D. Record Retention. The Supervisory Committee will retain the records of each verification until it completes the next verification of members' passbooks and accounts.

3. **MONTHLY VAULT COUNTS.** Management must oversee at least one vault cash count each month. The cash count must be completed under dual control by the branch manager or assistant manager and another Credit Union employee. A different employee should be selected each month to perform the audit with the branch manager or assistant manager.

4. **SURPRISE CASH COUNTS.** The Supervisory Committee will direct management to perform regular surprise cash counts of all teller and vault cash supplies to ensure proper control, determine compliance with Board policies on excess cash and bait money, and detect any missing funds.

5. **SUPERVISORY COMMITTEE EXAMINATIONS.** The Supervisory Committee will oversee periodic examinations of the Credit Union's operations to ensure safety and soundness of policies, procedures, and practices, including examination of:

A. Competency and effectiveness of management;

B. Compliance with applicable laws, regulations, and rulings and the Credit Union's Charter and Bylaws;

C. Accuracy of accounting methods and financial reporting;

D. Strength of internal control structure; and

E. Compliance with Board policy, especially policies regarding:

i. Operations

ii. Administration

iii. Accounting

iv. Asset/liability management

v. Investments

vi. Lending

vii. OREO

viii. Non-deposit investments

ix. Security

x. Conflicts of Interest

xi. Fraud

Policy 1400: Legal Counsel

Revised Date: 07/01/2008

Model Policy Revised Date: 07/01/2008

Model Policy Reviewed Date: 06/27/2014

General Policy Statement:

[CUName] (Credit Union) has established a relationship with outside legal counsel who advises the Credit Union when legal questions arise. Senior management has primary responsibility for reviewing all legal matters and keeping the Board of Directors fully informed of the Credit Union's position and potential litigation risk.

Guidelines:

1. **SENIOR MANAGEMENT.** "Senior Management" includes the President and Vice Presidents of the Credit Union and any other officer so designated.
2. **APPROVAL.** All requests for legal assistance **must** be communicated to senior management, who will determine whether to retain counsel. Senior management will thoroughly review the facts and circumstances of each matter, evaluate claims and assess potential risk exposure. All matters involving substantial litigation risk will be reported to the Board immediately.
3. **RESPONSIBILITIES OF CREDIT UNION OFFICERS AND EMPLOYEES.**
 - A. Inform senior management of any legal matter that may impact the Credit Union. This includes service of process, summons, complaints, subpoenas, depositions, notice of bankruptcy, or notice of default and sale.
 - B. Follow-up promptly on any request made by legal counsel.
 - C. Keep legal counsel apprised of any new developments pertaining to any legal matter, which has been referred to legal counsel.

Policy 1500: Staffing

Revised Date: 03/29/2014

Model Policy Revised Date: 03/29/2014

General Policy Statement:

Policies numbered in the 1500 series of this manual cover staffing issues and are included here because they are closely related to operations. The full body of Human Resource policies are contained in [CUname]'s (Credit Union) Employee Handbook.

Policy 1505: Whistleblowing Protection Policy

Revised Date: 06/27/2014

Model Policy Revised Date: 06/27/2014

General Policy Statement:

[CUNAME] (Credit Union) requires directors, employees and volunteers to observe high standards of business and personal ethics. Credit Union employees and representatives must practice honesty and integrity in fulfilling their responsibilities and comply with all applicable laws and regulations.

This policy sets forth the Credit Union's expectations in the event that an employee or volunteer has concerns in regards to unethical, fraudulent, improper or illegal conduct and the means of communicating that information without fear of retaliation. The Credit Union supports candidness, honesty and accountability to protect the Credit Union and its employees, directors, volunteers, and members by addressing wrongdoing so that it can be addressed and prevented in the future.

Guidelines:

1. **WHISTLEBLOWING.** The act of whistleblowing occurs when a person exposes misconduct, alleged dishonest or illegal activity occurring in an organization. Misconduct and illegal activities are most often discovered by people involved with the Credit Union and its operations and can include: directors, volunteers, employees, members and third party service providers.
2. **REPORTING RESPONSIBILITY.** Each director, volunteer, and employee of the Credit Union has an obligation to report questionable, improper, fraudulent or illegal conduct in accordance with this Whistleblower Policy. Examples of this conduct include:
 - A. Violations of the Credit Union's Code of Conduct;
 - B. Violations of law;
 - C. Unethical behavior;
 - D. Dangerous or unsafe practices;
 - E. Questionable financial practices;
 - F. Falsifying documents or records;
 - G. Theft;
 - H. Discrimination; and
 - I. Harassment.
3. **ACTING IN GOOD FAITH.** Directors, volunteers, and employees reporting a concern must act in good faith and have reasonable grounds for believing the information disclosed indicates a violation of the Credit Union's code of conduct, questionable, inappropriate or illegal activity. Anyone making allegations that prove to be made maliciously, recklessly, or falsely will be viewed as a serious disciplinary offense and may result in

discipline action, up to and including dismissal from the volunteer position or termination of employment.

4. **CONFIDENTIALITY.** Reports of concerns will be kept as confidential as possible consistent with the need to conduct an investigation of the allegations.
5. **NO RETALIATION.** Directors, volunteers, and employees are encouraged to raise concerns within the Credit Union for investigation and appropriate action. In the event that questionable, inappropriate or illegal activity is reported in good faith the whistleblower will not be subject to retaliation or, in the case of an employee, adverse employment consequences.
6. **APPLICABLE LAWS.** The Credit Union, its representatives and employees will comply with all applicable laws and cooperate with government officials.

Policy 1510: Nepotism

Revised Date: 01/01/2004

Model Policy Revised Date: 01/01/2004

Model Policy Reviewed Date: 06/27/2014

General Policy Statement:

[CUName] (Credit Union) adopts this nepotism policy in an effort to minimize potential problems associated with hiring related individuals. For the most part, the policy applies to immediate family members. Immediate family member means a spouse, sibling, grandparent, grandchild, parent, and children whether by blood, marriage, or adoption, in-laws, and any other member of the employee's household.

Guidelines:

1. HIRING OF FAMILY MEMBERS.

A. **Family Members of Officials.** The Credit Union may NOT hire an immediate family member of a Credit Union official. An official is the Credit Union President, Executive President, and credit manager, and any member of the Board of Directors or Supervisory Committee.

B. **Family Members of Staff and Employees.** An immediate family member of a staff member or employee will be considered for employment, provided the applicant possesses all the qualifications for employment AND such employment would NOT:

- i. Create either a direct or indirect supervisor/subordinate relationship with a family member; or
- ii. Create either an actual conflict of interest or the appearance of a conflict of interest.

C. **Work Assignments for Family Members.** Close working proximity of family members is discouraged. To the greatest extent possible, family members will be assigned to different work areas or shifts where opportunities for favoritism are not perceived to exist.

2. **CHANGE IN EMPLOYMENT STATUS.** The criteria set forth above will also be considered when assigning, transferring, or promoting an employee or staff member.

3. **CHANGE IN FAMILY STATUS.** Employees and staff members who marry or become members of the same household may continue employment as long as there is not:

- A. A direct or indirect supervisor/subordinate relationship between such employees; or
- B. An actual conflict of interest or the appearance of a conflict of interest.

Should one of the above situations occur, the Credit Union will attempt to find a suitable position within the Credit Union to which one of the affected employees may transfer. If accommodations of this nature are not feasible, the **employee or staff member** will be permitted to determine which of them will resign.

Policy 1520: Succession Planning

Revised Date: 03/28/2015

Model Policy Revised Date: 03/28/2015

General Policy Statement:

[CUNAME]'s (Credit Union) success is dependent upon placing the right people in the appropriate positions at the right time. The succession plan is designed to ensure the continued effective performance of the Credit Union by planning for the ongoing development, placement, and replacement of key people. The goal is to make succession activities part of the strategic planning process and integral to business operations.

Through the succession plan the Credit Union seeks to provide significant opportunities for employees, increase the pool of promotable employees, encourage advancement of diverse groups, and to ensure the Credit Union is able to adapt to a rapidly changing business environment. Succession plans and activities are closely monitored to ensure that they are consistent with the Credit Union's commitment to success and to Equal Employment Opportunity. The Succession Guidelines are suggested procedures only. They may be altered or eliminated at any time and may not be followed in every instance.

Guidelines:

1. **COMMITMENT TO PROMOTION FROM WITHIN.** The Credit Union is firmly committed to promoting from within whenever possible. The Credit Union is committed to assisting employees in developing their potential and in pursuing their career goals.
2. **TIMING.** Succession planning is an ongoing activity. However management will review and update plans annually.
3. **PROCESS.**
 - A. **Identify and Define Key Positions.** Identify current and future key organizational positions. Key positions may include:
 - i. Executive positions
 - ii. Middle and first line supervisors
 - iii. Unique and difficult to fill professional or technical positions
 - B. **Forecast Future Needs.** Forecast long term (over 3 years), intermediate and immediate replacement needs for key positions.
 - C. **Analyze Key Positions.**
 - i. Perform a position analysis. Identify the critical competencies of the positions. Assess skill, knowledge, experience, and personal requirements of key positions.
 - ii. Create a position profile for use in recruiting or developing key employees. Develop criteria used to evaluate quality and readiness of successors.

iii. Identify possible career paths.

iv. Determine whether positions are likely to be filled externally or internally.

D. Implement a Review Program. Regularly assess and review success of the Succession Planning program and modify as necessary.

4. MANAGEMENT RESPONSIBILITIES.

A. All Managers. Every manager has an obligation to (1) prepare employees to assume new responsibilities, (2) identify and prepare successors (3) participate in employee development plans and (4) conduct an annual HR audit of his/her employees (direct reports) to determine employee performance, readiness, potential to move to an advanced position, and the employee development needed (5) review positions, position descriptions and staffing needs and modify where necessary.

B. Managers Overseeing Replacement of "Key Positions." Managers identified as being responsible for assisting in the Succession Planning for key positions are responsible for recommending potential successors and coordination of all succession planning activities.

C. Senior Management Review. All succession plans and employees identified as potential candidates for "key positions" will be reviewed annually by a senior management committee.

D. President. Annually, the President will evaluate the success of Credit Union succession plans in supporting corporate strategic plans, providing future talent and in meeting organizational needs.

5. HUMAN RESOURCES AS FACILITATOR. Managers should confer with Human Resources at any time if they have questions or need assistance in implementing the Succession Planning process.

6. NONDISCRIMINATION. The Credit Union is committed to providing advancement opportunities and to promote all of the employees based on merit, the ability to do the job and other objective criteria. Employees will be evaluated without regard to sex, sexual orientation, gender identity, pregnancy (current, past, or potential), race, religion, disability, age, national origin or other protected class. The Credit Union seeks to employ a diverse work force at all levels of the organization.

7. PROCEDURES ARE SUGGESTED GUIDELINES ONLY. The Credit Union may unilaterally change or completely rescind succession guidelines as needed. No express or implied promises or contracts are created and these guidelines may not be used in every instance. (Contact Human Resources for a copy of the Credit Union's Employment-at-Will Policy.). While the preference is to promote from within, the Credit Union may, as business needs require, seek outside candidates.

8. CONFIDENTIALITY. Succession planning should only be discussed within the Credit Union and then only on a "need to know" basis. Such discussions should generally only take place with managers involved in the planning process and not with potential successor candidates or other employees except as authorized by senior management or as required to implement the plan.

9. RELATED ISSUES. Related Human Resource issues can be found in the Credit Union's Employee Handbook.

Policy 1530: Employee Use of Social Media

Revised Date: 12/31/2015

Model Policy Revised Date: 12/31/2015

Social media can be a fun and rewarding way to share life and opinions with family, friends and co-workers around the world. However, use of social media also presents certain risks and carries with it certain responsibilities. To assist employees in making responsible decisions about their use of social media, the following guidelines have been established for appropriate use of social media.

This policy applies to all employees who work for [CUName] (Credit Union).

General Policy Statement

1. Social Media Can Mean Many Things

In the rapidly expanding world of electronic communication, social media can mean many things. Social media includes all means of communicating or posting information or content of any sort on the Internet, including to your own or someone else's web log or blog, journal or diary, personal website, social networking or affinity website, web bulletin board or a chat room, whether or not associated or affiliated with the Credit Union, as well as any other form of electronic communication.

2. Employees Are Solely Responsible

The same principles and guidelines found in the Credit Union policies and procedures apply to employee activities online. Ultimately, employees are solely responsible for what they post online. Before creating online content, employees should consider some of the risks and rewards that are involved. They should keep in mind that any conduct that adversely affects job performance, the performance of fellow employees, or otherwise adversely affects members, suppliers, people who work on behalf of the Credit Union or the Credit Union's legitimate business interests may result in disciplinary action, up to and including termination. This does not apply to situations protected by the National Labor Relations Act and discussions related to terms and conditions of employment.

3. Employees Should Know and Follow the Rules

Employees should carefully read these guidelines and [1530-1], and ensure postings are consistent with these policies. Inappropriate postings that may include discriminatory remarks, harassment, and threats of violence or similar inappropriate or unlawful conduct will not be tolerated and may result in disciplinary action, up to and including termination.

4. Employees Should Be Respectful

Employees should always be fair and courteous to fellow employees, members, suppliers or people who work on behalf of the Credit Union. Also, they should keep in mind that work-related complaints are more likely to get resolved by speaking directly with co-workers or by utilizing the Credit Union's [1530-2] than by posting complaints to a social media outlet. Nevertheless, if employees decide to post complaints or criticism, they should avoid using statements, photographs, video or audio that reasonably could be viewed as malicious, obscene, threatening or intimidating, that disparages members, employees or suppliers, or that might constitute harassment or bullying.

Examples of such conduct might include offensive posts meant to intentionally harm someone's reputation, or posts that could contribute to a hostile work environment on the basis of race, sex, sexual orientation, gender identity, pregnancy (current, past, or potential), disability, religion, or any other status protected by law or

Company policy.

5. **Be Honest and Accurate**

Employees should make sure they are always honest and accurate when posting information or news, and if a mistake is made, it should be corrected quickly. Be open about any previous posts that have been altered. Remember that the Internet archives almost everything; therefore, even deleted postings can be searched. Employees should never post any information or rumors that they know to be false about the Credit Union, fellow employees, members, suppliers, people working on behalf of the Credit Union or competitors.

6. **Post Only Appropriate and Respectful Content**

- A. **Confidentiality.** Employees should maintain the confidentiality of the Credit Union's trade secrets and private or confidential information. Trade secrets may include information regarding the development of systems, processes, products, know-how and technology. Employees should not post internal reports, policies, procedures, or other internal business-related confidential communications. Employees must follow the requirements of the Gramm-Leach-Bliley Act and the Right to Financial Privacy Act, which require that confidential member information cannot be shared
- B. **Financial Disclosure Laws.** Employees should respect financial disclosure laws. It is illegal to communicate or give a "tip" on inside information to others so that they may buy or sell stocks or securities. Such online conduct may also violate Insider Trading rules.
- C. **Links.** Employees should not create a link from their blog, website or other social networking site to the Credit Union's website without identifying themselves as an employee.
- D. **Express Only Personal Opinions.** Employees must never represent themselves as a spokesperson for the Credit Union. If the Credit Union is a subject of the content being created, employees should be clear and open about the fact that they are an employee and make it clear that their views do not represent those of the Credit Union, fellow employees, members, suppliers or people working on behalf of the Credit Union. If a blog is published or posts made online related to the work an employee does or subjects associated with the Credit Union, employees must make it clear that they are not speaking on behalf of the Credit Union. It is best to include a disclaimer such as "The postings on this site are my own and do not necessarily reflect the views of the Credit Union."

7. **Using Social Media at Work**

Employees should refrain from using social media while on work time or on equipment the Credit Union provides, unless it is work-related as authorized by their manager or consistent with the Computer Security and Use Policy. Employees should not use the Credit Union's email addresses to register on social networks, blogs, or other online tools utilized for personal use.

8. **Retaliation is Prohibited**

The Credit Union prohibits taking negative action against any employee for reporting a possible deviation from this policy or for cooperating in an investigation. Any employee who retaliates against another employee for reporting a possible deviation from this policy or for cooperating in an investigation will be subject to disciplinary action, up to and including termination.

9. **Media Contacts**

Employees should not speak to the media on the Credit Union's behalf without contacting Senior Management. All media inquiries should be directed to them.

10. **Employee Rights under the NLRA**

Our Social Media policy is not intended to interfere with employees' legal rights to engage in concerted, protected activities involving the terms and conditions of employment.

If you have questions or need further guidance, please contact Human Resources.

Policy 1531: Credit Union Use of Social Media

Revised Date: 06/27/2014

Model Policy Published Date: 06/27/2014

[CUName] (Credit Union) supports the use of social media to attract and interact with members and potential members. The Credit Union may, at its discretion, use or discontinue the use of any type of social media to interact with our members. The Credit Union will follow the FFIEC published Guidance addressing applicable federal consumer protection and compliance laws, regulations, and policies on the Credit Union's social media activities.

GUIDELINES:

1. **DEFINITION.** Social media is a form of interactive online communication in which users can generate and share content through text, images, audio, and/or video. Social media can take many forms, including, but not limited to, micro-blogging sites (e.g., Facebook, Google Plus, MySpace, and Twitter); forums, blogs, customer review websites and bulletin boards (e.g., Yelp); photo and video sites (e.g., Flickr and YouTube); sites that enable professional networking (e.g., LinkedIn); virtual worlds (e.g., Second Life); and social games (e.g., FarmVille and CityVille). Social media can be distinguished from other online media in that the communication tends to be more interactive.

2. **RISK MANAGEMENT PROGRAM.** The Credit Union will have a risk management program to allow it to identify, measure, monitor, and control the risks related to social media. The risk management program will include:
 - A. **Governance Structure.** A governance structure with clear roles and responsibilities whereby the Board of Directors or senior management direct how using social media contributes to the strategic goals of the Credit Union;

 - B. **Procedures.** Procedures (either stand-alone or incorporated into other policies and procedures) regarding the use and monitoring of social media;

 - C. **Risk Management.** A risk management process for selecting and managing third-party relationships in connection with social media;

 - D. **Training.** An employee training program;

 - E. **Oversight.** An oversight process for monitoring information posted to proprietary social media sites administered by the Credit Union or a contracted third party;

 - F. **Monitoring.** Monitoring to address in a timely manner the fraudulent use of the Credit Union's brand, such as through phishing or spoofing attacks.

 - G. **Audit.** Audit and compliance functions to ensure online compliance with internal policies and all applicable laws and regulations;

 - H. **Reporting.** Parameters for providing appropriate reporting to the Credit Union's Board of Directors or senior management that enable periodic evaluation of the effectiveness of the social media program and whether the program is achieving its stated objectives.

3. **ADVERTISING.** Because social media may be used to market products and originate new accounts, the Credit Union will take steps to ensure that advertising, account origination, and document retention are performed in compliance with applicable consumer protection and compliance laws and regulations.
4. **PRIVACY.** The Credit Union will consider the potential reaction by the public to the use of member information by social media. The Credit Union will have procedures to address the risks from occurrences such as members posting confidential or sensitive information on the Credit Union's social media page or site.
5. **CONSUMER COMPLAINTS.** The Credit Union will monitor member interactions on social media channels and appropriately address member concerns and complaints to best serve and protect the interests of the Credit Union and membership. In the instance of a member complaint, the Credit Union will follow applicable complaint practices based on Credit Union policies and requirements.

Policy 1540: Complaint Policy for Federally Chartered Credit Unions

Revised Date: 12/31/2015

Model Policy Revised Date: 12/31/2015

General Policy Statement

[CUName] (Credit Union) will ensure that every complaint will be received courteously, investigated thoroughly and acted upon swiftly and appropriately.

It is the policy of the Credit Union to take appropriate steps to record, categorize, analyze, investigate, resolve, and respond to all consumer concerns in a timely manner. In the event that a consumer has a complaint involving a service, a product or a loan, the Credit Union will follow all applicable Federal and State regulations, laws, rules, and requirements pertaining to the method, timing, investigation and response to the complaint.

Guidelines:

1. RESPONSIBLE EMPLOYEES.

The Credit Union's Supervisory Committee is responsible for overseeing the complaint handling process. Although the Committee may delegate certain responsibilities, the Committee will try to obtain information firsthand, where possible.

2. COMPLAINTS TO THE NCUA'S CONSUMER ASSISTANCE CENTER

A. **Submitting a Complaint.** The National Credit Union Administration's (NCUA's) Consumer Assistance Center is responsible for addressing consumer complaints for FCUs up to \$10 billion in assets. Complaints are received by the Consumer Assistance Center via online and by email, fax and regular mail.

B. NCUA - Phase One – Attempted Resolution by the Credit Union.

- i. When a consumer's complaint is received by the NCUA, they assign a unique identification number (case number). The complaint is then forwarded, along with any documents provided to the Credit Union's Chairman of the Supervisory Committee with a copy to the Credit Union's CEO. The NCUA will also send an acknowledgement letter to the consumer indicating the complaint was received and forwarded to the Credit Union in an attempt to resolve the matter. The Credit Union will have sixty (60) calendar days from the date of the forwarding letter to review and, if appropriate, attempt to resolve the matter.
- ii. The Credit Union will follow their procedures, conducting the appropriate investigation. The investigation may include, as applicable:
 1. An interview with the consumer;
 2. A review of the consumer's Credit Union file;
 3. An interview of the appropriate Credit Union officials and/or employees;
 4. A review of pertinent written and unwritten policies and procedures;

5. An understanding of the relevant laws and regulations; and
 6. For fair lending complaints, consideration of the rationale for any exceptions or policy overrides.
- iii. The Credit Union will respond in writing to the consumer with a copy to the Consumer Assistance Center, referencing the case number and whether the matter was resolved.
 - iv. The Consumer Assistance Center may begin a formal investigation if the Credit Union does not respond in a timely manner, if the Credit Union did not address all of the consumer's concerns or there are remaining questions involving regulatory or consumer compliance issues, or if the consumer disputes the resolution in writing within 30 calendar days of the Credit Union's response letter.

C. NCUA - Phase Two – Consumer Assistance Center Investigation. The Consumer Assistance Center will send a letter to the Chairman of the Supervisory committee with a copy of the Credit Union's CEO, informing them of an investigation about the complaint and requiring a written response within 30 calendar days from the date of the letter. The Consumer Assistance Center also sends a communication to the consumer indicating that they have begun an investigation of the complaint.

When the Credit Union adequately addresses the issues associated in the complaint and the Consumer Assistance Center has had a chance to analyze, the consumer and Credit Union will be notified of the resolution. There are five potential outcomes:

- i. The Credit Union has resolved the issue to the consumer's satisfaction and the case is being closed;
- ii. The Credit Union did not violate either a consumer protection law or consumer compliance regulation and the case is being closed;
- iii. One of the two parties initiated litigation; therefore, the courts will decide the outcome and the case is being closed;
- iv. Upon further investigation the issue does not involve either a consumer protection law or consumer compliance regulation; therefore, it does not fall under NCUA's purview (Examples of this are complaints involving state contract law, state foreclosure procedures, etc.) and the case is being closed; or
- v. A violation of either a consumer protection law or consumer compliance regulation has occurred. The NCUA will follow up directly with the Credit Union to resolve the issue and ensure compliance with the applicable law or regulation.

3. CONSUMER COMPLAINT DIRECTLY TO CREDIT UNION.

The Credit Union offers multiple avenues to consumers to resolve problems directly with the Credit Union, including in person, over the telephone, via mail, via e-mail, via social media or fax. The Credit Union will have procedures in place that establish proper protocol and central processing of complaints and inquiries. Any complaint received by the Credit Union will be provided to the Supervisory Committee and their designee promptly upon receipt. Unless there are documented extenuating circumstances, the Credit Union will respond to the consumer within 60 days of receipt of the original communication.

The Credit Union will follow their procedures which include the appropriate type of investigation, documentation, and formal written response to the consumer. The Credit Union's response will address all

issues raised in the complaint, along with an explanation of its actions and decisions in the matter.

4. CORRECTIVE ACTION

The Credit Union will take corrective action as necessary to evaluate trends and correct systematic compliance problems that are identified. This may include additional training and monitoring, updates to tools or system and or an update to written materials such as policies and procedures.

Policy 1541: Complaint Policy for State Chartered Credit Unions

Revised Date: 12/31/2015

Model Policy Revised Date: 12/31/2015

General Policy Statement

[CUName] (Credit Union) will ensure that every complaint will be received courteously, investigated thoroughly and if necessary, acted upon swiftly and appropriately.

It is the policy of the Credit Union to take appropriate steps to record, categorize, analyze, investigate, resolve, and respond to all consumer concerns in a timely manner. In the event that a consumer has a complaint involving a service, a product or a loan, the Credit Union will follow all applicable Federal and State regulations, laws, rules, and requirements pertaining to the method, timing, investigation and response to the complaint.

Guidelines:

1. RESPONSIBLE EMPLOYEES.

The Credit Union's Supervisory Committee is responsible for overseeing the complaint handling process. Although the Committee may delegate certain responsibilities, the Committee will try to obtain information firsthand, where possible.

2. COMPLAINTS TO THE NCUA'S CONSUMER ASSISTANCE CENTER

A. **Submitting a Complaint.** The National Credit Union Administration's (NCUA's) Consumer Assistance Center is responsible for addressing certain consumer complaints for federally insured state-chartered credit unions. Complaints are received by the Consumer Assistance Center via online and by email, fax and regular mail.

B. NCUA - Phase One – Attempted Resolution by the Credit Union.

- i. When a consumer's complaint is received by the NCUA, they assign a unique identification number (case number). The complaint is then forwarded, along with any documents provided to the Credit Union's Chairman of the Supervisory/Audit Committee with a copy to the Credit Union's CEO. The NCUA will also send an acknowledgement letter to the consumer indicating the complaint was received and forwarded to the Credit Union in an attempt to resolve the matter. The Credit Union will have sixty (60) calendar days from the date of the forwarding letter to review and, if appropriate, attempt to resolve the matter.
- ii. The Credit Union will follow their procedures, conducting the appropriate investigation. The investigation may include, as applicable:
 1. An interview with the consumer;
 2. A review of the consumer's Credit Union file;
 3. An interview of the appropriate Credit Union officials and/or employees;
 4. A review of pertinent written and unwritten policies and procedures;

5. An understanding of the relevant laws and regulations; and
 6. For fair lending complaints, consideration of the rationale for any exceptions or policy overrides.
- iii. The Credit Union will respond in writing to the consumer with a copy to the Consumer Assistance Center, referencing the case number and whether the matter was resolved.
 - iv. The Consumer Assistance Center may begin a formal investigation if the Credit Union does not respond in a timely manner, if the Credit Union did not address all of the consumer's concerns or there are remaining questions involving regulatory or consumer compliance issues, or if the consumer disputes the resolution in writing within 30 calendar days of the Credit Union's response letter.

C. NCUA - Phase Two – Consumer Assistance Center Investigation. The Consumer Assistance Center will send a letter to the Chairman of the Supervisory/Audit Committee with a copy of the Credit Union's CEO, informing them of an investigation about the complaint and requiring a written response within 30 calendar days from the date of the letter. The Consumer Assistance Center also sends a communication to the consumer indicating that they have begun an investigation of the complaint.

When the Credit Union adequately addresses the issues associated in the complaint and the Consumer Assistance Center has had a chance to analyze, the consumer and Credit Union will be notified of the resolution. There are five potential outcomes:

- i. The Credit Union has resolved the issue to the consumer's satisfaction and the case is being closed;
- ii. The Credit Union did not violate either a consumer protection law or consumer compliance regulation and the case is being closed;
- iii. One of the two parties initiated litigation; therefore, the courts will decide the outcome and the case is being closed;
- iv. Upon further investigation the issue does not involve either a consumer protection law or consumer compliance regulation; therefore, it does not fall under NCUA's purview (Examples of this are complaints involving state contract law, state foreclosure procedures, etc.) and the case is being closed; or
- v. A violation of either a consumer protection law or consumer compliance regulation has occurred. The NCUA will follow up directly with the Credit Union to resolve the issue and ensure compliance with the applicable law or regulation.

D. State Supervisory Authority. Consumer complaints filed with Consumer Assistance Center that do not fall within NCUA's purview are forwarded to the appropriate state supervisory authority (or federal regulator for disposition).

3. COMPLAINTS TO THE STATE AUTHORITY.

The Credit Union will follow all State requirements to resolve the complaint according to the guidance of the state supervisory authority.

4. CONSUMER COMPLAINT DIRECTLY TO CREDIT UNION.

The Credit Union offers multiple avenues to consumers to resolve problems directly with the Credit Union,

including in person, over the telephone, via mail, via e-mail, via social media or fax. The Credit Union will have procedures in place that establish proper protocol and central processing of complaints and inquiries. Any complaint received by the Credit Union will be provided to the Supervisory/Audit Committee and their designee promptly upon receipt. Unless there are documented extenuating circumstances, the Credit Union will respond to the consumer within 60 days of receipt of the original communication.

The Credit Union will follow their procedures which include the appropriate type of investigation, documentation, and formal written response to the consumer. The Credit Union's response will address all issues raised in the complaint, along with an explanation of its actions and decisions in the matter.

5. CORRECTIVE ACTION

The Credit Union will take corrective action as necessary to evaluate trends and correct systematic compliance problems that are identified. This may include additional training and monitoring, updates to tools or system and or an update to written materials such as policies and procedures.

Policy 1600: Code of Ethics and Diversity

Revised Date: 10/09/2015

Model Policy Revised Date: 10/09/2015

General Policy Statement:

[CUName] (Credit Union) is not an impersonal entity. It has personality, character and integrity representing the actions of the individuals who make up the Board of Directors, officers, and staff. It has a responsibility to serve the membership and the community at large according to the highest standards of business conduct. It is important that the community -- friends and critics -- competitors, family members, Credit Union members, as well as the employees and the volunteers, know where the Credit Union stands on basic ethical issues.

This Code of Ethics applies to all employees, officers and members of the Board of Directors and committees. We owe it to ourselves and fellow associates to be the very best representative of the Credit Union and, individually and collectively, to conduct our affairs with the highest standards possible, both in corporate and personal ethics.

Ethical responsibility requires strict adherence to the letter and spirit of all laws and regulations affecting Credit Union operations. Real responsibility requires individual action extending beyond mere compliance with written law. Common sense must prevail in all actions and decisions. The Credit Union's corporate image and reputation is something we are proud of. We, individually and collectively, have earned the right to be proud and this right must be maintained.

The Board of Directors and senior Executive Officers of the Credit Union have primary responsibility for setting the standards of ethics and, therefore, must assure that, at all times, they exercise business judgment in good faith and in accordance with applicable laws, regulations, rules and policies.

REPORTING VIOLATIONS

It is the Credit Union's policy to abide by all applicable federal, state and local laws, rules and regulations and require all employees to do the same. Every employee is expected to assist in the implementation of this policy. Violations or suspected violations of Credit Union policy, (particularly the Fraud Policy and the Conflict of Interest Policy), or any violation or suspected violation of law should be reported to the employee's immediate supervisor, preferably in writing with the specific information known to the employee so that an investigation may be initiated. There will be no retaliation against any employee who makes a good faith report pursuant to this policy even if the investigation demonstrates that there has not been a violation of law.

DIVERSITY POLICY

The Credit Union is committed to a policy of equal opportunity and strives to provide an environment where every employee and member - regardless of race, gender, gender identity, sex, ethnicity, disability, sexual orientation, age, pregnancy (current, past, or potential), national origin, or religion - feels respected and valued. By respecting the richness of our differences in individual traits, skills, beliefs, and talents, we benefit not only our organization but also contribute to the success of the community we serve.

The Credit Union will:

1. Aim to create a culture that respects and values each other's differences and recognizes that diversity is a great asset to the credit union and the members it serves;
2. Raise awareness of and promote a belief in the advantages of diversity, and;

3. Ensure all employees and volunteers are aware of the objectives within this policy and are encouraged to support its objectives.
4. Regularly assess diversity and inclusion programs and efforts and identify areas of improvement. Report progress to the Board and senior Executive Officers.
5. Publicize information about diversity and inclusion efforts through normal business methods as applicable.

Diversity makes the Credit Union a better place to work, helps us better understand our members' needs, and enables us to provide outstanding service.

Policy 1610: Confidential Information

Revised Date: 12/01/2003

Model Policy Revised Date: 12/01/2003

Model Policy Reviewed Date: 06/27/2014

General Policy Statement:

[CUnion] (Credit Union) is committed to safeguarding the security of confidential business information of the Credit Union and personal, non-public member information. Such information includes any information regarding members' accounts, operations of the Credit Union, development of new services, internal marketing information, all computer transactions, and all similar information related to the business of the Credit Union. Any such information or transactions must remain confidential unless disclosure is authorized by the member or required by law.

Proprietary information about the Credit Union shall not be disclosed to any third party unless authorized by the Board or Credit Union management. All employees and officials shall protect the privacy of member information and shall strictly adhere to the Credit Union's Privacy Policy and practices and all applicable law.

Policy 1615: Privacy

Revised Date: 03/24/2016

Model Policy Revised Date: 03/24/2016

General Policy Statement:

[CUName] (Credit Union) recognizes its responsibility to protect the privacy of member nonpublic personal information. The purpose of this policy is to set forth the guidelines under which such information may be shared with third parties. It is the intent of the Credit Union and any of its affiliates to abide by all applicable laws and regulations governing the privacy of nonpublic personal information including the Consumer Financial Protection Bureau (CFPB)'s Privacy of Consumer Financial Information rule (Regulation P), issued to implement the provisions of the Gramm-Leach-Bliley Act and the Right to Financial Privacy Act.

Guidelines:

1. **DEFINITIONS.** For the purpose of this privacy policy, the following definitions shall apply.

- A. **Affiliate.** To be considered an affiliate, the Credit Union must have the ownership, control or power to vote 25% of the shares; control election of a majority of the directors, trustees and partners; the power to exercise a controlling influence over the company's management or policies, or have any ownership interest in a company that is 67% owned by credit unions.
- B. **Consumer.** A consumer is an individual, or such individual's legal representative or personal representative, who has obtained a financial product or service from the Credit Union for personal, family or household purposes or for whom the Credit Union is acting as fiduciary. A consumer is not necessarily a member of the Credit Union.
- C. **Member.** A member is a consumer with whom the Credit Union has, or has had in the past, a continuing relationship where the Credit Union has provided one or more financial products or services for personal, family or household purposes. Examples:
 - i. Members as defined the Credit Union's bylaws;
 - ii. A nonmember joint accountholder held with a member;
 - iii. A former member.
 - iv. A nonmember who has a loan that the Credit Union services;
 - v. A nonmember who has an account with the low-income designated Credit Union; and
 - vi. A nonmember who has an account in a federally-insured state-chartered Credit Union pursuant to state law.
- D. **Nonpublic Personal Information.** Personally identifiable financial information and any list, description, or other grouping of consumers (and publicly available information pertaining to them) that is derived without using any personally identifiable financial information, other than publicly available information. Nonpublic personal information does not include publicly available information.

E. Personally Identifiable Financial Information. Any information provided to the Credit Union by a consumer to obtain a financial product or service, or as a result of a transaction with the consumer. Examples:

- i. Information a consumer provides to the Credit Union on an application to obtain membership, a loan, credit card or other financial product or service;
- ii. Account balance information, payment history, overdraft history, and credit or debit card purchase information;
- iii. The fact that an individual is or has been one of the Credit Union's members or has obtained a financial product or service from the Credit Union;
- iv. Any information about a consumer if it is disclosed in a manner that indicates that the individual is or has been a member of the Credit Union;
- v. Any information that a consumer provides to the Credit Union or that the Credit Union or its agent otherwise obtains in connection with collecting on a loan or servicing a loan;
- vi. Any information the Credit Union collects through an Internet "cookie" (an information collecting device from a web server); and
- vii. Information from a consumer report.

2. COLLECTION OF INFORMATION. In the course of delivering products and services, the Credit Union obtains nonpublic personal information, either directly from the member or from outside sources. This nonpublic personal information is used to comply with federal and state laws and regulations, to provide effective member service and to inform members of products and services which may be of interest to the member.

3. MAINTENANCE OF ACCURATE INFORMATION. The Credit Union will exercise reasonable caution in the gathering and maintenance of information to ensure its accuracy. When inaccurate information is discovered, it will be corrected as promptly as possible.

4. DISCLOSING INFORMATION TO THIRD PARTIES. The Credit Union will **not** disclose personal nonpublic information to non-affiliated third parties without first providing the consumer a clear and conspicuous notice that accurately reflects the Credit Union's privacy policies and practices, and providing the consumer a reasonable opportunity to opt out of such disclosure, and the consumer has not opted-out. . The Credit Union may share personal nonpublic information with its affiliate, if applicable. The Credit Union also may share its experience information about the member with credit bureaus. The Credit Union's reporting to credit bureaus is governed by the Fair Credit Reporting Act, which affords the member the right to make sure that its credit bureau reports are accurate. The requirement for the Credit Union to provide notice and a reasonable opportunity to opt out does **not** apply if the Credit Union's disclosure of nonpublic personal information is necessary to effect, administer, or enforce a transaction that a consumer requests or authorizes, or in connection with any of the following:

- A. Servicing or processing a financial product or service that a consumer requests or authorizes.
- B. Maintaining or servicing the consumer's account with the Credit Union, or with another entity as part of a private label credit card program or other extension of credit on behalf of such entity.

- C. A proposed or actual securitization, secondary market sale (including sales of servicing rights) or similar transactions related to a transaction of the consumer.
- D. With the written consent or direction of the consumer, provided the consumer has not revoked the consent or direction.
- E. To protect the confidentiality or security of the Credit Union's records pertaining to the consumer, the service or product, or the transaction; to protect against or prevent actual or potential fraud, unauthorized transactions, claims, or other liability; for required institutional risk control, or for resolving customer disputes or inquires; to persons holding a legal or beneficial interest relating to the consumer; or, to persons acting in a fiduciary or representative capacity on behalf of the consumer.
- F. To the extent specifically permitted or required under other provisions of law and in accordance with the Right to Financial Privacy Act, to law enforcement agencies, self-regulatory organizations, or for an investigation on a matter related to public safety.
- G. To provide information to insurance rate advisory organizations, guaranty funds or agencies, applicable rating agencies of the Credit Union, persons assessing the Credit Union's compliance with industry standards, and the institution's attorneys, accounts, and auditors.
- H. To a credit reporting agency in accordance with the Fair Credit Reporting Act.
- I. In connection with a proposed or actual sale, merger, transfer, or exchange of all or a portion of a business or operating unit if the disclosure of nonpublic personal information concerns solely consumers of such business or unit.
- J. To comply with Federal, State, or local laws, rules, and other applicable legal requirements, to comply with a properly authorized civil, criminal, or regulatory investigation or subpoena or summons by Federal, State or local authorities having jurisdiction over the financial institution for examination, compliance, or other purposes as authorized by law.
- K. Such financial records are disclosed (i) in response to an administrative subpoena; (ii) in response to a search warrant; (iii) in response to a judicial subpoena; or (iv) in response to a formal written request by a proper governmental authority.

5. **RESPONSIBILITY OF SERVICE PROVIDERS.** The Credit Union will only approve service providers with established policies of privacy similar to those of the Credit Union. The Credit Union will require contractual agreements from non-affiliated third parties that will include confidentiality of member information disclosed by the Credit Union and prohibit the service provider from disclosure and reuse of nonpublic personal information for any reason other than the intended purpose.

6. **DISCLOSURE OF PRIVACY POLICY.** The Credit Union will disclose its privacy policy as required by law, in a form that the members can keep. This disclosure will be in the form of an initial disclosure and will also be provided to members annually if changes are made to the disclosure or if the Credit Union provides an opt-out option. The Credit Union will provide the required notices in conformance with the model privacy notice contained in the regulation.

A. **Initial Privacy Notice.** The Credit Union will deliver a notice describing the Credit Union's privacy policy to each new member/consumer who establishes a relationship with the Credit Union. This initial privacy notice will be provided at or before an establishment of a member relationship (i.e., before the member/consumer signs the account card or other applicable document). A new privacy notice need not

be given for each subsequent account opening, if the privacy notice provided for the one-time mailing to existing members or the policy at new account opening has not changed from the previously provided privacy notice.

- i. **Joint Relationships.** When two or more consumers jointly obtain a financial product or service, other than a loan, from the Credit Union, the Credit Union may provide one initial notice to the consumers jointly.

B. Annual Notice. The Credit Union will provide a notice of the Credit Union's privacy policy to all members/consumers at least annually (once during any 12 consecutive months) if the changes are made to their policy or if the Credit Union provides an opt-out option. The Credit Union need not provide an annual notice to members or consumers who no longer have a relationship with the Credit Union.

C. Content. As required by law, the initial and annual privacy notices will contain the following information:

- i. The categories of nonpublic personal information that the Credit Union collects;
- ii. The categories of nonpublic personal information that the Credit Union discloses;
- iii. The categories of affiliates and nonaffiliated third parties to whom the Credit Union discloses nonpublic personal information (other than such disclosures allowed by law);
- iv. The categories of nonpublic personal information about the Credit Union's former members that is disclosed and the categories of affiliated and nonaffiliated third parties to whom such information is disclosed (other than such disclosures allowed by law);
- v. If the Credit Union discloses nonpublic personal information to a nonaffiliated third party (and no exception applies to that disclosure), a separate statement of the categories of information the Credit Union discloses, and the categories of third parties with whom the Credit Union has contracted;
- vi. If applicable, an explanation of the consumer's right to opt out of the disclosure of nonpublic personal information to nonaffiliated third parties, including the methods by which the consumer may exercise that right at that time;
- vii. Any disclosures made by the Credit Union under the Fair Credit Reporting Act (i.e., notices regarding the ability to opt out of disclosures of information among affiliates); and
- viii. The Credit Union's policies and practices with respect to protecting the confidentiality and security of nonpublic personal information.

D. Privacy Notice May Be Combined With or In Other Documents. The Credit Union's privacy notice may be combined with other information, so long as it is presented in a way that is "clear and conspicuous"; intact so that each consumer can retain its content, and will retain the same page orientation, content, format and order as provided in the model notice contained in the regulation.

7. MEMBERS' RIGHT TO "OPT OUT". Privacy regulations allow members to "opt out" of having their information disclosed to non-affiliated third parties in certain situations. Before the Credit Union discloses any member information to a non-affiliated third party that is not otherwise covered by a disclosure exception in the regulation, the Credit Union will properly inform members of their right to "opt out" and to record and honor

"opt out" requests. The opt out notice shall include the address and toll free phone number of the appropriate notification system used for processing of notices of opt out and will be presented in a format acceptable to the National Credit Union Administration/Federal Trade Commission.

A. **Content.** As required by law, the opt out notice will state the following information:

- i. That the Credit Union discloses or reserves the right to disclose nonpublic personal information about the consumer to a nonaffiliated third party (including the categories of information and the categories of nonaffiliated third parties to whom it is disclosed);
- ii. That the consumer has a right to opt out of that disclosure; and
- iii. A reasonable means by which the consumer may exercise that opt out right. Examples:
 - a. Designating check-off boxes in a prominent position on the relevant forms with the opt out notice;
 - b. Including a reply form together with the opt out notice;
 - c. Providing an electronic means to opt out, such as a form that can be sent via electronic mail or a process at the Credit Union's website, if the consumer agrees to the electronic delivery of information; or
 - d. Providing a toll-free telephone number that consumers may call to opt out.
- iv. How the Credit Union will treat an opt out direction by a joint consumer.

B. **Delivery After Initial Notice is Provided.** If the Credit Union provides the opt out notice after the initial notice is provided, the Credit Union will include a copy of the initial notice in writing or, if the consumer agrees, electronically.

C. **Exceptions to Providing an Opt Out Notice.** Under the following scenarios, an opt out notice need not be provided to members when nonpublic personal information is disclosed to nonaffiliated third parties:

- i. Sharing nonpublic personal information with a non-affiliated third party in order to carry out a service on the Credit Union's behalf, and with whom the Credit Union has a written agreement (i.e., joint marketing agreement) that prohibits further disclosure by the third party;
- ii. Disclosure that is necessary to effect, administer or enforce a transaction that a consumer requests or authorizes;
- iii. Disclosure with the consent of the consumer (provided it has not been revoked);
- iv. Disclosure in order to protect the confidentiality or security of the Credit Union's records pertaining to the consumer, service, product or transaction;
 - a. To protect against or prevent actual or potential fraud, unauthorized transactions, claims or other liability;
 - b. For required institutional risk control or for resolving consumer disputes or inquiries;

- c. Disclosure to persons acting in a fiduciary or representative capacity on behalf of a consumer;
- v. Disclosure in order to provide information to insurance rate advisory organizations, guaranty funds or agencies, agencies that are rating the Credit Union, persons that are assessing the Credit Union's compliance with industry standards, and the Credit Union's attorneys, accountants and auditors;
- vi. Disclosure to the extent specifically permitted or required under other provisions of law and in accordance with the Right to Financial Privacy Act, to law enforcement agencies, a state insurance authority, self-regulatory organizations, or for an investigation on a matter related to public safety;
- vii. Disclosure to a consumer reporting agency in accordance with the Fair Credit Reporting Act;
- viii. Disclosure in connection with an actual sale, merger, transfer or exchange of all or a portion of business or operating unit if the disclosure of nonpublic personal information concerns solely consumers of such business or unit; or
- ix. To comply with federal, state or local laws, rules and other applicable legal requirements.

D. Joint Relationships. When two or more consumers jointly obtain a financial product or service, other than a loan, from the Credit Union, the Credit Union may provide only a single opt out notice.

E. Duration of Opt Out. A consumer's direction to opt out is effective until the consumer revokes it in writing or, if the consumer agrees, electronically.

- i. When a member relationship terminates, the member's opt out direction continues to apply to the nonpublic personal information that the Credit Union collected during or related to the relationship. If the individual later establishes a new relationship with the Credit Union, the opt out direction that applied to the former relationship does not apply to the new relationship.

8. DELIVERY OF PRIVACY AND OPT OUT NOTICES. The Credit Union may reasonably expect that a consumer will receive actual notice of the privacy notice and opt-out right (if applicable) if the Credit Union uses one of the following methods of delivery:

- A. Hand-delivery to the consumer, or mailing a printed copy of the notice to the consumer's last known address;
- B. For a consumer who conducts transactions electronically, posting the notice on the electronic site and requiring the consumer to acknowledge receipt of the notice as a necessary step to obtaining a particular financial product or service; or
- C. For an isolated transaction with a consumer (such as an ATM transaction), posting the notice on the ATM screen and requiring the consumer to acknowledge receipt of the notice as a necessary step to obtaining a particular financial product or service.

9. REVISED PRIVACY NOTICES. The Credit Union will provide a revised privacy notice (and a new opt out notice, if and when applicable) in the following circumstances:

- A. The Credit Union discloses a new category of nonpublic personal information to any nonaffiliated third party;

- B. The Credit Union discloses nonpublic personal information to a new category of non-affiliated third party; or
- C. The Credit Union discloses nonpublic personal information about a former member to a non-affiliated third party, and that former member has not had the opportunity to exercise an opt out right regarding that disclosure.

10. **CONFIDENTIALITY AND SECURITY SAFEGUARDS.** The Credit Union maintains strict policies and security controls to assure that nonpublic personal information in the Credit Union's computer systems and files is protected.

- A. Credit Union employees and certain contractors are permitted access to nonpublic personal information that they may need to perform their jobs and to provide service to the members.
- B. Credit Union employees and contractors will have access to such nonpublic personal information only as necessary to conduct a transaction or respond to a member's inquiries.
- C. All Credit Union employees and contractors will be required to respect member privacy through confidentiality and information security provisions included in the Credit Union's employee policy manual and service agreements with the contractors.
- D. No one except Credit Union employees and authorized contractors will have regular access to the Credit Union computer system and records storage. The Credit Union has established internal security controls, including physical, electronic and procedural safeguards to protect the member nonpublic personal information provided to the Credit Union and the information the Credit Union collects about the member. The Credit Union will continue to review its internal security controls to safeguard member nonpublic personal information as the Credit Union employs new technology in the future.

11. **PRIVACY OF ELECTRONIC TRANSACTIONS.**

- A. **Encryption.** Electronic interfaces with members (such as Internet transactions) will be encrypted using Secure Socket Layer (SSL) 128-bit encryption.
- B. **Account Access.** Member account information and transactions will be protected by a password that must be used in conjunction with a username or account number. Members must apply for this capability and be registered with the Credit Union for authentication purposes.
- C. **"Cookies".** The Credit Union [1615-1] use "cookies" as part of its website interface. A "cookie" is a small file that is placed on the user's computer. While it contains no member information, it identifies the member's computer and allows the Credit Union to measure usage of the website and customize the website experience.
 - i. The Credit Union will disclose whether it collects cookies on its website.
- D. **Links.** The Credit Union will frequently link to other sites as a convenience to our members. The Credit Union will seek to link with other sites that adhere to similar privacy standards. For all third-party links, the Credit Union will disclose the following information:
 - i. The member is leaving the Credit Union's website;
 - ii. The member is linking to an alternate website not operated by the Credit Union;

- iii. The Credit Union is not responsible for the content of the alternate website;
- iv. The Credit Union does not represent either the third party or the member if the two enter into a transaction; and
- v. Privacy and security policies may differ from those practiced by the Credit Union.

E. **Online Privacy of Children's Information.** The Credit Union will not collect, use or disclose online information received from children under age 13 without prior parental notification and consent, which will include an opportunity for the parent to prevent use of information and participation in the activity. Online information will only be used to respond directly to the child's request and will not be used for other purposes without prior parental consent.

- i. The Credit Union will not distribute to third parties, other than its affiliate, personally identifiable information without prior parental consent.
- ii. The Credit Union will not post or otherwise distribute personally identifiable information without prior parental consent.
- iii. The Credit Union will not entice by the prospect of a special game, prize or other activity, to divulge more information than is needed to participate in the activity.
- iv. Personally identifiable information that is collected online from their children may be reviewed by a parent or guardian upon written request. The parent or guardian has the right to have information deleted and instruct the Credit Union to cease collecting further information from their child.

12. **PRIVACY COMPLIANCE.** The Credit Union and all of its affiliates will comply with all applicable laws and regulations governing the privacy, confidentiality, security, and integrity of nonpublic personal information including the Consumer Financial Protection Bureau (CFPB)'s Privacy of Consumer Financial Information rule (Regulation P) and all other applicable state and federal privacy laws and regulations as amended.

13. **ADMINISTRATION AND AMENDMENTS.**

- A. Protecting member privacy is an ongoing process and the Credit Union will continue to evaluate and review the measures taken to safeguard member information.
- B. The Credit Union will provide training to employees on how to recognize and control risk to nonpublic personal information, how to handle nonpublic personal information, and how to report unauthorized or fraudulent attempts to gain access to nonpublic personal information.
- C. The Credit Union will create controls and procedures whereby any new product, service, or delivery method shall be reviewed and modified to insure that it conforms to existing Credit Union privacy policies with regards to nonpublic personal information.
- D. If nonpublic personal information is shared with vendors for a business purposes, all contracts and agreements between the vendors and the Credit Union will include a guarantee that the vendor will safeguard such information.
- E. Because no policy can address every possible contingency and circumstances, Credit Union management

shall use its good faith business judgment in administering this privacy policy and expects that all officers, volunteers and employees will use good faith in their actions to protect the privacy of Credit Union members.

F. The Credit Union reserves the right to amend this privacy policy in any respect with disclosure to members as required by law.

14. **ACCESS TO FINANCIAL RECORDS BY FEDERAL GOVERNMENT AUTHORITIES.** To obtain a member's financial records, the Right to Financial Privacy Act requires the federal governmental authority to first obtain:

A. An **authorization**, signed and dated by the member, that:

- i. Authorizes such disclosure for a period not to exceed 3 months;
- ii. States that the member may revoke such authorization at any time before the financial records are disclosed;
- iii. Identifies the financial records authorized to be disclosed;
- iv. Specifies the purposes for which, and the government authority to which, such records may be disclosed; and
- v. States the member's rights under the Act.

B. An **administrative subpoena or summons**.

- i. It is important to keep dates regarding the subpoena. The Credit Union needs written notice that all required elements have been compiled by the federal agency prior to mailing required information back to the agency.
- ii. The Credit Union may release member information only if:
 1. The Credit Union has reason to believe that the records sought are related to a legitimate law enforcement inquiry;
 2. The member has been served with a copy of the subpoena on or before the Credit Union is served, and the Credit Union receives a copy of a notice sent to the member specifically describing the nature of the inquiry; and
 3. The Credit Union waits **10 days** from the date the member was served (or 14 days if the member was served by mail) to see if notice is received that the member has filed a motion to stop the subpoena.

C. A **search warrant**.

D. A **judicial subpoena**.

- i. If the member does not challenge the subpoena in court, upon expiration of **10 days** from the date of service by the court (or 14 days if the notice was mailed to the member), the records may be made available to the federal government agency.
- ii. It is important to keep dates regarding the subpoena. The Credit Union needs written notice that all required elements have been compiled by the federal agency prior to mailing required information back to the agency.

E. A **formal written request by a government agency** (to only be used if no other authority is available).

- i. If the member does not challenge the formal written request in court, upon expiration of **10 days** from the date of service by the court (or 14 days if the notice was mailed to the member), the records may be made available to the federal government agency.

15. **CERTIFICATION.** Upon receipt of a request for financial records by a federal government agency, the Credit Union must assemble the requested records and be prepared to deliver them. The records may not be released until the Credit Union receives a written certification from the federal government agency that it has complied with the Act.

16. **DELAYED NOTICE.** The Credit Union may be required to delay the disclosure to the member that records have been obtained or that a request for records has been made for 90 days or indefinitely if a judge finds that:

- A. The investigation being conducted is with the lawful jurisdiction of the government authority seeking the financial records;
- B. There is reason to believe that the records being sought are relevant to a legitimate law enforcement inquiry; and
- C. There is reason to believe that such notice will result in:
 - i. Endangering life or physical safety of any person;
 - ii. Flight from prosecution;
 - iii. Destruction of or tampering with evidence;
 - iv. Intimidation of potential witnesses; or
 - v. Otherwise seriously jeopardizing an investigation or official proceeding or unduly delaying a trial or ongoing official proceeding.

17. **EXCEPTIONS.** The Act's notification and certification requirements do not apply to the following types of disclosures to federal government agencies:

- A. When the disclosure is pursuant to the filing of a Suspicious Activity Report when the Credit Union believes that information may be relevant to a possible violation of a statute or regulation.
- B. When the disclosure is accordance with procedures authorized by the Internal Revenue Code.
- C. When the request for disclosure is not identified with a particular member, which also includes records or information that is not identifiable as being derived from the financial records of a particular member.
- D. When the request for disclosure is pursuant to the exercise of supervisory, regulatory or monetary functions with respect to financial institutions (for example, examinations).
- E. When the request is for disclosure is sought under the Federal Rules of Civil or Criminal Procedure, or comparable rules of other courts in connection with litigation to which the government authority and the members are parties.
- F. When the request is pursuant to lawful proceeding or investigation directed at a financial institution or legal entity.
- G. When the disclosure is incident to perfection of a security interest, proving a claim in bankruptcy,

collecting a debt or processing an application with regard to a government loan, loan guarantee or loan insurance agreement.

- H. When it is necessary for the government to use or transfer financial records to process, service or foreclose a loan, or to collect on a debt to the government resulting from a member's default.
- I. When the Credit Union discloses what is necessary in order to properly administer programs related to the withholding of taxes on nonresident aliens, Federal Old-Age Survivors, Disability Insurance Benefits and Railroad Retirement Act Benefits.
- J. When the request is pursuant to the authority of the Federal Reserve System or the Federal Housing Board to extend credit to the Credit Union or others.
- K. When the request is necessary to administer certain veteran benefits laws.
- L. When the request is pursuant to an administrative subpoena issued by an administrative law judge in an adjudicatory proceeding.
- M. When the request is pursuant to legitimate law enforcement inquiries and the information sought is the name, address, account number and type of account of any member.
- N. When the request is pursuant to a grand jury subpoena. (These MUST be kept confidential.)
- O. When records are sought by the General Accounting Office pursuant to an authorized proceeding, investigation, examination or audit directed at a government authority.
- P. When the Credit Union or supervisory agency provides any record of any officer, director or employee to the Attorney General, a state law enforcement agency, or the Secretary of the Treasury if there is no reason to believe there were crimes against the Credit Union by the insider.
- Q. When the examination by or disclosure to the Resolution Trust Corporation or its employees or agents of financial records or information in the exercise of its conservatorship, receivership or liquidation functions with respect to the Credit Union.
- R. When the disclosure is required pursuant to federal law or regulation.

18. SPECIAL PROCEDURES.

- A. **Access to Financial Records for Certain Intelligence and Protective Purposes.** Aside from the exceptions above, the Credit Union may provide records to:
 - i. A government authority authorized to conduct foreign counter- or foreign positive-intelligence activities;
 - ii. The Secret Service for the purpose of conducting its protective functions;
 - iii. A government authority to conduct investigations of, or intelligence or counterintelligence analyses related to, international terrorism for the purpose of conducting such investigations or analyses; or
 - iv. The Federal Bureau of Investigation (FBI) when the Director of the FBI (or the Director's designee) certifies in writing to the Credit Union that such records are sought for foreign counter-intelligence purposes to protect against international terrorism or clandestine intelligence activities, provided that such an investigation of a U.S. person is not conducted solely upon the basis of activities protected by the first amendment to the U.S. Constitution.

v. In these cases, the government authority must submit a certificate to the Credit Union signed by a supervisory official of a rank designated by the head of the government authority.

vi. The Credit Union may not disclose to anyone that a government authority described above has sought or obtained access to a member's financial records.

B. Emergency Access to Financial Records. The Credit Union may release information to a government authority if the government authority determines that delay in obtaining access to such records would create imminent danger of:

i. Physical injury to any person;

ii. Serious property damage; or

iii. Flight to avoid prosecution.

iv. In these cases, the government authority must submit a certificate to the Credit Union signed by a supervisory official of a rank designated by the head of the government authority.

19. **COST REIMBURSEMENT.** The government will reimburse the Credit Union for the reasonable cost directly incurred in searching for, reproducing, or transporting books, papers, records or other data required or requested to be produced.

Policy 1616: Anti-Phishing

Revised Date: 01/01/2008

Model Policy Revised Date: 01/01/2008

Model Policy Reviewed Date: 06/27/2014

General Policy Statement:

[CUName] (Credit Union) recognizes its responsibility to protect the privacy of member nonpublic personal information. The purpose of this policy is to set forth the guidelines under which the Credit Union will combat common e-mail and Internet fraud called “phishing.” Phishing e-mails direct consumers to false “member service” websites or directly ask for member nonpublic personal information. These scams contribute to a rise in identity theft, credit card fraud and other Internet-based fraud.

Guidelines:

1. **PREVENTION AND MITIGATION.** In an effort to prevent and mitigate the harm of a phishing attack, the Credit Union will do the following:
 - A. Inform members that the Credit Union will not solicit confidential or sensitive member information via e-mail, telephone or other communication methods. This information will be provided to members on a periodic basis through the use of the Credit Union’s website, newsletters, periodic statements and statement stuffers.
 - B. Keep abreast of advances in technology designed to protect member information and reduce e-mail and other Internet-related fraud, and will take advantage of any and all effective and practical measures to do so.
 - C. Provide members with a “spoof-reporting” e-mail address for members to send suspicious e-mails to the Credit Union.
 - D. Apply system (hardware and software) patches and upgrades on a timely basis, pursuant to the Credit Union’s Patch Management policy.
 - E. Maintain information security procedures in accordance with current industry best practices and regulatory guidance.
 - F. Keep website certificates current and educate members how to verify that the pages they are viewing are actually those of the Credit Union.
 - G. Train security and service staff regarding the Credit Union’s policies and procedures for protecting member information so that they are sensitive to member comments and informed of the appropriate actions to take.
 - H. Monitor telephone call volumes and account activity, such as an unusually high volume of logins, password changes, transfers, withdrawals, etc.
2. **EDUCATING MEMBERS.** The Credit Union will educate members regarding the prevalent e-mail and Internet-related fraudulent schemes, such as phishing, and how to avoid them. The Credit Union will utilize its website, newsletters and statement stuffers to communicate this information. The following messages will be conveyed to members:

- A. The Credit Union's web page should not be accessed from a link provided by a third party. It should only be accessed by typing a website name, or URL address, into the web browser or by using a "bookmark" that directs the web browser to the Credit Union's website.
- B. The Credit Union will not send e-mail messages requesting confidential information, such as account numbers, passwords or personal identification numbers (PINs). Members will be reminded to report any such requests to the Credit Union.
- C. The Credit Union will maintain current website security certificates that assure online members that its website has been authenticated by a third party and that confidential transactions are secured by SSL (secure sockets layer) encryption. The Credit Union will describe how members can authenticate its website pages by checking the properties on a secure web page.
- D. What the member should do if they suspect that they are the targets of a phishing scam, or have provided personal financial information in response to a phishing scam.

3. **RESPONDING TO PHISHING SCHEMES.** The Credit Union will respond to incidents of phishing by taking the following actions:

- A. Notifying members of known phishing schemes and cautioning them against responding, by using the following methods:
 - i. Posting a prominent notice on the Credit Union's website home page and login screen; and
 - ii. Contacting members directly by mail and/or e-mail providing them with the information noted above;
- B. Notifying Internet service providers, domain name-issuing companies, and law enforcement to shut down fraudulent websites and other Internet resources that may be used to facilitate phishing or other e-mail or Internet-related fraudulent schemes;
- C. Increasing suspicious activity monitoring and employing additional identity verification controls;
- D. Flagging and closely monitoring the accounts of members who report that they have fallen victim to a phishing or similar scam.
- E. Offering members assistance when fraud is detected in connection with member accounts;
- F. Alerting staff to incidents of phishing so that they are sensitive to the situation and report activity such as unusual address change requests, account transactions or new account activity.
- G. Notifying the proper authorities when phishing schemes are detected, including promptly notifying the NCUA Regional Office and the appropriate law enforcement agencies; and
- H. Filing a Suspicious Activity Report when incidents of phishing are suspected.

Policy 1620: Conflict of Interest

Revised Date: 10/09/2015

Model Policy Revised Date: 10/09/2015

General Policy Statement:

A conflict of interest arises when an individual's position or responsibility presents an opportunity for personal gain apart from and beyond normal rewards of employment. Conflicts also arise when an individual's personal interests are inconsistent with those of this Credit Union and create conflicting loyalties. Conflicting loyalties can cause an employee to give preference to personal interests over the interests of [CUname] (Credit Union). The mere appearance of a conflict of interest should be avoided at any cost.

It is essential to the continued success of the Credit Union that each Board member, committee member and employee conducts business in a manner that avoids actual, or the appearance of, a conflict of interest. *{Note: A Sample Conflict of Interest Disclosure Form and Certification is available in the CU PolicyPro Resources area under TOOLS > General}.*

Conflicts of interest arise when an employee, Board or committee member attempts to influence a decision using "insider information" of the Credit Union that may result in personal gain for that employee, Board or committee member or a relative resulting from the business of the Credit Union.

"Insider information" is information learned through association with the Credit Union that can be used for personal advantage. This information cannot be used by a Credit Union officer or employee, or by a friend of or relative of an officer or employee, to enhance his/her financial position. Premature disclosure of any information that affects Credit Union business should be avoided and may be illegal.

Relative means any person related by blood or marriage or a similar relation (such as life partner or adopted or foster child).

Personal gain means that an employee, Board or committee member (or relative) has a significant interest in an outside business or firm with which the Credit Union does business and receives a kickback, bribe, substantial gift, special consideration or financial benefit as a result of his/her employment or Board or committee membership at the Credit Union.

Employees who violate Credit Union conflict of interest policies will be subject to corrective action including termination. Employees should contact their manager or Human Resources if they have questions or if they receive an inappropriate gift (such as one exceeding \$50). Our policies are not intended to interfere with your legal right to participate in protected communication with other employees regarding the terms and conditions of your employment.

Board members who violate Credit Union conflict of interest policies will be subject to disciplinary action by the Board, up to and including expulsion from the Board of Directors.

We recognize the right of employees to participate in private activities outside their employment which are unrelated to our business. However, employees are hired and continue their employment with the understanding that our Credit Union is their primary employer and that other employment or business involvement which conflicts with our business interests or the interests of our members is strictly prohibited. If an activity is contemplated which could result in a real or perceived conflict of interest, the employee must make full disclosure of the activity to Management for prior review and approval.

Guidelines:

1. **General Examples Are Illustrative Only.** The following Code of Ethics sets forth **general principles** which both guide and protect employees and which contain **broad examples** outlining expected employee behavior. Since it is impractical to address all possible ethical issues, specific questions about the propriety of conduct or business relationships should be brought to Management's attention.
2. **Employee Integrity.** Employees of our Credit Union have, as their first duty, to conduct themselves in a manner deserving of public trust and confidence, both on and off the job. Our Credit Union's reputation for excellence and fairness in our business activities is built upon each individual's ethical conduct. We expect all of our employees to conduct themselves with utmost integrity and at the highest of ethical standards at all times.
3. **Employee Inventions.** Some employees may develop or invent new products, software, processes or other intellectual property during employment or arising out of our employment relationship. As a condition of employment, the Credit Union retains exclusive ownership of such inventions, improvements, software, and other work created during employment or which arises out of our business.

Employees must promptly inform their managers of each invention, software development, improvement, discovery, related documentation or other work creation. They are also obligated to assist the Credit Union, without further compensation, in obtaining patent, copyright or other legal protection. However, such inventions remain Credit Union property whether or not they are otherwise legally protected.

4. **Employee Conflicts of Interest.** To maintain independence of judgment, employees (and their families and household members) must avoid any potential conflict or appearance of compromise that might arise because of economic or personal self-interest. Potential conflicts of interest include:
 - A. **Outside Activities Which Negatively Impact the Credit Union.** An employee's outside business activities compete or potentially could compete with the Credit Union or such activities could damage or impede Credit Union business.
 - B. **Inappropriate Use of Credit Union Connections.** An employee's business interests might benefit because of access to Credit Union information or through credibility associated with employment at the Credit Union.
 - C. **Business Transaction Involving Personal Business, Family, Friends, and Associates.** Such transactions should be referred to Management and the potential conflict of interest should be disclosed.
 - D. **Improper Personal Benefits.** The employee, his/her family, or friends personally benefit, either directly or indirectly, because of actions taken by the employee on the job including profiting from the sale of goods or services.
 - E. **Business Interest in Member/Supplier Connection.** An employee represents the Credit Union in a business dealing with a member/supplier where the employee holds an interest in the member's/supplier's business.
 - F. **Purchase of Credit Union Assets.** An employee purchases an asset from the Credit Union without appropriate Management approval.
 - G. **Use of Credit Union Facilities, Equipment, or Supplies for Personal Activities.** An employee uses Credit Union equipment, supplies, or facilities for his/her personal benefit or for the benefit of an outside organization.
 - H. **Providing Inappropriate Discounts to Select Accounts.** An employee waives/reduces Credit Union

income relating to accounts where a conflict of interest may exist.

I. Diversion of Business Opportunities for Personal Gain. An employee diverts for personal gain, any business opportunity from which our Credit Union may profit.

J. Transactions Involving Vendor and Business Associates. Transactions involving vendors and other business associates must be conducted at “arm’s length” to ensure that even the appearance of a conflict of interest does not exist.

K. Processing Personal Transactions. Processing personal transactions to an employee or family or household member’s account.

L. Biasing Financial or Other Business. Using a Credit Union position to improperly interfere with or unfairly bias business decisions or other financial analyses.

M. Developing Inappropriate Relationships. Developing a relationship with a member or other business contact which may jeopardize an employee's independent judgment.

5. Appearance of a Conflict of Interest. The appearance of a conflict of interest may be just as damaging to the Credit Union’s reputation as an actual conflict. All employees should objectively examine their actions periodically so that an outside observer (such as a member, government agent, vendor, or other employee) would have no reason to believe that a conflict of interest might exist.

6. Gifts Received From External Contacts. Employees and their families and friends are prohibited from accepting anything of value (including gifts or cash) from outside business contacts. These exchanges may be seen as attempts to unduly influence business relationships.

A. Discourage Gifts. The employee is responsible to tactfully discourage such gifts.

B. Manager Informed. Employees given gifts of more than nominal value must inform their manager immediately. All such cases will be subject to final review by Management, who will approve any exceptions in writing.

C. Unacceptable Gifts. Examples of inappropriate gifts or favors include:

- i. Expensive entertainment;
- ii. Free or discounted travel or vacation facilities;
- iii. Free or discounted services or equipment;
- iv. Loans;
- v. Clothing, jewelry; or
- vi. Any gift with a total value of \$50 or more.

D. Acceptable Gifts (Exceptions to the Gift Rule). Nominal gifts are acceptable when it is clear that:

- i. The intent is not to try to exert any influence over Credit Union transactions;

ii. The gift is unsolicited; and

iii. The gift is a customary business courtesy. Employees may accept typical business gifts of minimal value such as lunches, plants, pens, Christmas candy, or inexpensive entertainment.

E. **Personal Gifts.** Employees may also accept gifts or favors based on clearly identifiable family or personal relationships, under circumstances motivated by the relationship rather than business interests.

7. **Gifts Given to External Contacts.** No employee may offer an external business contact a valuable gift in an effort to seek a favorable result for the Credit Union or for any personal interest. It is accepted and appropriate practice to give gifts of minimal value (see 6D above), but expensive gifts should not be given to members or potential members. (See Business Entertainment and Gifts.)

8. **Outside Employment.** Employees are expected to devote full-time attention and energy to their positions at our Credit Union. No outside employment or consultation is permitted which would impact job performance, encroach on working time, interfere with regular duties, or involve or appear to involve a conflict of interest. (See Outside Employment.) Any exception to this policy must be approved by Management.

9. **Outside Board of Directors.** Employees are generally prohibited from serving on the board of directors of any organization that has dealings with the Credit Union.

10. **Financial Interest Disclosure.** Employees (or their families) must completely disclose financial interests held in any organization which may be considered a Credit Union competitor or business contact. If Management concludes that a real or perceived conflict of interest exists, appropriate action to resolve the conflict should be taken.

A. **Full Disclosure of a Financial Interest.** The following should be included in the written disclosure of a financial interest:

i. A detailed description of the personal interests of the employee or his/her immediate family;

ii. A full financial disclosure of all costs, commissions, and/or profits in any proposed or ongoing transactions; and

iii. Identification of any potential or proposed transaction which may adversely affect the employee's job performance or create any real or perceived conflict of interest.

B. **Ongoing Monitoring.** Managers of employees who are engaged in approved outside business activities must maintain an ongoing review of the situation to ensure that changed circumstances do not create violations of this policy.

C. **Diversion of Profits.** Employees may not divert for personal gain any business opportunity from which the Credit Union may profit, unless the Credit Union has decided not to pursue the opportunity. However, even in instances where the Credit Union has chosen to forgo a business transaction, an employee must make full disclosure of his/her intentions to Management to ensure that no conflict of interest is created.

11. **Other Outside Activities.**

A. **Participation in Community Activities.** Employees are encouraged to participate in charitable, religious, educational, and community nonprofit activities. Management supports participation in such activities so long as employee job performance is not affected. However, unless approved by

Management, Credit Union supplies and equipment should not be used to solicit financial support or provide other assistance to community organizations. (See Involvement in Community/Political Activities.)

B. Political Involvement. Management believes that it is important for employees to take an active interest in political and governmental affairs. All such involvement, however, must be undertaken during personal time and not as representatives of the Credit Union. Political contributions (including cash, goods, or services) may not be made in behalf of the Credit Union. (See Involvement in Community/Political Activities.)

C. Seeking Political Office. Employees who desire to run for a political office should discuss this intent with Management to ensure that a conflict of interest would not be created and that political activities would not adversely affect job performance. In political matters and community affairs, personal viewpoints and activities should not be attributed to the Credit Union. Personal activities must be clearly separated from Credit Union business.

12. **Non-Business Relationships.** Personal relationships with Credit Union competitors, suppliers, regulators, and other government officials are discouraged. Such relationships are clearly improper if they can be reasonably construed by others as influencing or obligating the employee in current or future business dealings or as attempts to improperly influence others.
13. **Employee Rights Under the NLRA.** Our Conflicts of Interest policy is not intended to interfere with employees' legal rights to engage in concerted, protected activities involving the terms and conditions of employment.
14. **Reporting Violations.** Employees are required to report to Management all violations or suspected violations of this Code of Ethics. All reports will be handled professionally and as confidentially as possible.
15. **Corrective Action.** The guidelines established in this section should be taken very seriously. Employees who breach or disregard the conflict of interest/ethics policy will be subject to corrective action including termination.
16. **Relatives and Friends Defined.** For purposes of this policy a "relative" or "friend" is anyone whose relationship is included under the Nepotism policy (**See Policy 1510**) or who has a significant and closely held relationship.

Policy 1640: Credit Union Assets

Revised Date: 01/01/2004

Model Policy Revised Date: 01/01/2004

Model Policy Reviewed Date: 06/27/2014

General Policy Statement:

Every [CUName] (Credit Union) employee is personally accountable for Credit Union funds or other assets over which he or she has control.

Guidelines:

1. No Credit Union funds or assets shall be spent or used for illegal or immoral goods or services.
2. Taking or using Credit Union property without approval or a valid business reason is illegal.
3. Anyone spending Credit Union money or personal money which will be reimbursed, must make sure the appropriate guidelines are observed.
4. Anyone approving or certifying the correctness of an invoice, expense report, voucher or bill, must have reasonable knowledge that the purchase and amounts are correct and within the approved guidelines.
5. There are no exceptions to the foregoing policies.

Policy 1645: Fraud

Revised Date: 12/20/2017

Model Policy Revised Date: 12/20/2017

General Policy Statement:

The Credit Union's Fraud Policy is established to facilitate the development of controls that will aid in the detection and prevention of fraud against the Credit Union. It is the intent of the Credit Union to promote consistent organizational behavior by providing guidelines and assigning responsibility for the development of controls and conducting of investigations.

This policy applies to any irregularity, or suspected irregularity, involving directors, committee members, and employees as well as consultants, vendors, contractors, outside agencies doing business with employees of such agencies and/or any other parties with a business relationship with the Credit Union.

The Credit Union does not tolerate fraud. Fraud is grounds for termination or suspension. The standards included in this policy are only a partial list of unacceptable behaviors and conduct. Credit Union representatives should always use their best judgment in conducting job related activities to avoid the appearance of conduct that would be questionable.

Guidelines:

1. **DEFINITION OF FRAUD.** Fraud can be broadly defined as an intentional act of deceit to obtain an unjust/illegal advantage. For the purposes of the policy, fraud shall include but is not limited to:
 - A. Theft or misappropriation of assets owned or managed by the Credit Union;
 - B. Submitting false claims for payments or reimbursement;
 - C. Accepting or offering a bribe or accepting gifts or other favors under circumstances that might lead to the inference that the gift or favor was intended to influence an employee's decision-making while serving the Credit Union;
 - D. Accepting a gift from anyone doing business with the Credit Union except as permitted by Credit Union policy.
 - E. Blackmail or extortion;
 - F. "Off the books" accounting, or making false or fictitious entries or any other impropriety in the handling or reporting of money or financial transactions;
 - G. Knowingly creating and/or distributing false or misleading financial reports;
 - H. Paying of excessive prices or fees where justification thereof is not documented;
 - I. Violation of the Credit Union's procedures with the aim of personal gain or to the detriment of the Credit Union;
 - J. Willful negligence intended to cause damage to the material interest of the Credit Union;

K. A dishonorable or reckless or deliberate act against the interests of the Credit Union; and

L. Profiting as a result of insider knowledge concerning anything involving the Credit Union.

2. **RESPONSIBILITY FOR THE PREVENTION AND DETECTION OF FRAUD.** All directors, committee members, and employees have a duty to guard against fraud. Employees are expected to identify processes and procedures that may be vulnerable to fraud and to draw such instances to the attention of management in their department.

Management has a particular responsibility to be familiar with and be alert to the types of fraud that might occur in their area and to put in place effective controls to avoid such occurrences.

Management shall provide support to and work with auditors, other departments, and law enforcement agencies in the detection, reporting and investigation of dishonest or fraudulent activity, including the prosecution of offenders. Once fraud is detected, Management is responsible for taking appropriate corrective action to ensure adequate controls are put in place to prevent reoccurrence of improper activity. Management should also be conscious that, given the widespread use of IT systems, and the separation of controls across divisions, fraud may come to light in departments other than those in which they are committed.

3. **UNACCEPTABLE ACTS.** Fraud or dishonesty by a Credit Union director, committee member, officer, or employee is totally unacceptable.

A. Acts considered fraudulent include but are not limited to:

- i. Manipulation of loan accounts, documents, computer records, share or share draft accounts, or any other type of accounts.
- ii. Establishing undisclosed funds or accounts for any purpose.
- iii. Dishonesty, including falsification of Credit Union records or altering time reports.
- iv. Theft of any kind, including stealing from members' accounts, over-payment of dividends and creating fictitious loans or theft of property of employees, members or the Credit Union.
- v. Check/share draft kiting or any similar activity (often referred to as "playing the float") including but not limited to artificially inflating account balances by deposits of negotiable instruments for which sufficient funds are not available, "empty envelope" automatic teller machine deposits, or knowingly depositing checks which are not supported by sufficient funds, knowingly negotiating checks on accounts when the account has insufficient funds to cover the check.
- vi. Forgeries of any kind.
- vii. Unauthorized or unapproved salary advances or overtime reimbursement.
- viii. Intentional violation of Credit Union rules, internal controls, security procedures, regulations or procedures.
- ix. Acting as an agent for or conducting any organized lottery, pool or other gambling transaction.
- x. Intentionally failing to secure collateral, to properly record a security interest in collateral, or

pledging a member's shares as collateral without the member's permission.

- xi. Granting or requesting preferential treatment for anyone.
- xii. Alteration or misrepresentation of time/attendance records or expenses for which reimbursement is requested.
- xiii. Alteration of any document presented by a member or to the Credit Union for the purpose of a transaction.
- xiv. Making any intentional and material misrepresentation to a member or any third party or Credit Union employee regarding any transaction performed or requested.
- xv. Committing any act which does or could result in the cancellation of bond coverage or the requirement of a condition for bonding.
- xvi. Performing any activity, including maintenance and transactions on an employee's own account or on any account of the employee's family. Family is considered to be any relative of an employee.
- xvii. Intentionally accessing or releasing confidential account information to individuals or outside parties for profit or personal gain. This includes information regarding employees, members, the Credit Union, and its finances, or other sensitive information regarding the organization.
- xviii. Destruction, removal or inappropriate use of records, furniture, fixtures, and equipment.

B. If there is any question as to whether an action constitutes fraud or may be unacceptable by the Credit Union, contact [1645-1] for guidance.

4. **INTERNAL CONTROLS.** The Board of Directors is responsible to institute internal controls to deter fraud and Management is delegated with the responsibility for developing and implementing procedures that result in a strong internal control structure for the Credit Union. Management is also charged with the duty of fully apprising the Board of any unacceptable control risk and recommending solutions designed to minimize exposure. The Supervisory Committee periodically examines the internal controls for sufficiency and effectiveness.

A. **Procedures.** Management will develop procedures designed to strengthen the Credit Union's internal control structure, which may include, but are not limited to:

- i. Dual control over certain assets and records such as vault cash, consigned items, investment records, and dormant account information.
- ii. Balancing of tellers' and vault cash.
- iii. Tellers' proof function.
- iv. Daily reconciliations of all loan, deposit, and related interest trial balances with the general ledger.
- v. Procedures designed to prevent (or detect on a timely basis) material misstatements in account balances, transaction classes, and disclosures.
- vi. Control of keys, passwords, and combinations.

vii. Controls over electronic data processing.

viii. Fraud awareness training.

ix. If possible, segregation of duties or rotation of duties.

B. Risk Management. Management will continually monitor controls for proper implementation and frequently test safeguards for adequacy. Management will develop a review process that will identify and resolve problems quickly. The Supervisory or Audit Committee will also monitor the Credit Union's internal control structure by overseeing periodic assessments of strengths, weaknesses, degree of implementation and adequacy. Independent auditors will report directly to the committee, who will in turn report findings to the Board. Any evidence suggesting unsound practices or controls requires immediate Board action.

C. Employee Agreement. All Credit Union employees will sign an agreement defining acts considered fraudulent and acknowledging that fraud of any type will not be tolerated. *{Note: A Sample Employee Agreement is available in the TOOLS area of the CU PolicyPro Library}*

5. INVESTIGATION

A. Confidentiality. Suspected fraud should be kept strictly confidential; it should not be discussed with anyone not responsible for investigating it.

B. Investigation by Supervisory or Audit Committee. Suspected fraud should be reported immediately to the Supervisory or Audit Committee, who should immediately investigate. To the extent necessary, the Supervisory or Audit Committee may involve additional persons to assist it, such as:

i. The Credit Union's internal auditor or outside CPA firm.

ii. Security personnel of the Credit Union's sponsor.

iii. The state or federal agency that regulates the Credit Union.

iv. The Credit Union's bond and/or insurance carrier.

v. Law enforcement with the filing of a Suspicious Activity Report or otherwise.

C. Coordination with Rules of Credit Union Sponsor. If the Credit Union's sponsor has rules governing fraud investigations, the Supervisory or Audit Committee should coordinate its investigation with those rules.

i. **Union Contract.** If an employee is covered by a union contract, the Supervisory or Audit Committee's investigation should not violate that contract.

ii. **Union Representative.** The presence of a union representative may be required during questioning of a union employee.

6. RESPONSE

A. Initial Response: Remove Opportunity for Additional Fraud. When the Credit Union learns that

fraud was committed, the Credit Union will take steps to immediately remove any opportunity for additional fraud. This initial response may require that the individual be transferred, relieved of duties, or suspended with or without pay.

B. Final Response: Termination or Suspension. The Credit Union's final response may be termination or suspension. In determining the appropriate response, factors to consider include:

- i. Nature of the offense.
- ii. Dollar amount involved.
- iii. Effect on bond coverage.
- iv. Internal employment/code of ethics policies.
- v. Federal or state employment laws and regulations.
- vi. Union rules.

7. NOTIFICATION – The Credit Union will:

- A. Notify law enforcement and/or FINCEN as required by law or the terms of the Credit Union's bonding/insurance policies.
- B. File a Suspicious Activity Report as required by the Bank Secrecy Act.
- C. Inform the NCUA or state examiners of any crime or suspected crime.
- D. Report to other entities entitled to notice, such as the insurance company that issues the Credit Union's fidelity bond, the state agency (if any) that regulates the Credit Union and other financial institutions where appropriate and permissible.

8. RECORDKEEPING. The Credit Union will keep and provide, where required, all records of fraudulent, criminal or dishonest activity reports and investigations (See Policy 10010, Table 10).

Policy 1650: Gifts, Bribes, or Kickbacks

Revised Date: 06/27/2014

Model Policy Revised Date: 06/27/2014

General Policy Statement:

Bribes and **kickbacks** are **illegal** and may be criminal offenses. No person associated with [CUname] (Credit Union) in any capacity shall do anyone a favor or receive a favor for personal gain or receive a gift if it may be perceived to influence judgment in any way. In dealing with suppliers, clients, members or employees, prudent judgment shall be exercised if a gift is offered -- if there is the slightest doubt about the morality of the action, **seek counsel**.

SOLICITATION AND GIFTS AND GRATUITIES GUIDELINES

It is the policy of the Credit Union that no employee or member shall solicit or distribute literature for any purpose at the Credit Union. Employees may, however, leave order forms or donation forms in the employee break room for items such as Girl Scout cookies or other fund raising matters but only with prior management approval and only for a specified period of time. Employees shall not actively solicit funds or donations other than as noted above.

Employees should not accept gifts in excess of \$ 1650-1 from business and individuals who are members or non-members. Gifts made to Credit Union employees may be in the form of entertainment, travel, personal property, services or discounts. Gifts from vendors, contractors and others conducting business with the Credit Union may appear to be a gesture of goodwill and appreciation, but all employees should be aware that gifts are sometimes given with the intent to influence a current or future business decision.

BANK BRIBERY ACT

All Credit Union individuals, including: volunteers, employees, officers, directors, agents, and attorneys must follow the guidance of the Bank Bribery Act (**See Policy 9300**) in regards to gifts that they receive or soliciting in their capacity as a Credit Union individual.

Policy 1680: Political Contributions

Revised Date: 10/09/2015

Model Policy Revised Date: 10/09/2015

General Policy Statement:

Federal and State law prohibit the use of [CUName] (Credit Union) funds for the support of political parties, candidates or issues except as specifically authorized by law, and then only when approved in advance. The Credit Union encourages personal, voluntary contributions to candidates, parties or issues of the participant's choice. No one will be reimbursed directly or indirectly by the Credit Union. The Credit Union will not require any political contributions by employees, directors, committee members or officers.

Guidelines:

1. **POLITICAL ACTIVITIES.** The Credit Union encourages employees to be active participants in public affairs, and to support the party and candidates of their choice, provided that the laws on corporate contributions are followed, employees do not present themselves as representing the Credit Union, and the activities do not interfere with the employee's ability to perform his or her Credit Union responsibilities.
2. **POLITICAL CONTRIBUTIONS.** The Credit Union shall not require any political contributions by employees, directors, committee members or officers. No reimbursements shall be made, either directly or indirectly, by the Credit Union for an individual's political contributions.
3. **POLITICAL ACTION COMMITTEES.** The Credit Union shall support credit union political action committees by donating funds and/or participating in fundraising activities. The CEO shall be authorized to make expenditures to credit union political action committees in an amount authorized by the Board.

Policy 1685: Software Licensing

Revised Date: 06/01/2008

Model Policy Revised Date: 06/01/2008

Model Policy Reviewed Date: 06/27/2014

General Policy Statement:

It is the policy of [CUnion] (Credit Union) to properly license all software on its computers. This policy defines the responsibilities of Credit Union employees to ensure only authorized and legitimate copies of computer software are used by the Credit Union.

This policy is also intended to protect the integrity of the Credit Union's computer systems and network. Employees are not allowed to load or download ANY non-standard software to Credit Union computers without the permission of the [1685-1]. In addition, installation disks for all software shall be given to the [1685-1] for storage and safekeeping.

Definitions:

The following definitions are provided to clarify this policy:

1. **COPYRIGHT LAW.** Federal and State laws provide protection to the authors of computer software, among other works. These laws have both civil and criminal provisions. The unauthorized copying of a protected work can result in monetary damages and/or criminal penalties (fines and/or imprisonment) being imposed upon the unauthorized copier.
2. **SOFTWARE.** An overall term used within this policy to describe programs (embodied on a diskette or other recording media) and support documentation (including instruction manuals, operator aids, etc.) written to direct the functions of computer systems.
3. **SOFTWARE PIRACY.** The act of making, distributing and/or using copies of copyrighted software for one's own use or the use of other individuals in violation of copyright law or the restrictions contained in the applicable software license agreements.
4. **AUTHORIZED USERS.** Individuals holding a license or who have otherwise been authorized to use software programs on the Credit Union's behalf.

Guidelines:

1. **AUTHORIZED USE.** The Credit Union licenses software used by its employees by entering into license agreements with outside companies. Unless expressly documented, the Credit Union does not own either the software or the support documentation. This software is also subject to protection under Copyright Law. Unless authorized in the applicable license agreement, the Credit Union does not have the right to reproduce software, except for making archival or back-up copies. Only authorized users are permitted to utilize software licensed by the Credit Union and only in accordance with the terms and restrictions contained in the applicable license agreement. Compliance with all these terms is of utmost importance to the Credit Union. Any questions or concerns should be directed to the Credit Union legal representative or the [1685-1].
2. **SOFTWARE PIRACY.** The unauthorized use, duplication and/or distribution of the software, commonly referred to as Software Piracy, is a violation of Credit Union policy and may be a violation of the applicable

license agreement as well as a violation of Copyright Law and this Credit Union policy. Breach of this policy could result in charges of copyright, patent and trademark infringement, trade secret violations, and breach of the license agreement or deceptive trade practices. Additionally, disciplinary actions may be taken against an employee who violates this policy, up to and including termination.

3. **STRICT ENFORCEMENT.** The Credit Union is committed to strict compliance with all applicable restrictions on software used at the Credit Union. The Credit Union will enforce this policy and investigate all alleged infractions. Disciplinary action will depend on the circumstances and severity of the infraction; however, violation of this policy by any employee, vendor or contractor could be considered a basis for termination.
4. **COPYRIGHT PROTECTION.** Unauthorized copying of software, even as a matter of convenience, for any purpose, even for other Credit Union employees, exposes the Credit Union and its employees to liability under the Copyright Law. This can result in payment of monetary damages and even criminal penalties against the Credit Union and the employee(s) committing the violations.
5. **HOME COMPUTERS.** Unauthorized copying of software for use on an employee's home computer is prohibited and may subject the Credit Union and employee to the same liability identified above under Copyright Law.
6. **PERSONAL SOFTWARE.** Credit Union employees shall not install or download any personal software on company computers to use for any business or other purpose (this includes, but is not limited to, PC screen saver programs, email providers and cookies).
7. **SOFTWARE CONTROL AND AUTHORIZATION.** Proper use and control of software is the responsibility of all the Credit Union employees. Employees must be aware of and follow all the restrictions present in the applicable license agreement. No changes may be made without specific authorization from, and all questions regarding these restrictions are to be directed to, the [1685-1].
8. **REPORTING VIOLATIONS.** If an employee learns of any actual or potential misuse of software within the Credit Union, he/she shall immediately notify his/her supervisor and the [1685-1]. Failure to report an infraction may result in an employee being found as a contributor to copyright infringement and disciplinary action may be taken against that employee.
9. **VENDORS AND CONTRACTORS.** Vendors or contractors who use Credit Union owned computers and related software are required to adhere to all the provisions of this policy during their period of service. The [1685-1] must specifically authorize the disclosure and/or transfer of any software to a vendor or contractor. In addition, the [1685-1] must be notified of any vendor/contractor requirements for software, so appropriate restrictions can be included in the applicable contract or consulting agreement.
10. **TERMINATION.** Upon an employee's, vendor's or contractor's termination with the Credit Union, all software and support documentation assigned to such person or entity must be returned and certified complete to the responsible Department Manager. It is the responsibility of the Department Manager to see that all copies of the Software are returned.
11. **EMPLOYEE ACKNOWLEDGEMENT OF POLICY.** Employees may be asked to sign written acknowledgements that they have been informed of Credit Union software licensing policies.

Chapter 2000: Operations

Duly Approved by Credit Union

BOARD OF DIRECTORS

Approval Date:

- [Policy 2100: General Operations Policies](#)
- [Policy 2110: Bank Secrecy Act/Anti-Money Laundering Program](#)
- [Policy 2112: BSA - Marijuana-Related Business Accounts](#)
- [Policy 2113: BSA – Not Servicing Marijuana-Related Business Accounts](#)
- [Policy 2120: Cash](#)
- [Policy 2125: Teller Over/Short](#)
- [Policy 2130: Dual Control](#)
- [Policy 2140: Purchasing](#)
- [Policy 2145: Office of Foreign Asset Control](#)
- [Policy 2150: Signing Authority](#)
- [Policy 2185: Third Party Due Diligence & Oversight](#)
- [Policy 2190: Disaster Contingency Planning](#)
- [Policy 2191: Chain of Command](#)
- [Policy 2192: Emergency Powers](#)
- [Policy 2193: Statement of Decision Criteria](#)
- [Policy 2195: Pandemic Influenza Preparedness & Response](#)
- [Policy 2200: Member Services](#)
- [Policy 2205: Unlawful Internet Gambling](#)
- [Policy 2210: Accounts](#)
- [Policy 2211: Business Accounts](#)
- [Policy 2212: Individual Retirement Arrangements](#)
- [Policy 2213: Trust Accounts](#)
- [Policy 2214: Health Savings Accounts](#)
- [Policy 2215: Account Ownership](#)
- [Policy 2216: Deceased Depositor Issues & Estate Accounts](#)
- [Policy 2217: Negative Account Balances](#)
- [Policy 2218: Dormant Accounts](#)
- [Policy 2220: E-Commerce](#)
- [Policy 2221: Website](#)
- [Policy 2222: Electronic Communications/Acceptable Use](#)
- [Policy 2223: Children’s Online Privacy Protection](#)
- [Policy 2225: Remote Banking](#)
- [Policy 2226: E-Statements](#)
- [Policy 2227: Electronic Signatures](#)
- [Policy 2232: Member Expulsion](#)
- [Policy 2235: Member Abuse](#)
- [Policy 2240: Member in Good Standing](#)
- [Policy 2245: Protecting the Elderly and Vulnerable from Fraud](#)
- [Policy 2270: Safe Deposit Boxes](#)
- [Policy 2271: Biometric Safe Deposit Boxes](#)
- [Policy 2280: Share Insurance](#)
- [Policy 2290: Wire Transfers](#)
- [Policy 2300: Share Draft Accounts](#)

- [Policy 2310: Share Draft Telephone Inquiries](#)
- [Policy 2400: Funds Availability](#)
- [Policy 2401: Collection of Checks Procedure](#)
- [Policy 2500: Truth-In-Savings](#)
- [Policy 2600: Electronic Fund Transfers](#)
- [Policy 2605: International Remittance Transfers](#)
- [Policy 2610: ACH Operations](#)
- [Policy 2611: ACH Management](#)
- [Policy 2612: ACH Audit](#)
- [Policy 2615: ATM/Debit Cards](#)
- [Policy 2620: Remote Deposit Capture](#)
- [Policy 2700: Garnishment of Federal Benefit Payments](#)
- [Policy 2705: IRS Levies](#)

Policy 2100: General Operations Policies

Revised Date: 09/30/2014

Model Policy Revised Date: 09/30/2014

General Policy Statement:

The Board of Directors delegates responsibility to management for developing sound procedures for compliance with the various laws and regulations that govern credit union operations including, but not limited to, the Bank Secrecy Act, the Right to Financial Privacy Act, the Gramm-Leach-Bliley Act, the Children's Online Privacy Act, the Customer Identification Program and the USA PATRIOT Act as well as for the control of cash, dual control, purchasing, signing authority, and other general operations policies.

Policy 2110: Bank Secrecy Act/Anti-Money Laundering Program

Revised Date: 03/28/2018

Model Policy Revised Date: 03/28/2018

General Policy Statement:

[CUNAME]'s (Credit Union) comprehensive Bank Secrecy Act (BSA) / Anti-Money Laundering (AML) Program will include internal policies, procedures, and controls designed to comply with the USA PATRIOT Act of 2001 (PATRIOT Act), the BSA, the Currency and Foreign Transactions Reporting Act, OFAC rules, and all related laws and regulations in order to combat money laundering, terrorist financing, tax evasion and other financial crimes.

Definitions:

1. **Money Laundering.** Money laundering is the criminal practice of processing “dirty” money through a series of transactions in order to “clean” the funds so that they appear to be proceeds from legal activities. It may not involve currency (cash) at every stage of the laundering process, and generally involves three independent steps (that can occur at the same time):
 - A. **Placement:** Structuring currency deposits in amounts to evade reporting requirements, or commingling currency deposits of legal and illegal activities. Examples:
 - i. Large number of deposits below the reporting threshold.
 - ii. Depositing a refund check from a canceled vacation package or insurance policy.
 - iii. Buying a series of monetary instruments that are collected and deposited at another location.
 - B. **Layering:** Moving funds around the financial system, often in a complex series of transactions. Examples:
 - i. Exchanging monetary instruments for larger or smaller amounts.
 - ii. Wiring or transferring funds to and through numerous accounts in one or more financial institutions.
 - C. **Integration:** Creating the appearance of legality through additional transactions. Example:
 - i. The purchase and resale of real estate or other assets.
2. **Terrorist Financing.** Activities financing a terrorist organization are often funded through legitimate sources, such as: (1) charitable donations; (2) business ownership; and/or (3) personal employment.

Guidelines:

1. **COMPLIANCE CULTURE.** To ensure the Credit Union has a strong compliance culture the Financial Crime Enforcement Network’s (FinCEN) guidance will be followed, including:
 - A. The Board of Directors, executive and senior management will actively support, understand and be engaged in compliance efforts;

- B. Managing and mitigating BSA deficiencies and risks will not be compromised by revenue interests;
- C. Relevant compliance information will be shared throughout the Credit Union;
- D. Adequate human and technological resources will be devoted to compliance functions;
- E. Credit Union leadership and staff will understand the purpose of BSA efforts and reporting; and
- F. The BSA compliance program will be tested by an independent and competent party.

2. **BSA/AML COMPLIANCE PROGRAM.** The Board of Directors will approve the BSA/AML Compliance Program and any changes to it with corresponding documentation in the Board minutes.

- A. **Compliance Officer.** The BSA/AML/OFAC Compliance Officer (Compliance Officer), appointed by the Board, will (i) act as the primary contact person with any applicable federal agency, (ii) periodically review and update the BSA/AML Compliance Program, (iii) ensure that daily transaction records are received and determine if the required reports have been timely and accurately filed and appropriate actions taken; (iv) ensure that staff complies with the BSA/AML requirements; and (v) ensure that adequate record retention procedures are in place.
- B. **Risk Assessment.** The Compliance Officer will oversee the performance of the Credit Union's risk assessment, which identifies and measures the degree of risk for each of the Credit Union's products, services, members and geographic locations, along with the steps that have been taken to mitigate the risks. The risk assessment will be performed at least every 12 to 18 months.
- C. **Internal Controls.** The Compliance Officer will develop and implement a system of internal controls and procedures under the oversight of the [2110-1]. The Credit Union's internal controls consist of monitoring, reporting and recordkeeping.
- D. **Training.** The Credit Union will provide periodic training for employees whose responsibilities involve transactions covered by the BSA, PATRIOT Act, and applicable regulations relevant to their job duties. The Credit Union will also provide periodic training for the Board of Directors and committee members relevant to their volunteer duties. The Compliance Officer will ensure that the appropriate staff, including new hires, receives training and that records documenting the training are kept.
- E. **Audit.** The Credit Union will coordinate an audit which will include independent testing and auditing of the Credit Union's BSA/AML Compliance Program and Customer Identification Program in the annual internal review plan and report its findings to the Board of Directors. This audit will be performed at least every 12 to 18 months.

3. **MONITORING.** The Credit Union will enact procedures to monitor and identify unusual activity.

- A. **Member Due Diligence.** As part of the monitoring process, the Credit Union will enact a member due diligence program in order to: (a) predict the types of transactions in which a member is likely to engage; and (b) determine when transactions are potentially suspicious.
- B. **High Risk Members.** For high risk members, the Credit Union will obtain the following information at account opening and throughout the relationship:

- i. Purpose of the account.
- ii. Source of wealth and funds.
- iii. Individuals with ownership or control over the account, such as beneficial owners, signatories, or guarantors.
- iv. Member's (or beneficial owner's) occupation and type of business.
- v. Financial statements.
- vi. Residence (if a business, where it is incorporated).
- vii. Proximity of residence, place of employment or business to the Credit Union.
- viii. Whether international transactions are expected to be routine.
- ix. Explanations for changes in account activity.
- x. Description of business operations, anticipated volume of currency and sales.
- xi. References.

C. Correspondent and Private Banking Accounts. [2110-3] The PATRIOT Act requires enhanced due diligence policies, procedures, and controls reasonably designed to detect and report money laundering or potential terrorist activities conducted through correspondent accounts for foreign banks or through private banking accounts (For the purposes of the PATRIOT Act, a "private banking" account is one in which the Credit Union requires a minimum balance of at least \$1,000,000 and is managed by a specific Credit Union employee).

D. Money Service Businesses (MSBs). MSBs include any person doing business, regardless of whether on a regular basis, in one or more of the following: money orders, travelers checks, money transmissions, check cashing and currency dealing or exchange. Must conduct more than \$1,000 in business with one person in one or more transactions on any one day (however, NO activity threshold applies to money transmitters).

- i. When opening an account for an entity, the Credit Union will at a minimum, conduct the following due diligence for MSBs:
 1. Apply the Credit Union's CIP/MIP;
 2. Confirm whether it has registered with FinCEN (as it is required to do every two (2) years. If not, the account will not be opened);
 3. Confirm whether it is licensed to do business in the state (If not, the account will not be opened);
 4. Conduct a basic BSA/AML risk assessment to determine the level of risk associated with the account and whether further due diligence is necessary.
- ii. To reduce and mitigate the risk imposed by MSB members, the Credit Union may pursue some or

all of the following actions as part of the due diligence:

1. Review the MSB's BSA/AML program;
2. Review results of the MSB's independent testing of its AML program;
3. Review written procedures for the operation of the MSB;
4. Conduct on-site visits;
5. Review list of agents, including locations, within or outside the US, which will be receiving services directly or indirectly through the MSB account;
6. Determine whether the MSB has performed due diligence on third-party servicers or paying agents;
7. Review written agent management and termination practices for the MSB;
8. Review written employee screening practices for the MSB.

iii. The Credit Union will review FinCEN's website (http://www.fincen.gov/financial_institutions/msb/) to determine whether an MSB required to register has, in fact, registered or renewed its registration.

E. Legal Entity Members. The Credit Union will identify and verify legal entity members, including all beneficial owners, consistent with the CIP/MIP. The Credit Union will identify the beneficial owners of each legal entity at the time a new account is opened by obtaining a certification, similar to the Customer Due Diligence Certification Form, Appendix A or another method, provided the individual completing the form certifies (to the best of their knowledge) that the information is accurate. The Credit Union will update beneficial ownership information on their members on an event-driven basis, when in normal course monitoring they detect information that may be relevant, such as a potential change in the ownership structure or unexplained change in activity.

i. **Beneficial owners** as listed above, means each individual who directly or indirectly (through any contract, arrangement, understanding, relationship or otherwise) owns 25% or more of the equity interests of the legal entity and a single individual with significant responsibility to control, manage, or direct the legal entity (e.g., CEO, CFO, COO, General Partner, etc.). If a Trust is an owner, the beneficial owners would be the Trustee(s).

ii. Unless otherwise excluded, **legal entity**, as used above, includes a corporation, limited liability company, or other entity created by the filing of a public document with a Secretary of State or similar office, a general partnership, and any similar entity formed under the laws of a foreign jurisdiction.

F. Monitoring System. The Credit Union will monitor activity through a [2110-9] system. The Credit Union will ensure, as part of the monitoring process, that it maintains current information about its members.

4. REPORTING

A. CURRENCY TRANSACTION REPORT (CTR). The Credit Union will complete and electronically file a FinCEN CTR, each time a nonexempt member withdraws, transfers, makes a payment with, or deposits cash (currency or coin) of more than \$10,000 within 15 days of the transaction. Multiple transactions by or on behalf of one person in one business day will be consolidated and reported as if the

total exceeds \$10,000. A copy of the electronically filed FinCEN CTR will be retained for five years (See Policy 10010, Table 10).

- i. CTRs are **not** required to be filed for transactions involving U.S. depository institutions; or federal, state or local government (or any entity exercising governmental authority). As part of the Credit Union's Customer/Member Identification Program (CIP/MIP), the Credit Union will ensure the member's initial eligibility for this exemption, and will document the basis for its conclusions.
- ii. **Exemptions – Phase I.** A CTR is not required for transactions involving most corporations or other publicly traded entities (such as partnerships), which are listed on the New York Stock Exchange, the American Stock Exchange, or NASDAQ. In order to obtain the exemption, the Credit Union will file a Designation of Exempt Person (DEP) form with the U.S. Department of Treasury within 30 days after the first transaction in currency that the Credit Union wishes to exempt.
 1. The Credit Union will closely scrutinize members requesting exempt status to ensure that information received from the member is current and reliable, as failure to investigate the member exposes the Credit Union to liability for contributing to the success of a criminal enterprise.
 2. At least once per year, the Credit Union will review the eligibility of an exempt member to determine whether such member remains eligible for an exemption. Management will maintain a current list of all members whose transactions are exempt. The list shall include the following information: (a) Member's name, (b) Address, (c) Type of business, and (d) Account number. Tellers must check the exempt list each time a member deposits or withdraws more than \$10,000 (currency and coin). **If members are not exempt, tellers must complete a CTR.**
- iii. **Exemptions – Phase II.** For members who qualify as either "non-listed businesses" or "payroll customers," the Credit Union will file the FinCEN Designation of Exempt Person (DEP) form within 30 days after the first transaction in currency the Credit Union wishes to exempt. To qualify, the member must: (1) maintain an account with the Credit Union for at least two months (or is granted an exception based on a risk-based analysis of the legitimacy of the member's transactions that has been conducted); (2) "frequently engage" in transactions in currency in excess of \$10,000 (which means having actually conducted five (5) or more reportable cash transactions in each full year following the member's initial designation); **and** (3) be incorporated under the laws of the U.S. or any state.
 1. At least once per year, the Credit Union will review the eligibility of an exempt member to determine whether such member remains eligible for an exemption. The Credit Union will maintain a system of monitoring the transactions in currency of each exempt customer for any reportable suspicious activity.
 2. Certain businesses are *ineligible* for treatment as an exempt non-listed business. Members who engage in multiple business activities may qualify so long as no more than 50% of its annual gross revenues are derived from one or more ineligible business activities. In these cases, the Credit Union will make a reasonable determination based on its understanding of the nature of the members' business; the purpose of the member's accounts; the actual or anticipated activity in those accounts; or by obtaining additional supporting materials (i.e., tax returns and/or unaudited financial statements). Ineligible activities include the following:

- a. Serving as a financial institution or as agents for a financial institution of any type;
- b. Purchasing or selling motor vehicles of any kind, vessels, aircraft, farm equipment or mobile homes;
- c. Practicing law, accounting or medicine;
- d. Auctioning or pawning of goods;
- e. Chartering or operation of ships, buses or aircraft;
- f. Engaging in gaming (other than licensed pari-mutuel betting at race tracks);
- g. Engaging in investment advisory services or investment banking services;
- h. Engaging in real estate brokerage, title insurance activities or real estate closings;
- i. Engaging in trade union activities; or
- j. Engaging in any other activity that may, from time to time, be specified by FinCEN.

iv. At the time a member's ineligibility is discovered, the Credit Union will document its determination of ineligibility and will cease to treat the member as exempt.

B. SUSPICIOUS ACTIVITY REPORT (SAR). The Credit Union will complete and electronically file a SAR whenever the Credit Union knows or has reason to suspect that any crime or suspicious transaction related to money laundering or a violation of the BSA has occurred. A copy of the electronically filed form, along with any supporting documentation, will be retained for five years.

The Credit Union will report any crime or suspected crime and any suspected computer intrusion electronically using the FinCEN Suspicious Activity Report (SAR), within thirty (30) days after discovery. If no suspect can be identified, the Credit Union may use an additional thirty (30) days to file the report. For suspicious activity that continues, the Credit Union should be filing a SAR at least every 90 days to report that information to law enforcement.

For questions regarding suspicious activity that require immediate attention, call the BSA Regulatory Helpline at 800.949.2732, or to report suspicious transactions that may relate to terrorist activity the Credit Union should call the Financial Institutions Toll-Free Hotline at 866.556.3974 (7 days a week, 24 hours a day) and immediately notify an appropriate law enforcement authority in addition to filing timely a SAR. The Credit Union will maintain a copy of each SAR that it files and the original of all attachments to the SAR for five years (See Policy 10010, Table 10). To comply with Section 351 of the PATRIOT Act, except where such disclosure is requested by FinCEN or an appropriate law enforcement or supervisory agency, the Credit Union will not provide any information that would disclose that it prepared or filed a SAR, and will cite 31 CFR 1020.320(e) and 31 USC 5318(g)(2)(a) for their refusal. The Credit Union should also notify FinCEN and the NCUA of any request. The Credit Union and any director, officer, employee, or agent of the Credit Union who files a voluntary or required SAR will be protected from liability for any disclosure contained in, or for failure to disclose the fact of such report.

- i. **Sharing SARs and SAR Information.** SARs are confidential. Therefore, the Credit Union will only disclose the SAR filing to fulfill responsibilities consistent with the BSA, such as to the appropriate law enforcement agency, regulator, and the Board, or its designated committee as

outlined in this policy. The Credit Union will not provide information or notification that a transaction has been reported to a person (even if listed above) if that person is involved in the suspicious transaction warranting the SAR.

1. The Credit Union may also share a SAR or SAR information with its affiliates (defined in the Credit Union's Privacy policy (See **Policy 1615**), provided the affiliate is subject to SAR regulation. The Credit Union will ensure that its affiliates keep this information confidential. The Credit Union will **not** share SAR information with an affiliate when the Credit Union has reason to believe that the information may be disclosed to any person involved in the suspicious activity that is the subject of the SAR.
2. Officials, employees, and agents, whether subpoenaed or otherwise requested to disclose a SAR, or the information contained within it, must decline to produce the SAR or to provide any information that would disclose that a SAR was prepared or filed, and notify FinCEN and the NCUA of the request.

ii. Reportable Transactions.

1. **Suspicious large deposits**, even if \$10,000 or less, consisting of numerous items or out-of-area items.
2. **Unusual or suspicious transactions**, such as deposits; withdrawals; transfers between accounts; exchange of currency; loans; extensions of credit; purchases or sales of any stock, bond, share certificate, or other monetary instrument or investment security; any other payments, transfers, or deliveries by, through or to a financial institution; or purchases of depository checks by non-members. The Credit Union will verify the identity of non-members purchasing such items using government-issued identity cards with pictures.
3. **Insider abuse involving any amount**. A SAR will be filed whenever the Credit Union knows, or has reason to suspect, that an official, employee or agent has committed, or aided in the commission of, a criminal violation, regardless of the amount involved.
4. **Transactions aggregating \$5,000 or more where a suspect can be identified**. If it is determined before filing the SAR that the identified suspect or group of suspects used an alias, the information regarding the true identity, as well as the alias identifiers (such as driver licenses or social security numbers, addresses and telephone numbers), will be reported.
5. **Transactions aggregating \$25,000 or more regardless of potential suspects**.
6. **Transactions aggregating \$5,000 or more that involve potential money laundering or BSA violations**. These will be reported when the Credit Union knows or has reason to suspect that the transaction is (1) involves funds derived from illegal activities; (2) is designed to evade the BSA; or (3) has no business or apparent lawful purpose.

iii. **Exceptions to Reporting Requirement**. The Credit Union need not file a SAR for a robbery or burglary committed or attempted that is reported to the appropriate law enforcement authorities, or for lost, missing, counterfeit, or stolen securities that are reported pursuant to 17 C.F.R.240.17(f)(1).

iv. **Report to Board or Designated Committee**. Management will notify the Board, or its designated

committee, of the Credit Union's SAR activity at least monthly. The Board will be notified of SAR activity immediately if the activity warrants immediate reporting. If the suspect is a director or member of a committee designated by the Board, the Credit Union will only notify the remaining directors, or designated committee members, who are not suspects, or will merely report the number of SARs filed, without providing specific information. The report will provide sufficient information on SAR filings to allow for the Board or designated committee to fulfill their fiduciary duties, while being mindful of the confidential nature of the SAR.

C. INTERNATIONAL TRANSPORTATION OF CURRENCY AND/OR MONETARY

INSTRUMENT REPORT. The Credit Union will file a Report of International Transportation of Currency or Monetary Instrument Report (CMIR) if it sends or receives more than \$10,000 in currency or instruments into or out of the United States on its own behalf. The BSA does not require the Credit Union to file a CMIR in respect to currency or other instruments mailed or shipped through the postal service or by common carrier (armored car services), or the transfer of funds through normal banking procedures, which does not involve the physical transportation of currency or monetary instruments. The Credit Union will file the CMIR on or before the date of entry, departure, mailing, or shipping. Reports will be sent to: Commissioner of Customs, Attention: Currency Transportation Reports Washington, DC 20229.

D. FOREIGN FINANCIAL REPORT. The Credit Union will file a report of Foreign Bank and Financial Accounts Report (FBAR) Form through the BSA e-filing System on or before June 30 of each year for all Credit Union financial account relationships outside the United States where the aggregate value exceeded \$10,000 during the previous calendar year. The Credit Union will retain FBAR forms for five years.

5. RECORDKEEPING

A. Checks, Drafts, Cashier's Checks, Money Orders, [2110-10] and Traveler's Checks of \$3,000 To \$10,000 in Currency. The Credit Union will not issue or sell these items unless it verifies the identity of the purchaser. The Credit Union will treat multiple purchases as one purchase if it has knowledge that an individual purchases these items during one business day totaling \$3,000 or more. The Credit Union will record the following information in a monthly chronological log: (a) member name; (b) verification of member's identity; (c) account number; (d) date of purchase; (e) branch where the instrument was purchased; (f) type(s) of instrument(s) purchased; (g) serial number(s), and (h) dollar amount(s) of each instrument(s) purchased. Each Credit Union branch will maintain a separate log. By the fifteenth (15th) of each month, the branch logs will be sent to the Compliance Officer to be maintained in a centralized location. The Credit Union will retain the logs for five years (See Policy 10008, Table 8).

B. Certain Financial Transactions. The Credit Union will prepare and retain records concerning account documentation and negotiable instruments as required by the BSA. This includes retaining records of: (a) each loan exceeding \$10,000 (except real estate), including the purpose of the loan; (b) certificate and account TINs; and (c) transactions concerning certain account and negotiable instruments. The Credit Union will fulfill these requirements as it makes and retains financial records in its ordinary course of business. The Credit Union will retain all records the BSA requires it to keep for a period of five years. (See Policy 10008, Table 8)

C. Legal Entity Member Records. The Credit Union will retain records related to the identification of the beneficial owner(s) of the legal entity for 5 years after the date the account is closed. The Credit Union will retain records related to the verification of the beneficial owner(s) for 5 years after the record is made. (See Policy 10010, Table 10)

D. Wire Transfers. All wire transfers of \$3,000 or more made via Fedwire will include the information

below (funds transfers governed by the Electronic Fund Transfer Act, as well as any other funds transfers that are made through an automated clearinghouse, an automated teller machine (ATM), or a point-of-sale system, are excluded from this requirement):

- i. **Credit Union Originates Wire.** When the Credit Union originates a wire transfer, the Credit Union will retain the following: (a) name; (b) address; (c) amount of transfer; (d) date of transfer; (e) any payment instructions; (f) identity of beneficiary's financial institution; and (g) beneficiary's name, address and account number.

1. **Travel Rule Requirement.** When submitting a transmittal order, the Credit Union will include the following information to the receiver:

- a. Name of transmitter and the account number of the transmitter (if the payment is ordered from an account);
- b. Address of the transmitter;
- c. Amount of the transmittal order;
- d. Date of the transmittal order;
- e. Identity of the transmitter's and recipient's financial institution;
- f. As much of the following information of the recipient as possible (name, address, account number and any other specific identifier); and
- g. Either the name and address or numerical identifier of the Credit Union.

- ii. **Credit Union Received Wire.** When the Credit Union receives a wire transfer, the Credit Union will do the following: (a) retain a copy of the payment order; (b) verify the beneficiary's name and address; and (c) keep a record of the means used to verify the name and address, along with the person's social security number, alien ID or employee identification number (EIN).

6. **INFORMATION SHARING.** Sections 314(a) and 314(b) of the PATRIOT Act and regulations allow the Credit Union to provide information about specified accounts or transactions in response to requests from FinCEN, and to share information with other financial institutions. The Federal Bureau of Investigation (FBI) may send a National Security Letter (NSL), which will require the Credit Union to share any requested information in the possession of the Credit Union with the FBI.

A. **Required Sharing With FinCEN – Section 314(a).** The Credit Union designates its BSA Compliance Officer as the FinCEN contact person. Upon FinCEN's request, the Credit Union will search its records for a specified individual or entity.

- i. **Certification.** Prior to FinCEN requesting information, the underlying federal law enforcement agency must provide FinCEN with a written certification, that the person named in the request is reasonably suspected, based on credible evidence, of engaging in money laundering or terrorist activity.
- ii. **Record Search.** Upon receiving a FinCEN request, the Credit Union will search its records to determine whether it maintains or has maintained an account for, or has engaged in a transaction with, each named individual or entity. Unless otherwise specified in FinCEN's request, the search

will cover:

1. Current accounts;
2. Accounts maintained/ closed during the preceding twelve (12) months; and
3. Transactions and funds transfers conducted during the preceding six (6) months.

The Credit Union is not required to search any account holder's processed checks for payee information related to a named suspect.

- iii. **Report to FinCEN.** If the Credit Union finds an account or transaction identified with any individual, entity, or organization named in a FinCEN request, the Credit Union must report the match to FinCEN by completing the Subject Information Form. The Form only requires the Credit Union to place an "X" next to the particular named subject for which a match was found. The Credit Union will also provide point-of-contact information. The Credit Union will report this information to FinCEN within 14 days of the request via the Secure Information Sharing System (SISS).
- iv. **Use and Confidentiality of Information.** The Credit Union will **not** use FinCEN information as the sole determination factor in filing a SAR or to determine whether to establish or maintain an account or to engage in a transaction. The Credit Union will **not** disclose to any person, other than FinCEN or the federal law enforcement agency on whose behalf FinCEN is requesting information, the fact that FinCEN has requested information, except to the extent necessary to comply with the request. The Credit Union may share this information under its "Voluntary Information Sharing" policy set forth below. The Credit Union will maintain adequate procedures to protect the security and confidentiality of FinCEN information requests.
- v. **Right to Financial Privacy Act.** Credit Union responses to FinCEN requests under this Information Sharing policy fall within permissible disclosure exceptions to the Right of Financial Privacy Act.
- vi. **Documentation.** The Credit Union will store either the search verification document from the web-based 314(a) SISS or the Subject Response List for each transmission.

B. Voluntary Information Sharing – Section 314(b). The Credit Union may share information with other financial institutions or associations of financial institutions regarding individuals, entities, and countries for purposes of detecting, identifying, or reporting activities that it suspects may involve money laundering or terrorist activities. If the Credit Union engages in this type of information sharing, it will not be liable to any person under any state or federal law or regulation or under any contract or other legally enforceable agreement, for such sharing, or for any failure to provide notice of such sharing, to an individual, entity, or organization that is identified in such sharing.

- i. **Certification.** If the Credit Union intends to share this information, it will submit a completed FinCEN Notice, either by accessing FinCEN's website, www.fincen.gov and entering the appropriate information, or by mailing the completed certification to: FinCEN, P.O. Box 39, Mail Stop 100, Vienna, VA 22183. Each certification is effective for one year beginning on the certification date. The Credit Union will submit a new certification annually.
- ii. **Security and Confidentiality.** The Credit Union will create and maintain procedures to protect the security and confidentiality of shared information. This information will be used only to detect,

identify, and report on activities that may involve terrorist or money laundering activities or to determine whether to establish or maintain an account, or to engage in a transaction. If the Credit Union suspects terrorist activity or money laundering, it will call FinCEN and, if appropriate, file a SAR.

C. Required Information Sharing with the FBI. National Security Letters (NSLs) are investigative demands that may be issued by the local FBI office and other federal government authorities to obtain financial records from the Credit Union.

- i. **Security and Confidentiality.** NSLs are HIGHLY confidential, in that not even an examiner will review them. The Credit Union will create and maintain procedures to protect the confidentiality of the existence of any NSLs received. NSLs are NOT to be referenced in any SAR filings.
- ii. **Questions.** Any and all questions related to an NSL are to be directed to the local FBI field office ONLY.

7. **PRODUCTION OF RECORDS.** In accordance with the PATRIOT Act, within 120 hours after receiving an NCUA information request related to its anti-money laundering compliance or a member or account signer, the Credit Union will provide or make available to NCUA, information and account documentation for any account opened, maintained, administered, or managed in the United States by the Credit Union.

8. **SPECIAL CONCERN TRANSACTIONS.** The PATRIOT Act authorizes the U.S. Treasury Department to issue regulations finding certain countries, areas, or persons to be of “special concern,” and the Credit Union will comply with any special record keeping and reporting requirements as applicable.

9. **CUSTOMER/MEMBER IDENTIFICATION PROGRAM (CIP/MIP).** The Credit Union will undertake reasonable risk-based measures, appropriate for its size and type of business, to (i) verify the identity of any person seeking to open an account, to the extent reasonable and practicable; (ii) maintain a record of the information used to verify the person’s identity, and (iii) determine whether the person appears on any list of known or suspected terrorists or terrorist organizations provided to the Credit Union by any government agency.

A. Definitions.

- i. Under the CIP/MIP, an “account” means a formal arrangement established to provide ongoing services or other financial transactions. It applies to traditional accounts such as a checking, share draft, share, certificate account, asset account, and any loan or other extension of credit. An “account” does **not** include a product or service where the Credit Union does not establish a formal relationship with the person, such as: check cashing, wire transfer, sale of a check or money order, an account acquired through acquisition, merger, purchase of assets or assumption of liabilities, or an account opened for an employee benefit plan established under the Employee Retirement Income Security Act of 1974.
- ii. A “customer” (“member” or “person”) includes individuals, and individuals who open a new account for corporations, partnerships, trusts, associations, etc. The CIP requires identification verification for customers opening an account and for any individual(s) authorized to open an account for a corporation, partnership, trust, association, guardianship, etc. Both deposit and lending functions are considered account relationships.

B. Identity Verification. The Credit Union will create procedures to verify the identity of each member and person who opens an account, to the extent reasonable and practicable, to enable the Credit Union to form a reasonable belief that it knows the true identity of the member or person. If a member or person refuses

or is unable to provide the requested information within [2110-4] of account opening, the account will be closed. Credit Union employees may refuse to open the account until identification to be verified is provided. If a provisional account is opened, the individual will have no access to it until identification is verified.

i. **Required Information.** The Credit Union will create procedures that specify the identifying information that the Credit Union will obtain from each member, beneficial owners of legal entity members or person opening an account. At a minimum, the Credit Union will obtain the following information from an individual or entity prior to opening an account:

1. Name (individual name) or (entity name & any assumed business name);
2. Date of birth (if individual);
3. Address:
 - a. Residence or principal place of business and mailing address (if individual);
 - b. Army Post Office (APO) or Fleet Post Office (FPO) box number or residential or business street address of next of kin or of another contact individual (if individual); or
 - c. Principal place of business, local office, or other physical location (if person is other than an individual, i.e., corporation, partnership, trust, estate, guardianship).
 - d. In states that have established an Address Confidentiality Program (ACP), if the individual participates, the street address of the ACP sponsoring agency.
4. Identification Number:
 - a. For a U.S. person, a TIN, SSN, ITIN, EIN.
 - b. For a non-U.S. person, one or more of the following:
 - i. TIN, SSN, ITIN, EIN;
 - ii. Passport number and country of issuance,
 - iii. Alien identification card and number, or
 - iv. Number and country of issuance of any other government-issued document evidencing nationality or residence and bearing photograph or similar safeguard. If opening an account for a foreign business without an identification number, the Credit Union will request alternative government issued documentation certifying the existence of the business/enterprise.

ii. **Limited Exceptions.**

1. **TIN Applied For.** The Credit Union may open an account for a non-person (i.e., corporation, partnership, or trust) that has applied for, but has not received, a TIN if the Credit Union maintains procedures to confirm that the TIN application was filed before the customer opens the account and obtains the TIN within a reasonable period of time after it

opens the account. If the Credit Union does **not** receive the TIN within [2110-5] weeks, the account will be closed.

2. **Credit Card Account.** In connection with a person who opens a credit card account, the Credit Union may obtain the identifying information about a person by acquiring it from a third-party source (i.e., credit reporting agency) prior to extending credit to the person.

iii. **Verification.** The Credit Union will follow risk-based procedures for verifying the identity of the member, using the information obtained within a reasonable time after an account is opened. The procedures will describe when the Credit Union will use documents, non-documentary methods, or a combination of both methods.

1. **Verification Through Documents.** For accounts opened in person, the Credit Union will verify the identity of each person or entity through the following documents:

a. **For Individuals:** unexpired government-issued identification evidencing nationality or residence and bearing a photograph or similar safeguard (such as a driver's license or passport).

b. **For Non-Individuals:** documents showing the existence of the entity (registered articles of incorporation or organization, government issued business license; or Partnership Agreement or trust instrument.) All non-individual accounts must have the identity of all beneficial owners of the entity identified and valid SSNs must be provided to the Credit Union prior to account opening.

2. **Lending Transactions.** To prevent fraud, the Credit Union will create procedures to verify member information against the applications it receives, and ensure proper authentication of the identity of each individual filing an online loan application.

3. **Documentation.** The Credit Union will create procedures for making and maintaining a record of all verification information obtained. At a minimum, the record must include:

a. All identifying information about a member (person) obtained;

b. A description of any document that was relied on, noting the type of document, any identification number contained in the document, the place of issuance and, if any, the date of issuance and expiration date;

c. A description of the methods and the results of any measures undertaken to verify the identity of the member (person); and

d. A description of the resolution of any substantive discrepancy discovered when verifying the identifying information obtained.

iv. **Non-Documentary Verification Methods.** The Credit Union will use non-documentary methods to verify a member's or person's identity in addition to, or instead of, identification documents, and will create procedures to specify when non-documentary verification methods will be used and the types of non-documentary methods to be used. These methods may include: contacting a member or person; independently verifying the member's or person's identity through the comparison of information provided by the member or person with information obtained from a consumer reporting agency, public database, or other source; checking references with other financial

institutions; and obtaining a financial statement.

v. **Account Closure.** When a provisional account is opened without obtaining documents, all attempts will be made to retrieve the required documentation to confirm the person's identity. If this information is not obtained within [2110-6], the account will be closed and funds will be returned to the current account owner(s). Any exceptions to this procedure must be approved by [2110-7], based on the non-documentary verification obtained.

vi. **Verify Identifying Information on Existing Members.** The Credit Union will not verify information about an existing member seeking to open a new account, if it: (a) previously verified the member's or person's identity in accordance with its policies and procedures; (b) continues to have a reasonable belief that it knows the member's or person's true identity; (c) the Credit Union has a reasonable belief that the member, previously identified, is the person who is opening the account; and (d) the verification process is documented on the signature card or comment log within the account or loan file.

vii. **Identifying Information on Legal Entity Members.** The Credit Union will identify the beneficial owners of each legal entity at the time a new account is opened, even if they are an existing member, by obtaining a certification, similar to the Customer Due Diligence Certification Form, Appendix A or another method, provided the individual completing the form certifies (to the best of their knowledge) that the information is accurate. The Credit Union will also update beneficial ownership information on their members on an event-driven basis, when in normal course monitoring they detect information that may be relevant, such as a potential change in the ownership structure or unexplained change in activity.

C. **Lack of Verification.** The Credit Union will create procedures to determine its actions if it cannot verify a new member's or person's identity through documentary or non-documentary means. Depending upon the type of account requested, the Credit Union may permit limited transactions, while identity is being verified. After [2110-8] days, if the Credit Union cannot form a reasonable belief that it knows the true identity of a member or person, the account will **not** be opened or if it was opened, it will be closed. Risk will determine final policy decisions when there is a lack of identification verification.

D. **Record Retention.** The Credit Union will retain all identifying information about a member (person) or legal entity beneficial owner(s) obtained for five years after the date the account is closed or, in the case of credit card accounts, five years after the account is closed or becomes dormant (See Policy 10010, Table 10). The Credit Union will retain for five years after the record is made:

- i. A description of any document that was relied on, noting the type of document, any identification number contained in the document, the place of issuance and, if any, the date of issuance and expiration date;
- ii. A description of the methods and the results of any measures undertaken to verify the identity of the member (person); and
- iii. A description of the resolution of any substantive discrepancy discovered when verifying the identifying information obtained.

E. **Comparison with Government Lists.** The Credit Union will check member and authorized signer names against any list of known or suspected terrorists or terrorist organizations provided by any government agency and designated as such by the U.S. Treasury Department in consultation with Federal regulators. This determination will be made at account opening. If a person's name is on a list, the Credit

Union will look to its OFAC procedures for the appropriate action. If there is a match, all further account action will be stopped and the Compliance Officer will be notified. Further investigating will be done before the account opening process resumes. If the Credit Union confirms a legitimate hit on any government list, the Credit Union will immediately notify the proper regulatory agency. The Credit Union will maintain documentation to show that it follows this process.

F. **Notice.** The Credit Union will provide persons with notice that the Credit Union is requesting information to verify their identities, in a manner reasonably designed to ensure that a member or person is able to view the notice before opening an account. For example, the Credit Union may post a notice in the lobby or on its website, include the notice on its account applications, or use any other form of written or oral notice. The Credit Union will use a notice substantially similar to the following:

i. **IMPORTANT INFORMATION ABOUT PROCEDURES FOR OPENING A NEW ACCOUNT.** To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial institutions to obtain, verify, and record information that identifies each person who opens an account. What this means for you: When you open an account, we will ask for your name, address, date of birth, and other information that will allow us to identify you. We also may ask to see your driver's license or other identifying documents.

G. **Reliance on Another Financial Institution.** The Credit Union may create procedures which specify when the Credit Union will rely on the performance by another financial institution (including an affiliate) of any procedures of the Credit Union's CIP/MIP, with respect to any member of the Credit Union that is opening an account or has established a similar formal relationship with the other financial institution to provide or engage in services, dealings, or other financial transactions, provided that:

- i. Such reliance is reasonable under the circumstances;
- ii. The other financial institution is subject to a rule implementing 31 U.S.C. § 5318(h) and is regulated by a Federal functional regulator; and
- iii. The other financial institution enters into a contract requiring it to certify annually to the Credit Union that it has implemented its anti-money laundering program, and that it will perform (or its agent will perform) the specified requirements of the Credit Union's CIP.

10. **MARIJUANA-RELATED BUSINESSES.** If the Credit Union services marijuana-related businesses, it will comply with the Credit Union's Marijuana-Related Business Accounts Policy (See Policy 2112). If the Credit Union does not service marijuana-related businesses, it will comply with the Credit Union's Not Servicing Marijuana-Related Businesses Policy (See Policy 2113).

11. **PREPAID AND GIFT CARDS.** To limit risk and ensure due diligence of the purchaser, the Credit Union only offers prepaid and/or gift cards to members of the Credit Union. The Credit Union will also implement the following to mitigate BSA/AML risk.

A. **Third-party Service Providers.** When using a third-party service provider to offer, manage, distribute, process or otherwise implement a prepaid access program, the Credit Union will ensure third-party service provider has appropriate BSA/AML compliance programs, including system integrity and monitoring capabilities. The Credit Union will also document the roles and responsibilities of third-parties, ensure member confidentiality provisions are maintained in contracts, and ensure the Credit Union has access to information necessary to monitor transactional activity and audit the third-party provider in compliance with contractual obligations. The Credit Union will comply with the requirements outlined in Policy 2185 (Third Party Due Diligence & Oversight).

B. Product Features and Distribution. The Credit Union may also limit risk by implementing product features such as:

- i. Limits or prohibitions on cash loans, access, or redemption.
- ii. Limits or prohibitions on amounts of loads and number of loads/reloads within a specific timeframe.
- iii. Controls on the number of cards purchased by one member.
- iv. Maximum dollar thresholds on ATM withdrawals and on the number of withdrawals within a specific timeframe.
- v. Maximum dollar thresholds on Point of Sale (POS) transactions (daily or monthly).
- vi. Limits on aggregate card values.
- vii. Limits or prohibitions on certain usage, such as geographic or by merchant type.

C. Reporting. As with other member account activity, the Credit Union will ensure transactions are monitored and suspicious activity reported in accordance with this policy.

Policy 2112: BSA - Marijuana-Related Business Accounts

Revised Date: 03/29/2014

Model Policy Published Date: 03/29/2014

General Policy Statement:

Based on the [CUNAME]'s (Credit Union) commitment to serve the needs of its business members, the Credit Union will offer account holder services to Marijuana-Related Business accounts.

Guidelines:

1. **QUALIFICATIONS.** In order to service Marijuana-Related businesses, the Credit Union will comply with:

- A. All Federal laws,
- B. State laws,
- C. All BSA/AML, USA PATRIOT Act requirements,
- D. FIN-2014-G001 (BSA Expectations Regarding Marijuana-Related Businesses), and
- E. Department of Justice memo (“the “Cole Memo”)

2. **CREDIT UNION RESPONSIBILITIES.** The Credit Union will ensure that it carries out the following responsibilities as part of its due diligence before considering an account for a Marijuana-Related business:

- A. Verifying with the appropriate state authorities whether the business is duly licensed and registered; Reviewing the license application (and related documentation) submitted by the business for obtaining a state license to operate its Marijuana-Related business; Requesting from state licensing and enforcement authorities available information about the business and related parties;
- B. Developing an understanding of the normal and expected activity for the business, including the types of products to be sold and the type of members to be served (e.g., medical versus recreational members);
- C. Ongoing monitoring of publicly available sources for adverse information about the business and related parties;
- D. Ongoing monitoring for suspicious activity, including for any of the red flags described in this guidance; and
- E. Refreshing information obtained as part of member due diligence on a periodic basis and commensurate with the risk.

3. **ADDITIONAL DUE DILIGENCE.** As part of the credit union’s due diligence, it will consider whether the member adheres to the following provisions of the “Cole Memo priorities”:

- A. Preventing the distribution of marijuana to minors;
- B. Preventing revenue from the sale of marijuana from going to criminal enterprises, gangs, and cartels;

- C. Preventing the diversion of marijuana from states where it is legal under state law in some form to other states;
- D. Preventing state-authorized marijuana activity from being used as a cover or pretext for the trafficking of other illegal drugs or other illegal activity;
- E. Preventing violence and the use of firearms in the cultivation and distribution of marijuana;
- F. Preventing drugged driving and the exacerbation of other adverse public health consequences associated with marijuana use;
- G. Preventing the growing of marijuana on public lands and the attendant public safety and environmental dangers posed by marijuana production on public lands; and
- H. Preventing marijuana possession or use on federal property.

4. **FILING OF CURRENCY TRANSACTION REPORTS.** The Credit Union must report currency transactions in connection with Marijuana-Related businesses the same as they would in any other context, consistent with existing regulations and with the same thresholds that apply.

5. **FILING OF SUSPICIOUS ACTIVITY REPORTS.** The Credit Union will file a SAR on activity involving a Marijuana-Related business (including those duly licensed under state law), in accordance with FinCEN's suspicious activity reporting requirements and related thresholds.

A. **“Marijuana Limited” SAR Filings.** A credit union providing financial services to a Marijuana-Related business that it reasonably believes, based on its member due diligence, does not implicate one of the Cole Memo priorities or violate state law will file a “Marijuana Limited” SAR. The content of this SAR should be limited to the following information:

- i. Identifying information of the subject and related parties;
- ii. Addresses of the subject and related parties;
- iii. The fact that the filing institution is filing the SAR solely because the subject is engaged in a Marijuana-Related business; and
- iv. The fact that no additional suspicious activity has been identified. Credit unions should use the term “MARIJUANA LIMITED” in the narrative section.

B. **“Marijuana Priority” SAR Filings.** A financial institution filing a SAR on a Marijuana-Related business that it reasonably believes, based on its member due diligence, implicates one of the Cole Memo priorities or violates state law will file a “Marijuana Priority” SAR. The content of this SAR should include comprehensive detail in accordance with existing regulations and guidance. Details particularly relevant to law enforcement in this context include:

- i. Identifying information of the subject and related parties;
- ii. Addresses of the subject and related parties;
- iii. Details regarding the enforcement priorities the financial institution believes have been implicated;

and

- iv. Dates, amounts, and other relevant details of financial transactions involved in the suspicious activity. Credit unions should use the term “MARIJUANA PRIORITY” in the narrative section to help law enforcement distinguish these SARs.

C. **“Marijuana Termination” SAR Filings.** If a credit union deems it necessary to terminate a relationship with a Marijuana-Related business in order to maintain an effective anti-money laundering compliance program, it will file a SAR and note in the narrative the basis for the termination. The term “MARIJUANA TERMINATION” must be noted in the narrative section.

6. **RED FLAGS TO DISTINGUISH PRIORITY SUSPICIOUS ACTIVITY REPORTS.** Credit union will review “red flags” such as those listed below to distinguish Priority SARs and performs additional due diligence, which could include seeking information from other involved financial institutions under Section 314(b). Red flags include (but are not limited to):

- A. A member appears to be using a state-licensed marijuana-related business as a front or pretext to launder money derived from other criminal activity (i.e., not related to marijuana) or derived from marijuana-related activity not permitted under state law.
- B. The business is unable to produce satisfactory documentation or evidence to demonstrate that it is duly licensed and operating consistently with state law.
- C. The business is unable to demonstrate the legitimate source of significant outside investments.
- D. A member seeks to conceal or disguise involvement in marijuana-related business activity. For example, the member may be using a business with a non-descript name (e.g., a “consulting,” “holding,” or “management” company) that purports to engage in commercial activity unrelated to marijuana, but is depositing cash that smells like marijuana.
- E. Review of publicly available sources and databases about the business, its owner(s), manager(s), or other related parties, reveal negative information, such as a criminal record, involvement in the illegal purchase or sale of drugs, violence, or other potential connections to illicit activity.
- F. The business, its owner(s), manager(s), or other related parties are, or have been, subject to an enforcement action by the state or local authorities responsible for administering or enforcing marijuana-related laws or regulations.
- G. A marijuana-related business engages in international or interstate activity, including by receiving cash deposits from locations outside the state in which the business operates, making or receiving frequent or large interstate transfers, or otherwise transacting with persons or entities located in different states or countries.
- H. The owner(s) or manager(s) of a marijuana-related business reside outside the state in which the business is located.
- I. A marijuana-related business is located on federal property or the marijuana sold by the business was grown on federal property.
- J. A marijuana-related business’s proximity to a school is not compliant with state law.

K. A marijuana-related business purporting to be a “non-profit” is engaged in commercial activity inconsistent with that classification, or is making excessive payments to its manager(s) or employee(s).

7. **TYPES OF ACCOUNTS.** The Credit Union will permit the following types of accounts for Marijuana-Related businesses:
[2112-1]

8. **BUSINESS ACCOUNT DOCUMENTATION.** The Credit Union will follow the same account documentation used in the Credit Union's Business Accounts Policy (See Policy 2211) regarding membership eligibility, member information, signatures, account authorization, Tax ID number, etc.

Policy 2113: BSA – Not Servicing Marijuana-Related Business Accounts

Revised Date: 09/30/2014

Model Policy Published Date: 09/30/2014

General Policy Statement:

Based on the position of the Federal government and Federal law that marijuana is an illegal substance in the United States and irrelevant to state law, [CUnion] (Credit Union) will not provide services to Marijuana-Related Businesses.

Guidelines:

1. CREDIT UNION RESPONSIBILITIES.

- A. The Credit Union will review potential business and commercial members to verify that they are not a Marijuana-Related business.
- B. The Credit Union will review current business and commercial member's activity and transactions to ensure that they are not servicing a Marijuana-Related business:
 - i. The credit union will take steps to identify "red flags";
 - ii. In the event that activity or transactions indicate a current member business is engaging in marijuana related business activities the credit union will:
 - 1. File appropriate BSA reporting including, but not limited to, Suspicious Activity Reports;
 - 2. Confirm the activity and/or transactions are related to marijuana;
 - 3. Take steps to close the account(s).

2. FILING OF SUSPICIOUS ACTIVITY REPORTS. The Credit Union will file a SAR on activity involving a Marijuana-Related business (including those duly licensed under state law), in accordance with FinCEN's suspicious activity reporting requirements and related thresholds.

- A. **"Marijuana Priority" SAR Filings.** A financial institution filing a SAR on a Marijuana-Related business that it reasonably believes, based on its member due diligence, implicates one of the Cole Memo priorities or violates state law will file a "Marijuana Priority" SAR. The content of this SAR should include comprehensive detail in accordance with existing regulations and guidance. Details particularly relevant to law enforcement in this context include:
 - i. Identifying information of the subject and related parties;
 - ii. Addresses of the subject and related parties;
 - iii. Details regarding the enforcement priorities the financial institution believes have been implicated; and
 - iv. Dates, amounts, and other relevant details of financial transactions involved in the suspicious

activity. Credit unions should use the term “MARIJUANA PRIORITY” in the narrative section to help law enforcement distinguish these SARs.

- B. **“Marijuana Termination” SAR Filings.** If a credit union deems it necessary to terminate a relationship with a Marijuana-Related business in order to maintain an effective anti-money laundering compliance program, it will file a SAR and note in the narrative the basis for the termination. The term “MARIJUANA TERMINATION” must be noted in the narrative section.

3. **RED FLAGS TO DISTINGUISH PRIORITY SUSPICIOUS ACTIVITY REPORTS.** Credit union will review “red flags” such as those listed below to distinguish Priority SARs and performs additional due diligence, which could include seeking information from other involved financial institutions under Section 314(b). Red flags include (but are not limited to):

- A. A member appears to be using a state-licensed marijuana-related business as a front or pretext to launder money derived from other criminal activity (i.e., not related to marijuana) or derived from marijuana-related activity not permitted under state law.
- B. The business is unable to produce satisfactory documentation or evidence to demonstrate that it is duly licensed and operating consistently with state law.
- C. The business is unable to demonstrate the legitimate source of significant outside investments.
- D. A member seeks to conceal or disguise involvement in marijuana-related business activity. For example, the member may be using a business with a non-descript name (e.g., a “consulting,” “holding,” or “management” company) that purports to engage in commercial activity unrelated to marijuana, but is depositing cash that smells like marijuana.
- E. Review of publicly available sources and databases about the business, its owner(s), manager(s), or other related parties, reveal negative information, such as a criminal record, involvement in the illegal purchase or sale of drugs, violence, or other potential connections to illicit activity.
- F. The business, its owner(s), manager(s), or other related parties are, or have been, subject to an enforcement action by the state or local authorities responsible for administering or enforcing marijuana-related laws or regulations.
- G. A marijuana-related business engages in international or interstate activity, including by receiving cash deposits from locations outside the state in which the business operates, making or receiving frequent or large interstate transfers, or otherwise transacting with persons or entities located in different states or countries.
- H. The owner(s) or manager(s) of a marijuana-related business reside outside the state in which the business is located.
- I. A marijuana-related business is located on federal property or the marijuana sold by the business was grown on federal property.
- J. A marijuana-related business’s proximity to a school is not compliant with state law.
- K. A marijuana-related business purporting to be a “non-profit” is engaged in commercial activity inconsistent with that classification, or is making excessive payments to its manager(s) or employee(s).

Policy 2120: Cash

Revised Date: 01/01/2004

Model Policy Revised Date: 01/01/2004

Model Policy Reviewed Date: 09/30/2014

General Policy Statement:

The Board of Directors delegates authority and responsibility to management for developing safe and sound procedures for the control of cash. The Board retains ultimate responsibility for the safeguarding of cash. Notwithstanding this delegation, the Board will monitor control and compliance by approving cash limits and reviewing monthly vault cash counts, surprise cash counts, independent audits, and Supervisory Committee and regulatory examinations.

The cash policy provides a broad framework for management to follow in formulating and implementing prudent procedures.

Guidelines:

1. **CASH LIMITS.** The Board expects [CUName] (Credit Union) to operate within approved cash limits. However, the Board recognizes that seasonal demands may require the Credit Union to maintain greater amounts of cash. In such cases, management must formally document and submit to the Board reasons for deviations.
 - A. **Total Cash.** Total cash shall be kept at a minimum. If cash levels exceed [2120-1] % of the total asset portfolio, management should take immediate steps to invest excess cash in suitable securities. If seasonal changes in market conditions warrant deviation from the policy, management should submit a report to the Board supporting additional cash needs.
 - B. **Vault Cash.** Vault cash should not exceed \$[2120-2].
 - C. **Teller Drawers.** Each teller drawer should not exceed \$[2120-3].
2. **CASH CONTROL.** Management shall develop safe and sound procedures for cash control, including procedures for:
 - A. Reconciling cash accounting entries.
 - B. Supporting all postings to the general ledger and subsidiary ledgers.
 - C. Tracking receipt and disbursement of cash.
 - D. Identifying and resolving discrepancies in balances.
 - E. Maintaining over and short records for all persons handling cash.
 - F. Receiving shipments of cash under dual control.
 - G. Safeguarding teller and vault cash by:

- i. Assigning responsibility and accountability;
- ii. Controlling passwords, combinations, and keys;
- iii. Installing and maintaining proper security devices;
- iv. Exercising dual control when appropriate;
- v. Maintaining minimum cash levels;
- vi. Providing adequate training to ensure the:
 - a. Proper implementation of policy, procedures, and operational guidelines;
 - b. Accuracy in the handling and accounting for cash;
 - c. Verification of cash shipped and received;
 - d. Detection of counterfeit and schemes to defraud;
 - e. Proper response in emergency situations; and
 - f. Disaster recovery.

H. Safeguarding ATMs and night depositories.

I. Separating duties where necessary.

J. Overseeing regular cash counts and audits.

K. Monitoring compliance with procedures, laws, and regulations.

Policy 2125: Teller Over/Short

Revised Date: 06/29/2016

Model Policy Revised Date: 06/29/2016

General Policy Statement:

An essential responsibility of a teller is to maintain a balanced cash drawer. While the ultimate goal is to achieve 100% accuracy with respect to balancing each teller cash drawer, [CUnion] (Credit Union) is aware that this is not always possible.

The purpose of this policy is to set the balancing parameters, reduce losses, and ensure that members receive accurate service.

The Credit Union will resolve teller discrepancies as quickly as possible in order to avoid any disadvantage to our members and comply with applicable Regulations. The Credit Union conducts training for employees handling member transactions to ensure prompt reconciliation for any discrepancies identified and appropriate controls and oversight to ensure compliance.

Guidelines:

1. RESPONSIBILITIES

A. Tellers

- i. Each teller is solely responsible for his/her own cash drawer and will be held accountable for its care, custody and control.
- ii. Tellers are expected to balance their cash drawers at the end of each workday.
- iii. If a cash drawer is out of balance, tellers must report the overage/shortage to management as soon as the overage/shortage is discovered. All over/short amounts must be recorded on the teller's Over/Short Report.

B. Accounting. The accounting department will be responsible for tracking cash overages/shortages for all tellers, and will forward a spreadsheet of all overages/shortages to management on a [2125-1] basis.

2. BALANCING STANDARDS

- A. Every teller is expected to balance on a daily basis. All over/short amounts must be recorded on the teller's Over/Short Report.
- B. Any over/short amount over [2125-2] must be reported to management.
- C. Excessive overages/shortages, by either amount or frequency, may result in progressive disciplinary action up to and including termination of employment.
- D. During the first 90 days of employment, performance appraisals will be conducted at 30, 60 and 90-day intervals and will address the employee's balancing record.

E. Tellers who fail to balance within their 90-day probationary period will be evaluated to determine whether further training is needed. Upon re-evaluation and retraining, the employee will be subject to disciplinary action if additional infractions occur.

3. ADJUSTMENTS.

A. Any adjustments made to a member's account must be submitted to management for approval before the adjustment is made. All adjustments must be properly documented.

B. Members who receive an adjustment to their account(s) must be sent written notice of the adjustment to their account(s).

Policy 2130: Dual Control

Revised Date: 07/01/2008

Model Policy Revised Date: 07/01/2008

Model Policy Reviewed Date: 09/30/2014

General Policy Statement:

Dual control guards against loss, theft or embezzlement of certain items of value in [CUname]'s (Credit Union) custody. Dual control is the practice of requiring the presence of two authorized employees to gain access to certain designated items. As a result, no one employee has all the information or keys necessary to gain access to such items without the second person's assistance.

Guidelines:

1. **ACCOUNTABILITY.** Keys and combinations are assigned to specific individuals, who are responsible for maintaining control of these items. The passing of keys or combinations to another individual violates the control and **does not** relieve the person in charge of the keys or combinations from being held accountable for items missing from the safes.

2. IMPLEMENTATION.

A. Dual control should be implemented as follows:

- i. Single lock combinations should be split between employees, with no one employee knowing, or having access to, the complete combination.
- ii. There must be two locks attached to a locking mechanism (for locks operated by keys), with keys being split between employees who keep them on their person. If a safe deposit box is used, a new guard lock should be installed so that the regular guard key cannot be used as one of the keys to open the box.
- iii. For mechanisms controlled by a combination and a key, the combination and key should be split between two or more employees with no one person having access to both the key and the combination.

B. Items to be maintained under dual control:

- i. The vault door.
- ii. Reserve vault cash.
- iii. The reserve supply of Travelers Cheques.
- iv. The vault supply of official checks, drafts, cashier's checks, lien waivers, etc.
- v. The reserve supply of money orders.
- vi. Negotiable collateral.

- vii. Duplicate keys to tellers' cash boxes and keys to Credit Union doors.
- viii. Combinations to combination locks.
- ix. Keys to unrented safe deposit boxes.
- x. ATM cash.
- xi. ATM captured cards.
- xii. Extra safe deposit box locks.
- xiii. Safekeeping items held for Credit Union members.
- xiv. Any other items that are negotiable or readily converted to cash, and devices that allow access to such items.

Policy 2140: Purchasing

Revised Date: 12/30/2014

Model Policy Revised Date: 12/30/2014

General Policy Statement:

[CUname] (Credit Union) will adopt guidelines to ensure that the highest quality of goods and services are purchased by the Credit Union in a manner that is consistent with laws and regulations, without a conflict of interest and in a cost-effective manner. In order to maintain adequate and effective controls, these guidelines apply to all Credit Union personnel involved in the procurement of goods.

GUIDELINES:

1. The Credit Union will select a vendor in accordance with the Credit Union's Third Party Due Diligence & Oversight Policy (**See Policy 2185**).
2. The Credit Union will comply with the Code of Ethics and Diversity Policy (**See Policy 1600**). Employees will conduct themselves in a professional and ethical manner when involved in the procurement of goods and/or services for the Credit Union. Employees are expected to act in good faith and without a conflict of interest in the procurement of goods and services.
3. The Credit Union will have a proper separation of duties between the employee who purchases goods and services, the employee who verifies that goods and services are provided in a satisfactory manner and the employee who authorizes the payment of the goods and services.
4. The Credit Union shall establish a quality control process to verify that the correct product and/or service that the Credit Union contracted for was received and the quality was what was contractually agreed upon.
5. **CEO APPROVAL.** The Chief Executive Officer (CEO) or General Manager will approve any exceptions to the above guidelines.
6. **BOARD OF DIRECTORS APPROVAL.** All purchases exceeding \$[2140-1] require Board approval.

Policy 2145: Office of Foreign Asset Control

Revised Date: 09/30/2014

Model Policy Revised Date: 09/30/2014

General Policy Statement:

Office of Foreign Assets Control (OFAC), Department of the Treasury, is responsible for administering a series of laws that impose sanctions against select foreign countries and persons to further U.S. foreign policy and national security objectives. Any transactions, such as transfers of funds, to or from these countries or to blocked persons are prohibited. [CUname] (Credit Union) is required to block such transfers and accounts and to furnish reports on all blocked accounts and rejected funds transfers to OFAC. This policy is adopted in order to ensure compliance with applicable OFAC requirements.

Guidelines:

1. **COMPREHENSIVE OFAC COMPLIANCE PROGRAM.** The Credit Union will create a comprehensive compliance program in order to comply with OFAC requirements.
 - A. **Designate a Compliance Officer.** The Credit Union will designate a “Compliance Officer” who will be responsible for monitoring OFAC compliance, overseeing blocked funds, and ensuring that appropriate staff training is provided. The Compliance Officer will also be responsible for ensuring that the names of persons and entities will be compared to the OFAC Sanctions Lists on a [2145-1] basis.
 - B. **Operations and Systems Managers.** The Credit Union may assign formal compliance responsibilities to operations and systems managers. The Credit Union’s internal auditing department will assist in the development of systems and audits to verify that OFAC policies and procedures, once established, are followed.
 - C. **Disseminate Information and Provide Training.** The Credit Union will provide sufficient information to key staff members in all operations to enable them to recognize and stop suspect transactions. The account representatives and platform staff are the Credit Union’s first line of defense. Thus, account officers and those individuals responsible for letters of credit and wire transfers will receive special training. These key staff will be trained to remain aware of the persons and entities on the Sanctions List so that accounts and transactions with regards to those persons are blocked and reported to OFAC.
 - D. **Risk Assessment – Initial Review.** The Credit Union will conduct a comprehensive initial review of its operation in order to ensure that OFAC requirements are being met. This will include, but not be limited to, a review of the following procedures:
 - i. Processing electronic fund transfers;
 - ii. Processing Automated Clearinghouse (ACH) transactions;
 - iii. Cashing or depositing share drafts or checks;
 - iv. Opening new accounts;
 - v. Issuing of money orders, traveler’s checks and cashier’s checks;

- vi. Disbursing loan proceeds;
- vii. Accepting of loan payments;
- viii. Reviewing the names of co-signors, guarantors, collateral owners and other parties to each transaction;
- ix. Sending and accepting wire transfers;
- x. Opening and allowing access to safe deposit boxes;
- xi. Issuing credit cards;
- xii. Reviewing the names of joint account owners, beneficiaries and other parties who have an interest in property (i.e., personal representatives and those granted power of attorney).

E. **Risk Assessment – Ongoing Review.** The Credit Union will review new products and services offered by the Credit Union to ensure that OFAC requirements are met.

F. **Annual Audit.** The Compliance Officer will work with the Credit Union’s internal and/or external auditors to develop appropriate systems and audits so that the Credit Union is in compliance with this policy.

2. **DETECTION AND VERIFICATION OF PROHIBITED TRANSACTIONS.**

A. **OFAC Sanctions Lists.** The Credit Union will comply with all FinCEN requirements to review potential members, current members, new accounts, existing accounts, and all transactions against all OFAC Sanctions Lists. These lists change regularly in response to changes in foreign policy. The Credit Union’s staff shall be aware of the persons and entities on the lists and ensure that such accounts and transactions are blocked or rejected as required and reported to OFAC in compliance with OFAC regulations.

B. **Software.** The Credit Union will purchase available software to screen and “interdict” illicit funds transfers. Such software may filter and contain every name on OFAC lists along with generic words for countries and cities. If feasible, the Credit Union will use such software. If interdiction software is not purchased, the Credit Union will use good faith manual and electronic compliance efforts to comply with OFAC requirements.

C. **Verification.** Prior to blocking or rejecting a transaction, the Credit Union will take reasonable steps to verify that the individual, country or organization detected is in fact the individual, country or organization subject to OFAC restriction, including contacting the OFAC Compliance Hotline ((800) 540-6322 or (202) 622-2490) to verify that blocking or rejecting the transaction of an individual, country or organization is appropriate.

3. **BLOCKING AND REJECTING TRANSACTIONS.** The Credit Union will create a system whereby all blocked and rejected transactions will be reported to OFAC.

A. **Blocked Accounts and Transfers.** On reasonable assurance that a transaction or account should be blocked, the Credit Union will place a block on the transaction or account. Credit Union staff that place such a block will immediately notify the Compliance Officer of the facts and circumstances surrounding the placement of the block.

- i. **Holding Blocked Funds.** All blocked funds will be placed in a segregated, interest-bearing account, which will be subject to any routine service charges assessed to accounts of a similar type.
- ii. **Releasing Blocked Funds.** The Credit Union will **not** release blocked funds to any individual or third party unless the appropriate license is obtained by OFAC.

B. Rejected Transactions. On reasonable assurance that a transaction should be rejected, the Credit Union will reject it. Credit Union staff that rejects a transaction will immediately notify the Compliance Officer of the facts and circumstances surrounding the rejection.

4. REPORTING.

A. Blocked Property.

i. **Initial Report.** An initial report is required to be filed within **ten (10) business days** from the date that the payment or transfer received by the Credit Union or the property in the account becomes blocked. The initial report will include the following information:

- a. The owner of the account;
- b. The property;
- c. The location of the property;
- d. Any account number or other identifying information;
- e. The actual or estimated value;
- f. The date the block was placed;
- g. The name and address of the Credit Union; and
- h. The name and telephone number of the contact person at the Credit Union from whom compliance information can be obtained.

If the report involves the receipt of a blocked payment or transfer of funds, the report also will include a photocopy of the payment or transfer instructions received and will confirm that the payment has been deposited into a new or existing blocked account which is labeled as such and is established in the name of, or contains a means of clearly identifying the interest of, the individual or entity subject to blocking pursuant to OFAC requirements.

ii. **Annual Report.** A comprehensive report on all blocked property held by the Credit Union **as of June 30** of the current year will be filed annually with OFAC **by September 30**. The annual report will be filed using Form TDF 90-22.50, Annual Report of Blocked Property or an approved alternative form. A copy of the annual report will be retained by the Credit Union (See Policy 10001, Table 1 and Policy 10010, Table 10). All reports will be filed with the Office of Foreign Assets Control, Compliance Programs Division, U.S. Treasury Department, 1500 Pennsylvania Avenue NW. --Annex, Washington, DC 20220.

B. Rejected Funds Transfers. The Credit Union will send notice of all rejected accounts and transfers to OFAC within **ten (10) business days** of the rejection placement. The report will be filed with the Office

of Foreign Assets Control, Compliance Programs Division, U.S. Treasury Department, 1500 Pennsylvania Avenue NW. --Annex, Washington, DC 20220. Notice to OFAC will describe the following information:

- i. The name and address of the transferee credit union;
- ii. The date and amount of the transfer;
- iii. A copy of the payment or other transfer instructions;
- iv. The basis for the rejection;
- v. The name and telephone number of the contact person at the Credit Union who can provide compliance information.
- vi. Examples of transactions involving rejected funds transfers include the following:
 - a. Referencing a blocked vessel but where none of the parties or financial institutions involved in the transaction is a blocked person;
 - b. Sending funds to a person in Iraq;
 - c. Transferring unlicensed gifts or charitable donations from the Government of Syria or Sudan to a U.S. person;
 - d. Crediting Iranian accounts on the books of a U.S. financial institution; and
 - e. Making unauthorized transfers from U.S. persons to Iran or the Government of Iran.

5. RECORD RETENTION AND ACCESS TO RECORDS.

A. **Record Retention Period.** The Credit Union will retain all records, reports, licenses and other materials related to any blocked or rejected transaction for a period of at least **five (5) years** after OFAC authorizes the release of the funds (See Policy 10010, Table 10). If the Credit Union holds property blocked or funds transfers retained pursuant to OFAC regulations, it will keep a full and accurate record of the property, and the record shall be available for examination for the period of time that such property is blocked and for at least **five (5) years** after the date such property is unblocked.

B. **Access to Records.** Upon request, the Credit Union will provide OFAC with access to any records relating to a blocked or rejected transaction.

6. **UPDATE OFAC INFORMATION.** The Compliance Officer or other designated individual will periodically visit the OFAC website to keep current with new regulations and listings at <http://www.ustreas.gov/ofac/>.

A. The following parties will be checked against the OFAC Sanctions Lists:

- i. Co-signors, guarantors, collateral owners and other parties to each transaction;
- ii. Joint account holders;
- iii. Beneficiaries; and

iv. Others who have an interest in property, such as personal representatives and those granted power of attorney.

B. The following transactions are subject to OFAC regulations:

- i. Processing electronic fund transfers;
- ii. Processing Automated Clearinghouse (ACH) transactions;
- iii. Depositing or cashing share drafts/checks;
- iv. Opening new accounts;
- v. Issuing money orders, traveler's checks and cashier's checks;
- vi. Disbursing loan proceeds;
- vii. Accepting loan payments;
- viii. Sending and accepting wire transfers;
- ix. Opening and allowing access to safe deposit boxes; and
- x. Issuing credit cards.

7. INTERNATIONAL ACH TRANSACTIONS.

A. **Credit Union as Receiving Party (RDFI).** The Credit Union will ensure that it identifies international ACH transactions and conducts an OFAC Sanctions List review whenever it receives such an ACH transaction. All of the parties to the transaction will be checked, as well as the remittance data and the correspondent banks PRIOR to posting or returning the transaction.

- i. If there is a match, the Credit Union will notify the Gateway Operator that the funds have been frozen and should not be released to the foreign party. ("Gateway Operator" is defined as the entry point to or exit point from the United States for ACH payment transactions.)

Policy 2150: Signing Authority

Revised Date: 01/01/2004

Model Policy Revised Date: 01/01/2004

Model Policy Reviewed Date: 09/30/2014

General Policy Statement:

This policy establishes guidelines for signing authority. Only officials and those specifically authorized by the Board of Directors may sign official documents and instruments. "Officials" means members of the Board or Supervisory Committee.

Guidelines:

1. **AUTHORITY.** All agreements, indentures, mortgages, deeds, conveyances, transfers, certificates, declarations, receipts, discharges, releases, accord and satisfactions, settlements, petitions, schedules, accounts, trusts, affidavits, bonds, undertakings, proxies, drafts, cashiers checks, and other instruments or documents may be signed, executed, acknowledged, verified, or accepted in behalf of [CUname] (Credit Union) by [2150-1] or by any other officer designated by the Board in its minutes.
2. **PROCEDURES FOR OBTAINING AUTHORIZATION.** Branches or departments requesting signing authority for an employee must adhere to the following procedures for obtaining authorization:
 - A. Submit a written memorandum to senior management.
 - B. If senior management approves the request, it will submit the request for Board approval.
 - C. If the Board approves the request, the employee will be notified and asked to sign two signature cards. The employee must sign each card in **INK** and return them to senior management.
3. **EMERGENCY SIGNATURES.** If a properly authorized employee is not available in an emergency situation, cashier's checks can be signed by another employee. Following this unusual circumstance, the branch manager must submit a written memorandum documenting the check number, date, amount and name of person signing the check and requesting payment of the check. A copy of the memorandum must be kept in the branch for audit purposes.
4. **TERMINATION AND NAME CHANGES.**
 - A. **Termination.** Signing authority expires upon cancellation of signing authority by the Board, and expires automatically upon termination of employment.
 - B. **Name Change.** If an authorized signer legally changes his or her name, he or she must promptly complete new signature cards.

Policy 2185: Third Party Due Diligence & Oversight

Revised Date: 12/20/2017

Model Policy Revised Date: 12/20/2017

General Policy Statement:

The Board of Directors is responsible for planning, directing and controlling [CUnion]'s (Credit Union) affairs. In an effort to enhance the services provided to members, the Credit Union often partners with outside parties. Due diligence reviews are required prior to entering into any arrangement with a third party. The purpose of this policy is to set forth the guidelines for management and staff to use in establishing and maintaining due diligence policies and procedures in order to minimize the risk of unanticipated costs, legal disputes and asset losses.

Guidelines:

1. POLICY AND PROGRAM RESPONSIBILITY.

- A. **Board Responsibility.** This policy and any recommended changes shall be approved by the Board of Directors ("Board").
- B. **Management Responsibility.** Credit Union management ("management") will be responsible for the development, implementation, and maintenance of the Credit Union's due diligence program. As part of this responsibility, management will maintain a list of all third party providers, along with the scope of services provided by each and the rationale for outsourcing the services provided. Management may delegate due diligence to appropriate staff members as warranted, but shall be responsible for reviewing the information gathered and making the final decisions. All due diligence efforts will be documented and provided to the Board.

2. PLANNING

- A. **Risk-Assessment.** Prior to engaging in a proposed activity, the Credit Union will perform a risk-assessment to determine whether the relationship complements the Credit Union's overall mission and philosophy. Management will determine whether the proposed activities, related costs, product and services standards, and third-party involvement, are consistent with the credit union's overall business strategy and risk tolerances. If the Board does not believe the proposed activity would complement the strategic vision for the Credit Union, the third-party relationship will not be pursued. Risk assessments are part of the Credit Union's broader risk management strategy and ongoing risk assessments will occur, as determined by the level of risk to the Credit Union. The risk assessment will document a risk rating based on the highest risk level the vendor may impose on the Credit Union. The higher the risk rating of the Vendor, the more detailed and frequent the risk assessment and diligence the Credit Union will perform.
 - i. **Documentation.** Management will document how the relationship corresponds with the Credit Union's Strategic Plan, considering long-term goals, objectives and resource allocation requirements. Consistent with the Credit Union's Strategic Plan, management will design action plans to achieve objectives in support of strategic planning for new third-party arrangements. Management will also clearly define the nature and scope of the Credit Union's needs, which needs will be met by the third party, and to what extent the third party will be responsible for the desired results.

ii. **Categories of Risk.** The Credit Union will consider all seven risk areas (Credit, Interest Rate, Liquidity, Transaction, Compliance, Strategic, and Reputation). Some additional risks to be assessed include: loss of capital if the venture fails; loss of member confidence if the program, product or service fails to meet member expectations; costs associated with attracting or training personnel and investing in required infrastructure; and whether the potential benefit of the arrangement outweighs the potential risks or costs.

iii. **Periodic.** The risk assessment will take place in advance of the decision to offer new products and services and will be conducted periodically as long as the product or service is offered. The risk assessment will be shared with the Board.

B. Financial Projections. In evaluating the cost-benefit or risk-reward of the third-party relationship, the Credit Union will develop financial projections outlining the range of expected and possible financial outcomes. The Credit Union will project a return on its investment, considering expected revenues, direct costs and indirect costs. Financial projections will be in line with the context of the Credit Union's Strategic Plan and asset-liability management (ALM) framework.

C. Insurance Review. Third-party relationships can result in increased liabilities. Therefore, Credit Union will maintain an adequate review of the Credit Union's insurance coverage, including the fidelity bond and policies covering such matters as errors and omissions, property and casualty losses, and fraud and dishonesty. When appropriate, the Credit Union will ensure that it is the beneficiary on all insurance policies and will review all insurance contracts to ensure full coverage.

D. Exit Strategy. The Credit Union will investigate and determine whether there is a reasonable way out of the relationship if it becomes necessary to change course in the future, along with whether there are any other providers that can perform critical services.

E. Accounting. The Credit Union will ensure that it has a sufficient accounting infrastructure to appropriately track, identify and classify transactions in accordance with generally accepted accounting principles (GAAP). When necessary, the Credit Union will obtain guidance from a certified public accountant (CPA) to ensure proper accounting treatment.

3. **BACKGROUND CHECK.** The Credit Union will research and/or interview several prospective organizations to determine which is best qualified to meet the Credit Union's needs. If the relationship will require a significant investment of resources and capital, the Credit Union will consider hiring a consultant or industry expert to assist in its evaluation, upon approval of the Board. It is also important to understand how the third party has performed in other relationships. Management will contact other credit unions or clients of the third party. Other sources such as the Better Business Bureau and the Federal Trade Commission will be consulted to determine complaint histories on businesses. The Credit Union will review and consider any lawsuits or legal proceedings involving the third party and/or its principals. The Credit Union will also ensure that the third party and/or its agent(s) have all of the required licenses or certifications, and that they remain current for the duration of the relationship.

4. **BUSINESS MODEL REVIEW.** Before entering into a third-party relationship, the Credit Union will investigate and understand the third party's business model – the conceptual architecture or business logic employed to provide services to its clients. If the third party's business and marketing plans are available, the Credit Union will review them. Management will understand and be able to explain the third party's role in the proposed arrangement and any processes for which the third party is responsible. The Credit Union will also understand the third party's sources of income and expense, considering any conflicts of interest that may exist between the third party and the Credit Union (for example, if the revenue stream is tied to loan origination volume rather than loan quality). The Credit Union will also identify any vendor-related parties (subsidiaries,

affiliates or sub-contractors) involved with the proposed arrangement, understanding the purpose and function of each. When these parties are to play a critical role in the relationship, the Credit Union will perform its due diligence on these vendor-related parties.

5. **CASH FLOWS.** The Credit Union will understand how cash flows move between all of the parties in the third-party relationship. Management will be able to explain how cash flows (both incoming and outgoing) move between the Credit Union, the third party and the Credit Union's members. The Credit Union will also independently verify the source of these cash flows and match them to related individual accounts.
6. **LEGAL REVIEW.** All contracts will be reviewed by the Credit Union's legal counsel. At a minimum, third party contracts should address the following:
 - A. Scope of arrangement, services offered and activities authorized;
 - B. Responsibilities of all parties (including subcontractor oversight);
 - C. Service level agreements addressing performance standards and measures;
 - D. Performance reports and frequency of reporting;
 - E. Penalties for lack of performance;
 - F. Ownership, control, maintenance and access to financial and operating records;
 - G. Ownership of servicing rights;
 - H. Audit rights and requirements (including responsibility for payment);
 - I. Data security and member confidentiality (including testing and audit);
 - J. Business resumption or contingency planning;
 - K. Insurance;
 - L. Member complaints and member service;
 - M. Compliance with regulatory requirements (i.e., Privacy, BSA, etc.);
 - N. Dispute resolution; and
 - O. Default, termination and escape clauses.
7. **FINANCIAL REVIEW.** Financial statements of the third party and its closely-related affiliates will be reviewed to determine the strength of the institution. These financial statements should demonstrate an ability to fulfill the contractual commitments proposed, and will be considered with regard to outstanding commitments, capital strength, liquidity and operating results. Undercapitalized companies or those exhibiting weak earnings may not be able to continue as ongoing concerns. This could lead to disruptions in member service, uncollected payments, and potential losses if the third party fails to remit funds due the Credit Union. A licensed CPA will be consulted when necessary.
8. **CONTROLS.** Once the Credit Union has entered into a third-party arrangement, the Credit Union will employ

controls to ensure that the relationship is meeting expectations and the third party is meeting its responsibilities.

- A. **Limitation of Exposure.** Depending on the nature of the relationship, the Credit Union will establish limitations on the risk of exposure (i.e., the number of leases initially granted, etc.) until the third-party's performance is measured, or the level of the respective risk(s) becomes significant.
- B. **Sensitivity Analysis.** Credit Union management will routinely conduct sensitivity analyses; project its expected revenue, expenses, and net income on its investment; and recognize how each of these factors may change under different economic conditions. This analysis will be conducted internally by someone with the requisite knowledge, or through the use of an outside consultant. Data and other benchmarks, including yield and profit projections generated by the third party will be verified with the underlying assumptions fully understood by the Credit Union, and compared with Credit Union's own data. Services that are not directly income generating, such as infrastructure, will be subjected to a cost-benefit analysis.
- C. **Staff Oversight.** Management will designate the staff that is to be responsible for monitoring the performance of each outsourced program. Duties will include comparing the actual results of each program to projections, and reviewing each of the third party's performance to determine compliance with expectations and contracts.
- D. **Reporting.** Staff responsible for third party relationship monitoring will submit regular reports to the Credit Union's senior officials and the Board. The reports will include appropriate information in order to provide the officials and the Board the opportunity to make informed decisions and take timely corrective action.

Policy 2190: Disaster Contingency Planning

Revised Date: 09/30/2014

Model Policy Revised Date: 09/30/2014

General Policy Statement:

This policy sets forth [CUNAME]'s (Credit Union) responsibility to assess, protect against, respond to, and potentially recover from disasters that may affect the Credit Union or its members. Disaster contingency planning is an ongoing process, not a singular event. The Credit Union is committed to establishing and sustaining its recovery capability.

Guidelines:

1. **RESPONSIBILITY.** The Board of Directors bears the fiduciary responsibility to protect the assets of the Credit Union. The Board will weigh the costs of disaster planning, preparation, and testing versus the benefits and authorize the actions necessary to provide prudent protection. The management team of the Credit Union is empowered to develop and implement the Disaster Contingency Plan under the direction of the Board.
2. **DISASTER CONTINGENCY PLAN.** The management team of the Credit Union will prepare and maintain a Disaster Contingency Plan. The plan will include at least the following:
 - A. A clear definition of the scope of the plan.
 - B. The types of potential disasters, along with the appropriate plans and responses to address those identified.
 - C. A list of the Disaster Management Team(s).
 - D. Disaster response procedures designed to minimize risk to life and property.
 - E. Guidelines on post-disaster situation assessment.
 - F. Guidelines on issuing a Disaster Declaration including emergency operating policies that become effective when the Disaster Declaration is issued.
 - G. Information on communications, employees, and staffing plans to facilitate a quick, effective disaster response.
 - H. Third party vendor contact information.
 - I. Procedures explaining how service will continue to be provided to members; and under what circumstances service could be temporarily interrupted
 - J. Procedures explaining how to recover the computer and technology related systems of the Credit Union.
 - K. Procedures explaining how to recover the key Credit Union facilities.
 - L. Procedures explaining how to recover the key business functions of the Credit Union.
 - M. Public relations information to facilitate clear communication with members, the media, and the

community.

N. Procedures for publishing/reporting to members and the public regarding the loss or suspension of services.

O. Vital information related to insurance coverage and emergency funding.

3. **REVIEW.** The Board will at least annually review and approve the Disaster Contingency Plan.

4. **TESTING.** The Credit Union is in a constant state of growth and change. The Disaster Contingency Plan must be tested regularly to ensure that it remains viable. The plan will be tested annually and the results of each test will be kept at least until the next regulatory examination.

5. **DISASTER DECLARATION AUTHORITY.** The following individuals, in order of availability, are authorized to issue a Disaster Declaration:

1. President
2. Vice President
3. Next Available Disaster Management Team Leader
4. Board Chair
5. Other Board Officer

6. **EMERGENCY OPERATING POLICIES.** In the event a disaster is declared at the Credit Union, the following policies will become effective and remain in force until the Disaster Declaration is rescinded:

- A. Chain of Command (See Policy 2191)
- B. Emergency Powers (See Policy 2192)
- C. Statement of Decision Criteria (See Policy 2193)
- D. Pandemic Influenza Preparedness & Response (Policy 2195)

Policy 2191: Chain of Command

Revised Date: 01/01/2004

Model Policy Revised Date: 01/01/2004

Model Policy Reviewed Date: 09/30/2014

General Policy Statement:

THIS POLICY IS EFFECTIVE DURING A DECLARED DISASTER ONLY!

The Board recognizes the importance of the chain of command in responding to a disaster. Effective decision-making during and immediately following a disaster may have significant long-term implications on recovery.

Guidelines:

To ensure that the Board and management team are prepared and united in disaster response, the Board hereby establishes a chain of command based on the following principles:

1. The President, if available, will act as the Disaster Management Team Leader.
2. The order of names on the Disaster Management Team List as recorded in the Disaster Contingency Plan is the chain of command and order of succession.
3. If the President is not available, the next available person on the Disaster Management Team will assume the role of Disaster Management Team Leader and Acting President. He/She will continue in this capacity until the President becomes available, the disaster declaration is rescinded, or action by the Board.
4. The Disaster Management Team Leader will report to the Board as often as is deemed practical and appropriate by the Board Chair (or Acting Chair).

Policy 2192: Emergency Powers

Revised Date: 01/01/2004

Model Policy Revised Date: 01/01/2004

Model Policy Reviewed Date: 09/30/2014

General Policy Statement:

THIS POLICY IS EFFECTIVE DURING A DECLARED DISASTER ONLY!

The Board empowers the Disaster Management Team Leader to act in the best interest of [CUname] (Credit Union) during a disaster situation. The Board understands that normal operations, procedures, and communication processes may be disrupted during a disaster situation and authorizes in advance the emergency powers described herein.

Guidelines:

The Board approves the following changes to policy while a disaster declaration is in force:

1. **PURCHASE LIMITS.** The limit over which purchases must be approved in advance by the Board is removed. The Disaster Management Team Leader can authorize any purchases deemed necessary to preserve the safety of staff and to protect the assets of the Credit Union. However, judgment must be exercised to ensure that the long term effects will not outweigh the short term benefits.
2. **CASH LIMITS.** The vault cash limits are removed. The amount of cash held at each location will be determined based on need and upon the ability of the Credit Union to provide adequate security and control.
3. **PERSONNEL ISSUES.** The Disaster Management Team Leader is authorized to take any personnel actions deemed necessary to sustain the Credit Union. This includes hiring of staff, disciplinary action, or termination. All actions must be taken in compliance with applicable employment law.
4. **CONTRACTUAL AUTHORITY.** The Disaster Management Team Leader will normally be the President of the Credit Union who is already empowered to act on behalf of the Credit Union in executing contracts. In the event the President is not available to act in this capacity, the next individual listed on the Disaster Management Team is appointed Team Leader and Acting President. The Acting President is granted the authority of the President to execute contracts on behalf of the Credit Union.

Policy 2193: Statement of Decision Criteria

Revised Date: 01/01/2004

Model Policy Revised Date: 01/01/2004

Model Policy Reviewed Date: 09/30/2014

General Policy Statement:

THIS POLICY IS EFFECTIVE DURING A DECLARED DISASTER ONLY!

The following decision-making criteria are issued by the Board as a guide for the Disaster Management Team. They are intended to provide direction in a potentially high stress environment where specific direction from the Board may not be available. The Board acknowledges the fact that each disaster situation is unique and impossible to predict. These criteria are general principles that can be applied across the broad spectrum of potential disasters.

Guidelines:

1. **HUMAN SAFETY.** The first priority of the Board is the safety of staff and volunteers. This concern also extends to members or others who may be affected by a disaster at a [CUname] (Credit Union) facility. The Disaster Management Team is directed to act before, during, and after a disaster to protect and preserve the safety of these individuals while maintaining the safety and soundness of the Credit Union.
2. **LONG TERM RECOVERY.** The next priority is the long term survival of the Credit Union. Decisions made concerning immediate recovery, reconstruction, or restoration of service must always be made in the context of the long term recovery of the Credit Union. Immediate results must not be achieved at the expense of the long term survival of the Credit Union.
3. **MEETING MEMBER NEEDS.** The next priority is to meet the needs of our members. Once human safety concerns are met and keeping long term survival in mind, the Credit Union should do whatever it can to meet the needs of members. For an internal disaster such as a fire, this may mean applying all available resources to quickly restore vital member services. In a larger regional disaster such as an earthquake or tornado, this may mean providing assistance in the form of special loan programs, assisting members in applying for emergency assistance, etc.
4. **PRUDENCE.** In all actions during a disaster situation, the Disaster Management Team, the staff, and the Board and volunteers must act with prudence. Every effort should be made to understand the ramifications of decisions. Individual needs must be balanced with each other and with the needs of the organization.

Policy 2195: Pandemic Influenza Preparedness & Response

Revised Date: 09/30/2014

Model Policy Revised Date: 09/30/2014

General Policy Statement:

The purpose of this policy is to set forth the guidelines for Management and staff to use in establishing and maintaining policies and procedures in order to prepare and respond to the onset of a potential influenza pandemic.

Guidelines:

1. **ROLE OF BOARD OF DIRECTORS.** The Board of Directors will (1) approve the credit union's written Influenza Pandemic Preparedness policy and program; and (2) oversee the development, implementation, and maintenance of [CUname]'s (Credit Union) program, including assigning specific responsibility for its implementation.
2. **ROLE OF MANAGEMENT TEAM.** The management team will do the following:
 - A. Oversee the development and implementation of the Influenza Pandemic Preparedness program;
 - B. Draft procedures to ensure compliance with the program;
 - C. Monitor, evaluate and suggest adjustments to the program;
 - D. Ensure that staff is trained on these issues;
 - E. Ensure that the program is regularly tested and remains relevant to the scope and complexity of the Credit Union's operations.
 - F. Brief the Board of Directors of the Credit Union at least annually on the status of the program;
 - G. Monitor national and international pandemic news sources in order to be aware of potential outbreaks. Websites devoted to national health care issues will be monitored;
 - H. Identify key points of contact for emergency and health care organizations; and
 - I. Assess the potential implications for the Credit Union if a pandemic occurs.
3. **PLANNING FOR IMPACT TO CREDIT UNION OPERATIONS.** The Credit Union will take actions to ensure that the Credit Union is prepared for the impact to its operations in the event of an influenza pandemic.
 - A. **Pandemic Coordinator.** The Credit Union will identify a Pandemic Coordinator and/or team with defined roles and responsibilities for preparedness and response planning.
 - B. **Essential Employees and Supplies.** The Credit Union will identify essential employees and other critical supplies that are required to maintain business operations by location and function during a pandemic. To ensure resiliency, the Credit Union will cross-train employees to perform the essential functions.
 - C. **Essential Business Functions and Processes.** The Credit Union will assess and prioritize essential

business functions and processes that may be affected by a pandemic.

- D. **Core Business Activities.** The Credit Union will determine whether its core business activities can be sustained over several weeks with, potentially, only a minimal workforce available.
- E. **Demand Preparedness.** The Credit Union will develop and plan scenarios likely to result in an increase or decrease in demand for its products and services during a pandemic (i.e., need for hygiene supplies, restricting mass gatherings, cash)
- F. **Financial Impact Projections.** The Credit Union will determine the potential impact of a pandemic on Credit Union financials, using multiple possible scenarios that affect different product lines and branch sites.
- G. **Service Provider Plans.** The Credit Union will evaluate the plans of critical service providers for operating during a pandemic. When possible, the Credit Union will implement a back-up arrangement to mitigate risk, with special attention to be directed at the Credit Union's ability to access leased premises and whether sufficient Internet access capacity is available if telecommuting is a key risk mitigation strategy.
- H. **Up-To-Date Information.** In the event of an influenza pandemic, government health officials will issue information and warnings on how to avoid becoming ill. The Credit Union will pay close attention to the guidance provided by local and state health departments and the U.S. Centers for Disease Control and Prevention (<http://www.cdc.gov>), and the federal government's consolidated flu website (<http://www.flu.gov>).
- I. **Emergency Communications Plan.** The Credit Union will establish (and revise when necessary) an emergency communications plan which will include identification of key contacts (with back-ups), chain of communications (including vendors and members), and processes for tracking and communicating business and employee status.
- J. **Testing.** The Credit Union will implement (and revise when necessary) an exercise/drill to test the plan.

4. **PLANNING FOR IMPACT TO EMPLOYEES AND MEMBERS.** The Credit Union will take actions to ensure that the Credit Union is prepared for the impact to its employees and members in the event of an influenza pandemic.

- A. **Employee Absences.** The Credit Union will forecast and allow for employee absences during an influenza pandemic, due to factors such as personal illness, family member illness, community containment measures and quarantines, school and/or business closures, and public transportation closures.
- B. **Personnel Policy Modifications.** The Credit Union will modify its personnel policies to cover employee compensation; non-punitive sick leave absences; what to do for employees who have been exposed, or are suspected to be ill with, pandemic influenza; determining when a previously ill person is no longer infectious and can return to work; telecommuting; and flexible work hours in the event of an influenza pandemic.
- C. **Contact Modifications.** The Credit Union will implement guidelines to modify the frequency and type of face-to-face contact among employees and between employees and members (i.e., hand-shaking, seating in meetings, office layout, shared workstations).

D. **Vaccinations.** The Credit Union will encourage and track annual influenza vaccination for employees.

E. **Health Care Services.** The Credit Union will evaluate employee access to and availability of healthcare services (including mental health and social services) during a pandemic, and improve those services as needed.

F. **Special Needs Employees.** The Credit Union will identify employees and key members with special needs, and will incorporate the requirements of such persons in its preparedness plans.

5. **ALLOCATION OF RESOURCES TO PROTECT EMPLOYEES AND MEMBERS DURING AN OUTBREAK.** The Credit Union will take measures to protect its employees and members during an outbreak of pandemic influenza.

A. **Infection Control Supplies.** The Credit Union will plan for and provide sufficient and accessible infection control supplies in its main office and all of its branches (i.e., hand-hygiene products, tissues and receptacles for their disposal).

B. **Information Technology Infrastructure.** The Credit Union will enhance its communications and information technology infrastructure as needed to support employee telecommuting and remote member access.

6. **EDUCATING EMPLOYEES.** The Credit Union will develop and disseminate programs and materials covering pandemic fundamentals (i.e., signs and symptoms of influenza, modes of transmission), personal protection and response strategies (i.e., hand hygiene, coughing/sneezing etiquette, contingency plans), and the Credit Union's pandemic preparedness and response plan.

7. **PROGRAM TESTING.**

A. **Structure.** Management will develop a testing program that will provide a high degree of assurance that critical business processes, including supporting infrastructure, systems and applications, will function even during a severe pandemic.

B. **Elements.** Testing will include the following elements:

i. Roles and responsibilities of management, employees, key suppliers and members;

ii. Key pandemic planning assumptions;

iii. Increased reliance on online banking, telephone banking and call center services; and

iv. Remote access and telecommuting capabilities.

C. **Test results.** Test results will be recorded and reported to management (if delegated) and the board. All appropriate updates will be made to the program and test.

Policy 2200: Member Services

Revised Date: 12/01/2004

Model Policy Revised Date: 12/01/2004

Model Policy Reviewed Date: 09/30/2014

General Policy Statement:

[CUNAME] (Credit Union) is committed to providing members with total quality financial services. The Board realizes that the Credit Union can best achieve this goal by offering members creative financial products. This policy briefly describes financial products approved by the Board.

Policy 2205: Unlawful Internet Gambling

Revised Date: 03/28/2015

Model Policy Revised Date: 03/28/2015

General Policy Statement:

The Department of the Treasury and the Federal Reserve Board (Agencies) issued Regulation GG to implement the Unlawful Internet Gambling Enforcement Act (UIGEA). UIGEA "prohibits any person engaged in the business of betting or wagering (as defined in UIGEA) from knowingly accepting payments in connection with the participation of another person in unlawful Internet gambling."

The purpose of this policy is to outline [CUnion]'s (Credit Union) approach to preventing unlawful Internet gambling businesses from utilizing Credit Union products and services, such as checking accounts, credit or debit cards, wires, and ACH payments.

Guidelines:

1. **ACCOUNT OPENING DUE DILIGENCE.** At the establishment of the account relationship with a business member, the Credit Union will determine whether the business member engages in unlawful Internet gambling. All business account agreements will contain a provision that restricted transactions (i.e., unlawful Internet transactions) are prohibited from being processed through the account or the member relationship. At the establishment of the account relationship with a business member, the Credit Union will determine whether the business member engages in unlawful Internet gambling.
2. **RISK ASSESSMENT.**
 - A. **Minimal Risk.** For business members for whom the Credit Union determines there is a "minimal risk" of involvement in unlawful Internet gambling, no further steps are required. The Credit Union may deem that the following business members present a minimal risk of engaging in an Internet gambling business:
 - i. An entity directly supervised by a Federal functional regulator; or
 - ii. An agency, department or division of the Federal government or State government.
 - B. **Medium Risk.** In the event that the Credit Union cannot determine the risk, it may obtain certification from the business member that it does not engage in an Internet gambling business;
 - C. **High Risk.** Evidence of legal authority to engage in the Internet gambling business, if the business member **does** engage in an Internet gambling business, such as:
 - i. A copy of the business member's license that expressly authorizes the business member to engage in the Internet gambling business issued by the appropriate State or Tribal authority or, if the business member does not have such a license, a "reasoned legal opinion"¹ that demonstrates that the business member's Internet gambling business does not involve restricted transactions; and
 - ii. A written commitment by the business member to notify the participant of any changes in its legal authority to engage in its Internet gambling business; or

iii. A third-party certification that the business member's systems for engaging in the Internet gambling business are reasonably designed to ensure that the business member's Internet gambling business will remain within the licensed or otherwise lawful limits, including with respect to age and location verification.

3. **“ACTUAL KNOWLEDGE.”** When the Credit Union has "actual knowledge" that one of its business members is participating in restricted transactions, the Credit Union will use its judgment as to whether it should deny a member access to a payment system or close the account. The "actual knowledge" standard is met when a particular fact with regard to a business member is known by or brought to the attention of management. Discovery of restricted and unlawful gambling will initiate a Suspicious Activity Report (SAR) filing with the Bank Secrecy Act (BSA) Officer.

A. **Check Collection.** When the Credit Union has actual knowledge that a business member had deposited checks that are restricted transactions, such as when it is notified by a government entity (such as law enforcement or a regulatory agency), or that a foreign banking office has sent checks to the Credit Union that are restricted transactions, the Credit Union will do the following:

i. Notify its regulator.

ii. Send a letter to the foreign banking office, notifying the foreign banking office that a restricted transaction was processed. *{Note: A Sample Letter is available in the CU PolicyPro Resources area under TOOLS > General}.*

iii. Determine whether check collection services for the member should be denied.

iv. Determine whether the member's account should be closed.

4. **ACH ORIGINATIONS.** Employees must not intentionally/knowingly originate Internet gambling ACH entries.

A. **Due Diligence.** At the time of establishment of a new ACH Origination Agreement with a business member, employees will determine via due diligence the likelihood of the business member originating unlawful Internet gambling entries. If the due diligence performed results in the Credit Union foreseeing a potential risk in originating Internet gambling entries, then the ACH agreement will not be established. This due diligence may include, but is not limited to:

i. Reviewing the potential ACH originator's membership application and supporting documentation.

ii. Interviewing the potential ACH originator to determine the purpose for ACH services.

iii. Reviewing the potential ACH originator's business plan and/or financial statements.

iv. Conducting background checks on the potential ACH originator.

B. **Designated Payment Systems.**

i. The Credit Union will ensure that its designated payment system has written policies and procedures that are reasonably designed to:

1. Identify and block restricted transactions; or

2. Otherwise prevent or prohibit the acceptance of the products or services of the designated payment system or participant in connection with restricted transactions.

ii. The Credit Union will obtain a written statement from its designated payment system that such policies and procedures exist. The Credit Union may rely on this written statement, unless otherwise notified by its regulator.

iii. The Credit Union will ensure that it conducts due diligence on its commercial members, pursuant to the Credit Union's Business Accounts policy (**See Policy 2211**) and Trust Accounts policy (**See Policy 2213**).

iv. ACH services will be denied to business account members who engage in unlawful Internet gambling.

5. **WIRE TRANSFERS.** Employees must not intentionally/knowingly originate Internet gambling wire transfer entries.

A. **Due Diligence.** At the time of establishment of a new Wire Transfer Agreement with a business member, employees will determine via due diligence the likelihood of the business member originating unlawful Internet gambling entries. If the due diligence performed results in the Credit Union foreseeing a potential risk in participating in Internet gambling wire transfers, then the Wire Transfer Agreement will not be established. This due diligence may include, but is not limited to:

i. Reviewing the business membership application and supporting documentation.

ii. Interviewing the business member to determine the purpose for the wire transfer service.

iii. Reviewing the member's business plan and/or financial statements.

iv. Conducting background checks on the business member.

B. **Designated Payment Systems.**

i. The Credit Union will ensure that its designated payment system has written policies and procedures that are reasonable designed to:

1. Identify and block restricted transactions; or

2. Otherwise prevent or prohibit the acceptance of the products or services of the designated payment system or participant in connection with restricted transactions.

ii. The Credit Union will obtain a written statement from its designated payment system that such policies and procedures exist. The Credit Union may rely on this written statement, unless otherwise notified by its regulator.

iii. The Credit Union will ensure that it conducts due diligence on its business account members, pursuant to the Credit Union's Business Accounts policy (**See Policy 2211**).

iv. Wire services will be denied to business account members who engage in unlawful Internet gambling.

C. Transfers Related to Unlawful Internet Gambling. Pursuant to the U.S. Treasury and the Federal Reserve Board Unlawful Internet Gambling rule, the Credit Union will not be liable to any party when blocking, rejecting or refusing to honor a transaction if:

- i. The transaction is a restricted transaction (i.e., associated with unlawful Internet gambling);
- ii. The Credit Union reasonably believes the transaction to be a restricted transaction; or
- iii. The Credit Union is a participant in a designated payment system and blocks or otherwise prevents a transaction in reliance on the policies and procedures of the designated payment system in an effort to comply with the rule (see Section 5 (B)).

D. Notice. A notice of rejection of a payment order may be given to the member from the Credit Union by fax or telephone call to the member. If fax or telephone communication is unavailable for any reason, then notice will be sent by first-class mail to the most recent address of the member which is on the Credit Union's records.

6. CREDIT CARD TRANSACTIONS. The Credit Union will rely on Visa's policies, procedures, and system for identifying and blocking or otherwise preventing or prohibiting restricted card transactions, unless it has been notified otherwise by the NCUA or the Federal Trade Commission.

A. The Credit Union will ensure the following:

- i. All credit card account agreements will contain a provision that restricted transactions (i.e., unlawful Internet transactions) are prohibited from being processed through the credit card account.
- ii. The Credit Union's third-party processor has policies and procedures in place that are reasonably designed to identify and block or otherwise prevent or prohibit restricted transactions.
- iii. A code system will be implemented, such as transaction codes and merchant/business category codes that are required to accompany the authorization request for a transaction, including:
 1. The operational functionality to enable the processor to reasonably identify and deny authorization for a transaction that the coding procedure indicates may be a restricted transaction; and
 2. Procedures for ongoing monitoring or testing by the processor to detect potentially restricted transactions, including:
 - a. Conducting testing to ascertain whether transaction authorization requests are coded correctly; and
 - b. Monitoring and analyzing payment patterns to detect suspicious payment volumes from a merchant customer; and
- iv. Procedures will be followed when the processor has actual knowledge that a merchant has received restricted transactions through the card system, such as:
 1. The circumstances under which the access to the card system for the processor should be denied; and
 2. The circumstances under which the merchant account should be closed.

7. TRUST ACCOUNTS.

A. **Account-Opening Process.** At the establishment of the account relationship with a trust, the Credit Union will determine whether unlawful Internet gambling will be conducted through the trust account.

i. In the event that the Credit Union cannot determine the risk, it may obtain the following:

1. Certification from the trustee that an Internet gambling business will not be conducted through the trust;
2. Evidence of legal authority to engage in the Internet gambling business, if an Internet gambling business **will** be conducted through the trust, such as:
 - a. A copy of the license that expressly authorizes the trustee to engage in the Internet gambling business issued by the appropriate State or Tribal authority or, if no such license has been granted, a “reasoned legal opinion” that demonstrates that the trustee’s Internet gambling business does not involve restricted transactions; and
 - b. A written commitment by the trustee to notify the participant of any changes in its legal authority to engage in its Internet gambling business; or
3. A third-party certification that the trustee’s systems for engaging in the Internet gambling business are reasonably designed to ensure that the trustee’s Internet gambling business will remain within the licensed or otherwise lawful limits, including with respect to age and location verification.

ii. **Notification to Existing Trust Accounts.** The Credit Union will notify all of its existing trustees (i.e., those who had opened a trust account before June 1, 2010), through provisions in an amended account agreement, or otherwise, that restricted transactions are prohibited from being processed through the account or relationship.

8. **NOTIFICATION TO EXISTING & NEW BUSINESS MEMBERS.** The Credit Union will notify all of its existing business members, through provisions in an amended account or member business relationship agreement, or otherwise, that restricted transactions are prohibited from being processed through the account or relationship.

Policy 2210: Accounts

Revised Date: 10/09/2017

Model Policy Revised Date: 10/09/2017

General Policy Statement:

[CUname] (Credit Union) members can open the accounts described in the guidelines.

Guidelines:

1. SHARE ACCOUNTS.

A. Regular Savings Account.

- i. **Minimum Balance.** \$ [2210-1].
- ii. **Withdrawal Restrictions.** No fee for the first [2210-2] withdrawals per month. (Share to share transfers are considered withdrawals.) Thereafter, \$[2210-3] charge per withdrawal per month.
- iii. **Dividends/Interest.** Compounds [2210-4].

B. Trust Accounts

- i. **Types of Trusts Permitted:** [2210-9.10A]
- ii. **Eligibility** (at least one grantor must be eligible for Credit Union membership): [2210-9.10B]
- iii. **Documents Required:** [2210-9.10C]
- iv. **Procedure for Changing Account Status:** [2210-9.10D]

C. Business Accounts (See Policy 2211)

D. Conservator/Minor/Uniform Transfer to Minors Accounts

- i. **Documents Required:** [2210-9.12A]
- ii. **Procedure for Changing Account Status:** [2210-9.12B]

E. Multiple Party Accounts

- i. **Eligibility Requirements:** [2210-9.13A]
- ii. **Rights of Parties:** [2210-9.13B]
- iii. **Procedures for Changing Account/Signatory Status:** [2210-9.13C]
- iv. **Credit Union's Right to Set Off and/or Divert Funds of Each Account Holder:** [2210-9.13D]

F. Additional Savings Account.

- i. **Minimum Balance.** [2210-5].
- ii. **Withdrawal Restrictions.** [2210-6].
- iii. **Dividends/Interest.** Compounds [2210-7].

G. Money Market Account.

- i. **Minimum Balance.** [2210-10].
- ii. **Withdrawal Restrictions.** [2210-11].
- iii. **Dividends/Interest.** Compounds [2210-12].

H. Christmas Club.

- i. **Minimum Balance.** [2210-8].
- ii. **Withdrawal Restrictions.** [2210-9].
- iii. **Dividends/Interest.** Compounds [2210-9.1].

I. Term Share/Share Certificates. (Tiered/not tiered, multiple or single party)

- i. **Minimum Balance.** \$[2210-9.2].
- ii. **Withdrawal Restrictions.** [2210-9.3].
- iii. **Dividends/Interest.** Compounds [2210-9.4].

J. Individual Retirement Account (IRA).

- i. **Reporting Requirements.** (If a Credit Union is a trustee or an issuer of an IRA, it must annually report contributions to the IRA on IRS Form 5498.)

2. DRAFT ACCOUNTS.

A. Regular Draft Account.

- i. **Minimum Balance.** [2210-9.5].
- ii. **Withdrawal Restrictions.** [2210-9.6].
- iii. **Dividends/Interest.** Compounds monthly where minimum balance exceeds \$[2210-9.7]. The Credit Union structures account balances into three tiers:
 - a. Tier 1. \$[2210-9.8] to \$[2210-9.9].
 - b. Tier 2. \$[2210-9.9A] to \$[2210-9.9B].

c. Tier 3. \$[2210-9.9C] and above.

Dividends/Interest (are) is paid on one tier only and depends on the minimum balance during the month.

B. Trust Accounts

i. **Types of Trusts Permitted:**[2210-9.10A]

ii. **Eligibility** (at least one grantor must be eligible for Credit Union membership): [2210-9.10B]

iii. **Documents Required:** [2210-9.10C]

iv. **Procedure for Changing Account Status:** [2210-9.10D]

C. Business Accounts (See Policy 2211)

D. Conservator/Minor/Uniform Transfer to Minors Accounts

i. **Documents Required:** [2210-9.12A]

ii. **Procedure for Changing Account Status:** [2210-9.12B]

E. Multiple Party Accounts

i. **Eligibility Requirements:** [2210-9.13A]

ii. **Rights of Parties:** [2210-9.13B]

iii. **Procedures for Changing Account/Signatory Status:** [2210-9.13C]

iv. **Credit Union's Right to Set Off and/or Divert Funds of Each Account Holder:** [2210-9.13D]

3. **DISASTER/TRAGEDY RELATED ACCOUNT.** A Disaster/Tragedy Related Account is an account created by an individual or representative agent to receive public donations for personal or public disasters, memorial funds, or special benefit funds. Careful due diligence will be performed before opening an account of this kind, to ensure the purpose and use of the account is understood, the proper TIN/SSN is obtained, the account titling is accurate, and the appropriate signers have been properly identified. The Credit Union will verify if there is a state statute regarding the creation of a “statutory support trust” law prior to opening this type of account.

A. The account may be opened only by a member of the Credit Union.

B. The account will be titled in the name of the recipient of the funds in the account (e.g., “Tom Jones Medical Expense Account”).

C. The Credit Union will use TIN/SSN of primary account owner (“Tom Jones”) and recipient of the funds, or an EIN will be obtained in the name of the fund (“Tom Jones Medical Expense Account.”)

D. The Credit Union does not oversee or investigate the use of the funds.

E. The Credit Union should accept deposits only in the name of the specific disaster account title.

F. The Credit Union should make sure the authorized account signer(s) execute an addendum to the Account Agreement for disaster related accounts. The addendum provides that owners indemnify and hold the Credit Union harmless from any claims regarding the account funds.

4. **ELECTRONIC TRANSFER ACCOUNTS.** A Federally insured Credit Union may offer an electronic transfer account ("ETA") to any eligible Federal payment recipient who falls within the Credit Union's field of membership. An ETA is a low-cost account available to recipients of Federal benefit, wage, salary, or retirement payments. The account allows recipients to receive Federal payments electronically in accordance with the Electronic Funds Transfer ("EFT") provision of the Debt Collection Improvement Act of 1996 ("DCIA").

A. **Enrollment.** To enroll, the Credit Union may call 1-888-ETA-FRBK (382-3725) or go to the Department of Treasury's website information at www.fms.treas.gov/eta/index.html.

- i. **Financial Agency Agreement.** The Credit Union must enter into an ETA Financial Agency Agreement with the Department of the Treasury (Treasury), designating the Credit Union to act as Treasury's Financial Agent in providing the ETA. The agreement is attached to this policy.
- ii. **Enrollment Form.** The Credit Union must complete and provide an enrollment form to the FRB in Dallas. Within one month of receiving the Program Implementation Guide, the Credit Union must submit a copy of each ETA account disclosure statement.
- iii. **Monthly Statements.** The Credit Union will report to Treasury by the 15th day of each month the number of ETAs opened and closed during the previous month and the number of ETAs as of the end of the previous month.
- iv. **Additional Documentation.** The Credit Union may be required to provide Treasury with other information and documentation, including internal audit reports, necessary for Treasury to verify the number and status of ETA, facilitate payment of set up fees, and ensure compliance with the terms of the Financial Agency Agreement.
- v. **One-Time Payment.** The Treasury will reimburse the Credit Union a one-time fee of \$12.60 per ETA opened to offset account-opening costs.
- vi. **Termination.** If the Credit Union terminates its agreement with Treasury, it must stop opening new ETAs and must close existing ETAs in a manner that allows for the orderly transfer of the accounts to another financial institution. The Credit Union may at any time offer account owners the option of switching their ETAs to a traditional share draft or share account.

B. Account Opening.

- i. **Eligibility.** An eligible individual in the Credit Union's field of membership must be a recipient of a Federal benefit, wage, salary, or retirement payment. As a condition to opening the ETA, the Credit Union may require that an eligible recipient open and maintain a share account with a minimum balance. However, the Credit Union may not charge for opening or maintaining the share account.
- ii. **Direct Deposit.** The member must complete a direct deposit enrollment form, and either enroll in direct deposit via telephone with the paying agency, or enroll in direct deposit through an

automated enrollment at the Credit Union.

iii. **Ineligibility.** The Credit Union will not open an account for any individual if:

- a. The Credit Union is aware that the individual was the owner of an ETA that was closed because of fraud at the Credit Union or any other financial institution, or
- b. The Credit Union, for reasons of account misuse, previously closed an ETA held by the individual.

C. **Account Requirements.** The following is a list of ETA requirements:

- i. Only one individual may own the account.
- ii. The account must accept electronic Federal benefit, wage, salary, and retirement payments and any other deposits the Credit Union agrees to permit.
- iii. The maximum account service fee is \$3.00 per month.
- iv. If properly disclosed, the Credit Union may charge an ETA owner account-related fees that it charges to its other members, such as:
 - a. Fees for additional withdrawals and balance inquiries
 - b. Lost card fees
 - c. Account research fees
 - d. Overdraft fee, not to exceed \$10 per overdraft.
- v. The account must allow a minimum of four cash withdrawals and four balance inquiries per month included in the \$3.00 monthly fee regardless whether accessed through ATM or over-the-counter.
- vi. The account must have the same consumer protections available to other Credit Union members.
- vii. The account must have access to the Credit Union's point of sale network (if applicable).
- viii. The account must have no minimum balance requirements, except as required by federal, State law, or Credit Union bylaws.
- ix. The account may be an interest or non-interest bearing account.
- x. A monthly account statement is required.
- xi. The account is subject to Truth in Savings disclosure, notice, and advertising requirements.
- xii. The account is subject to Regulation E requirements regarding the basic rights, liabilities, and responsibilities of members who use EFT services and of Credit Unions that offer these services.

D. **Closing the Account.**

i. **Fraud or Misuse.** The Credit Union will close the ETA if it has cause to believe that a fraud has occurred in connection with the account or that the account has been misused. The Credit Union may immediately close the account. No grace period is required.

a. **Criteria.** Any determination that fraud or misuse has occurred must be consistent with the Credit Union's usual criteria for closing accounts. Those criteria could include:

1. The Credit Union determines that fraud has occurred after conducting the investigation required under Regulation E
2. Excessive overdrafts
3. Negligence in safeguarding an ATM and/or POS card or PIN number
4. Failure to pay an overdraft within a reasonable period of time.

ii. **Overdrafts.** When considering whether to close an ETA due to multiple overdrafts, the Credit Union will apply the same standard to ETA owners as the Credit Union does to other account owners.

a. **Member Request.** The Credit Union will close the ETA upon a member's request.

b. **Eligible Payments.** The Credit Union will close the ETA if it ceases to be used for the receipt of eligible payments.

c. **Termination of Financial Agency Agreement.** The Credit Union will close the ETA if the Financial Agency Agreement is terminated.

E. **Attachment.** The Credit Union must send a copy of the order and the name of the creditor and contact person, if any, to the recipient, no later than seven days after receipt. Federal benefit payments deposited to an ETA generally are protected from attachment.

F. **Setoff.** The Credit Union cannot set off against ETA obligations incurred by the account owner in connection with other accounts, products, or services offered by the Credit Union. The Credit Union may exercise a right of set off against an ETA for the obligations of the account owner directly related to the maintenance of the account. These obligations are limited to:

- i. The monthly fee.
- ii. Any other fees incurred by the recipient in connection with the maintenance of the ETA.
- iii. Any amount mistakenly credited to an ETA for which the recipient has no legal right.
- iv. The amount of any overdraft on an ETA.
- v. Any amount for which the recipient is liable under Regulation E.

Policy 2211: Business Accounts

Revised Date: 09/30/2014

Model Policy Revised Date: 09/30/2014

General Policy Statement:

This policy provides guidelines for business accounts opened by [CUName] (Credit Union).

Guidelines:

1. FIELD OF MEMBERSHIP

The Credit Union may open a member business account for a person or organization (i.e., corporation, limited liability company, partnership, unincorporated association) eligible for membership in the Credit Union if it is specifically named in the Credit Union's field of membership or as an "organization of such persons" if the Credit Union has opted to include "organizations of such persons" in its field of membership. An "organization of such persons" means an organization composed exclusively of persons who are within the Credit Union's field of membership.

2. TYPES OF BUSINESS ACCOUNTS

The Credit Union may open the following types of accounts for business members:

A. (Share/Savings) Account.

i. **Minimum Balance.** [2211-1].

ii. **Withdrawal Restrictions.** [2211-2].

iii. **Dividend/Interest.**

1. **Compounds** [2211-3]

2. **Credited** [2211-21]

iv. **Fees.** [2211-4].

B. Money Market Account.

i. **Minimum Balance.** [2211-5].

ii. **Withdrawal Restrictions.** [2211-6].

iii. **Dividend/Interest.**

1. **Compounds** [2211-7].

2. **Credited** [2211-22]

iv. **Fees.** [2211-8].

C. **(Term Share/Share Certificate) Account.**

- i. **Minimum Balance.** [2211-9].
- ii. **Withdrawal Restrictions.** [2211-10].
- iii. **Dividend/Interest.**
 1. **Compounds** [2211-11].
 2. **Credited.** [2211-12].
- iv. **Penalties for Early Withdrawal.** [2211-13].
- v. **Fees.** [2211-14].

D. **(Share Draft/Checking) Account.**

- i. **Minimum Balance.** [2211-15].
- ii. **Withdrawal Restrictions.** [2211-16].
- iii. **Dividend/Interest.**
 1. **Compounds** [2211-17].
 2. **Credited** [2211-23]
- iv. **Fees.** [2211-18].

3. **CONSUMER PROTECTION LAWS**

The Truth in Savings Regulation and Electronic Funds Transfer (Regulation E) do not apply to business accounts.

4. **BUSINESS ACCOUNT DOCUMENTATION.** The Credit Union will develop account opening procedures to enable account representatives to determine the type of business opening a business account, and whether the business is eligible to be a Credit Union member.

- A. **Membership Eligibility.** Unless a corporation, limited liability company, partnership, unincorporated organization, or entity is a specifically named in the Credit Union's field of membership or is a select employer group, all owners or members of the association, organization, or entity must be eligible for Credit Union membership.
- B. **Member Information.** The Credit Union will develop procedures to ensure that account representatives document and record the full business or organization name (e.g., ABC Corporation, Thurston County Bowling Club, Smith & Moe Trucking) at account opening. For sole proprietor accounts, the account owner/member is the sole proprietor.
- C. **Signatures.** The Credit Union will develop procedures to ensure that whenever it requires the signature(s) of the business owner, one or more of the authorized persons identified on the account

authorization card (or similar authorization document) signs the document. For corporations, limited liability companies, partnerships, and unincorporated organizations, the person signing also should record the title of their position with the business or organization (e.g., "John Doe, President;" "Joe Smith, Manager;" "Mary Doe, Partner;" "Joe Doe, Secretary," or "Jane Doe, Trustee.")

D. Account Authorization. The Credit Union will develop procedures to insure that each person who is authorized to sign on the account prints his or her name and title, and signs as indicated on a resolution of authority, an account authorization card or other account opening authorization document. The resolution of authority or account authorization card would be used in conjunction with an account card. The authorization card or document records the authorized signers on the account and provides a certificate of authority for persons conducting transactions for a business organization (corporation, LLC, partnership) association (club) or nonprofit organization or living trust. The Credit Union uses this authorization to confirm whom the business or organization has authorized to act on its behalf. The appropriate form must be completed before a business or organization opens a Credit Union account. A new authorization must be completed any time there is a change in the authorized signers.

i. It is important for all the Credit Union employees to remember that when an account is established for a non-personal entity such as a limited liability company, partnership, or corporation, the persons who are authorized signers on the account are not owners of the account funds. They are merely agents of the business who are authorized to act on behalf of the business. Each person who is authorized to sign on the account should provide his/her name and title. If the account is owned by a corporation or unincorporated organization, one of the authorized signers must be the secretary, vice president, or president of the corporation or organization. For limited liability companies, the person signing will either be a member or manager. For partnerships, the person signing will be a partner. For limited liability partnerships and limited partnerships, the person signing will be a general partner.

E. Tax Identification Number. The corporation, partnership or unincorporated organization taxpayer identification number (TIN) should be recorded. For sole proprietors, unless the sole proprietor has a separate TIN for business purposes, use the sole proprietor's social security number. Corporations, partnerships and unincorporated organizations are exempt from backup withholding. Sole proprietorships are subject to backup withholding.

F. Data Processing System. The Credit Union will develop procedures to ensure that the account owner (i.e., the corporation, limited liability company, or partnership) is properly identified on its data processing system. The Credit Union also will evaluate its data processing system to ensure that it can distinguish between joint owners and authorized signers on a business account.

G. Unlawful Internet Gambling Due Diligence. The Credit Union will follow the guidance of the Credit Union's Unlawful Internet Gambling Policy (See Policy 2205) in regards to Business Accounts.

5. REVIEW OF SUPPORTING DOCUMENTATION

- A. As necessary, the Credit Union may request and examine a business, organization, or other entity resolutions or minutes approving the account opening with the Credit Union. The Credit Union may check online with the Secretary of State or other appropriate state website, in order to determine if the entity is active and in good standing in the state of its organization (as applicable). If that is not possible, the Credit Union may request appropriate documentation from the entity to meet this requirement.
- B. The Credit Union will request and examine the business or organization's official formation documents to confirm the establishment of the business or organization. The following are the supporting documents to

request for review with the applicable organization:

- i. **Unincorporated Association (Clubs).** These organizations by nature are not formally established, such as a softball league or club. Request the organization's minutes authorizing the signers.
- ii. **Sole Proprietorship.** This designation is an individual running a business under an assumed business or trade name. Request a copy of the Trade Name/Assumed Business Name registration.
- iii. **Corporation.** Request to review the Articles of Incorporation and obtain the Secretary of State Registration Number.
- iv. **Limited Liability Company (LLC).** Request the Articles of Organization and obtain the Secretary of State Registration Number. If the LLC is a member-managed LLC as stated in the Articles, the authorized signer will be a member. If the LLC is manager-managed, the authorized signer will be a manager.
- v. **Nonprofit Organization.** Request a copy of the Articles of Organization, if available, and the Secretary of State Registration Number. (Sometimes the nonprofit will be a local chapter of a national nonprofit and the organizational documents may be difficult to obtain, in which case request minutes of the local organization and a confirmation letter from the national organization.)
- vi. **Partnership/Limited Liability Partnerships.** Partnerships are not registered with the Secretary of State. Request a copy of the Partnership Agreement. For Limited Partnerships (LP) and Limited Liability Partnerships (LLP), request the application filed with the Secretary of State and the Registration Number.

6. MEMBER BUSINESS ACCOUNT SERVICES AND PRICING

- A. Businesses may use certain Credit Union services (such as deposits of third party checks, night deposit, coin counting, etc.) more actively than personal account users. The Credit Union will perform periodic reviews of the equipment and staff it uses to provide these services, establish fair and appropriate pricing and implement any necessary changes. In order to profitably service member business accounts, the Credit Union may limit the types of businesses for which it will establish accounts, and establish special business account pricing structures.
- B. **Account Services.** The Credit Union will offer the following account features for business accounts:
[2211-19]
- C. **Funds Availability.** The Credit Union may hold funds from check deposits to business accounts up to
[2211-20] from the date of deposit.
- D. **Pricing.** The Credit Union may establish fees for each service feature offered for business accounts.

Policy 2212: Individual Retirement Arrangements

Revised Date: 06/30/2017

Model Policy Revised Date: 06/30/2017

General Policy Statement:

[CUNAME] (Credit Union) members will open Individual Retirement Arrangements (IRAs) subject to the following guidelines.

Guidelines:

1. TRADITIONAL IRAs

- A. **Description.** A traditional IRA is primarily an individual savings plan. Contributions are made up to a specified limit (listed below) and are tax deductible (depending on the filing status. The Credit Union will defer tax questions to the member's tax advisor). Money invested and earned in a traditional IRA is subject to income taxes at the time of withdrawal.
- B. **Opening traditional IRAs.** A traditional IRA may be opened at any time during the year, but contributions for a tax year must be made before the member's tax filing deadline.
- C. **Withdrawals.** Withdrawals can be made without penalty after the age of 59½. Minimum withdrawals must generally be made from the account at the age of 70½.
- D. **Penalties.** Generally, withdrawals from traditional IRAs will be charged a 10% penalty, in addition to being taxed at ordinary rates if withdrawals are made prior to the age of 59½, or not enough money is withdrawn after age 70½.
- i. **Exceptions.** The list below outlines the exceptions to the application of penalties.
- a. Permanent disability of the IRA owner.
 - b. Death of the IRA owner.
 - c. Withdrawals used to pay non-reimbursed medical expenses, provided that the expenses are in excess of 7.5% of the owner's adjusted gross income.
 - d. Withdrawals used to help pay for the owner's first-time home purchase (\$10,000 withdrawal limit).
 - e. Withdrawals used to pay higher education costs for the owner, the owner's spouse, children or grandchildren (however, federal income taxes may still be owed).
 - f. Withdrawals are used to pay back taxes to the Internal Revenue Service (IRS) after a levy has been placed against the IRA.
 - g. Withdrawals are used to pay medical insurance premiums, so long as the owner has been unemployed for longer than 12 weeks.

E. Contribution Limits.

- i. The contribution limit is subject to change each calendar year. For the current calendar year contribution limit, see IRS Form 590-A.
- ii. Those over the age of 50 may be eligible to contribute an extra “catch-up” contribution. The maximum allowable “catch-up” contribution for the current year can be found on IRS Form 590-A. In order to qualify, the owner must have reached the age of 50 in the year in which they make the “catch-up” contribution.

F. **Multiple Accounts.** Members with more than one traditional IRA will be treated as having a single account when calculating the tax consequences of distributions from any of them.

2. ROTH IRAs

A. **Description.** A Roth IRA is primarily an individual savings plan. Contributions are made with after-tax dollars up to a specified limit (listed below), but are not tax deductible. There are no minimum distributions, and the withdrawals are not taxed. There are no age restrictions on contributions.

B. **Qualification.** In order to open a Roth IRA, members must fall within specified income ranges:

- i. Income ranges are based on tax filing statuses of Married Members Filing Jointly, Married Members Filing Separately, and Single Members Who File as Head of Household or Married Members Who Did **Not** Live With Their Respective Spouses During the Year.
- ii. Members *between* a particular income threshold range (modified adjusted gross income (AGI)) may contribute a reduced amount. The income threshold limit for each filing status can be found on IRS Form 590-A.
- iii. Members *above* a particular income threshold (modified adjusted gross income (AGI)) cannot contribute to a ROTH IRA. The income threshold limit for each filing status can be found on IRS Form 590-A.
- iv. Members below a particular income threshold (modified adjusted gross income (AGI)) may contribute the maximum amount. The income threshold limit for each filing status can be found on IRS Form 590-A.

C. Contribution Limits.

- i. The contribution limit is subject to change each calendar year. For the current calendar year contribution limit, see IRS Form 590-A.
- ii. Those over the age of 50 may be eligible to contribute an extra “catch-up” contribution. The maximum allowable “catch-up” contribution for the current year can be found on IRS Form 590-A. In order to qualify, the owner must have reached the age of 50 in the year in which they make the “catch-up” contribution.

D. **Multiple Accounts.** Members with more than one Roth IRA will be treated as having a single account when calculating the tax consequences of distributions from any of them. To be tax-free, a distribution must meet both of the following requirements:

- i. The distribution must be made after the 5-year (tax year) holding period; and
- ii. The distribution must be made on or after the owner reaches age 59 1/2, made to the owner's beneficiary or estate, made to the owner who has become disabled, or made for a first-time home purchase.

3. SPOUSAL IRAs

- A. **Description.** A spousal IRA is a savings plan for working members who have a non-working spouse, or a spouse who has little or no income. The Credit Union will defer all questions regarding the deductibility of taxes to the member's tax advisor.
- B. **Qualifications.** In order to open a spousal IRA, the member must be legally married at the end of the tax year and must file a joint income tax return. The member who opens the account must also be employed with an earned income of at least the amount contributed to the IRA.
- i. If the account is opened as a traditional IRA, the member must be under the age of 70 ½.
 - ii. If the account is opened as a Roth IRA, there are no age limits.
- C. **Restrictions.** Members who open this type of account may be the beneficiary of the account. However, in order to do so, the account must be in the spouse's name ONLY. Joint spousal IRA accounts are NOT allowed.
- D. **Contribution Limits.** The contribution limit is subject to change each calendar year. For the current calendar year contribution limit, see IRS Form 590-A. If the spouse is age 50 or older, the member may contribute an extra amount under the "catch-up" provision.

4. SIMPLIFIED EMPLOYEE PENSION (SEP) IRA.

- A. **Description.** The SEP IRA allows self-employed individuals to contribute to retirement plans for themselves or their employees without involvement in a complex qualified plan. The Credit Union will defer all questions regarding the deductibility of taxes to the member's tax advisor.
- B. **Qualifications.**
- i. In order to open a SEP IRA, members must have reached the minimum age of 21, have at least three years of employment and a \$550 compensation minimum (indexed) for the year.
 - ii. An employee (including the business owner) who is eligible to participate in his or her employer's SEP plan must establish a Traditional IRA to which the employer will deposit SEP contributions
- C. **Restrictions**
- i. Individual employees may not establish an SEP plan; instead, individual employees who are eligible to participate in the SEP plan must establish their individual Traditional IRAs to which the employer will deposit SEP contributions.
 - ii. Contributions made by employers cannot exceed the lesser of 25% of an employee's compensation, or a specific maximum. The contribution limit is subject to change each calendar year. For the current calendar year contribution limit, see IRS Form 590-A.

D. **Penalties.** See Section (1)(D). Because the funding vehicle for an SEP is a Traditional IRA, the distributions rules of a Traditional IRA also apply to SEP assets.

5. COVERDELL EDUCATIONAL SAVINGS ACCOUNTS (CESAs)

A. **Description.** In 1998, the IRS introduced the Education IRA, which was renamed the Coverdell Education Savings Account in 2001 to honor the late Paul Coverdell, former senator from Georgia. CESAs were created to help individuals save for a child's higher education expenses. The money deposited into a CESA is taxed, but the earnings are not, so long as the student withdraws the money to pay for "qualified educational expenses". The Credit Union will defer all tax questions to the member's tax advisor.

i. **Qualified Educational Expenses.** These include tuition, certain fees and supplies, books, and room and board (so long as the student is enrolled at least half-time).

ii. **Non-Qualified Distributions.** A non-qualified distribution is any distribution other than a higher education expense distribution. When a nonqualified distribution is taken, a ratio of contributions and earnings is withdrawn. The earnings portion is then subject to taxes and a 10% penalty.

iii. **Exceptions.** Distributions made on account of death, disability, or scholarship are not subject to the 10% penalty. However, the earnings portion of such distributions is taxable.

B. **Opening the Account.** The student is designated as the beneficiary and may make withdrawals at any time.

C. Qualifications.

i. In order to open a CESA, the child (defined as a person under the age of 18) for whom the member is contributing may not have had any contributions made on his/her behalf to a state prepaid tuition program in that year. Contributions on behalf of an individual who is 18 or older are not permitted.

ii. In order to make the maximum contribution, the member's modified AGI may not exceed \$110,000 if single or married filing separately, or \$220,000 if married filing a joint tax return. Contributions phase out at a modified AGI of \$220,000.

D. **Restrictions.** Members cannot move funds from a traditional or Roth IRA into a CESA. However, a member with one CESA may roll funds into an additional CESA for a new designated beneficiary who is a member of the same family.

E. **Contribution Limits.** Members may contribute up to \$2,000 annually per child. Contributions for each year may be made until December 31 of that year.

F. **Multiple Children.** The law allows contributors to deposit their maximum allowable contribution into CESAs for as many children as desired. The contribution limit applies to all CESAs for the same child.

G. **Time Limit.** All funds must be completely distributed by age 30.

6. SHARE INSURANCE.

A. **Traditional, Roth and SEP IRAs.** Pursuant to NCUA Part 745.9, Traditional, Roth, and SEP IRAs are

treated the same for share insurance coverage purposes. Traditional, Roth, and SEP IRAs will be considered together and insured up to \$250,000 separately from other accounts of the member.

B. Coverdell ESAs. Coverdell ESAs are treated as irrevocable trust accounts for share insurance purposes. The structure and exclusive purpose of ESAs, and the restrictions imposed on them by the IRS, demonstrate that these trusts are irrevocable in nature. ESAs and other irrevocable trust accounts will be considered together and insured up to \$250,000 separately from other accounts of the beneficiary.

7. **RECORD RETENTION.** The Credit Union will retain all documents relating to a member's IRA for 7 years after all funds from the account have been distributed and the account has been closed. These documents will include the IRA agreement signed by the member upon opening the IRA, all disclosures given to the member, any amendments to those original disclosures, as well as any documents associated with distributions and closure of the IRA.

8. **PROHIBITED TRANSACTIONS.** In order to avoid conducting a prohibited transaction under the Department of Labor's Fiduciary Rule, the Credit Union will have procedures and processes in place that prohibits one or both of the following:

A. Compensation (directly or indirectly) to employees that result from any transaction associated with an IRA.

B. Investment advice to members or non-members, including recommendations with respect to rollovers, transfers, or distributions. This includes whether to conduct a particular transaction, in what amount, what form and to what destination a potential rollover, transfer or distribution should be made.

Policy 2213: Trust Accounts

Revised Date: 01/17/2017

Model Policy Revised Date: 01/17/2017

General Policy Statement:

This policy provides guidelines for trust accounts opened by [CUnion] (Credit Union).

1. TERMINOLOGY.

- A. **Settlor/Grantor/Trustor** – The individual who sets up the trust.
- B. **Trustee** – The person named by the settlor to administer the trust according to the terms of the trust agreement. The settlor may name him/herself as trustee and there may also be one or more co-trustees. Depending on the wording in the trust, each trustee may either act alone or jointly with another trustee.
- C. **Settlor-Trustee** – The term used when an individual has created a trust and named him/herself as trustee.
- D. **Successor Trustee** – The person who succeeds the trustee upon his/her death, resignation, or inability to act as the trustee, according to the terms of the trust.
- E. **Irrevocable Trust** – A trust arrangement in which the settlor gives up his/her right to the assets during the term of the agreement. A settlor is **not** permitted to terminate or amend this type of trust. An Irrevocable Trust must have its own unique TIN/EIN.
- F. **Revocable Trust** – A trust arrangement that permits a settlor to manage and protect his/her assets during his/her lifetime. A settlor is allowed to revoke this type of trust and take back the property. The assets placed in the trust are frequently not subject to probate. A revocable trust can be either formal (with a written trust document) or informal (by the use of Payable on Death on account records.) This type of account is sometimes referred to as a “living” or “inter vivos” trust. The TIN for this type of Trust is generally the Social Security Number of one of the Grantors. Should the Trust become Irrevocable at the death of the Grantor, an EIN is then required.
- G. **Testamentary Trust** – This type of trust is created by a member’s will and does not come into existence until the member dies and the will of the grantor is probated.
- H. **Supplemental Needs (or Discretionary) Trust** – A trust established specifically to administer funds for a specific purpose, such as for a disabled or elderly individual. Trust documentation is very specific on the use of the funds.
- I. **Living Trust** – A separate legal entity which must qualify for and become a member of a credit union. In doing so, it establishes its own account at a credit union, is eligible for rights of membership such as voting, may borrow, and may be subject to such member obligations as set off, garnishments and levies.
- J. **Payable-on-Death Account** – An informal, revocable trust in which the funds pass upon the death of the owner to a named beneficiary if living, or if deceased, to the beneficiary’s estate. This type of account is permissible under state law.

2. **TYPES OF TRUSTS PERMITTED.** The Credit Union will permit the following types of trusts accounts to be opened:

[2213-1]

3. **ELIGIBILITY.** In order to open a revocable trust account at the Credit Union, at least one grantor must be eligible for Credit Union membership. For an irrevocable trust, either the grantor or the beneficiary must be eligible for membership in the Credit Union before an account can be created. If there are two or more grantors or beneficiaries, then either all the grantors or all the beneficiaries must be eligible for membership. The name of each beneficiary must be stated in both a revocable and irrevocable trust.

4. **MEMBERSHIP.** When shares are issued in a revocable trust, the settlor must be a member of this Credit Union in his or her own right. If the Credit Union opts to open an Irrevocable Trust, at least one grantor or one beneficiary must be a member of the Credit Union.

5. **SEPARATE MEMBERSHIP.** Trust accounts must have their own account numbers, and must receive their own separate account and tax statements.

A. **Re-titling Accounts.** Due to membership restrictions, re-titling of existing accounts is prohibited.

6. **DOCUMENTS REQUIRED TO OPEN TRUST ACCOUNTS.** In order to open at trust account, the Credit Union will require the following documents:

[2213-2]

7. **SERVICES PROVIDED.**

A. **Services Offered.** The Credit Union will offer the following services to trust accounts:

[2213-3]

B. **Services Provided.** Before providing a service offered by the Credit Union to a trust, the Credit Union will ensure that the trust agreement contains language in it that identifies the powers of the trust.

8. **UNLAWFUL INTERNET GAMBLING.** Because the definition of a “commercial account” under Regulation GG (“a person that is not a consumer and that contracts with a non-exempt participant in a designated payment system to receive, or otherwise accesses, payment transaction services through that non-exempt participant”) would technically include a trust account, the Credit Union will follow the guidance of the Policy 2205, Unlawful Internet Gambling, in regards to trust accounts.

9. **SECURITY MEASURES.** The Credit Union will take the following security measures to ensure that trust documents, letters and account agreements are safe, and that access to trust documentation - if retained - is limited to authorized credit union personnel. Toward this end, the Credit Union will do the following:

A. File all trust-related documents in the Credit Union’s safe, or a separate (fireproof) file cabinet.

B. Assign the responsibility of opening accounts for trusts to a trained staff member(s).

C. Code accounts holding trust assets so that access to such accounts is limited.

D. Inform tellers of the individual(s) authorized to approve transactions.

Policy 2214: Health Savings Accounts

Revised Date: 12/20/2017

Model Policy Revised Date: 12/20/2017

General Policy Statement:

[CUNAME] (Credit Union) members may open Health Savings Accounts (HSAs) subject to the following guidelines. Health Savings Accounts are tax exempt trusts or custodial accounts established for paying qualified medical expenses of the account beneficiary on a tax-free basis.

Guidelines:

1. **QUALIFICATIONS.** In order to open an HSA, the Credit Union will inquire into whether the following qualifications are met (though the Credit Union is **not** required to verify any of this information):
 - A. The member must be under the age of 65.
 - B. The member must have a “qualified health plan” (plans generally referred to as high-deductible health plans).
 - C. The member may **not** be claimed as a dependent on anyone else’s tax return.
 - D. The member cannot have other health insurance at the same time (except specific injury and accident, disability, long term, dental and vision).
 - E. The account must be individually owned (though contributions may be used for family purposes).
 - F. Contributions must be no more than \$3,450 in 2018 for an individual health plan or \$6,900 in 2018 for a family health plan. These figures may be adjusted annually, based on cost of living increases. Members over the age of 55 may make an additional “catch-up” contribution of \$1,000.
 - G. The funds must be invested in vehicles approved for IRAs. They may **not** be invested in life insurance contracts or most tangible property.
 - H. The funds in the account must be used specifically for medical expenses. Members over the age of 65 may withdraw the funds for any reason.
 - I. The member may **not** be enrolled in Medicare.
2. **TYPES OF ACCOUNTS.** The Credit Union will permit the following types of HSA accounts:
[2214-1]
3. **INVESTMENT OPTIONS.** The Credit Union offers the following investment options for HSAs:
[2214-2]
4. **ADMINISTRATION.** The Credit Union may charge reasonable administration fees. The Credit Union [2214-3] charge a per transaction administrative fee.

5. **CONTRIBUTIONS.** Anyone may make a contribution to an eligible member's HSA. All contributions will be applied toward the total amount that the member is eligible to contribute. Contributions are not taxable to the member.

A. Rollovers.

- i. Any unused portion may "roll over" in the account to the next year, without affecting the new or current year's contribution limits.
- ii. The member may make one rollover per year. Deposits must be made within 60 days in order for the transfer to be considered a rollover.

B. Transfers. Unlimited rollovers are permitted if transferred by the Credit Union as the HSA trustee.

6. **CREDIT UNION RESPONSIBILITIES.** The Credit Union will ensure that it carries out the following responsibilities:

- A. Ensuring that contributions do not exceed the maximum individual, family and/or catch-up amount(s).
- B. Reporting contributions to the Internal Revenue Service (IRS) on Form 5498-SA.
- C. Reporting distributions to the IRS on Form 1099-SA.

7. **LOSS OF ELIGIBILITY.** Members may keep their HSAs once they become ineligible. However, contributions may **not** be made until they become eligible once again.

8. **DEATH OF HSA OWNER.** Upon the death of the HSA account owner, the following apply:

- A. **Spouse is Designated Beneficiary.** When the spouse of the deceased member is the designated beneficiary of the HSA account, the balance transfers to the surviving spouse tax free.
- B. **Person Other than the Spouse is Designated Beneficiary.** When someone other than the spouse is the designated beneficiary of the HSA account, the HSA is terminated as of the date of death, and the fair market value of the account becomes taxable income to that individual (reduced by qualified expenses).
- C. **No Designated Beneficiary.** When an HSA account has no designated beneficiary, the account becomes a part of the member's estate (reduced by qualified expenses).

Policy 2215: Account Ownership

Revised Date: 09/30/2014

Model Policy Revised Date: 09/30/2014

General Policy Statement:

Flexibility of account ownership allows members to control their assets while living and provide for basic estate planning after they are deceased. The law allows many different forms of ownership. This policy outlines those forms of ownership that may be used with member accounts at [CUname] (Credit Union).

Decisions about what type of account ownership to use are the sole responsibility of the member. The involvement of the Credit Union in this decision must be limited to explaining what options are available. Members should seek the advice of a competent advisor when making ownership and estate planning decisions.

Guidelines:

1. Forms of Ownership.

- A. **Single Ownership.** This is the simplest form of account ownership. Only the person establishing the account has access to funds and information.
- B. **Joint Ownership.** By establishing joint ownership, the member allows each signing party full and equal access to funds and information. Upon the death of any owner, account ownership automatically resides with the remaining owner(s).
- C. **Restricted Joint Ownership.** The most common use of this form of ownership is requiring multiple signatures to access funds or information. Although allowed by law, the Credit Union does not use this form of ownership, except in unusual situations and only with prior approval. The [2215-1] must first approve any account using this form of ownership.
- D. **Pay-On-Death (POD) Designations.** This account ownership tool can be used in addition to the basic ownership designation. Individuals designated as pay-on-death beneficiaries do not have any account access until all owners are deceased, at which time the account is closed and funds are distributed to the surviving POD beneficiaries. If more than one POD beneficiary is designated, the Credit Union will divide the proceeds equally among them.
- E. **Uniform Transfer to Minors Accounts.** This form of ownership is used when a custodian wishes to specifically designate funds in account to a minor, to be transferred to the minor at a designated time, usually when the minor becomes of age. This type of account is established using the minor's SSN and may only have one minor and one custodian, per state law. Refer to the member service procedures for specific procedures and wording.
- F. **Fiduciary Accounts.** A fiduciary account may be set up when the court appoints a custodian (or in some cases a guardian). If a person has a legal disability (examples include a minor child or an incapacitated adult), the individual may have a court-appointed fiduciary to manage their financial affairs.
- G. **Representative Payees.** This type of account is established at the direction of the Social Security Administration and should clearly show in the Credit Union's records as belonging to the beneficiary, using the beneficiary's Tax ID Number (TIN). An account set up in this manner must reflect the fiduciary

interest of the representative payee on behalf of the entitled beneficiary. Only the representative payee should handle the account transactions.

- H. **Living Trusts.** Accounts may be established in the name of a living trust. The account name is given in the trust documents and the member's tax ID number is used. The member(s) are usually designated as trustees and as primary beneficiaries. Refer to the member service procedures for specific procedures and wording.
- I. **Organization Accounts.** Non-profit organizations may establish accounts with the Credit Union provided all the members of the organization are eligible for membership. The organization must provide an official declaration of the individuals authorized to access funds and information. The tax ID/EIN number of the organization is used, per the IRS form W-9.
- J. **Unincorporated Association or Club Accounts.** Associations (such as bowling leagues, community service groups, etc.) may establish accounts with the Credit Union provided all the members of the association/club are eligible for membership. The association/club must provide an official declaration of the individuals authorized to access funds and information. The tax ID/EIN number of the association/club is used, per the IRS form W-9.
- K. **Doing Business As (DBA) Accounts.** Members may establish accounts with a DBA (Assumed Name) designation. The Credit Union requires a business license and paperwork from the state authorizing the DBA name. All business transactions, endorsements, etc. must conform to the name exactly as indicated.
- L. **Business Accounts.** Businesses that qualify for membership may open a business account with the Credit Union. The Credit Union requires appropriate documentation establishing the business entity as a Sole Proprietorship, Partnership, Limited Partnership or Corporation.

2. Changing Ownership.

- A. The owner of any account with single ownership may change ownership, add joint owners, or change beneficiary designations by providing the appropriate written authorization of the change to the Credit Union.
- B. Joint account ownership can only be changed with the prior written authorization of all existing account owners, except that any owner may remove himself or herself from an account by providing written authorization to the Credit Union.

Policy 2216: Deceased Depositor Issues & Estate Accounts

Revised Date: 09/30/2014

Model Policy Revised Date: 09/30/2014

General Policy Statement:

When a member dies, [CUname] (Credit Union) must determine the proper distribution of funds remaining in the member's account, and determine whether the administrator of the estate may open an estate account at the Credit Union.

1. TERMINOLOGY.

A. **Executor** – The individual named in a will to carry out the instructions contained in a will.

B. **Administrator or Personal Representative** – The individual appointed by a court to manage the estate of a deceased person who died without a will (“or intestate”).

2. **OWNERSHIP OF FUNDS.** Upon the death of a member, the ownership of the funds in an account will depend on the type of account.

A. Individual/Single Membership Account

i. **With Beneficiaries** – The account funds belong to the beneficiary(ies) without going through probate. If a beneficiary is **not** a member of the Credit Union, the Credit Union will either require the beneficiary to apply for membership, or – once the beneficiary provides proof of death - issue a check to the beneficiary in the amount of the account balance and close the account within a reasonable amount of time.

ii. **No Beneficiaries** – Regardless of whether there is a will, an executor or administrator/personal representative will be appointed by probate court to represent the estate of the deceased and will present Letters of Authority to the Credit Union to direct the payment of the funds in the deceased member's account(s). If no one claims the funds, the Credit Union will escheat the funds to the State once the timeframe for the presumption of abandonment has expired.

B. Joint Account

i. **With Right of Survivorship** – Ownership of the account automatically passes to the joint owner.

ii. **With No Right of Survivorship** - Upon the death of a member who has a joint account with no right of survivorship, the Credit Union will consult with its attorney on how to deal with claims for the funds.

3. **PAYMENT OF CHECKS.** For share draft accounts, the Credit Union will pay checks up to 10 days after learning of the death of a member.

4. **RELEASE OF FUNDS.** Before releasing funds in a deceased member's account, the Credit Union will ensure the following:

- A. That the person claiming the funds (the “claimant”) has valid and verified documentation showing proof of death;
- B. That the claimant has a legal right to the funds in the account (Note: A will does not demonstrate a legal right until it has been entered into probate and an administrator/personal representative has been granted the authority over the funds);
- C. That the Credit Union has no claim of its own to the funds.

5. **CREDIT UNION AS CLAIMANT.** In all cases where the deceased is indebted to the Credit Union, the Credit Union will file a claim against the estate.

A. **Timely Settlement of Credit Card Debts.** Upon request by an estate administrator/personal representative, the Credit Union will provide the amount of the balance on a deceased consumer’s account in a timely manner (within 30 days) to the administrator.

i. **Limitations After Receipt of Request from Administrator.** After receiving such a request, the Credit Union will not impose any fees on the account (such as a late fee, annual fee or over-the-limit fee) or increase any APR (unless it’s a variable rate). If payment is received in full within 30 days after disclosure, the Credit Union will waive or rebate any additional finance charge due to a periodic interest rate.

6. **SOCIAL SECURITY DEPOSITS.** Family members or other people responsible for a Social Security beneficiary’s affairs have a duty to notify the Social Security Administration (SSA) when a beneficiary dies in the month a Social Security benefit payment is received. When such funds are direct deposited, the Credit Union will return the funds to the SSA upon request when proof of death is provided.

7. **ESTATE ACCOUNTS.** The Credit Union will open an estate account in the following circumstances:

[2216-1]

8. **DOCUMENTS REQUIRED TO OPEN AN ESTATE ACCOUNT.** In order to open an estate account, the Credit Union will require the following documents:

[2216-2]

Policy 2217: Negative Account Balances

Revised Date: 07/01/2010

Model Policy Published Date: 07/01/2010

Model Policy Reviewed Date: 09/30/2014

General Policy Statement:

[CUname] (Credit Union) will handle accounts with negative balances according to the Guidelines of this policy.

Guidelines:

1. NEGATIVE SHARE ACCOUNTS.

A. **Notice.** When a member has a negative balance in an account for a period of [2217-1], the Credit Union will send a notice to the member.

B. **Account Closure.** The Credit Union may also close the member's account [2217-2] days after written notice to the member of his/her negative account balance.

C. **Voluntary Termination.** If this account is the one in which membership was based, this closure will be deemed to be a voluntary withdrawal from Credit Union membership.

2. **OVERDRAFT LINES OF CREDIT.** The Credit Union will immediately terminate this program for members who fail to pay any negative balance amounts upon demand (See **Policy 7215**).

A. **ALLL.** The Credit Union will ensure that its Allowance for Loan and Lease Losses (ALLL) is adequately funded, pursuant to its ALLL policy (See **Policy 7615**).

3. **EXCESSIVE OVERDRAFTS.** The Credit Union will follow its Share Draft Accounts Policy to on how to handle an account with excessive overdrafts (See **Policy 2300**).

Policy 2218: Dormant Accounts

Revised Date: 06/27/2015

Model Policy Revised Date: 06/27/2015

General Policy Statement:

[CUName] (Credit Union) will handle dormant accounts according to the Guidelines of this policy.

Guidelines:

1. **DORMANT ACCOUNTS.** A member account shall be considered dormant if no activity has taken place with the account for [2218-1].
 - A. **Notice.** When a member has a dormant account for a period of [2218-2], the Credit Union will send a notice to the member via first class mail to the address on record. Members will be informed of the dormancy status and encouraged to activate, close, or incur a dormant account fee.
 - B. **Fees.** The dormant account fee is [2218-3] per month, for as long as there has been no activity on the account after the dormancy notice has been provided to the member. This fee will be posted on the Credit Union's fee schedule and may be adjusted by the Board at any time.
 - C. **Internal Controls.** Based upon the requirements of the Credit Union's Internal Control Policy (See Policy 3200), the Credit Union will implement an internal review of dormant accounts.
2. **ESCHEATMENT TO STATE.** Any account that is dormant after a [2218-4]-year period, the funds in the account will be escheated to the State of [2218-5].

Policy 2220: E-Commerce

Revised Date: 03/29/2014

Model Policy Revised Date: 03/29/2014

General Policy Statement:

[CUName] (Credit Union) will follow the guidelines set forth below for the electronic financial services, products, functions, or activities that the Credit Union performs, provides, or delivers to its members through electronic means ("e-commerce"). Examples of electronic services include automated teller machines, electronic fund transfers, wireless services, remote banking services, online account transaction processing through a website (including bill payment services), website hosting services, account aggregation services, and Internet access services to perform or deliver products or services to Credit Union's members. Aspects of the Credit Union's e-commerce policy relating to the Credit Union's e-commerce operation and activities involve functions and policies set forth in the Credit Union's policies on Information Security, Marketing, Lending, Deposit Activities, Risk Management, and other Credit Union policies that address the Credit Union's e-commerce activities. These policies must be consulted and adhered to as part of the Credit Union's e-commerce policy.

Guidelines:

1. **E-COMMERCE STRATEGY AND MANAGEMENT.** Credit Union Management will prepare and maintain an articulated strategy for engaging in e-commerce and receive the Board of Director's approval.
 - A. **Develop a Plan.** Credit Union Management will develop a plan for using e-commerce systems and services, based on the needs of the Credit Union's members and the Credit Union's overall business goals.
 - B. **Services.** Credit Union Management will determine the e-commerce services the Credit Union may offer, for example:
 - i. Internet/World Wide Web Services
 - ii. Wireless Services
 - iii. Remote Banking (direct dial in) Services
 - iv. Remote Deposit Capture
 - v. Mobile Banking
 - vi. Online Bill Paying Services
 - vii. ATM and POS Services
 - viii. Account Transaction Processing Services, such as:
 1. Account Inquiry
 2. Check Requests

3. Loan Applications
4. Bill Payment
5. Funds Transfers
6. Third Party Transfers
7. On-Line Wire Transfers
8. Stored Value Cards
9. E-Money
10. E-Wallets
11. Automated Clearing House (ACH) Originations
12. [2220-1]

C. **E-Commerce Oversight Group.** Credit Union Management will establish a centralized e-commerce oversight group ("E-Commerce Group"), comprised of Credit Union management representatives from marketing, compliance, operations (loan and deposit), information systems and security areas of the Credit Union.

D. **Reports.** Periodically, but no less than annually, the E-Commerce Group, or its designee, will prepare a report on the status of the Credit Union's e-commerce system and services to the Board of Directors. The report will include a measurement of e-commerce performance against the Credit Union's stated strategy and e-commerce goals, system/service security and integrity, updated risk assessments, access and physical controls, intrusion detection, data security, business continuity planning, internal and external system tests.

E. **Vendor Management.** Credit Union Management or the E-Commerce Group will determine which e-commerce services should be outsourced and which e-commerce services will use in-house systems and personnel. Security related due diligence and compliance of all vendor contracts with federal and state regulations must be addressed at least annually and reported to the Board.

F. **Member Service and Support.** Credit Union Management or the E-Commerce Group will create a process to adequately track and resolve member support issues (e.g., member technical support, incident reports, and FAQs).

2. **E-COMMERCE SYSTEM ARCHITECTURE.** The Credit Union's Information System Manager or Credit Union Management, as appropriate, will develop and maintain appropriate Information Systems and E-Commerce System architecture and computer hardware and software to facilitate the Credit Union's e-commerce strategy and activities as follows:

A. **Diagrams.** The Credit Union's Information Systems Manager will create and maintain network, system and application diagrams (i.e. topologies).

B. **Hardware and Software.** The Credit Union's Information Systems Manager will prepare and maintain an inventory of e-commerce hardware and software including all licenses with expiration, termination

and renewal dates.

3. **RISK ASSESSMENT.** Prior to implementation, the Credit Union's Board of Directors, Management, and E-Commerce Group will assess the risks associated with its e-commerce activities. The E-Commerce Group will periodically update and re-assess the risks associated with the Credit Union's e-commerce activities. It also will re-assess the risks whenever a new e-commerce delivery system, vendor, service provider or product is adopted by the Credit Union. Risks to be assessed include:

A. Operational and transactional risks, including outsourcing arrangements for technology services.

B. Type of member (person or business).

C. Transactional capabilities.

D. Volume of transactions.

E. Confidentiality of member information involved in e-commerce activities

F. Legal and compliance risks.

G. Security risks.

H. Risks to the Credit Union's reputation and business continuity.

4. **COMPLIANCE AND LEGAL ISSUES.** The Credit Union's Board of Directors, Management, and E-Commerce Group will ensure that the Credit Union's e-commerce activities comply with applicable federal and state regulations and that its electronic delivery systems and services are legally sufficient to protect the Credit Union.

A. **Legal Review.** E-commerce contracts, third party service provider contracts, and other transactions will be reviewed by the Credit Union's legal counsel. All e-commerce contracts should be clearly written and sufficiently detailed to provide assurances for performance, reliability, security, confidentiality, and reporting.

B. **Compliance Review.** Credit Union Management and the E-Commerce Group will perform a compliance review of all e-commerce products, services, and member agreements and disclosures prior to implementation. Credit Union Management and the E-Commerce Group will perform periodic compliance examinations, no less than annually, subsequent to the product or service implementation. Such a compliance review will include compliance with all applicable state and Federal regulations and guidance..

C. **Bond Coverage.** The Credit Union's Board of Directors and Management will maintain adequate bond coverage to cover the Credit Union's anticipated e-commerce activities, pursuant to the Credit Union's Bond and Insurance Coverage policy (**See Policy 1220**).

5. **AUDIT AND CONSULTING.** Credit Union Management and the E-Commerce Group will develop and maintain appropriate audit and consulting services to facilitate and protect the Credit Union's e-commerce activities as follows:

A. **Audit.** Credit Union Management and the E-Commerce Group, or their authorized agent(s), will perform periodic internal and external (Service Organization Controls (formerly SAS 70), if available, and

financial statement) audits and quality reviews.

B. **Test.** Credit Union Management and the E-Commerce Group will supervise, and outsource where appropriate, the performance of system vulnerability testing, as set forth more fully in the Credit Union's Information Security Policy.

C. **Correct.** Credit Union Management and the E-Commerce Group will prioritize issues disclosed in the most recent audit or quality review and correct any identified vulnerabilities or outstanding issues.

6. **PERSONNEL.** Credit Union Management and the E-Commerce Group will develop and maintain appropriate recruitment, training, and employee access to e-commerce systems to facilitate and protect the Credit Union's e-commerce activities as follows:

A. **Recruit and Train.** Credit Union Management will recruit e-commerce technical staff and train Credit Union employees with respect to e-commerce strategy.

B. **Segregate.** Credit Union Management will segregate duties between conflicting e-commerce related responsibilities.

C. **Employee Access.** Credit Union should consult the Credit Union's Information Security Policy for the Credit Union's policy relating to employee access to e-commerce systems due to status changes, i.e. terminations, transfer, or promotion.

7. **DATA SYSTEM AND SECURITY.** Credit Union Management and the E-Commerce Group will ensure the adequacy of data systems to support the Credit Union's e-commerce goals. The Credit Union's policy for the system security is set forth more fully in the Credit Union's Information Security Policy.

A. **Disaster Contingency Plan.** Credit Union should consult the Credit Union's Information Security Policy for the policy relating to e-commerce and the Credit Union's disaster contingency plan.

B. **System Diagrams.** The Credit Union's Information Systems Manager and E-Commerce Group will plan and maintain e-commerce system diagrams and information.

C. **Monitoring and Reporting.** The Credit Union will monitor activity and use of e-commerce to detect unauthorized access. In the event that systems are breached Local, State and Federal laws will be followed and the appropriate authorities will be contacted, including reporting to the NCUA Regional Director.

D. **Classification of Data.** The Credit Union Management and E-Commerce Group will create classification of different types of data based on its value to the Credit Union, sensitivity, and degree of harm if the data is compromised, lost, or accessed by unauthorized persons. These classifications are set forth in the Credit Union's Privacy policy (**See Policy 1615**) and Information Security policy (**See Policy 4120**).

E. **Security System Requirements.** Credit Union Management and the E-Commerce Group will create and maintain requirements for security systems and procedures to protect critical data and facilities, as set forth in the Credit Union's Information Security policy (**See Policy 4120**).

F. **Threats to Data Security.** Credit Union Management and the E-Commerce Group will monitor threats to data security, as set forth in the Credit Union's Information Security policy (**See Policy 4120**).

8. **MEMBER AWARENESS.** The Credit Union will take measures as necessary to educate members to the risks

of account fraud and identity theft.

Policy 2221: Website

Revised Date: 12/30/2014

Model Policy Revised Date: 12/30/2014

General Policy Statement:

[CUName] (Credit Union) maintains a website that is hosted by [2221-1]. All content is developed and maintained by [2221-2]. Using the World Wide Web (Web) is strongly encouraged in that it provides the Credit Union with a tool to convey information quickly and efficiently on a broad range of topics relating to its products, services, activities, objectives, policies and disclosures.

The Credit Union offers the following services electronically: [2221-3].

Guidelines:

1. POLICY AND PROGRAM RESPONSIBILITY

- A. Credit Union has established an oversight committee, made up of the following staff, to maintain and monitor the Credit Union's website: [2221-4]. Each division of the oversight committee is responsible for maintaining the Credit Union's website operations. Any new website ideas or initiatives must be reviewed by the oversight committee, which will prioritize, develop, acquire, and maintain any approved website applications.
- B. Management has established long-term strategic and short-term tactical plans for its E-commerce activities. The Board of Directors has approved these plans. The Credit Union provides management with regular reports on its website transactions.
- C. Management together with the appropriate departments shall work together to provide the necessary resources to adequately support website operations to include equipping staff with the appropriate tools and staff training.

2. **COPYRIGHTED MATERIAL.** Copyrighted material will be used only when allowed by prevailing copyright laws and may be used only if the materials relate to the website's mission and should be approved by Management prior to use.

3. **EXTERNAL LINKS.** When external links to non- Credit Union websites are included, the Credit Union is responsible for ensuring that a disclaimer is made that neither the Credit Union nor the organization endorses the product at the destination, nor does the Credit Union exercise any responsibility over the content at the destination.

- A. A disclaimer shall be displayed when linking to external sites. The disclaimer may appear on the page or pages listing external links whenever a request is made for any site other than the official Credit Union website.

4. RISK ASSESSMENT

- A. The Credit Union regularly or [2221-5] tests the efficacy of its E-commerce systems to ensure proper working order and to prevent security weaknesses.

- B. Management has classified the level of data sensitivity, as well as the potential security risks in the event of a security breach. Management has procedures in place to handle the different levels of intrusion.
- C. The Credit Union regularly monitors security risks associated with technological and operational changes in E-commerce and maintains a current list of critical website applications and data that is categorized, quantified, and prioritized

5. COMPLIANCE AND LEGAL

- A. The Credit Union ensures that its website will comply with all applicable laws and regulations. The Credit Union also monitors all changes in laws and regulations that affect E-commerce, and updates its E-commerce policies, practices, and systems accordingly in a prompt manner.
- B. The Credit Union has secured bond coverage for all of its website policies and procedures. Management has ensured that bond coverage is sufficient in the event of any loss due to an electronic transaction. Bond coverage is regularly assessed to ensure the sufficiency of coverage.
- C. The Credit Union will periodically provide various website contracts and agreements with vendors, partnerships, and affiliates to legal counsel for review.
- D. The Credit Union provides disclosures regarding its website policies and procedures to members who have entered into E-Commerce relationships with the Credit Union. The disclosures also provide a list of the service providers who have a direct business relationship with the Credit Union. In addition, the Credit Union will place appropriate warnings on its website, clearly stating that unauthorized access or use of the website is not permitted and may constitute a crime punishable by law.
- E. The Credit Union maintains a website privacy disclosure that is available to all members who visit the Credit Union website. The Credit Union monitors and enforces compliance with its website privacy disclosures.
- F. The Credit Union monitors its website on a regular basis to ensure that all disclosures are accurate and up-to-date. The Credit Union will create procedures to validate transactions, e-mails, and other contractual obligations relating to its website.

6. AUDIT AND CONSULTING SERVICES

- A. The Credit Union's website activities will be subject to periodic [2221-6] independent audits and quality reviews, at least annually, and more frequently when appropriate. At a minimum, these reviews will cover website: security, penetration testing, regulatory compliance, privacy, application development and maintenance, incident response and business continuity, and virus detection and protection. The Credit Union management will correct the issues of concern uncovered by the independent audit and/or quality review.
- B. The Credit Union management regularly requires performance testing of its website to identify and prevent potential vulnerabilities.

- 7. **VENDOR MANAGEMENT** (optional). The Credit Union has obtained a vendor to install and/or maintain its website. The Credit Union has exercised due diligence in selecting its vendor to ensure that proper security measures are in place to protect member account information. The Credit Union will work with the web hosting vendor to ensure the operational integrity and security of the computer and network supporting the website are maintained. The Credit Union will develop procedures to monitor vendor relationships to ensure

that they continue to meet the needs of the Credit Union (i.e., hardware, software, network services, content accuracy, availability, usability, security, and privacy). The Credit Union will periodically review security procedures employed by vendor to ensure it meets the Credit Union's minimum requirements.

8. MEMBER SERVICE AND SUPPORT

- A. Management has established procedures and practices for promptly resolving member support issues, such as [2221-7]. Management will take steps to ensure that adequate staff levels and training are in place to address member support issues, will monitor reports generated periodically to ensure member service level goals are met and adjusted as needed.
- B. The Credit Union discloses to its members the terms and conditions by which its E-commerce and website transactions are conducted, such as:
 - i. The Credit Union's website is secure and member account information is kept confidential.
 - ii. Whether the website uses cookies, how they are used, and what the consequences are for not accepting them.
 - iii. How member information can be corrected.
 - iv. How member information is used.
 - v. How members can receive additional credit union services (advertisements of other credit union products), and how they can opt out of those services.
 - vi. When members will be notified of credit decisions.
 - vii. How members can request more information or inquire into a refusal of credit.
 - viii. Methods of accepted bill payment.
 - ix. When payment will be posted to the member's account (for after hours transactions).
 - x. How members can stop payment.
 - xi. The sources of information (i.e. interest rates).
 - xii. Inform members of maintenance or other technical issues that may affect access to E-commerce or website activities through online messages.
 - xiii. Where members can go to resolve errors, pose questions, or register complaints.
 - xiv. Inform members of their right to receive paper copies of member account information and procedure to obtain paper copies.

9. PERSONNEL

- A. Employees with access to member account information will receive a copy of the Credit Union's website policy, must sign a compliance policy statement (confidentiality and information security) when hired by the Credit Union. Employees will be notified of the importance of maintaining the confidentiality of

member account information and will be made aware of the Credit Union's policies, procedures, standard practices, and disciplinary actions that will be taken against the employee for non-compliance with the Credit Union's privacy and information security policies and procedures. The Credit Union policy prohibits staff from inappropriately disclosing member account information to any third party.

- B. The Credit Union limits access to sensitive information to specific employees to ensure confidentiality of member account information. Employees have been trained on the proper procedures for filing reports to the appropriate regulatory and law enforcement agencies. Management will routinely monitor employees for compliance with the Credit Union's stated policies, procedures, and standards.
- C. The Credit Union has conducted background checks on its employees, and will thoroughly investigate any allegation of employee misconduct.
- D. Management has instituted a training program in order to maintain continuity of employee support in the event of a termination, transfer, promotion, etc. Employees involved with the Credit Union's website transactions are kept up-to-date with changes in the policies and procedures of the Credit Union.

10. SYSTEM ARCHITECTURE AND CONTROLS

- A. The Credit Union maintains an inventory of hardware and software to ensure continuity of service in the event of a technological failure, natural disaster, or intentional destruction of its electronic systems. The Credit Union (or its vendor) maintains procedures to allow the Credit Union to restore its previous configuration in the event a software modification adversely affects the website.
- B. The Credit Union has implemented a disaster recovery system as part of its business continuity plan. This system will be monitored regularly and updated as needed as a result of changes in technology, legislation, and infrastructure.

11. SECURITY INFRASTRUCTURE AND CONTROLS

- A. The Credit Union maintains security measures consistent with the requirements of federal and state regulations, including risk management systems designed to prevent unauthorized access, both internal and external, to member information.
- B. The Credit Union has procedures in place to protect member information systems in the event of natural disasters, intentional destruction, or technical failure.
- C. Management monitors employees with access to member account information to ensure they are in compliance with the Credit Union's established security policies and procedures.
- D. All member account information is stored on servers protected with [2221-8] to prevent unauthorized access and/or damage. These protections are monitored on a regular basis to assess potential security weaknesses.
- E. Access to member accounts is restricted to members through the use of user ID numbers and passwords. Account passwords that are not entered correctly after the [2221-9] time will result in an automatic log-off to the session.
- F. The Credit Union has implemented an intrusion detection system to monitor activity and alert the credit union immediately in the event of a security breach. The Credit Union's oversight committee has been trained to handle such breaches in a timely and effective manner.

12. **PERFORMANCE MONITORING.** The Credit Union has established and implemented performance standards and monitoring procedures for its website activities. These standards and procedures are designed to ensure that the Credit Union's E-commerce and website activities are available and efficiently meet member needs and expectations. These procedures are updated on a regular basis, as a result of changes in long-term and short-term plans, as well as in response to member needs.

Policy 2222: Electronic Communications/Acceptable Use

Revised Date: 12/30/2014

Model Policy Revised Date: 12/30/2014

General Policy Statement:

The purpose of this policy is to encourage and ensure that electronic communication systems (*i.e.*, telephones, voice mail, e-mail, Internet, Social Media, PDAs, mobile communication devices) and associated equipment are used for the purpose of furthering the Credit Union's mission of providing quality member service, promoting the credit union and staff development.

This policy applies to all employees and volunteers who use [CUName]'s (Credit Union) computing or networking resources, as well as those who represent themselves as being connected with the Credit Union. The Credit Union expects all employees to be familiar with and comply with this policy. As a condition of employment and continued employment, the Credit Union will require employees to sign an Electronic Communication Policy Acknowledgment Form. The Credit Union will require new hires to sign this form on acceptance of employment by the Credit Union or during their new-hire orientation process. Similarly, the Credit Union will require all employees to review and sign this policy on an annual basis. *Any violations of this policy can lead to revocation of system privileges and/or disciplinary action up to and including termination.*

Guidelines:

1. **ELECTRONIC COMMUNICATIONS.** The Credit Union's network, computer and phone systems ("electronic communications"), including all data, reports, e-mail, social media and voice messages created, sent, or received on the system are the Credit Union's property. The Credit Union confines use of its computer systems, network and phones to business purposes. The Credit Union discourages personal use, unless it is limited, incidental personal use and (a) does not consume more than a minimal amount of resources, (b) does not interfere with productivity or performance, and (c) does not preempt any business activity. This policy also applies to employees who have access to the Credit Union systems away from the office (such as telecommuting or traveling). The Credit Union retains the right to remove any material from its information systems and social media outlets.
2. **COMPUTER USE – GENERALLY**
 - A. **Business Purpose.** Employees shall use the Credit Union's computer hardware and software primarily for business purposes. Personal use is permitted, subject to the terms and limitations of this policy (see paragraph (1)). The Credit Union's computer and communications systems are not intended to be used for, and must not be used for the exercise of the workers' right to free speech.
 - B. **Unauthorized Content.** Employees shall not enter or attempt to enter computer files and communications of another individual without the consent of Management; nor should they remove or modify computer software or hardware configurations without Management's consent.
 - C. **Logging Off.** Employees must sign off (log off) their computers or terminals if they are going to leave their computer or share the computer with another employee.
 - D. **Software Installation.** The Credit Union does not permit employees to install or use software not acquired or licensed for business use by the Credit Union (*i.e.*, games, screen savers, or other software) unless approved by [2222-1].

E. **Access.** Employees shall not allow any unauthorized person(s) to have access to the information on their computers or within the Credit Union information systems. Employees shall not use a computer to access Credit Union or member information without a valid purpose or authorization.

F. **System Security.** Given the sensitive nature of the information collected and maintained by the Credit Union, it is vitally important that employees take every step necessary to protect all confidential and proprietary information. Employees shall do the following:

- i. Refrain from downloading attachments sent by unknown parties, as they may contain viruses that could harm the system;
- ii. Refrain from attempting to evade an Internet firewall and/or proxy server by accessing the Internet directly, whether by modem, wireless access or another service provider, unless the employee has prior approval of Management;
- iii. Immediately run computer protection programs when directed to do so by Management;
- iv. Refrain from interfering or disabling any computer protection programs; and
- v. Immediately report any actual or potential security violations to Management.

3. INTERNET USE

A. **Official Business Purpose.** Internet access by employees should primarily be limited to Credit Union business, although brief personal use will generally be allowed (see paragraph (1)). Under no circumstances shall employees visit gaming, gambling or adult-oriented websites using the Credit Union's computers.

B. **Prohibited Activities.** Users shall not send, display, print or disseminate material that could be construed as harassing, intimidating, threatening, illegal, fraudulent, embarrassing, defamatory, sexually explicit, obscene, or otherwise inappropriate.

C. **Authorized Information Dissemination.** Employees who place information on the Internet should realize that third parties will likely believe that the information has been authorized by the Credit Union. Employees using credit union computers shall refrain from placing information in the public domain without obtaining prior approval from Management.

D. **Confidential and Proprietary Information.** Information collected and used by the Credit Union is considered to be Credit Union property and shall not be posted on the Internet without prior approval from Management. Proprietary information regarding the Credit Union may NOT be posted online.

4. E-MAIL USE

A. **Official Business Purpose.** Employees should be mindful that the primary purpose for the e-mail system is to improve efficiency by making it easier for staff to communicate. The e-mail system is primarily intended to be used for business purposes and personal use should be kept to a minimum (see paragraph (1)).

B. **Professionalism.** E-mail messages, like all business communications, should be reviewed for accuracy, clarity and spelling errors prior to sending, especially when the message will be sent outside the Credit

Union.

- C. **Sensitive Information.** Unless directed otherwise, employees should communicate internal business-related matters of a sensitive nature in person, and not through the computer.
- D. **Resolution of Conflicts.** Employees should not use e-mail to resolve conflicts. Matters that necessitate dialogue and non-verbal communication require in-person communication. Communication that the sender knows may be perceived by the receiver as contentious should be handled in person to avoid misunderstandings and non-productive, defensive communication.
- E. **Prohibited Practices.** Employees shall not use the Credit Union's e-mail system to do the following:
- i. Solicit or conduct outside business ventures, or advertise for personal enterprises or solicit for non-company-related purposes. If employees want to send messages not related to the Credit Union operations such as: sale of sporting event tickets, solicitation for fundraisers not sponsored by the Credit Union, want ads (such as free pets, household items), and party invitations, they should obtain [2222-2] approval beforehand;
 - ii. Engage in forgery (or attempted forgery) of e-mail;
 - iii. Send "spam," junk mail, unauthorized solicitations, chain letters, or any other unauthorized solicitation to any person;
 - iv. Send any message that could be construed as harassing, intimidating, threatening, illegal, fraudulent, embarrassing, defamatory, sexually explicit, obscene, or otherwise inappropriate.
 - v. Send confidential or proprietary information to any person not employed by the Credit Union, without prior approval from management.

5. VOICE MAIL USE

- A. Employees should be mindful that the primary purpose for the voice mail system is to improve efficiency by making it easier for staff to communicate. The voice mail system is primarily intended to be used for business purposes and personal use should be kept to a minimum.
- B. Employees should leave only professional greetings and messages on voicemail. Leaving any message on the voicemail system that could be construed as harassing, intimidating, threatening, illegal, fraudulent, embarrassing, defamatory, sexually explicit, obscene, or otherwise inappropriate is prohibited.
- C. Employees should check voice mail frequently and respond immediately when possible.
- D. All messages contained within the voicemail system are considered to be the property of the Credit Union.
- E. Voice mail greetings should be changed to indicate availability when employees will be out of the office, including specific dates when employees are unavailable; whether voice mail will be checked; and any additional method of contact that may be utilized to contact the employee.
- F. When employees are away from their desks, phones should be forwarded to voice mail, or to another extension (for those departments forbidden to send calls directly into voicemail). Forwarding calls to voice mail while working at the desk is prohibited.

G. Forwarding voice mails to other employees should be kept to a minimum and done only when necessary.

6. SOCIAL MEDIA

- A. Social media is considered by the Credit Union to be a form of interactive online communication in which users can generate and share content through text, images, audio, and/or video. Social media can take many forms, including, but not limited to, micro-blogging sites (e.g., Facebook, Google Plus, MySpace, and Twitter); forums, blogs, customer review websites and bulletin boards (e.g., Yelp); photo and video sites (e.g., Flickr and YouTube); sites that enable professional networking (e.g., LinkedIn); virtual worlds (e.g., Second Life); and social games (e.g., FarmVille and CityVille).
- B. The Credit Union will include social media in its Risk Management Program to allow for the identification, measurement, monitoring, and possible controls for risks associated with social media.
- C. Due to the increased risks of fraud and brand identity issues related to the use of social media, efforts will be made to properly monitor and manage activities to identify heightened risks and to respond appropriately.
- D. Appropriate training will be provided to employees to educate them about the impact of social media use and appropriate Credit Union use and communications.
- E. The Credit Union is aware that employees' social media communications can be viewed as Credit Union communications and therefore can impact the reputation of the Credit Union. When participating in Internet discussion groups, electronic bulletin boards, or other public forums, including social networking, employees should identify themselves properly. Employees also should be careful about how the employee represents himself or herself because what the employee says or does could be interpreted as the Credit Union opinion or policy. Employees should be aware that their conduct reflects on the reputation of the Credit Union and its employees.
- i. **Blogging.** The Credit Union allows employees to post blogs about the Credit Union's products and/or services as long as the postings support credit union activities, products and services and the nature of the posts is approved and monitored by management.
1. All posted blogs written by employees MUST clearly and conspicuously disclose the employee's relationship with the Credit Union.
 2. Personal blogs may NOT include the Credit Union's name or employee job title.
- F. **Negative Public Opinion.** Activities from dissatisfied members and/or negative publicity through social media outlets could harm the reputation of the Credit Union. Efforts will be taken to mitigate the risks to negative public opinion and respond to the concerns of members in an appropriate manner.
- G. Employee's personal use of social media shall comply with the requirements of the Employee Use of Social Media (See Policy 1530).

7. PRIVACY EXPECTATIONS

- A. The Credit Union reminds employees that the Credit Union electronic communications systems are not encrypted by default. Employees must employ encryption to protect the data-sensitive information (which is private or confidential in nature), which must be sent by electronic communication systems. Except as

otherwise specifically provided, employees may not intercept or disclose, or assist in intercepting or disclosing, electronic communications.

- B. Employees will not send member non-public personal information, including, but not limited to, full account numbers and social security numbers in electronic communications that are not encrypted
- C. The Credit Union also is responsible for servicing and protecting its electronic communications networks. As such, the Credit Union cannot guarantee that electronic communications will be private. Employees should have no expectation of privacy in the electronic communications they receive or send or the Websites and phone numbers they use. The Credit Union reserves the right to monitor e-mail, phone usage, voice mail usage, and computer use by its employees.
- D. Management reserves the right to examine e-mail messages, files on personal computers or the network servers, web browser cache files, web browser bookmarks, telephone statistics such as the numbers dialed, the duration of calls, the time of day when calls are placed, and other information stored on or passing through the Credit Union's electronic communications. By monitoring this information, technical support personnel monitor the use of and compliance with this policy and ensure the ongoing availability and reliability of these systems.
- E. The Credit Union reserves the right to disclose information contained within an employee's electronic communication systems to law enforcement, government officials, or other third parties without notification to or permission from the employees sending or receiving the communication.

8. SECURITY

- A. To help insure proper access levels and system integrity, the Credit Union uses passwords and user identifications on all electronic communications. Regardless of the circumstances, the Credit Union employees must never share or reveal individual passwords to anyone else. To do so exposes the employee to responsibility for actions the other party takes with the password. To prevent unauthorized parties from obtaining access to electronic communications, employees should choose passwords that are difficult to guess (for example, not a dictionary word, not a personal detail, and not a reflection of work activities) and include alpha and numeric characters. If an employee needs to share computer data, use message forwarding or directories on local area network servers to store files.
- B. The Credit Union forbids any employee or person with access to the Credit Union's electronic communication systems from misrepresenting, obscuring, suppressing, or replacing a user's identity on the Internet or any of the Credit Union electronic communications systems. The user name, electronic mail address, organizational affiliation, and related information included with electronic messages or postings must reflect the actual originator of the message or posting.

9. REPORTING SECURITY PROBLEMS

Notify [2222-8] immediately if any of the following occur:

- A. You receive information security alerts, warnings, suspected vulnerabilities, and the like. Do not forward such information to other users, whether the other users are internal or external to the Credit Union.
- B. Sensitive credit union information is lost, disclosed to unauthorized parties, or suspected of being lost or disclosed to unauthorized parties. If any unauthorized use of the Credit Union's information systems has taken place, or is suspected of taking place, [2222-4] must likewise be notified immediately.

- C. Passwords or other system access control mechanisms are lost, stolen, or disclosed, or are suspected of being lost, stolen, or disclosed.
- D. Unusual systems behavior, such as missing files, frequent system crashes, misrouted messages occur, since this may indicate a computer virus infection or similar security problem.
- E. If you receive an e-mail chain letter that requests that the receiving party send the message to other people, do not redistribute. If it is related to any system or virus notices and it is not from the Credit Union's information technology department, please notify [2222-9], but do not forward the e-mail.

10. INFORMATION INTEGRITY

- A. The Credit Union's employees shall respect intellectual property rights at all times when obtaining information over the Internet. The Credit Union strictly prohibits illegal or unauthorized downloading, uploading, copying or distribution of copyrighted works. In certain cases, however, the [2222-5] may authorize downloading with prior management approval. Employees should be aware such infringements could result in legal liability for the employee and the Credit Union.
- B. The Credit Union's employees should consider all information taken off the Internet as suspect until confirmed by separate information from another source. There is no quality control process on the Internet, and a considerable amount of its information is outdated and inaccurate, and in some instances even deliberately misleading. To prevent damage to the Credit Union systems, all employees must screen all non-text files (databases, software object code, spreadsheets, formatted word-processing package files, etc.) downloaded from non-Credit Union sources (e.g., Internet, flash drives, CDs, DVDs) with installed anti-virus detection software prior to being used.
- C. The Credit Union prohibits automatic updating of software or information on the Credit Union's computers, unless the process is installed and maintained by the [2222-10].

11. USER BACK-UP

- A. If an electronic message contains information relevant to the completion of a business transaction, contains potentially important reference information, or has value as evidence of a Credit Union management decision, it should be retained for future reference. If this is the case, the Credit Union employee should save the message in an Archive file, as specified by the Credit Union's Record Retention policy (**See Policy 10100**). The Credit Union will retain records pursuant to its Record Retention policies.
- B. Most electronic messages will not fall into these categories, and accordingly can be erased after receipt. E-mail and voicemail systems are not intended for the archival storage of important information. Important stored electronic mail messages can be periodically expunged by systems administrators, mistakenly erased by users, or otherwise lost.
- C. The Credit Union's employees should periodically purge messages no longer needed for business purposes. After [2222-6], messages may be automatically deleted, which will simplify records storage, management and related activities. Be aware, however that deleted messages may be retained for a period of time on a backup system.

Policy 2223: Children's Online Privacy Protection

Revised Date: 12/20/2017

Model Policy Revised Date: 12/20/2017

General Policy Statement:

[CUNAME] (Credit Union) will comply with the Children's Online Privacy Protection Act (COPPA) in the operation of online services and its website; and will diligently protect the privacy of children under thirteen and the online collection of data and information from children using its website or service.

1. APPLICABILITY OF COPPA.

- A. **Determination.** The Credit Union will comply with COPPA requirements in its operation of a commercial website or an online service directed to children under thirteen (13) that collects personal information from children; or in its operation of a general audience website and has knowledge that personal information about children under thirteen is being collected.
- B. **Collection.** The Credit Union is collecting information if the Credit Union:
- i. Requests, prompts, or encourages the submission of information, even if it is optional;
 - ii. Allows information be made publicly available before the Credit Union takes reasonable measures to delete all or virtually all personal information before postings are public and delete all information from the Credit Union's records; or
 - iii. Passively tracks a child online.
- C. **Children's Personal Information.** The personal information that may be collected from children can include:
- i. Full name
 - ii. Home address
 - iii. Geolocation information sufficient to identify a street name and city or town;
 - iv. Online contact information;
 - v. Telephone number;
 - vi. Social Security number;
 - vii. Photo, video, or audio file containing a child's image or voice;
 - viii. Persistent identifier that can be used to recognize a user over time and across different sites, including a cookie number, an IP address, a processor or device serial number, or a unique device identifier;

- ix. Any information that allows someone to identify or contact the child; **and**
- x. Other data and/or facts that can be tied to individually identifiable information; including:
 - 1. Hobbies;
 - 2. Interests; **and**
 - 3. Information collected through cookies and other types of tracking mechanisms.

2. **PRIVACY NOTICE.**

A. **Content.** The Credit Union's children's online privacy notice will be clearly written, understandable and will contain:

- i. Credit Union's name and contact information (address, telephone number and email address;
- ii. Names of any other operator that may be collecting or maintaining children's personal information;
- iii. Kinds of personal information collected from children;
- iv. How information is collected from children;
 - 1. If the information is collected directly from the child; and/or
 - 2. If the information is collected passively through cookies.
- v. How the Credit Union uses the child's personal information it has collected, including the use of audio files and how they are appropriately deleted.
- vi. The parent/guardian's option to agree to the collection and use of their child's information.
- vii. If the information collected from children is disclosed to a third party; and if so: the kinds of business the third party is engaged in; the purpose for collecting the information and how it will be used; and an statement on the third parties agreement to maintain the confidentiality and security of the information.
- viii. The parent/guardian's right to opt-out of sharing the child's information with third parties;
- ix. That the Credit Union will not require children to disclose more information than is reasonably necessary to participate in the Credit Union's website or online service as a condition of participation; **and**
- x. The parent/guardian's right to review the child's personal information, ask to have it deleted, and refuse to allow any further collection or use of the child's information.

B. **Placement.** The Credit Union will post a link to the Children's Online Privacy Notice on the home page of its website or online service and at each area where it collects information from children.

- i. The link will be clear and prominent.

3. VERIFIABLE PARENTAL CONSENT.

- A. **Consent Requirement.** Before collecting, using or disclosing personal information from a child, the Credit Union will obtain verifiable parent/guardian consent from the child's parent/guardian. The Credit Union will make reasonable efforts (taking into consideration available technology) to ensure that before personal information is collected from a child, a parent/guardian of the child receives notice of the Credit Union's information practices and consents to those practices.
- B. **Third Party Consent.** The Credit Union will give parents/guardians the option to agree to the collection and use of the child's personal information without agreeing to the disclosure of that information to third parties. The Credit Union does not need to get parental/guardian consent to release information to others who use it solely to provide support for the internal operations of the Credit Union's website or service, including technical support.
- C. **Renewed Consent.** The Credit Union will send a new notice and request for consent to parents/guardians if there are material changes in the collection, use or disclosure practices to which the parent/guardian had previously agreed.
- D. **Exceptions.** Prior parent/guardian consent is not required when the Credit Union:
- i. Collects a child's email address for the purpose of:
 1. Providing notice and seeking parent/guardian consent;
 2. Responding to a one time request from a child and then promptly deleting it;
 3. Protecting the security or liability of the website or service; or to respond to law enforcement.
 - ii. Collects an audio file with a child's voice when:
 1. It is collected solely as a replacement of written words, such as to perform a search or to fulfill a verbal instruction or request; and
 2. The recording is held only for a brief time and only for that purpose (not making any other use of the file before it is destroyed).
 3. The audio file exception would not apply when the Credit Union requests information via voice that would otherwise be considered personal information.

4. PARENT/GUARDIAN INFORMATION REQUEST.

- A. **Parent/Guardian Request.** At a parent/guardian's request, the Credit Union will disclose the general kinds of personal information they collect online from children (for example, name, address, telephone number, email address, hobbies), as well as the specific information collected from their children who visit the Credit Union's website or service.
- B. **Parent/Guardian Relationship Verification.** The Credit Union will use reasonable procedures to ensure they are dealing with the child's parent/guardian before they provide access to the child's specific information.

5. PARENT/GUARDIANAL CONSENT REVOCATION.

- A. **Revocation.** At any time, a parent/guardian may revoke his/her consent, refuse to allow the Credit Union to further use or collect their child's personal information, and direct the Credit Union to delete any information the Credit Union may have retained.

- B. **Timing.** The Credit Union will promptly delete any information it has about a child after a parent/guardian revokes consent for the Credit Union to collect and retain the information.

Policy 2225: Remote Banking

Revised Date: 09/30/2014

Model Policy Revised Date: 09/30/2014

General Policy Statement:

[CUNAME] (Credit Union) follows the guidelines set forth below in with regards to remote banking. Remote banking allows members to obtain their account balances, make bill payments, and transfer funds between the member's own accounts via the Internet and other electronic methods.

Guidelines:

1. **TECHNOLOGY PLANNING.** The Credit Union will create and maintain a strategic plan outlining the Credit Union's use of technology, pursuant to the Credit Union's Strategic Planning policy.
2. **RISK ASSESSMENT AND MITIGATION PROCESS.** Before implementing the remote banking service, and on a periodic basis, the Credit Union will perform a risk assessment in order to understand and mitigate the risks associated with the remote banking product. The Credit Union will review and update its risk assessment as new information becomes available (prior to implementing new electronic financial services), or at least once every 12 months. As part of this process, the Credit Union will do the following:
 - A. Identify internal and external threats which could result in unauthorized disclosure, misuse, alteration, or destruction of credit union or member information (such as: employees, hackers, failure of critical service providers, and physical disasters);
 - B. Assess the likelihood and potential damage of these threats, taking into consideration the volume of transactions, and the sensitivity and criticality of credit union and member information;
 - C. Consider actual incidents of security breaches, identity theft, or fraud experienced by the Credit Union or the industry;
 - D. Assess changes in the member base adopting electronic banking, as well as the changes in member functionality offered through electronic banking;
 - E. Determine the adequacy of existing controls, including policies, procedures, systems, and other arrangements (such as insurance coverage);
 - F. Implement enhanced or additional controls as necessary to reduce the risk to an acceptable level;
 - G. Monitor, evaluate (test), adjust and report on the system of controls to ensure that the remote banking product is operating as intended; and
 - H. An evaluation of the methodology used to authenticate members.
3. **SUPPORTING DOCUMENTATION.** The Credit Union will design, create, and receive Board approval of the Credit Union's basic remote banking system.
 - A. Maintain file with strategic plans, feasibility studies, test results and other reviews;

- B. Create and maintain flow charts detailing the basic systems deployed in relation to the Credit Union's databases and operating systems;
- C. Outsource with third party servicers. Create and maintain files with copies of the underlying third party agreements, audits and other reviews;
- D. Maintain files of any independent reviews or certifications of websites;
- E. Create file containing information detailing activities conducted and delivery channels;
- F. Create standard user agreement;
- G. Periodically perform internal and external audits;
- H. Create and maintain a disaster recovery and contingency plan.

4. MANAGING THIRD-PARTY RELATIONSHIPS.

- A. **Assessing Outsourcing Arrangements.** Prior to entering into outsourcing the remote banking product, the Credit Union will perform a requirements analysis to identify the Credit Union's specific needs (i.e., the level of services and support required; the functionality and capacity required; and system performance requirements), pursuant to its Vendor Due Diligence & Oversight policy.
- B. **Understanding Risks.** The Credit Union will determine the following:
 - i. The Credit Union's ability to evaluate and oversee the outsourced relationship;
 - ii. The importance and criticality of services provided;
 - iii. The requirements for outsourced activity;
 - iv. The contractual obligations and requirements for the service provider, including independent validation/certification of the service provider's control environment and financial condition;
 - v. The service provider's and the Credit Union's responsibilities for security, privacy, and regulatory compliance; and
 - vi. Contingency plans, including availability of alternative service providers, costs and resources required to switch the service provider.
- C. **Contractual Considerations.** Management will ensure that the contract between the Credit Union and the service provider is clearly written and sufficiently detailed to provide assurances for performance (operational, financial and system), reliability, security (firewalls, intrusion detection, bonding of employees), privacy, ownership of data, disaster recovery capabilities, and reporting (i.e., performance, audited financial reports, Service Organization Controls (formerly SAS 70), security evaluation summaries, security incidents impacting the Credit Union, etc.). The Credit Union will obtain a legal review of all contracts associated with its remote banking product.
- D. **Oversight Program.** The Credit Union will monitor its remote banking service provider's controls, conditions and performance. As part of this process, Management will do the following:

- i. Clearly assign responsibility for the administration of the remote banking service provider;
- ii. Ensure the level of effort (i.e., number of personnel assigned, functional responsibilities, and amount of time needed) to monitor the service provider equals the scope, complexity and risk relative to the service provider; and
- iii. Set standards for the maintenance of documentation to be used for contract negotiations, termination issues, and contingency planning.

5. **SERVICES.** Determine which remote banking services may be offered to members, such as:

- A. Account balance inquiries.
- B. Transfer funds directly from the members' account to the merchant accounts.
- C. Transfer funds into a holding account and sending a check to the merchants.
- D. Transfer funds to a third party who then pays the merchant or utility.
- E. Open member accounts.
- F. Loan applications.
- G. Stock brokerage services.
- H. Remote information services that allow electronic access to local and regional newspapers, classified ads, and airline, restaurant, theater and sporting event reservations.
- I. Income tax preparation service.

6. **AUTHENTICATION.** The Credit Union will establish an authentication control mechanism that meets the level of risk associated with Internet-based transactions. If the risk assessment identifies high risk, additional control mechanisms will be implemented, such as the use of a multi-factor authentication system.

A. **Methods of Authentication.** Methods of authentication include the following:

- i. Something the user knows (i.e., a password);
- ii. Something the user possesses (i.e., a smart card); and/or
- iii. Something the user is (i.e., biometrics, such as a fingerprint or a retinal pattern).

B. **Authentication for “High-Risk Transactions.”** “High-risk transactions” are defined by the Federal Financial Institutions Examination Council (FFIEC) guidance as “electronic transactions involving access to [member] information or the movement of funds to other parties.” The Credit Union will implement layered security to deal with high-risk transactions, such as through the use of enhanced controls enhanced consumer education regarding fraud risks, and increased levels of member authentication.

- i. **Layered Security.** For high-risk transactions, the Credit Union will use layered security so that weaknesses in one control will be compensated for by the strength of a different control. At a minimum, the Credit Union will contain the following elements:

1. **Detecting and Responding to Suspicious Activity.** The Credit Union will design processes to detect anomalies and effectively respond to suspicious or anomalous activity related to:

- a. Initial login and authentication of members requesting access to the Credit Union's electronic banking system; and
- b. Initiation of electronic transactions involving the transfer of funds to other parties.

2. **Controlling Administrative Functions.** For business accounts, the Credit Union's layered security will include enhanced controls for system administrators who are granted privileges to set up or change system configurations, such as setting access privileges and application configurations and/or limitations. These enhanced controls will exceed those applicable to routine business users, such as through additional authentication or transaction verification routines prior to final implementation of the access or application changes.

ii. **Consumer Awareness and Education.** The Credit Union's consumer awareness and education efforts will address both natural person and business members and, at a minimum, will include the following:

1. An explanation of protections provided, and not provided, to account holders relative to electronic funds transfers under Regulation E, and a related explanation of the applicability of Regulation E to the types of accounts with Internet access;
2. An explanation of under what, if any, circumstances and through what means the Credit Union may contact a member on an unsolicited basis and request the member's provision of electronic banking credentials;
3. A suggestion that business online banking members perform a related risk assessment and controls evaluation periodically;
4. A listing of alternative risk control mechanisms that members may consider implementing to mitigate their own risk, or alternatively, a listing of available resources where such information can be found; and
5. A listing of institutional contacts for members' discretionary use in the event they notice suspicious activity or experience member information security-related events.

7. **INTERNAL CONTROLS.** The Credit Union should ensure that adequate internal controls are in place to minimize errors, discourage fraud, and provide an adequate audit trail.

A. Remote Banking System.

- i. Maintain the confidentiality and security of member passwords.
- ii. Adopt specific disclosure formats.
- iii. Issue and maintain a receipt and periodic statements to the member as required by Regulation E.
- iv. Issue and maintain member agreements regarding electronic disclosures.

- v. Install a dependable file maintenance and retention system to trace transactions.
- vi. Produce, review and maintain exception reports to provide an audit trail.
- vii. Require member to sign remote banking agreement that clearly defines the rights, responsibilities and obligations of the member and the Credit Union and maintain copies of the agreements.
- viii. Maintain contracts between the member and the Credit Union, and the Credit Union and network.
- ix. Maintain policies and procedures regarding credit and check authorization, floor limits, override, settlement and balancing.
- x. Maintain transaction journals to provide an adequate audit trail.

B. Transfer and Bill Payment System.

- i. Allow members to pay bills or transfer funds only from their accounts.
- ii. No payments to third parties without required authorization.
- iii. Develop and maintain the use of restricted funds transfer recipient lists.

C. Password Control. The following guidelines should be followed regarding member personal identification:

- i. **Delivery.** Passwords should not appear in printed form where they can be associated with members' account numbers processed and delivered with the same security accorded the delivery of Credit Union cards to cardholders.
- ii. **Usage.**
 - a. Member passwords should never be transmitted in unencrypted form.
 - b. System should record the number of unsuccessful password entries and restrict access to a member's account after a specified number of attempts.
 - c. If a password is forgotten, the member should select a new one rather than having the Credit Union retrieve the old one.

iii. Control and Security.

- a. Passwords should be encrypted on all files and databases.
- b. Restrict access to passwords stored in databases.
- c. System should be designed, tested and controlled to preclude retrieval of stored passwords in any non-encrypted form.
- d. Application programs and other software containing formulas, algorithms, and data used to calculate passwords must be subject to the highest level of access for security purposes.

- e. Employees with access to password information must be subject to security clearance and must be covered by an adequate surety bond.

8. SYSTEM MAINTENANCE

- A. **Updates.** The Credit Union will ensure that the proper updates are made to the hardware, software and operating system without compromising the security of the system.
- B. **Patch Management.** The Credit Union will monitor and install all necessary patches according to its Patch Management policy.
- C. **Best Practices.** Management will keep up to date with all of the best practices regarding security and communications related to its remote banking product.

9. SYSTEM MONITORING AND INCIDENT RESPONSE

- A. **Monitoring.** Management will ensure the timely review of logs, reports and alerts generated by system components (i.e., firewall, intrusion detection systems, virus protection systems, etc.). The Credit Union will also monitor for suspicious transaction activity in an effort to halt suspicious transactions before they are completed.
- B. **Incident Response.** The Credit Union will ensure that incidents of unauthorized access to member information are addressed immediately, pursuant to the Credit Union's Incident Response policy.

10. COMPLIANCE.

A. Advertisements.

- i. Internet websites are considered advertising by the regulatory agencies.
- ii. Review online advertisements in an effort to minimize compliance risk.
- iii. Internet or other systems in which a credit application can be made online may be considered "places of business" under HUD's rules prescribing lobby notices.

B. Disclosures/Notices.

- i. **Clear and Conspicuous.** Disclosures are generally required to be "clear and conspicuous." The Credit Union may use "pointers" and "hotlinks" that will automatically present the disclosures to members when selected.
- ii. **Delivery of Disclosures.**
 - a. **Timing.** Ensure that disclosures and notices are given when required during a financial transaction. The Credit Union may accomplish this through various means, one of which may be through the automatic presentation of disclosures prior to the transaction or with the application form.
 - b. **"Form Consumer May Keep."** Electronic disclosures and notices must be in a form the member can keep.

c. **Delivery.** The Credit Union may deliver the disclosures electronically if the member agrees. This delivery includes visual text displayed on equipment such as a personal computer monitor. Disclosures required to be in writing are subject to the detailed electronic disclosure requirements of the Electronic Signatures Global and National Commerce Act. The Credit Union may deliver disclosures if the member affirmatively consents to the electronic delivery and receipt of consumer disclosures. Prior to consent, the member must receive a Consent Notice that informs them of certain protections in four general areas: paper option, withdrawal of consent, scope of consent, and hardware/software requirements to receive electronic disclosures.

iii. **Non Deposit Investment Products.** Comply with the disclosure requirements of the "Interagency Statement on Retail Sales of Non Deposit Investment Products."

C. **Record Retention.** After March 1, 2001, the Credit Union may retain electronic copies of all disclosures required to be retained . An accurate electronic copy will satisfy the requirements that the "original" disclosure or other record be retained, provided the electronic disclosure or other record is accessible by all persons legally entitled to access, for the period of time required by applicable law, "in a form that is capable of being accurately reproduced for later reference, whether by transmission, printing, or otherwise."

Policy 2226: E-Statements

Revised Date: 08/01/2011

Model Policy Revised Date: 08/01/2011

Model Policy Reviewed Date: 09/30/2014

General Policy Statement:

[CUName] (Credit Union) offers electronic periodic statements, or “e-statements,” to its members in an effort to reduce postage and printing costs, as well as the cost of paper and envelopes; the savings of which can then be passed on to the membership. In addition, online communication with members enables the Credit Union to build or enhance member relationships by providing the Credit Union with the ability to target or personalize its marketing efforts.

Members will be encouraged to sign up for e-statements, as they will receive their statements and other electronic promotional material much sooner than if the Credit Union sent this information through the postal system.

Before a member may receive e-statements, the Credit Union must ensure compliance with Section 101(c) of the Electronic Signatures in Global and National Commerce Act (E-SIGN).

Guidelines:

1. **AFFIRMATIVE CONSENT.** E-SIGN requires consumers to affirmatively consent to receiving electronic documents, meaning the e-statement may be provided or made available electronically only if the method used provides verification or acknowledgement of receipt.
2. **REQUIRED E-SIGN DISCLOSURES.** Prior to consenting, members must receive a clear and conspicuous statement detailing the following:
 - A. Any right or option to have the record provided or made available on paper or in non-electric form;
 - B. The right to withdraw consent, and of any conditions, consequences or fees in the event of withdrawal;
 - C. Whether consent applies only to the transaction which gave rise to the obligation to provide the record, or to identified categories of records to be provided;
 - D. A description of the procedures members must use to withdraw consent or to update information needed to contact members electronically;
 - E. Information to members about how they may obtain a paper copy of an electronic record, and whether any fee will be imposed for such a copy; and
 - F. The hardware and software required for access to and retention of electronic records. Members have the right to withdraw consent without the imposition of any consequences or fees if changes in the hardware or software requirements materially affect access to and retention of electronic records.
3. **ADDITIONAL DISCLOSURES.** The Credit Union will also provide the following disclosures for members who sign up for e-statements:
 - A. A statement that the member understands (s)he will not receive a paper copy of the statement in addition to the e-statements;

B. A requirement to inform the credit union of changes to the member's e-mail address;

4. **REQUIRED PERIODIC STATEMENT DISCLOSURES.** The Credit Union will ensure that all of the required periodic statement disclosures under Regulation E, Regulation Z and NCUA Part 707 will appear on its e-statements, where applicable.

A. **ATM/Debit Cards.** (See Policy 2615)

B. **Regulation Z Disclosures.** (See Policy 7250)

C. **Truth in Savings.** (See Policy 2500)

Policy 2227: Electronic Signatures

Revised Date: 12/31/2015

Model Policy Published Date: 12/31/2015

General Policy Statement:

The purpose of this policy is to outline [CUName]'s (Credit Union) requirements for the use of electronic signatures (e-signatures), electronic transactions (e-transactions), and electronic records (hereafter e-records) in conducting the Credit Union's business operations and providing documentation to members.

This policy also includes the provisions of the Electronic Signatures in Global and National Commerce Act (E-SIGN). According to E-SIGN, electronic signatures and records have the same legal validity and enforceability as paper records and handwritten signatures. E-SIGN is technology neutral, in that it does not mandate or recommend the use of any particular technology for electronic records or signatures. The decision of which technology to use is up to the Credit Union if it wishes to conduct business electronically.

To the fullest extent permitted by law, the Credit Union accepts e-signatures as legally binding and equivalent to handwritten signatures to signify an agreement.

Guidelines:

1. **ADHERANCE TO LAW.** The Credit Union will follow the requirements of the Electronic Signatures in Global and National Commerce Act (E-SIGN), the Uniform Electronic Transactions Act (UETA), and all other laws that may apply to the process of using electronic signatures.
2. **SECURITY PROCEDURES.** The Credit Union will adopt security procedures for e-signatures, e-transactions and e-records that are practical, secure, and that balance risk and cost. It is not the intent of this policy to eliminate all risk, but rather to provide a process for undertaking an appropriate analysis prior to approving the use of e-signatures, e-transactions or e-records for specific Credit Union transactions; and, based on such analysis, to designate those transactions in which e-signatures, e-transactions and e-records will be used in place of handwritten documents.
3. **DEFINITIONS.**
 - A. Electronic means relating to technology having electrical, digital, magnetic, wireless, optical, electromagnetic, or similar capabilities.
 - B. An electronic signature is an electronic sound, symbol, or process, attached to or associated with a contract or other record that was executed or adopted by a person with the intent to sign the record.
 - C. An electronic record is a contract or other record created, generated, sent, communicated, received, or stored by electronic means.
4. **TRANSACTIONS SUBJECT TO ELECTRONIC SIGNATURES.**
 - A. **Designation.** The Credit Union reserves the right to designate specific transactions that are to be conducted as e-transactions or maintained as e-records, and that are to be fulfilled by e-signature under this policy.

B. Paper Notification Required. The Credit Union will provide the member with paper notices if electronic notification is not allowed under the law. The following notices require paper notification as E-SIGN does not apply to, nor permit:

- i. Electronic notification for court orders, notices or official court documents;
- ii. Electronic notification for notices of default, acceleration, repossession, foreclosure, eviction, or the right to cure, under a credit agreement secured by, or a rental agreement for, a member's primary residence.

5. E-SIGN MEMBER DISCLOSURE. The Credit Union will provide the member with a disclosure before engaging in any electronic signature activities. The disclosure will inform the member:

- A. Of their rights and options to receive the record in a paper or non-electric form;
- B. The hardware and software requirements for access to and retention of the electronic records;
- C. Their right to withdraw the consent to have the record provided or made available in an electronic form; and the conditions, consequences and fees which might apply in the event of such withdrawal;
- D. Whether the consent applies only to the particular transaction which created the obligation to provide the record, or to identified categories of records that may be provided or made available during the course of business with the Credit Union;
- E. That the member is responsible for maintaining the information needed for the Credit Union to contact the member electronically;
- F. The member's right to obtain a paper copy of the electronic record and any fee charged for the copy; and
- G. The steps the member must take to withdraw consent for electronic transactions.

6. ELECTRONIC CONSENT. The member must confirm his or her consent to participate in and receive E-SIGN documentation electronically, in a manner that reasonably demonstrates that they can access information in the electronic form used to provide the information that is the subject of the consent, before the Credit Union can rely on that consent.

7. REVISED E-SIGN REQUIREMENTS. If the Credit Union changes the hardware or software requirements to access the member's records the Credit Union will inform members of the revised hardware and software requirements for access to and retention of the electronic records, and that the member has the right to withdraw their consent without the imposition of a fee or any other consequences.

8. WITHDRAWAL OF CONSENT. Withdrawal of member consent shall not affect the legal effectiveness, validity, or enforcement of electronic records provided to the member prior to the member's withdrawal of consent. A consent withdrawal shall be effective within a reasonable time after receipt of the withdrawal.

9. RECORD RETENTION.

A. **Retention.** The Credit Union can store records using electronic means as allowed by law.

B. **Form of Record.** Electronic records maintained by the Credit Union will:

- i. Accurately reflect the information set forth in the contract or other record; and
- ii. Remain accessible to all persons who are legally entitled to access in a form that is capable of being accurately reproduced for later reference, whether by transmission, printing or otherwise.

C. **Originals.** If a statute, regulation, or other rule of law requires a contract or other record relating to a transaction be provided, available, or retained in its original form, or provides consequences if the contract or other record is not provided, available, or retained in its original form, the Credit Union will retain that documentation according to those specific requirements.

10. **ORAL COMMUNICATION.** Oral communication or a recording of an oral communication does not qualify as an electronic record.

11. **EXEMPTIONS.** The provisions of E-SIGN shall not apply to the following:

- A. A statute, regulation, or other rule of law governing adoption, divorce, or other matters of family law;
- B. The UCC, as in effect in any state, other than sections 1-107 and 1-206, and Articles 2 and 2A.
- C. Court orders or notices, or official court documents (including briefs, pleadings, and other writings) required to be executed in connection with court proceedings;
- D. Any notice of cancellation or termination of utility services (including water, heat, and power);
- E. Any notice of default, acceleration, repossession, foreclosure, eviction, or the right to cure under a credit agreement secured by, or a rental agreement for, an individual's primary residence;
- F. The cancellation or termination of health insurance or benefits of life insurance benefits (excluding annuities);
- G. A recall or material failure of a product that risks endangering health or safety; or
- H. Any document required to accompany any transportation or handling of hazardous materials, pesticides, or other toxic or dangerous materials.

Policy 2232: Member Expulsion

Revised Date: 10/09/2017

Model Policy Revised Date: 10/09/2017

General Policy Statement:

It is the policy of [CUnion] (Credit Union) to expel from its membership all members who have caused the Credit Union a loss through failure to repay a debt or otherwise, or based on nonparticipation by a member in the affairs of the Credit Union.

Guidelines:

1. **EXPULSION BASED ON LOSS.** A member who has caused the Credit Union a loss, but has indicated to the Credit Union an intent to repay that loss in a manner that is acceptable to the Credit Union (in the discretion of management), and who is in fact following through with repayment arrangements, will not be expelled. The Credit Union manager (or delegate) will periodically determine which members satisfy the foregoing expulsion criteria.
 - A. **NOTIFICATION TO MEMBER OF EXPULSION POLICY.** The Credit Union will notify members who have caused the Credit Union a loss of the Credit Union's expulsion policy and will provide such members with the opportunity (as deemed appropriate by Credit Union management) to indicate to the Credit Union their desire to pay their debts and to begin repayment.
 - B. **MEMBER'S FAILURE TO RESPOND.** The Credit Union manager will provide the Chairman of the Board of Directors a list of members who, after having been notified of their proposed expulsion, have failed to show the Credit Union their intent to repay their debt.
 - C. **SPECIAL MEETING.** The Chairman of the Board of Directors shall subsequently call a special meeting of the membership for the purpose of expelling such members, after they have been given the opportunity to be heard, in accordance with the procedures prescribed by the bylaws of the Credit Union.
2. **EXPULSION BASED ON NONPARTICIPATION.** A member who has failed to vote in annual Credit Union elections or failed to purchase shares from, obtain a loan from, or lend to the Credit Union may be deemed to be non-participatory and expelled from membership.
 - A. **NOTIFICATION TO MEMBER OF EXPULSION POLICY.** At least thirty days prior to the effective date, the Credit Union will mail to each member at their current address a copy of this policy. New members will be provided written notice of this policy prior to or upon applying for membership.
3. **MEMBER'S LIABILITY.** Expelled members shall continue to be liable to the Credit Union for any outstanding amounts owed to the Credit Union. The Credit Union will ensure that this provision will be stated in its membership agreement provided to members upon acceptance to Credit Union membership.

(Note: this policy does not address the right for the member to be heard, and does not get into the alternatives to expulsion, such as the restriction of services. However, many state laws don't require the member to be given the right to be heard. Please check your state laws and customize this policy as necessary).

Policy 2235: Member Abuse

Revised Date: 10/09/2017

Model Policy Revised Date: 10/09/2017

(This policy is designed to assist both federal credit unions and state-chartered credit unions. However, federal credit unions are limited to expelling members in accordance with the Federal Credit Union Act and should reference Policy 2232 – Member Expulsion. State-chartered credit unions should revise this policy to ensure compliance with state law.)

General Policy Statement:

It is the policy of [CUName] (Credit Union) Union to expect fair and polite treatment of its employees and its members. The Credit Union reserves the right to [choose one: limit services to, expel from its membership or both] any member who is verbally or physically abusive to Credit Union employees or other members, in any manner.

Guidelines [Choose Expulsion Criteria, Limitation of Services Criteria or both]:

- 1. EXPULSION CRITERIA.** If a member is inappropriate, verbally abusive or physically abusive to a Credit Union employee or other members, the Credit Union may refuse to permit the member onto the Credit Union's premises and/or expel such member from its membership. Whether verbal abuse, physical abuse or inappropriate behavior has occurred will be determined in the sole discretion of the Credit Union and the Credit Union's management.
- 2. CRITERIA FOR LIMITING SERVICES.** If a member is inappropriate, verbally abusive or physically abusive to a Credit Union employee or other members, the Credit Union may refuse to permit the member onto the Credit Union premises and/or may further restrict the availability of certain services to limit personal contact with Credit Union employees or members. Whether verbal abuse, physical abuse or inappropriate behavior has occurred will be determined in the sole discretion of the Credit Union and the Credit Union's management.
- 3. NOTIFICATION TO MEMBER OF POLICY.** The Credit Union will include this policy on member abuse in its membership and account agreement. The Credit Union will notify a member who violated the policy of the Credit Union's decision to [Choose one: limit services to or expel] the member. The Credit Union may provide the member with the opportunity (as deemed appropriate by Credit Union management) to indicate to the Credit Union their desire to cease the abusive or inappropriate behavior and to treat Credit Union employees or other members with respect. After such notice, if the member continues his or her actions, the Credit Union's policy will be implemented.
- 4. BOARD MEETINGS.** The Credit Union will comply with their applicable Credit Union Act and conduct Board Meetings to address either the limitation of services or member expulsion, as appropriate.

Policy 2240: Member in Good Standing

Revised Date: 06/01/2008

Model Policy Revised Date: 06/01/2008

Model Policy Reviewed Date: 09/30/2014

General Policy Statement:

The following sets forth [CUName]'s (Credit Union) policy on what constitutes a member in good standing.

Guidelines:

- 1. MEMBER IN GOOD STANDING.** Upon approval of a membership application by a majority of the directors, a majority of the members of a duly authorized executive committee, or by a membership officer, and purchase of the required minimum shares and payment of a fee if required by the Board of Directors, an applicant is admitted to membership and is considered a member in good standing. Once a person becomes a member, that person may remain a member until the person chooses to withdraw or is expelled in accordance with applicable federal and state law and Credit Union bylaws. However, a member who draws his or her share account balance below the required minimum balance will cease to be a member in good standing if the minimum balance is not restored within the time specified by the Credit Union bylaws.
- 2. WITHDRAWAL OR EXPULSION OF MEMBER.** A member who withdraws all of his or her shares, fails to purchase the required number of shares within the time period set forth in the Credit Union's bylaws, or causes a loss to the Credit Union ceases to be a member in good standing. The membership of such a person shall terminate in accordance with the Credit Union's bylaws. A member may be expelled by a two-thirds vote of the members of the Credit Union at a special meeting called for that purpose, after the member has an opportunity to be heard. Once expelled, the member is no longer a member in good standing. If the member whose membership has terminated wishes to reapply for membership, the Board of Directors may require the person readmitted to membership to pay another entrance fee.
- 3. LIABILITY.** Withdrawal or expulsion of a member does not relieve the person from liability to the Credit Union for any and all amounts for which the person is liable.
- 4. RESTRICTION IN SERVICES.** A member or former member who is not a member in good standing shall not be eligible for Credit Union services.

Policy 2245: Protecting the Elderly and Vulnerable from Fraud

Revised Date: 06/27/2015

Model Policy Revised Date: 06/27/2015

General Policy Statement:

Credit Unions are in a unique position to detect and prevent financial exploitation and fraud. The primary roles of [CUNAME] (Credit Union) is the protection of its members' assets and the prevention of financial losses. The Credit Union will take steps to protect elderly (over 62 years of age) and vulnerable (generally described as individuals over the age of 18 who lack the physical and mental capability to care for themselves) members from financial exploitation and fraud by training staff to recognize the types of financial scams, the red flags of potential abuse and what to do when fraud is suspected. The Credit Union may disclose nonpublic personal information to comply with federal, state, or local laws, rules and other applicable legal requirements, such as state laws that require reporting by financial institutions of suspected abuse.

Guidelines:

1. **ROLE OF BOARD OF DIRECTORS.** The Board of Directors will (1) approve the credit union's written Elderly and Vulnerable Protection policy and program; and (2) oversee the development, implementation, and maintenance of the Credit Union's program, including assigning specific responsibility for its implementation, and reviewing reports from management.
2. **ROLE OF MANAGEMENT TEAM.** The management team will (1) oversee the development and implementation of the Elderly and Vulnerable Protection program; (2) draft procedures to ensure compliance with the program; (3) monitor, evaluate and suggest adjustments to the program; (4) ensure that staff are trained on these issues at least annually; and (5) brief the Board of Directors of the Credit Union at least annually on the status of the program. In addition to the annual report, the Board of Directors may allow the management team the option to provide [2245-1] reports.
3. **TYPES OF FINANCIAL EXPLOITATION.** Credit Union staff should be aware of the following types of financial exploitation:
 - A. **Theft of Income.** The most common form of financial fraud and exploitation, typically involving less than \$1,000 per transaction.
 - B. **Theft of Assets.** This is often more expensive and typically involves abuse associated with Powers of Attorney, real estate transactions, identity theft or tax manipulation.
4. **TYPES OF FINANCIAL SCAMS.** Although this is not an exhaustive list, Credit Union staff will be trained to be aware of the following types of financial scams:
 - A. **Power of Attorney Fraud.** The perpetrator obtains a Limited or Special Power of Attorney, which specifies that legal rights are given to manage the funds in the account. Once the rights are given, the perpetrator uses the funds for personal gain.
 - B. **Advance Fee Fraud or "419" Fraud.** Named after the relevant section of the Nigerian Criminal Code, this fraud involves a multitude of schemes and scams – mail, e-mail, fax and telephone promises that the victims will receive a percentage for their assistance in the scheme proposed in the correspondence.

- C. **Pigeon Drop.** The victim puts up “good faith” money in the false hope of sharing the proceeds of an apparently large sum of cash or item(s) of worth which are “found” in the presence of the victim.
- D. **Financial Institution Examiner Fraud.** The victim believes that he or she is assisting authorities to gain evidence leading to the apprehension of a financial institution employee or examiner that is committing a crime. The victim is asked to provide cash to bait the crooked employee. The cash is then seized as evidence by the “authorities” to be returned to the victim after the case.
- E. **Inheritance Scams.** Victims receive mail from an “estate locator” or “research specialist” purporting an unclaimed inheritance, refund or escheatment. The victim is lured into sending a fee to receive information about how to obtain the purported asset.
- F. **Financial Institution Employee Fraud.** The perpetrator calls the victim pretending to be a security officer from the victim’s financial institution. The perpetrator advises the victim that there is a system problem or internal investigation being conducted. The victim is asked to provide his or her Social Security number for “verification purposes” before the conversation continues. The number is then used for identity theft or other illegal activity.
- G. **International Lottery Fraud.** Scam operators, often based in Canada, use telephone and direct mail to notify victims that they have won a lottery. To show good faith, the perpetrator may send the victims a check. The victim is then instructed to deposit the check and immediately send (via wire) the money back to the lottery committee. The perpetrator will create a “sense of urgency,” compelling the victim to send the money before the check, which is counterfeit, is returned. The victim is typically instructed to pay taxes, attorney’s fees, and exchange rate differences in order to receive the rest of the prize. These lottery solicitations violate U.S. law, which prohibits the cross-border sale or purchase of lottery tickets by phone or mail.
- H. **Fake Prizes.** A perpetrator claims the victim has won a nonexistent prize and either asks the person to send a check to pay the taxes or obtains the credit card or checking account number to pay for shipping and handling charges.
- I. **Internet Sales or Online Auction Fraud.** The perpetrator agrees to buy an item for sale over the Internet or in an online auction. The seller is told that he or she will be sent an official check (e.g., cashier’s check) via overnight mail. When the check arrives, it is several hundred or thousand dollars more than the agreed-upon selling price. The seller is instructed to deposit the check and refund the overpayment. The official check is later returned as a counterfeit but the refund has already been sent. The seller is left with a loss, potentially of both the merchandise and the refund.
- J. **Government Grant Scams.** Victims are called with the claim that the government has chosen their family to receive a grant. In order to receive the money, victims must provide their checking account number and/or other personal information. The perpetrator may electronically debit the victim’s account for a processing fee, but the grant money is never received.
- K. **Spoofing.** An unauthorized website mimics a legitimate website for the purpose of deceiving consumers. Consumers are lured to the site and asked to log in, thereby providing the perpetrator with authentication information that the perpetrator can use at the victim’s legitimate financial institution’s website to perform unauthorized transactions.
- L. **Phishing/Vishing/Smishing.** Technology or social engineering is used to entice victims to supply personal information (i.e., account numbers, login IDs, passwords, and other verifiable information) that can then be exploited for fraudulent purposes, including identity theft. These scams are most often

perpetrated through mass e-mails, spoofed websites, phone calls or text messages.

M. **Stop Foreclosure Scam.** The perpetrator claims to be able to instantly stop foreclosure proceedings on the victim's real property. The scam often involves the victim deeding the property to the perpetrator who says that the victim will be allowed to rent the property until some predetermined future date when the victim's credit will have been repaired, and the property will be deeded back to the victim without cost. Alternatively, the perpetrator may offer the victim a loan to bridge his or her delinquent payments, perhaps even with cash back. Once the paperwork is reviewed, the victim finds that his or her property was deeded to the perpetrator. A new loan may have been taken out with an inflated property value with cash back to the perpetrator, who now owns the property. The property very quickly falls back into foreclosure and the victim/tenant is evicted.

5. **ROLE OF CREDIT UNION STAFF.** Although this is not an exhaustive list, Credit Union staff will be trained to spot the following red flags that are often associated with financial scams:

- A. Signatures seem forged or unusual.
- B. Check numbers are out-of-sync.
- C. A vulnerable adult informs staff that funds are "missing" from his or her account.
- D. Abrupt changes in a will or other financial documents.
- E. It is requested that account or credit card statements are to be sent to an address other than the vulnerable adult's home.
- F. Unusual cash withdrawals from a checking account within a short period of time.
- G. Abrupt increase in credit card activity.
- H. A sudden flurry of bounced checks.
- I. An account shows ATM activity when it is known that the vulnerable adult is physically unable to leave his or her home.
- J. The vulnerable adult is accompanied by a third party who encourages the withdrawal of a large sum of cash, and may not allow the vulnerable adult to speak.
- K. Abrupt and unexplained change in a financial Power of Attorney; new names added to signature cards; new joint account created.
- L. Discovery of incapacitated vulnerable adult's signature for financial transactions or for title of real or personal property.
- M. Sudden appearance of previously uninvolved relatives claiming rights to the adult's affairs and possessions.
- N. Adult has no knowledge of newly-issued ATM, debit or credit card.
- O. Adult is confused about account balance or transaction on his or her account.

- P. A caregiver appears to be getting paid too much or too often.
- Q. Significant increases in monthly expenses being paid from the account.
- R. Adult reports concern over having given out personal information to a solicitor over the phone.
- S. Unexplained sudden transfer of assets, particularly real property.
- T. Expressed excitement about winning a sweepstakes, lottery or inheritance.
- U. Refinance of the adult's property, with significant cash out, or with the addition of new owners on the deed, but not on the loan.

6. **WHAT TO DO IF FRAUD IS SUSPECTED.** Management will develop procedures, and Credit Union staff will be trained to take the following actions when fraud is suspected:

- A. Carefully verify anyone's authority who is acting on the member's behalf.
- B. Use probing questions to determine the member's intent regarding a transaction.
- C. Create an "Awareness Document" and for large cash withdrawals that appear out of the ordinary, have the member read and sign it prior to the receipt of funds. This form could include the following:
 - i. Brief overviews of common fraud schemes.
 - ii. Warnings that perpetrators of such schemes could present themselves as an FBI agent, financial institution examiner or official, police officer, or detective.
 - iii. Warnings that members should use caution if they are asked for information about their account, or asked to withdraw money to help "catch someone," or provide money to show "good faith."
 - iv. Notice that the Credit Union does not conduct investigations or verification of accounts by telephone, nor will local, state or federal law enforcement authorities, financial institution regulatory authorities or officials conduct investigations by asking individuals to withdraw cash from their account for any reason.
 - v. Phone numbers for the appropriate agencies, if any of the circumstances listed about are in evidence, with instructions to members that they should contact their branch, local police department, Adult Protective Services or the Federal Trade Commission to investigate before they withdraw money.
 - vi. Reminders that swindlers are almost always friendly and have "honest" faces and that they particularly tend to take advantage of older individuals.
 - vii. The amount the member has requested, with a request to read and sign the document.
- D. Delay the suspicious transaction, if possible, by advising the member that additional verification of the transaction is required.
- E. Contact management for assistance and guidance. Management may be required to contact the Credit Union's legal counsel for such assistance.

F. File a Suspicious Activity Report (SAR), using the term “Elder Financial Exploitation” in the narrative.

G. Report the incident to law enforcement following the Credit Union’s normal protocol.

7. **LOSS PREVENTION AND SECURITY.** Management will develop procedures, and Credit Union staff will be trained to take the following loss prevention and security steps when financial fraud occurs or is suspected:

A. Document the situation.

B. File a SAR, using the term “Elder Financial Exploitation” in the narrative

C. Take immediate protective action on accounts by placing holds or restraints and follow normal prevention and recovery steps to follow the money as needed.

D. Make a verbal report to the local Adult Protective Services and provide investigative research and services as needed.

E. Continue to monitor the account during legal proceedings, of necessary.

F. Document files of final outcome.

Policy 2270: Safe Deposit Boxes

Revised Date: 09/30/2014

Model Policy Revised Date: 09/30/2014

General Policy Statement:

[CUName] (Credit Union) offers safe deposit box service as part of our commitment to support the fundamental financial needs of the membership. In offering this service the Credit Union will obey all appropriate laws and regulations. In addition, an active program of risk management will be maintained to ensure that risks associated with safe deposit boxes are identified and minimized.

Guidelines:

1. **DOCUMENTATION AND TRAINING.** Documentation will be maintained outlining how the safe deposit program is to be executed, including the implementation of this policy. Employees who are responsible for safe deposit box services must have immediate access to this documentation. In addition, employees will receive training to ensure their knowledge, understanding, and compliance with established policies and procedures. A record of employee training sessions will also be maintained to document training efforts.
2. **SECURITY.** The Credit Union will provide reasonable and appropriate security to protect safe deposit box renters and their property. It is important that the Credit Union be able to defend the quality of security provided.
 - A. **Security Equipment.** Security equipment used in constructing and controlling the safe deposit vaults will be "performance tested" against an independent, recognized standard (i.e., Underwriters' Laboratories, Inc., (UL) or the American Society for Testing and Materials (ASTM)). Such equipment includes:
 - i. Vault Structure
 - ii. Vault Door
 - iii. Day Gate
 - iv. Safe Deposit Boxes and Lockers
 - v. Vault/Safe Alarm and Monitoring Equipment
 - B. **Equipment Maintenance.** To reduce the risk of equipment failure, vault/safe doors and locks must be maintained in good repair and records will be kept to document maintenance efforts.
 - C. **Vault/Safe Alarm Protection.** In addition to reasonable physical security, the safe deposit vault will be protected by the highest grade object alarm protection that is available to the Credit Union. At a minimum, three alarm components (a door contact, a heat sensor and a sound detector) will be installed inside each safe deposit vault or safe. The actual number of each component will depend on the size, acoustics, and layout inside the vault. The vault alarm control cabinet will be located inside the protected vault, and all reporting lines will be protected by high-grade, interrogate/response line security.
 - D. **Prohibited Contents.** The Credit Union lease agreement shall prohibit the member's storage of contents

that are either illegal to store or may threaten the security of the Credit Union, employees and/or contents of other boxes. The following contents may not be stored in a safe deposit box:

- i. Any liquid or property of an explosive or offensive nature, including firearms and ammunition;
- ii. Any property the possession of which is prohibited by local, state, or federal law;
- iii. Any property which may become a nuisance to the Credit Union or any other tenant; or
- iv. Any property for any other purpose than the deposit of securities, documents, valuables, and other like property.

3. **SAFE DEPOSIT PROGRAM DOCUMENTS.** The following documents are used to manage the safe deposit box service. They will be reviewed by legal counsel to ensure compliance with all applicable laws and regulations. Any future changes to the documents will also be reviewed.

- A. **Lease Agreement.** The lease agreement establishes a relationship between the Credit Union and the box renter. An authorized Credit Union representative and the box renter must sign it. If a deputy or agent is desired, the box renter must execute a written appointment. The deputy or agent name will be added to the lease. The lease agreement governs the Credit Union's right to access the box under certain circumstances and the member's responsibility to properly maintain and use the box.
- B. **Access Card.** The access card records each box entry. It must be signed by renters/deputies/agents before box access is allowed. Signatures will be compared and the date and time should be recorded next to each signature. Special access instructions (e.g., more than one person is allowed access or two authorized persons must both be present to access the safe deposit box) will be highlighted on the access card to alert the safe deposit box attendant. For added control, cards with special access instructions will be maintained in a separate file.
- C. **Resolution of Authority for Corporations, Partnerships, Associations, Etc.** Organizations that are governed by more than one individual must execute a resolution of authority before a lease can be executed. The Credit Union will make sure that the lease is signed by the person(s) specifically authorized by the resolution. The resolution of authority will be attached to the lease and be retained throughout the term of the lease.

4. **SAFE DEPOSIT KEY CONTROLS.** Locks on day gates and safe deposit boxes help control access to renters' property. Strict key controls will be implemented to reduce the possibility of unauthorized access.

- A. **Vault Door Day Gates.** The vault door day gates will remain closed and locked. The key(s) to the day gate lock will remain under the exclusive control of the safe deposit box vault attendant. Day gate key(s) must never be left in the lock or in an unlocked location.
- B. **Guard Key.** The guard key is held by the Credit Union to open one lock on each safe deposit box. Strict control over the guard key is crucial to the security of the safe deposit vault. Effective control procedures must be documented and followed at all times to ensure that no unauthorized person gains access to the guard key. The guard key will be held under the exclusive control of the vault attendant during business hours and be locked inside the safe deposit box vault during non-business hours.
- C. **Renter Keys.** Each renter is provided two box keys (an original and a duplicate). Renters will be notified of key procedures and the importance of protecting keys. The Credit Union will advise renters of any charges for which they will be responsible if keys are lost.

- D. **Lost Renter Keys.** At lease signing, renters will be instructed to notify the Credit Union immediately if they lose one or both keys. An alert will be placed on the access card and arrangements will be made to transfer the renter's property to another safe deposit box. The lock on the vacated safe deposit box will be changed before it is rented again. If both keys are lost, arrangements will be made with an authorized locksmith to drill the lock and transfer the box contents to another safe deposit box. Before the lock is drilled, the box renter(s) must provide the Credit Union with a written authorization to drill the lock. The authorization must specify who is authorized to perform the drilling and who is authorized to be present during the drilling process. At least one renter and one authorized Credit Union representative must be present. The written authorization must also hold the Credit Union harmless for any damage to the box contents.
- E. **Keys To Unrented Safe Deposit Boxes.** Keys to unrented safe deposit boxes will be secured under dual control in the safe deposit box vault.
- F. **Record Review.** A periodic (at least annual) review should be conducted to ensure all keys to unrented boxes match the number of unrented boxes and that all rented boxes have valid contracts.

5. ACCESS CONTROL AND IDENTIFICATION PROCEDURES.

- A. **Identification.** Prior to allowing entry, each box renter/deputy/agent must be positively identified and his/her authority verified. Identification will include a picture ID card that also contains a written physical description of the box renter/deputy/agent and a signature example.
- B. **Signature.** After the renter/deputy/agent have been identified, and their authority to gain access to the safe deposit box has been verified, they will be required to sign the access card so that their signatures can be compared to those on file.
- C. **Time and Date Record.** After the access card is signed, the safe deposit box attendant will record the time and date of entry next to the renter's signature and initial or sign the access card.

6. BOX OPENING, HANDLING, AND ESCORT PROCEDURES.

- A. **Key Control.** The vault attendant and the box renter must never relinquish their respective keys. Rather, they will insert their own key into their own lock, open the lock, and retain their key. Keys must never be left hanging in the box locks.
- B. **Escort Procedures.** The safe deposit box attendant will accompany box renters while inside the safe deposit vault and escort them to a private viewing booth that is located outside of the vault. At no time should box renters be left alone inside the safe deposit box vault.
- C. **Viewing Booth Procedures.** Renters will be instructed to never leave their safe deposit boxes unattended. After the member leaves the viewing booth, the vault attendant must check the booth for property that was left behind. Credit Union personnel must be alert to suspicious items found in the booth. Wastebaskets must be checked and emptied each time the viewing booth is used. If the box renter inadvertently left property in the booth, it must be placed under dual control and the box renter must be notified. Management must be notified immediately of unusual or suspicious behavior.
- D. **Requests for Access from Court-Appointed Fiduciary or Law Enforcement.** Credit Union will follow state guidelines regarding access by those who are not contracted to rent a safe deposit box, but have documentation requesting access, either following a renter's death or because of a legal request.

7. ACCESS CHANGES, CANCELLATION, AND ABANDONMENT.

- A. **Change in Access.** When a renter cancels a deputy, agent or power of attorney, such cancellation must be dated and signed by the renter and the name and signature must be immediately removed from the Access Card.
- B. **Cancellation.** When a safe deposit box rental is cancelled or surrendered, a cancellation or surrender statement, approved by the Credit Union's legal counsel, must be completed, dated, and signed by the person or persons having authority to release the safe deposit box. The statement must acknowledge the renter's/deputy's/agent's receipt of the box contents and release the Credit Union from any further liability. When the box has been released, the lease will be marked "canceled" and be retained in a "closed" file.
- C. **Abandonment.** State law governing abandonment and unclaimed property will dictate abandonment requirements of contact and time period. When a safe deposit box has been abandoned, normally indicated by failure to pay rental fees, efforts to locate to the renter will be initiated. When these efforts have proven unsuccessful, arrangements will be made to surrender the contents of the box to the appropriate state authority. A surrender statement will be completed, signed, and filed by appropriate Credit Union employees.
- D. **Record Retention.** All change, cancellation, and abandonment records will be retained so as to be readily available if needed. Heirs of a former renter may have evidence that a safe deposit box was rented, but no evidence that the box was properly surrendered or canceled. The burden of proof may rest with the Credit Union.

8. **REPRESENTATIONS.** The Credit Union is not an insurer or absolute guarantor of the safety of property deposited in its safe deposit vault. However, the Credit Union's limits of liability may be affected by contracts or representations.

- A. **Contracts.** All contracts and safe deposit documents must be checked by appropriate legal counsel to ensure that the Credit Union's liability for losses is appropriately limited and not increased in any way.
- B. **Statements.** Credit Union personnel will be cautioned against making exaggerated statements to renters. Claims that vaults are burglar proof, fire proof, theft proof, flood proof, bomb proof, etc., are inappropriate and may expose the Credit Union to increased liability. All advertisements concerning safe deposit boxes will be reviewed to ensure accuracy.

9. **INSURANCE.** The Credit Union will carry appropriate insurance coverage as a crucial safeguard against potential losses.

- A. **Coverages and Amount.** The Credit Union will carry coverage commensurate with the size and risk of the safe deposit operation. Specific coverages and limits will be set after consultation with the insuring company and/or other safe deposit experts, as deemed appropriate. At a minimum, the Combination Safe Depository Coverage should include the Safe Depository Liability and Customers' Property/Premises Damage coverages.
- B. **Annual Review.** Insurance coverage will reviewed at least annually.

Policy 2271: Biometric Safe Deposit Boxes

Revised Date: 09/30/2014

Model Policy Revised Date: 09/30/2014

General Policy Statement:

[CUNAME] (Credit Union) offers a biometric safe deposit box service as part of our commitment to support the fundamental financial needs of the membership. In offering this service the Credit Union will obey all appropriate laws and regulations. In addition, an active program of risk management will be maintained to ensure that risks associated with safe deposit boxes are identified and minimized.

Guidelines:

1. **DOCUMENTATION AND TRAINING.** Documentation will be maintained outlining how the biometric safe deposit program is to be executed, including the implementation of this policy. Employees who are responsible for safe deposit box services must have immediate access to this documentation. In addition, employees will receive training to ensure their knowledge, understanding, and compliance with established policies and procedures. A record of employee training sessions will also be maintained to document training efforts.
2. **SECURITY.** The Credit Union will provide reasonable and appropriate security to protect safe deposit box renters and their property. It is important that the Credit Union be able to defend the quality of security provided.
 - A. **Security Equipment.** Security equipment used in constructing and controlling the biometric safe deposit vaults will be "performance tested" against an independent, recognized standard (i.e., Underwriters' Laboratories, Inc., (UL) or the American Society for Testing and Materials (ASTM)). Such equipment includes:
 - i. Vault Structure
 - ii. Vault Door
 - iii. Day Gate
 - iv. Safe Deposit Boxes and Lockers
 - v. Vault/Safe Alarm and Monitoring Equipment
 - B. **Equipment Maintenance.** To reduce the risk of equipment failure, vault/safe doors and locks must be maintained in good repair and records will be kept to document maintenance efforts.
 - C. **Vault/Safe Alarm Protection.** In addition to reasonable physical security, the safe deposit vault will be protected by the highest grade object alarm protection that is available to the Credit Union. At a minimum, three alarm components (a door contact, a heat sensor and a sound detector) will be installed inside each safe deposit vault or safe. The actual number of each component will depend on the size, acoustics, and layout inside the vault. The vault alarm control cabinet will be located inside the protected vault, and all reporting lines will be protected by high-grade, interrogate/response line security.
 - D. **Prohibited Contents.** The Credit Union lease agreement shall prohibit the member's storage of contents that are either illegal to store or may threaten the security of the Credit Union, employees and/or contents of other boxes. The following contents may not be stored in a safe deposit box:
 - i. Any liquid or property of an explosive or offensive nature, including firearms and ammunition;

- ii. Any property the possession of which is prohibited by local, state, or federal law;
- iii. Any property which may become a nuisance to the Credit Union or any other tenant; or
- iv. Any property for any other purpose than the deposit of securities, documents, valuables, and other like property.

3. **SAFE DEPOSIT PROGRAM DOCUMENTS.** The following documents are used to manage the safe deposit box service. They will be reviewed by legal counsel to ensure compliance with all applicable laws and regulations. Any future changes to the documents will also be reviewed.

A. **Lease Agreement.** The lease agreement establishes a relationship between the Credit Union and the box renter. An authorized Credit Union representative and the box renter must sign it. If a deputy or agent is desired, the box renter must execute a written appointment. The deputy or agent name will be added to the lease. The lease agreement governs the Credit Union's right to access the box under certain circumstances and the member's responsibility to properly maintain and use the box.

B. **Biometric Data and Personal Identification Number (PIN).** The Credit Union will obtain the biometric data for each safe deposit box owner, and will assign each owner a PIN. Such biometric data will include the shape and key points of member's hands, which will be read while the PIN entered by the member will be verified. The biometric data will be stored on a dedicated computer server.

C. **Resolution of Authority for Corporations, Partnerships, Associations, Etc.** Organizations that are governed by more than one individual must execute a resolution of authority before a lease can be executed. The Credit Union will make sure that the lease is signed by the person(s) specifically authorized by the resolution. The resolution of authority will be attached to the lease and be retained throughout the term of the lease.

4. **IDENTIFICATION PROCEDURES.** Prior to allowing entry, each box renter/deputy/agent must be positively identified and his/her authority verified. Identification will include the biometric data submitted by the box renter.

5. **BOX OPENING AND HANDLING.** Renters will be instructed to never leave their safe deposit boxes unattended. After the member leaves the viewing booth, the vault attendant must check the booth for property that was left behind. Credit Union personnel must be alert to suspicious items found in the booth. Wastebaskets must be checked and emptied each time the viewing booth is used. If the box renter inadvertently left property in the booth, it must be placed under dual control and the box renter must be notified. Management must be notified immediately of unusual or suspicious behavior.

6. **ACCESS CHANGES, CANCELLATION, AND ABANDONMENT.**

A. **Change in Access.** When a renter cancels a deputy, agent or power of attorney, such cancellation must be dated and signed by the renter and the name, biometric data and signature must be immediately removed from the Access Card.

B. **Cancellation.** When a safe deposit box rental is cancelled or surrendered, a cancellation or surrender statement, approved by the Credit Union's legal counsel, must be completed, dated, and signed by the person or persons having authority to release the safe deposit box. The statement must acknowledge the renter's/deputy's/agent's receipt of the box contents and release the Credit Union from any further liability. When the box has been released, the lease will be marked "canceled" and be retained in a "closed" file. The renter's biometric data will be deleted from the Credit Union's files.

C. **Abandonment.** State law governing abandonment and unclaimed property will dictate abandonment

requirements of contact and time period. When a safe deposit box has been abandoned, normally indicated by failure to pay rental fees, efforts to locate to the renter will be initiated. When these efforts have proven unsuccessful, arrangements will be made to surrender the contents of the box to the appropriate state authority. A surrender statement will be completed, signed, and filed by appropriate Credit Union employees.

D. **Record Retention.** All change, cancellation, and abandonment records will be retained so as to be readily available if needed. Heirs of a former renter may have evidence that a safe deposit box was rented, but no evidence that the box was properly surrendered or canceled. The burden of proof may rest with the Credit Union.

7. **REPRESENTATIONS.** The Credit Union is not an insurer or absolute guarantor of the safety of property deposited in its safe deposit vault. However, the Credit Union's limits of liability may be affected by contracts or representations.

A. **Contracts.** All contracts and safe deposit documents must be checked by appropriate legal counsel to ensure that the Credit Union's liability for losses is appropriately limited and not increased in any way.

B. **Statements.** Credit Union personnel will be cautioned against making exaggerated statements to renters. Claims that vaults are burglar proof, fire proof, theft proof, flood proof, bomb proof, etc. are inappropriate and may expose the Credit Union to increased liability. All advertisements concerning safe deposit boxes will be reviewed to ensure accuracy.

8. **INSURANCE.** The Credit Union will carry appropriate insurance coverage as a crucial safeguard against potential losses.

A. **Coverages and Amount.** The Credit Union will carry coverage commensurate with the size and risk of the safe deposit operation. Specific coverages and limits will be set after consultation with the insuring company and/or other safe deposit experts, as deemed appropriate. At a minimum, the Combination Safe Depository Coverage should include the Safe Depository Liability and Customers' Property/Premises Damage coverages.

B. **Annual Review.** Insurance coverage will reviewed at least annually.

9. **SYSTEM FAILURE.** In the event the biometric system becomes inoperable, the Credit Union will apply the manual safe deposit box system, pursuant to the Safe Deposit Boxes Policy (See **Policy 2270**).

Policy 2280: Share Insurance

Revised Date: 09/30/2014

Model Policy Revised Date: 09/30/2014

General Policy Statement:

Safety and stability are vital elements of [CUnion]'s (Credit Union) long term planning. To ensure member confidence and as a first defense against sudden disintermediation, the Credit Union will maintain insurance on shares and deposits. Primary share insurance will be obtained from the National Credit Union Administration (NCUA) through the National Credit Union Share Insurance Fund (NCUSIF). Coverage rules and limits will be implemented according to NCUA's share insurance program.

Guidelines:

1. **MINIMUM AMOUNT.** Shares and deposits will be insured up to at least \$250,000, subject to the ownership and account guidelines set forth by NCUA.
2. **EXCESS SHARE INSURANCE.** The Credit Union may provide insurance for shares and deposits in excess of NCUA limits. Such insurance will be provided on a member-pay basis unless prior authorization has been granted by the Board.
 - A. **Advertising.** Any advertising that mentions share or savings account insurance provided by a party other than the NCUA will clearly explain the following:
 - i. The type and amount of such insurance; and
 - ii. The identity of the carrier, with a statement that makes it clear that the carrier is **not** affiliated with the NCUA or the federal government.
3. **MEMBER EDUCATION.** The effectiveness of the share insurance in maintaining the safety and stability of the Credit Union is dependent in large part on how well members understand the program. The Credit Union will execute a systematic education program to sustain member awareness of the value of share insurance.
 - A. **“Your Insured Funds” Brochure.** All members will be provided with the NCUA brochure “Your Insured Funds.” This brochure will be placed in each branch office and main office of the Credit Union. Copies will be provided to members upon request.
 - B. **“Share Insurance Estimator.”** All members will be provided the information to access the online tool for estimating share insurance.
 - C. **No Counseling.** Credit Union employees will not provide counseling to members in order to maximize the amount of share insurance. Members who have questions regarding share insurance will be directed to refer to the NCUA brochure or Share Insurance Estimator online tool.
4. **OFFICIAL SIGN.** The official sign that the Credit Union is insured by the NCUSIF will be displayed at each station or window where insured account funds or deposits are normally received. It will also be displayed on the Credit Union’s Internet page, if any, where deposits are accepted or accounts are opened.
5. **ADVERTISING.** The official advertising statement will be included in all of the Credit Union’s advertisements

(unless an exception applies). The statement reads: “This Credit Union is federally insured by the National Credit Union Administration.” The Credit Union may also state: “Federally insured by the NCUA.”

A. **Exceptions.** The official advertising statement need **not** appear in the following:

- i. Credit Union supplies (i.e., stationary (except when used for circular letters), envelopes, deposit slips, checks, drafts, signature cards, account passbooks and non-insurable certificates);
- ii. Signs or plates in the Credit Union office or attached to the building(s) in which the offices are located;
- iii. Listings in directories;
- iv. Advertising not setting forth the name of the Credit Union;
- v. Display advertisements in Credit Union directories, provided the name of the Credit Union is listed on any page in the directory with a symbol or other descriptive matter indicating it is insured;
- vi. Joint or group advertisements of the Credit Union’s services where the names of the insured credit unions and non-insured credit unions are listed and form a part of such advertisements;
- vii. Advertisements by radio that do not exceed fifteen (15) seconds in time;
- viii. Advertisements by television, other than display advertisements, that do not exceed fifteen (15) seconds in time;
- ix. Advertisements that because of their type or character would be impractical to include the official advertising statement, including but not limited to, promotional items such as calendars, matchbooks, pens, pencils and key chains;
- x. Advertisements that contain a statement to the effect that the Credit Union is insured by the NCUA, or that its accounts and shares or members are insured by the NCUA to at least \$250,000 for each member or shareholder; or
- xi. Advertisements that do not relate to member accounts, including but not limited to advertisements relating to the Credit Union’s loan products, safekeeping box business or services, traveler’s checks on which the Credit Union is not primarily liable, and credit life or disability insurance.

B. **Shared Branching Signs.** In addition to the official advertising sign, the Credit Union will ensure that a second sign is posted at all shared branching locations, which reads as follows: “This credit union participates in a shared branch network with other credit unions and accepts share deposits for members of those other credit unions. While this credit union is federally insured, not all of these other credit unions are federally insured. If you need information on the insurance status of your credit union, please contact your credit union directly.”

- i. This second sign must be conspicuous and be similar to the official NCUA sign in terms of design, color and font. The Credit Union may use the NCUA-produced sign or produce its own, so long as the sign meets the requirements of NCUA Part 740.

Policy 2290: Wire Transfers

Revised Date: 01/17/2017

Model Policy Revised Date: 01/17/2017

General Policy Statement:

A wire transfer is a method of transferring money from one entity to another. [CUNAME] (Credit Union) will comply with all applicable Federal and State regulations and laws governing wire transfers, including Federal Reserve Board Regulation J, Subpart B (Funds Transfers Through Fedwire) and the Uniform Commercial Code.

The Credit Union will comply with all National Automated Clearing House Association (NACHA) operating rules for all payments accepted into accounts through one or more Automated Clearing Houses (ACH).

Guidelines:

1. WIRE TRANSFER AGREEMENTS.

- A. **Member Agreement.** Prior to initiating or accepting a wire transfer, members will be required to execute a Wire Transfer Agreement that dictates the terms and conditions of access and/or execution of transactions with the Credit Union. If the member does not want to sign the wire transfer agreement, the Credit Union will refuse the payment order. The Credit Union will consult with legal counsel regarding the content of its Wire Transfer Agreement.
- B. **Third Party Agreements.** The Credit Union will continue to execute current agreements with equipment suppliers, the Federal Reserve Bank, corporate credit union, and third party vendors as applicable and necessary.

2. PROCESSING.

A. Account Limitations.

- i. The Credit Union will allow wire transfers into the following accounts: [2290-1]
- ii. The Credit Union will only allow wire transfers out of the following account(s): [2290-2]

B. **Wire Transfer Hours.** The Credit Union's cut-off time for the receipt of incoming wire transfers is [2290-3]. The Credit Union's cut-off time for the processing of outgoing wire transfers is [2290-4]. Any payment order or communication amending or canceling a payment order received on a day other than a business day or after the cut-off times on a business day will be treated as if received at the opening of business on the next business day.

C. **Verification.** Credit Union personnel will employ verification procedures to validate all member and transfer information prior to final execution.

D. **Separation of Duties.** The Credit Union will ensure there is a separation of duties in receipt, initiation, verification, transmission and reconciliation of transfers. Each employee will initial the transfer forms to designate the process each performs.

E. **Balance Reviews.** Before initiating a transfer, Credit Union personnel will review a member's account

balance.

- i. **Insufficient Funds.** When a member has insufficient funds to cover a wire request, the Credit Union will notify the member that the transfer request has been rejected.

F. Stopping or Delaying Transactions. The Credit Union will delay or stop any payment order transmission if such transmittal would result in the Credit Union's exceeding any limitations established pursuant to Federal Reserve policy, National Credit Union Administration policy, or Credit Union guidelines, or otherwise violated any provision of any Federal or State statute, regulation or rule.

- i. Individual requests that exceed an employee's authorization limit must be approved by management. Such authorization will be documented.

G. Rejecting Transactions. The Credit Union reserves the right to reject any payment order issued to it by the member for any reason.

H. Sequential Numbering. Forms are sequentially numbered on all transfers.

I. Receipt of Wire Transfers.

- i. Pursuant to a signed agreement, the Credit Union will notify members of an incoming wire transfer as part of the member's periodic statement. The Credit Union will not provide a special notice every time it receives a wire transfer into a member's account.
- ii. If there is no written agreement, the Credit Union will notify the beneficiary of the receipt of a wire transfer by midnight of the business day following receipt of the funds.
- iii. The Credit Union may mutually agree with a member to notify him/her by other means on the same day that a wire transfer is received or on the next business day.
- iv. **Crediting of Accounts.** Pursuant to Section 2(B) above, if a member receives a wire into an account before the cut-off time, the Credit Union will consider that day to be the day of deposit. However, if a wire is received after the cut-off time or on a day the Credit Union is not open, the Credit Union will consider the deposit to have been made on the next business day that the Credit Union is open.
- v. **Crediting of loan accounts.** Pursuant to Section 1026.10 of Regulation Z, the Credit Union will credit a payment wired into an account to pay a loan on the date the payment is actually received, unless when a delay in crediting a payment does not result in a finance or other charge. The Credit Union may also delay in crediting a payment (but must credit the payment within five days of receipt) when a member fails to follow specific requirements for making a payment that are outlined by the Credit Union on or with the periodic statement.
 1. If the Credit Union fails to credit a payment in time to avoid the imposition of a finance or other charge (such as a late payment charge), the Credit Union will adjust the member's account during the next billing cycle to delete all finance and other charges that were improperly imposed.

J. Suspicious Activity. Pursuant to the Credit Union's Bank Secrecy Act policy (See **Policy 2110**), personnel will promptly notify management whenever suspicious activity occurs, including transactions that are blocked or rejected.

K. **Review.** All printed copies of transfers will be reviewed to ensure correctness of transmission.

L. **Documentation.** All transactions will be documented for audit purposes.

3. **TRANSFER REQUESTS.**

A. **Standard Forms.** Standard forms are used for all requests.

B. **Telephone Requests.**

i. All telephone requests are recorded.

ii. These recordings are kept for [2290-5].

iii. Recordings are stored in a controlled area for security purposes.

iv. **Verification.**

1. Data is repeated to members who make telephone requests in order to verify information.

2. The Credit Union will call members back to verify telephone requests, using the telephone number on record or one specifically listed as preferred by the member.

v. **Other Types of Requests.** The Credit Union will employ similar verification techniques when requests are sent by mail or via Internet.

4. **BALANCING.**

A. Transfer activity is balanced periodically each day.

B. All transfer advices are reconciled to account entries on a daily basis.

5. **PERSONNEL.**

A. Relatives of employees who process wire transfers are not permitted to work in the Credit Union's accounting and data processing departments.

B. Background checks will be performed on all individuals before they are hired into or assigned to the fund transfer department. These checks will be documented.

C. All personnel are trained in the areas of security and control.

D. When a notification of resignation is received, management will move the employees assigned to the fund transfer department to another department, or will otherwise remove their capability to process wire transfers.

E. All terminated employees' access rights to funds transfer software and hardware are removed promptly.

F. All employees with wire transfer capabilities are subject to unannounced rotation of responsibilities at any given time.

G. Pursuant to the Credit Union's employment policies, employees are required to take at least five (5) consecutive days off. Wire transfer duties will be assigned to other employees during this time.

6. CONTROLS.

- A. The Credit Union will limit the number of employees with physical access to the wire transfer terminal.
- B. Management will review wire transfer reports on a periodic basis that document wire transfer activity for each authorized employee. These reports will include the appropriate limits and authorized access levels for each employee, and will provide the outline of a separation of duties.
- C. Before changes may be made in the employee fund transfer limits, they must be properly authorized in the software by management.

7. ERRONEOUS OR UNAUTHORIZED PAYMENT ORDERS.

- A. The Credit Union will attempt to recover erroneous wire transfer payments made to other financial institutions. In the event that it is the Credit Union's error, the Credit Union will attempt to recover the payment from the beneficiary.
- B. To limit liability, members must notify the Credit Union of any unauthorized transfer that appears on a periodic statement within 60 days of the Credit Union's transmittal of the periodic statement. If the member fails to fulfill his/her duty to notify, the Credit Union would not be liable to the member for any subsequent similar occurrence which the Credit Union could have prevented had it received such notice.

8. **FOREIGN WIRES.** The Credit Union reserves the right to cease foreign wire services for members at any time.

Based on Guidance from the Consumer Financial Protection Bureau (CFPB) and amendments to Regulation E, foreign wires will be monitored for compliance and frequency to ensure that these International Remittance Transfers comply with Federal regulations.

The Credit Union will only comply with the International Remittance Transfer (IRT) requirements if the Credit Union provided 100 or more IRTs (including wires and all other electronic transactions) in the previous calendar year, and has provided 100 or more remittance transfers in the current calendar year. The Credit Union will monitor IRT transactions to ensure they comply with Regulation E requirements in the event they are exempt from the rule and perform IRTs that exceed the regulatory exemption threshold and would qualify them for compliance with the regulation.

In the event that the Credit Union is not exempt from International Remittance Transfer requirements in Regulation E, the Credit Union will follow guidance provided in the Credit Union's International Remittance Transfers Policy (See Policy 2605), in addition to the policy guidance presented in this policy.

9. **AUDIT.** The Credit Union's annual audit will include a review of the wire transfer operation. This will include a review of the insider account activity.

10. **REGULATORY/LEGAL COMPLIANCE.** The Credit Union will comply with all applicable Federal and State regulations and laws governing wire transfers.

A. **Office of Foreign Assets Control (OFAC).** Pursuant to the Credit Union's OFAC policy (See **Policy**

2145), the Credit Union will ensure that both sides of a domestic and/or foreign wire transfer will be processed through the OFAC Specially Designated Nationals (SDN) list. Matches will be handled pursuant to Policy 2145.

B. Unlawful Internet Gambling. The Credit Union will follow the guidance of the Credit Union's Unlawful Internet Gambling Policy (See Policy 2205) in regards to Wire Transfers.

11. RECORDKEEPING.

A. For all wire transfers of \$3,000 or more excluding ACH, ATM or on a point-of-sale system, the following information will be retained:

i. **Credit Union Originates Wire.** When the Credit Union originates a wire transfer, the Credit Union will retain the following: (a) name; (b) address; (c) amount of transfer; (d) date of transfer; (e) any payment instructions; (f) identity of beneficiary's financial institution; and (g) beneficiary's name, address and account number.

1. **Travel Rule Requirement.** When submitting a transmittal order, the Credit Union will include the following information to the receiver:

a. Name of transmitter and the account number of the transmitter (if the payment is ordered from an account);

b. Address of the transmitter;

c. Amount of the transmittal order;

d. Date of the transmittal order;

e. Identity of the transmitter's and recipient's financial institution; and

f. As much of the following information of the recipient as possible: name, address, account number and any other specific identifier.

ii. **Credit Union Received Wire.** When the Credit Union receives a wire transfer, the Credit Union will do the following: (a) retain a copy of the payment order; (b) verify the beneficiary's name and address; and (c) keep a record of the means used to verify the name and address, along with the person's social security number, alien ID or employee identification number (EIN).

Policy 2300: Share Draft Accounts

Revised Date: 03/28/2018

Model Policy Revised Date: 03/28/2018

General Policy Statement:

[CUName] (Credit Union) offers a share draft program to its members at a reasonable cost. The following guidelines are designed to minimize the cost of this program.

Guidelines:

1. **DIVIDENDS.** Accounts that maintain a minimum balance or above shall earn daily dividends as declared by the Board of Directors.
2. **SERVICE CHARGE.** Members may write up to [2300-1] drafts per month free of service charge. Drafts in excess of this number will be assessed a \$[2300-2] service charge per check.
3. **FEES.** Fees will be assessed for NSF items, copies of canceled checks, overdraft transfers from shares or loans, and stop payments. A list of current fees will be furnished when the share draft account is opened. These items may be changed as deemed necessary by the Board of Directors.
4. **EXCESSIVE OVERDRAFTS.** If an account has [2300-3] NSF items within a [2300-4] -day period, a warning letter will be sent. If the account continues to have NSF items, the account may be closed.
5. **CLOSING ACCOUNTS.** Share draft accounts may be closed by the member after all outstanding items have been cleared. It may also be closed by the Credit Union if it is determined that abuse of the account has occurred, in which case the member shall be notified of the account closing by certified mail.
6. **DELETING SIGNERS.** The name of one signer may not be removed at the request of the other signer(s) except upon the death of the one whose name is sought to be removed. A joint holder of a personal account or safe deposit box may have his or her **own** name deleted upon presentation of a written request with properly verified signature. Such request must contain the name and number of the account or the number of the box and must clearly request deletion.
7. **ABUSE OF ACCOUNTS.** Abuse of share draft accounts, such as continued negative balances, preferential treatment, or kiting, will not be allowed. The account will be closed immediately, and the proper individuals notified of the problem.
8. **INSURANCE OF SHARES.** The Credit Union will insure member accounts through the National Credit Union Share Insurance Fund.
9. **OVERDRAFT POLICY.** The Credit Union may advance funds to a member to cover an account deficit, without obtaining a specific credit application for the advance, pursuant to the Credit Union's Overdraft Protection (Courtesy Pay) policy (See Policy 7215).

Policy 2310: Share Draft Telephone Inquiries

Revised Date: 12/01/2003

Model Policy Revised Date: 12/01/2003

Model Policy Reviewed Date: 09/30/2014

General Policy Statement:

[CUName] (Credit Union) will handle telephone inquiries regarding share draft accounts in accordance with the following guidelines.

Guidelines:

1. **DRAFT VERIFICATION.** Branches will reply to draft verifications by verifying whether or not drafts will clear at the time of inquiry. All inquiries will be answered with a "yes" or "no" response. No additional information will be given to third parties. In addition, branches may not place holds on member accounts at the request of draftees or holders in due course absent a court order or hold harmless/indemnity agreement signed by the requestor.
2. **SHARE DRAFT BALANCES.** Share draft balances may be given out by the branches to a member if proper member identification can be obtained. Proper member identification consists of account number and date of last deposit, or account number and date account was opened.
3. **OVERDRAFT ACCOUNT INQUIRIES.** Initial inquiries about overdrawn accounts, where the member cannot account for the overdraft, should be handled on the branch level when appropriate. A cutoff Credit Union statement (an extra statement produced prior to the normal statement cycle date) should be suggested to members with overdraft problems.
4. **GENERAL CHECK INFORMATION.** Requests for check amount, payee, etc. should be handled through the branch when appropriate.
5. **PERSONAL INFORMATION.** All inquiries requesting account numbers, account balances, address, telephone number, and any other confidential, personal non-public information should be referred when appropriate, to a branch Credit Union officer, who will decide whether the information will be given out or not. No employee may provide such information without approval of the member or senior management.
6. **UNCREDITED DEPOSITS.** Inquiries about deposits not credited to member accounts are generally handled by Operations officers (not tellers).
7. **SHARE DRAFT RESEARCH INFORMATION.** The Credit Union or its branches may accept requests for reproductions of paid checks, deposit slips, and Credit Union statements and for information regarding lost deposits and encoding errors. If needed, such requests may be forwarded to the research department with an appropriate request.

Policy 2400: Funds Availability

Revised Date: 03/28/2018

Model Policy Revised Date: 03/28/2018

General Policy Statement:

Regulation CC (12 CFR Part 229) sets minimum standards for when deposited funds must be made available to members. [CUName] (Credit Union) offers same day or next day availability for most funds deposited with the Credit Union and provides funds availability disclosures required by the Regulation.

Guidelines:

1. DEFINITIONS

- A. **Account.** A transaction account. An account generally includes those from which the accountholder is permitted to make transfers or withdrawals by negotiable instruments, payment order of withdrawal, telephone transfer, electronic payment, or other form of transfer. Account does NOT include a savings account.

- B. **Availability.** For determining the availability of a deposit, every day is a business day, except Saturdays, Sundays and federal holidays. If a federal holiday falls on a Sunday, the next day is not a business day. If a member makes a deposit before [2400-2] on a business day that the Credit Union is open, the Credit Union will consider that day to be the day of deposit. However, if a member makes a deposit after [2400-3] or on a day the Credit Union is not open, the Credit Union will consider the deposit to have been made on the next business day that the Credit Union is open.

2. **SAME-DAY AVAILABILITY.** Cash and Federal government payments made by the automated clearinghouse method, such as Social Security payments, SSI payments, IRS tax refunds, and federal government salary payments, must be made available on the day funds are received or, if the funds are not received on a business day, on the next business day. (See 31 CFR Part 210, "Federal Payments through Financial Institutions by the Automated Clearing House Method." sections 210.2, 210.7.)

3. **NEXT DAY AVAILABILITY.** The following funds deposited into a member's account must be available by the next business day:

- A. Cash deposited in person at a teller station. To qualify for next-day availability, members must deposit funds during Credit Union business hours before the cutoff time for receiving deposits. Presently, the cutoff time is [2400-1].

- B. Electronic payments (e.g., wire transfers, automated clearinghouse credit transfers). These are considered "received" when the Credit Union has received both:
 - i. Payment in finally collected funds, and
 - ii. Payment instructions indicating the account and the amount to be credited.

- C. U.S. Treasury checks deposited into the payee's account.

- D. The following types of checks, if deposited in person at a teller station into the payee's account:

- i. U.S. Postal Service Money Orders.
- ii. Federal Reserve Bank checks/Federal Home Loan Bank checks.
- iii. State and local government checks, if the Credit Union is located in the same state as the government entity that issued the check and if the check was accompanied by any special deposit slip required by the Credit Union.
- iv. Cashier's, certified, or teller's checks, if accompanied by any required special deposit slip.

E. "On us" checks, i.e., checks drawn on the Credit Union or one of its branches.

F. Drafts covered by member's account, such as situations where the member's account balance exceeds the amount of the draft.

G. For checks not described above, the lesser of \$200 or the aggregate amount of such checks must be available, except that:

- i. If the member receives cash at the time of the deposit, the amount of cash received is not required to be credited. For example, if the member deposits a \$300 check and receives \$100 cash back, the Credit Union need not make an additional \$200 available for withdrawal the following day.
- ii. If the member has a negative book balance or a negative available balance in the account at the time of the deposit, the \$200 that must be available on the next business day may be made available by applying \$200 to the negative balance, rather than making \$200 available for withdrawal.

4. **SECOND DAY AVAILABILITY.** The following funds deposited into a member's account must be made available no later than the second business day following the deposit.

A. The following types of checks, if not deposited in person (i.e., through the mail or ATM owned by the Credit Union) or deposited into an account other than the named payee:

- i. U.S. Postal Service Money Orders.
- ii. Federal Reserve Bank checks/Federal Home Loan Bank checks.
- iii. State and local government checks.
- iv. Cashier's, certified, or teller's checks.
- v. US Treasury checks.

5. **FIFTH-DAY AVAILABILITY.** Cash or checks deposited into a nonproprietary ATM must be made available no later than the fifth business day following the deposit.

6. **WITHDRAWAL BY CASH OR SIMILAR MEANS.** The Credit Union may extend by one business day the time that funds deposited in an account by one or more checks governed under #4 and #5 above, are available for withdrawal by cash or similar means. (Similar means include electronic payment, issuance of a cashier's check or teller's check, or certification of a check, or other irrevocable commitment to pay, but not including the granting of credit to a bank, FRB, or FHLB that presents a check to the Credit Union for payment.) The Credit

Union will make \$400 of these funds available for withdrawal by cash or similar means not later than 5pm on the business day on which the funds are available. This \$400 is in addition to the required \$200. Cash withdrawals for the remainder of the funds (over the \$400) can be delayed until the following business day.

7. **ADDING A DAY TO AVAILABILITY PERIOD.** The availability period may be extended by one day for a deposit that is made to a Credit Union located in Hawaii or Alaska, is not subject to next-day availability, and is by check drawn on a paying bank not located in the same state as the Credit Union.

8. **"CASE-BY-CASE" HOLDS.** If a Credit Union has a policy of making funds available sooner than required by the foregoing rules, the Credit Union may extend the time when funds are available up to the time periods permitted on a case-by-case basis, subject to the following requirements.

A. **Initial Disclosure.** Before opening a new account, the Credit Union must disclose its case-by-case hold policy.

B. **Notice at Time of Hold.** The Credit Union must also provide the member with notice at the time of the deposit.

i. **Content.** The notice must state:

1. Statement that the Credit Union is holding the funds.
2. The account number.
3. The date of the deposit.
4. The amount of the deposit that is being delayed.
5. When the funds will be available for withdrawal.
6. How to obtain a refund of returned check fees or overdraft fees if the notice is not given at the time of the deposit, and the check is paid.

ii. **When Given.** Ordinarily, notice is given when deposit is made. If the deposit is not made in person, notice should be given no later than the first business day thereafter.

1. If the notice is not provided at the time of deposit, no overdraft fees may be assessed if the overdraft would not have occurred except for the delay of funds availability and the check was paid. Overdraft fees may be assessed if the institution provides notice of such fees at the time the notice of delayed funds is given, and is willing to refund such fees upon request by the member.

9. **"SPECIFIC EXCEPTION" HOLDS.**

A. **Description.** The following situations create a "specific exception" to the funds availability rules:

i. **Large Deposits.** A member's aggregate deposits in one day exceed \$5,000. (The exception applies to the amount over \$5,000. The Credit Union may apply this exception to the aggregate deposits to all accounts held by the member, without regard to joint accountholders.)

ii. **Re-deposited Checks.** A check that has been returned unpaid and re-deposited, unless the reason

the check was returned was because it was missing an endorsement or was postdated. \$200 of the deposit does not have to be made available on the next business day. The business day the check is re-deposited is considered to be the day of deposit.

- iii. **Repeated Overdrafts.** Within the last six months, a member's account has been overdrawn six or more times, or overdrawn twice by more than \$5,000 for two or more business days (or would have been had the checks and charges been paid). This exception does NOT apply to any next-day availability deposits, despite an overdrawn account. An account will retain its "repeated overdraft" status for six months from the last overdraft.
- iv. **Reasonable Cause to Doubt Collectibility.** The Credit Union has reasonable cause to believe the check is uncollectible, such as a stale or postdated check, evidence of check kiting, or a notice dishonor from the payor financial institution. The Credit Union will maintain the notice provided to the member, along with a statement of facts surrounding its reason to doubt the collectibility of the item, for 2 years.
- v. **Emergency Conditions,** such as telecommunication or computer breakdowns, war, or some other emergency condition beyond the Credit Union's control. A hold will be placed on the funds for a reasonable time after the emergency has passed.

B. Effect. If an exception applies, the Credit Union may extend the time period for availability by a "reasonable period of time:"

- i. Add one business day for "on us" checks.
- ii. For all other checks, including U.S. Treasury checks, U.S. Postal Service money orders, Federal Reserve Bank checks, Federal Home Loan bank checks, state and local government checks, and cashier's, certified, and teller's checks, add five business days, thus making them available within, up to 7 business days.
- iii. Add up to 6 business days for checks deposited in nonproprietary ATMs.

C. Notice Requirement. The Credit Union may not place a specific exception hold unless it notifies the member that the exception is being invoked.

i. **Content.** The notice must state:

1. The member's name and account number.
2. The date of the deposit.
3. The amount of the deposit being delayed.
4. Statement that the Credit Union is holding funds.
5. What the exception is and why it is being invoked.
6. When the funds will be available for withdrawal.
7. How to obtain a refund of returned check fees or overdraft fees if the notice is not given at the time of the deposit, and the check is paid.

ii. **When Given.** Ordinarily, notice must be given when the deposit is made. If the facts giving rise to the exception are not known until after the deposit is made, then notice must be given no later than one business day thereafter.

iii. **How Given.** Notice can be delivered personally to the member when the deposit is made, mailed, or faxed. In addition, it can be delivered by e-mail if the member agrees to receive e-mails and if the e-mail can be downloaded and printed.

10. **NEW ACCOUNTS.** Special rules apply for new accounts (sole account with the Credit Union less than 30 days old, provided none of the members on the account have other transaction accounts at the Credit Union that have been opened for at least 30 days).

A. Cash deposits and wire transfers are subject to the next-day availability requirements.

B. The first \$5,000 of deposits of U.S. Treasury checks must be made available on the next business day. Any amount over \$5,000 into a new account may be held until the 9th business day.

C. The first \$5,000 of an in-person deposit of checks drawn on Federal Reserve Banks and Federal Home Loan Banks, state and local government checks, cashier's checks, certified checks, teller's checks, and, for the purposes of the new account exception only, traveler's checks, must be made available on the next business day. The first \$5,000 of such deposits not made in person must be made available on the second business day. The remainder may be held until the 9th business day.

D. An availability schedule does not apply to other checks, including the requirement for the first \$200 of a day's deposit to be made available for withdrawal.

11. **INITIAL DISCLOSURE.** Before opening a new account, a Credit Union must provide to the member a disclosure that clearly and conspicuously explains the Credit Union's funds availability policy complying with 12 CFR Section 229.16. The Credit Union will use one of the model policies below or develop a disclosure that is substantially similar.

A. Model Policy C-1: Next-day availability

B. Model Policy C-2: Next-day availability and specific exceptions

C. Model Policy C-3: Next-day availability, case-by-case holds to statutory limits, and specific exceptions

D. Model Policy C-4: Holds to statutory limits on all deposits (includes chart)

E. Model Policy C-5: Holds to statutory limits on all deposits

12. **OTHER DISCLOSURES.** A Credit Union must also:

A. Provide a copy of its funds availability policy to a member who requests it.

B. Post a copy of its funds availability policy at every location where deposits are accepted, including ATMs. The Credit Union will also post its availability policy on its website on every page where accounts are opened and/or payments are made online.

C. Include on all preprinted deposit slips furnished to its members, a notice that deposits may not be

available for immediate withdrawal.

D. Notify its members of a change in the funds availability policy at least 30 days prior to the change. If the change expedites the availability of funds, the Credit Union may provide the notice 30 days after the change is implemented.

13. **DEPOSIT RECONCILIATION.** Credit discrepancies that are not appropriately reconciled within prescribed timeframes governed under Reg CC, may leave members without timely access to their funds and in violation of the regulation. The Credit Union will have procedures in place to assist employees in processing transactions, reporting discrepancies, taking appropriate steps to determine the cause of the discrepancy and appropriately reconcile any discrepancy identified within appropriate timeframes. The Credit Union will also provide appropriate training and oversight to ensure compliance with applicable policies and procedures.
14. **EMPLOYEE PROCEDURES.** The Credit Union will have procedures in place to ensure compliance with these requirements. These procedures will be provided and made available to applicable employees.
15. **CIVIL LIABILITY.** Violation of Reg CC may result in liability by the Credit Union for actual damages and additional amounts not less than \$100 nor greater than \$1,000 for individuals and a maximum of \$500,000 or one percent of net worth for class actions.
16. **TWO-YEAR RECORD RETENTION.** A Credit Union must retain records showing compliance with Reg CC for at least two years (See Section 10000, Table 11).

Policy 2401: Collection of Checks Procedure

Revised Date: 03/28/2018

Note: The content of Model Policy 2401: Collection of Checks was previously included as part of Model Policy 2400: Funds Availability, but has been split out into its own policy. The new content in Policy 2401 has been updated substantially due to Regulation CC amendments that become effective on July 1, 2018. This policy is not mandated by regulation, so credit unions can either use the content to develop appropriate procedures or adopt this policy if they previously relied on the associated content within Policy 2400.

Model Policy Revised Date: 3/28/2018

General Policy Statement:

Regulation CC (12 CFR Part 229) implements the Expedited Funds Availability Act and the Check Clearing for the 21st Century Act (the Check 21 Act). The regulation is divided into subparts and appendices. The guidelines established within this document are to assist the Credit Union with compliance of Subpart C related to the rules to expedite the collection and return of checks and electronic checks and the rules relating to substitute checks. [CUNAME] (Credit Union) will comply with the requirements outlined in Regulation CC.

DEFINITIONS

1. Bank.

A. For purposes of subparts C (Collection of Checks) and A (General Overview), the term also includes any person engaged in the business of banking, as well as the Federal Reserve Bank, a Federal Home Loan Bank, and a state or unit of general local government to the extent that the state or unit acts as a paying bank. In addition:

- i. FDIC insured (or eligible to be insured) bank;
- ii. Mutual Savings Bank;
- iii. Savings Bank;
- iv. NCUA insured (or eligible to be insured) credit union;
- v. Member defined in section 2 of the Federal Home Loan Bank Act;
- vi. Savings association that is an insured depository bank (or eligible); or
- vii. Agency or branch of a foreign bank.

B. For purposes of subpart D (Substitute Checks), bank also includes the Treasury of the United States or the United States Postal Service to the extent that the Treasury or Postal Service acts as a paying bank.

2. Indemnifying Bank. A bank that provides an indemnity under 229.34 with respect to remote deposit capture or an electronically-created item, or a bank that provides indemnity under 229.53 with respect to a substitute check.

3. Copy. Any paper reproduction of an original check, including a paper printout of an electronic image of the

check, a photocopy of the original check or a substitute check; or any electronic reproduction of a check that a recipient has agreed to receive from the sender instead of a paper reproduction.

4. **Sufficient Copy.** Copy of an original check that accurately represents all of the information on the front and back of the original check as of the time the original check was truncated or is otherwise sufficient to determine whether or not a claim is valid.
5. **Electronic Check (Electronic Returned Check).** An electronic image of, and electronic information derived from, a paper check or paper returned check, that is sent to a receiving bank pursuant to an agreement between the sender and the receiving bank; and confirms with American National Standard Specifications for Electronic Exchange of Check Image Data – Domestic, X9. 100-187 (ANS X9. 100-187), unless the FRB by rule or order determines that a different standard applies or the parties otherwise agree.
6. **Electronically-created item.** An electronic image that has all the attributes of an electronic check or electronic returned check but was created electronically and not derived from a paper check.
7. **Magnetic ink character recognition line and MICR line.** The numbers, which may include the routing number, account number, check number, check amount, and other information that are:
 - A. Printed near the bottom of a check in magnetic ink in accordance with American National Standard Specifications for Placement and Location of MICR Printing, X9.13 (ANS X9.13) for an original check and American National Standard Specifications for an Image Replacement Document – IRD, X9 100-140 (ANS X9.100-140) for a substitute check, or
 - B. Contained in a record specified for MICR line data in an electronic check or electronic returned check in accordance with American National Standard Specifications for Electronic Exchange of Check Image Data – Domestic, X9. 100-187 (ANS X9.100-187).

COLLECTION OF CHECKS

1. **Electronic Checks.** Electronic checks and electronic returned checks are treated as if they were checks or returned checks, except where “paper check” or “paper returned check” is otherwise indicated.
2. **Writings.** If a bank is required to provide information in writing under this subpart, the bank may satisfy that requirement by providing the information electronically if the receiving bank agrees to receive that information electronically.

GUIDELINES

1. **PAYING BANK’S RESPONSIBILITY FOR THE RETURN OF CHECKS.** A paying bank that decides not to pay a check must return the check in an “**expeditious manner,**” meaning returned to the depository bank no later than 2:00 p.m. (local time of the depository bank) on the 2nd business day after the banking day on which the check was presented to the paying bank. If the 2nd business day following the banking day on which the check was presented to the paying bank is not a banking day for the depository bank, the paying bank satisfies the expeditious return requirements if it sends the returned check in a manner that the depository bank would normally receive the returned check not later than 2:00 pm (local time of the depository bank) on the depository bank’s next banking day.
 - A. **Return of Checks.** The paying bank may send a returned check to the depository bank, to any other bank agreeing to handle the returned check, or if the paying bank is unable to identify the depository bank with respect to a check, to any bank that handled the check for forward collection (indicating that the paying

bank is unable to identify the depository bank). The paying bank can convert a check to a qualified returned check (if encoded properly under the Regulation (229.31(a)(3)).

B. Notice of Nonpayment. If the paying bank does not pay a check in the amount of \$5,000 or more, it will provide notice of nonpayment so that it will be received by the depository bank no later than 2pm local time of the depository bank, on the second business day following the banking day the check was presented to the paying bank. Notice can be provided by any reasonable means, including a returned check, a writing (including a copy of the check), or telephone. To the extent available, the notice must include the information contained in the check's MICR line when the check is received by the paying bank, as well as:

- i. The name of the payee(s);
- ii. The amount;
- iii. The date of the indorsement of the depository bank;
- iv. The bank name, routing number, and trace or sequence number associated with the indorsement of the depository bank; and;
- v. The reason for nonpayment.
- vi. If the paying credit union is not sure of the accuracy of an item, it shall include the above information to the extent possible and identify what is not believed accurate. The notice may also include other information from the check that may be useful in identifying the check being returned and the customer.

C. Exceptions to Expeditious Return of Checks and Notice of Nonpayment Requirements. The requirements for expeditious returns do not apply if:

- i. The check is deposited in a depository bank that is not subject to the requirements of the regulation for availability of funds and disclosure of funds availability policies (subpart B); or
- ii. The paying bank is unable to identify the depository bank with respect to the check.

D. Identification of Returned Check. The paying bank returning a check will clearly indicate on the front of the check that it is a returned check and the reason for return. If a substitute check or electronic return check is being returned, the paying bank will include this information so that the information would be retained on any subsequent substitute check.

E. Notice in Lieu or Return. If the check is unavailable for return, the paying bank may send a copy of the front and back of the returned check, or a written notice of nonpayment containing the associated requirements. The copy or written notice shall clearly state that it constitutes a notice in lieu of return.

F. Extension of Deadline. The deadline for return or notice of dishonor or nonpayment (under UCC, Regulation J or 229.36(d)(3) and (4)) is extended to the time of dispatch of such return or notice if the depository bank (or receiving bank, if the depository bank is unidentifiable) receives the returned check or notice:

- i. On or before the depository bank's (or receiving bank's) next banking day following the otherwise applicable deadline by the earlier of the close of that banking day or a cutoff hour of 2pm (local

time of the depository bank or receiving bank) or later set by the depository bank under UCC 4-108, for all deadlines; or

- ii. Prior to the cut-off hour for the next processing cycle (if sent to a returning bank), or on the next banking day (if sent to the depository bank), for a deadline falling on a Saturday that is a banking day (as defined in UCC) for the paying bank.

G. Reliance on Routing Number. A paying bank may return a check based on any routing number designating the depository bank appearing on the returned check in the depository bank's indorsement.

2. RETURNING BANK'S RESPONSIBILITY FOR RETURN OF CHECKS. A returning bank shall return a check in an "**expeditious manner**," meaning that the check would normally be received by the depository bank not later than 2pm (local time of the depository bank) on the 2nd business day after the banking day on which the check was presented to the paying bank. If the 2nd business day following the banking day on which the check was presented to the paying bank is not a banking day for the depository bank, the returning bank satisfies the expeditious return requirements if it sends the returned check in a manner that the depository bank would normally receive the returned check not later than 2:00 pm (local time of the depository bank) on the depository bank's next banking day.

A. Return of Checks. A returning bank that is unable to identify the depository bank may send the return check to any collecting bank that handled the returned check for forward collection if the returning bank was not a collecting bank with respect to the returned check, or to a prior collecting bank, if the returning bank was a collecting bank with respect to the returned check. The returning bank will advise the bank to which the returned check is sent that the returning bank is unable to identify the depository bank. The returning bank can convert a check to a qualified returned check (if encoded properly under the Regulation (229.32(a)(3)).

B. Exceptions to Expeditious Return of Checks. The requirements for expeditious returns do not apply if:

- i. The check is deposited in a depository bank that is not subject to the requirements of the regulation for availability of funds and disclosure of funds availability policies (subpart B);
- ii. The paying bank is unable to identify the depository bank with respect to the check; or
- iii. The bank handles a misrouted returned check pursuant to the regulation (229.33(f)).

C. Notice in Lieu or Return. If the check is unavailable for return, the returning bank may send a copy of the front and back of the returned check, or if a copy isn't available, a written notice of nonpayment containing the associated requirements. The copy or written notice shall clearly state that it constitutes a notice in lieu of return.

D. Settlement. A returning bank will settle with a bank sending a returned check to it for return by the same means that it settles or would settle with the sending bank for a check received for forward collection drawn on the depository bank. The settlement is final when made.

E. Charges. A returning bank may impose a charge on a bank sending a returned check for handling the returned check.

F. Reliance on Routing Number. A returning bank may return a check based on any routing number designating the depository bank appearing on the returned check in the depository bank's indorsement or in magnetic ink on a qualified return check.

3. DEPOSITARY BANK'S RESPONSIBILITY FOR RETURNED CHECKS.

A. Acceptance of Paper Returned Checks and Paper Notices of Nonpayment. A depositary bank should accept paper returned checks and paper notices of nonpayment during its banking day:

- i. At a location requested by the depositary bank for presentment of checks for forward collection; and
- ii. At a branch, head office, or other location consistent with the name and address of the bank in its indorsement on the check.
- iii. If no address appears in the indorsement, at a branch or head office associated with the routing number of the bank on its check indorsement; or
- iv. At any branch or head office, if no routing number or address appears in the indorsement.
- v. The depositary bank may require that paper returned checks are separated from paper forward collection checks.

B. Acceptance of Electronic Returned Checks and Electronic Notices of Nonpayment. A depositary bank's agreement with the transferor bank governs the terms under which the depositary bank will accept electronic returned checks and electronic written notices of nonpayment.

C. Acceptance of Oral Notices of Nonpayment. A depositary bank shall accept oral notices of nonpayment during its banking day:

- i. At the telephone number indicated in the indorsement; and
- ii. At any other number held out by the bank for receipt of notice of nonpayment.

D. Payment. A depositary bank must pay the returning bank or paying bank returning the check to it for the amount of the check prior to the close of business on the depositary bank's banking day on which the check is received. Payment may be made by:

- i. Debit to an account of the depositary bank on the books of the returning or paying bank;
- ii. Cash;
- iii. Wire transfer; or
- iv. Any other form of payment acceptable to the returning or paying bank.

E. Misrouted Returned Checks and Written Notices of Nonpayment. If a bank receives a returned check or written notice of nonpayment on the basis that it is the depositary bank, and determines that it is not the depositary bank, it must promptly return the check or notice to the actual depositary bank or to a returning bank that agrees to handle the returned check or notice. The Credit Union can also send the check or notice back to the bank from which it was received.

F. Charges. A depositary bank may not impose a fee for accepting and paying checks being returned to it.

G. Right to assert claim. A paying bank or returning bank may be liable to a depository bank for failing to return a check in an expeditious manner only if the depository bank has arrangements in place so that the paying bank or returning bank could return a returned check to the depository bank electronically, directly or indirectly, by commercially reasonable means. The depository bank that asserts the claim has the burden of proof for demonstrating that their arrangements meet this standard.

H. Notification to the Member. When the depository bank receives a returned check, notice of nonpayment, or notice of recovery, it must send or give notice to its members of the facts by midnight on the banking day following the banking day on which it received the returned check, notice of nonpayment or notice of recovery, or within a longer reasonable time.

4. WARRANTIES AND INDEMNITIES.

A. Warranties for electronic checks and electronic returned checks.

i. Each bank that transfers or presents an electronic check or electronic returned check and receives a settlement or other consideration for it warrants that:

1. The electronic image accurately represents all of the information on the front and back of the original check as of the time that the original check was truncated and the electronic information includes an accurate record of all MICR line information required for a substitute check and the amount of the check; and
2. No person will receive a transfer, presentment, or return of, or otherwise be charged for an electronic check or electronic returned check, the original check, a substitute check or a paper or electronic representation of a substitute check such that the person will be asked to make payment based on a check it has already paid.

ii. Each bank that makes the above warranties makes the warranties to:

1. For transfers for collection or presentment - the transferee bank, any subsequent collecting bank, the paying bank, and the drawer; and
2. For transfers for return, the transferee returning bank, any subsequent returning bank, the depository bank and the owner.

B. Transfer and presentment warranties for a remotely created check. If the Credit Union transfers or presents a remotely created check and receives a settlement or other consideration, they warrant that the person on whose account the remotely created check is drawn authorized the issuance of the check in the amount and to the payee stated on the check.

C. Returned check warranties.

i. Each paying or returning bank that transfers a returned check and receives a settlement or other consideration for it, warrants to the transferee returning bank, to any subsequent returning bank, to the depository bank, and to the owner of the check the following:

1. The paying bank returned the check within its deadline;
2. It is authorized to return the check;
3. The check has not been materially altered; and
4. In the case of a notice in lieu of return, the original check has not and will not be returned.

- ii. The above warranties do not apply to checks drawn on the U.S. Treasury, U.S. Postal Service money orders, or checks drawn on a state or local government that are not payable through or at a bank.

D. Notice of nonpayment warranties.

- i. Each paying bank that gives a notice of nonpayment warrants to the transferee bank, to any subsequent transferee bank, to the depository bank and to the owner of the check the following:
 - 1. The paying bank, or in the case of a check payable by a bank and payable through another bank, the bank by which the check is payable, returned or will return the check within its deadline;
 - 2. It is authorized to send the notice; and
 - 3. The check has not been materially altered.
- ii. The above warranties do not apply to checks drawn on the U.S. Treasury, U.S. Postal Service money orders, or checks drawn on a state or local government that are not payable through or at a bank.

E. Remote Deposit Capture Indemnity. The indemnity is provided by a depository bank that is a truncating bank (229.2(eee)(2)), because it accepts deposit of an electronic image or other electronic information related to an original check, does not receive the original check, receives settlement or other consideration for an electronic check or substitute check related to the original check; and does not receive a return of the check unpaid.

- i. That bank shall indemnify a depository bank that accepts the original check for deposit for losses incurred by that depository bank if the loss is due to the check having already been paid.
- ii. A depository bank may not make an indemnity claim if the original check it accepted for deposit bore a restrictive indorsement inconsistent with the means of deposit (i.e. “for mobile deposit only”).
- iii. The depository bank, by agreement, may allocate liability for loss incurred from subsequent deposit of the original check to its member/customer that sent the electronic check related to the original check to the depository bank.

F. Indemnities for Electronically-created Items. Each bank that transfers or presents an electronically-created item and receives a settlement or other consideration for it shall indemnify each transferee bank, any subsequent collecting bank, the paying bank, and any subsequent returning bank against losses that result from the fact that:

- i. The electronic image or electronic information is not derived from a paper check;
- ii. The person on whose account the electronically-created item is drawn did not authorize the issuance of the item in the amount or to the payee stated on the item; or
- iii. A person receives a transfer, presentment, or return of, or otherwise is charged for an electronically created items such that the person is asked to make payment based on an item or check it has already paid.

G. Indemnity Amounts.

- i. The amounts of indemnity shall not exceed the sum of:
 1. The amount of the loss of the indemnified bank, up to the amount of the settlement or other consideration received by the indemnifying bank; and
 2. Interest and expenses of the indemnified bank (including costs and reasonable attorney's fees and other expenses of representation).
- ii. If a loss results in whole or in part from the indemnified bank's negligence or failure to act in good faith, then the indemnity amount shall be reduced in proportion to the amount of negligence or bad faith attributable to the indemnified bank.

H. Notice of Claim. Unless a claimant gives notice or a claim for breach of warranty or for indemnity under this section to the bank that made the warranty or indemnification within 30 days after the claimant has reason to know of the breach or facts and circumstances giving rise to the indemnity and the identity of the warranting or indemnifying bank, the warranting or indemnifying bank is discharged to the extent of any loss caused by the delay in giving notice of the claim.

5. INDORSEMENTS.

A. Indorsement Standards. Banks are required to use a standard form of indorsement when indorsing checks during the forward-collection and return process. The standard provides for indorsements by all collecting and returning banks, with unique requirements for depository banks. These standards are in accordance with American National Stand Specifications and are designed to facilitate faster handling of returned checks and the identification of the depository bank.

6. PRESENTMENT AND ISSUANCE OF CHECKS.

A. Receipt of Electronic Checks. The terms under which a paying bank will accept presentment of an electronic check is governed by the paying bank's agreement with the presenting bank.

B. Receipt of Paper Checks. A paper check is considered received by the paying bank when it is received:

- i. At a location to which delivery is requested by the paying bank;
- ii. At an address of the bank associated with the routing number on the check, whether contained in the MICR line or in fractional form;
- iii. At any branch or head office, if the bank is identified on the check by name without an address; or
- iv. At a branch, head office, or other location consistent with the name and address of the bank on the check if the bank is identified on the check by name and address.

C. Liability of Bank During Forward Collection. Settlements between banks for the forward collection of a check are final when made. However, a collecting bank handling a check for forward collection may be liable to a prior collecting bank, including the depository bank and the depository bank's customer.

D. Same-Day Settlement. A paper check is considered presented, and a paying bank must settle for or return the check, if a presenting bank delivers the check in accordance with reasonable delivery

requirements established by the paying bank and demands payment:

- i. At a location designated by the paying bank for receipt of paper checks at which the paying bank would be considered to have received the paper check, or if no location is designated, at any location under this section and by 8am on the business day (local time).
- ii. If presentment of a paper check meets the requirements of this section, the paying bank is accountable to the presenting bank for the amount of the check unless, by the close of Fedwire on the business day it receives the check it either returns the check or settles with the presenting bank for the amount of the check by credit to an account at a FRB designated by the presenting bank.
- iii. If a paying bank closes on a business day and receives presentment of a paper check on that day, the paying bank is accountable to the presenting bank for the amount of the check, unless by the close of Fedwire on its next banking day it either returns the check or settles with the presenting bank by the amount of the check by credit to an account at a FRB designated by the presenting bank.

7. VARIATION BY AGREEMENT. The effect of the provisions of the Collection of Checks in Regulation CC may be varied by agreement, except that no agreement may disclaim the responsibility of a bank for its own lack of good faith or failure to exercise ordinary care, or can limit the measure of damages for such lack of care or failure. The parties may agree upon the standards by which such responsibility is to be measured, provided the standards are not unreasonable.

8. LIABILITY.

- A. Standard of Care, Liability, Measure of Damages.** All banks must exercise ordinary care and act in good faith in complying with the regulatory requirements. A bank that fails to exercise ordinary care or act in good faith may be liable to the depository bank, the depository bank's customer, the owner of the check or another party to the check. The measure of damages for failure to exercise ordinary care is the amount of the loss incurred, up to the amount of the check, reduced by the amount of the loss the party would have incurred even if the bank had exercised ordinary care. The standard of care and measure of damages does not affect a paying bank's liability to its customer under the UCC or other law.
- B. Paying Bank's Liability.** If a paying bank fails to make an expeditious return of a check, and fails to comply with the deadline for returns in connection with a single nonpayment of a check, it may be liable for failure to meet either standard (but not for both).
- C. Comparative Negligence.** If a person (including a bank) fails to exercise ordinary care or act in good faith in indorsing a check, accepting a returned check or notice of nonpayment, or otherwise, the damages incurred by that person will be in proportion to the amount of negligence or bad faith attributable to that person.
- D. Responsibility Certain Aspects of the Check.**
 - i. The paying bank (or in the case of a check payable through the paying bank and payable by another bank, the bank which the check is payable) is responsible for damages to the extent the condition of the check when issued by or its customer adversely affects the ability of a bank to indorse the check legibly in accordance with regulation.
 - ii. The depository bank is responsible for damages to the extent the condition of the back of a check arising after the issuance of the check and prior to acceptance of the check by it adversely affects

the ability of a bank to indorse the check legibly in accordance with regulation.

- iii. A reconverting bank is responsible for damages to the extent that the condition of the back of a substitute check transferred, presented, or returned by it adversely affects the ability of a subsequent bank to indorse the check in accordance with regulation or causes an indorsement that previously was applied to become illegible.

9. RELATION TO STATE LAW. The provisions of the regulation related to the collection of checks supersede any inconsistent provisions of the UCC as adopted in any state, or of any state law, but only to the extent of the inconsistency.

10. GENERAL PROVISIONS REGARDING SUBSTITUTE CHECKS.

A. Legal Equivalence. A substitute check for which a bank has provided the warranties is the legal equivalent of an original check, if the substitute check:

- i. Accurately represents all the information on the front and back of the original check as of the time the original check was truncated; and
- ii. Bears the legend: “This is a legal copy of your check. You can use it the same way you would use the original check.”

B. Reconverting Bank Duties. A bank must ensure that a substitute check for which it is the “reconverting bank”:

- i. Bears all indorsements applied by parties that previously handled the check in any form for forward collection or return;
- ii. Identifies the “reconverting bank” in a manner that preserves any previous reconverting bank identifications in accordance with ANS X9. 100-140; and
- iii. Identifies the bank that truncated the original check in accordance with ANS X9. 100-140.

C. Applicable Law. A substitute check that is the legal equivalent of an original check will be subject to any provision of Regulation CC, the UCC, and any other applicable federal or state law that the original check would have been subject, so long as such provision is not inconsistent with the Check 21 Act or Subpart D of Regulation CC.

11. SUBSTITUTE CHECK WARRANTIES.

A. Content and Provision of Substitute Check Warranties.

- i. A bank that transfers, presents or returns a substitute check (or a paper or electronic representation of a substitute check) for which it receives consideration warrants the following to the parties identified:
 1. The substitute check meets the requirements for legal equivalence; and
 2. No depositary bank, drawee, drawer, or indorser will receive presentment or return of, or be charged for, the substitute check, the original check, or a paper or electronic representation of either such that that person will be asked to make a payment based on a check that it has

already paid.

- ii. A bank that rejects a check submitted for deposit and returns to its customer a substitute check (or a paper or electronic representation of a substitute check) makes these warranties regardless of whether the bank received consideration.

B. Warranties Recipients. A bank makes the warranties to the person to which it transfers, presents or returns the substitute check (or any representation) and to any later recipient, which could include a collecting or returning bank, the depository bank, the drawer, the payee, the depositor and any endorser. These parties receive the warranties regardless of whether they received the actual substitute check or a representation.

12. SUBSTITUTE CHECK INDEMNITY.

A. Scope of Indemnity. A bank that transfers, presents or returns a substitute check (or any representation) for which it receives consideration must indemnify the recipient and any subsequent recipient (including a collecting or returning bank, the depository bank, the drawer, the drawee, the payee, the depositor and any indorser) for any loss incurred by any recipient of a substitute check if the loss occurred because of the receipt of the substitute check instead of the original check.

- i. A bank that rejects a check submitted for deposit and returns to its customer a substitute check (or representation) shall indemnify the recipient as described above, regardless of whether the bank received consideration.

B. Indemnity Amount.

- i. If the loss resulted from a breach of a substitute check warranty, the amount of the indemnity will be the amount of any loss including interest, costs, reasonable attorney's fees and other expenses of representation proximately caused by the warranty breach.
- ii. If the loss did not result from a breach of a substitute check warranty, the amount of the indemnity will be the sum of the amount of any loss up to the amount of the substitute check, and interest and expenses including costs and reasonable and attorney's fees and other expenses of representation related to the substitute check. The indemnity amount will be reduced in proportion to the amount of negligence or bad faith attributable to the indemnified party.
- iii. The indemnity provisions are intended to put the parties in the position in which they would have been had they received the original check rather than the substitute check. The indemnifying depository bank may satisfy the indemnity by either paying the amount of the indemnity or by producing the original check or a copy of the original.
- iv. If an indemnifying depository bank produces the original check, it is only liable for losses that have been incurred up to the time the original check was provided to the indemnified party. By providing the original check, a depository bank may recover any funds already paid under the indemnity that exceeds the losses incurred up to the time of production. Although the provision of the original check will limit the indemnity a depository bank must provide, it will not affect the bank's liability for breach of warranty.
- v. An indemnifying bank will be subrogated to the rights of the party that it indemnifies to the extent of the indemnity it has provided and may recover from another party based on a warranty or other claim.

13. EXPEDITED RE-CREDIT FOR CONSUMERS.

A. Circumstances Giving Rise to a Claim. A consumer may make a claim for a re-credit with respect to a substitute check if the consumer asserts in good faith that:

- i. The bank holding the consumer's account improperly charged the consumer's account for a substitute check (although the consumer need not be in possession of that substitute check at the time he/she submits a claim);
- ii. The substitute check was not properly charged to the consumer's account or the consumer has a warranty claim with respect to the substitute check;
- iii. The consumer has suffered a loss; and
- iv. Production of the original check or a sufficient copy is necessary to determine whether or not the substitute check was improperly charged or whether the consumer's warranty claim is valid.

B. Timing of Claim. A consumer must make a claim within 40 days from the later of the date the bank mailed or delivered the periodic statement that contains information about the transaction that gave rise to the claim, or the date the bank mailed or delivered the substitute check that gave rise to the claim. The time to submit the claim may be extended by the bank due to extenuating circumstances of the consumer.

- i. If a consumer makes a claim orally and the bank requires the claim to be in writing, the consumer's claim is timely if the oral claim is received within the 40-day time limit and the written claim is received within an additional reasonable amount of time.

C. Content of Claim.

- i. The consumer's claim must include the following information:
 1. A description of the claim, including the reason why the consumer's account was improperly charged for the substitute check or the nature of the warranty claim;
 2. A statement that the consumer suffered a loss and an estimate of the amount of the loss;
 3. The reason why the production of the original check or a sufficient copy is necessary to determine whether the charge to the consumer's account was proper or the consumer's warranty claim is valid; and
 4. Sufficient information to allow the bank to identify the substitute check and investigate the claim.
- ii. If any information required for the claim is missing, the consumer must be notified that the claim is incomplete and identify the specific information that is missing.

D. Submission of Claim. A bank that requires consumers to submit claims in writing:

- i. May permit consumers to submit written claims electronically;
- ii. Must inform consumers who submit oral claims of the requirement that the claim be submitted in

writing (at the time of the oral claim), and may require consumers to submit the written claim within 10 business days after the banking day on which the bank receives the oral claim; and

- iii. Must compute the time periods for acting on consumer claims to begin on the banking day the bank receives the written claim.

E. Action on Claims.

- i. **Valid Claim.** If a bank determines that a consumer's claim is valid, it must do the following:

1. Re-credit the consumer's account for the amount of the loss, up to the amount of the substitute check, plus dividends if the account is a dividend-bearing account, no later than the end of the business day after the banking day on which the bank determines that the consumer's claim is valid; and
2. Send the consumer the C-22 Expedited Re-Credit Claim, Valid Claim Refund Notice.

- ii. **Invalid Claim.** If a bank determines that a consumer's claim is not valid, it must send the consumer the C-24 Expedited Re-Credit Claim, Denial Notice.

F. Status of Claim Undetermined and Provisional Re-Credit.

- i. If the bank has not made a determination as to the validity of the consumer's claim before the end of the 10th business day after the banking day on which the claim was received, the bank must do the following:

1. By the end of that business day, re-credit the consumer's account of the amount of the loss, up to the lesser of the amount of the substitute check or \$2,500, plus dividends on that amount if the account is a dividend-bearing account; and
2. Send the consumer the C-23 Expedited Re-Credit Claim, Provisional Refund Notice.

- ii. The bank will re-credit the consumer's account for the amount of the remaining amount of the loss, if any, up to the amount of the substitute check, plus dividends if the account is a dividend-bearing account, no later than the end of the 45th calendar day after the banking day on which the claim was received, and send the C-22 notice, unless the bank prior to that time has determined the consumer's claim is or is not valid.

- G. Reversal of Re-Credit.** A bank may reverse a re-credit, plus dividends, that have been paid if the bank does the following:

- i. Determines that the consumer's claim was not valid; and
- ii. Provides the proper notices to the consumer.

- H. Availability of Re-Credit.** The amount of any re-credit must be made available for withdrawal from the consumer's account no later than the start of the business day after the banking day on which the re-credit was provided.

- i. The availability of a re-credit may be delayed until the start of the earlier of the business day after the banking day on which the bank determines the claim is valid or the 45th calendar day after the

banking day on which the bank received the oral or written claim, if:

1. The consumer submitted the claim within 30-calendar days after opening his or her account;
 2. Not counting the transaction that gave rise to the re-credit claim; (1) on 6 or more business days within the 6-month period preceding the submission of the claim, the balance in the consumer's account was negative or would have become negative if checks or other charges had been paid, or (2) on two or more business days during the same six month period, the balance in the consumer's account was negative or would have become negative in the amount of \$5,000 or more if checks or other charges had been paid; or
 3. The bank has reasonable cause to believe that the claim is fraudulent.
- ii. A bank that delays availability as provided in the above paragraph may not impose an overdraft fee with respect to drafts drawn by the consumer on re-credited funds until the fifth calendar day after the calendar day on which a C-22 or C-23 notice was provided to the consumer.

I. Notices Relating to Consumer Expedited Re-Credit Claims.

- i. **Notices of Re-Credit.** A bank that re-credits a consumer account must send notice to the consumer of the re-credit no later than the business day after the banking day on which the bank re-credits the consumer account. This notice must include the amount of the re-credit and the date on which the re-credited funds will be available for withdrawal.
- ii. **Notice of Invalid Claim.** A bank must send a notice (C-24 or similar notice) to the consumer no later than the business day after the banking day the bank determines that the consumer's claim is invalid because a substitute check was properly charged to the consumer's account or that the consumer's warranty claim for the substitute check is not valid. The notice shall also include the original check or a sufficient copy and shall demonstrate that the substitute check was properly charged to the consumer's account or that the warranty claim is not valid. Additionally, the notice must include information or documents the bank relied on in making its determination or a statement that the consumer may request copies of such documents or information.
- iii. **Notice of a Reversal of Re-Credit.** A bank must send notice (C-25 or similar notice) no later than the business day after the banking day the bank reverses an amount it previously re-credited to a consumer account. The notice shall also include the amount of the reversal, including both the amount of the re-credit and the amount of dividends paid on the re-credited amount, and the date the reversal was made.
- iv. **Other Claims Not Affected.** Providing a re-credit does not absolve the bank from liability for a claim made under any other provision of law, such as a claim for wrongful dishonor or any additional damages under Regulation CC or the UCC.

14. EXPEDITED RE-CREDIT FOR FINANCIAL INSTITUTIONS.

A. Circumstances Giving Rise to a Claim. A bank that has an indemnity claim under Section 229.53 with respect to a substitute check may make an expedited re-credit claim against an indemnifying bank if:

- i. The claimant bank or another bank it has indemnified, has received a claim for expedited re-credit from a consumer or would have been subject to such a claim if the consumer account had been charged for the substitute check.

- ii. The bank is obligated to provide an expedited re-credit or has suffered a loss due to the substitute check.
- iii. The production of the original check or a sufficient copy is necessary to determine the validity of the charge to the consumer account or the validity of the warranty claim connected with the substitute check.

B. Procedures for Making Claims. A claimant bank must send its claim to the indemnifying bank so that it is received by the end of the 120th calendar day after the date of the transaction that gave rise to the claim.

i. The claim must include the following information:

- 1. A description of the consumer's claim or the warranty claim related to the substitute check and the reason why the substitute check may not be properly charged to the consumer account;
- 2. A statement that the claimant bank is obligated to re-credit a consumer account or otherwise has suffered a loss and an estimate of the amount of the re-credit or loss, including dividends if applicable;
- 3. The reason why production of the original check or a sufficient copy is necessary; and
- 4. Additional information to allow the indemnifying bank to identify the substitute check and investigate the claim.

ii. If a claimant bank submits a copy of a substitute check, the bank shall take reasonable steps to ensure that the copy cannot be mistaken for the actual substitute check.

iii. The indemnifying bank may require the claimant bank to submit the required information in writing and may permit the claimant bank to submit the written claim electronically. At the time a verbal claim is submitted, the indemnifying bank must inform the claimant institution of the requirement for a written claim. The 10-day time period for acting on a claim shall begin on the date the indemnifying bank receives the written claim.

C. Action on Claims. Within 10 days after receiving a claim and all required information, the indemnifying bank must do the following:

- i. Re-credit the claimant bank for the amount of the claim, up to the amount of the substitute check, plus dividends (if applicable);
- ii. Provide the claimant bank with the original check or a sufficient copy; or
- iii. Provide information to the claimant bank regarding why the indemnifying bank is not obligated to comply with the above and provide a re-credit or provide the original check or a copy of the original check.

D. Re-Credit and Other Liabilities. Providing a re-credit does not absolve the indemnifying bank from liability for claims brought under any other law or from damages under Sections 229.53 and 229.56.

E. Indemnifying Bank's Right to a Refund. If a claimant bank reverses a re-credit previously made to a consumer account or receives reimbursement for a substitute check that formed the basis of its expedited re-credit claim, the claimant bank must provide a prompt refund to any indemnifying bank that advanced funds to the claimant. The amount of the refund shall be the amount of the reversal or reimbursement obtained by the claimant, up to the amount previously advanced by the indemnifying bank.

15. LIABILITY.

A. Measure of Damages.

- i. The measure of damages for breach of a warranty is an amount equal to the sum of the amount of the loss suffered as a result of the breach, up to the amount of the substitute check, plus any dividends and expenses (including costs and reasonable attorney's fees and other expenses of representation) related to the substitute check.
- ii. The amount of damages received by a person is reduced by the amount received and retained as a re-credit.
- iii. If a person incurs damages that resulted in whole or in part from that person's negligence or failure to act in good faith, then the amount of any damages due that person (under comparative negligence) shall be reduced in proportion to the amount of negligence or bad faith attributable to that person.

B. Timeliness of Action. Delay is excused if caused by interruption of communication or computer facilities, suspension of payments by another bank, war, emergency conditions, failure of equipment, or other circumstances beyond the control of the bank and if the bank uses such diligence as the circumstances require.

C. Jurisdiction. A person may bring an action to enforce a claim in any United States district court or in any other court of competent jurisdiction. The statute of limitations for filing a lawsuit shall be one year from the date on which the person's cause of action accrued. A cause of action accrues as of the date on which the injured person first learns, or by which such person reasonably should have learned of the facts and circumstances giving rise to the cause of action.

D. Notice of Claims. Unless a person gives notice of a claim to the warranting or indemnifying bank within 30 calendar days after the person has reason to know of both the claim and the identity of the warranting or indemnifying bank, the warranting or indemnifying bank is discharged from liability in an action to enforce a claim to the extent of any loss caused by the delay in giving notice of the claim. A timely re-credit claim by a consumer constitutes timely notice.

16. CONSUMER AWARENESS.

A. General Disclosure Requirement and Content. Every bank shall provide a disclosure (similar to the Substitute Check Policy Disclosure in Appendix C-5A or one containing similar language) to each of its members/customers that describes the following:

- i. That a substitute check is the legal equivalent of an original check; and
- ii. The consumer re-credit rights that apply when a consumer in good faith believes that a substitute check was not properly charged to his or her account.

B. Distribution of Disclosure.

- i. The disclosure only needs to be provided to one account holder in a joint account.
- ii. Additionally, the Credit Union will provide the disclosure to members who request an original check or a copy of a check and instead receive a substitute check. The disclosure must be provided no later than the time the consumer receives the substitute check.
- iii. The Credit Union will provide the above disclosure to members who receive paid original or substitute checks with periodic statements.
- iv. The Credit Union will provide the above disclosure whenever new accounts are opened.

17. **MODE OF DELIVERY OF INFORMATION.** The Credit Union may deliver any required notice, disclosure or other information including original checks, copies of checks and substitute checks by US mail or other means (including electronically) by which the consumer has agreed to receive account information.
18. **RELATION TO OTHER LAW.** The Check 21 Act and Subpart D of Regulation CC supersede any provision of federal or state law, including the UCC that is inconsistent, but only to the extent of the inconsistency.
19. **VARIATION BY AGREEMENT.** No provision of this regulation may be varied by agreement of the parties, except that Section 229.55 may be varied by agreement of the banks involved.

Policy 2500: Truth-In-Savings

Revised Date: 03/28/2015

Model Policy Revised Date: 03/28/2015

General Policy Statement:

[CUName] (Credit Union) will comply with the Truth-in-Savings Act and corresponding NCUA regulation (Part 707) by providing members with proper Truth-in-Savings disclosures in a timely manner. The Board delegates to management the responsibility for developing and distributing Truth-in-Savings disclosures in accordance with the following guidelines.

Guidelines:

1. **DIVIDEND POLICY.** The Credit Union must follow appropriate state or federal law in determining dividend policies and declaring dividends.

A. **Policy.** The Credit Union Board will develop a nondiscriminatory dividend policy for the payment of dividends on each type of share account offered.

B. **Dividend Period.** The dividend period for each type of share account will be [2500-2].

C. **Credit Determination Date.** Share purchases begin earning dividend credit on [2500-3].

D. **Dividend Distribution Date.** Dividends will be distributed to members of each share account type on [2500-4].

E. **Associated Penalties.** If applicable, member will be assessed a penalty of [2500-5] for [2500-6] on each type of share account.

F. **Method of Computation.** Interest shall be calculated on each type of share account as follows [2500-7].

G. **Transfers to Reserves.** Provisions are made for the required transfers to reserves for payment of all dividends on all types of share accounts.

H. **Earnings.** Sufficient and available prior and/or current earnings are available at the end of the dividend period.

I. **Declaration of Dividends.** The Board formally makes a dividend declaration in accordance with the credit union's dividend policy.

J. **Payment.** Dividends must be paid to members by a credit to the appropriate share account, payment by check or share draft, or by a combination of the two methods.

2. **GENERAL DISCLOSURE REQUIREMENTS.**

A. **Form.** The Credit Union will make the disclosures required by Part 707 clearly and conspicuously, in writing, and in a form the member can keep. The disclosures may be presented separately or combined with disclosures for the Credit Union's other accounts, so long as it is clear which disclosures are applicable to the member's account.

B. Reflection of Terms. The disclosures will reflect the terms of the legal obligation between the member and the Credit Union, and may be provided in a language other than English (provided the disclosures are available in English upon request).

C. Electronic Delivery. The Credit Union may deliver the periodic statement disclosures electronically if the member agrees. This delivery includes visual text displayed on equipment such as a personal computer monitor. Disclosures, notices, and advertisements under TIS (including periodic statement disclosures) are subject to the detailed electronic disclosure requirements of the Electronic Signatures Global and National Commerce Act. The Credit Union may deliver the disclosures under TIS if the member affirmatively consents to the electronic delivery and receipt of consumer disclosures. Prior to consent, the member must receive a Consent Notice that informs them of certain protections in four general areas: paper option, withdrawal of consent, scope of consent, and hardware/software requirements to receive electronic disclosures.

D. Multiple Account Owners. If an account is owned by more than one member (such as a joint account), disclosure may be made to any one of the account owners.

E. Oral Responses to Inquiries. In an oral response an inquiry about dividend rates payable on its accounts, the Credit Union must state the annual percentage yield, and may include the dividend rate. In stating a dividend rate and APY, the Credit Union must:

- i. For dividend-bearing accounts other than term share accounts, specify a dividend rate and APY as of the last dividend declaration date. In the event that the rate and APY may be inaccurate because of known or contemplated dividend rate changes, the Credit Union may disclose the prospective rate and APY.
- ii. For interest-bearing accounts and for dividend-bearing term share accounts, specify an interest (dividend) rate and APY that were offered within the most recent 7 calendar days; state that the rate and yield as of an identified date; and provide a telephone number members may call to obtain current rate information.

F. Rounding and Accuracy Rules for Rates and Yields.

- i. **Rounding.** The APY, the APY earned and the dividend rate must be rounded to the nearest one-hundredth of one percentage point (.01%) and expressed to 2 decimal places. For account disclosures, the dividend rate may be expressed to more than 2 decimal places.
- ii. **Accuracy.** The APY (and the APY earned) will be considered accurate if not more than one twentieth of one percentage point (.05%) above or below the APY (and the APY earned).

3. ACCOUNT DISCLOSURES.

A. Timing of Delivery.

- i. The Credit Union will provide the account disclosures to a member or potential member before an account is opened or a service is provided. If the member is not present at the Credit Union when the account is opened or the service is provided and has not already received the disclosures, the Credit Union will mail or deliver the disclosures no later than 10 business days after the account is opened or the service is provided, whichever is earlier.

- ii. If the member or potential member who is not present at the Credit Union uses electronic communication to open an account or request a service, the required disclosures will be provided before an account is opened or a service is provided.
- iii. The Credit Union will provide account disclosures to a member or potential member upon request. If the person is not present at the Credit Union when the request is made, the Credit Union will mail or deliver the disclosures within a reasonable time. The disclosures may be provided in paper form or electronically if the member agrees and provides an e-mail address.

B. Content of Disclosures. The account disclosures will contain information applicable to each account. The following is a list of these disclosures.

i. Rate Information

1. For interest-bearing accounts and dividend-bearing term share accounts, the “annual percentage yield” and the “interest rate” (“dividend rate”), using those terms, and for fixed-rate account the period of time the interest (dividend) rate will be in effect.
2. For dividend-bearing accounts other than term share accounts, the “dividend rate” and “annual percentage yield,” using those terms, as of the last dividend declaration date. These may be prospective if there might be inaccuracies because of known contemplated dividend rate changes.
3. For variable rates:
 - a. The fact that the dividend rate and APY may change;
 - b. How the dividend rate is determined;
 - c. The frequency with which the dividend rate may change; and
 - d. Any limitation on the amount the dividend rate may change.

ii. Compounding and Crediting.

1. The frequency with which dividends are compounded and credited, and the dividend period for dividend bearing accounts.
2. If members will forfeit dividends if they close an account before accrued dividends are credited, a statement that the dividends will not be paid in such cases.

iii. Balance Information. The balance computation method used to calculate dividends on the account; a statement of when dividends begin to accrue on non-cash deposits; and any minimum balance required to:

1. Open the account;
2. Avoid the imposition of a fee; or
3. Obtain the APY disclosed.

iv. **Fees.** The amount of any fee that may be imposed in connection with the account (or an explanation of how the fee will be determined) and the conditions under which the fee may be imposed.

v. **Transaction Limitations.** Any limitations on the number or dollar amount of withdrawals or deposits.

vi. **Features of Term Share Accounts.** For term share accounts:

1. **Maturity Date.** Date required to obtain APY disclosed.

2. **Early Withdrawal Penalties.** A statement that a penalty will be imposed for early withdrawal, the conditions under which penalty for early withdrawal may be assessed, and how the penalty is calculated.

3. **Withdrawal of Earnings Prior to Maturity.** A statement that the APY assumes earnings remain on deposit until maturity, and that withdrawal of earnings prior to maturity will reduce earnings.

4. **Type of Renewal.** A statement of whether the account will renew automatically at maturity.

a. If it will, a statement of whether a grace period will be provided and, if so, the length of that period.

b. If it will not, a statement of whether dividends will be paid after maturity of the member does not renew the account.

vii. **Bonuses.** The amount or type of any bonus, when the bonus will be provided, and any minimum balance and time requirements to obtain the bonus.

viii. **Nature of Dividends.** For accounts earning dividend, other than term share accounts, a statement that dividends are paid from current income and available earnings, after required transfers to reserves at the end of a dividend period.

C. **Notice to Existing Accountholders.** The Credit Union must provide notice to members who receive periodic statements that states members may request account disclosures containing terms, fees and rate information for the account.

4. SUBSEQUENT DISCLOSURES.

A. **Change in Terms.** Advanced notice will be provided to members if the change may reduce the APY or adversely affect the member. The notice will be mailed or delivered at least 30 calendar days before the effective date of the change, and must include the effective date of the change. **No** notice is required for the following:

i. Variable rate changes; and

ii. Share draft and check printing fees.

B. **Notice Before Maturity for Term Share Accounts Longer Than One Month That Renew**

Automatically. These disclosures will be mailed or delivered at least 30 calendar days before maturity of the existing account. Alternatively, the disclosures *may* be mailed or delivered at least 20 calendar days before the end of the grace period on the existing account, provided a grace period of at least 5 calendar days is allowed.

- i. If the maturity is longer than one year, the disclosures for a new account (See (3)(B)) will be provided, along with the date the existing account matures. If the dividend rate and APY that will be paid are unknown, the Credit Union will state those rates have not yet been determined, the date when they will be determined, and a telephone number members may call to obtain the rate and APY that will be paid for the new account.
- ii. If the maturity is one year or less, but longer than one month, the Credit Union will either provide the disclosures in Section (4)(B)(i) or disclose the date the existing account matures and the new maturity date if the account is renewed. If the rate and APY have not yet been determined, the disclosures in Section (4)(B)(i) for undetermined rates will also be included.

5. TIMING OF DISCLOSURES.

A. **Initial Disclosures.** The Credit Union will provide initial Truth-in-Savings disclosures of account terms when member opens an account or when a service is provided, and upon request.

- i. **Member Not Present in Person.** If the member is not present at the Credit Union when an account is opened or a service is provided, the Credit Union will either mail or deliver the disclosures no later than 10 business days after the account is opened or the service is provided, whichever is earlier.

B. **Subsequent Disclosures.** The Credit Union will provide members with proper account disclosures:

- i. 30 days before changing terms that may reduce the yield or adversely affect the member.
- ii. 30 days before the maturity of rollover time accounts.
- iii. 10 days before the maturity of non-rollover time accounts with maturities greater than one year.

6. REQUIREMENTS FOR PERIODIC STATEMENT DISCLOSURES.

- A. The “annual percentage yield,” using that term, earned during statement period.
- B. The dollar amount of interest or dividends earned (accrued and paid or credited) during statement period. The dollar amount of any extraordinary dividends earned during the statement period will be shown as a separate figure.
- C. Fees imposed, if any, during statement period. The fees will be itemized by type and dollar amount.
- D. The total number of days in the statement period, or the beginning and ending days of the period.
- E. **Overdraft Fees.** The Credit Union will disclose the monthly and yearly total dollar aggregate fees and charges, for paying checks and returning items unpaid, for the statement period and calendar year-to-date, entitled “Total Overdraft Fees.” This includes interest charges, daily or other periodic fees, or fees charged for maintaining an account in overdraft status. The aggregate fee total does not include fees for transferring funds from another member account to avoid an

overdraft, or fees charged under a service subject to Regulation Z. The Credit Union may use terminology such as “returned item fee” or “NSF fee” to describe the fees for returning items unpaid;

- i. **Waived or Credited Fees.** When the Credit Union provides a statement for a given period reflecting fees imposed during a previous period that were waived or credited to an account, the Credit Union will show an adjustment in the total for the calendar year-to-date and in the applicable statement period.

7. ADVERTISING.

A. **Truthful.** Credit Union advertising shall truthfully reflect deposit contracts. Advertisements will not be misleading, inaccurate or misrepresent the Credit Union’s account agreement. Accounts will not be described as “free” or “no cost” if any maintenance or activity fee is imposed on the account. The word “profit” may not be used in referring to dividend or interest paid on an account.

- i. **Maintenance and Activity Fees.** Maintenance and activity fees include the following:

1. Any fee imposed if a minimum balance requirement is not met, or if the member exceeds a specific number of transactions.
2. Transactions and service fees that members reasonably expect to be imposed on an account on a regular basis.
3. A flat fee, such as a monthly service fee.
4. Fees imposed to deposit, withdraw or transfer funds, including per-check or per-transaction charges (for example, \$.25 for each withdrawal, whether by check, in person).

- ii. **Other Fees.** Examples of fees that are **not** maintenance or activity fees include the following:

1. Fees that are not required to be disclosed under §707.4(b)(4).
2. Check printing fees of any type.
3. Fees for obtaining copies of checks, whether or not the original checks have been truncated or returned to the member periodically.
4. Balance inquiry fees.
5. Fees assessed against a dormant account.
6. Fees for using an ATM.
7. Fees for electronic transfer services that are not required to obtain an account, such as preauthorized transfers or home electronic credit union services.
8. Stop payment fees and fees for share drafts or checks returned unpaid.

- iii. **Similar Terms.** An advertisement may not use a term such as “fees waived” if a maintenance or activity fee may be imposed because it is similar to the terms “free” or “no cost.”

- iv. **Specific Account Services.** Credit unions may advertise a specific account service or feature as free as long as no fee is imposed for that service or feature. For example, credit unions offering an account that is free of deposit or withdrawal fees could advertise that fact, as long as the advertisement does not mislead members by implying that the account is free and that no other fee (a monthly service fee, for example) may be charged.
- v. **Free for Limited Time.** If an account (or a specific account service) is free only for a limited period of time—for example, for one year following the account opening—the account (or service) may be advertised as free as long as the time period is stated.
- vi. **Conditions not related to share accounts.** Credit unions may advertise accounts as “free” for members that meet conditions not related to share accounts, such as the member's age. For example, credit unions may advertise a share draft account as “free for persons over 65 years old,” even though a maintenance or activity fee may be assessed on accounts held by members that are 65 or younger.

B. Permissible Rates. If an advertisement states a rate of return, it must state the rate as an “annual percentage yield,” using that term (the abbreviation “APY” may be used provided the spelled-out term is used at least once in the advertisement). The advertisement may not state any other rate, except that the “dividend rate,” using that term, may be stated in conjunction with, but not more conspicuously than, the APY to which it relates.

C. When Additional Disclosures are Required. Whenever an advertisement states a rate of return (the annual percentage yield, or APY, so long as “annual percentage yield” is used at least once in the advertisement), the following additional disclosures must also be included:

- i. **Variable Rates.** For variable-rate accounts, a statement that the rate may change after the account is opened.
- ii. **Time Annual Percentage Yield is Offered.** For interest-bearing and dividend-bearing term share accounts, the period of time the APY will be offered, or a statement that the APY is accurate as of a specific date. For accounts other than term-share accounts, a statement that the APY is accurate as of the last dividend declaration date.
- iii. **Minimum Balance.** The minimum balance required to earn the APY.
- iv. **Minimum Opening Deposit.** The minimum deposit required to open the account, if it is greater than the minimum balance necessary to earn the advertised APY.
- v. **Effect of Fees.** A statement that fees could reduce earnings on the account.
- vi. **Features of Term Share Accounts.** For term share accounts, the following information:
 - 1. **Early Withdrawal Penalties.** A statement that a penalty will or may be imposed for early withdrawal.
 - 2. **Required Dividend Payouts.** For non-compounding term share accounts with a stated maturity greater than one year that do not compound dividends on an annual or more frequent basis, that require dividend payouts at least annually, a statement that dividends cannot remain on account and payout of dividends is mandatory;

vii. **Bonuses.** If a bonus is stated in an advertisement, the following information must be included clearly and conspicuously:

1. The “annual percentage yield,” using that term;
2. The time requirements to obtain the bonus;
3. The minimum balance required to obtain the bonus;
4. The minimum balance required to open the account, if it is greater than the minimum balance necessary to obtain the bonus; and
5. When the bonus will be provided.

viii. **Internet Advertisements.** If a triggering term appears on a particular web page, the Credit Union may include these additional disclosures on another web page of there is a clear reference to that page, which may be accomplished, for example, by including a link.

D. **Exceptions to the Advertising Requirements.** The advertising content above need not be included in advertisements provided by the following types of media:

- i. Broadcast or electronic media (i.e., television or radio);
- ii. Outdoor media, such as billboards;
- iii. Telephone response machines;
- iv. Indoor signs; and
- v. Newsletters, provided they are provided to members ONLY. (If posted on the Internet in a non-password protected area, the advertising disclosure requirements above will apply).

8. ADDITIONAL DISCLOSURES REQUIRED FOR OVERDRAFT SERVICES.

A. **Disclosure of Total Fees on Periodic Statements.** See (6)(E).

B. **Advertising Disclosures for Overdraft Services.**

i. **Disclosures.** Except where an exception applies, any advertisement promoting the payment of overdrafts must disclose the following in a clear and conspicuous manner:

1. The fee or fees for the payment of each overdraft;
2. The categories of transactions for which a fee for paying an overdraft may be imposed;
3. The time period by which the member must repay or cover any overdraft; and
4. The circumstances under which the Credit Union will **not** pay an overdraft.

ii. **Communications About the Payment of Overdrafts NOT Subject to Additional Advertising Disclosures.** Section (8)(B)(i) does **not** apply to:

1. An advertisement promoting a service where the Credit Union's payment of overdrafts will be agreed upon in writing and subject to Regulation Z;
2. A communication by the Credit Union about the payment of overdrafts in response to a member-initiated inquiry about share accounts or overdrafts. Providing information about the payment of overdrafts in response to a balance inquiry made through an automated system, such as a telephone response machine, ATM, or the Credit Union's Internet site, is not a response to a member-initiated inquiry for purposes of this paragraph;
3. An advertisement made through broadcast or electronic media, such as television or radio;
4. An advertisement made on outdoor media, such as billboards;
5. An ATM receipt;
6. An in-person discussion with a member;
7. Disclosures required by Federal or other applicable law;
8. Information included on a periodic statement or a notice informing a member about a specific overdrawn item or the amount the account is overdrawn;
9. A term in a share account agreement discussing the Credit Union's right to pay overdrafts;
10. A notice provided to a member, such as at an ATM, that completing a requested transaction may trigger a fee for overdrawing an account, or a general notice that items overdrawing an account may trigger a fee;
11. Informational or educational materials concerning the payment of overdrafts if the materials do not specifically describe the Credit Union's overdraft service; or
12. An opt-out or opt-in notice regarding the Credit Union's payment of overdrafts or provision of discretionary overdraft services.

iii. **Exception for ATM Screens and Telephone Response Machines.** The disclosures (8)(B)(i) 2 and 4 are **not** required in connection with any advertisement made on an ATM screen or using a telephone response machine.

iv. **Exception for Indoor Signs.** Section (8)(B)(i) does **not** apply to advertisements for the payment of overdrafts on indoor signs, provided that the sign contains a clear and conspicuous statement that fees may apply and that members should contact an employee for further information about applicable fees and terms. For purposes of this paragraph, an indoor sign does **not** include an ATM screen.

C. **Disclosure of Account Balances.** If the Credit Union discloses balance information to a member through an automated system, the balance may not include additional amounts the Credit Union may provide to cover an item when there are insufficient or unavailable funds in the member's account, whether under a service provided in its discretion, a service subject to Regulation Z, or a service to transfer funds from another member account. The Credit Union may, at its option, disclose additional account balances that include such additional amounts, if the Credit Union prominently states that any

such balance includes such additional amounts and, if applicable, that additional amounts are **not** available for all transactions.

9. **RECORD RETENTION.** The Credit Union will retain copies of Truth-in-Savings disclosures, notices, and advertising for two years. After March 1, 2001, the Credit Union may retain electronic copies of all disclosures that Truth-in-Savings requires to be retained. An accurate electronic copy will satisfy the requirements that the "original" disclosure or other record be retained, provided the electronic disclosure or other record is accessible by all persons legally entitled to access, for the period of time required by applicable law, "in a form that is capable of being accurately reproduced for later reference, whether by transmission, printing, or otherwise." See Policy 10011, Table 11.

Policy 2600: Electronic Fund Transfers

Revised Date: 12/20/2017

Model Policy Revised Date: 12/20/2017

General Policy Statement:

[CUNAME] (Credit Union) utilizes electronic fund transfer services (EFT) to manage cash resources more efficiently. Specifically, the Credit Union uses the FedWire FEDLINE system to transfer funds related to its own operations and to transfer funds on behalf of its members. The Credit Union also provides other electronic services to members, such as automatic teller machines, telephone audio response, and debit cards.

The purpose of this policy is to ensure quality internal controls and minimize the inherent risks associated with various EFT systems. Systems covered under this policy include any transfer of funds initiated through an electronic terminal, telephonic instrument, computer, or magnetic tape that orders, instructs, or authorizes the Credit Union or any other financial institution to debit or credit an account. The Board will periodically assess the risks associated with EFT and will update this policy at least annually.

Guidelines:

1. **EFT SYSTEMS.** The Credit Union utilizes the following EFT systems:

A. **FEDLINE.** The FedWire Fedline system allows the Credit Union to transfer funds from its Federal Reserve account to any other depository institution. Likewise, the Credit Union may receive funds from sending depository institutions. Under the operating rules of FedWire, each transfer is final and irrevocable when the receiving depository institution is notified of the transfer.

B. **Retail Systems.** The Credit Union offers the following electronic services to members:

- i. Automatic Teller Machines.
- ii. Telephone audio response.
- iii. Debit cards.
- iv. Point of sale.

2. **EFT RISK ASSESSMENT.**

A. **Credit Risk.**

- i. **Receiver Risk.** Receiver risk arises from the possibility that a sending institution will not honor a transfer. The Credit Union eliminates receiver risk by avoiding revocable transfers. Under the FedWire system all payments are final and irrevocable.
- ii. **Sender Risk.** The Credit Union assumes sender risk whenever it makes an irrevocable payment on behalf of a member through extension of credit. The Credit Union minimizes this risk by:
 - a. Monitoring loans and any payments against uncollected funds or insufficient balances; and
 - b. Initiating effective collection procedures where necessary.

B. Settlement Risk. Settlement risk arises from the possibility that one participant in the payment system may be unable to honor its obligations at time of settlement, which in turn deprives other participants including the Credit Union of expected funds. Like receiver risk, settlement risk is minimized by only initiating and receiving irrevocable transfers.

C. Systemic Risk. The Board acknowledges that EFT systems may expose the Credit Union to systemic risk arising from the failure of one participant to honor settlement. However, the Credit Union has determined that these risk levels are within the Credit Union's risk tolerance.

D. Legal Risk and Sovereign Risk. The Board recognizes that the Credit Union is exposed to a certain degree of legal risk since there is no binding system of international commercial law for electronic payments. The Credit Union minimizes this risk by not participating in international transactions. In addition, by limiting transactions to the United States the Credit Union effectively eliminates sovereign risk resulting from adverse foreign government action.

E. Operational Risk. Operational risk is the Credit Union's most significant source of EFT risk exposure. The Board delegates responsibility to management for developing adequate procedures that reduce operational risk to acceptable levels. Such procedures shall provide for physical security, data security, systems testing, contingency planning, segregation of duties, and adequate backup.

3. IDENTIFICATION AND CONTROL OF OPERATIONAL RISKS. The Credit Union has identified three areas of operational risk:

A. System Failure. The risk that hardware or software will malfunction due to design defects, insufficient capacity, or mechanical breakdown. The Credit Union controls this risk by periodically evaluating the systems design and capacity.

B. System Disruption. The risk that the EFT system is unable to process transactions due to system failure, natural disasters, fires, terrorists, or any other reason that could cause Credit Union operations to cease. The Credit Union minimizes this risk through contingency planning. In the event of system failure, wire transfers will be made through corporate central. In the event of a disaster, fire, or terrorist attack, sensitive information will be adequately secured whenever possible.

C. System Compromise. The risk of improper transfers due to error, fraud, or malicious acts, including the risk that records will be damaged or that funds will be diverted, altered, or manipulated. The Credit Union controls this risk through the development and implementation of internal controls.

4. INTERNAL CONTROLS. The Board delegates to management the responsibility for developing, implementing, reviewing, updating, and periodically testing internal controls. Internal controls should include procedures written in accordance with the following guidelines.

A. Personnel Procedures.

- i. The Credit Union will run security checks on all personnel hired for sensitive positions in the wire transfer area. In addition, employees in sensitive positions are required to submit periodic statements of indebtedness.
- ii. The Credit Union will develop and implement a training program designed to ensure accurate performance of wire transfer activities and a thorough understanding of the necessity for internal controls. The program will also train employees to identify and report possible schemes to defraud.

- iii. Supervisors will afford special attention to new employees assigned to work in the wire transfer function to ensure proper training and compliance with Credit Union procedures and policies. As a general rule, new employees are prohibited from working in sensitive areas of the wire transfer function.
- iv. The Credit Union will inform employees that their responsibilities could be rotated at any time without prior notice.
- v. Relatives of employees in the wire transfer function may NOT work in the Credit Union's bookkeeping or data processing department.
- vi. The Credit Union will immediately reassign employees from sensitive areas of the wire transfer function upon receiving notice of resignation or upon giving notice of termination.

B. Operating Procedures.

1. Separation of Duties.

1. The receipt, data entry, and authentication functions will be adequately segregated.
2. The function of determining the propriety of transactions will be performed by someone who does NOT receive orders and requests.
3. The function of reviewing rejects and exceptions is performed by someone who does NOT perform the receipt, preparation, or transmittal functions.
4. Investigations of failed payments are conducted by someone independent of the operating unit.

2. Security.

1. **Access to Area.** Access to the wire transfer area is restricted to authorized personnel. Unauthorized individuals visiting the area must be accompanied by an authorized individual at all times.

2. Access to Terminals.

- a. **Passwords.** The Credit Union restricts access to wire terminals and sensitive functions through password protection. Passwords are frequently changed to ensure integrity.
- b. **Time-of-Day Controls.** Wire terminals are regulated by time-of-day controls. All terminals in the transfer area are shut down after normal working hours. Access during unauthorized times requires supervisory approval.
- c. **Dual Operation.** At least two authorized employees must be present during operation of the terminal.

3. **Records.** The wire transfer area will maintain current records and retain them for at least five years (See Policy 10000, Table 11). Records include:

1. List of authorized signatures and amounts for member transfers.
2. List of officers authorized to initiate transfers relating to Credit Union investments and any limits or restrictions. See Investment Policy.
3. Advices, requests, or instructions involving transfers over \$10,000. Funds transfer message requests will contain:
 - a. Sequence number;
 - b. Amount if funds are to be paid;
 - c. Name of member making request;
 - d. Date;
 - e. Evidence of authentication;
 - f. Paying instructions; and
 - g. Authorizing signatures.
4. **Order Control.** All incoming and outgoing payment orders and message requests will be received in the wire transfer area, and all payment orders will be:
 1. Time stamped or sequentially numbered;
 2. Documented in a log book;
 3. Examined for signature authenticity; and
 4. Reviewed to determine whether persons initiating transfer requests have proper authority.
5. **End-of-Day Controls.** The following will be accounted for in an end-of-day proof to ensure that all requests have been processed.
 1. All payment orders and message requests.
 2. All pre-numbered forms including cancellations
 3. Daily reconciliation of funds sent and received.
6. **Testing.**
 1. The testing area will be separated from the remainder of the operation area.
 2. Test codes are:
 - a. Required for telephonic requests;
 - b. Used for transactions verified by someone other than the person who receives the

request;

c. Restricted to authorized personnel; and

d. Maintained in a secure environment when not used.

7. **Supervisory Review.** A supervisor will review:

1. All transactions prior to release of payments.

2. Daily reconciliation of funds transfer and message request activity;

3. Adjustments, open items, and reversals.

5. MANAGEMENT REVIEW.

A. **Reports.** Management will regularly review the following reports and promptly report significant matters to the Board.

i. Fund transfer activity reports documenting the number of items received and paid as well as total volume;

ii. Large overdrafts and drawings against uncollected funds;

iii. Payment activity for daylight overdrafts;

iv. List of suspense accounts;

v. Income and expenses relating to wire transfer operations; and

vi. Other reports as directed by the Board.

B. **Monitoring.** Management will regularly review:

i. Staff and employee compliance with credit and personnel procedures, operating instructions, and other internal controls.

ii. Capabilities of staff and employees.

iii. Adequacy of equipment relative to current and expected volume.

iv. Creditworthiness of funds transfer members.

6. **INTERNAL AUDITS.** The Supervisory Committee will oversee an annual comprehensive audit of operational internal controls and submit its findings to the Board.

A. **Audit Findings.** The Board report should include an assessment of risks, evaluation of the adequacy of controls, and determination of compliance with this policy and applicable laws, regulations, and rules.

B. **Board Action.** The Board will review audit findings and institute corrective action to address deficiencies noted.

7. **INTERNATIONAL REMITTANCE TRANSFERS.** International Remittance Transfers (IRTs) are electronic transfers of funds that are more than \$15 requested by members in the United States, and sent to people or companies in foreign countries.

The credit union will only comply with the International Remittance Transfer (IRT) requirements if the credit union provided 100 or more IRTs (including wires and all other electronic transactions) in the previous calendar year, and has provided 100 or more remittance transfers in the current calendar year. The credit union will monitor IRT transactions to ensure they comply with Regulation E requirements in the event they are exempt from the rule and perform IRTs that would qualify them for compliance with the regulation.

A. **Disclosures.** The credit union will provide appropriate disclosures to members who send IRTs:

- i. **Pre-Payment Disclosure.** The pre-payment disclosure will meet Regulation E requirements and conform to the safe harbor disclosure as provided in Regulation E, Part 1005 Subpart B, Appendix A (Model Disclosure Clauses and Forms). The pre-payment disclosure will be given to the member before he or she pays for the remittance transfer. This disclosure will list the amount of money to be transferred, the exchange rate, certain fees including those collected by the provider, taxes collected by the provider, and the amount of money expected to be delivered abroad, not including certain recipient institution fees or foreign taxes.
- ii. **Receipt.** The receipt will meet Regulation E requirements and conform to the safe harbor disclosure as provided in Regulation E, Part 1005 Subpart B, Appendix A (Model Disclosure Clauses and Forms). The credit union will provide a receipt when payment is made. The receipt will repeat the information in the pre-payment disclosure. The receipt must also tell the member the transfer date, date when the money will arrive, name of the recipient, error resolution/cancellation rights, credit union contact information, state regulator contact information, and CFPB contact information. (If the pre-payment disclosure is inaccurate, a corrected disclosure must be provided.)
- iii. **Combined Disclosure.** At the Credit Union's discretion they may provide members with a combined disclosure. The combined disclosure will meet Regulation E requirements for timing and conform to the safe harbor disclosure as provided in Regulation E, Part 1005 Subpart B, Appendix A (Model Disclosure Clauses and Forms). The combined disclosure will be provided when the member requests the transfer, but before the member pays for the transfer. If the Credit Union provides a combined disclosure, the member must also be given proof of payment when payment is made. This proof of payment must be clear and conspicuous, retainable, and may be provided in writing or electronically.
- iv. **Language.** Disclosures must always be made in English. For most transactions, the Credit Union must also provide the sender disclosures in any foreign languages principally used to advertise, solicit, or market remittance transfer services at an office in which the sender conducts a transfer or asserts an error.

B. **Estimates.**

- i. The Credit Union may disclose estimated amounts if:
 1. The Credit Union cannot determine the exact amounts for reasons beyond its control;
 2. The Credit Union is an insured institution; and

3. The international remittance transfer is sent from the member's account with the Credit Union.
 - ii. Estimates may be provided for transfers to certain countries if the Credit Union cannot determine the exact amounts when the disclosure is required and the country where the transfer will be received is on the list of safe harbor countries published by the CFPB.
 - iii. Estimates for international remittance transfers scheduled before the date of transfer may be disclosed if the remittance transfer is scheduled by a member five or more business days before the date of the transfer and meets the requirements outlined in Section (7)(D) of this policy. In addition, if, at the time the member schedules such a transfer, the Credit Union agrees to a member's request to fix the amount to be transferred in the currency in which the remittance transfer will be received and not the currency in which it is funded.
 - iv. Estimates provided will be based on the below-listed approach or approaches:
 1. **Exchange rate.** In disclosing the exchange rate an estimate must be based on one of the following:
 - a. For remittance transfers sent via international ACH the most recent exchange rate set by the recipient country's central bank or other governmental authority and reported by a Federal Reserve Bank;
 - b. The most recent publicly available wholesale exchange rate and, if applicable, any additional spread that the remittance transfer provider or its correspondent typically applies to such a wholesale rate for remittance transfers for that currency; or
 - c. The most recent exchange rate offered or used by the person making funds available directly to the designated recipient or by the person setting the exchange rate.
 2. **Transfer Amount in the Receiver's Currency.** If the transfer amount will be in the currency in which the funds will be received by the designated recipient the estimation will be based on the estimated exchange rate as described in Section (7)(B)(iv)(1)(a-c) of this policy, prior to any rounding of the estimated exchange rate.
 3. **Covered Third-party Fees.** Estimated covered third-party fees will be disclosed as a percentage of the amount transferred to the designated recipient and will be based on an estimated exchange rate provided in accordance with Section (7)(B)(iv)(1)(a-c) of this policy, prior to any rounding of the estimated exchange rate.
 - a. **Imposed by intermediary or final institution.** In disclosing covered third-party fees imposed by an intermediary or final receiving institution the estimate will be based on one of the following:
 - i. The Credit Union's most recent remittance transfer to the designated recipient's institution, or
 - ii. A representative transmittal route identified by the Credit Union.
 4. **Amount of currency that will be received by the designated recipient.** In disclosing the amount of currency that will be received by the designated recipient the estimate will be

based on the information provided in accordance with Section (7)(B)(iv)(1-3) of this policy.

C. Cancellation. Except for transfers scheduled before the date of transfer, the Credit Union will allow a member to cancel an international remittance transfer for up to 30 minutes after he or she pays for the transaction, as long as the funds have not yet been picked up or deposited and the sender provides specified recipient contact information and enough information for you to identify the transaction.

D. Preauthorized International Remittance Transfers.

- i. For a one-time transfer scheduled five or more business days before the date of transfer or for the first in a series of preauthorized international remittance transfers, the Credit Union will provide the prepayment disclosure and receipt, or the combined disclosure when the member requests the transfer, but before the member pays for the transfer.
- ii. If the disclosure(s) is provided and payment is not processed by the Credit Union at the time the remittance transfer is scheduled, the Credit Union will provide confirmation that the transaction has been scheduled in lieu of the proof of payment. The confirmation of scheduling must be clear and conspicuous, provided in writing or electronically, and provided in a retainable form.
- iii. If any of the disclosures provided contain estimates the Credit Union will mail or deliver to the member an additional receipt meeting the requirements described in § 1005.31(d) no later than one business day after the date of the transfer.
- iv. If the transfer involves the transfer of funds from the member's account held by the Credit Union, the receipt required may be provided on or with the next periodic statement for that account, or within 30 days after the date of the transfer if a periodic statement is not provided.

E. Error Resolutions.

- i. An error for IRTs includes:
 1. An incorrect amount paid by a member in connection with the remittance transfer, such as being charged more than the total shown on the receipt;
 2. A computational or bookkeeping error made by the Credit Union relating to the remittance transfer, such as miscalculating the amount the recipient will receive;
 3. Failure to make available to a designated recipient the amount of currency disclosed to the member; and
 4. Failure to make funds available by the disclosed date of availability.
- ii. If the Credit Union receives notice of an error, a prompt investigation must be made. The Credit Union must determine whether an error occurred within 90 days of receiving the notice of error.
- iii. Within 3 business days of completing the investigation, the Credit Union must report the results to the member, including notice of any available remedies.
 1. If an error occurred the Credit Union can report the results orally or in writing.
 2. If no error has occurred, the Credit Union must give the member a written explanation of the

results of the investigation, and notify the member that they have the right to request any documentation the credit union relied upon in making the determination. The Credit Union must also provide a written explanation if it is determined that an error occurred but the error is of a different type or a different amount than the error that the sender reported.

iv. **Error Remedies.** In the event that an error was made the credit union will provide the following regulatory required remedies:

1. If an error occurs for reasons other than a mistake made by the member, the member has two options: refund or redelivery. The refund would be made in the amount of funds that was not properly transmitted or delivered to the designated recipient. Alternatively, the member can require redelivery of the amount appropriate to resolve the error at no additional cost to the member.
2. If the funds were not available by the date of availability the member can choose to receive a refund or request redelivery of the amount appropriate to resolve the error. These funds must be redelivered without additional cost to the member.
3. Regardless of whether the refund or redelivery remedy is chosen by the member, the Credit Union must also refund any fees and taxes imposed on the initial transfer. This refund remedy also applies if all the funds have been picked up, but were not ready by the disclosed date of availability. This refund includes covered third-party fees and taxes charged by someone other than the remittance transfer provider (unless a tax refund is prohibited by law).
4. The Credit Union must correct an error within one business day of receiving the member's choice of remedy, or as soon as reasonably practical.
5. In situations where a member provided an incorrect account number or recipient institution identifier (such as a routing number or Business Identifier Code), the Credit Union may not be required to refund or resend the transfer amount if the following conditions are met:
 - a. The Credit Union can demonstrate that the member did in fact provide an incorrect number;
 - b. With respect to recipient institution identifiers, the Credit Union used reasonable means to verify the member provided the correct identifier;
 - c. The Credit Union provided notice to the member that the transfer amount could be lost;
 - d. The funds were deposited into the wrong account; and
 - e. The Credit Union used prompt and reasonable efforts to retrieve the funds.

Policy 2605: International Remittance Transfers

Revised Date: 10/09/2015

Model Policy Revised Date: 10/09/2015

General Policy Statement:

[CUNAME] (Credit Union) provides international remittance transfers (IRT) as a service to its members. The purpose of this policy is to ensure that IRTs meet the regulatory requirements of Regulation E and the rules published by the Consumer Financial Protection Bureau (CFPB).

Guidelines:

1. **INTERNATIONAL REMITTANCE TRANSFERS.** International Remittance Transfers (IRT) are electronic transfers of funds that are more than \$15 requested by consumers in the United States, and sent to people or companies in foreign countries.

The credit union will only comply with the International Remittance Transfer (IRT) requirements if the credit union provided 100 or more IRTs (including wires and all other electronic transactions) in the previous calendar year, and has provided 100 or more remittance transfers in the current calendar year.

The credit union will monitor IRT transactions to ensure they comply with Regulation E requirements in the event they are exempt from the rule and perform IRTs that would qualify them for compliance with the regulation.

2. **DISCLOSURES.** The credit union will provide appropriate disclosures to members who send IRTs:

- A. **Pre-Payment Disclosure.** The pre-payment disclosure will meet Regulation E requirements and conform to the safe harbor disclosure as provided in Regulation E, Part 1005 Subpart B, Appendix A (Model Disclosure Clauses and Forms). The pre-payment disclosure will be given to the member before he or she pays for the remittance transfer. This disclosure will list the amount of money to be transferred, the exchange rate, certain fees including those collected by the provider, taxes collected by the provider, and the amount of money expected to be delivered abroad, not including certain recipient institution fees or foreign taxes.
- B. **Receipt.** The receipt will meet the Regulation E requirements and conform to the safe harbor disclosure as provided in Regulation E, Part 1005 Subpart B, Appendix A (Model Disclosure Clauses and Forms). The credit union will provide a receipt when payment is made. The receipt will repeat the information in the pre-payment disclosure. The receipt must also tell the member the transfer date, date when the money will arrive, name of the recipient, error resolution/cancellation rights, credit union contact information, state regulator contact information, and CFPB contact information. (If the pre-payment disclosure is inaccurate, a corrected disclosure must be provided.)
- C. **Combined Disclosure.** At the Credit Unions discretion they may provide members with a combined disclosure. The combined disclosure will meet Regulation E requirements for timing and conform to the safe harbor disclosure as provided in Regulation E, Part 1005 Subpart B, Appendix A (Model Disclosure Clauses and Forms). The combined disclosure will be provided when the member requests the transfer, but before the member pays for the transfer. If the Credit Union provides a combined disclosure, the member must also be given proof of payment when payment is made. This proof of payment must be clear and conspicuous, retainable, and may be provided in writing or electronically.

D. **Language.** Disclosures must always be made in English. For most transactions, the Credit Union must also provide the sender disclosures in any foreign languages principally used to advertise, solicit, or market remittance transfer services at an office in which the sender conducts a transfer or asserts an error.

3. Estimates.

A. The Credit Union may disclose estimated amounts until July 21, 2020 if:

- i. The Credit Union cannot determine the exact amounts for reasons beyond its control;
- ii. The Credit Union is an insured institution; and
- iii. The international remittance transfer is sent from the member's account with the Credit Union.

B. Estimates may be provided for transfers to certain countries if the Credit Union cannot determine the exact amounts when the disclosure is required and the country where the transfer will be received is on the list of safe harbor countries published by the CFPB.

C. Estimates for international remittance transfers scheduled before the date of transfer may be disclosed if the remittance transfer is scheduled by a member five or more business days before the date of the transfer and meets the requirements outlined in Section (5) of this policy. In addition, if, at the time the member schedules such a transfer, the Credit Union agrees to a member's request to fix the amount to be transferred in the currency in which the remittance transfer will be received and not the currency in which it is funded.

D. Estimates provided will be based on the below-listed approach or approaches:

i. **Exchange rate.** In disclosing the exchange rate an estimate must be based on one of the following:

- i. For remittance transfers sent via international ACH the most recent exchange rate set by the recipient country's central bank or other governmental authority and reported by a Federal Reserve Bank;
- ii. The most recent publicly available wholesale exchange rate and, if applicable, any additional spread that the remittance transfer provider or its correspondent typically applies to such a wholesale rate for remittance transfers for that currency; or
- iii. The most recent exchange rate offered or used by the person making funds available directly to the designated recipient or by the person setting the exchange rate.

ii. **Transfer Amount in the Receivers Currency.** If the transfer amount will be in the currency in which the funds will be received by the designated recipient the estimation will be based on the estimated exchange rate as described in Section (3)(D)(i)(1-3) of this policy, prior to any rounding of the estimated exchange rate.

iii. **Covered Third-party Fees.** Estimated covered third-party fees will be disclosed as a percentage of the amount transferred to the designated recipient and will be based on an estimated exchange rate provided in accordance with Section (3)(D)(i)(1-3) of this policy, prior to any rounding of the estimated exchange rate.

1. Imposed by intermediary or final institution. In disclosing covered third-party fees imposed by an intermediary or final receiving institution the estimate will be based on one of the following:

- a. The Credit Union's most recent remittance transfer to the designated recipient's institution, or
- b. A representative transmittal route identified by the Credit Union.

iv. **Amount of Currency Received by the Recipient.** In disclosing the amount of currency that will be received by the designated recipient the estimate will be based on the information provided in accordance with Section (3)(D)(i)(1-3) of this policy.

4. **Cancellation.** Except for transfers scheduled before the date of transfer, the Credit Union will allow a member to cancel an international remittance transfer for up to 30 minutes after he or she pays for the transaction, as long as the funds have not yet been picked up or deposited and the sender provides specified recipient contact information and enough information for you to identify the transaction.

5. **Preauthorized International Remittance Transfers.**

- A. For a one-time transfer scheduled five or more business days before the date of transfer or for the first in a series of preauthorized international remittance transfers, the Credit Union will provide the prepayment disclosure and receipt, or the combined disclosure when the member requests the transfer, but before the member pays for the transfer.
- B. If the disclosure(s) is provided and payment is not processed by the Credit Union at the time the remittance transfer is scheduled, the Credit Union will provide confirmation that the transaction has been scheduled in lieu of the proof of payment. The confirmation of scheduling must be clear and conspicuous, provided in writing or electronically, and provided in a retainable form.
- C. If any of the disclosures provided contain estimates the Credit Union will mail or deliver to the member an additional receipt meeting the requirements described in § 1005.31(d) no later than one business day after the date of the transfer.
- D. If the transfer involves the transfer of funds from the member's account held by the Credit Union, the receipt required may be provided on or with the next periodic statement for that account, or within 30 days after the date of the transfer if a periodic statement is not provided.

6. **Error Resolutions.**

- A. An error for IRTs includes:
 - i. An incorrect amount paid by a member in connection with the remittance transfer, such as being charged more than the total shown on the receipt;
 - ii. A computational or bookkeeping error made by the Credit Union relating to the remittance transfer, such as miscalculating the amount the recipient will receive;
 - iii. Failure to make available to a designated recipient the amount of currency disclosed to the member; and

iv. Failure to make funds available by the disclosed date of availability.

B. If the Credit Union receives notice of an error, a prompt investigation must be made. The Credit Union must determine whether an error occurred within 90 days of receiving the notice of error.

C. Within 3 business days of completing the investigation, the Credit Union must report the results to the member, including notice of any available remedies.

i. If an error occurred the Credit Union can report the results orally or in writing.

ii. If no error has occurred, the Credit Union must give the member a written explanation of the results of the investigation, and notify the member that they have the right to request any documentation the credit union relied upon in making the determination. The Credit Union must also provide a written explanation if it is determined that an error occurred but the error is of a different type or a different amount than the error that the sender reported.

D. **Error Remedies.** In the event that an error was made the credit union will provide the following regulatory required remedies:

i. If an error occurs for reasons other than a mistake made by the member, the member has two options: refund or redelivery. The refund would be made in the amount of funds that was not properly transmitted or delivered to the designated recipient. Alternatively, the member can require redelivery of the amount appropriate to resolve the error at no additional cost to the member.

ii. If the funds were not available by the date of availability the member can choose to receive a refund or request redelivery of the amount appropriate to resolve the error. These funds must be redelivered without additional cost to the member.

iii. Regardless of whether the refund or redelivery remedy is chosen by the member, the Credit Union must also refund any fees and taxes imposed on the initial transfer. This refund remedy also applies if all the funds have been picked up, but were not ready by the disclosed date of availability. This refund includes covered third-party fees and taxes charged by someone other than the remittance transfer provider (unless a tax refund is prohibited by law).

iv. The Credit Union must correct an error within one business day of receiving the member's choice of remedy, or as soon as reasonably practical.

v. In situations where a member provided an incorrect account number or recipient institution identifier (such as a routing number or Business Identifier Code), the Credit Union may not be required to refund or resend the transfer amount if the following conditions are met:

1. The Credit Union can demonstrate that the member did in fact provide an incorrect number;

2. With respect to recipient institution identifiers, the Credit Union used reasonable means to verify the member provided the correct identifier;

3. The Credit Union provided notice to the member that the transfer amount could be lost;

4. The funds were deposited into the wrong account; and

5. The Credit Union used prompt and reasonable efforts to retrieve the funds.

Policy 2610: ACH Operations

Revised Date: 03/28/2018

Model Policy Revised Date: 03/28/2018

General Policy Statement:

The following policy covers [CUName]'s (Credit Union) receipt and initiation of Automated Clearing House (ACH) transactions.

Guidelines:

1. **PERMITTED ACH TRANSACTIONS.** The Credit Union will act as a receiving depository financial institution (RDFI) for the purpose of receiving ACH credit or debit entries initiated by third parties to members' accounts at the Credit Union. At the discretion of management, the Credit Union may serve as an originating depository financial institution (ODFI) for the purpose of originating ACH debit or credit entries to members' accounts at other financial institutions.

Without approval by the CEO, the Credit Union will not initiate (or agree with a member to initiate) ACH debit or credit entries on behalf of a member to accounts of other parties.

2. **COMPLIANCE.** The Credit Union will conduct its ACH activities in compliance with all applicable rules of the National Automated Clearing House Association (NACHA), any applicable regional clearing house association rules, Regulation E, and other applicable federal and state law. The Credit Union will designate an employee responsible for compliance with applicable laws, regulations, and clearing house rules.
3. **RISK ASSESSMENT.** The Credit Union will conduct a risk assessment of its ACH activities, implement risk management programs based on the results of such assessments, and comply with regulatory requirements with respect to the assessment and risk management program. The assessment will stress the importance of the following:
 - A. The nature of risks associated with ACH activity;
 - B. Performing appropriate member due diligence (See **Policy 2110, BSA**);
 - C. Establishing controls for Originators, third parties and direct-access to ACH Operator relationships; and
 - D. Having adequate management, information and reporting systems to monitor and mitigate risk (See **Policy 2620, Remote Deposit Capture**).
4. **CREDIT UNION AS ORIGINATING DEPOSITORY INSTITUTION (ODFI) – RISK MANAGEMENT PRACTICES.**

- A. **Risk Management Practices.** The Credit Union will perform a more comprehensive set of risk management practices in addition to the current rules on exposure limits. Specifically, the Credit Union will do the following:
 - i. Perform due diligence with respect to Originators and Third-Party Senders sufficient to form a belief that the party has the capacity to perform its obligation in conformance with the NACHA Rules;

- ii. Assess the nature of the Originator's or Third-Party Sender's activity and the risks it presents; and
- iii. Establish procedures to do the following:
 - 1. Monitor the Originator's or Third-Party Sender's origination and return activity, relative to its exposure limit, across multiple settlement dates;
 - 2. Enforce the exposure limit; and
 - 3. Enforce restrictions on the types of ACH transactions that may be originated.

B. Agreements with Originators. The Credit Union as ODFI will ensure that each agreement with an Originator that is entered, renewed or extended, and that provides for authorization of ACH transactions will expressly address the following:

- i. Any restrictions on the types of ACH transactions that may be originated;
- ii. The right of the ODFI to terminate or suspend the agreement for breach of the NACHA Rules, upon at least ten (10) business days' notice, in a manner that permits the ODFI to comply with the Rules; and
- iii. The right of the ODFI to audit the Originator's compliance with the agreement and the NACHA Rules.

C. Agreements with Third-Party Senders. The Credit Union as ODFI will ensure that each agreement with a Third-Party Sender that is entered, renewed or extended, and that provides for authorization of ACH transactions will expressly address the following:

- i. Any restrictions on the types of ACH transactions that may be originated;
- ii. The right of the ODFI to terminate or suspend the agreement for breach of the NACHA Rules, upon at least ten (10) business days' notice, in a manner that permits the ODFI to comply with the Rules; and
- iii. The right of the ODFI to audit the Third-Party Sender and its Originator's compliance with the agreement and the NACHA Rules.

D. Exposure Limits. When the Credit Union as ODFI receives an entry that has been sent or transmitted directly by an Originator that is **not** a natural person or by a Third-Party Sender, the Credit Union will ensure that it has done the following:

- i. Performed due diligence with respect to such Originator or Third-Party Sender sufficient to form a reasonable belief that such Originator or Third-Party Sender has the capacity to perform its obligations in conformance with the NACHA Rules;
- ii. Assessed the nature of the Originator's or Third-Party Sender's ACH activity and the risks it presents;
- iii. Established an exposure limit for the Originator or Third-Party Sender; and

- iv. Established procedures to monitor the Originator's or Third-Party Sender's origination and return activity across multiple settlement dates, enforce restrictions on the types of ACH transactions that may be originated, and enforce the exposure limit.

E. **Registration.** The Credit Union will register Third-Party senders with NACHA within 30 days of transmitting the first entry on behalf of the Third-Party Sender. The Credit Union will also:

- i. Update the registration within 45 days following any change.
- ii. Comply with providing supplemental registration information when requested by NACHA.
- iii. If applicable, register with NACHA to indicate no Third-Party Senders.

5. **AUDIT.** As required by NACHA Rules, the Supervisory Committee shall arrange (either internally or through a qualified auditor) to conduct an annual audit of the Credit Union's ACH operations to review compliance with the NACHA rules. The audit shall be conducted before December 31st each year. The Credit Union shall retain the audit report and supporting materials for six years from the date of the audit.

6. RECEIVING ACH ENTRIES.

- A. As a receiving depository financial institution (RDFI), the Credit Union will accept all types of ACH entries and pre-notifications.
- B. The Credit Union will act in a timely manner on all ACH entries received. When a pre-notification is improper, the Credit Union shall return it in accordance with the applicable rules and procedures. All credit entries shall be made available to the member on the date of settlement.
- C. The Credit Union will accept eligible Same Day ACH credits and debits assuming the file is submitted by the appropriate deadline and has the current processing day. Same Day ACH credits will be made available to the member to satisfy other subsequent debit entries against the account the same day received, by 5:00pm local time for the Credit Union.. Same Day ACH debits will also be processed on their settlement date, by 5:00pm local time for the Credit Union.
- D. The Credit Union will include on its periodic statements a description of any ACH entries received on an account, including the identity of the originator, entry description, and amount. The Credit Union will provide a telephone number for members to call to verify whether an ACH entry has been received, and will include this number in the Credit Union's electronic funds transfer disclosures and on the periodic statement.
- E. The Credit Union will ensure that any return entries are submitted to the Credit Union's ACH operator in time for the return entry to be made to the ODFI by no later than the beginning of the second banking day after the settlement date of the original entry. The Credit Union may also return eligible entries for same day processing, regardless of whether the forward transaction is a same day transaction.
- F. The Credit Union will obtain an appropriate affidavit before initiating returns due to member claims of unauthorized or improper entries.
- G. The Credit Union will, upon the request of the member receiving health care EFT transactions, provide all information contained within the Payment Related Information field of the CCD Addenda Record.
- H. **Receiving International ACH Transactions (IATs).** The Credit Union may **not** refuse to receive IAT

entries, but may refuse individual IATs for specific reasons outlined in the ACH Rules.

- i. **OFAC Compliance.** Prior to posting, the Credit Union will ensure that it screens all IATs according to the Credit Union's Office of Foreign Assets Control (OFAC) policy (**See Policy 2145**). Any OFAC matches that are verified will be handled according to OFAC regulations outlined in the Credit Union's OFAC policy.

7. ORIGINATING ACH ENTRIES.

- A. The Credit Union will obtain written authorization from a member before initiating an ACH entry to the member's account at another institution.
- B. The Credit Union will adopt adequate procedures and safeguards to ensure that recurring ACH entries will be originated in accordance with the member's instructions.
- C. Before initiating entries to third party accounts on behalf of any business member, the Credit Union will conduct an analysis of the risk associated with such operations, and will adopt appropriate restrictions or protections based on the member's proposed activity and financial condition. The Credit Union will seek legal assistance to prepare necessary agreement(s) with the member. Such arrangements require CEO approval.
- D. The Credit Union may offer Same Day ACH origination to members for eligible credit and debit transactions. Same Day ACH is not available for international ACH transactions (IATs) and transactions above \$25,000. Before originating Same Day ACH, the Credit Union will conduct an analysis of the risks associated and will adopt appropriate restrictions on the availability to members.

E. Originating International ACH Transactions (IATs).

- i. **Participation.** In order to participate in IAT origination, the Credit Union must first contact the Federal Reserve to participate in their FedACH International Service or a major U.S. bank that is offering this service for correspondent banks. The Credit Union will also secure an agreement with a Gateway Operator to originate IATs (A Gateway Operator acts as an entry point to or exit from the United States for ACH payment transactions).
- ii. **Recognition of IATs.** An IAT is defined broadly as an ACH entry that is part of a payment transaction involving a financial agency's office that is not located in the territorial jurisdiction of the United States. The Credit Union will ensure that it properly identifies all IATs that are originated by the Credit Union.
- iii. **Submission of IATs - Travel Rule Requirement.** For **all** transmittal orders (regardless of amount), the Credit Union will include the following information to the receiver:
 1. Name of transmitter and the account number of the transmitter (if the payment is ordered from an account);
 2. Address of the transmitter;
 3. Amount of the transmittal order;
 4. Date of the transmittal order;

5. Identity of the transmitter's and recipient's financial institution; and

6. As many of the following information of the recipient as possible (name, address, account number and any other specific identifier).

iv. **OFAC Compliance.** The Credit Union will ensure that it screens all IATs according to the Credit Union's OFAC policy (**See Policy 2145**). Any OFAC matches that are verified will be handled according to OFAC regulations outlined in the Credit Union's OFAC policy.

F. Health Care Claim Payments. If the Credit Union originates a health care claim payment for a member, the Credit Union will:

i. Clearly identify CCD entries that are health care EFT transactions by populating the Company Entry Description field (field 7 of the Batch Header Record) with "HCCLAIMPMT",

ii. Ensure that the Company Name field (field 3 of the Batch Header Record) is populated with the name of the health plan or third-party administrator that is recognized by the healthcare provider and the party the provider submits its claims; and

iii. Ensure that each health care EFT transaction includes one addenda record and that the Payment-Related Information field (Field 3 of the CCD Addenda Record) contains the ANSI ASC X12 835 version 5010 TRN Reassociation Trace Number data segment.

1. The data segment terminator for the TRN Reassociation Trace Number can be either the backslash or the tilde.

8. UNLAWFUL INTERNET GAMBLING. The Credit Union will follow the guidance of the Credit Union's Unlawful Internet Gambling (see Policy 2205) in regards to ACH Operations.

Policy 2611: ACH Management

Revised Date: 03/28/2018

Model Policy Revised Date: 03/28/2018

General Policy Statement:

This policy covers management's responsibilities concerning the activities and procedures of [CUname]'s (Credit Union) automated clearing house (ACH) operations. The Credit Union will comply with all NACHA Operating rules, OFAC sanctions, the Green Book, Federal and state laws and regulations, Uniform Commercial Code Article 4A, and other related requirements.

Guidelines:

1. **IMPLEMENTATION.** The Board of Directors will review and approve a report by the [2611-1] regarding the status of implementation of the Credit Union's ACH Management policy. All the Credit Union's ACH activities will comply with this policy. Without approval by the [2611-2], the Credit Union will not initiate (or agree with a member to initiate) ACH debit or credit entries on behalf of a member to accounts of other parties.

2. PROCESSING DAYS.

- A. The Credit Union will observe the following days as "holidays" or "non-processing" days in addition to the regular Federal Reserve Bank schedule of holidays: [2611-3].
- B. ACH credit entries will be made available for withdrawal no later than the Settlement Date (even if "non-processing" day) of the entry.
- C. Eligible ACH Same Day credit entries will be made available to the member the same day received, to satisfy other subsequent debit entries against the account by 5:00pm local time for the Credit Union.
- D. Eligible ACH Same Day debit entries will be processed the same day received, by 5:00pm local time for the Credit Union.
- E. ACH debit transactions having a non-processing day Settlement Date will be posted on the [2611-4]. The Credit Union will disclose non-processing days to Originators and on an annual basis will provide them with a calendar, identifying non-processing days for that year.
- F. The Credit Union will process/post ACH entries on the next possible processing day, when Settlement Dates conflict with disclosed non-processing days.

3. ACH CONSUMER TRANSACTIONS.

- A. **Acceptance of ACH Entries.** The Credit Union will accept all debit and credit ACH transactions with the following exceptions:
 - i. Destroyed Check Entries, which bear Standard Entry Class Code XCK, [2611-5] accepted. The Credit Union reserves the right to refuse XCK entries if the originating depository financial institution (ODFI) cannot produce a check copy, if requested by the account owner, or, if other difficulties occur in obtaining entry information.

- ii. The Credit Union will affect refusal by returning an “XCK” entry within sixty days of the Settlement Date, using Return Reason Code R33 (“Return of XCK Entry”).
- iii. The Credit Union will not accept ACH debit transactions for accounts where debit activity is limited to six entries under Federal Regulation D and the ACH entry is the “seventh” debit entry.
- iv. The Credit Union will honor requests by ODFIs to return entries when entries are identified as erroneous and meet all the following conditions:

1. The entry return will not cause an overdraft on the member’s account;
2. The ODFI has positively identified itself and provides written documentation of its request for the return;
3. The request is received within at least five days of the Settlement Date; and
4. The return does not interfere with any Credit Union actions.

B. Same Day ACH. The Credit Union will accept eligible same day ACH credits and debits, provided the file is submitted by the appropriate deadline. The Credit Union as RDFI can rely on the Settlement Date of an entry, regardless of the Effective Entry Date. An Entry with a stale or invalid Effective Entry Date will also be a Same Day Entry if it is transmitted by the ACH Operator’s deadline for same day processing and settlement. International ACH transactions or transactions over \$25,000 are not eligible for same day ACH.

C. Regulation E Disclosures. The Credit Union will comply with the disclosure requirements of Federal Regulation E, as those disclosure requirements are impacted by the Credit Union’s ACH operations.

D. OFAC Compliance. The Credit Union will ensure that it screens all domestic and international (IAT) ACH transactions according to the Credit Union’s Office of Foreign Assets Control (OFAC) policy (**See Policy 2145**). Any OFAC matches that are verified will be handled according to OFAC regulations outlined in the Credit Union’s OFAC policy.

E. Unlawful Internet Gambling. The Credit Union will follow the guidance of the Credit Union's Unlawful Internet Gambling Policy (See Policy 2205) in regards to ACH Management.

F. Stop Payment of ACH Entries. The Credit Union’s employees will use procedures to inform members of the difference between requests for “Stop Payment” of ACH entries and requests for the return of payments which are unauthorized because of either (1) revocation of a once valid authorization, (2) notice by the member that a valid authorization was not given for the payment(s) specified, or (3) improper electronic check entries.

i. A stop pay order obtained verbally will be binding for fourteen (14) days.

ii. A signed stop payment order will remain in effect until the earlier of:

1. The withdrawal of the stop payment order by the Receiver; or
2. The return of the debit entry, or, where a stop payment order is applied to more than one debit entry under a specific authorization involving a specific Originator, the return of all such debit entries.

iii. Procedures will be developed to identify Represented Check Entries paid after identification of electronic check entries upon which a “Stop Payment” has been placed.

G. Written Statements of Unauthorized Debit (WSUD). The Credit Union will require a signed written statement from the member prior to returning an entry that the member claims is unauthorized or for which the authorization has been revoked or for an improper electronic check entry. The Credit Union will make the WSUD available to the ODFI within 10 business days of written request.

The Credit Union will retain the written statement for a six year period following the return. In the case of unauthorized debit entries, the Credit Union will provide [2611-6] to the member, if the member has notified the Credit Union in accordance with procedures disclosed in the “Error Resolution Notice.”

H. Government Benefit Payments. The Credit Union [2611-7] initiates “Automated Enrollment” (ENR) Entries to transmit information to enroll government benefit recipients for Direct Deposit for participating government agencies. The Credit Union will maintain SF1199-A enrollment forms for at least [2611-8] after receipt of the first successful Direct Deposit of a receiver's government benefit payment. The Credit Union will establish procedures for the review of the initial benefit payments received by beneficiaries or representative payees prior to destruction of SF1199-A forms. In the event that the Credit Union decides to close an account that receives government benefit payments, the Credit Union will notify the account owner of its intent at least thirty (30) days in advance. The Credit Union will **not** give advance notice if the Credit Union suspects fraudulent activity on the account. The Credit Union will document its suspicions. If the Credit Union has knowledge of the death of a federal government payment recipient or the incapacity of a representative payee, the Credit Union will investigate the matter to limit the Credit Union’s liability.

4. RETURN OF ACH ENTRIES. The Credit Union will return ACH entries so that they will be available to the ODFI no later than the beginning of business on the second banking day following the Settlement Date of the original entry, with the exception of return entries processed the same day, or consumer entries returned revoked or unauthorized. The Credit Union may return eligible entries for same day processing regardless of whether the forward transaction is a same day transaction. Those returns must be received prior to 4:00pm ET to be eligible for same day settlement.

5. ORIGINATION OF ACH ENTRIES. As an ODFI, the Credit Union may offer the following ACH service products to its customers: [2611-9].

In addition, the Credit Union may accept ACH files from the following input resources: [2611-9.1]

To reduce risk, the Credit Union will have a procedure in place for dual control of ACH originations.

The Credit Union may offer Same Day origination to members for eligible credit and debit transactions.

6. PRICING AND SCHEDULING. The Credit Union will incorporate the schedule of fees for ACH origination services in each Originator’s agreement. The Credit Union will create a general processing schedule for ACH origination services.

7. PROCESSING SCHEDULES. The Credit Union will require Originators to provide an annual schedule identifying the effective and delivery dates of all files it intends to process for each ACH application. The Credit Union will consolidate all Originators’ processing schedules to create an annual ACH processing calendar. The calendar will be reviewed for conflicts between planned effective or processing dates and the Credit Union/or Federal Reserve Bank holidays or non-processing days. Exceptions will be reported to

Originators so that schedules may be adjusted.

8. **UNIFORM COMMERCIAL CODE ARTICLE 4A DISCLOSURES.** If the Credit Union processes any “wholesale credit” transactions, the Credit Union will provide the following standard UCC 4-A disclosures as a part of the company agreement to Originators of such transactions: (a) Provisional Payment Disclosure, (b) Reliance of RDFI on Account Number Information, and (c) Choice of Law Disclosure. The Credit Union also will disclose an agreed upon method of securing files and overall payment processing as part of the company agreement. The Credit Union will notify business account owners of ACH “wholesale” credit and debit transactions (corporate payments) through the periodic account statement, unless special arrangements are negotiated between the account owner and the Credit Union in a written agreement. The Credit Union will provide payment information, including addenda information, to account owners.
9. **OPTIONAL PRENOTIFICATIONS FOR CORPORATE PAYMENT APPLICATIONS.** Pre-notes are optional for business and consumer payment entries. If originated, they must be submitted three (3) business days prior to the initiation of the first payment. The Credit Union will decide whether pre-notes will be required on an individual basis. All originating companies that desire to pre-note will be allowed the option. Pre-note requirements, if imposed, will be disclosed as part of the company agreement. The Credit Union may offer same day settlement pre-notes for credit and debit entries.
10. **RECEIVING HEALTH CARE EFT TRANSACTIONS.** The Credit Union will, upon the request of the member receiving health care EFT transactions, provide all information contained within the Payment Related Information field of the CCD Addenda Record.
11. **ORIGINATING HEALTH CARE CLAIM PAYMENTS.** If the Credit Union originates a health care claim payment for a member, the Credit Union will:
 - A. Clearly identify CCD entries that are health care EFT transactions by populating the Company Entry Description field (field 7 of the Batch Header Record) with “HCCLAIMPMT”;

Ensure that the Company Name field (field 3 of the Batch Header Record) is populated with the name of the health plan or third-party administrator that is recognized by the healthcare provider and the party the provider submits its claims; and
 - B. Ensure that each health care EFT transaction includes one addenda record and that the Payment-Related Information field (Field 3 of the CCD Addenda Record) contains the ANSI ASC X12 835 version 5010 TRN Reassociation Trace Number data segment.
 - i. The data segment terminator for the TRN Reassociation Trace Number can be either the backslash or the tilde.
12. **REINITIATION OF RETURNED ACH TRANSACTIONS.** An ACH entry that has been returned may not be reinitiated unless (1) the entry has been returned for insufficient or uncollected funds; or (2) the entry has been returned for stopped payment and reinitiation has been authorized by the Receiver; or (3) the ODFI has taken corrective action to remedy the reason for the return. The Credit Union [2611-9.2] automatically reinitiates ACH entries returned for reason of insufficient or uncollected funds on behalf of the Originator. The Originator, through an agreement with the Credit Union [2611-9.3] recreate and deliver to the Credit Union all entries which it elects to reinitiate, as permitted under ACH Rules.
13. **ACH OPERATOR.** The Credit Union uses [2611-9.7] as their ACH Operator
14. **ACH CREDIT POLICY.** The Credit Union will exercise specific procedures for credit approval, activity

reporting, and periodic review and in compliance with the Credit Union's [2611-9.4] to members considered for ACH origination products.

15. **ACH RISK ASSESSMENT.** The Credit Union will perform an ACH risk assessment pursuant to its ACH Operations policy (**See Policy 2610**).
16. **ACH SECURITY FRAMEWORK.** The Credit Union will provide data security measures for member's non-public personal information initiated, processed or stored in the ACH Network according to the ACH Security Framework requirements of the NACHA Rules. These measures will include:
 - A. Protecting the confidentiality and integrity of member's non-public personal information;
 - B. Protecting against anticipated threats or hazards to the security or integrity of member's non-public personal information; and
 - C. Protecting against unauthorized use of member's non-public personal information that could result in harm to a member.
17. **ACH AUDIT.** The Credit Union will conduct an ACH audit in accordance with the minimum ACH audit requirements of the current NACHA Rules. The scope, outline and scheduling for the ACH Audit shall comply with the Credit Union's ACH Audit policy (**See Policy 2612**).
18. **ACH EDUCATION AND TRAINING.** In order to maintain compliance under the various regulatory sources for ACH services, the Credit Union will implement [2611-9.5] training. The Credit Union will assign specific responsibilities for ACH receipt and origination functions to the following designated personnel: [2611-9.6].
19. **BONDING.** The Credit Union will maintain adequate bonding for employee errors and omissions and faithful performance coverage.
20. **THIRD PARTY SERVICE PROVIDERS.** The Credit Union will comply with the Credit Union's Third Party Due Diligence & Oversight policy (see Policy 2185) when involving third party service providers in the ACH process.
21. **THIRD PARTY PROCESSORS.** The Credit Union will allow third party senders to originate ACH transactions. The Credit Union will register their third-party senders or acknowledge no third-party senders with NACHA. The Credit Union will also conduct annual risk assessments on each third-party sender as required under NACHA Rules.
22. **CONTINGENCY PLANNING.** The Credit Union will follow their contingency planning policies and associated procedures in the event there is a disruption or inability to process ACH transactions.

Policy 2612: ACH Audit

Revised Date: 03/28/2018

Model Policy Revised Date: 03/28/2018

General Policy Statement:

This describes [CUnion]'s (Credit Union) audit policy on ACH operations for compliance with applicable Federal and state law, regulations, regional clearing house association rules, Regulation E, UCC Article 4A, and in accordance with the requirements of Appendix Eight of the National Automated Clearing House (NACHA) Operating Rules.

Guidelines:

1. **ACH RISK ASSESSMENT.** The Supervisory Committee will ensure that the Credit Union does the following:
 - A. Performs a risk assessment regarding the Credit Union's ACH activities;
 - B. Implements a risk management program on the basis of such an assessment; and
 - C. Complies with all regulatory requirements with respect to such assessment and risk management program.
2. **ACH AUDIT.** The Supervisory Committee will arrange (either internally or through a qualified auditor) to conduct an audit of the Credit Union's ACH operations before December 31 of each year. The Credit Union will keep the audit report and supporting materials for six years from the audit date. Not less frequently than annually, the Credit Union will conduct a review of potential changes in the ACH Operating Rules, Green Book, Federal Regulation E, and any other pertinent information to ensure continued compliance, and identify new requirements that may demand additional training and communication with internal staff, data processing and originating persons. The Credit Union may consider a more frequent review of liability sensitive areas such as return item procedures and deadlines.
3. **CREDIT UNION AS RECEIVING DEPOSITORY FINANCIAL INSTITUTION.** The Credit Union as a receiving depository financial institution (RDFI), and its third-party service provider(s) (if applicable), will conduct the following examination of its ACH operations:
 - A. Verify that entry records, including return and adjustment entries, are retained for six years from the transmission date, and that a reproduction of the entry information can be provided to the Participating DFI's customer or any other Participating DFI or ACH Operator.
 - B. When electronic records are used, verify that such records accurately reflect the record information, and are capable of being accurately reproduced.
 - C. Verify that prenotifications received are for valid accounts and that when a prenotification is not processable or is erroneous, the prenotification is rejected on a timely basis through the use of return entry procedures or through the Notification of Change (NOC) procedure.
 - D. Verify that, subject to the Credit Union's right of return, all types of ACH entries and prenotifications are accepted.

- E. Review records and procedures to ensure that funds from ACH credit entries are available to the Receiver for withdrawal on the Settlement Date. For eligible same day ACH credit transactions, review records and procedures to ensure the amount of the credit entry is made available to satisfy other subsequent debit entries against the account on the Settlement Date, no later than 5:00pm local time for the Credit Union. In the case of PPD credit entries available to the Credit Union by 5:00 p.m. local time on the banking day prior to the Settlement Date, ensure that funds are available to the Receiver for withdrawal no later than the opening of business on the Settlement Date and that debit entries are not posted prior to the Settlement Date.
- F. Review records and procedures to ensure that ACH debit entries are processed on their settlement date, by the end of the Credit Union's processing day.
- G. Verify that the Credit Union sends or makes available on the member's account statement descriptive information on each entry consistent with NACHA Operating Rules Appendix Three. For ARC, POP, and RCK entries, the Credit Union will verify that it sends or makes available, as part of the member's account statement, the contents of the Check Serial Number Field for each entry. For POP entries, also verify that the Credit Union sends or makes available on the member's account statement, the contents of the Terminal City Field and Terminal State Field with respect to such entry.
- H. Review records and procedures to determine that returned entries and rejected prenotifications are received by the Credit Union's ACH Operator by its deposit deadline for the return entry to be made available to the originating depository financial institution (ODFI) no later than the opening of business on the second banking day following the Settlement Date of the original entry. Eligible returns received prior to 4pm ET are eligible for Same Day settlement. For all entries except RCK, review records and procedures to determine that returned entries and rejected prenotifications are received by the Credit Union's ACH Operator by its deposit deadline for the return entry to be made available to the ODFI no later than the opening of business on the second banking day following the Settlement Date of the original entry. "Second banking day" refers to the second banking day of the Credit Union's ACH Operator, and "Settlement Date of the original entry" refers to the Settlement Date of the original entry that is being returned. Review procedures to ensure that dishonored return entries and contested dishonored return entries are handled appropriately in a timely manner.
- I. Review procedures to ensure that RCK entry returns are transmitted to the Credit Union's ACH Operator by midnight of the second banking day following the banking day of receipt of the presentment notice.
- J. Review procedures to ensure that, for each stop payment order on a RCK entry or item to which the RCK entry relates and for each stop payment order on an ARC entry or source document to which the ARC entry relates, the adjustment entry is received by the Credit Union's ACH Operator by its deposit deadline for the adjustment entry to be made available to the ODFI no later than the opening of business on the banking day following the sixtieth calendar day following the Settlement Date of the original entry.
- K. Review procedures to ensure that written statements of unauthorized debt are obtained from members for all returns bearing Return Reason Codes R07, R10, R37, R51, and R53, and that each adjustment entry is received by the Credit Union's ACH Operator by its deposit deadline for the adjustment entry to be made available to the ODFI no later than the opening of business on the banking day following the sixtieth calendar day following the Settlement Date of the original entry. Verify that copies of these statements are provided within appropriate time frames once the Credit Union receives a written request from the ODFI.
- L. Review internal procedures and member agreements to ensure compliance with UCC Article 4A with respect to ACH transactions.

- M. Verify that, with the exception of Notifications of Change (NOCs) due to merger or acquisition, NOC entries are transmitted within two banking days of the Settlement Date of the entry to which the NOC relates.
- N. Review records and procedures to ensure that, when requested by the Receiver, the Credit Union provides all payment-related information transmitted with CCD, CIE, and CTX entries to the Receiver by the opening of business on the second banking day following the Settlement Date.
- O. Review procedures to verify that for member entries except ARC, POP, RCK, TEL, and Single Entry WEB entries, the Credit Union has acted on stop payment orders placed with the Credit Union at least three banking days prior to the scheduled date of the transfer. For business member entries, as well as for ARC, POP, RCK, TEL and Single Entry WEB entries, verify that the Credit Union has acted on stop payment orders that have been received in such time and in such manner that allow the Credit Union to act on the stop payment order prior to acting on the debit entry.

4. **CREDIT UNION AS ORIGINATING DEPOSITORY FINANCIAL INSTITUTION.** The Credit Union as an originating depository financial institution (ODFI), and its third-party service provider(s) (if applicable), will conduct the following examination of its ACH operations:

- A. Verify that the Credit Union has performed a risk assessment regarding the nature of the Originator's or Third Party Sender's ACH activity and the risks presented.
- B. Verify that entry records, including return and adjustment entries, transmitted from or to an ACH Operator are retained for six years from the date the entry was transmitted. Verify that a reproduction of the entry information can be provided to the Participating DFI's customer or any other Participating DFI or ACH Operator.
- C. When electronic records are used, verify that such records accurately reflect the record information, and are capable of being accurately reproduced.
- D. Verify that all Originators (business members) have executed agreements that bind them to the NACHA Operating Rules, and that the agreements contain the Originator's acknowledgement that entries they initiate will not violate the laws of the United States.
 - i. The Credit Union as ODFI will ensure that each agreement with an Originator that is entered, renewed or extended, and that provides for authorization of ACH transactions will expressly address the following:
 - 1. Any restrictions on the types of ACH transactions that may be originated;
 - 2. The right of the ODFI to terminate or suspend the agreement for breach of the NACHA Rules, upon at least ten (10) business days' notice, in a manner that permits the ODFI to comply with the Rules; and
 - 3. The right of the ODFI to audit the Originator's compliance with the agreement and the NACHA Rules.
- E. Review internal procedures and agreements to ensure compliance with UCC Article 4A with respect to ACH transactions.

- F. Review procedures to determine that exposure limits are established for each business Originator and Third-Party Sender, to be reviewed periodically, and that entries initiated by these Originators and Third-Party Senders will be monitored relative to the exposure limits across multiple Settlement Dates
- G. Review procedures to determine that due diligence has been performed on business Originator or Third-Party Sender to form a reasonable belief that such Originator or Third-Party Sender has the capacity to perform its obligations in conformance with the NACHA Rules.
- H. For WEB entries review procedures to ensure that the Credit Union has: (i) established procedures to monitor the credit-worthiness of each Originator on an on-going basis, (ii) established an exposure limit for that Originator, (iii) implemented procedures to review that exposure limit periodically, and (iv) implemented procedures to monitor entries initiated by that Originator relative to its exposure limit across multiple Settlement Dates.
- I. For Same Day ACH origination, ensure that procedures are in place to allow for only eligible transactions (excluding international ACH transactions (IATs) and high dollar transactions over \$25,000), processed during appropriate clearing windows and that a risk analysis is conducted for determining eligibility for the service.
- J. Review procedures to ensure that NOC and corrected NOC information is provided to each Originator within two banking days of the Settlement Date. Verify that refused NOCs are transmitted within 15 days of receipt of an NOC or corrected NOC.
- K. Review procedures to ensure that, when agreed to by the Credit Union, Permissible Return Entries, Extended Return Entries, and Late Return Entries are accepted within the time limits established by the Rules.
- L. Ensure that Originators are in compliance with their obligations, including requirements that:
- i. The Originator obtains the Receiver's authorization for entries, and provides copies of such authorizations to the Receiver.
 - ii. If Originators choose to send prenotifications, they are sent as required by the rules.
 - iii. Entries returned as "R07 Authorization Revoked by Customer," "R08 Payment Stopped," or "R10 Customer Advises Not Authorized" are not reinitiated unless the Originator obtains subsequent authorization from their customer.
 - iv. Entries returned for "R01 Insufficient Funds" or "R09 Uncollected Funds" are not reinitiated in excess of the prescribed NACHA limits.
 - v. Upon receipt of returns relating to prenotifications indicating that the RDFI cannot accept such entries, such entries are not initiated.
 - vi. Upon receipt of a NOC, requested changes are made within six banking days or prior to the initiation of the next entry, whichever is later.
 - vii. Reversing files and reversing entries are transmitted to the Receiving ACH Operator in such time as to be transmitted or made available to the RDFI within five banking days following the Settlement Date of the erroneous entry or file.

- viii. With the exception of XCK entries, Originators provide the Receiver with a receipt containing information relating to a consumer account within 10 banking days without charge.
 - ix. Originators initiating POP entries void and return the source document to the Receiver.
 - x. Originators initiating WEB entries employ a commercially reasonable fraudulent transaction detection system to screen entries.
 - xi. Originators initiating WEB entries use commercially reasonable procedures to verify that routing numbers are valid.
 - xii. Originators initiating WEB entries establish a secure Internet session with each Receiver utilizing a commercially reasonable security technology providing a level of security that, at a minimum, is equivalent to 128-bit encryption technology prior to the Receiver's entering of any nonpublic personal information.
 - xiii. Originators initiating WEB entries conduct annual audits to ensure that the nonpublic personal information they obtain from Receivers is protected by security practices and procedures that include, at a minimum, adequate levels of: (a) physical security to protect against theft, tampering, or damage, (b) personnel and access controls to protect against unauthorized access and use, and (c) network security to ensure secure capture, storage, and distribution.
 - xiv. For each TEL entry, the Originator employs commercially reasonable procedures to verify the identity of the Receiver, and utilizes commercially reasonable procedures to verify that routing numbers are valid.
 - xv. For ARC and RCK entries, the Originator provides clear and conspicuous notice of their check conversion/truncation policy.
 - xvi. For BOC entries, the Originator has (i) established commercially reasonable procedures to verify the identity of each Originator or Third-Party Sender of such entries; and (ii) established and implemented procedures to document specific information with respect to each Originator, as required by the Rules, and that, upon request, such information is provided to the RDFI within the required timeframe.
 - xvii. The Originator has reported information on each Originator or Third-Party Sender, as requested by NACHA through the registration process or indicated no Third-Party sender relationships.
 - xviii. Verify that the Originator has (i) registered its Direct Access with NACHA; (ii) obtained the approval of its board of directors, committee of the board of directors, or its designee for each Direct Access Debit Participant; (iii) provided statistical reporting for each Direct Access Participant; and (iv) notified NACHA of any change to the information previously provided with respect to any Direct Access Debit Participant.
- M. Verify that the Credit Union has kept Originators and Third-Party Senders informed of its responsibilities under the Rules.

(Use the following only if applicable to the Credit Union's ACH activities):

5. GOVERNMENT ACH ENTRIES. *The Credit Union will conduct an audit to determine compliance with the Green Book, 31 CFR §§ 210 et seq., requirements regarding government ACH entries as follows:*

- A. *Review enrollment procedures for direct deposit of Social Security and other benefits payment.*
- B. *Review procedures for processing NOCs.*
- C. *Review procedures when a DNE entry is received.*
- D. *Review procedures for returning government benefit payments in the event of the death of the beneficiary or representative payee.*
- E. *Review procedures for handling "reclamations" of government benefit payments in order to limit financial institution liability.*

6. **OFAC.** The Credit Union will conduct an audit of compliance with the U. S. Treasury Department's Office of Foreign Assets Control (OFAC) requirements regarding ACH entries to accounts blocked according to the "Specially Designated Nationals and Blocked Persons."

- A. Upon receipt of an ACH credit to a blocked account, post the credit, freeze the funds and report the transaction to OFAC.
- B. Upon receipt of an ACH debit to a blocked account, return the entry using Return Reason Code R16 – Account Frozen.
- C. The Credit Union will verify that it screens all IATs according to the Credit Union's OFAC policy (**See Policy 2145**). Any OFAC matches that are verified will be handled according to OFAC regulations outlined in the Credit Union's OFAC policy.

7. **UNLAWFUL INTERNET GAMBLING.** The Credit Union will follow the guidance of the Credit Union's Unlawful Internet Gambling Policy (See Policy 2205).

8. **PROCEDURES.** The Credit Union will verify compliance through interviewing key personnel regarding knowledge of required procedures, reviewing the timing and content of required disclosures, and where applicable, testing of specific transaction activities to identify possible compliance exceptions.

9. **MANAGEMENT REVIEW.** Completed audit results will be reported to [2612-1], and approved by the Board of Directors. The Board of Directors will note any exceptions and provide recommended action for correction or corrective action already taken or in process.

Policy 2615: ATM/Debit Cards

Revised Date: 01/01/2013

Model Policy Revised Date: 01/01/2013

General Policy Statement:

[CUName] (Credit Union) may offer an automated teller machine ("ATM") card or point of sale ("Debit") card, or both, to members who meet the Credit Union's standards. The Credit Union members may use the ATM or Debit card to initiate electronic fund transfers at electronic terminals, including point of sale terminals (for Debit card transactions), and automated teller machines. The term "electronic fund transfer" generally refers to a transaction initiated through an electronic terminal, telephone, or computer that instructs a financial institution to credit or debit a member's asset account. The Credit Union's ATM and Debit card policy will comply with all applicable laws and regulations, including the Electronic Funds Transfer Act (EFTA).

Guidelines:

1. **ISSUANCE.** The Credit Union may issue an ATM or Debit card only in response to an oral or written request or renewal or substitution of an accepted ATM or Debit card. In the alternative, the Credit Union may distribute an ATM or Debit card to a member on an unsolicited basis if (1) the card is not validated, (2) a clear explanation accompanies the card, explaining that it is not validated and how the member may dispose of the card if validation is not desired, (3) the card is sent with initial electronic fund transfer disclosures of the member's rights and liabilities, and (4) the Credit Union validates the card only in response to the member's oral or written request for validation, after it has verified the member's identity by reasonable means.
2. **NEW AND REPLACEMENT DEBIT CARDS.**
 - A. The Credit Union will not issue an additional or replacement debit card if such a request is received within a short time period (which must be at least 30 days) after receiving notification of a change of address for that account, unless the Credit Union does the following:
 - i. Notifies the cardholder of the request either (1) at the cardholder's former address; or (2) by any other means of communication that the Credit Union and the cardholder have previously agree to use; and provides the cardholder with a reasonable means of promptly reporting incorrect address changes; and
 - ii. Otherwise assess the validity of the change of address in accordance with Credit Union's policies and procedures.
 - iii. Any written or electronic notice that is provided under these rules will be "clear and conspicuous," and provided separately from the regular correspondence that is sent to the member. "Clear and conspicuous" is defined as "reasonably understandable and designed to call attention to the nature and significance of the information." Verbal notices may also be provided, if outlined in the policies and procedures that the Credit Union has established under the Red Flag rules.
3. **INITIAL DISCLOSURES.** The Credit Union will provide initial electronic fund transfer disclosures at the time a member contracts for an ATM or Debit card or before the member executes his or her first electronic fund transfer involving their account. The initial disclosure must be made at time of contract or before first EFT. The following are required initial disclosures:

- A. Summary of member's liability.
- B. The Credit Union's telephone number and address for unauthorized transfer notification.
- C. Credit Union business days.
- D. Types of transfers and limitations on frequency and dollar amount.
- E. Fees for EFTs or for the right to make transfers.
- F. Right to receive documentation (receipts and periodic statements).
- G. Summary of the member's right to stop payment of a preauthorized EFT, and the procedure for placing a stop payment order.
- H. Liability of the Credit Union for failure to make or stop certain transfers.
 - I. The circumstances under which the Credit Union may provide information regarding the member's account to third parties.
 - J. Error resolution procedures.
- K. A notice that a fee may be imposed at ATMs when the member initiates an EFT or makes a balance inquiry, and that a fee may be imposed by any network used to complete the transaction.

4. **PAYMENT OF OVERDRAFTS FOR ATM AND ONE-TIME DEBIT CARD TRANSACTIONS.** In addition to the content of the initial notice, the Credit Union will provide members with the right to opt in, or affirmatively consent, to the Credit Union's overdraft service for ATM and one-time debit card transactions *for each account*. This written notice may be provided electronically, if the member agrees, electronically (the requirements of the Electronic Signatures in Global and National Commerce Act (E-SIGN) would **not** apply because this notice is **not** required to be in written form).

A. **Timing.**

- i. For accounts opened prior to July 1, 2010, the Credit Union will **not** assess any fees or charges on a member's account on or after August 15, 2010 for paying an ATM or one-time debit card transaction unless the member has been provided with an opt-in notice and obtained the member's consent.
- ii. For accounts opened on or after July 1, 2010, fees or charges will **not** be assessed until the member's consent is obtained.
- iii. For new or existing account holders, the Credit Union will **not** retroactively apply affirmative consents to overdrafts that are paid before the consent is provided.

B. **Content and Format.** The opt-in notice provided to members explaining the overdraft service for ATM withdrawals and one-time debit card transactions will be segregated from everything else, including other account disclosures. The method for providing consent, such as a signature line or check box, will be separate from other types of consents. The opt-in notice will contain the following information:

- i. A brief description of the Credit Union's overdraft service and the types of transactions for which a fee or charge for paying an overdraft may be imposed;

- ii. The dollar amount of any fees or charges assessed on the member's account for paying an ATM or one-time debit card transaction pursuant to the Credit Union's overdraft service. Each fee will be disclosed (i.e., per item or per transaction fees, daily fees, sustained overdraft, and negative balance fees);
- iii. Any daily limits on the number of overdraft fees or charges (or, that there are no limits);
- iv. The right to affirmatively consent to the Credit Union's payment of overdrafts for ATM and one-time debit card transactions, including the method(s) that the member may use to consent to the service; and
- v. Whether the Credit Union offers any alternatives for the payment of overdrafts.

C. **Application.** The opt-in applies to all transactions originating at an ATM, including transactions made at proprietary or foreign ATMs. It also applies to any onetime debit card transaction, regardless of whether the consumer uses a debit card at a point-of-sale, or in an online or telephone transaction.

D. **No Obligation.** A member's opt-in does **not** require the Credit Union to pay or honor any overdrafts on an ATM withdrawal or a one-time debit card transaction (i.e., no contractual obligation to pay overdrafts would be required as a result of an opt-in).

E. **Reasonable Opportunity to Opt In.** The Credit Union will provide members with 30 calendar days to affirmatively consent to overdraft services for ATM withdrawals and one-time debit card transaction. The Credit Union will provide members with the following means to communicate affirmative consent:

- i. [2615-6]

F. **Written Confirmation.** The Credit Union will send a written confirmation to all members who have provided their affirmative consent to the payment of overdrafts for ATM and one-time debit card transactions. This confirmation may be provided electronically if the member has consented to electronic communication. The confirmation will also include a statement informing the member of the right to revoke consent.

G. **Conditioning Payment of Overdrafts on Members' Affirmative Consent.**

- i. The Credit Union will **not** condition the payment of any overdrafts for checks, ACH transactions or other types of transactions on the member affirmatively consenting to the Credit Union's payment of overdrafts for ATM withdrawals and one-time debit card transactions.
- ii. The Credit Union will **not** decline to pay checks, ACH transactions or other types of transactions because a member has not affirmatively consented to the Credit Union's overdraft service for ATM and one-time debit card transactions (though the Credit Union is not obligated to pay overdrafts).

H. **Implementation of Opt-In.** The Credit Union will offer the same account terms, conditions and features to those who have not opted in as to those that have. However, the Credit Union has the option of creating accounts with limited features, provided those who do not opt in are not required to open them.

I. **Joint Accounts.** The Credit Union will treat an affirmative consent provided by any joint consumer of an account as affirmative consent for the account from all of the joint account holders. Likewise, the Credit Union will treat a revocation of affirmative consent by any of the joint account holders as revocation of

consent for that account.

J. Duration of Opt-In. A member's affirmative consent will generally be effective until revoked. However, the Credit Union may terminate the member's access to the overdraft service at its discretion (for example, if the Credit Union determines that there is excessive usage of the service by the member).

5. ATM CARD USE AND LIMITATIONS.

A. ATM Card Use. Members may use their ATM card in the Credit Union ATMs, and ATMs the Credit Union may designate. Members may use their ATM card to do the following: [2615-1].

B. ATM Card Limitations

i. **Limits on Cash Withdrawals.** A Credit Union member may make [2615-2] cash withdrawals at the Credit Union ATMs and nonproprietary ATMs. A Credit Union member may withdraw up to [2615-3] (if there are sufficient funds in the member's Credit Union account) per day. For purposes of the daily limit, a day ends [2615-4] at any authorized ATM, subject to limits placed on each individual ATM.

ii. **Limits on Transfers.** A Credit Union member may transfer between its regular share and checking accounts up to the balance in the account at the time of the transfer.

6. AMERICANS WITH DISABILITIES ACT (ADA) REQUIREMENTS FOR ATMs. The Credit Union will ensure that its ATMs comply with the ADA accessible design and accessibility standards that went into effect in March of 2012.

A. Clear Floor or Ground Space. The minimum space is 30 inches by 48 inches in order to provide wheelchair access (this does NOT apply to drive-up ATMs).

B. Operable Parts. Each operable part of the ATM will be differentiated by sound or touch without activation, unless a clear or correct key is provided. These parts will also be operable by one hand and will not require tight grasping, pinching or twisting of the wrist.

C. Privacy. The same degree of privacy will be provided to all individuals.

D. Speech Output. The Credit Union will ensure that its ATMs will be speech enabled.

i. The operating instructions and orientation, visible transaction prompts, user input verification, error messages, and all displayed information for full use will be accessible to and independently usable by individuals with vision impairments.

ii. Speech will be delivered through a mechanism that is readily available to all users, including but not limited to, an industry standard connector or a telephone handset.

iii. Speech will be capable of being repeated or interrupted.

iv. Balance inquiry information, error messages, and all other information on the printed receipt will be provided audibly, except for the following information:

1. Machine location, date and time of transaction, member account number, and the machine identifier;

2. Information on printed receipts that duplicates information available on-screen; and
3. Printed copies of statements and checks.

v. Exceptions

1. Audible tones will be permitted instead of speech for visible output that is not displayed for security purposes, including but not limited to, asterisks representing personal identification numbers;
2. Advertisements and other similar information will not be required to be audible unless they convey information that can be used in the transaction being conducted; and
3. Where speech synthesis cannot be supported, dynamic alphabetic output will not be required to be audible.

E. Input Controls.

- i. At least one tactilely discernable input control will be provided for each function.
- ii. Where provided, key surfaces not on active areas of display screens, will be raised above surrounding surfaces.
- iii. Where membrane keys are the only method of input, each will be tactilely discernable from surrounding surfaces and adjacent keys.
- iv. Numeric keys will be arranged in a 12-key ascending or descending telephone keypad layout. The number "5" will be tactilely discernable from the other keys.
- v. Function keys will contrast visually from background surfaces. Characters and symbols on key surfaces will contrast visually from other surfaces.

F. Display Screen.

- i. The display screen will be visible from a point located 40 inches above the center of the clear floor space in front of the machine.
- ii. Characters displayed on the screen will be in sans serif font.
- iii. Characters will contrast with their background with either light characters on a dark background or dark characters on a light background.

G. Braille Instructions.

- i. Braille dots will have a domed or rounded shape.
- ii. Braille dots will be positioned below the corresponding text.

7. DEBIT CARD USE AND LIMITATIONS.

A. Debit Card Use. A Credit Union member may use a Debit card to purchase goods and services. Funds to cover Debit card purchases will be deducted from the member's Credit Union checking account. A Debit card purchase will not be authorized if the amount of the purchase exceeds the available balance in the member's account at the time the authorization is requested. If there are insufficient funds in the account at the time the transaction is processed, the funds in the member's overdraft protection account may be

used to pay these transactions (if applicable). If the balance in member's account is not sufficient to pay the transaction amount, the member will be subject to a charge and the Credit Union may terminate all Debit card services.

B. Debit Card Limitations. A Credit Union member may make Debit card purchases up to the maximum amount set by any participating merchant (if there are sufficient funds in the member's Credit Union account).

8. LIABILITY OF MEMBER FOR UNAUTHORIZED ATM OR DEBIT CARD TRANSACTIONS.

A. ATM Cards. For any unauthorized ATM transactions the following liability limitations apply. If a member tells the Credit Union within two business days after the member learns of the unauthorized use, a member will lose no more than \$50, otherwise a member may lose as much as \$500. If a member does not tell the Credit Union within sixty days after the statement was mailed, a member may be liable for the full amount of the loss. The Credit Union may extend these time periods for good cause.

B. Debit Card Purchase Transactions. For Debit card purchase transactions, a member will not be liable for any losses provided (1) the member notifies the Credit Union of the lost or stolen card, (2) the member was not grossly negligent or fraudulent in handling their Debit card, and (3) the member provides the Credit Union with a written statement regarding the unauthorized Debit card claim.

C. ATM/Debit Card Authority. If a member furnishes an access device and grants authority to make transfers to a person (such as a family member or co-worker) who exceeds the authority given, the member shall be fully liable for the transfers unless the member has notified the Credit Union that transfers by that person are no longer authorized.

9. CONDITIONS OF CARD USE.

A. Any ATM or Debit card issued by the Credit Union is the Credit Union's property. The Credit Union may repossess the ATM or Debit card at any time in its sole discretion without demand or notice to the member.

B. The Credit Union does not allow members to transfer an ATM or Debit card to another person. The Credit Union prohibits members from using the ATM or Debit card for any illegal or unlawful transaction, and may decline to authorize any transaction that it believes poses an undue risk of illegality or unlawfulness.

10. DOCUMENTATION. The Credit Union will record transfers, withdrawals, and purchases transacted through an ATM or POS terminal on a periodic statement. The Credit Union will provide a monthly statement unless there is no transaction, but in any case, the Credit Union will send a statement at least quarterly. The Credit Union will provide a receipt at the time a member performs a transaction (except inquiries) using a Credit Union ATM.

11. PROCEDURES FOR RESOLVING ERRORS. A member must inform the Credit Union no later than sixty days after the first statement on which the problem appears is sent. The member must describe the transfer, the error, and the amount of the suspected error. The Credit Union may require this notice in writing within ten calendar days. Within ten business days (twenty business days for new accounts), the Credit Union will tell the member the results of its investigation and will correct any error. The Credit Union may take up to forty-five calendar days to investigate the question (ninety calendar days for point of sale transaction errors, new account transaction errors, or errors involving transactions initiated outside the U.S.), and will re-credit the account within ten business days (five business days for Visa debit card purchases) for the amount the member thinks is

in error. The Credit Union may not re-credit the account if the member does not put its question in writing.

12. **MANAGEMENT CONTROLS.** The Credit Union will create management controls to minimize the risks associated with misuse of ATM and Debit cards. ATM and Debit card misuse will be reduced by carefully screening cardholders before issuance and by monitoring individual accounts for abuse. Misuse of ATM cards and Debit cards is reduced by internal controls designed to prevent fraudulent use of lost or stolen cards or interception of cards before delivery to the member. The Credit Union management reports may include identifying accounts that are [2615-5].

Policy 2620: Remote Deposit Capture

Revised Date: 03/28/2018

Model Policy Revised Date: 03/28/2018

General Policy Statement:

Remote Deposit Capture (RDC), a deposit transaction delivery system, allows [CUname] (Credit Union) to receive digital information from deposit documents captured at remote locations (i.e., the Credit Union's branches, ATMs, etc.) and on mobile devices. While RDC can decrease processing costs, support new and existing banking products, and improve members' access to their deposits, it introduces additional risks to those typically inherent in traditional deposit delivery systems.

The Credit Union will follow regulator guidance addressing the necessary elements of an RDC risk management process in an electronic environment, focusing on RDC deployed at a member's location. This guidance is also applicable to the Credit Union's internal deployment and other forms of electronic deposit delivery systems (e.g., mobile banking and automated clearing house (ACH) check conversions).

Guidelines:

1. PLANNING.

- A. **Strategic Plan.** The Credit Union will ensure that RDC is compatible with its business plan and strategies. The Credit Union will ensure its Strategic Plan demonstrates management has assessed the risks and documented the Credit Union's program to mitigate them, as well as the Credit Union's capability to provide the service.
 - i. **Investments.** The Strategic Plan will reflect any significant investment in information technology (IT) linking them to business-line goals and objectives.
 - ii. **Third Parties.** The use of any third party service provider will be addressed in the Strategic Plan and will be tied to the Credit Union's Vendor Due Diligence and Oversight policy (**See Policy 2185**).
- B. **Board Responsibilities.** Unless otherwise delegated to management, the Board will approve the plans and expenditures related to RDC systems and services. The Board will also review periodic performance and risk management reports in the implementation and ongoing operation of RDC systems and services.
- C. **Management Responsibilities.** Credit Union management will ensure it understands the return on investment and that it has the ability to manage the risks inherent in RDC. Management bears the responsibility for the safe and sound operation of RDC products and services, but may involve the following parties in the risk assessment, implementation or ongoing operations:
 - i. IT and information security staff.
 - ii. Deposit operations staff.
 - iii. Staff responsible for business continuity planning and implementation.
 - iv. Audit and compliance staff (including BSA/AML).

v. Accounting and legal staff.

vi. Third party vendors.

D. Risk Assessment. The Credit Union will perform a risk assessment regarding the risks associated with the RDC service and systems. This assessment will be conducted prior to implementation and will be reviewed on a periodic basis.

i. Legal and Compliance Risks. The Credit Union's management will identify and assess exposure to the various legal and compliance risks related to RDC. For each clearing method, the Credit Union will consider applicable legal and regulatory requirements (such as timeframes for handling returned items and funds availability).

1. Warranties and liabilities associated with sending a check, in either electronic or paper form, to another institution for collection or presentment under the Check Clearing for the 21st Century Act (Check 21 Act), Regulation CC, Regulation J, applicable state laws (Uniform Commercial Code).
2. Responsibilities with respect to the check as agreed to between the participating institutions by contract or clearinghouse rules.
3. ACH transaction rules of the National Automated Clearinghouse Association (NACHA) and Regulation E.
4. Issues associated with the laws and regulations of the Bank Secrecy Act, such as the exposure to the risk of money laundering or other suspicious activity, especially related to transactions performed by members deemed to be "high risk" under the Credit Union's member due diligence program, which is outlined in the Credit Union's Bank Secrecy Act policy (See **Policy 2110**).
5. Requirements to perform a check of the Office of Foreign Assets Control (OFAC) Specially Designated Nationals (SDN) list for all transactions performed through the RDC system.

ii. Operational Risks. Operational risk is the risk of incurring financial loss due to human or technical errors and fraud. The Credit Union will ensure that controls are in place to mitigate these risks, including physical and logical access controls over RDC systems, original deposit items at member locations, electronic files, and retained nonpublic personal information of members.

1. **Effect on Existing Risks and Mitigating Controls.** The Credit Union will carefully assess how RDC affects existing risks and mitigating controls. For example, for the various technological options, the risks associated with how and where nonpublic personal information is captured, transmitted, retained, and destroyed will be assessed. The Credit Union will consider the confidentiality, integrity, and availability of data afforded by its IT systems and by the systems used by the Credit Union's service providers and RDC users.
2. **Scope and Complexity.** The scope and complexity of the risk identification and assessment process will vary depending on the scope of RDC implementation and exposures faced by the Credit Union. For example, implementing RDC in the Credit Union's backroom operations may present less risk and complexity than deploying RDC at remote locations, such as members' business premises or homes, or on mobile devices, where the capture

process is outside the direct control of the Credit Union. These risks can be unique to each member's location, access devices, RDC processing technology, and information security systems.

3. **Document Management Procedures.** In the typical RDC process, original deposit items are not submitted to the Credit Union, but are retained by the member or the member's service provider. The Credit Union will require appropriate document management procedures to be implemented by the member in order to ensure the safety and integrity of deposited items from the time of receipt until the time of destruction or other voiding. These strategies will be employed in an effort to mitigate the following risks:
 - a. Faulty equipment, inadequate procedures, or inadequate training of members and their employees can lead to inappropriate document processing, poor image quality, and inaccurate electronic data.
 - b. Ineffective controls at the member location may lead to the intentional or unintentional alteration of deposit item information, resubmission of an electronic file, or re-deposit of physical items.
 - c. Inadequate separation of duties at a member location can afford an individual end-to-end access to the RDC process and the ability to alter logical and physical information without detection.
4. **Technology-Related Risks.** Depending on the type of RDC system implemented, information security risks may extend to the Credit Union's own internal networks and networks of its service providers. These technology-related operational risks include failure to maintain compatible and integrated IT systems between the Credit Union, service providers, and the member. For example, a member or service provider may modify RDC-associated software or hardware or fail to update or patch an associated operating system in a timely manner. There also may be risks related to Web application vulnerabilities, authentication of a member to the RDC system, and encryption used at any point in the process.
5. **Multi-Factor Authentication.** The Credit Union will utilize multi-factor authentication to verify members utilizing its systems for RDC services (as well as all of the Credit Union's remote banking services) in order to mitigate the risks associated with fraud.
6. **Fraud Detection.** Duplicate presentment of checks and images at the Credit Union or another depository institution represents both a business process and a fraud risk. Check alteration, including making unwarranted changes to the Magnetic Ink Character Recognition (MICR) line on the image of scanned items, is extremely difficult to detect when deposited items are received through RDC and are not inspected by a qualified person. Similarly, forged or missing endorsements, which may be detected in person, may be less easily detected in an RDC environment. Certain check security features may be lost or the physical alteration of a deposited check – such as by “washing” or other alteration techniques – may be obscured in imaging or electronic conversion processes. Counterfeit items may be similarly difficult to detect.
7. **Insider Fraud.** The potential for insider fraud may be greater with RDC because the Credit Union typically does not perform background checks on its members' employees who may have access to physical deposit items or electronic files. Access by members and their

respective staff to nonpublic personal information contained on, or represented by, deposit items may also increase the risk of identity theft.

8. **Securing Member Information.** The Credit Union will assess the risks to the security and confidentiality of its members' nonpublic personal information. The Credit Union will adjust its information security programs in light of any relevant changes in technology, the sensitivity of member information, internal or external threats to information, and its own changing business arrangements.

2. **MITIGATION AND CONTROLS.** The Credit Union will employ the following risk management mitigation strategies and controls.

A. **Member Due Diligence and Suitability.** Given the risks associated with RDC, the Credit Union will reduce and control some of these risks by limiting the availability of this system to those determined to be "low risk" under its member due diligence program, which is outlined in the Credit Union's Bank Secrecy Act policy (**See Policy 2110**).

- i. **Suitability Review.** For new and existing members, a suitability review will involve consideration of the member's business activities and risk management processes, geographic location, and member base. The depth of such review will be equal to the level of risk. When the level of risk warrants, Credit Union staff will visit the member's physical location as part of the suitability review. During these visits, the Credit Union will evaluate management, operational controls and risk management practices, staffing and the need for training and ongoing support, and the IT infrastructure. Additionally, the Credit Union will review available reports of independent audits performed at the member location related to IT, RDC and associated operational processes.

B. **Vendor Due Diligence and Suitability.** All service providers used by the Credit Union for RDC services will be selected and monitored pursuant to the Credit Union's Vendor Due Diligence and Oversight policy (**See Policy 2185**).

C. **RDC Training for Members.** Without effective periodic training, RDC members may have unrealistic expectations of the system or may not understand their roles in managing risks and monitoring for processing errors or unauthorized activity. The Credit Union will ensure that members receive sufficient training, regardless of whether the member obtains the RDC system from the Credit Union or from a third-party servicer. All training will include documentation that addresses routine operations and procedures, including those related to the risk of duplicate presentment and problem resolution.

D. **Contracts and Agreements.** The Credit Union will consult with its legal counsel to develop and review its contracts and agreements with other financial institutions that accept checks in the form of electronic files, third-party service providers, and members that participate in the RDC process. RDC agreements should establish the control requirements identified during the risk assessment process and the consequences of noncompliance. Specific contract provisions for consideration include the following:

- i. Roles and responsibilities of the parties, including those related to the sale or lease of equipment and software needed for RDC at the member location if provided by the Credit Union;
- ii. Handling and record retention procedures for the information in RDC, including physical and logical security expectations for access, transmission, storage, and disposal of deposit items containing nonpublic personal information;
- iii. Types of items that may be transmitted;

- iv. Processes and procedures that the member must follow, including those related to image quality;
- v. Imaged documents (or original documents, if available) RDC members must provide to facilitate investigations related to unusual transactions or poor quality transmissions, or to resolve disputes;
- vi. Periodic audits of the RDC process, including the IT infrastructure;
- vii. Performance standards for the Credit Union and the member;
- viii. Allocation of liability (including allocation of liability for loss incurred from an RDC deposit back to the member in connection with subsequent deposits of the same item), warranties, indemnification, and dispute resolution;
- ix. Funds availability, collateral, and collected funds requirements;
- x. Governing laws, regulations, and rules (such as cut-off times and the specification of how the member will know the Credit Union has accepted the deposit);
- xi. Authority of the Credit Union to mandate specific internal controls at the member's locations, audit member operations, or request additional member information; and
- xii. Authority of the Credit Union to terminate the RDC relationship.

E. **Business Continuity.** Credit Union management will ensure the Credit Union's ability to recover and resume RDC operations to meet member service requirements when an unexpected disruption occurs. The Credit Union's business continuity plan will address RDC systems and business processes, and the testing activities will assess whether restoration of systems and processes meets recovery objectives and time frames. To the extent possible, contingency plan development and testing will be coordinated with members using RDC.

F. **Restrictive Indorsement.** In order to mitigate losses in the case of fraud, the Credit Union will require the member depositing a check via RDC to include an indorsement similar to "for mobile deposit only at [CUnion] (Credit Union)." This restrictive indorsement will not allow another depository bank/credit union from making an indemnity claim if the original (paper) check it accepted bore this type of restrictive indorsement and inconsistent with the means of deposit. The Credit Union understands that without the restrictive indorsement, the Credit Union will indemnify the depository bank/credit union that accepts the original (paper) check for deposit for losses incurred by the depository bank/credit union if the loss is due to the check having already been paid.

Other Mitigation and Control Considerations. Management will implement, as appropriate, other controls that mitigate the operational risks of RDC, including those related to item processing. These controls will be designed and implemented to ensure the security and integrity of members' nonpublic personal information throughout the transmission flow and while in storage. Examples of such controls are as follows:

- i. Separation of duties or other compensating controls at both the Credit Union and the member location can mitigate the risk of one person having responsibility for end-to-end RDC processing.
- ii. Strong change control processes coordinated between the Credit Union and the member can help to ensure synchronized RDC platforms, operating systems and applications, and business processes.

iii. To reduce the risk of items being processed more than once, deposit items can be endorsed, franked, or otherwise noted as already processed.

iv. When insurance coverage is available and cost effective, the Credit Union may be able to mitigate risk further.

3. **MEASURING AND MONITORING.** For the effective oversight of RDC activities, the Credit Union will develop and implement risk measuring and monitoring systems. The Credit Union will ensure that members using RDC have implemented operational and risk monitoring processes that are appropriate to their respective choice of technology.

A. **Key Operational Performance Metrics.** Credit Union management will establish key operational performance metrics that support accurate and timely monitoring of risk within RDC processes. This information will be used to set operational benchmarks and standards, as well as to develop reports for monitoring results against the standards.

B. **Reviewing Reports.** Credit Union management will regularly review the reports and periodically conducting reviews and operational risk assessments. This will help ensure that the monitoring and reporting process accurately reflects current policies and procedures and sound practices. A variety of reports can facilitate management oversight of RDC operations, member compliance with agreements or contracts, and instances of anomalous or questionable activity. Reports will address point-in-time activities as well as trends for individual members, groups of members with similar characteristics, and for the RDC product as a whole.

i. Reports on duplicate entries (file and/or item recognition and interception) and violations of deposit thresholds may help monitor for unauthorized activities.

ii. Velocity metrics such as file size and number of files, transaction dollar value and volume, and return item dollar value and volume also assist in monitoring for fraudulent activity and capacity utilization.

iii. Reporting on reject items and corrections, and Courtesy Amount Recognition (CAR)/Legal Amount Recognition (LAR)/Intelligent Character Recognition (ICR) adjustments supports monitoring of operational efficiency.

Policy 2700: Garnishment of Federal Benefit Payments

Revised Date: 03/28/2015

Model Policy Revised Date: 03/28/2015

General Policy Statement:

[CUname] (Credit Union) will ensure that it complies with the procedures outlined in this policy when it receives a garnishment order against an account holder who receives the following types of **directly deposited federal benefits**: Social Security benefits, SSI benefits, VA benefits, Federal railroad retirement and sickness benefits, Civil Service Retirement System benefits, and Federal Employee Retirement System benefits.

The Guidelines of this policy only apply to federal benefits that are directly deposited into a member's account through Automated Clearing House (ACH).

Guidelines:

1. DEFINITIONS.

- A. **Account Holder** – A natural person against whom a garnishment order is issued and whose name appears in the Credit Union's records as the direct or beneficial owner of an account.
- B. **Account** – Any account, whether a master account or sub account, at the Credit Union and to which an electronic payment may be directly routed. The definition does **not** include an account to which a benefit payment is later transferred following its initial delivery by direct deposit to another account.
- C. **Benefit Payment** – Directly deposited payments that include an "XX" in positions 54 and 55 of the Company Entry Description field in the ACH Batch Header Record of the direct deposit entry, and also the number two (2) encoded in the Originator Status Code field of the Batch Header Record of the direct deposit entry. For example, a Social Security benefit payment that previously contained "SOC SEC" in this field will be encoded "XXSOC SEC."
- D. **Garnishment Fee** – Any kind of a fee that the Credit Union charges to an account holder related to the receipt or processing of a garnishment order.
- E. **Garnishment Order** – A writ, order, notice, summons, judgment, levy or similar written instruction issued by a court, a State or State agency, a municipality or municipal corporation, or a State child support enforcement agency, including a lien arising by operation of law for overdue child support or an order to freeze the assets in an account, to effect a garnishment against a debtor.
- F. **Look-Back Period** – The two-month period that (1) begins on the date preceding the date of account review and (2) ends on the corresponding date of the month two months earlier, or on the last date of the month two months earlier if the corresponding date does **not** exist. For example, under this definition, the look-back period that begins on November 15 would end on September 15. On the other hand, the look-back period that begins on April 30 would end on February 28 (or 29 in a leap year).
- G. **Protected Amount** – The lesser of the sum of all benefit payments posted to an account between the close of business on the beginning date of the look-back period and the open of business on the ending date of the look-back period, or the balance in an account when the account review is performed.

2. **FIRST STEP WHEN A GARNISHMENT ORDER IS RECEIVED.** The first action that the Credit Union will take when it receives a garnishment order is to determine whether the order was obtained by the United States, State or State agency, municipality or municipal corporation, or a State child support enforcement agency. To make this determination, the Credit Union will rely on the inclusion of a Notice of Right to Garnish Federal Benefits. For orders obtained by the United States or a State child support enforcement agency, the Credit Union will follow its otherwise customary procedures for handling the order.
3. **ACCOUNT REVIEW.** The Credit Union will review the history of the account being garnished to determine if a benefit payment was deposited into the account during the look-back period. Generally, the account review must be completed within 2 business days following receipt of the order, and will be performed before taking any action related to the garnishment order that may affect funds in an account.
- A. **Insufficient Information.** If there is insufficient information included in the order to determine whether the debtor is an account holder, the deadline for completing the account review is extended until the Credit Union is able to obtain such information.
- B. **Batch Orders.** In cases where the Credit Union is served a batch of a large number of orders, the deadline is extended to whatever date is permitted under the terms of the garnishment orders. This provision does **not** mean that the Credit Union can extend the deadline simply because a large number of separate orders is received at one time.
- C. **No Benefit Payments Deposited.** If the account review shows that no benefit payments were deposited to the account during the look-back period, the Credit Union will follow its otherwise customary procedures for handling the order.
- D. **Benefit Payments Deposited.** If a benefit payment was deposited into the account during the look-back period, the Credit Union must follow the procedures set forth below (See “Access to Protected Amount by Account Holder”).
- E. **Factors NOT Relevant to Review.** The factors that are **not** relevant to the Credit Union’s account review include the following:
- i. The commingling of exempt and nonexempt funds in the account;
 - ii. The existence of a co-owner on the account.
 - iii. The fact that benefit payments to multiple beneficiaries may have been deposited to an account during the look-back period; and
 - iv. Any instructions or information in a garnishment order, including information about the nature of the debt or obligation underlying the order.
- F. **Separate Reviews for Each Account.** A *separate* account review for each account owned by an individual against whom a garnishment order has been issued is required, even if an individual holds more than one account at the Credit Union.
- G. **Transferred Funds.** A benefit payment that is directly deposited to an account and then is later transferred to another account is **not** treated as a benefit payment for purposes of the second account.
4. **ACCESS TO PROTECTED AMOUNT BY ACCOUNT HOLDER.** When the Credit Union determines that one or more benefit payments were deposited to an account during the look-back period, the Credit Union will

calculate the protected amount.

- A. **Full and Customary Access.** The Credit Union may **not** freeze, or otherwise restrict the account holder's access to, the protected amount. The credit union must provide the account holder with "full and customary access" to the protected amount.
- B. **Automatic Protection.** The protection against freezing triggered by the depositing of exempt funds during the look-back period is automatic. The Credit Union may **not** require an account holder to assert any right to a garnishment exemption or take any other action prior to accessing the protected amount.
- C. **Each Account Protected.** The Credit Union will calculate and establish a protected amount for each account it holds in the name of an account holder.

5. **ACCOUNT REVIEW FOR ADDITIONAL GARNISHMENTS.** When the Credit Union receives service of the same garnishment order more than once, it must execute the account review one time upon the first service of a given garnishment order.

- A. **Same Garnishment Order.** If the *same* garnishment order is later served again upon the Credit Union, an additional account review is **not** required, and no action may be taken on the account.
- B. **Different Garnishment Order.** If the Credit Union is later served a *new or different* garnishment order against the same account, a new account review must be executed.

6. **PROHIBITION AGAINST CHARGING GARNISHMENT FEES.**

- A. **No Fee Charged Against a Protected Amount.** The credit union may not charge or collect a garnishment fee against a protected amount.

The credit union may charge or collect a garnishment fee up to five business days after the account review if funds other than a benefit payment are deposited to the account within this period, provided that the fee may not exceed the amount of the non-benefit deposited funds.

- B. **Other Actions Permitted.** The rule protecting federal benefit funds does **not** address the Credit Union's right to take a security interest in its deposit accounts or to exercise a contractual right to deduct fees or a common law right of offset against funds that are exempt from garnishment, except in the very narrow context of deducting a garnishment processing fee from an account containing a protected amount following receipt of a garnishment order. Additionally, the rule does **not** address the conditions under which the Credit Union may close accounts.

7. **NOTICE TO ACCOUNT HOLDERS.**

- A. The credit union will send a notice of garnishment in cases where:

- i. A benefit agency deposited a benefit payment into an account during the look-back period;
- ii. The balance in the account on the date of account review was above zero dollars and the financial institution established a protected amount; and
- iii. There are funds in the account in excess of the protected amount.

- B. **Required Information.** If a benefit payment was deposited into an account during the look-back period,

and the balance in the account on the date of account review was above zero dollars, the Credit Union must send a notice to the account holder that includes the following information: *{Note: A Sample Model Notice is available in the CU PolicyPro Resources area under TOOLS > General}*

- i. That the Credit Union has received a garnishment order;
- ii. A brief explanation of what a garnishment is; and
- iii. Information regarding the account holder's rights.

C. Permitted Information. The Credit Union may include the following additional information in the notice:

- i. The means of contacting a local free attorney or legal aid service;
- ii. The means of contacting the Credit Union;
- iii. A statement that the Credit Union is not providing legal advice by issuing the notice; and
- iv. Information about a State's garnishment rules and protections (to avoid confusion regarding the interplay of the rule with State requirements, or to provide more complete information about an account).

D. Timing; No Additional Content. The Credit Union must deliver the notice directly to the account holder within 3 business days from the date of the account review. Only information and documents pertaining to the garnishment order may be included in the communication.

E. Multiple Accounts. If the account holder has multiple accounts, the Credit Union may send one notice with information related to all the accounts. The rule makes it clear that by issuing a notice, a Credit Union will **not** be deemed to be providing legal advice or creating any obligation to provide legal advice.

8. AFFECT OF RULE ON AGREEMENTS AND OTHER REGULATIONS. The requirements of the rule may **not** be changed by agreement (except in the narrow circumstance permitted where an account holder instructs the Credit Union, in written instructions dated after the date of service of the garnishment order, to use exempt funds to satisfy the order). However, the proposed rule would **not** override or affect any funds availability limitations (for example, if funds on deposit are subject to a hold consistent with Regulation CC, or a limitation on withdrawal applicable to a time deposit).

9. PREEMPTION OF STATE LAW. If a State law would prevent the Credit Union from complying with the requirements of the rule, the State law is preempted. However, the rule does **not** preempt requirements under State law that are in addition to the rule's requirements. In such cases, the Credit Union will need to satisfy the rule's requirements and then determine what, if any, additional obligations exist under State law. The rule does **not** displace or supersede such State law requirements, provided that the Credit Union has complied with all the requirements of the rule.

10. SAFE HARBOR.

A. Protected Amounts and Judgment Creditors. If the Credit Union made the protected amount available to an account holder in accordance with the rule, the Credit Union would **not** be liable even if a judgment creditor were able to establish in court that funds in the account at the time the garnishment order was served were attributable to non-exempt deposits.

B. Funds Withdrawn Within the Account Review Period. If the Credit Union performed an account review within the 2 business day deadline, and funds were withdrawn from the account during this time, the Credit Union would **not** be liable to a creditor or court for failure to preserve the funds in the account, even if there was no protected amount for the account. This protection exists for the Credit Union despite the occurrence of a bona fide error or a settlement adjustment.

C. Member Instruction to Use Funds to Satisfy Garnishment Order. The Credit Union may follow an account holder's express instruction to use an otherwise protected amount to satisfy the garnishment order. The instruction must be in writing and must be delivered after the date on which the Credit Union received the garnishment order. However, this provision does **not** permit an account holder to instruct the Credit Union, in advance or in a standing agreement, to use exempt funds to satisfy a garnishment order.

11. ENFORCEMENT AND RECORD RETENTION.

A. No Private Right of Action. This rule does **not** provide a private right of action prohibiting garnishment of Federal benefits.

B. Record Retention. The Credit Union must maintain records of account activity and actions taken in handling garnishment orders sufficient to demonstrate compliance with the rule for a period of not less than 2 years from the date on which the Credit Union receives the garnishment order.

Policy 2705: IRS Levies

Revised Date: 03/28/2015

Model Policy Revised Date: 03/28/15

General Policy Statement:

An Internal Revenue Service (IRS) levy is a legal seizure of a debtor's property to satisfy a tax debt. This policy explains the process for dealing with IRS levies.

Guidelines:

1. **RECEIPT OF LEVY.** Upon receipt of an IRS levy, [CUName] (Credit Union) will do the following:
 - A. **Identify Member.** The Credit Union will ensure that it identifies the correct member that is the subject of the IRS levy. The Credit Union will contact the IRS when additional information is needed to determine the correct member.
 - B. **Identify the Member's Property.** The Credit Union will identify all property belonging to the member, as well as all property in which the member has an interest. The Credit Union will carefully read the levy to determine whether there are any specific instructions (e.g., whether an IRA is covered).
 - i. **Certificate (Term Share) Accounts.** For such accounts where the member is permitted to withdraw funds prior to maturity, the early withdrawal penalty may be applied prior to the surrender of the funds to the IRS. For such accounts in which members are not permitted to withdraw funds prior to surrender, the Credit Union will inform the IRS of this fact. When this is the case, the Credit Union will hold the funds and surrender them when the account matures.
 - C. **Hold Funds.** The Credit Union will hold the property for 21 days.
 - D. **Surrender Property.** After the expiration of 21 days, the Credit Union will surrender the property to the IRS, unless otherwise instructed by the IRS. The property will be surrendered regardless of whether there is another owner to the account. A credit union's statutory lien does not have priority over an IRS levy of a member's shares. In situations where the shares in the credit union account are pledged to secure a consumer loan (share-secured loan), legal counsel should be consulted to determine if funds should be surrendered.
2. **RECOVERY OF FUNDS.** The Credit Union, as well as joint owners on a seized account, must file a claim for seized funds with the IRS and follow the proper IRS procedures.
3. **FEES.** Processing fees CANNOT be deducted from amounts submitted to the IRS. However, if there are funds in the account after the levy has been executed, a fee may be charged against those funds.

Chapter 3000: Accounting

Duly Approved by Credit Union

BOARD OF DIRECTORS

Approval Date:

- [Policy 3105: Accounts Payable](#)
- [Policy 3110: Operating Charge Offs](#)
- [Policy 3115: Credit Union Owned Credit Cards](#)
- [Policy 3125: Financial Institution Reconciliations](#)
- [Policy 3130: Fixed Assets](#)
- [Policy 3135: Interest Income](#)
- [Policy 3145: Payroll](#)
- [Policy 3155: Travel Reimbursement](#)
- [Policy 3160: Unclaimed Property](#)
- [Policy 3165: Loan Workouts and Nonaccrual Standards](#)
- [Policy 3170: Troubled Debt Restructure](#)

Policy 3105: Accounts Payable

Revised Date: 07/01/2009

Model Policy Revised Date: 07/01/2009

General Policy Statement:

The accounting department will pay all [CUname]'s (Credit Union) debts on a timely basis after obtaining proper approval.

Guidelines:

1. **AUTHORIZATION.** Only the Board of Directors and the President are authorized to create expenditures on behalf of the Credit Union. The President may from time to time grant permission to staff members to purchase specific items on a one-time basis. In addition, the Board delegates authority to the supplies coordinator for the routine ordering of supplies.

2. **PAYMENT PROCEDURES.**
 - A. Present invoices to President for approval.

 - B. Document general ledger number, check number, date and amount paid on each invoice.

 - C. File invoices by year in alphabetical order under vendor name.

Policy 3110: Operating Charge Offs

Revised Date: 01/01/2004

Model Policy Revised Date: 01/01/2004

Model Policy Reviewed Date: 03/24/2016

General Policy Statement:

Management should make every reasonable effort to collect potential losses. As a general rule, uncollected items should be charged off after 90-days.

Guidelines:

1. **AUTHORIZED CHARGE OFFS.** The Board authorizes the Management to charge off operating losses of less than \$[3110-1] resulting from:
 - A. Cash differences.
 - B. Stop payment and uncollected transaction errors.
 - C. Overdrawn share draft/checking accounts.
 - D. Mis-posted items.
 - E. Clearings/reconciliations.
 - F. Fraud, forgeries, counterfeits, or embezzlements.
 - G. Investment transactions
2. **CHARGE OFFS REQUIRING PRIOR APPROVAL.** Operational losses exceeding \$[3110-2] require prior Board approval to charge off.
3. **BOARD REPORTS.** The Management will provide the Board with a monthly report detailing operational losses charged off by management, operating charge-offs requiring Board approval, circumstances, collection efforts, and estimate of future recovery.

Policy 3115: Credit Union Owned Credit Cards

Revised Date: 07/01/2009

Model Policy Revised Date: 07/01/2009

General Policy Statement:

Credit cards in the name of [CUname] (Credit Union) will only be issued to those Board members and employees using such cards on a sustained and frequent basis for Credit Union-related travel and expenses.

Guidelines:

1. **PREAPPROVAL REQUIRED.** The Board must preapprove all cardholders.
2. **PERMITTED USES.** Cards may only be used for legitimate Credit Union business expenses. Intentional misuse of Credit Union owned credit cards will result in immediate cancellation.
3. **EXPENSE REPORTS.** Card holders must submit expense reports and receipts to the accounting department each month. Accounting personnel will reconcile receipts to the monthly credit card statement.
4. **CARDHOLDER REIMBURSEMENTS.** Cardholder will be required to immediately reimburse the Credit Union for any unauthorized or improper charges and for all charges not supported by appropriate documentation.
5. **CREDIT CARD STATEMENT.** Monthly statements are to be forwarded unopened to the accounting department. Monthly statements for credit cards issued to accounting staff must be forwarded and opened by the [3115-1] for review before it is processed by accounting.

Policy 3125: Financial Institution Reconciliations

Revised Date: 07/01/2009

Model Policy Revised Date: 07/01/2009

General Policy Statement:

[CUname] (Credit Union) follows the guidelines set forth below in reconciling accounts with other financial institutions.

Guidelines:

1. **APPROVALS.** All transactions, journal entries, and adjustments to accounts held at other financial institutions may only be made by authorized personnel. The following officers are responsible for approval of transfers between correspondent financial institutions: [3125-1]
2. **RECONCILIATION PROCEDURES.** Management shall develop and implement sound procedures for reconciling financial institution accounts. The procedures must ensure:
 - A. **Timeliness.** Reconciliations must be prepared promptly at least once a month.
 - B. **Accuracy.** At a minimum, reconciliations shall provide for:
 - i. Meticulous documentation;
 - ii. Supervisor review and approval where necessary;
 - iii. Comparison of payments to accounting entries;
 - iv. Examination for unusual entries or peculiar payments;
 - v. Investigation and documentation of delays in the clearance of deposits, outstanding drafts, and other reconciling items;
 - vi. Review and control of adjusting entries;
 - vii. Description of all reconciling items.
 - viii. Identification and disposition of stale accounts; and
 - ix. Verification and settlement of dormant accounts.
 - C. **Separation of Duties.** Reconciliations shall be prepared by persons who do NOT also:
 - i. Issue drafts or official checks singly;
 - ii. Handle cash; or
 - iii. Post the general ledger or subsidiary ledgers.

D. **Proper Records.** The Credit Union shall maintain proper records of reconciliations. Management shall develop procedures to ensure safeguarding these records against alteration.

3. **DRAFT PROCEDURES.** Management shall develop and implement sound procedures that ensure:

- A. Prenumbering of drafts;
- B. Maintenance of unissued drafts under dual control;
- C. Proper signing of drafts;
- D. Issuance of drafts to parties not payable to cash;
- E. Maintenance of a record of issued and voided drafts;
- F. Proper cancellation of voided drafts;
- G. Controls for drafts outstanding for an unreasonable period; and
- H. Any other prudent controls.

4. **MONITORING.**

A. **Management.** Management will frequently monitor "due from" financial institutions, including but not limited to:

- i. Verification of balances;
- ii. Analysis of reconciliations and reconciling items;
- iii. Examination of statements for alteration;
- iv. Comparison of paid drafts to statements; and
- v. Compliance of practices with approved procedures.

B. **Board Review and Approval.** The Board will periodically review and approve balances maintained in each financial institution's account.

C. **Internal Audits and Supervisory Committee Examinations.** Both internal auditors and the Supervisory Committee will monitor compliance with this policy.

Policy 3130: Fixed Assets

Revised Date: 07/01/2009

Model Policy Revised Date: 07/01/2009

General Policy Statement:

[CUname] (Credit Union) will properly account for fixed assets.

Guidelines:

1. **HISTORICAL COST.** All fixed assets shall be recorded at cost. Cost includes all expenditures required to place the asset in service, including but not limited to the purchase price, shipping charges, insurance, sales tax, and installation charges.
2. **EXPENDITURES.** All expenditures under [3130-1] will be expensed and all others will be depreciated.
3. **DEPRECIATION SCHEDULE.** Fixed assets will be depreciated over the service life of the asset. Assets will remain on the books at cost for as long as the Credit Union owns the asset. Depreciation will accumulate in a contra asset account. When the Credit Union disposes of an asset, the cost and applicable depreciation accounts will be removed from the books. Any difference between the net book value of the asset sold and the sales price will be recorded as a gain or loss.
4. **DEPRECIATION METHOD.** The Credit Union will use the [3130-2] method for depreciating fixed assets. The Board may empower management to instruct the accounting department to use a different method as it deems necessary. Any such change in method will be noted in the Board minutes.

Policy 3135: Interest Income

Revised Date: 07/01/2009

Model Policy Revised Date: 07/01/2009

General Policy Statement:

[CUname] (Credit Union) will accrue interest income on investments and loans in the period it is earned. However, the accrual of interest income will be discontinued and reversed when management determines that collection of interest and/or principal is doubtful. As a general rule, loans 90 days past due will be placed on non-accrual status and accrued interest will be reversed for any loans classified as a loss. Any subsequent payments on troubled loans will be applied to the unpaid principal balance first.

Policy 3145: Payroll

Revised Date: 07/01/2009

Model Policy Revised Date: 07/01/2009

General Policy Statement:

[CUname] (Credit Union) follows the guidelines set forth below in administering its payroll.

Guidelines:

1. **DIRECT DEPOSIT OPTION.** Credit Union staff may, at their choosing, be paid by direct deposit to either a savings or checking account.

2. **TIME CARDS.**

A. **Necessary Information.**

- i. Employee's full name.
- ii. Name of branch department.
- iii. Dates and total hours per day.
- iv. Number of days absent and reason.
- v. Number of overtime hours, if any.

B. **Verification.** The accounting department, human resources department, or the employee's supervisor must verify that employee time cards are accurate and complete in order to:

- i. Maintain adequate records.
- ii. Satisfy existing legislation and work laws.
- iii. Comply with data processing input standards.
- iv. Administer personnel policy fairly to all employees.
- v. Promptly pay an accurate amount to each employee.

3. **PAYROLL RECAP REPORT.** Each department must complete a biweekly payroll recap report. The report lists the employees' names and tracks the number of regular and overtime hours worked and number of hours absent. This form is used as a cross-check to verify accuracy of time-card information.

4. **SOCIAL SECURITY NUMBERS.** Social security numbers will be considered private information. Therefore, only the last four digits will be displayed on paychecks/pay stubs. Proper precautions to safeguard employee's social security numbers will be established, which may include, a locked file cabinet for reports and documents that include an employee social security number, and special care in handling outgoing mail that contains social security numbers (i.e. tax reports, W-2's, etc.).

Policy 3155: Travel Reimbursement

Revised Date: 10/09/2017

Model Policy Revised Date: 10/09/2017

General Policy Statement:

[CUNAME] (Credit Union) will reimburse representatives for legitimate business expenses incurred while engaged in Credit Union business. "Representatives" means Credit Union officials (members of Board of Directors, Credit Committee or Supervisory Committee), employees, and volunteers. Reimbursements will be issued by check or direct deposit. Cash reimbursements are prohibited.

Guidelines:

All employees must obtain prior approval before incurring business related travel expenses. All reimbursable expenses must be submitted on the expense report form accompanied by proper documentation and explanation when applicable. Expenses must be submitted within six months of occurrence. Credit Union representatives are expected to be appropriate, yet prudent in travel planning. Extravagant expenditures will not be reimbursed. The Credit Union will comply with the Fair Labor Standards Act guidelines and regulations regarding employee expenses.

1. **REIMBURSABLE EXPENSES.** All travel must be related to and within the scope of the representative's credit union work activities. Costs resulting from the following activities are generally reimbursable:
 - A. Visiting other Credit Union facilities, members, prospects, and vendors;
 - B. Attending meetings, conventions, or seminars;
 - C. Participating in other job-related training functions.
2. **MODE OF TRAVEL.** Employees are responsible for using the most economical form of transportation possible, given the circumstances.
 - A. **Airlines.** Employees are expected to: fly coach or economy class; book fares as far in advance as possible to take advantage of reduced rates; fly during non-peak times if scheduling permits and lower fares are available; and fly the least expensive airline.
 - B. **Use of Personal or Credit Union Vehicles.** Transportation by car may be required if scheduling permits and it appears to be more economical than air travel. The mileage reimbursement will be based on the current IRS guidelines.
 - C. **Car Rentals.** Car rentals are reimbursable only when other less costly forms of transportation are unavailable. Employees are required to rent compact cars unless only a larger car is available or circumstances necessitate a larger car. Employees are encouraged to use public transportation, complimentary shuttles, and/or share taxi expenses with a group whenever possible.
3. **LODGING.** Employees should stay in moderate, but adequate, accommodations with the best combination of location and price.
 - A. **Convention or Special Rates.** Whenever possible, employees should use hotels where a corporate or convention rate has been established. Asking for special or better rates is also advised when checking in

at hotels.

B. Reimbursement. Lodging will be reimbursed at actual cost on a single rate basis or divided rate basis if the room is shared by more than one employee.

4. **MEALS.** The amount of [3155-1] dollars is the suggested maximum daily expense allowance for employees traveling out-of-town on approved Credit Union business.

A. **Adjustments.** The suggested rate may be altered depending upon the destination and the typical expenses.

B. **Receipts Required.** Receipts evidencing actual meal expenses must be submitted.

5. **FREQUENT FLYER AND HOTEL CLUB PROGRAMS.** Credit Union representatives may retain accrued frequent flyer and hotel club program credits for their own personal use. However, employees should ensure that they continue to make the most economical travel arrangements, uninfluenced by potential airline or hotel travel awards.

6. **CREDIT UNION CREDIT CARDS.** Employees who travel frequently on business may be provided Credit Union credit cards. Credit Union credit cards may be used only for actual and necessary business related charges and not for any personal expenses. Employees are responsible for inappropriate credit card charges. Such improper use may also subject an employee to corrective action. Employees will comply with the provisions in Policy 3115 - Credit Union Owned Credit Cards.

7. **ENTERTAINMENT EXPENSES.** No reimbursement will be made for entertainment expenses during a business trip unless the entertainment is business related. The cost of personal magazines, movies, books, and newspapers should be paid by the representative.

8. **MISCELLANEOUS TRAVEL EXPENSES.** The following expenses may be reimbursed when incurred for approved business travel:

A. Laundry and other cleaning expenses; (Authorized for reimbursement only when extended out-of-town business travel is required. This provision does not include normal laundering that is necessary upon return home.)

B. Tolls, parking fees, taxi fares and tips (not to exceed 15% of the fare);

C. Baggage handling;

D. Official telephone messages and periodic brief calls home (not to exceed one per day);

9. **PERSONAL TRAVEL.** Generally, representatives are also permitted to combine personal travel with business travel as long as time away from work is approved. Additional expenses arising from such non-business travel are the employee's responsibility.

10. **SPOUSE/FRIEND TRAVEL.** Representatives will not be reimbursed for a spouse's or friend's travel expenses, including meals, unless there is a business-related purpose for such travel and pre-approval was obtained from Management. Representatives seeking reimbursement for their companion's expenses must receive advance authorization. The representative may be accompanied by a spouse or friend only if his/her presence does not interfere with the business objectives of the trip.

11. **COMPENSATION OF NONEXEMPT EMPLOYEES FOR TRAVEL TIME.** Nonexempt representatives

will be compensated for travel time during regular working hours while on approved Company business. Travel during regular working hours on non-work days (e.g., Saturday or Sunday) also is treated as “hours worked.” Travel outside regular work hours as a passenger (e.g., on a plane, bus, or in a car) is not considered “hours worked” unless the representative is actually working at the time.

Policy 3160: Unclaimed Property

Revised Date: 10/09/2017

Model Policy Revised Date: 10/09/2017

General Policy Statement:

[CUname] (Credit Union) follows the guidelines set forth below in dealing with unclaimed property.

Guidelines:

1. GENERAL RULES REGARDING ABANDONMENT.

A. **Funds Presumed Abandoned.** The following types of property are presumed abandoned if they remain "unclaimed" by the apparent owner for the time periods set forth below:

- i. Share account and savings account: [3160-1] years.
- ii. Checking account, NOW account, or other demand account: [3160-2] years.
- iii. Matured certificate of deposit and the matured time deposit: [3160-3] years from maturity, unless the owner consents to a renewal.
- iv. Cashier's check, certified check or other check on which the Credit Union is directly liable: [3160-4] years after it was payable or after its issuance if it was payable on demand.
- v. Travelers Check(s) which has been outstanding for more than [3160-5] years after its issuance is presumed abandoned unless the owner has communicated in writing with the Credit Union or indicated an interest by any other means. A money order which has been outstanding for more than [3160-6] years after its issuance is presumed abandoned unless the owner has communicated in writing with the Credit Union.
- vi. Individual Retirement Account funds are presumed abandoned within [3160-7] years after it has become payable or distributions should be made unless the owner has increased or decreased the principal, accepted payment of principal or interest, or communicated with the Credit Union concerning the account.

B. **When Property is "Unclaimed Property."** In general, the previously listed types of property are considered unclaimed unless the owner, within the time period specified:

- i. Communicates in writing concerning the property; or
- ii. Indicates an interest in the property evidenced by a memorandum, record of file prepared by the Credit Union's employee; or
- iii. In the case of a share account, savings account, demand account, or matured time deposit, the owner:
 1. Increases or decreases the account balance; or

2. Presents a passbook or similar evidence of the account balance for the crediting of interest;
or
3. Has an active account with the Credit Union or an active relationship (such as a loan) with the Credit Union and the Credit Union sends statements or other written communications regarding the dormant account to the same address that it sends communications regarding the active account or active relationship.

C. **Safe Deposit Boxes.** All tangible and intangible property held in a safe deposit box which remains unclaimed by the owner for more than [3160-8] years after the lease of the rental period on the box has expired, is presumed abandoned.

D. **When Abandoned Property is "Subject to the Custody of the State."**

i. **General Rule.** In general, property that is presumed abandoned is subject to the custody of the State if:

1. The last known address of the apparent owner as shown on the Credit Union's books is in the State; or
2. The Credit Union's records do not reflect the last known address of the apparent owner; or
3. The Credit Union's records do not reflect the identity of the person currently entitled to the property, and the last known address of the person entitled to the property is in the State.

ii. **Traveler's Checks and Money Orders.** In general, traveler's checks and money orders are not subject to the custody of the State unless:

1. The records of the issuer show that the traveler's check or money order was purchased in this state; or
2. The issuer has its principal place of business in this State and the records of the issuer do not show the state in which the traveler's check or money order was purchased.

E. **Annual Report.** The Credit Union must file an annual verified report, in accordance with prescribed rules, with all of the property presumed abandoned and subject to the custody of the State.

F. **Payment or Delivery of Abandoned Property.** The Credit Union will deliver all property listed on the annual report to the applicable State agency [3160-9] after the second notice of the abandoned property has been published as required by state law. If the owner establishes the right to receive the property to the satisfaction of the Credit Union before the property is paid or delivered, or if it appears for some other reason that the presumption of abandonment is in error, the Credit Union need not pay or deliver the property. The Credit Union must then file with the applicable state agency a verified written explanation of the proof of claim or of the error in the presumption of abandonment. Traveler's checks and money orders will be paid or delivered within [3160-9.1] days after the annual report is filed.

G. **Notice to Owner.** At least [3160-9.2] days but not more than [3160-9.3] days before filing the report of property presumed abandoned, the Credit Union will send written notice to each apparent owner of the property at the owner's last known address informing the apparent owner that the Credit Union is in possession of the property presumed to be abandoned.

H. **Record Retention.** The Credit Union maintains applicable records related to unclaimed property in accordance with Record Retention Policies.

2. **STATE CHARTERED CREDIT UNIONS.** Unless set forth below, the policies stated above apply to state-chartered Credit Unions.

Policy 3165: Loan Workouts and Nonaccrual Standards

Revised Date: 10/09/2017

Model Policy Revised Date: 10/09/2017

General Policy Statement:

Loan workouts can be used to help borrowers overcome temporary financial difficulties, such as the loss of a job, medical emergency, or change in family circumstances like the loss of a family member. [CUNAME] (Credit Union) will balance the best interests of both the member and the Credit Union when evaluating the decision to provide a loan workout arrangement.

Guidelines:

1. **APPLICATION AND APPROVAL.** All loan workout requests must be presented to the [3165-1]. It is the [3165-2]'s duty to investigate and document the circumstances, and present the findings to the [3165-3]. The Credit Union will establish appropriate segregation of duties over loan workouts.
2. **CONSIDERATIONS.** Before granting a loan workout, the Credit Union will take the following factors into consideration:
 - A. The borrower's willingness and ability to repay the loan under a workout agreement.
 - B. The number of payments made under the original loan agreement and the length of delinquency.
 - C. How many times a loan has already entered into a workout program.
 - D. The borrower's current financial situation and information about the hardship, whether temporary or permanent.
 - E. The borrower's debt to income ratio. [3165-7]
 - F. The value of the collateral and the potential for additional collateral.
 - G. For real estate loans, a comparison of the cost of concessions to the borrower with the estimated loss given foreclosure. One way to accomplish this is by employing a net present value (NPV) test that compares the NPV of expected cash flows from the modification with the NPV of the cash flows from foreclosure.
 - H. The Credit Union will only consider loan workouts as a permanent solution to delinquency. Loan workouts will NOT be used to hide delinquency or to extend existing losses into future reporting periods.
 - I. Loan extensions will be conducted and managed based on the Loan Extension Policy (See **Policy 7616**).
3. **ELIGIBILITY REQUIREMENTS.** The Credit Union may agree to consider a loan workout under the following conditions:
 - A. [3165-4]
 - B. **Limits.** The Credit Union will set the following limits on loan workout arrangements. For modified loans

that exceed these limits, the Credit Union will document and retain information to demonstrate that multiple restructurings will improve collectability.

i. **Open-End Loans.** In general, open-end loans will not be re-aged more than once within one 12-month period, and no more than twice within any 5-year period. However, the Credit Union may re-age an account after it enters a workout program, but only after receipt of at least 3 consecutive minimum monthly payments or the equivalent cumulative amount. The Credit Union will not authorize additional advances to fund unpaid interest and Credit Union fees.

ii. **Closed-End Loans.** Closed-end loans will not be extended, deferred, renewed, or rewritten more than [3165-5].

C. **Loan Type.** The Credit Union will not consider a workout arrangement for the following types of loans: [3165-6].

D. **Exceptions.** Any exceptions to the eligibility requirements will be presented to the Board for approval.

4. **TYPES OF LOAN WORKOUTS.** The following types of loan modifications may be considered:

A. Extending the term of the loan in order to reduce the monthly payment amount.

B. Reducing the interest rate to lower the monthly payment amount.

C. Changing from an adjustable rate to a fixed rate interest loan to eliminate payment shock.

D. Rolling over past-due amounts and re-amortizing the new amount due.

E. Deferring payments.

F. Any other type of prudent, creative solution that does not violate safety and soundness.

G. Loan workouts will not be extended or authorized and no additional advances on open-end loans will be allowed to finance unpaid interest or credit union fees. Third party fees, such as forced placed insurance or property taxes, can be financed or advanced through a loan workout

5. **DOCUMENTATION.** For each loan workout, the Credit Union will document the reasons provided for a loan workout request, staff has communicated with the borrower, the borrower has agreed to repay the loan in full, and the borrower has the ability to repay the loan under the new terms. The credit union may require documentation of the borrower's current financial status and financial hardship, such as income verification. Loans being restructured more than once may require additional documentation surrounding the reason, such as various life changes (reduction in interest rate for a new marriage where spouse is willing to co-sign).

6. **MONITORING AND REPORTING.** The Credit Union will monitor its loan workouts and provide a monthly report to the Board. This may include reports that profile delinquent and charged-off loans (identifying common characteristics or variables that may lead to loss) and reports tracking:

A. The number and type of loan that has been re-aged, extended, deferred, renewed or rewritten;

B. Delinquency and charge-off history of loans in workout programs by type of program;

C. First payment defaults;

D. Principal reductions;

E. High LTV ratios, particularly in areas with continued market declines, and total loss exposure in relation to net worth;

F. High DTI ratios;

G. Credit quality; and

H. The number of times a loan has been modified.

7. **TROUBLED DEBT RESTRUCTURINGS (TDRs).** A TDR is a type of loan workout. In a TDR, the Credit Union grants the borrower a concession that the Credit Union would not otherwise consider, due to economic or legal reasons related to the borrower's financial difficulties. This concession may be in the form of an agreement between the borrower and the Credit Union, or may be required by law or a court. The Credit Union will handle TDRs in accordance with its Troubled Debt Restructuring policy (**See Policy 3170**).

8. **NONACCRUAL.**

A. **Nonaccrual of Interest.** The Credit Union ceases accruing interest on a loan and placed in nonaccrual status under the following conditions:

i. When the loan is 90 days or more past due;

ii. If the loan is maintained on a cash (or cost recovery) basis due to deterioration of the financial condition of the borrower, or

iii. For which full payment of the loan is not expected.

B. **Restoration to Accrual Status.** In restoring all consumer loans to accrual status, if any interest payments received while the loan was in nonaccrual status were applied to reduce the recorded investment in the loan, the application of these payments to the loan's recorded investment may **not** be reversed (and interest income may **not** be credited). A nonaccrual loan may be returned to accrual status when:

i. Its past due status is less than 90 days, Generally Accepted Accounting Principles (GAAP) does not require it to be maintained on the Cash or Cost Recovery basis, and the Credit Union is plausibly assured of repayment of the remaining contractual principal and interest within a reasonable period;

ii. When it otherwise becomes well-secured and in the process of collection;

iii. 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.** A member business loan workout will remain in nonaccrual status until the member has made a minimum of six consecutive timely payments under the restructured loan terms and the Credit Union can document a current 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 reasonable period prior to the date on which the loan is returned to accrual status (i.e., a minimum of six consecutive

timely payments under the restructured loan's terms of principal and interest in cash or cash equivalents).

- i. In returning the member business loan workout to accrual status, the Credit Union may take into account the sustained historical repayment performance for a reasonable time prior to the restructuring.
- ii. All identified losses will be charged off.

Policy 3170: Troubled Debt Restructure

Revised Date: 12/20/2013

Model Policy Revised Date: 12/20/2013

General Policy Statement:

Troubled debt restructuring (TDR) is a type of loan workout. In a TDR, [CUname] (Credit Union) grants the borrower a concession that the Credit Union would not otherwise consider, due to economic or legal reasons related to the borrower's financial difficulties. This concession may be either in the form of an agreement between the borrower and the Credit Union, or required by law or a court.

While TDR may be in the best interest of the member (i.e., financial assistance, avoidance of repossession or foreclosure), the Credit Union will enter into a TDR when it is in the best interest of the Credit Union.

To ensure that the Credit Union properly recognizes and accounts for its TDRs, the Credit Union's loan department will involve members of its accounting department when loan modifications are considered. The Credit Union will also refer to Accounting Standards Codification (ASC) 310-40, *Troubled Debt Restructurings by Creditors*, which provides examples of modifications of terms of debt that result in a TDR.

Guidelines:

1. **TYPES OF TROUBLED DEBT RESTRUCTURING.** A loan modification is a TDR when two conditions are present: (A) The member (borrower) is experiencing financial difficulty, and (B) The Credit Union grants a concession it would not otherwise consider – but for the member's financial difficulties.

There are generally two types of TDRs:

A. Settlement of debt at less than carrying value; or

B. Modification of debt terms including, but not limited to the following:

i. Reduction in stated interest rate to below the current market rate for the remaining original life of the debt.

ii. Extension of maturity at a favorable interest rate.

1. Such rate reductions would **not** be a TDR if the reduction was to reflect a decrease in market interest rates in general or to keep the member from refinancing at another financial institution.

iii. Reduction in face amount of the debt.

iv. Reduction in accrued interest.

2. **CONSIDERATIONS.** The Credit Union may be able to recover more from repossession 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, the Credit Union will take the following into consideration when deciding whether to enter into a TDR with a member:

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

3. **ACCOUNTING FOR TROUBLED DEBT RESTRUCTURING.** The Credit Union will properly account for and report its TDRs pursuant to the requirements of ASC 310-40, *Troubled Debt Restructurings by Creditors*, which establishes standards of financial accounting and reporting by the debtor and by the Credit Union for TDRs. The Credit Union will account for the restructured loan in accordance with the provisions of ASC 310, *Receivables* (loans will be considered "impaired" when it is probable that the Credit Union will be unable to collect all amounts due according to the original contract terms of the loan agreement).

- A. Accounting for TDRs as a Part of a Bankruptcy. When a member with a restricted debt files bankruptcy, the Credit Union will do the following:
 - i. **Chapter 7** – The Credit Union will immediately charge off the portion of the debt discharged by the bankruptcy court.
 - ii. **Chapter 13** – The Credit Union will not report the restructured loan as delinquent, based on the restructured loan contract terms. The exception to this would be for member business loans (MBLs), which are still reported as delinquent until six consecutive payments are made.

4. REPORTING.

- A. **Board Reporting.** Management will report to the Board regarding the status of all TDRs on a monthly basis.
- B. **5300 Call Report.** The Credit Union will report TDRs as delinquent consistent with the modified loan contract terms, including amendments made to the loan terms through a formal restructure.

5. NONACCRUAL.

- A. **Nonaccrual of Interest.** The Credit Union will cease accruing interest on a loan when it becomes 90 days or more past due; if it maintained on a cash (or cost recovery) basis due to the deterioration of the financial condition of the borrower; or, for which full payment is not expected.
- B. **Restoration to Accrual Status.** In restoring all consumer loans to accrual status, if any interest payments received while the loan was in nonaccrual status were applied to reduce the recorded investment in the loan, the application of these payments to the loan's recorded investment may not be reversed (and interest income may not be credited). A nonaccrual loan may be returned to accrual status when:
 - i. Its past due status is less than 90 days, Generally Accepted Accounting Principles (GAAP) does not require it to be maintained on the Cash or Cost Recovery basis, and the Credit Union is plausibly assured of repayment of the remaining contractual principal and interest within a reasonable period;
 - ii. When it otherwise becomes well-secured and in the process of collection;

- iii. 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. A member business loan workout will remain in nonaccrual status until the member has made a minimum of six consecutive timely payments under the restructured loan terms and the Credit Union can document a current 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 reasonable period prior to the date on which the loan is returned to accrual status (i.e., a minimum of six consecutive timely payments under the restructured loan's terms of principal and interest in cash or cash equivalents).

- i. In returning the member business loan workout to accrual status, the Credit Union may take into account the sustained historical repayment performance for a reasonable time prior to the restructuring.
- ii. All identified losses will be charged off.

Chapter 4000: Security

Duly Approved by Credit Union

BOARD OF DIRECTORS

Approval Date:

- [Policy 4100: General Security Procedures](#)
- [Policy 4110: Burglary](#)
- [Policy 4120: Information Security](#)
- [Policy 4125: Incident Response](#)
- [Policy 4130: Kidnap / Hostage / Extortion](#)
- [Policy 4140: Robbery Procedures](#)
- [Policy 4150: Workplace Violence](#)
- [Policy 4160: Bomb Threats](#)
- [Policy 4200: Security Devices](#)
- [Policy 4300: Computer Security & Control](#)
- [Policy 4305: Configuration Management](#)
- [Policy 4310: Patch Management](#)
- [Policy 4315: Firewalls](#)
- [Policy 4320: Computer Hardware And Software Acquisition](#)
- [Policy 4340: Remote Access](#)
- [Policy 4350: Cloud Computing](#)

Policy 4100: General Security Procedures

Revised Date: 06/01/2008

Model Policy Revised Date: 06/01/2008

General Policy Statement:

[CUname]'s (Credit Union) security and emergency preparedness policy is designed to ensure safe and sound practices.

Guidelines:

1. **SECURITY TRAINING.** The Credit Union periodically conducts employee training sessions that thoroughly cover precautions and procedures of loss prevention.
2. **STRICT CONFIDENTIALITY.** Employees shall not talk carelessly in public about Credit Union business, security procedures, or cash handling procedures.
3. **KEYS, COMBINATIONS AND PASSWORDS.** The Credit Union will closely control Credit Union keys, combinations, and passwords. The President will change keys, combinations, and passwords, following the dismissal of an employee, or whenever prudent.

A. Keys.

- i. The assignment of keys to specific employees requires prior management approval.
- ii. All personnel assigned keys to Credit Union premises, cash drawers, main cash depositories, or cash lock boxes will be required to keep keys in their possession at all times. Under no condition should an employee allow anyone access to his or her keys when he or she is not present.
- iii. Extra teller keys will remain under dual control.
- iv. Employees will return office keys when they are transferred or when their employment is terminated. Whenever an employee leaves employment with the Credit Union, for any reason, the [4100-1] will have the locks changed on all exterior doors.

B. Combinations.

- i. Only authorized employees may receive combinations to vaults and main cash depositories.
- ii. Personnel must commit all combinations to memory. Any practice of writing down combinations where they could be accessed by others is prohibited.

C. **Passwords.** Under no condition will an employee be permitted to divulge his or her password to another person for that other person's use.

4. CASH CONTROL.

A. Teller Stations.

- i. Each teller will count his/her cash each evening.
- ii. Tellers may not share cash drawers.
- iii. Tellers will lock cash drawers when they are away from their stations.
- iv. Cash drawers shall not exceed \$[4100-2].
- v. Cash shall not be placed within reach of customers.
- vi. Only authorized personnel are permitted in the teller area. The Credit Union will not allow non-tellers to wander through the teller's area unattended.

B. Vault Cash.

- i. Safes and locking depositories will remain closed and locked when not in direct use.
- ii. Access to depositories requires dual entry. No individual will have direct access to funds in a safe, main cash depository, or travelers check depository unless approved by management.
- iii. Access to the vault will be logged. The initials of each employee responsible for maintaining dual entry will be recorded on the vault access log.

C. Cash Transfers Within the Credit Union.

- i. Receipt of purchases from or deposits to main cash requires immediate verification and signatures of both the teller and main cash teller on the cash order form.
- ii. A teller may not accept cash from the main cash depository on behalf of another teller.

D. Cash Transfers by Armored Car.

- i. All currency to be shipped will be double counted and strapped under dual control, and the straps will be initialed by each person.
- ii. Currency will not be released for shipment until armored car personnel have been positively identified.
- iii. If the guard is not known to Credit Union employees, the guard's identity will be verified by telephone with the armored car company. To avoid possible hostage situations, the guard will not be told that his/her identity is being checked by telephone.
- iv. A signed receipt will be issued for each shipment sent or received.
- v. Currency shipments received will be bulk counted in the presence of the armored car personnel unless the count is guaranteed by the armored car agency.
- vi. Each shipment will be verified under dual control and secured in the vault or safe immediately upon receipt.

E. Verification.

- i. Two or more authorized employees must be present during the cash verification process.
- ii. All bundles must be individually counted.
- iii. Verifications will be conducted out of sight of non-employees.

5. SECURITY CHECKS.

- A. The President or an appointed officer will check all alarms and security systems on a quarterly basis to ensure that equipment is in top working condition.

6. OPENING THE PREMISES.

- A. **Employees.** Two employees will open the Credit Union. One employee will enter and inspect the premises (all rooms, closets, and office areas). The second employee will wait at a distance until the first employee signals that all is safe. Before entering, if signs of forced entry are visible, the police will be contacted immediately. Then the two employees will inspect the premises again and set the "all clear" signal for the rest of the employees. Employees are instructed to leave the Credit Union grounds and contact law enforcement officers when the "all clear" signal is not in place.
- B. **Officers.** Officers may enter the Credit Union alone, but only after determining that the premises are secure. Officers should stagger their arrival times and direction of travel.

7. PROCEDURE FOR VISITOR VERIFICATION AND ACCESS TO RESTRICTED AREAS.

- A. Access to nonpublic areas within the Credit Union will be restricted by doors and/or gates that are locked at all times.
- B. A log book will be maintained to document all visitors entering restricted areas at the Credit Union. "Visitors" include vendors, repair technicians, janitorial help, and any other non-office employees.
- C. The log book will record the date, name of visitor and visitor's company, time of arrival and departure, purpose of visit, signature of visitor, and name of Credit Union employee assigned to escort the visitor.
- D. The visitor's identity and authorization will be verified by telephone to the visitor's company or office unless both the visitor and the reason for the visit are known to Credit Union personnel. To avoid possible hostage situations, the visitor will not be told of this verification procedure.
- E. An assigned employee will accompany the visitor at all times while the visitor is in restricted areas of the Credit Union. The [4100-3] may make exceptions to this rule. Such exceptions will be noted in the visitor log book.

8. SAFETY DEPOSIT SECURITY. The Credit Union will follow the procedure set forth in the Safety Deposit Boxes policy.

9. CLOSING THE PREMISES. The Credit Union will follow the following procedures:

- A. At closing time, the doors will be locked. An employee will be stationed at the door to assist any remaining members as they leave the Credit Union.

- B. The door will be locked after each member leaves.
- C. No unauthorized persons will be admitted into the Credit Union after the doors are locked.
- D. All currency, negotiable securities and similar valuables will be secured in the Credit Union vault or safe at the earliest practicable time. The [4100-4] will check all areas of the Credit Union where these items are normally handled or stored to assure all valuables have been secured.
- E. All vital records will be stored in a fire-resistant record safe, container or vault at the earliest practicable time.
- F. The [4100-5] will check all interior areas open to the membership to assure that all members have left the building. All potential hiding places will be included in this inspection.
- G. The [4100-6] will check to see that all exterior windows and doors are securely locked.

10. **SECURITY PROGRAM MONITORING.** The President monitors the Credit Union's security program and promptly corrects any security weaknesses.

Policy 4110: Burglary

Revised Date: 01/01/2004

Model Policy Revised Date: 01/01/2004

Model Policy Reviewed Date: 03/24/2016

General Policy Statement:

[CUNAME]'s (Credit Union) silent alarm will generally alert local police of any attempted burglary. The police will in turn notify appropriate Credit Union officers.

Guidelines:

1. PROCEDURES FOR NOTIFIED OFFICERS.

- A. Do not enter the building alone; wait for police assistance.
- B. Search the Credit Union in the presence of the police. Determine whether anything has been stolen.
- C. If the Credit Union has been burglarized, secure the crime scene and advise the Board and senior management.

2. PRECAUTIONARY PROCEDURES.

- A. The amount of cash and other items of value on hand should be limited to minimum operating needs. The maximum amount of coins a teller may maintain outside of the vault during non-business hours is \$[4110-1].
- B. No one should be allowed to work on the premises until their identity and intentions are verified. Unauthorized persons will not be granted free access to Credit Union and adjoining offices.
- C. After closing hours, officers will inspect the Credit Union for proper security.
 - i. All cash, securities, vital records, and other items of value should be secured in the vault or safe as soon as practical after business hours.
 - ii. Vaults and safes should be locked and the alarm system activated.
 - iii. During evening hours, the vault or safe, if visible from outside the Credit Union, should be properly lighted to discourage burglaries and to afford the possibility of passersby and the police to observe a burglary in progress.
 - iv. All doors, windows, skylights, and any other means of entry should be locked and secured.

Policy 4120: Information Security

Revised Date: 10/05/2016

Note: While CU PolicyPro does not contain a Cybersecurity Policy per se, Policies 4120 and 4125 used together fulfill cybersecurity policy expectations. It is also important to note that Policy 4120 is more than a cybersecurity policy, in that it includes physical security and other, non-‘cyber’ security considerations.

Model Policy Revised Date: 10/05/2016

General Policy Statement:

[CUname] (Credit Union) recognizes its responsibility to safeguard member information and will treat the private financial information of Credit Union's members ("member information") with appropriate care in order to maintain the confidentiality, integrity and security of member information. The purpose of this policy is to set forth the guidelines for management and staff to use in establishing and maintaining policies and procedures to safeguard member information. The Credit Union will comply with all applicable laws and regulations governing the safeguarding of member information including NCUA Guidelines for Safeguarding Member Information (12 CFR Part 748 Appendices A and B, Part 749 Appendix B) (the "Guidelines") and all other applicable laws and regulations regarding the safeguarding of member information.

Reference:

National Institute of Standards and Technology (NIST). Special Publication 800-53 (Revision 4) Security Controls and Assessment Procedures for Federal Information Systems.

Guidelines:

1. POLICY AND PROGRAM RESPONSIBILITY.

A. **Board Responsibility.** This Information Security Policy ("Policy") and any recommended changes shall be approved by the Board of Directors ("Board"). The Board may delegate its oversight responsibility to a Board Committee. The Board will appoint a [4120-1] for the Credit Union on an [4120-2] basis.

B. **Management Responsibility.** Credit Union Management ("Management") through an Information Security Committee ("Committee") will be responsible for the development, implementation, and maintenance of the Credit Union's Information Security Program ("Program") and may assign these responsibilities. Management shall ensure that capital planning and investment requests include the resources needed to implement the information security program.

2. **ASSESSMENT OF RISK.** From time to time, but at least once every 12 months, Management will identify and assess the risks that may threaten the security, confidentiality, or integrity of the Credit Union's information systems, and determine the sensitivity of member information, and the internal and external physical and cybersecurity threats to its security. Management will evaluate and adjust its risk assessment on a periodic basis and in light of any relevant changes in technology; changes in internal and external threats; changes in the member base adopting electronic banking; changes in member functionality offered through electronic banking; transactional capability; transaction volumes; and actual incidents of security breaches, identity theft, fraud, and other significant cybersecurity events experienced by the Credit Union or industry. Management shall report the annual risk assessment to the Credit Union's Board and/or Supervisory Committee for approval.

3. **RISK MANAGEMENT AND CONTROLS.** Management will conduct an initial and ongoing risk

management analysis of its controls, policies, and procedures to proactively prevent, detect and respond to all identified risks and intrusions that may occur. The scope of the risk management analysis will cover, physical facilities controls, cybersecurity controls including access controls, internal controls, ongoing monitoring of risk and controls, an intrusion response plan, and a disaster recovery plan.

A. **Assessment of Controls.** Management will assess the sufficiency of existing policies, procedures, and other arrangements in place to control risks and reduce risk exposure. The Credit Union will review controls on employee duties and existing intrusion detection systems from time to time.

B. **Vulnerability Testing.** The Credit Union will establish a baseline of current assessed risk. The Credit Union will conduct periodic vulnerability testing, and may engage outside security expertise to assist in such testing. The results of the vulnerability testing will be given to the Committee (and the Board) for review and necessary action.

C. **Threat Awareness.** On a regular basis, management shall monitor information security threat alerts from threat-sharing sources, which may include but is not limited to the following: the U.S. Computer Emergency Readiness Team (US-CERT), the U.S. Department of Homeland Security, reputable news sources, Credit Union peers, and service providers. Information gleaned from these sources shall be incorporated into the Credit Union's ongoing risk management efforts. For example, a newly identified threat to an information system asset used to process member information may increase the risk level associated with that information system above acceptable levels.

D. **Plan of Action and Milestones.** Management will respond to identified information security risks with documentation of the plans of action to address unacceptable risks, including clear milestones outlining goals and timelines to achieve acceptable risk levels. Plan of action and milestones reports will be given to the Committee (and the Board) for review and approval.

4. **SERVICE PROVIDERS.** Management will require its service providers, by contract, to implement appropriate measures designed to protect against unauthorized access to or use of member information that could result in substantial harm or inconvenience to any member. To that end, the credit union will receive assurances that third parties will handle member information in a manner commensurate with regulatory guidance and the Credit Union's information security policies and expectations.

5. **SECURITY OF PHYSICAL FACILITIES.**

A. **Physical Access Authorizations.** Access to locations containing member information is restricted to persons with "need-to-know" access to member information. Management shall maintain a list of employees who have physical access to media storage containing member information, or information systems that store, process, or transmit member information. The list shall be reviewed on a Credit Union-defined frequency. Management shall issue credentials for access to facilities based on the physical access authorization process.

B. **Physical Access Control.** Management shall control access to non-public Credit Union facilities using Credit Union-defined physical access control devices/systems (e.g. physical locks, key card readers). An inventory of access control devices/systems shall be maintained. A procedure will be established to revoke keys or disable key cards when employees are transferred or separated.

C. **Monitoring Physical Access.** The Credit Union shall monitor physical access to areas where the information system resides using access logs. The Credit Union will monitor intrusion alarm systems and surveillance cameras.

D. Visitor Control. Visitors to the Credit Union without a "need-to-know" authorization will be escorted as necessary within the nonpublic and administrative areas of the Credit Union, and off-site storage areas by a Credit Union employee with "need-to-know" authorization. Credit Union employees will maintain logs of visitor access to non-public Credit Union areas.

E. Physical and Environmental Protections for Information Systems. The following controls shall be deployed, as feasible, to protect the Credit Union's information systems from physical and environmental threats:

- i. Emergency power shut-off capability (easily accessible to authorized personnel)
- ii. Automatic emergency lighting
- iii. Fire protection and detection devices
- iv. Temperature and humidity controls
- v. Water damage protection (accessible and functional master shutoff or isolation valves)
- vi. Additional controls may be deployed, as necessary

F. Staff Controls for Information Handling.

- i. **Preventing Inadvertent Disclosure.** Credit Union staff who handle member information ("Users") will take all necessary steps to assure that member information is not inadvertently disclosed to people who do not have a "need-to-know" authorization. When not in use, or when not under direct visual supervision, member information must be stored in a secure storage area such as a locked vault, a cabinet, or a locked desk. Reproduction of member information is permitted only as necessary to perform required work.
- ii. **Transport.** Physical transport of member information will require the use of a trusted courier such as internal mail staff, the US Postal Service, UPS, Federal Express, or a contracted courier service. All member information and documents sent via such couriers must be enclosed in an opaque and sealed envelope. Whenever member information is sent over external computer networks, it must be sent in encrypted form.
- iii. **Destruction.** When member information is no longer required (but the computers will be used elsewhere), and when legal or regulatory requirements for its retention no longer apply, it must be destroyed according to approved methods as authorized by [4120-3]. **Destruction will include rendering the information unreadable and include complete eradication of residual electronic information required by FACTA and other applicable laws and regulation to be destroyed. The Credit Union will ensure that all contracts between the Credit Union and service providers who have access to or store member information will include contractual requirements that the service provider dispose of member information in a manner consistent with FACTA and other applicable laws and regulations.** The Credit Union will ensure that vital records will not be destroyed.

G. Theft Protection. All Credit Union computer and network equipment must be physically secured with anti-theft devices if located in an open office environment. Local area network servers must be placed in locked cabinets, locked closets, or locked computer rooms. Transportable computers must be placed in locked cabinets, or secured via other locking systems when in the office but not in use. Computer and network gear may not be removed from Credit Union offices unless the User has first obtained permission from [4120-4].

6. CONTROLS FOR ACCESS SECURITY.

A. Responsibilities of Information Supervisor, Custodians, and Users.

- i. **Supervisor.** The Information Supervisor or her/his delegate(s) within the Credit Union, bear the responsibility for the acquisition, development, and maintenance of production applications which process member information. For each type of member information, the Supervisor will determine the critical nature of the information and define which Users will be permitted to access it, and define its authorized uses.
- ii. **Custodian.** A Custodian is a Credit Union staff person who is in physical or logical possession of member information. The following departments and staff positions are considered Custodians [4120-5]. Whenever member information is maintained on a personal computer, that User is also the Custodian. A Custodian is responsible for safeguarding member information and maintaining security measures defined by the Supervisor.
- iii. **Users.** Users are responsible for complying with any Credit Union member information security policy, procedure, and standard. Questions about the appropriate handling of a specific type of member information should be directed to either the member information Custodian or the Supervisor.

B. Member Information Classification and Confidentiality.

- i. **Information Sensitivity Classification.** Member information is generally designated as nonpublic and may be disclosed only to persons who have been authorized to receive it. Authorization is granted by the Supervisor, consistent with the Credit Union's Privacy Policy, and otherwise on a "need-to-know" basis. Unless specified otherwise by the CEO, all Credit Union employees have access and "need-to-know" authorization for member information.
- ii. **Password Complexity.** The Credit Union will require members utilizing the Credit Union's Internet-based services to use several controls to appropriately authenticate members access to Credit Union products, services and systems including:
 1. Create alphanumeric passwords that are at least six (6) characters in length. The Credit Union will encourage members to change their passwords on a regular basis;
 2. Multifactor authentication;
 3. Layered security to segregate public and private networks including controls to access and member protection; and
 4. Other controls necessary to protect the privacy and integrity of Credit Union and member information .
- iii. **Default Classification.** Member information will be classified and treated as nonpublic, as per the definition of member information in NCUA guidelines (Appendix A to Part 748)..
- iv. **Disclosure.** Disclosure of member information to any staff person or nonaffiliated third party without a "need-to-know" authorization is prohibited. Employees must be familiar with and agree to the confidentiality provisions and member information security provisions in the Credit Union's Employee Handbook. Member information Custodians must verify the existence of a signed

confidentiality agreement prior to disclosure to non-employees.

C. System Access Controls. The Credit Union will create system access controls to restrict access to and safeguard member information that is collected and stored by the Credit Union.

- i. **Employees.** The Credit Union will use pre-employment background checks and employment job descriptions to address employee access to member information, dual controls/segregation, and duties for processing transactions and handling member information. Employees may require rescreening, as necessary, when their job duties change and include increased information handling and/or security responsibilities
- ii. **Passwords.** Password controls will be implemented to limit system access to member information. Passwords may not be stored in computers without access control systems, written down and left where unauthorized persons might discover them, or in other locations where unauthorized persons might discover them. Passwords may not be shared or revealed to anyone else besides the authorized user.

D. Access Control System Design.

- i. **Internal Network Connections.** All Credit Union computers connected to internal computer networks will have an approved password-based access control system. All computers handling member information will employ approved password-based access control systems.
- ii. **External Network Connections.** All in-bound connections to Credit Union computers from external networks must be protected with an approved dynamic password access control system. Users connected to external networks are prohibited from leaving modems turned on while data communications software is enabled, unless an authorized dynamic password system has been installed.
- iii. **Boot Protection and Screen Savers.** All computer users will obtain boot protection through a fixed password and a screen saver. Multi-user Credit Union systems must employ automatic log-out systems that terminate a User's session after a certain period of inactivity.
- iv. **Unique User-IDs and Passwords.** All critical access control systems must utilize user-IDs and passwords unique to each User, in order to protect Users from unwarranted suspicion associated with computer crime and abuse and to help maintain the integrity of member information by reducing unexplained errors and omissions.
- v. **Unsuccessful Logon Attempts.** Critical access control systems will be configured to allow only a Credit Union-defined number of failed logon attempts to authenticate a user (over a defined timespan) before the account automatically locks for a defined timespan or until it is unlocked by a systems administrator.

E. Managing System Privileges.

- i. **Access Requests.** Requests for new user IDs and changed privileges must be in writing and approved by the User's manager before a Systems Administrator fulfills these requests.
- ii. **Compliance and Confidentiality Statement/Agreement.** All Users wishing to use Credit Union multi-user computer systems must sign a compliance and confidentiality agreement prior to being issued a user ID.

- iii. **Access Denial.** All user IDs inactive [4120-6] or more days will automatically have the associated privileges suspended or revoked. When Users are transferred to a different job, their system privileges will be changed to reflect their new job duties. At employment separation, all Credit Union property in employee's possession must be returned to the Credit Union, and all system access privileges shall be terminated. Management reserves the right to revoke the system privileges of any User at any time.
- iv. **Prohibited Activities.** Users must not test, or attempt to compromise Credit Union computer or communication system security measures unless specifically approved in advance and in writing by the [4120-7]. Incidents involving unapproved system cracking (hacking), password cracking (guessing), file decryption, bootleg software copying, short-cuts bypassing system security measures, pranks or practical jokes, or similar unauthorized attempts to compromise security measures may be unlawful, and will be considered serious violations of this Policy.

7. CONTROLS FOR INTERNAL SECURITY.

- A. **Standards.** The [4120-8] is responsible for setting standards of conduct for Credit Union employees and Users of member information including compliance with the provisions of this Policy and all member information security procedures conveyed to them verbally or in writing.
- B. **Dual Controls.** Configuration or setting changes for any information security systems or controls, e.g., firewall and other monitoring systems, or any other elements of the Credit Union's Information System that could directly affect member information are made by the [4120-9], or outsourced service provider, only after express written permission by the [4120-9.1].
- C. **Display of Information.** All computer display screens must be positioned such that the information cannot be readily viewed through a window, by persons walking in a hallway, or by persons waiting in reception and related areas.
- D. **Encryption.** When member information is transmitted over any communication network provided by an organization outside the Credit Union, it must be sent in encrypted form. Member information entrusted to the Credit Union by a third party must be encrypted when sent over external network systems.
- E. **Layered Security.** Segregating public and private networks, deploying overlapping controls for access and asset protection
- F. **Held in Storage.** Whenever member information is not actively used, it must be stored in encrypted form if unauthorized individuals can access it.
- G. **Permissible Methods.** Encryption of member information at rest (in storage) or in transit (on a network) must be achieved via commercially available products approved by the [4120-9.2]. All encryption algorithms, modes of operation, and key management systems must be consistent with internal standards issued by the [4120-9.3].
- H. **Information Loss.** Whenever encryption is used, employees must not delete the sole readable version of the member information unless they have first demonstrated that the decryption process is able to reestablish a readable version of the member information.
- I. **Encryption Keys.** Encryption keys used for member information are always classified as member information. Access to such keys must be strictly limited to those who have "need-to-know"

authorization. Likewise, encryption keys must always be encrypted when sent over a network.

J. Broadcast Systems. Portable phones using radio technology as well as cellular phones must not be used for data transmissions containing member information unless the connection is encrypted. Likewise, other broadcast networking technologies, such as radio-based local area networks or wireless (“wi-fi”) networks, must not be used for member information unless the link is encrypted.

K. Network Changes. With the exception of emergency situations, all changes to Credit Union computer networks must be documented in a work order request and approved in advance by the [4120-9.4]. Emergency changes to the Credit Union networks may be made only by persons authorized by the [4120-9.5]. Change management policy details are described the Configuration Management Policy (See Policy 4305).

L. New Systems Set-Up. Employees must not establish electronic bulletin boards, local area networks, modem connections to existing local area networks, new types of real-time connections between two or more in-house computer systems, or other multi-user systems for communicating information without the specific approval of the [4120-9.6].

M. Systems Removal and Disposal. Computer Equipment with an internal disk drive(s) (“hard drive”) being removed for relocation or disposal must have the disk drive(s) render any information unreadable. If the equipment is being relocated to another Credit Union user, the disk drive(s) may be erased using software specifically designed to render any data on the disk drive(s) unusable. If the equipment is being discarded, sold or given away, the disk drive(s) must be removed and physically destroyed prior to removal.

N. Application Development. All software development and software maintenance activities performed by in-house staff must subscribe to the Credit Union’s Information System policies, standards, procedures, and systems development conventions regarding testing, training, and documentation.

i. **Written Specifications.** All software developed by in-house employees, and intended to process critical, valuable, member information, must have a written formal specification, which includes a discussion of both security risks and controls (including access control systems and contingency plans).

ii. **Security Sign-Off Required.** Before being used for production processing, new or substantially changed application systems must have received written approval from the [4120-9.7].

iii. **Formal Change Control.** All computer and communications systems used for production processing at the Credit Union must employ a documented change control process.

O. Handling Security Information. Information about security measures for Credit Union computer and network systems is confidential and may not be released to persons not possessing "need-to-know" access.

8. INTRUSION DETECTION. The Committee is responsible for the compilation, regular maintenance, and annual testing of contingency plans for all Credit Union information systems, including the creation of an Intrusion Response Plan and coordination of an Intrusion Response Team. This Team is mobilized in the event of a hacker intrusion, a virus infection, and other security-related events. The Credit Union shall also ensure that its contracts with service providers require the service providers to disclose any information regarding any breach of security resulting from unauthorized intrusion into the credit union’s member information system maintained by the service provider.

A. Actions Taken in the Event of an Intrusion. In the event of an intrusion, the Credit Union will undertake the following actions as soon as possible:

- i. Assess the nature and scope of the incident and identify each member information system and types of member information that have accessed or misused;
- ii. Notify the appropriate authorities as set forth below;
- iii. Take prompt and appropriate measures to prevent further unauthorized access or use of member information which may or may not including monitoring, freezing or closing affected accounts if feasible and appropriate, while preserving records and other evidence;
- iv. Notify members when such notice is warranted and in accordance with the Guidance and notice format promulgated by the NCUA/FTC; and
- v. Take appropriate and prompt corrective measures.

B. Preventing Computer Viruses and Similar Intrusions. A computer virus may cause slower computer response time, inexplicable loss of files, changed modification dates for files, increased file sizes, and total failure of Credit Union's computers.

- i. **Screening Programs Enabled.** To assure continued uninterrupted service, for individual computers and networks, all computer Users must keep current versions of approved virus screening software [4120-9.8] enabled on their computers and not bypass the scanning process. If possible, approved virus screening software shall be centrally managed by authorized Credit Union personnel.
- ii. **Eradication Process.** If Users suspect infection by a computer virus, they must immediately stop using the infected computer and contact the [4120-9.9].
- iii. **Clean Back-Ups.** To assist with the post-virus-infection restoration of normal microcomputer activities, all computer software must be copied prior to its initial usage, and such copies must be stored in a secure location.
- iv. **Software Sources.** To prevent problems with viruses, and Trojan horses, Credit Union computers and networks must not run software that comes from sources other than those approved by the Information Systems Manager or other authorized person at the Credit Union.

C. Disaster Recovery. The Credit Union will take whatever measures necessary to protect against destruction, loss, or damage of member information due to potential environmental hazards, such as fire and water damage or technical failures and outside intrusions.

- i. These measures shall include the development of a disaster recovery plan to prepare for catastrophic acts. The Credit Union will evaluate potential threats, establish business impact levels, and determine critical systems and necessary resources through ongoing risk assessment activities. The disaster recovery plan will include the following information and procedures, at minimum:
 1. roles and responsibilities;
 2. record preservation methods;

3. alternate storage and processing site provisions;
4. alternate telecommunications service provisions;
5. communication methods for employees and members; and,
6. notification of regulators.

ii. Management will train employees on their roles and responsibilities in the disaster recovery plan. The Credit Union will test contingency and disaster recovery assumptions annually. Testing results will be documented and reported to Credit Union officials. Disaster recovery and contingency plans will be coordinated with the Credit Union's risk assessment and incident response plan. The disaster recovery plan will be documented and submitted to the Board and/or Supervisory Committee for approval.

iii. **Back-Up Responsibility and Schedules.** To protect the Credit Union's information systems/facilities from loss or damage, the [4120-9.91] is responsible for making periodic back-ups. All critical member information resident on Credit Union computer systems and networks must be periodically backed-up. The [4120-9.92] will define which member information and which programs/systems are to be backed-up, the frequency of back-up, the type of back-up, and the method of back-up. Secure storage of back-up media is the responsibility of the [4120-9.93]. Storage media from multi-user systems must be stored in fireproof safes, at a separate location at least several city blocks away from the system being backed-up and physically protected against unauthorized access.

D. **Monitoring.** Management will be responsible for regularly monitoring its information systems for detection of any intrusions. Computer systems handling member information must securely log all significant computer security relevant events. The [4120-9.94], or person designated by the [4120-9.94], will monitor and review system logs in real time, at least daily, and will implement a real time alert mechanism. Log records will contain information that establishes what type of event occurred, when the event occurred, where the event occurred, the source of the event, the outcome, and the identity of any individuals or subjects associated with the event. Logs containing computer security relevant events must be retained for at least [4120-9.95] months. During this period, logs may be accessible only by authorized persons.

9. **RESPONSE PROGRAM.** Management will be responsible for developing and implementing a risk-based response program to address incidents of unauthorized access to member information, pursuant to the Credit Union's Incident Response Policy (**See Policy 4125**).

10. CREDIT UNION SYSTEMS AND FACILITIES USE POLICY.

A. **Off-Site Physical Security.** At alternative worksites, reasonable precautions should be taken to protect Credit Union hardware, software, and member information from theft, damage, and misuse. The Credit Union maintains the right to conduct inspections of telecommuter offices with one or more days advance notice. All employees who keep member information at their homes in order to do Credit Union work must have furniture, which can be locked, for the proper storage of this information. Telecommuter employees will have adequate means to communicate with Credit Union response personnel in the event of security incidents.

i. **Off-Site Systems.** Computer systems provided by the Credit Union may **not** be modified in any way without the knowledge and authorization of the [4120-9.97]. Similarly, employees may not bring their home computers into the office to process member information without prior approval

from the [4120-9.97]. Employees in the possession of portable, laptop, notebook, palmtop, and other transportable computers containing member information must not leave these computers unattended at any time.

- ii. **Portable Storage Media.** Whenever member information is written to a floppy disk, magnetic tape, smart card, or other storage media, the storage media must be marked. When not in use, this media must be locked in a safe, furniture, or a similarly secured location. Member information stored on portable storage media will be encrypted.
- iii. **Removal of Information.** Member information may not be removed from Credit Union premises unless there has been prior approval from the [4120-9.97]. This policy includes member information stored on portable computer hard disks, floppy disks, hard-copy output, paper memos, and the like. An exception is made for authorized off-site back-ups.
- iv. **Remote Printing.** Printers must not be left unattended if member information is being printed or will soon be printed. The persons attending the printer must be authorized to examine the information being printed. Unattended printing is permitted only if the area surrounding a printer is physically protected such that persons who are not authorized to see the material being printed may not enter.

B. Personal Use. Unless a contractual agreement specifies otherwise, all information stored on or transmitted by Credit Union computer and communications systems is Credit Union property. Management reserves the right to examine all information stored in or transmitted by these systems. Employees will have no expectation of privacy associated with the information they store in or send through these systems.

- i. **Activity Monitoring.** Employees may be subject to electronic monitoring while on Credit Union premises and while using Credit Union information systems. In areas where there is a reasonable expectation of privacy, such as rest rooms, dressing rooms, and locker rooms, no electronic monitoring will be performed.
- ii. **Information Inspection and Removal.** At any time and without prior notice, Management reserves the right to examine archived electronic mail, personal file directories, hard disk drive files, and other information stored on Credit Union information systems. The Credit Union additionally retains the right to remove from its information systems any material it views as offensive or potentially illegal.
- iii. **Personal Use and Precautions.** Employees are prohibited from using Credit Union time, facilities, equipment or supplies for private gain or advantage. Personal use is allowed pursuant to the Credit Union's Electronic Communications/Acceptable Use policy (See Policy 2222). Users must take steps to prevent member information from being inadvertently damaged or destroyed. Smoking, eating, and drinking may not be done while using computers. Likewise, magnetic media should be kept away from heat (such as direct sunlight) as well as magnetic fields.

C. Software Licenses. The Credit Union purchases licenses granting the use of software programs used by employees in the conduct of Credit Union business. Unauthorized software copying is prohibited. Users may not copy software provided by Credit Union to any storage media (floppy disk, magnetic tape, etc.), or disclose software to outside parties without written permission from the [4120-9.98]. Ordinary back-up copies are an authorized exception to this policy. Unless specifically authorized by the [4120-9.98], Credit Union employees may not acquire, possess, trade, or use hardware or software tools that could be employed to evaluate or compromise information systems security.

D. Internet Connections. Employees are discouraged from accessing the Internet with Credit Union computers and networks except in the course of Credit Union business (see the Credit Union's Electronic Communications/Acceptable Use policy (See Policy 2222). Internet access is permitted only through Credit Union firewalls. Employees are not permitted to employ dial-up lines and an Internet Service Provider (ISP) to reach the Internet from computers located in Credit Union offices, without express approval of the [4120-9.99].

i. **Third Party Identification.** Release of specific member related member information to that specific member shall be only through the Credit Union encrypted Internet Banking system or over the telephone if the Internet Banking system cannot provide secure transmission of the message.

ii. **Disclaimers and Removal of Public Postings.** Whenever an employee posts a message to an Internet discussion group (listserv), an electronic bulletin board, or another public information system, this message must be accompanied by words clearly indicating that the comments do not represent the official position of the Credit Union. Any electronic mail sent by Credit Union employees to Internet discussion groups, electronic bulletin boards, or other public forums may be reviewed and removed by [4120-9.991] if determined to be inconsistent with the Credit Union's business objectives or existing policy.

iii. **Setting-Up Web Pages.** Users must not place Credit Union material on any publicly accessible computer system (including Internet web pages) unless first approved by the [4120-9.992]. Similarly, Users are prohibited from establishing any electronic commerce arrangements over the Internet unless first obtaining approval of the [4120-9.992].

iv. **Handling Materials Down-Loaded from the Internet.** All software and files down-loaded from non-Credit Union sources via the Internet (or any other public network) should be screened with virus/intrusion detection software, prior to decompression and prior to being run or examined via another program such as a word processing package.

11. PROGRAM REVIEW.

A. **Program Review.** Subsequent to annual vulnerability testing, the [4120-9.993] and [4120-9.994] will seek to adjust, as appropriate, the Program in light of any relevant changes in technology, the sensitivity of Credit Union member information, internal or external threats to member information, and Credit Union changing business arrangements and changes to member information systems. The findings of this review will form the basis of the [4120-9.995] report to the Board.

B. **Security Controls Testing.** Management will regularly test the key controls, systems and procedures of the Program to confirm that they control the risks and achieve the overall objectives of the Program. At least [4120-9.996], an independent third party or staff independent of the individuals who develop or maintain the Program will test the Program. Testing will include an assessment of exterior defenses, internal security, physical security, and administrative procedures. A managed security service may be used to periodically scan firewall and web servers for resident hacking programs as the Committee deems necessary.

C. **Flaw Remediation.** Discovered vulnerabilities or flaws will be addressed by the Credit Union's flaw remediation and configuration change management processes, which are outlined in Policies 4310 - Patch Management and 4305 - Configuration Management. Appropriate timelines and plans of action will be established to remediate vulnerabilities. Remediation activities will be reported and approved by the Board.

D. Training. Management will train Credit Union staff to recognize, respond, and report to regulatory and law enforcement agencies, any unauthorized or fraudulent attempts to obtain member information. Additionally, staff shall be trained to recognize and report insider threat behaviors, including but not limited to, attempts to gain unauthorized access to sensitive member information and policy violations. The [4120-9.997] is responsible for training the Information Systems staff, Custodians, and Users in the provisions of this Policy, and pertinent Program procedures and standards. Specialized training and development programs will be provided to employees who have information security responsibilities. General and specialized information security training activities will be documented. Documentation shall be retained according to the Credit Union's information retention schedule. Plans for information security training will be submitted to the Board and/or Supervisory Committee for approval.

E. Outsourcing of Services. Management will implement a risk management process for outsourcing services, under the direction of the Board, pursuant to the Credit Union's Vendor Due Diligence and Oversight policy (See Policy 2185).

12. INFORMATION HANDLING AND RETENTION. Management will be responsible for ensuring that member information is retained and disposed according to Credit Union guidelines. Information retention procedures will be coordinated with related areas of the information security program including, but not limited to, security incident response planning and disaster recovery planning.

Policy 4125: Incident Response

Revised Date: 10/05/2016

Note: While CU PolicyPro does not contain a Cybersecurity Policy per se, Policies 4120 and 4125 used together fulfill cybersecurity policy expectations. It is also important to note that Policy 4120 is more than a cybersecurity policy, in that it includes physical security and other, non-‘cyber’ security considerations.

Model Policy Revised Date: 10/05/2016

General Policy Statement:

[CUname] (Credit Union) recognizes its responsibility to safeguard member information and will treat the private financial information of the Credit Union's members ("member information") with appropriate care in order to maintain the confidentiality, integrity and security of member information. The Credit Union will ensure that incidents of unauthorized access to member information are addressed immediately, including notice to the membership as well as the proper authorities. The purpose of this policy is to set forth the guidelines for management and staff to use in establishing and maintaining policies and procedures to address incidents of unauthorized access to member information. The Credit Union will comply with all applicable laws and regulations governing the safeguarding of member information including NCUA Guidelines for Safeguarding Member Information (12 CFR Part 748 Appendices A and B, Part 749 Appendix B) (the "Guidelines") and all other applicable laws and regulations regarding the safeguarding of member information.

Definitions:

Event

Any observable occurrence in a system and/or network. Events sometimes provide indication that an incident is occurring (CNSSI-4009). Events occur without supporting log evidence of incident.

Event examples:

- Employee visits website prohibited by policy
- Brief exposure of unpatched system
- Limited service disruption

Incident

An occurrence that actually or potentially jeopardizes the confidentiality, integrity, or availability of an information system or the information the system process, stores, or transmits or that constitutes a violation or imminent threat of violation of security policies, security procedures, or acceptable use policies (NIST SP 800-53). Incidents may include, but are not restricted to, the following: violation of policy, unauthorized information system use, denial of resources and information system changes without consent.

Incident examples:

- Malicious hacker gains unauthorized access to database containing sensitive member information
- Criminal commits fraud by manipulating transaction data
- Distributed denial-of-service (DDoS) attack launched against critical Credit Union information system resources
- Ransomware deployed through phishing email campaign

References:

National Institute of Standards and Technology (NIST). Special Publication 800-53 (Rev. 4) Security Controls and Assessment Procedures for Federal Information Systems. Incident Response Control Family.

NIST. Special Publication 800-61 (Rev. 2) Computer Security Incident Handling Guide.

Guidelines:

1. **RESPONSE PROGRAM.** Management will be responsible for developing and implementing a risk-based response program to address incidents of unauthorized access to member information.
 - A. **Security Response Team and Security Response Leader.** Credit Union management shall establish a security response team responsible for preventing, detecting and handling suspected incidents involving member information. The team will have a designated [team leader] as well as a deputy team leader who assumes authority in the absence of the team leader. Members of the team shall be adequately trained and equipped to develop, document and enact an Incident Response Plan. Team members should include personnel from several Credit Union departments including, but not limited to, the following: information technology, business management, legal, human resources, internal auditing, and facilities. Involving personnel from multiple departments ensures that the Incident Response Plan will cover mission-critical business processes, systems, and information assets.

In lieu of creating a security response team, the Credit Union shall appoint a single employee to be in charge of incident response. The incident response leader will work with internal personnel and third-party service providers to ensure that an Incident Response Plan is in place, incorporates appropriate third-party services, is tested, and is approved by Credit Union officials.

Lastly, either the security response team or the leader will be responsible for acquiring outsourced incident response services, as needed, to ensure that the Credit Union has access to the requisite knowledge and tools to handle security incidents.
 - B. **Service Providers.** Contracts with service providers will stipulate that the provider take appropriate actions to address incidents of unauthorized access to or use of the Credit Union's member information, including notification to the Credit Union as soon as possible of any such incident, to enable the Credit Union to implement its Incident Response Plan in a timely manner.
 - C. **Incident Severity Levels.** The security response team or leader will develop criteria for measuring the severity of incidents based on their impact to business functions, their impact to member information, and the amount of effort and time required to recover from them (NIST SP 800-61 pp. 32-33).
 - D. **Incident Response Preparedness.** The Credit Union shall prepare an incident response toolkit containing items for effective administration and communication of the Incident Response Plan (e.g., smartphones and contact information) as well as dedicated incident response hardware and software (e.g., laptops, blank removable media, and packet sniffers). The Credit Union will be prepared to handle incidents arising from common methods of attack. Lists of suggested toolkit items and common methods of attack are provided in the CU PolicyPro Resources area.
 - E. **Incident Detection.** The Credit Union shall monitor information system events to detect indicators of information security incidents and threats to sensitive member information. To facilitate forensic activities, event data produced by system monitoring tools will be regularly backed up and protected from unauthorized access. Examples of security incident indicators include the following: IDS/IPS alert; physical evidence of break-in or theft of assets; or a threat made to the Credit Union. The security response team leader will have the authority both to define what events constitute incidents and to define

what events must be monitored.

- F. Assessment of Incident.** The security response team will assess the nature and scope of an incident and identify what member information has been accessed or misused. The team will use the severity levels defined in Section 1.C to prioritize incident response actions.
- G. Containment and Control.** Appropriate steps will be taken to contain and control an incident to prevent further unauthorized access to or use of member information, while preserving records and other evidence. Examples include monitoring, freezing or closing affected accounts. The security response team shall work to secure and preserve evidence by acquiring and protecting a system snapshot or record before further actions are taken. The team will establish a chain of custody for evidence and ensure that all incident response activities are documented. The team leader will witness and record the technical team member's evidence handling tasks.
- H. Recovery.** The Credit Union recognizes that restoring the affected information system to a trusted state will require skilled technicians, dual-control procedures and a potentially significant interruption of services. Possible remediation of the vulnerabilities that resulted in the incident will be included in the recovery process. The Credit Union will, as practicable, heighten monitoring on mission-critical information system assets potentially affected by the incident.
- I. Internal Reporting.** Following discovery of an intrusion or disaster to the Credit Union's systems or facilities, the CEO or acting Senior Management officer shall report to the Chairman of the Board and to the Supervisory Committee as soon as reasonably possible following a receipt of a report of an intrusion or disaster and the initial implementation of the Incident Response Plan.
- J. External Reporting.** Following discovery of an intrusion or disaster to the Credit Union's systems or facilities and upon completion of internal reporting and implementation of the Incident Response Plan, management will report the incident to its bonding company, casualty insurance company, local law enforcement agencies, the appropriate regulatory agency and complete and file a Suspicious Activity Report (SAR) as necessary.
- K. Post-Incident Activities**
- i. After an incident has been handled, the security response team will produce a report containing, but not limited to, the following information regarding the incident:
 1. Scope
 2. Cause and costs
 3. Short-term and long-term impacts
 4. Short-term and long-term recovery expectations
 5. Lessons learned
 - ii. By documenting lessons learned, the security response team will determine what aspects of the Incident Response Plan must improve and consider adding or improving information security controls to avoid repeat incidents. Vulnerabilities that were not remediated as part of incident handling will be documented and a plan of action will be devised to remediate them. Incident response evidence shall be retained for attacker prosecution purposes. All post-incident activities must be reported to Credit Union officials and approved by the Board and/or Supervisory

Committee.

- L. Denial-of-Service and Ransomware Incidents.** To mitigate the impact of denial-of-service (i.e. attrition) attacks, the security response team will, if possible, leverage boundary protection devices to filter traffic, increase capacity and bandwidth, and/or employ service redundancy (NIST SP 800-53). To respond to a ransomware attack, the security response team will work to recover the data from backups if possible, or contact a predetermined third-party service provider capable of rendering assistance.
- M. Notifying Members.** As per NCUA requirements specified in 12 CFR Part 748 Appendix B, members will be notified of an incident when it is warranted. When an incident occurs on information systems maintained by service providers, the Credit Union will notify the appropriate regulatory authority and its members. (The service provider contract may authorize the service provider to meet these obligations, but the Credit Union incident response leader will be ultimately responsible to ensure that this is done.) More details regarding member notification policies are provided in Section 2 of this Policy.
- N. Staff Training.** Management will develop procedures to ensure that staff is trained to appropriately handle member inquiries and requests for assistance. Staff shall be trained to be able to detect suspicious activity and to know how and to whom to report the activity. This training will be conducted both prior to and after an actual incident. Members of the incident response team shall receive adequate training to carry out their duties in the Incident Response Plan. General training and specialized training shall occur upon hire or initial adoption of responsibilities and at a Credit Union-defined frequency.

O. Incident Response Testing.

- i. Management will test the effectiveness of the incident response plan. Examples of effectiveness testing methods include checklists, tabletop exercises, and scenario simulations. Examples of scenarios include, but are not limited to, the following:
 1. Employee reports suspicious email (i.e. phish)
 2. Compromised application database revealed by log review
 3. Intrusion detection system alert triggered on (unscheduled)
- ii. Incident response testing results shall be documented, incorporated as lessons learned in incident response improvement efforts, and reported to Credit Union officials. Incident response testing shall occur at a Credit Union-defined frequency. All incident response testing plans will be submitted to the Board and/or Supervisory Committee for approval.

2. **MEMBER NOTICE.** Notification to members will be made timely in order to minimize the Credit Union's reputation and legal risks. Member notice procedures shall adhere to NCUA guidance in 12 CFR Part 748 Appendix B.

- A. Investigation.** Once the Credit Union becomes aware of an incident of unauthorized access, the [4125-1] or security response team will conduct a reasonable investigation to promptly determine the likelihood that the information has been or will be misused. If the likelihood is high, the affected member(s) will be notified as soon as possible. However, if an appropriate law enforcement agency determines that such notice would interfere with a criminal investigation and provides a written request for delayed notification, notice to the member(s) will be provided as soon as it would no longer interfere with the investigation.
- B. Affected Members.** Notification may be limited to those members to whom the Credit Union knows to have been affected by an intrusion whenever the Credit Union believes misuse of the information has

occurred or is reasonably possible. If a group of files has been accessed improperly, but the Credit Union is unable to specify the affected members and the misuse of their information is likely, the Credit Union will notify all of the members in the group.

C. Content of Member Notice. Notice to members will contain the following information:

- i. A description of the incident in general terms and the type of member information that was the subject of unauthorized access or use;
- ii. What the Credit Union has done to protect the members' information from further unauthorized access;
- iii. The telephone number that the member can call for further information and assistance;
- iv. A reminder that the member needs to remain vigilant over the next 12 to 24 months, and to promptly report incidents of suspected identity theft to the Credit Union;
- v. A recommendation that the member review account statements and immediately report any suspicious activity to the Credit Union;
- vi. A description of fraud alerts and an explanation of how the member may place a fraud alert in the member's consumer reports to put the member's creditors on notice that the member may be a victim of fraud;
- vii. A recommendation that the member periodically obtain credit reports from each nationwide credit reporting agency and have information relating to fraudulent transactions deleted; and
- viii. Information about the availability of the Federal Trade Commission's (FTC) online guidance regarding steps a consumer can take to protect against identity theft. The notice will encourage the member to report any incidents of identity theft to the FTC, along with the FTC's website address and toll-free telephone number.

Policy 4130: Kidnap / Hostage / Extortion

Revised Date: 03/29/2014

Model Policy Revised Date: 03/29/2014

General Policy Statement:

In the event of a kidnapping or taking of a hostage, [CUName] (Credit Union) follows the procedures policy set forth below. Information in the event of a call to extort funds from the Credit Union follows.

Guidelines:

1. **EMPLOYEE OR OFFICER HOSTAGE.** If employees or officers are taken hostage, they should:
 - A. Follow the instructions of kidnapper.
 - B. Make every effort to remember details of the situation.
 - C. If the kidnapper brings the hostage to the Credit Union, the hostage should:
 - i. Activate silent alarms, if possible.
 - ii. Give money as requested, including "bait" money.
2. **FAMILY MEMBER HOSTAGE.** If an employee receives a call demanding ransom for a family member, the employee should:
 - A. Inform their supervisor. The supervisor will try to have the call traced.
 - B. Remain as calm as possible. (The caller is depending on the employee to panic and act without thinking.)
 - C. Request evidence that the caller is really holding the hostage.
 - D. Ask to speak with the hostage to determine his/her well-being.
 - E. Make complete written notes of the conversation and indicate your willingness to cooperate.
 - F. Try to keep the caller on the telephone--it will help you get more information.
 - G. After the call, the employee should:
 - i. Notify Senior Management.
 - ii. Notify FBI and local police officers.
 - iii. Determine whether the hostage is indeed missing.
 - iv. Allow the Credit Union President to handle press relations.
3. **PRECAUTIONARY GUIDELINES.** The Board encourages employees and officials to take the following

precautions:

- A. Watch for suspicious activity around the Credit Union and employee's home.
- B. Protect home with one or more of the following: alarms, chains on outside doors, viewers in solid doors, outside lighting, locking windows, or watch dogs.
- C. Lock automobile doors while driving and when parked.
- D. Travel different routes to and from work.
- E. Do not stop to assist others.

4. **EXTORTION THREAT.** In addition to the information below, a system should be in effect whereby the employee receiving the call can signal or otherwise notify another person in the branch to contact the recipient's family by phone for immediate verification of the seriousness of the threat. If possible, this should be done while the caller is still on the phone. If a Credit Union employee receives a call stating that another employee has been kidnapped and a request for ransom money is received:

- A. Remain calm; make notes of the conversation, noting the time the call was received, specifics regarding the caller (gender, accent, speech characteristics, approximate age, background noises, etc.).
- B. Obtain as much information as possible from the caller to validate the threat as well as details of the demand. Ask to speak to the employee.
- C. Stall for time and request additional time to meet demands.
- D. After the caller has hung up, immediately call the following:
 - i. The FBI,
 - ii. Local police
 - iii. Credit Union security officer

Policy 4140: Robbery Procedures

Revised Date: 06/01/2008

Model Policy Revised Date: 06/01/2008

General Policy Statement:

In the event of a holdup, PROTECTION OF LIFE COMES FIRST! Therefore, [CUnion] (Credit Union) expects each employee to fully cooperate with a robber's instructions. **Any type of heroic behavior is prohibited.** The Credit Union will not tolerate heroism that exposes others to unacceptable risk of grave injury or loss of life.

Guidelines:

1. **REPORTING SUSPICIOUS BEHAVIOR.** Employees should always be alert for suspicious persons loitering in or near the Credit Union. Any suspicious behavior should be immediately reported to supervisors.
2. **ROBBERY PREPAREDNESS.** Credit Union management will work with local law enforcement to provide ongoing training to ensure that staff understands what to do if and after a robbery occurs. The Credit Union will also establish with local law enforcement an "all-clear" signal, alerting to police that it is safe to enter the building after a robbery.
3. **PROCEDURES WHEN ROBBERY OCCURS.** If the Credit Union is robbed, employees should:
 - A. Follow instructions.
 - B. Activate alarm if possible.
 - C. Give the robber the minimum amount of cash necessary, including bait money.
 - D. Do not volunteer additional currency or information about where additional funds are stored.
 - E. Remain calm and observant. Employees should take mental notes of the robber's height, weight, hair coloring, speech, walk and anything else of importance.
 - F. If a note is passed, handle it carefully so as to preserve fingerprints. Do not return it unless the robber asks for it.
 - G. Attempt to observe the direction of the robber's escape and the description of any vehicle involved. However, employees must remain inside the Credit Union and refrain from chasing after the robber.
4. **EMPLOYEE PROCEDURES FOLLOWING ROBBERY.** After a robbery, employees should:
 - A. Alert management and telephone local police agency.
 - B. Complete any transaction already in progress and inform all other members that the office is temporarily closed for further business.
 - C. Lock the cash drawer and cease operation.

- D. Remain at workstations unless assigned other duties.
- E. Refrain from touching anything in the area.
- F. List the names, addresses and phone numbers of members who were in the Credit Union at the time of the robbery.
- G. Complete a written description of the robber.
- H. Refrain from discussing the robbery with anyone except Credit Union officers and police. All inquiries should be referred to the Credit Union President.

5. **MANAGEMENT PROCEDURES AFTER A ROBBERY.** After a robbery, management should do (or delegate) the following duties:

- A. Lock doors immediately after the robber leaves.
- B. Designate an employee to call the police, FBI, and the security officer or other designated Credit Union official.
- C. Protect physical evidence the robber may have left behind. Rope off the area where the robber stood to protect footprints. Prevent anyone from disturbing anything the robber may have touched.
- D. Ask members to remain until the police arrive. If a member insists on leaving, verify his/her identity and record his/her name, address, and telephone number.
- E. Once it is certain that the robber has left the area, designate an employee to go outside and display the all-clear signal to the police.
- F. Coordinate the investigation with law enforcement, employees, and members.

Policy 4150: Workplace Violence

Revised Date: 06/27/2015

Model Policy Revised Date: 06/27/2015

General Policy Statement:

Our goal is to provide a safe workplace for all employees, customers, vendors, and guests and to protect [CUName] (Credit Union) property. To promote a safe workplace and to reduce the risk of violence, all threatening, aggressive, and violent behavior, including verbal and written threats and physical attacks are prohibited. The possession of firearms, ammunition, and dangerous or deadly weapons on Credit Union premises or Credit Union controlled space, except by authorized personnel, is also prohibited. Such conduct by employees or non-employees will not be tolerated (Refer also to the Credit Union's Harassment Policy).

Definitions:

Workplace violence may take many forms. The following definitions describe the most common threats:

1. **ASSAULT.** The intentional attempt to cause hostile contact or physical injury (impairment of physical condition or substantial pain) to another person, with or without a weapon or dangerous instrument.
2. **BATTERY.** A voluntary act that causes intentional harmful or offensive contact to another. Actual harm is not required.
3. **BULLYING.** "Repeated, unreasonable actions of individuals (or a group) directed towards an employee (or a group of employees), which are intended to intimidate, degrade, humiliate, or undermine; or which create a risk to the health or safety of the employee(s). Workplace bullying often involves an abuse or misuse of power. Bullying behavior creates feelings of defenselessness and injustice in the target and undermines an individual's right to dignity at work."
4. **CRIMINAL MISCHIEF.** Intentional or reckless damaging of the property of another person without permission.
5. **DISORDERLY CONDUCT.** Intentionally causing public inconvenience, annoyance or alarm or recklessly creating a risk thereof by fighting (without injury) or in violent, ominous or threatening behavior or making unreasonable noise, shouting abuse, misbehaving, disturbing an assembly or meeting or persons or creating hazardous conditions by an act which serves no legitimate purpose.
6. **HARASSMENT.** Intentionally striking, shoving or kicking another or subjecting another person to physical contact, or threatening to do the same (without physical injury). Also, using abusive or obscene language or following a person in or about a public place, or engaging in a course of conduct which alarms or seriously annoys another person (Refer also to the Sexual Harassment Policy).
7. **LARCENY.** Wrongfully taking, depriving, or withholding property from another person (with no force involved). Victim may or may not be present.
8. **MENACING.** Intentionally placing or attempting to place another person in fear of imminent serious physical injury.
9. **RECKLESS ENDANGERMENT.** Subjecting another to danger by recklessly engaging in conduct which

creates substantial risk of serious physical injury.

10. **ROBBERY.** Forcibly stealing another person's property by use of threat of immediate physical force. Victim is present and aware of the threat.

11. **SEX OFFENSE.**

- A. Public Lewdness: Exposing sexual organs to others.
- B. Sexual Abuse: Subjecting another to sexual contact without consent.
- C. Sodomy: A deviant sexual act committed as in rape.
- D. Rape: Sexual intercourse without consent.

Guidelines:

1. **GENERAL CATEGORIES.** Workplace violence can generally be divided into the following four categories. Care should be exercised to examine and protect the risk associated with each category.

- A. Co-workers
- B. Personal Relationships
- C. Members/Third Party Contractors
- D. Strangers

2. **RESPONSIBILITY OF HUMAN RESOURCES.**

- A. **Prevention Program.** Human Resources is responsible for developing, implementing, administering, and evaluating the Credit Union's workplace safety and violence prevention program.
- B. **Training.** Appropriate training for employees, supervisors and managers will be conducted at least once every two years. Employees working in positions subject to specific risks should be trained before being assigned to work. Training should include:
 - i. Review and definition of workplace violence
 - ii. Reporting procedures
 - iii. Recognizing and mitigating workplace security hazards
 - iv. Review of implemented security equipment and procedures
 - v. Responding to violent situations or acts
 - vi. Post-incident procedures
 - vii. Training should be conducted by individuals knowledgeable in their assigned topic. Records should be kept of training activities.

3. EMPLOYEES' RESPONSIBILITIES.

- A. **Reporting.** All potentially threatening, dangerous, or suspicious situations should be immediately reported to the employee's supervisor, Human Resources, or another member of management.
- B. **Do Not Challenge Potentially Violent Individuals. In no event should an employee attempt to investigate or resolve a potentially violent, suspicious, or threatening situation.** All such incidents will be handled by management. Employees should never endanger themselves attempting to disarm or remove a potentially violent individual.
- C. **Police.** Employees should not hesitate to call the police if confronted with potentially violent or dangerous situations that require emergency assistance.

4. MANAGERS' RESPONSIBILITIES. Managers have special responsibility through leadership and example to implement this policy. Their responsibilities include:

- A. **Reporting.** Managers should be especially alert to potentially violent or threatening situations and report all possible instances to Human Resources or to Senior Management. Workplace violence incidents will be reported to the appropriate police jurisdiction as dictated by the facts of the incident. Further, the Credit Union will adhere to all other regulatory reporting requirements triggered by the incident.
- B. **Communicating to Employees.** Managers are to inform employees of our Credit Union's commitment to a safe workplace, convey our policy to them, and encourage them to report potential problems.
- C. **Recognizing Problems.** With increasing reports of workplace violence and warnings not to ignore the signals of a potential incident, managers must balance workplace safety concerns with the rights of individuals. It is often difficult to decide if a particular statement or action constitutes a threat or creates a hostile working environment. Good judgment should always be exercised in making such determinations. Managers should immediately notify Senior Management and/or local law enforcement officials, as appropriate, for assistance in assessing threats and selecting courses of action.
- D. **Resolving Disputes.** Managers should actively work to identify and resolve worker disputes fairly and in a timely manner to minimize the escalation of emotions and potentially violent behavior.
- E. **Suggestions.** Provide suggestions as to how to best implement our commitment to workplace safety and make ongoing improvements.
- F. **Implementing Policies.** Ensure that workplace safety rules are implemented and that any related corrective actions are implemented immediately.

5. PROHIBITED CONDUCT. Our Credit Union will not tolerate any form of workplace violence or threat of violence committed by employees or non-employees. Such prohibited behavior includes, but is not limited to:

- A. Injuring or threatening physical injury to another person;
- B. Hitting, shoving or fighting with an individual;
- C. Making threatening remarks or written communications;
- D. Behaving in a hostile or aggressive manner that creates a reasonable fear of injury or subjects another to extreme emotional distress;

E. Damaging or threatening to damage Credit Union, employee or non-employee property intentionally, recklessly, or because of gross negligence;

F. Possessing a firearm or other weapon in Credit Union facilities, on Credit Union property or while on Credit Union business;

G. Committing acts of harassment;

H. Behaving in a manner, which disrupts another's work performance or the Credit Union's ability to execute its mission.

6. **INVESTIGATIONS.** All reports of potentially violent or threatening situations will be taken seriously and investigated immediately by Human Resources or another representative of Senior Management. Employees are required to cooperate in any investigation.
7. **CONFIDENTIALITY.** Confidentiality will be maintained as much as possible; however, a guarantee of absolute confidentiality cannot be made. Information will be shared on a need-to-know basis only.
8. **ANONYMITY.** Reports to Human Resources or management may be made anonymously, as situations require.
9. **RETALIATION PROHIBITED.** No employee may be discriminated or retaliated against because he/she has reported any potential workplace threat or violence or has participated in a related investigation or proceeding.
10. **CORRECTIVE ACTION.** Appropriate corrective action up to and including termination will be taken against any employee found to have violated this policy.
11. **SHARING OUTCOMES.** As is appropriate, Human Resources (or management) will inform the involved and affected employees of the investigation process and/or outcome of the situation.
12. **RECORD KEEPING.** The Credit Union will maintain records of all workplace violence incidents. In addition, activities to identify and minimize workplace violence risks will be documented. All records will be kept for the time specified under state law.

Policy 4160: Bomb Threats

Revised Date: 02/01/2012

Model Policy Published Date: 02/01/2012

Model Policy Reviewed Date: 03/27/2014

General Policy Statement:

It is the policy of [CUName] (Credit Union) that all bomb threats are to be considered valid and take seriously until proven otherwise. Safety of the public and of Credit Union employees, buildings and facilities will take precedence over normal activities. The purpose of this policy is to establish the guidelines that will be used in the event that a bomb threat is directed toward any Credit Union employee, building or facility.

Guidelines:

1. **THREATS RECEIVED IN WRITING.** When a bomb threat is received in writing, staff should NOT handle the document more than is necessary before contacting management. Management will contact the authorities immediately. Where possible, the item should be placed into a plastic bag to preserve any physical evidence.
2. **THREATS RECEIVED BY TELEPHONE.** When a bomb threat is received by telephone, staff should keep the caller on the line as long as possible, and write down every piece of information obtained from the caller, using his/her exact words. Management must be contacted immediately to report the call to the authorities.
3. **SUSPICIOUS OBJECT FOUND.** If a suspicious package or object is found that could be bomb, management must be contacted immediately, as well as the police. NO attempt should be made to move or tamper with the object in any way. The area surrounding the suspicious package will be evacuated.
4. **SEARCH OF PREMISES.** A search of the premises will be overseen by the police department with the assistance of management, or anyone else that management assigns to this duty (i.e., those that are familiar with a given area that is searched). Preliminary searches are to be conducted without undue disturbance of normal routines or activities in each given area. Until such time as the police deem it necessary to evacuate a specific area or the entire premises, staff must refrain from alerting members regarding the situation.
5. **EVACUATION.** In the event the police deems it necessary to evacuate the premises, Credit Union staff will complete any transaction already in progress and inform all other members that the office is temporarily closed for further business. Credit Union staff will then lock the doors and follow the Credit Union's evacuation procedures in an orderly fashion.
6. **FALSE ALARMS.** Initiating a false bomb threat is a federal crime and will not be tolerated. Staff initiating a false bomb threat will be subject to the Credit Union's disciplinary policy up to an including termination.

Policy 4200: Security Devices

Revised Date: 01/01/2004

Model Policy Revised Date: 01/01/2004

Model Policy Reviewed Date: 03/24/2016

General Policy Statement:

[CUNAME] (Credit Union) utilizes several security devices to ensure full protection of Credit Union and member assets. This policy briefly describes each security device and defines general duties.

Guidelines:

1. **SILENT ALARM.** The Credit Union's silent alarm system alerts law enforcement authorities without making a sound. Employees may activate the alarm by pressing the appropriate alarm button or mechanism. Employees are cautioned not to activate the alarm system accidentally.
2. **BAIT MONEY.** Bait money is a security procedure used to help law enforcement agencies trace robbery suspects. All of the Credit Union's cash supplies will contain packages of bait money. This includes the vault, reserve supplies and each teller's drawer. Each teller is required to maintain \$[4200-1] in bait money in their cash drawer. A verified record of bait money is maintained by the teller manager.
3. **OTHER SYSTEMS.** The Credit Union will implement other security devices, such as camera surveillance systems, etc., as the Board of Directors determines is necessary or proper for ensuring full protection of Credit Union and member assets.

Policy 4300: Computer Security & Control

Revised Date: 10/05/2016

Model Policy Revised Date: 10/05/2016

General Policy Statement:

The integrity of [CUNAME]'s (Credit Union) computer resources is extremely important to the successful operation of the Credit Union's business. All computer equipment, peripherals, and software are Credit Union property and are provided for business purposes. Proper use and control of computer resources is the responsibility of all employees. Intentional or reckless violation of established policies or improper use of the Credit Union's computers will result in corrective action up to and including termination. Employees should also be aware that any work completed on Credit Union computers is subject to monitoring and review and that they should not expect their communications to be private.

Reference:

National Institute of Standards and Technology (NIST). Special Publication 800-53 (Revision 4) Security Controls and Assessment Procedures for Federal Information Systems.

Guidelines:

1. PROTECTION OF COMPUTER NETWORKS.

- A. The Credit Union will periodically review and document all network systems and connections.
- B. Network connections, such as modems, that allow access to Credit Union systems from remote devices will be controlled and monitored. Control will take the form of adequate password protection and, where feasible, the powering down of the devices when not in use by the Credit Union.
- C. Perpetual network connections to outside systems, such as Internet links or sponsor systems, will be controlled through the use of a "firewall" that effectively limits outside access to Credit Union systems and data. The design, configuration and performance of the "firewall" will be periodically reviewed and tested to ensure it is functioning as intended.
- D. The Credit Union may install firewalls limiting access to the internet, specific sites and outside systems to limit internal access to systems or information that do not benefit the operations of the Credit Union.

2. INTEGRITY OF COMPUTER RESOURCES.

- A. **Modification or Removal of Equipment.** Computer equipment, peripherals and software may not be altered or removed except as authorized by the System Administrator.
- B. **Monopolizing Resources.** Computer users must not limit others' use or access to information resources by sending chain-letters or excessive messages, printing excess copies of documents, files or data, or running grossly inefficient programs.
- C. **Personal Software.** Employees shall not install personal software (including screen savers) on Credit Union computers for business or any other purpose.

D. **Unauthorized Access.** Employees must not access computers, software, data, or other information without proper authorization.

E. **Password Protection.** An employee who has been authorized to use a password-protected account must not disclose the password or otherwise allow another to access the account without the permission of the System Administrator. All passwords should be given to, or securely stored in a location accessible by, the System Administrator to ensure access to system information in the absence of the employee.

F. **Unauthorized or Destructive Programs.** Employees may not develop or use programs which disrupt computer resources, access restricted areas or files, or damage software and hardware.

3. COMPUTER USAGE.

A. **Unlawful or Inappropriate Messages.** Use of electronic communication to send harassing, obscene, threatening or other inappropriate messages violates Credit Union policy and possibly applicable law as well.

B. **Personal Use.** Credit Union computer resources should not be used for personal activities except in very limited and purely incidental instances which do not interfere with employee performance or consume organizational resources.

C. **Mailing Lists.** Employees must respect the purposes of mailing lists and ensure that they are used as intended and authorized.

D. **Advertisements.** Communication resources should not be used for transmission of commercial, political or personal advertisements, solicitations, or promotions.

4. SYSTEM ADMINISTRATOR RESPONSIBILITIES.

The System Administrator is responsible for overseeing the use of Credit Union computer resources. S/he should use reasonable efforts to implement:

A. **Security.** Protect the security of the system and the information contained within it.

B. **Protection.** Institute precautions against theft or damage to system components or integrity, including password protection.

C. **Licensing.** Implement all licensing agreements and ensure that related laws are closely adhered to.

D. **Installations.** Oversee and approve all software installations.

E. **Equipment.** Establish equipment auditing, maintenance, and upgrading procedures.

F. **Policies.** Develop policies and procedures which govern the operation, use and maintenance of computer resources.

G. **Support.** Provide training and assistance to users as required.

H. **Open Door.** Maintain an "open door" so that problems or suggestions can be quickly reported by employees.

5. EMPLOYEE DUTY TO REPORT PROBLEMS.

All employees must immediately report any potential or actual computer problems or concerns to the System Administrator.

6. **STRICT ENFORCEMENT.** Given the importance of the Credit Union's computer resources and the potentially serious consequences of security violations, Credit Union policies will be strictly enforced. Employees should report all security violations to their Manager. The Manager will then notify the System Administrator of the security violation. All reported or identified security problems will be quickly investigated and resolved by the System Administrator and the appropriate Manager.
7. **CORRECTIVE ACTION.** Any Credit Union employee found to have violated this policy will be subject to corrective action, which may include formal probation or termination, based on the circumstances of the violation.
8. **NO EMPLOYEE EXPECTATION OF PRIVACY.** The Credit Union maintains the right to monitor when and how computer resources are used through maintenance of activity logs and review of files stored. As equipment is owned by the Credit Union, employees should have no privacy expectations regarding their computer files - whether personal or business related.

Policy 4305: Configuration Management

Revised Date: 10/05/2016

Model Policy Published Date: 10/05/2016

General Policy Statement:

[CUNAME] (Credit Union) recognizes its responsibility to safeguard member information and will treat the private financial information of the Credit Union's members ("member information") with appropriate care in order to maintain the confidentiality, integrity and security of member information. The purpose of this policy is to set forth the guidelines for management and staff to use in establishing and maintaining a configuration management plan. Credit Union personnel will follow secure configuration management strategies such that member information system modifications are consistent with the Credit Union's information security program. The Credit Union will comply with all applicable laws and regulations governing the safeguarding of member information including NCUA Guidelines for Safeguarding Member Information (12 CFR Part 748 Appendices A and B, Part 749 Appendix B) (the "Guidelines") and all other applicable laws and regulations regarding the safeguarding of member information.

Definitions:

Baseline Configuration

A set of specifications for a system, or Configuration Items (CI) within a system, that has been formally reviewed and agreed on at a given point in time, and which can be changed only through change control procedures. That baseline configuration is used as a basis for future builds, releases, and/or changes.

Configuration Change Control

Process for managing and controlling changes to the configuration of an information system or its constituent CIs.

Configuration Management

A collection of activities focused on establishing and maintaining the integrity of products and systems, through control of the processes for initializing, changing, and monitoring the configurations of those products and systems throughout the system development life cycle.

Configuration Management Plan

A comprehensive description of the roles, responsibilities, policies, and procedures that apply when managing the configuration of products and systems.

References:

National Institute of Standards and Technology (NIST). Special Publication 800-53 (Rev. 4) Security Controls and Assessment Procedures for Federal Information Systems. Configuration Management Control Family.

NIST. Special Publication 800-125. Guide to Security for Full Virtualization Technologies.

NIST. Special Publication 800-128. Guide for Security-Focused Configuration Management of Information Systems.

Scope:

This policy applies to Credit Union systems that process, store, or transmit member information, including, but not limited to, the following: workstations, servers, virtual machines, network devices, operating systems, applications,

laptops, and mobile devices. This policy also applies to service provider (i.e., non-Credit Union controlled) systems that store, process, or transmit Credit Union member information.

Guidelines:

1. **CONFIGURATION MANAGEMENT PLAN.** The Credit Union will develop and document a security-focused configuration management plan. The plan will be regularly reviewed and submitted to the Board and/or Supervisory Committee for approval. The plan will include procedures for the secure configuration of information systems that store, process, or transmit member information. The plan will be distributed to Credit Union personnel who have configuration management responsibilities. The plan will be protected from unauthorized access and change.
 - A. **Configuration Management Personnel Responsibilities.** Credit Union officials shall assign personnel (consisting of [4120-9], [4120-9.1], [4120-9.4]) to be in charge of information system configuration management. These personnel shall have the technical skills to configure information systems using security best practices, and to develop and document the configuration management plan. They will assess the impact of requested configuration changes, approve or disapprove change requests, and test changes (as feasible) before implementation. Configuration management personnel shall be included in planning and acquisition processes for new systems or system modifications. Configuration management personnel may include, but are not limited to, the Chief Information Officer, system administrators, and system/software developers. Configuration management roles and responsibilities will be documented.
 - B. **Information System Component Inventory.** The configuration management plan will include procedures for maintaining an accurate inventory of all information system components, including virtualized systems and resources. The inventory shall include information necessary for effective accountability including, but not limited to, the following: system owner, software license information, software version numbers, and machine names and network addresses. The inventory shall be reviewed and updated [4305-1], and when components are installed or removed.
 - C. **Baseline Configuration.** Configuration management personnel shall maintain baselines of Credit Union information systems.
 - i. These baselines shall be documented and shall reflect secure (i.e., hardened), regularly-updated configuration settings. Secure configuration settings include, but are not limited to, the following:
 1. removing or disabling unnecessary services;
 2. enabling event logging;
 3. changing default identifiers and authenticators; and
 4. enabling automatic updates and patches.
 - ii. Credit Union personnel may develop checklists outlining the secure configuration settings for information systems. General systems and application hardening considerations are included in the CU PolicyPro Resources area. Information system baselines shall be securely stored and regularly updated (as changes baselines are implemented) to support rollback and recovery procedures. Exceptions to baseline configuration settings must be documented and approved through the Credit Union's configuration change management process. The information system component inventory will be used in conjunction with information system monitoring to detect deviations from baseline configuration settings.

- D. Configuration Change Management.** Credit Union change management personnel shall have the responsibility and authority to review and approve information system configuration changes. Responsible personnel will assess the security impact of proposed changes. Requests for significant changes will include, at minimum, rationale, affected systems, and expected impact of doing the change and not doing the change. Credit Union management and information system owners will be trained to understand and follow the formal configuration change management process (i.e., they will recognize what changes require controlled change management). A sample change request template is provided in the CU PolicyPro Resources area. System patch management policies are outlined in Policy 4310.
- E. Testing Configuration Changes.** If proposed configuration changes could have a high adverse impact on the Credit Union's critical information systems (as identified in risk assessment activities), those changes will be tested on non-production systems (if available), before implementation. If non-production systems are not available for testing, changes will gradually be implemented on low-impact/minor systems before they are implemented on critical systems. All configuration change testing information shall be documented and reported to Credit Union officials. Additional controls will be applied to changes that exhibit unacceptably high impact levels. Those changes will be retested with additional controls applied before they are implemented on critical systems. The change management process will include a provision for backing out of changes if they do not provide adequate or expected functionality or security.
- F. Verifying Change Implementation.** The Credit Union shall verify that changes provide their expected functionality and security through vulnerability scans and post-implementation analysis, as necessary. The change request will be closed and personnel who requested the change will be informed of the change implementation. Baseline configuration settings affected by the change shall be updated.
- G. Emergency Changes.** The configuration change management process must include provisions for making emergency changes to information systems. The change management plan will be coordinated with the incident response plan, such that emergency changes can be expeditiously reviewed and approved by authorized configuration management personnel, as practicable. Procedures must be established for management to review unscheduled changes if the changes were not implemented following the formal approval process. [4120-9.5] shall be responsible for approving emergency changes and reporting significant changes to the Board and/or Supervisory Committee. Baseline configuration settings affected by unscheduled changes shall be updated.
- H. Security for Virtualized Systems.** When planning to deploy virtualized systems, management shall consider, at minimum, the following information system life-cycle elements: rationale and policy; authentication and cryptographic mechanisms to be used; implementation and testing; operational requirements; event logging and monitoring; and disposition (retirement). Credit Union systems running on virtual machines (i.e., guest operating systems and their applications) will have the same security controls applied as those running directly on hardware. Access to the hypervisor (virtual machine manager) will be restricted to authorized administrators only. Each guest operating system (OS) in the virtual environment shall be accessed through separate authentication credentials. If malware is discovered on one guest OS, then the Credit Union shall scan all other OSs in the shared virtualized environment for malware (in order to detect malware spread through shared disks or clipboards). Physical access controls will be applied to the hardware on which virtualized systems run.

Policy 4310: Patch Management

Revised Date: 10/05/2016

Model Policy Revised Date: 10/05/2016

General Policy Statement:

Patch management is the process of applying the latest security updates to operating systems, applications, and other parts of the IT infrastructure. [CUNAME] (Credit Union) has developed a patch management program as part of its overall computer security plan, in order to reduce the risk of software vulnerabilities and ensure that the security and availability of computer systems are not compromised.

Reference:

National Institute of Standards and Technology (NIST). Special Publication 800-53 (Revision 4) Security Controls and Assessment Procedures for Federal Information Systems.

Guidelines:

1. **SYSTEM ADMINISTRATOR RESPONSIBILITIES.** The Credit Union's System Administrator, with the involvement of management, information security, and systems operations personnel, will conduct the procedures outlined below in order to develop and maintain the patch management program. The patch management program shall be coordinated with the Credit Union's change management process, outlined the Configuration Management Policy (see Policy 4305).
 - A. **Inventory.** Maintain an up-to-date inventory of hardware and software, including the specific applications and their location. This inventory will include a description of the system's hardware, main frame and mid-range computers, operating systems (versions and all patches installed), application software (versions and all patches installed), and storage devices. The inventory will reflect production servers, firewalls, network appliances, routers, and other network infrastructure.
 - B. **Risks.** Determine the risks posed by software vulnerabilities and direction for the implementation of a patch management program. This risk assessment will be performed periodically and will be presented to the board of directors on an annual basis.
 - C. **Processes.** Evaluate the current patch management processes to determine whether they are adequate as an ongoing patch management program.
 - D. **Responsibilities.** Define and assign the responsibilities for patch management at a functional level, including the following:
 - i. Prompt identification of vulnerabilities and relevant patches.
 - ii. Evaluation and testing of the patches.
 - iii. Timely implementation of patches appropriate to the environment.
 - iv. Tracking of both implemented and rejected patches.
 - E. **Documentation.** Document the decisions to install or reject specific patches.

F. **Audits.** Conduct independent testing to ensure that vulnerabilities have been identified and appropriate patches have been installed.

2. MONITORING VULNERABILITIES AND IDENTIFYING PATCH INFORMATION.

A. **Monitoring.** The Credit Union will keep up-to-date with newly released patches and security issues that affect the systems and applications used by the Credit Union. Management and staff will be alerted to the security issues or updates to the applications and systems.

B. **Identifying Patch Information.** The Credit Union will ensure that it maintains its relationships with its key operating system, network device, and application vendors that facilitate the timely release and distribution of information on product security issues and patches. The Credit Union will subscribe to or review the following sources of patch information:

- i. Vendor websites;
- ii. Vendor patch alert e-mail list subscriptions;
- iii. Third-party security websites and e-mail alert systems;
- iv. Third-party subscription or periodic vulnerability scanning and reporting services; and
- v. Internet discussion news groups related to patch management.

3. PATCH CYCLE SCHEDULING.

A. **Routine Updates.** The Credit Union will establish a patch cycle that guides the normal application of patches and updates to systems. System updates will be conducted [4310-1], and whenever new information is obtained.

B. **Critical Updates.** The Credit Union will prioritize and schedule updates that are more critical. Determining the priority will depend on the vendor-reported level of risk, the importance of the applications and data the system supports, and the system exposure (internal or external).

4. **EVALUATING THE IMPACT OF PATCHES.** Once a patch has been identified, the Credit Union will perform an impact assessment of the patch application. This assessment includes the following:

A. **Technical Evaluation.** The Credit Union will assess whether the patch will correct the problem with the services and features of the application that are being used by the Credit Union.

B. **Business Impact Assessment.** The Credit Union will determine whether applying the patch will impact the business processes, and the best time to install patches.

C. **Security Evaluation.** The Credit Union will determine whether there are security benefits that require the patch, even if does not result in any performance benefits. The Credit Union may also install patches on inactive software loaded on the Credit Union's system.

When a vendor is providing the applications, the Credit Union will ensure that new patches are evaluated as soon as possible.

5. **TESTING PATCHES.** The Credit Union will develop a change management system to be used at every stage of the patch management process to test the effectiveness of patch installation.

A. Pre-Installation.

- i. Each patch will be tested prior to installation to ensure that it will function as expected and will be compatible with other systems.
- ii. Evaluation and testing will also ensure that the patch will not open vulnerabilities previously corrected, or produce new vulnerabilities.
- iii. Recovery plans will be developed to respond to something going wrong during or as a result of the patch application.

B. Installation. The Credit Union will use its best efforts to install patches in phases, beginning with less critical systems. Based on the performance of the first stages, the entire environment will then be updated. In cases where multiple patches need to be installed, they will be installed in the proper order to ensure that the patches are effective and do not cause additional problems.

C. Post-Installation. The Credit Union will continue testing patches after they have been installed, and will develop a system to determine whether an update has been successful (e.g., no reported issues within a specific timeframe after patch installation).

Whenever software is reinstalled, the Credit Union will reinstall previously installed patches (in the original order). The original install media for the reinstalled software (e.g., CD-ROM, tape, floppy disk) will be maintained, as well as all patches that were installed. To simplify this process, the Credit Union will maintain both current and previous system version backups of all software (which can be used in lieu of installing the software from the original installation media). An accurate inventory of systems will be kept to ensure that the recovery process is comprehensive.

Policy 4315: Firewalls

Revised Date: 10/05/2016

Model Policy Revised Date: 10/05/2016

General Policy Statement:

A firewall is a collection of components (e.g., computers, routers, software) that mediate access between different security domains. All traffic between the security domains must pass through a firewall, regardless of the direction of the flow. The purpose of this policy is to provide management's expectations for how the firewall should function. The firewall selection will be determined from [CUName]'s (Credit Union) ongoing security risk assessment process.

Reference:

National Institute of Standards and Technology (NIST). Special Publication 800-53 (Revision 4) Security Controls and Assessment Procedures for Federal Information Systems.

Guidelines:

1. **TYPE OF FIREWALL UTILIZED.** There are different implementations of firewalls which can be arranged in different ways. The firewall implementations are discussed below as they would apply to low, medium and high risk processing environments.

A. **Packet Filter Firewalls.** Packet filter firewalls evaluate the headers of each incoming and outgoing packet to ensure it has a valid internal address, originates from a permitted external address, connects to an authorized protocol or service, and contains valid basic header instructions. If the packet does not match the pre-defined policy for allowed traffic, the firewall drops the packet. These firewalls offer minimum security but at a very low cost, and can be an appropriate choice for a low risk environment. They are fast, flexible, and transparent. Filtering rules are not often easily maintained on a router, but there are tools available to simplify the tasks of creating and maintaining the rules.

B. **Application-Level Firewalls.** Application-level firewalls perform application-level screening, typically including the filtering capabilities of packet filter firewalls with additional validation of the packet content based on the application. Application-level firewalls capture and compare packets to state information in the connection tables. Unlike a packet filter firewall, an application-level continues to examine each packet after the initial connection is established for specific application or services such as telnet, FTP, HTTP, SMTP, etc.

Application level firewalls will be configured such that out-bound network traffic appears as if the traffic had originated from the firewall (i.e. only the firewall is visible to outside networks). In this manner, direct access to network services on the internal network is not allowed. All incoming requests for different network services such as Telnet, FTP, HTTP, etc., regardless of which host on the internal network will be the final destination, must go through the appropriate proxy on the firewall. Applications gateways require a proxy for each service, such as FTP, HTTP, etc., to be supported through the firewall.

i. When a service is required that is not supported by a proxy, the Credit Union will do one of the following:

1. Deny the service until the firewall vendor has developed a secure proxy; or

2. Pass the service through the firewall - using what are typically called "plugs," most application gateway firewalls allow services to be passed directly through the firewall with only a minimum of packet filtering. This can limit some of the vulnerability but can result in compromising the security of systems behind the firewall.

ii. When an in-bound Internet service not supported by a proxy is required to pass through the firewall, the firewall administrator will define the configuration or plug that will allow the required service. When a proxy is available from the firewall vendor, the plug must be disabled and the proxy made operative.

iii. All in-bound Internet services must be processed by proxy software on the firewall. If a new service is requested, that service will not be made available until a proxy is available from the firewall vendor and tested by the firewall administrator. A custom proxy can be developed in-house or by other vendors only when approved by the CIO.

C. **Hybrid or Complex Gateways.** Hybrid gateways combine two or more of the above firewall types and implement them in series rather than in parallel. If they are connected in series, then the overall security is enhanced; on the other hand, if they are connected in parallel, then the network security perimeter will be only as secure as the least secure of all methods used. In medium to high risk environments, a hybrid gateway may be the ideal firewall implementation.

2. **FIREWALL ARCHITECTURES.** Firewalls can be configured in a number of different architectures, provided various levels of security at different costs of installation and operation. The Credit Union will match its risk profile to the type of firewall architecture selected.

A. **Multi-Homed Host.** A multi-homed host is a host (a firewall in this case) that has more than one network interface, with each interface connected to logically and physically separate network segments. A dual-homed host (host with two interfaces) is the most common instance of a multi-homed host.

A dual-homed firewall is a firewall with two network interfaces cards (NICs) with each interface connected to different networks. For instance, one network interface is typically connected to the external or untrusted network, while the other interface is connected to the internal or trusted network. In this configuration, a key security tenet is not to allow traffic coming in from the untrusted network to be directly routed to the trusted network - the firewall must always act as an intermediary. Routing by the firewall will be disabled for a dual-homed firewall so that IP packets from one network are not directly routed from one network to the other.

B. **Screened Host.** A screened host firewall architecture uses a host (called a bastion host) to which all outside hosts connect, rather than allow direct connection to other, less secure internal hosts. To achieve this, a filtering router is configured so that all connections to the internal network from the outside network are directed towards the bastion host. If a packet filtering gateway is to be deployed, then a bastion host will be set up so that all connections from the outside network go through the bastion host to prevent direct Internet connection between the Credit Union network and the outside world.

C. **Screened Subnet.** The screened subnet architecture is essentially the same as the screened host architecture, but adds an extra strata of security by creating a network which the bastion host resides (often call perimeter network) which is separated from the internal network. A screened subnet will be deployed by adding a perimeter network in order to separate the internal network from the external. This assures that if there is a successful attack on the bastion host, the attacker is restricted to the perimeter network by the screening router that is connected between the internal and perimeter network.

3. **PHYSICAL PLACEMENT OF THE FIREWALL COMPONENTS.** Physical access to the firewall will be tightly controlled to prevent any authorized changes to the firewall configuration or operational status, and to eliminate any potential for monitoring firewall activity. In addition, precautions will be taken to ensure that proper environment alarms and backup systems are available to assure the firewall remains online. The Credit Union's firewall will be located in a controlled environment, with access limited to the firewall administrator.

The room in which the firewall is to be physically located will be equipped with heat, air-conditioner, and smoke alarms to ensure the proper working order of the room. The placement and recharge status of the fire extinguishers will be checked on a regular basis. If uninterruptible power service is available to any Internet-connected systems, such service will be provided to the firewall as well.

4. **FIREWALL ADMINISTRATION.** A firewall, like any other network device, has to be managed by someone. A firewall administrator will be designated by the Chief Information Security Officer (or other manager), and will be responsible for the upkeep of the firewall.

A. **Remote Firewall Administration.** The most secure method of protecting against attacks is to have strong physical security around the firewall host and to only allow firewall administration from an attached terminal. However, operational concerns often dictate that some form of remote access for firewall administration be supported. In no case will remote access to the firewall be supported over untrusted networks without some form of strong authentication. In addition, to prevent eavesdropping, session encryption will be used for remote firewall connections.

i. **Low Risks.** Any remote access over untrusted networks to the firewall for administration must use strong authentication, such as one time passwords and/or hardware tokens.

ii. **Medium Risks.** The preferred method for firewall administration is directly from the attached terminal. Physical access to the firewall terminal is limited to the firewall administrator and backup administrator. Where remote access for firewall administration must be allowed, it should be limited to access from other hosts on the Credit Union's internal network. Such internal remote access requires the use of strong authentication, such as one time passwords and/or hardware tokens. Remote access over untrusted networks such as the Internet requires end to end encryption and strong authentication to be employed.

iii. **High Risks.** All firewall administration must be performed from the local terminal - no access to the firewall operating software is permitted via remote access. Physical access to the firewall terminal is limited to the firewall administrator and backup administrator.

B. **User Accounts.** Firewalls will never be used as general purpose servers. The only user accounts on the firewall will be those of the firewall administrator. In addition, only the firewall administrator will have privileges for updating system executables or other system software. Only the firewall administrator will be given a user account on the Credit Union's firewall. Any modification of the firewall system software must be done by the firewall administrator and requires approval of the Network Services Manager.

C. **Firewall Backup.** To support recovery after failure or natural disaster, a firewall like any other network host has to have some policy defining system backup. Data files as well as system configuration files need to have some backup plan in case of firewall failure. The firewall (system software, configuration data, database files, etc.) will be backed up daily, weekly, and monthly so that in case of system failure, data and configuration files can be recovered. Backup files will be stored securely on a read-only media so that data in storage is not over-written inadvertently and locked up so that the media is only accessible to the appropriate personnel.

5. **UPDATING.** To prevent unauthorized modifications of the firewall configuration, some form of integrity assurance process will be used. Each time the firewall configuration has been modified by the firewall administrator, it is necessary that the system integrity online database be updated and saved onto a file system on the network or removable media. If the system integrity check shows that the firewall configuration files have been modified, it will be known that the system has been compromised. The firewall's system integrity database will be updated each time the firewall is configuration is modified. System integrity files will be stored on read only media or off-line storage. System integrity will be checked on a regular basis on the firewall in order for the administrator to generate a listing of all files that may have been modified, replaced, or deleted.
6. **DOCUMENTATION.** The operational procedures for a firewall and its configurable parameters will be documented, updated, and kept in a safe and secure place. This assures that if the firewall administrator resigns or is otherwise unavailable, an experienced individual can read the documentation and rapidly pick up the administration of the firewall. In the event of a break-in such documentation also supports trying to recreate the events that caused the security incident.
7. **INCIDENT RESPONSE.** The firewall will be configured to log all reports on daily, weekly, and monthly bases so that the network activity can be analyzed when needed. Firewall logs will be examined on a weekly basis to determine if attacks have been detected. The firewall administrator shall be notified at any time of any security alarm by email, pager, or other means so that he may immediately respond to such alarm. The Credit Union will follow its Incident Response Policy (See Policy 4125) to address incidents of unauthorized access to member information.
8. **REGULAR AUDITING.** Most firewalls provide a wide range of capabilities for logging traffic and network events. Some security-relevant event that will be recorded on the firewall's audit trail logs are: hardware and disk media errors, login/logout activity, connect time, use of system administrator privileges, inbound and outbound e-mail traffic, TCP network connect attempts, in-bound and out-bound proxy traffic type.
9. **CONTINGENCY PLANNING.** Once an incident has been detected, the firewall may need to be brought down and reconfigured. If it is necessary to bring down the firewall, Internet service will be disabled or a secondary firewall will be made operational - internal systems will not be connected to the Internet without a firewall. After being reconfigured, the firewall must be brought back into an operational and reliable state. In case of a firewall break-in, the firewall administrator will be responsible for reconfiguring the firewall to address any vulnerabilities that were exploited. The firewall will be restored to the state it was before the break-in so that the network is not left wide open. While the restoration is going on, the backup firewall will be deployed.

Policy 4320: Computer Hardware And Software Acquisition

Revised Date: 10/05/2016

Model Policy Revised Date: 10/05/2016

General Policy Statement:

The purpose of this policy is to ensure that [CUname]'s (Credit Union) computer hardware and software systems meet minimum standards and are compatible with existing equipment. This policy defines the boundaries for the acceptable acquisition of the Credit Union's computer hardware and software resources which includes software, hardware devices, and networking systems.

Hardware devices, software programs, and network systems purchased and provided by the Credit Union are to be used only for creating, researching, and processing Credit Union-related materials or such other use as may be approved by the Credit Union. By using the Credit Union's computer software and hardware resources, each individual employee assumes personal responsibility for the appropriate use and compliance with this policy and any other applicable organizational policies, as well as city, state, and federal laws and regulations.

Reference:

National Institute of Standards and Technology (NIST). Special Publication 800-53 (Revision 4) Security Controls and Assessment Procedures for Federal Information Systems.

Guidelines:

1. **SOFTWARE ACQUISITION.** All software acquired for or on behalf of the Credit Union or developed by Credit Union employees or contract personnel on behalf of Credit Union is and will be deemed property of the Credit Union. All such software must be used in compliance with applicable licenses, notices, contracts, and agreements.
 - A. **Software Purchasing.** All purchasing of CU software will be centralized with the [4320-1] or designee referred to as the Computer Purchasing Officer (CPO), unless otherwise approved by the CPO, to ensure that all applications conform to organizational software standards and are purchased at the best possible price. All requests for software must be submitted to the CPO, who will then determine the standard software that best accommodates the desired request. Software purchased may be charged back to requesting department.
 - B. **Software Licensing.** All computer software used at the Credit Union must be properly licensed and registered, whether for trial or permanent use. Failure to do so is a violation of state and federal law, as well as the licensing agreements provided by the software provider.
 - i. Each employee is individually responsible for reading, understanding, and following all applicable licenses, notices, contracts, and agreements for software to be used on Credit Union computers. Unless otherwise provided in the applicable license, notice, contract, or agreement, any duplication of copyrighted software, except for backup and archival purposes, may be a violation of federal and state law. In addition to violating such laws, unauthorized duplication of software is a violation of this policy.
 - C. **Software Standards.** The CPO shall maintain a list of the standard software installed on Credit Union computers that is supported by the Credit Union. Employees requiring software other than the programs

referred to above must request such software from the CPO. Each request will be considered on a case-by-case basis in conjunction with the software purchasing section of this policy.

2. **HARDWARE ACQUISITION.** All computer or computing hardware devices acquired for or on behalf of the Credit Union or developed by Credit Union employees or contract personnel on behalf of the Credit Union is and will be deemed Credit Union property. All such hardware devices must be used in compliance with applicable licenses, notices, contracts, and agreements.

A. **Hardware Purchasing.** All purchasing of Credit Union computer hardware and computing devices will be centralized with the CPO to ensure that all purchases conform to organizational hardware standards. The CPO may authorize specific computer hardware purchases by an individual department in response to a specific need.

B. **Hardware Standards.** The CPO will determine the configuration for all Credit Union-owned computers. Desktop computer workstations will be provided to employees working primarily from the office or have a Credit Union-provided workstation for use at their home. Laptop computers may be provided to employees frequently required to work outside the office. Printers may be provided to employees based upon job requirements.

i. Employees requiring computer hardware other than what is outlined above must request such hardware from the CPO. Such requests will be considered on a case-by-case basis in conjunction with the hardware purchasing section of this policy.

3. **INSURANCE.** The Credit Union insures its computer equipment, data, media, and software applications. The review of insurance coverage will be conducted annually by the CPO as part of the Business Contingency Plan update. Due to the cost, insurance may not be purchased depending on the nature of the some hardware and/or software. Examples would be PDA's (personal digital assistants) and cellular telephones.

4. **COMPUTER INVENTORY.** The CPO will ensure an inventory of all hardware, software, and communication components of the Credit Union is maintained. Included in this inventory shall be the location of each modem, whether it is accessed through a dial-up line or data line, the telephone number if it is a dial-up access and the communications software resident on the computer.

A. The CPO will also maintain an inventory of the software installed on the network servers and on each of the computers in the Credit Union. At least annually, Credit Union computers will be inspected to ensure that only authorized licensed software is installed. This procedure will provide for proper software licensing control.

5. **MAINTENANCE.** The CPO is responsible for the maintenance of all Credit Union computers and other system computing hardware. Service contracts will be maintained on computer hardware and software, subject to the recovery requirements of the Credit Union. These requirements will be documented in the Credit Union Disaster Recovery Plan.

A. **Service Contracts.** The CPO will maintain copies of all computer service contracts. These contracts will be monitored for compliance with contract terms by both CU and the service providers. Any deviation from the contract will be addressed by the CPO.

B. **Controlled Maintenance.** Maintenance on information systems shall be performed on a regular schedule. Non-Credit Union personnel performing onsite maintenance on critical information systems shall be escorted and monitored. If equipment must be moved from controlled areas to an offsite location for maintenance, then its removal must be approved by authorized personnel and member information

must be sanitized.

C. **Maintenance Tools.** Credit Union IT personnel will track the tools used during information system maintenance, including diagnostic test equipment and hardware/software packet sniffers. Personnel will verify that maintenance tools do not contain malicious code before they are used on Credit Union systems.

D. **Nonlocal Maintenance.** Credit Union IT personnel will monitor nonlocal maintenance activities performed via the Internet or via the Credit Union's internal network. Strong passwords (and/or other strong authenticators) will be used to establish maintenance sessions. Nonlocal maintenance will be recorded and documented, and maintenance sessions and connections will be terminated when maintenance is completed.

E. **Timely Maintenance.** Credit Union IT personnel will ensure that contracts with maintenance providers include provisions to obtain support or spare parts for failing systems or system components within [4320-2]

6. **SYSTEM ACQUISITION.** Automated systems acquisitions involve the coordinated purchases of hardware and software. Research, evaluation, and selection of new hardware and/or software must include the overall evaluation of the products, as well as existing Credit Union resources to avoid excessive costs, incompatibility, servicing complications, purchasing obsolescence or lack of functionality.

A. The following criteria will be utilized when evaluating new computer hardware and/or software:

i. Products must have a demonstrated business purpose for the Credit Union.

ii. Compatibility with existing Credit Union equipment and its network is required. Non-compatible purchases can only be permitted for non-network attached equipment and must be justified (i.e., function not available within existing platform, or non-compatible product provides significant performance improvement). Products must have a description of the security controls and functions they provide.

iii. Departments requesting new systems must define their specific needs. This definition must include, to the extent possible:

1. The nature and scope of the requirement (i.e., financial analysis, loan application processing, forecasting, etc.);

2. Communications requirements (i.e., system access);

3. Security requirements (i.e., will sensitive data be used);

4. Licensing requirements (i.e., multiple user, single user, etc.);

5. Hardware requirements; and

6. Approval of the request by the department manager.

B. When requested, the CPO will provide assistance to the requesting department in defining their specific needs.

C. If the proposed system has the capability to upload information into the Credit Union's host processing

system, written authorization from the Credit Union's host processing system vendor must be obtained prior to acquiring the system. It will be verified in writing that any system interface will not violate any provision of the maintenance contracts.

Policy 4340: Remote Access

Revised Date: 10/05/2016

Model Policy Revised Date: 10/05/2016

General Policy Statement:

[CUname] (Credit Union) recognizes its responsibility to safeguard member information and will treat the private financial information of Credit Union members ("member information") with appropriate care in order to maintain the confidentiality, integrity and security of member information. The purpose of this policy is to set forth the guidelines for management and staff to use in requesting and establishing remote access to the Credit Union's data network, while maintaining safeguards for member information. The Credit Union will comply with all applicable laws and regulations governing the safeguarding of member information including NCUA Guidelines for Safeguarding Member Information (12 CFR Part 748 Appendices A and B, Part 749 Appendix B) (the "Guidelines") and all other applicable laws and regulations regarding the safeguarding of member information.

The purpose of this policy is to define standards for connecting to the Credit Union's network from any external location or host. These standards are designed to minimize the potential exposure from damages which may result from unauthorized use of Credit Union resources. Damages include the loss of sensitive or company confidential data, intellectual property, damage to public image, damage to critical internal systems, etc.

Reference:

National Institute of Standards and Technology (NIST). Special Publication 800-53 (Revision 4) Security Controls and Assessment Procedures for Federal Information Systems.

Guidelines:

1. POLICY AND PROGRAM RESPONSIBILITY.

- A. **Board Responsibility.** This policy and any recommended changes shall be approved by the Credit Union's Board of Directors (Board). The Board may delegate its oversight responsibility to a Board Committee.
- B. **Management Responsibility.** Credit Union management will be responsible for the development, implementation, and maintenance of the Credit Union's Remote Access Program (Program) and may assign these responsibilities.
- C. **User Responsibility.** This policy applies to all employees, contractors, vendors and agents (employees) with a Credit Union-owned or personally-owned computer or workstation used to connect to the Credit Union's network and applies to remote access connections used to do work on behalf of the Credit Union, including reading or sending email and viewing Intranet web resources.

- 2. **ASSESSMENT OF RISK.** From time to time, management will identify and assess the risks that may threaten the security, confidentiality, or integrity of the Credit Union's information systems, and determine the sensitivity of member information and the internal and external threats to its integrity. Management will evaluate and adjust its risk assessment on a periodic basis and in light of any relevant changes in technology; changes in internal and external threats; changes in the member base adopting electronic banking; changes in member functionality offered through electronic banking; and actual incidents of security breaches, identity theft, or fraud experienced by the Credit Union or industry.

3. GENERAL

- A. General access to the Internet for recreational use by immediate household members through the Credit Union network on personal computers is permitted for employees that have flat-rate services. Employees are responsible for ensuring a family member does not violate any Credit Union policies, do not perform illegal activities, and do not use the access for outside business interests. Employees bear the responsibility for the consequences if the access is misused.
- B. Please review the following policies for details of protecting information when accessing the corporate network via remote access methods, and acceptable use of credit union's network:
 - i. Information Security Policy (**See Policy 4120**)
 - ii. Electronic Communications (**See Policy 2222**)
- C. Any employee wishing to have remote access to the Credit Union network must obtain prior approval from their manager/supervisor.

4. REQUIREMENTS

- A. Secure remote access must be strictly controlled. Control will be enforced via one-time password authentication, public/private keys with strong passwords, or other technology which will provide appropriate security.
- B. At no time should any employee provide their login or email password to anyone.
- C. Employees with remote access privileges must ensure that their Credit Union-owned or personal computer or workstation, when it is connected to the Credit Union network, is not connected to any other network at the same time, with the exception of personal networks under the complete control of the user.
- D. Credit Union employees with remote access privileges to the Credit Union's corporate network must not use a non-Credit Union email accounts (i.e., Hotmail, Yahoo, AOL), or other external resources to conduct Credit Union business, thereby ensuring that official business is never confused with personal business.
- E. Routers for dedicated ISDN lines configured for access to the network must meet minimum authentication requirements of CHAP.
- F. Reconfiguration of the remote access equipment for the purpose of split-tunneling or dual homing is not permitted at any time.
- G. Frame Relay must meet minimum authentication requirements of DLCI standards.
- H. Non-standard hardware configurations are not allowed.
- I. All computers or other devices connected to the Credit Union's network via remote access technologies must use the most up-to-date anti-virus software and firewalls.
- J. Any non-Credit Union-owned equipment used to connect to the Credit Union's network must meet the requirements of Credit Union-owned equipment for remote access.

K. Organizations or individuals who wish to implement remote access solutions to the Credit Union network must obtain prior approval from management.

5. **ENFORCEMENT.** Any employee found to have violated this policy may be subject to disciplinary action, up to and including termination of employment.

6. **DEFINITIONS**

Term	Definition
Cable Modem	Cable companies provide Internet access over Cable TV coaxial cable. A cable modem accepts this coaxial cable and can receive data from the Internet at over 1.5 Mbps. Cable is currently available only in certain communities.
CHAP	Challenge Handshake Authentication Protocol is an authentication method that uses a one-way hashing function. DLCI Data Link Connection Identifier (DLCI) is a unique number assigned to a Permanent Virtual Circuit (PVC) end point in a frame relay network. DLCI identifies a particular PVC endpoint within a user's access channel in a frame relay network, and has local significance only to that channel.
Dial-in Modem	A peripheral device that connects computers to each other for sending communications via the telephone lines. The modem modulates the digital data of computers into analog signals to send over the telephone lines, then demodulates back into digital signals to be read by the computer on the other end; thus the name "modem" for modulator/demodulator
Dual Homing	Having concurrent connectivity to more than one network from a computer or network device. Examples include: Being logged into the network via a local Ethernet connection, and dialing into AOL or other Internet service provider (ISP). Being on a credit union-provided Remote Access home network, and connecting to another network, such as a spouse's remote access. Configuring an ISDN router to dial into credit union and an ISP, depending on packet destination
DSL	Digital Subscriber Line (DSL) is a form of high-speed Internet access competing with cable modems. DSL works over standard phone lines and supports data speeds of over 2 Mbps downstream (to the user) and slower speeds upstream (to the Internet).
Frame Relay	A method of communication that incrementally can go from the speed of an ISDN to the speed of a T1 line. Frame Relay has a flat-rate billing charge instead of a per time usage. Frame Relay connects via the

Term	Definition
	telephone company's network
ISDN .	Integrated Services Digital Network or ISDN: BRI and PRI. BRI is used for home office/remote access. BRI has two "Bearer" channels at 64kbit (aggregate 128kb) and 1 D channel for signaling info.
Remote Access	Any access to the credit union's corporate network through a non-credit union controlled network, device, or medium.
Split-tunneling	Simultaneous direct access to a non-credit union network (such as the Internet, or a home network) from a remote device (PC, PDA, WAP phone, etc.) while connected into credit union's corporate network via a VPN tunnel.
VPN	Virtual Private Network (VPN) is a method for accessing a remote network via "tunneling" through the Internet.

Policy 4350: Cloud Computing

Revised Date: 10/05/2016

Model Policy Published Date: 10/05/2016

General Policy Statement:

The integrity of [CUNAME]'s (Credit Union) computing resources is extremely important to the successful operation of our business. Proper use and control of computer resources is the responsibility of all employees. Cloud computing uses a variety of established business strategies, technologies, and processing methodologies to migrate from owned resources to shared resources in which the Credit Union receives information technology services, on demand, from third-party service providers via the Internet “cloud.” Cloud computing service models include the provision of infrastructure, computing platforms, and software as a service.

The Credit Union may integrate cloud computing, through outsourcing into its information technology plan and resources to provide benefits such as cost reduction, flexibility, scalability, improved load balancing, and speed to information technology support and services.

Reference:

National Institute of Standards and Technology. Special Publication 800-145. The NIST Definition of Cloud Computing.

Guidelines:

1. **DEFINITION.** Cloud Computing is defined as a model for enabling convenient, on-demand network access to a shared pool of configurable computing resources (e.g., networks, servers, storage, applications, and services) that can be rapidly provisioned and released with minimal management effort or cloud provider interaction.
2. **DUE DILIGENCE.**
 - A. **Strategic Plan.** Cloud computing outsourcing will be determined and reviewed to ensure such actions are consistent with the Credit Union’s strategic plans and corporate objectives approved by the board of directors and senior management.
 - B. **Due Diligence Review.** A due diligence review will be performed to ensure that outsourcing cloud computing services will meet the Credit Union’s requirements in terms of cost, quality of service, compliance with regulatory requirements, and risk management. As a part of the review the following factors will be considered:
 - i. **Data Classification.** The sensitivity of the data that will be placed in the cloud (e.g., confidential, critical, public) and what controls should be in place to ensure it is properly protected will be reviewed with emphasis placed on the cloud service provider’s encryption and protection of non-public personal information (NPPI) and other data whose disclosure could harm the Credit Union or its members.
 - ii. **Data Segregation.** Data share resources will be reviewed to determine that controls exist to ensure the integrity and confidentiality of the Credit Union’s data that is transmitted over the same networks, and the segregation of data stored or processed on servers that are also used by other cloud clients.

iii. **Recoverability.** The Credit Union's disaster recovery and business continuity plans will include appropriate consideration of this form of outsourcing, and contain review of the service provider's disaster recovery and business continuity plans, and the availability of essential communications links.

3. INFORMATION SECURITY.

A. **Data Inventory and Classification.** The Credit Union will maintain a comprehensive data inventory and data classification process. Access to member data will be restricted appropriately through effective identity and access management.

B. **Data Handling.** The Credit Union will verify that data handling procedures, adequacy, availability of backup data, and whether multiple service providers are sharing facilities meet regulatory and internal Credit Union requirements. In high-risk situations, continuous monitoring may be necessary for the Credit Union to have a sufficient level of assurance that the servicer is maintaining effective controls.

C. **Data Storage.** The Credit Union will institute effective monitoring of security-related threats, incidents, and events on both financial institutions' and servicers' networks; comprehensive incident response methodologies; and maintenance of appropriate forensic strategies for investigation and evidence collection.

D. **Data Removal.** The Credit Union will ensure that the cloud-computing service provider can remove member non-public personal information from all locations where it is stored at the conclusion or cancellation of the service contract.

4. **BUSINESS CONTINUITY PLANNING.** The Credit Union will obtain, review and confirm that the servicer and the network carriers have adequate plans and resources to ensure the financial institution's continuity of operations, as well as its ability to recover and resume operations if an unexpected disruption occurs.

5. MITIGATING RISKS.

A. Management will clearly review, identify and appropriately mitigate legal, regulatory and reputational risks associated with cloud computing.

B. Management will implement a risk management process for outsourcing services, under the direction of the Board, pursuant to the Credit Union's Vendor Due Diligence and Oversight policy (See Policy 2185).

6. **AUDIT.** Audit processes will be employed to determine the adequacy of a servicer's internal controls and evaluate risk mitigation strategies. Audit staff and personnel will have sufficient expertise in evaluating shared environments and virtualized technologies.

Chapter 5000: Asset/Liability Management

Duly Approved by Credit Union

BOARD OF DIRECTORS

Approval Date:

- [Policy 5100: General Asset/Liability Management](#)
- [Policy 5110: ALCO Key Objectives](#)
- [Policy 5120: Budgeted Asset/Liability Structure](#)
- [Policy 5200: Liquidity Risk Management](#)
- [Policy 5205: Small Asset Liquidity Risk Management](#)
- [Policy 5300: Interest Rate Risk Management](#)
- [Policy 5400: Capital Management](#)
- [Policy 5500: Ownership of Fixed Assets](#)

Policy 5100: General Asset/Liability Management

Revised Date: 07/01/2010

Model Policy Revised Date: 07/01/2010

General Policy Statement:

The Asset/Liability Management Policy provides management with a framework for maximizing net interest margin, maintaining adequate sources of liquidity, and controlling interest rate risk. The general policy sets forth key Asset/Liability Management objectives and pricing guidelines.

Guidelines:

1. **ASSET/LIABILITY MANAGEMENT COMMITTEE (ALCO).** ALCO shall have [5100-1] members: the President, Vice President, and [5100-2]. The President and Vice President will also serve as Investment Officers to facilitate coordination of investment and asset/liability goals. Three members of ALCO will constitute a quorum. Meetings will be held monthly or as deemed necessary.
2. **RESPONSIBILITY.** The Board of Directors delegates responsibility for funds management to ALCO. However, the Board retains ultimate responsibility for [CUnion]'s (Credit Union) funds management program, reviewing ALCO decisions monthly to ensure compliance with applicable laws and regulations and prudent funds management practices.
 - A. **Loan Rates.** The Board may delegate to the ALCO its authority to set loan interest rates on a limited basis that are economically appropriate for the Credit Union.
 - B. **Dividend Rates.** To react to changing economic condition, the Board may delegate its authority to set dividend rates to the ALCO. Specifically, the Board may set a range of dividend rates for each kind of share account and delegate to the ALCO the authority to adjust rates within those limits. This range will be narrow and encompass only those rates that are economically appropriate for the Credit Union.
 - i. The ALCO will report its dividend rate adjustments to the Board on a monthly basis. The Board will retain its authority to change the rate set by the ALCO or withdraw the delegation.
3. **BOARD REVIEW.** The Board will regularly review the following information to determine whether the Credit Union's asset and liability structure is likely to further key objectives:
 - A. Asset yields and liability costs;
 - B. Budgetary projections of income, expenses, and profitability;
 - C. Analysis of economic and competitive conditions and projections of current and future liquidity needs;
 - D. Sources of funds available to meet liquidity needs, including the remaining maturities of all assets and liabilities; and
 - E. Loan to deposit reports.
4. **PRICING.** ALCO will price loans and deposits after thoroughly analyzing conditions in the local economy, rates offered by the competition, and the effect on net interest margin, return on assets, and capital. Pricing shall

be based on the Credit Union's:

- A. Reasonable return;
- B. Overhead costs;
- C. Credit risk;
- D. Default risk;
- E. Marginal cost of funds; and
- F. Fair return to its members.

Policy 5110: ALCO Key Objectives

Revised Date: 06/01/2008

Model Policy Revised Date: 06/01/2008

General Policy Statement:

The objectives of the Asset/Liability Management Committee (ALCO) are set forth in the guidelines.

Guidelines:

1. Assist in meeting the Board's strategic plan.
2. Increase net interest margin.
3. Maintain adequate liquidity.
4. Optimize return on assets.
5. Protect principal.
6. Acquire adequate capital and reserve balances.
7. Identify, monitor and control the following risk exposure:
 - A. **Interest Rate Risk.** This is the risk that changing rates will adversely affect [CUNAME]'s (Credit Union) financial performance. ALCO will compare and evaluate underlying payment streams, maturities, rates and risks inherent in assets and liabilities given current and anticipated changes in market interest rates.
 - B. **Liquidity Risk.** This is the risk that current loan and deposit withdrawal demands will exceed the availability of liquid assets (assets with maturities of less than one year). ALCO will submit to the Board on a monthly basis an analysis of projected sources and uses of funds, including a thorough evaluation of:
 - i. Projected loan demand.
 - ii. Maturing liabilities.
 - iii. Composition of member deposits (including an itemization of all jumbo accounts).
 - iv. Composition of investment portfolio (including identification of non-readily marketable securities which decrease in value as interest rates rise).
 - v. Projected cost of funds.
 - C. **Credit Risk.** This is the risk that the quality of the loan and investment portfolios will be impaired by deficient credit standards, poor judgment, or inadequate management review. ALCO will control credit risk exposure by monitoring and controlling:
 - i. Lending policies and procedures.

ii. Trends in economic conditions.

iii. Financial condition of field of membership.

iv. Concentrations.

D. Concentration Risk. This is the risk resulting from concentrating loans (investments) in single or related borrowers (issuers) or in particular geographic areas, or holding several obligations with similar characteristics. Management will control concentration risk by carefully monitoring the composition of the investment and loan portfolio. "

E. Default Risk. This is the risk of loss on an investment due to an issuer's inability or unwillingness to meet contractual obligations or on a loan due to a borrower's inability or unwillingness to repay. Management will control default risk by implementing sound lending and collection policies.

Policy 5120: Budgeted Asset/Liability Structure

Revised Date: 01/01/2004

Model Policy Revised Date: 12/01/2004

Model Policy Reviewed Date: 06/29/2016

General Policy Statement:

[CUName] (Credit Union) budgets its asset/liability structure according to the following guidelines.

Guidelines:

1. ASSET MIX.

A. **Loans:** [5120-1] %. Since loans to members are the Credit Union's primary asset, ALCO strategies should aim at meeting member's lending needs.

i. **Limits on Maturity Structure:** Residential real estate first trust deed maturities should not exceed 30 years; second trust deed maturities should not exceed 20 years; and consumer vehicle loans and indirect dealer financing maturities should not exceed [5120-2] years.

ii. **Loan to Deposit Ratio:** [5120-3] %. Since ALCO will rely on asset management to fulfill the Credit Union's liquidity needs, it will need to restrict loan growth to that which can be supported by available deposit funds.

B. **Investments:** [5120-4] %. The Credit Union's investment portfolio shall provide a secondary source of liquidity. The percentage of assets held in investment will depend on the amount of surplus funds available; those funds exceeding anticipated loan demand and deposit withdrawals. Investments will be made according to the Investment Policy.

i. **Limits on Maturity Structure.** No more than [5120-5] % of surplus funds should be invested in long-term investments. Long-term investments are those with maturities exceeding [5120-6] years.

C. **Fixed Assets:** [5120-7] %. Investment in fixed assets shall be limited to those necessary to carry out member services.

D. **Cash:** [5120-8] %. Vault cash and checking balances should be maintained at minimum levels sufficient to satisfy operating needs.

E. **Other Assets:** [5120-9] %.

F. **Asset Quality.** ALCO will monitor asset quality as described in the Investment and Lending Policies.

2. LIABILITY AND EQUITY MIX.

A. **Deposits:** [5120-9.1] %

B. **Borrowings:** [5120-9.2] %

C. **Primary Capital:** [5120-9.3] %

Policy 5200: Liquidity Risk Management

Revised Date: 03/29/2014

Model Policy Revised Date: 03/29/2014

General Policy Statement:

The Board adopts the following liquidity management policy to better accommodate decreases in [CUNAME]'s (Credit Union) deposits and fund increases in loans. The Board realizes that the Credit Union must remain resilient in times of economic stress and funds must be available at reasonable prices relative to competitors, and in maturities required to support prudently medium to longer term assets. Further, the Board acknowledges that liquidity is essential to compensate for expected and unexpected balance sheet fluctuations and to provide funds for growth.

Liquidity is the Credit Union's capacity to meet its cash and collateral obligations at a reasonable cost. Maintaining an adequate level of liquidity depends on the Credit Union's ability to efficiently meet both expected and unexpected cash flows and collateral needs without adversely affecting either daily operations or the financial condition of the Credit Union.

Liquidity risk is the risk that the Credit Union's financial condition or overall safety and soundness is adversely affected by an inability (or perceived inability) to meet its obligations.

Guidelines:

1. **LIQUIDITY RISK MANAGEMENT.** The Credit Union's liquidity risk management will be sufficient to meet its daily funding needs, and cover both expected and unexpected deviations from normal operations. The critical elements of the Credit Union's liquidity risk management include the following:
 - A. Effective governance consisting of Board oversight and active involvement by management (See Section (2)).
 - B. Appropriate management and mitigation of liquidity risk.
 - C. Comprehensive liquidity risk measurement and monitoring systems (including assessments of the current and prospective cash flows or sources and uses of funds), that are in line with the Credit Union's complexity and business activities (See Section (7)).
 - D. Active management of intraday liquidity and collateral (See Sections (9) and (10)).
 - E. An appropriate diverse mix of existing and potential future funding sources (See Section (11)).
 - F. Adequate levels of highly liquid marketable securities free of legal, regulatory or operational impediments that can be used to meet liquidity needs in stressful situations (See Section (3)).
 - G. Comprehensive CFPs that sufficiently address potential adverse liquidity events and emergency cash flow requirements (See Sections (8) and (12)).
 - H. Internal controls and internal audit processes sufficient to determine the adequacy of the Credit Union's liquidity risk management process (see Section (13)).

2. RESPONSIBILITIES.

A. Board of Directors. The Board is ultimately responsible for the liquidity risk assumed by the Credit Union. As a result, the Board will ensure the Credit Union's liquidity risk tolerance is established and communicated in such a manner that all levels of management clearly understand the Credit Union's approach to managing the trade-offs between liquidity risk and short-term profits. The Board is also responsible for the following duties:

- i. Understanding the nature of the Credit Union's liquidity risks and periodically reviewing information necessary to maintain this understanding;
- ii. Establishing executive-level lines of authority and responsibility for managing the Credit Union's liquidity risk;
- iii. Enforcing management's duties to identify, measure, monitor and control liquidity risk;
- iv. Understanding and periodically reviewing the Credit Union's contingency funding plans (CFPs) for handling potential adverse liquidity events; and
- v. Understanding the liquidity risk profiles of important affiliates as appropriate.

B. Management. Management is responsible for the following duties:

- i. Ensuring that Board-approved strategies, policies and procedures for managing liquidity (on both a long-term and day-to-day basis) are appropriately executed within the lines of authority and responsibly delegated for managing and controlling liquidity risk. This includes the following:
 1. Overseeing the development and implementation of appropriate risk measurement and reporting systems, liquid buffers (e.g., cash, unencumbered market securities and market instruments), CFPs, and an adequate internal control structure; and
 2. Regularly reporting the Credit Union's liquidity risk profile to the Board.
- ii. Determining the structure, responsibilities and controls for managing liquidity risk and overseeing the Credit Union's liquidity positions;
- iii. Coordinating the Credit Union's liquidity risk management with its disaster recovery, contingency and strategic planning efforts, as well as with business line and risk management objectives, strategies and tactics;
- iv. Considering the liquidity costs, benefits and risks in the strategic planning and budgeting processes. Management will evaluate significant business activities for both liquidity risk exposure and profitability; and
- v. Developing and managing the Credit Union's intraday liquidity strategy.

C. Asset/Liability Management Committee (ALCO). The ALCO is responsible for the following:

- i. Actively monitoring the Credit Union's liquidity profile;
- ii. Ensuring that the risk measurement system adequately identifies and quantifies risk exposure; and

iii. Regularly reporting accurate, timely and relevant information about the level and sources of risk exposure to the Board. These reports will be provided on at least a quarterly basis (but will be more frequent when the need arises).

1. These reports will provide the Board and management with an understanding of the Credit Union's liquidity risk exposure, compliance with risk limits, consistently between management's strategies and tactics, and consistency between these strategies and the Board's expressed risk tolerance.

3. **ASSET MANAGEMENT.** Liquidity needs will be met by managing the Credit Union's asset structure through the sale or planned runoff of readily marketable assets. Because the Credit Union tends to have little influence over the size of total deposits, the ALCO will primarily rely on liquid assets to fund increases in loan demand. The ALCO will concentrate on adjusting the price and availability of credit and the level of liquid assets held in response to changes in member asset and liability preferences.

A. **Liquidity Requirements.** The amount of liquid assets the Credit Union will hold depends on the stability of its deposit structure and the potential for rapid loan portfolio expansion. Generally, where the Credit Union's deposit accounts are composed primarily of small stable accounts, a relatively low allowance of liquidity will be required. A higher allowance for liquidity is required when:

- i. Recent trends show substantial reduction in large accounts;
- ii. A substantial portion of the loan portfolio consists of large static loans with little likelihood of reduction;
- iii. Large unused lines of credit or commitments to lend are expected to be used immediately;
- iv. Concentration of credits have been extended to an industry with present or anticipated financial problems; and
- v. Strong relationships exist between member share and draft accounts and principal employers in the trade area who have financial problems.

B. Liquidity Cushion.

- i. Management will ensure that it has a cushion of highly liquid assets without legal, regulatory or operational impediments (i.e., unencumbered) that can be sold or pledged to obtain funds in a range of stress scenarios. These assets will be held as insurance against a range of liquidity stress scenarios, including those that involve the loss or impairment of typically available unsecured and/or secured funding sources.
- ii. The size of the cushion of such high-quality liquid assets will be supported by estimates of liquidity needs performed under the Credit Union's stress testing, as well as aligned with the Credit Union's risk tolerance and risk profile.
 1. Estimates of liquidity needs during periods of stress will incorporate both contractual and non-contractual cash flows, including the possibility of funds being withdrawn. The estimates will also assume the inability to obtain secured funding as well as the loss or impairment of access to funds secured by assets other than the safest, most liquid assets.

4. **ASSET MARKETABILITY.** The ALCO will determine how salable the Credit Union's assets are in terms of

both time and cost. To maximize profitability, the ALCO must carefully weigh the full return on liquid assets (readily marketable assets) against the higher return associated with less liquid assets. Income derived from higher yielding assets may be offset if a forced sale is necessary because of adverse balance sheet fluctuations.

A. **Proper Valuation of Assets.** The ALCO will ensure that assets are properly valued according to relevant financial reporting and supervisory standards. Because valuations may deteriorate under market stress, the ALCO will take this into account in assessing the feasibility and impact of asset sales on the Credit Union's liquidity position during stress events.

5. **LIABILITY MANAGEMENT.** From time to time, liquidity needs may be met by managing the Credit Union's liability structure by attracting rate sensitive borrowers and accessing approved lines of credit.

A. The Credit Union will periodically report, document and analyze its liquidity position in order to anticipate needs and provide considerations for potential solutions.

B. The Credit Union will manage its rate-sensitive and volatile funding sources carefully, avoiding excessive reliance on funds that may be only temporarily available on which may require premium rates to retain.

6. **BUDGETED LIQUIDITY RATIO.** The Board sets a budgeted liquidity ratio. This ratio is subject to change depending on the following:

A. Present and anticipated asset quality;

B. Present and future earnings capacity;

C. Historical funding requirements;

D. Current liquidity position;

E. Sources of funds.

F. Anticipated future funding needs; and

G. Options for reducing funding needs or attracting additional funds.

7. **LIQUIDITY MEASURES.** The ALCO will measure liquidity trends based on the indicators below. These indicators will be periodically reviewed and formally approved. These assessments will include vulnerabilities to events, activities and strategies that can significantly strain the capability to generate internal cash.

A. **Cash Flow Projections.** Cash flow projections that include discrete and cumulative cash flow mismatches or gaps over specified future time horizons (i.e., weekly, monthly, quarterly) under both expected and adverse business conditions.

B. **Short-Term Borrowings to Total Funding.** This ratio looks at the total short-term borrowing as a percentage of total funding.

C. **Short-Term Investments to Total Assets.** The ratio shows how much of the Credit Union's assets can be readily converted into cash. Short-term investments are securities with remaining maturities of 1-year or less.

D. **Short-Term Investments to Volatile Liabilities.** The ratio indicates how much of the Credit Union's

volatile liabilities such as CD's of \$100,000 or more are matched by short-term assets.

E. **Net Loans to Core Deposits.** The ratio shows how much of the loan portfolio is funded by stable deposits. Core deposits are share and passbook deposits and CD's less than \$100,000.

F. **Volatile Liability Dependence.** The ratio shows the degree to which volatile liabilities fund long-term assets. This figure is the result of dividing the difference between volatile liabilities and temporary investments by loans and longer term investments.

G. **Net Loans to Deposits.** The ratio shows how much of the Credit Union's deposits are lent and the Credit Union's ability to fund additional loan volume with these deposits.

H. **Asset Concentrations.** Certain asset concentrations that could increase liquidity risk through a limited ability to convert to cash (e.g., less marketable loan portfolios).

I. **Funding Concentrations.**

i. Funding concentrations that address diversification of funding sources and types, such as large liability and borrowed funds dependency, secured vs. unsecured funding sources, exposures to single providers of funds, exposures to funds providers by market segments, and different types of brokered deposits and wholesale funding.

ii. Funding concentrations that address the term, re-pricing and market characteristics of funding sources, with consideration given to the nature of the assets they fund. This will include diversification targets for short-, medium- and long-term funding, instrument type and securitization vehicles.

8. **STRESS TESTING.** The Credit Union will conduct stress tests on a regular basis for a variety of institution-specific and market-wide events across multiple time horizons.

A. **Sources of Potential Liquidity Strain.** Stress test results will be used to identify and quantify sources of potential liquidity strain and to analyze possible impacts on the Credit Union's cash flows, liquidity position, profitability and solvency.

B. **Exposures.** Stress test results will also be used to ensure that current exposures are consistent with the Credit Union's established liquidity risk tolerance.

C. **Remedial/Mitigating Actions.** Management will take remedial and/or mitigating actions to limit the Credit Union's exposures, build up a liquidity cushion, and adjust its liquidity profile to fit the Credit Union's liquidity risk tolerance.

D. **Contingency Funding.** The results of these tests will play a key role in shaping the Credit Union's contingency planning. The Credit Union's CFP will be regularly tested and updated to ensure that it is operationally sound. Specifically, these tests will ensure the following:

i. Roles and responsibilities are up-to-date and appropriate;

ii. Legal and operational documents are up-to-date;

iii. Cash and collateral can be moved where and when needed; and

iv. Contingent liquidity lines can be drawn when needed.

9. **COLLATERAL POSITION MANAGEMENT.** The Credit Union will calculate all of its collateral positions in a timely manner, including the value of assets currently pledged relative to the amount of security required and unencumbered assets available to be pledged. Management will maintain an understanding of the potential demand on required and available collateral arising from various types of contractual contingencies during periods of both market-wide and Credit Union-specific stress.
10. **INTRADAY LIQUIDITY POSITION MANAGEMENT.** The Credit Union will monitor intraday liquidity to ensure that it is able to meet payment and settlement obligations in a timely manner, under both normal and stressed conditions. Management will develop and monitor the Credit Union's intraday liquidity strategy that allows the Credit Union to do the following:
- A. Monitor and measure expected daily gross liquidity inflows and outflows;
 - B. Manage and mobilize collateral when necessary to obtain intraday credit;
 - C. Identify and prioritize time-specific and other critical obligations in order to meet them when expected;
 - D. Settle other less critical obligations as soon as possible;
 - E. Control credit to consumers when necessary; and
 - F. Ensure that liquidity planners understand the amounts of collateral and liquidity needed to perform payment systems obligations when assessing the organization's overall liquidity needs.
11. **DIVERSIFIED FUNDING.** The Credit Union will diversify its funding sources in the short-, medium- and long-term, and will regularly gauge its capacity to raise funds quickly from each source.
- A. **Market Access.** Management will ensure that it maintains market access, as it affects the ability to raise new funds and liquidate assets. Management will also ensure that market access is being actively managed, monitored and tested by the appropriate staff in a way that is consistent with the Credit Union's liquidity risk profile and sources of funding.
 - B. **Types of Funding.** The Credit Union will ensure that it is not overly-concentrated on any one source of funding. Depending on the nature, severity and duration of a liquidity shock, potential sources of funding include, but are not limited to, the following:
 - i. Deposit growth.
 - ii. Lengthening maturities of liabilities.
 - iii. Issuance of debt instruments.
 - iv. Sale of subsidiaries or lines of business.
 - v. Asset securitization.
 - vi. Sale (either outright or through repurchase agreements) or pledging of liquid assets.
 - vii. Drawing-down committed facilities.

viii. Borrowing.

12. CONTINGENCY FUNDING PLAN (CFP).

A. **Liquidity Management.** Management will maintain liquidity sources sufficient to meet normal operating requirements as well as contingent events.

B. **Triggering Events.** Management will monitor potential liquidity stress events that could trigger the need for contingency funding, which may include the following:

- i. Changes in agency credit ratings;
- ii. PCA capital categories and CAMEL ratings downgrades;
- iii. Widening of credit default spreads;
- iv. Operating losses;
- v. The Credit Union's inability to fund asset growth;
- vi. The Credit Union's inability to renew or replace maturing funding liabilities;
- vii. Members unexpectedly exercising options to withdraw deposits or exercise off-balance-sheet commitments;
- viii. Changes in market value and price volatility of various asset types;
- ix. Changes in economic conditions, market perception, or dislocations in the financial markets; and/or
- x. Disturbances in payment and settlement systems due to operational or local disasters.

C. **Managing Stress Events.** Management will employ contingency planning to:

- i. Identify stress events that could affect the Credit Union;
- ii. Identify the likely liquidity responses to such events; and
- iii. Plan for the management of stress events.

D. **Sources of Contingency Funds.** The Board may access any of the following sources of funds whenever prudent:

- i. Regular membership with the Central Liquidity Facility or documented borrowing access to the Federal Discount Window (required if the credit union has assets of \$250 million or more).
- ii. Established Lines of Credit. The Board has approved borrowing amounts at the following institution(s): [5200-1];
- iii. Secondary Market Loan Sales;

iv. Short-term Investment Sales; and/or

v. Loan Participation Agreements.

E. **Procedures.** Management will develop sound procedures for liquidity crisis management to include the following:

i. Designating who executes the CFP;

ii. Designating who determines the amount to borrow;

iii. Designating who contacts large depositors and assures them that the situation is under control;

iv. Making the distinction between a minor liquidity crunch from an actual liquidity crisis;

v. Outlining the various stages and levels of severity (i.e., temporary vs. intermediate and long-term disruptions), and designing action plans for each state and level of severity; and

vi. Ensuring frequent communication and reporting among the designated crisis team members.

F. **Capital Considerations.** The Credit Union will prepare itself for the specific contingencies that would be applicable in the event the Credit Union becomes less than “well capitalized” pursuant to Prompt Corrective Action (PCA), such as restricted rates paid for deposits, the need to seek approval from NCUA to accept brokered deposits, and/or the inability to accept any brokered deposits.

G. **Communication Plan.**

i. **Marketing.** When liquidity approaches risk limits, the Credit Union will consider updating its marketing program to initiate appropriate changes to share and loan programs (i.e., pricing, terms, products, etc.).

ii. **Media.** The Credit Union will have a media plan for how to manage press inquiries that may arise during a liquidity event.

13. **INTERNAL CONTROLS.** Management will ensure that an independent party regularly reviews and evaluates the various components of the Credit Union’s liquidity risk management process and Contingency Funding Plan. These reviews will be designed to assess the extent to which the Credit Union’s liquidity risk management complies with both supervisory guidance and industry sound practices. Management will provide a report of the key issues requiring attention including instances of noncompliance and address the issues for prompt corrective action consistent with approved policy.

Policy 5205: Small Asset Liquidity Risk Management

Revised Date: 03/29/2014

Model Policy Published Date: 03/29/2014

General Policy Statement:

The Board adopts the following liquidity management policy to better accommodate decreases in [CUname]'s (Credit Union) deposits and fund increases in loans. The Board realizes that the credit union must remain resilient in times of economic stress and funds must be available at reasonable prices relative to competitors, and in maturities required to support prudently medium to longer term assets. Further, the Board acknowledges that liquidity is essential to compensate for expected and unexpected balance sheet fluctuations and to provide funds for growth.

Liquidity is the Credit Union's capacity to meet its cash and collateral obligations at a reasonable cost. Maintaining an adequate level of liquidity depends on the Credit Union's ability to efficiently meet both expected and unexpected cash flows and collateral needs without adversely affecting either daily operations or the financial condition of the Credit Union.

Liquidity risk is the risk that the Credit Union's financial condition or overall safety and soundness is adversely affected by an inability (or perceived inability) to meet its obligations.

Guidelines:

1. **LIQUIDITY RISK MANAGEMENT.** The Credit Union's liquidity risk management will be sufficient to meet its daily funding needs, and cover both expected and unexpected deviations from normal operations. The critical elements of the Credit Union's liquidity risk management include the following:
 - A. Effective governance consisting of Board oversight and active involvement by management (See Section (2)).
 - B. Appropriate management and mitigation of liquidity risk.
 - C. Comprehensive liquidity risk measurement and monitoring systems (including assessments of the current and prospective cash flows or sources and uses of funds), that are in line with the Credit Union's complexity and business activities (See Section (7)).
 - D. Active management of intraday liquidity and collateral (See Sections (9) and (10)).
 - E. An appropriate diverse mix of existing and potential future funding sources (See Section (11)).
 - F. Adequate levels of highly liquid marketable securities free of legal, regulatory or operational impediments that can be used to meet liquidity needs in stressful situations (See Section (3)).
 - G. A Contingency Funding Plan that sufficiently addresses potential adverse liquidity events and emergency cash flow requirements (See Sections (8) and (12)).
 - H. Internal controls and audit processes sufficient to determine the adequacy of the Credit Union's liquidity risk management process (see Section (13)).

2. RESPONSIBILITIES.

A. Board of Directors. The Board is ultimately responsible for the liquidity risk assumed by the Credit Union. As a result, the Board will ensure the Credit Union's liquidity risk tolerance is established and communicated in such a manner that all levels of management clearly understand the Credit Union's approach to managing the trade-offs between liquidity risk and short-term profits. The Board is also responsible for the following duties:

- i. Understanding the nature of the Credit Union's liquidity risks and periodically reviewing information necessary to maintain this understanding;
- ii. Establishing executive-level lines of authority and responsibility for managing the Credit Union's liquidity risk;
- iii. Enforcing management's duties to identify, measure, monitor and control liquidity risk;
- iv. Understanding and periodically reviewing the Credit Union's contingency funding plans (CFPs) for handling potential adverse liquidity events; and
- v. Understanding the liquidity risk profiles of important affiliates as appropriate.

B. Management. Management is responsible for the following duties:

- i. Ensuring that Board-approved strategies, policies and procedures for managing liquidity (on both a long-term and day-to-day basis) are appropriately executed within the lines of authority and responsibly delegated for managing and controlling liquidity risk. This includes:
 1. Overseeing the development and implementation of appropriate risk measurement and reporting systems, liquid buffers (e.g., cash, unencumbered market securities and market instruments), CFPs, and an adequate internal control structure; and
 2. Regularly reporting the Credit Union's liquidity risk profile to the Board;
- ii. Determining the structure, responsibilities and controls for managing liquidity risk and overseeing the Credit Union's liquidity positions;
- iii. Coordinating the Credit Union's liquidity risk management with its disaster recovery, contingency and strategic planning efforts, as well as with business line and risk management objectives, strategies and tactics;
- iv. Considering the liquidity costs, benefits and risks in the strategic planning and budgeting processes. Management will evaluate significant business activities for both liquidity risk exposure and profitability; and
- v. Developing and managing the Credit Union's intraday liquidity strategy.

3. ASSET MANAGEMENT. Liquidity needs will be met by managing the Credit Union's asset structure through the sale or planned runoff of readily marketable assets. Because the Credit Union tends to have little influence over the size of total deposits, the Credit Union will primarily rely on liquid assets to fund increases in loan demand and concentrate on adjusting the price and availability of credit and the level of liquid assets held in response to changes in member asset and liability preferences.

A. Liquidity Requirements. The amount of liquid assets the Credit Union will hold depends on the stability of its deposit structure and the potential for rapid loan portfolio expansion. Generally, where the Credit Union's deposit accounts are composed primarily of small stable accounts, a relatively low allowance of liquidity will be required. A higher allowance for liquidity is required when:

- i. Recent trends show substantial reduction in large accounts;
- ii. A substantial portion of the loan portfolio consists of large static loans with little likelihood of reduction;
- iii. Large unused lines of credit or commitments to lend are expected to be used immediately;
- iv. Concentration of credits have been extended to an industry with present or anticipated financial problems; and
- v. Strong relationships exist between member share and draft accounts and principal employers in the trade area who have financial problems.

B. Liquidity Cushion.

- i. Management will ensure that it has a cushion of highly liquid assets without legal, regulatory or operational impediments (i.e., unencumbered) that can be sold or pledged to obtain funds in a range of stress scenarios. These assets will be held as insurance against a range of liquidity stress scenarios, including those that involve the loss or impairment of typically available unsecured and/or secured funding sources.
- ii. The size of the cushion of such high-quality liquid assets will be supported by estimates of liquidity needs performed under the Credit Union's stress testing, as well as aligned with the Credit Union's risk tolerance and risk profile.

4. ASSET MARKETABILITY. When determining asset marketability the Credit Union Management will determine how salable the Credit Union's assets are in terms of both time and cost. To maximize profitability the full return on liquid assets (readily marketable assets) against the higher return associated with less liquid assets will be carefully weighed. Income derived from higher yielding assets may be offset if a forced sale is necessary because of adverse balance sheet fluctuations.

A. Proper Valuation of Assets. Management will ensure that assets are properly valued according to relevant financial reporting and supervisory standards. Because valuations may deteriorate under market stress, this will be taken into account in assessing the feasibility and impact of asset sales on the Credit Union's liquidity position during stress events.

5. LIABILITY MANAGEMENT. From time to time, liquidity needs may be met by managing the Credit Union's liability structure by attracting rate sensitive borrowers and accessing approved lines of credit.

A. The Credit Union will periodically report, document and analyze its liquidity position in order to anticipate needs and provide considerations for potential solutions.

B. The Credit Union will manage its rate-sensitive and volatile funding sources carefully, avoiding excessive reliance on funds that may be only temporarily available on which may require premium rates to retain.

6. BUDGETED LIQUIDITY RATIO. The Board sets a budgeted liquidity ratio. This ratio is subject to change

depending on the following:

- A. Present and anticipated asset quality;
- B. Present and future earnings capacity;
- C. Historical funding requirements;
- D. Current liquidity position;
- E. Sources of funds.
- F. Anticipated future funding needs; and
- G. Options for reducing funding needs or attracting additional funds.

7. **LIQUIDITY MEASURES.** Management will measure liquidity trends based on the indicators below. These indicators will be periodically reviewed and formally approved. These assessments will include vulnerabilities to events, activities and strategies that can significantly strain the capability to generate internal cash.

- A. **Cash Flow Projections.** Cash flow projections that include discrete and cumulative cash flow mismatches or gaps over specified future time horizons (i.e., weekly, monthly, quarterly) under both expected and adverse business conditions.
- B. **Short-Term Borrowings to Total Funding.** This ratio looks at the total short-term borrowing as a percentage of total funding.
- C. **Short-Term Investments to Total Assets.** The ratio shows how much of the Credit Union's assets can be readily converted into cash. Short-term investments are securities with remaining maturities of 1-year or less.
- D. **Short-Term Investments to Volatile Liabilities.** The ratio indicates how much of the Credit Union's volatile liabilities such as CD's of \$100,000 or more are matched by short-term assets.
- E. **Net Loans to Core Deposits.** The ratio shows how much of the loan portfolio is funded by stable deposits. Core deposits are share and passbook deposits and CD's less than \$100,000.
- F. **Volatile Liability Dependence.** The ratio shows the degree to which volatile liabilities fund long-term assets. This figure is the result of dividing the difference between volatile liabilities and temporary investments by loans and longer term investments.
- G. **Net Loans to Deposits.** The ratio shows how much of the Credit Union's deposits are lent and the Credit Union's ability to fund additional loan volume with these deposits.
- H. **Asset Concentrations.** Certain asset concentrations that could increase liquidity risk through a limited ability to convert to cash (e.g., less marketable loan portfolios).
- I. **Funding Concentrations.**
 - i. Funding concentrations that address diversification of funding sources and types, such as large liability and borrowed funds dependency, secured vs. unsecured funding sources, exposures to

single providers of funds, exposures to funds providers by market segments, and different types of brokered deposits and wholesale funding.

- ii. Funding concentrations that address the term, re-pricing and market characteristics of funding sources, with consideration given to the nature of the assets they fund. This will include diversification targets for short-, medium- and long-term funding, instrument type and securitization vehicles.

8. **STRESS TESTING.** The Credit Union will conduct stress tests on a periodic basis for a variety of institution-specific and market-wide events across multiple time horizons.

A. **Sources of Potential Liquidity Strain.** Stress test results will be used to identify and quantify sources of potential liquidity strain and to analyze possible impacts on the Credit Union's cash flows, liquidity position, profitability and solvency.

B. **Exposures.** Stress test results will also be used to ensure that current exposures are consistent with the Credit Union's established liquidity risk tolerance.

C. **Remedial/Mitigating Actions.** Management will take remedial and/or mitigating actions to limit the Credit Union's exposures, build up a liquidity cushion, and adjust its liquidity profile to fit the Credit Union's liquidity risk tolerance.

D. **Contingency Funding.** The results of these tests will play a key role in shaping the Credit Union's contingency planning. The Credit Union's CFP will be regularly tested and updated to ensure that it is operationally sound. Specifically, these tests will ensure the following:

- i. Roles and responsibilities are up-to-date and appropriate;
- ii. Legal and operational documents are up-to-date;
- iii. Cash and collateral can be moved where and when needed; and
- iv. Contingent liquidity lines can be drawn when needed.

9. **COLLATERAL POSITION MANAGEMENT.** The Credit Union will calculate all of its collateral positions in a timely manner, including the value of assets currently pledged relative to the amount of security required and unencumbered assets available to be pledged. Management will maintain an understanding of the potential demand on required and available collateral arising from various types of contractual contingencies during periods of both market-wide and Credit Union-specific stress.

10. **INTRADAY LIQUIDITY POSITION MANAGEMENT.** The Credit Union will monitor intraday liquidity to ensure that it is able to meet payment and settlement obligations in a timely manner, under both normal and stressed conditions. Management will develop and monitor the Credit Union's intraday liquidity strategy that allows the Credit Union to do the following:

- A. Monitor and measure expected daily gross liquidity inflows and outflows;
- B. Manage and mobilize collateral when necessary to obtain intraday credit;
- C. Identify and prioritize time-specific and other critical obligations in order to meet them when expected;

D. Settle other less critical obligations as soon as possible;

E. Control credit to consumers when necessary; and

F. Ensure that liquidity planners understand the amounts of collateral and liquidity needed to perform payment systems obligations when assessing the organization's overall liquidity needs.

11. **DIVERSIFIED FUNDING.** The Credit Union will diversify its funding sources in the short-, medium- and long-term, and will periodically gauge its capacity to raise funds quickly from each source.

A. **Market Access.** Management will ensure that it maintains market access, as it affects the ability to raise new funds and liquidate assets. Management will also ensure that market access is being actively managed, monitored and tested by the appropriate staff in a way that is consistent with the Credit Union's liquidity risk profile and sources of funding.

B. **Types of Funding.** The Credit Union will ensure that it is not overly-concentrated on any one source of funding. Depending on the nature, severity and duration of a liquidity shock, potential sources of funding include, but are not limited to, the following:

i. Deposit growth.

ii. Lengthening maturities of liabilities.

iii. Issuance of debt instruments.

iv. Sale of subsidiaries or lines of business.

v. Asset securitization.

vi. Sale (either outright or through repurchase agreements) or pledging of liquid assets.

vii. Drawing-down committed facilities.

viii. Borrowing.

12. **INTERNAL CONTROLS.** Management will ensure that an independent party regularly reviews and evaluates the various components of the Credit Union's liquidity risk management process and Contingency Funding Plan. These reviews will be designed to assess the extent to which the Credit Union's liquidity risk management complies with both supervisory guidance and industry sound practices. Management will provide a report of the key issues requiring attention including instances of noncompliance and address the issues for prompt corrective action consistent with approved policy.

Policy 5300: Interest Rate Risk Management

Revised Date: 08/01/2012

Model Policy Revised Date: 08/01/2012

General Policy Statement:

Interest rate risk (IRR) results from the possibility that market interest rates may change. The Board of Directors acknowledges that [CUname] (Credit Union) assumes an inevitable amount of IRR during the ordinary course of business. Because interest rate changes may impact earnings and capital adversely, the Credit Union adopts an aggressive IRR management policy. The policy strives to identify the Credit Union's sources of interest rate exposure and to design systems that adequately measure, monitor, and control those exposures.

Guidelines:

1. **BOARD RESPONSIBILITIES.** The Board of Directors is ultimately responsible for the risks undertaken by the Credit Union, including IRR. The Board will oversee the establishment, approval, implementation, and annual review of IRR management strategies, policies, procedures and limits (or risk tolerance). The Board must annually assess whether the Credit Union's IRR profile sufficiently identifies, measures, monitors, and controls the Credit Union's IRR exposure.
2. **SENIOR MANAGEMENT RESPONSIBILITIES.** Credit Union senior management is responsible for the following:
 - A. Ensuring that Board-approved strategies, policies and procedures for managing IRR are appropriately executed within the designated lines of authority and responsibility;
 - B. Working within Board-approved IRR tolerances;
 - C. Maintaining comprehensive systems and standards for measuring IRR, valuing positions, and assessing performance, including procedures for updating IRR measurement scenarios and key underlying assumptions driving the Credit Union's IRR analysis;
 - D. Establishing an appropriate system of internal controls (e.g., separation between risk taker and IRR measurement staff);
 - E. Allocating sufficient resources for an effective IRR program;
 - F. Developing and supporting competent staff with technical expertise commensurate with the IRR program;
 - G. Maintaining sufficiently detailed reporting processes to inform the Board of the level of IRR exposure. These reports will provide aggregate information and supporting detail that is sufficient to enable the Board to assess the sensitivity of the Credit Union to changes in the market rates and important assumptions underlying the metrics used; and
 - H. Assigning the Asset/Liability Committee (ALCO) with the task of monitoring, and ensuring the committee actively monitors, the IRR profile and has sufficiently broad representation across major functions that can directly or indirectly influence the Credit Union's IRR exposure (e.g., lending, investment securities, wholesale and retail funding).

- I. Reviewing the policy on an annual basis to determine whether it is still commensurate with the size, complexity and risk profile of the Credit Union.

3. **IDENTIFICATION OF INTEREST RATE RISK.** The Credit Union has identified the following sources of interest rate risk: .

- A. **Interest Rate Risk.** IRR is the risk that changes in market rates will adversely affect the Credit Union's net economic value and/or earnings. IRR generally arises from a mismatch between the timing of cash flows from fixed rate instruments, and interest rate resets of variable rate instruments, on either side of the balance sheet. Thus, as interest rates change, earnings or net economic value may decline.
- B. **Reinvestment Risk.** Reinvestment Risk results from the uncertainty of future interest rates at which the Credit Union can reinvest its cash flows from maturing assets and the periodic interest payments received on earning assets. On the other side of the balance sheet, the fact that the Credit Union cannot foresee the rates it will have to pay to renew maturing liabilities creates Reinvestment Risk.
- C. **Basis Risk.** Basis Risk arises from the fact that over the course of the interest rate cycle the market rates or various indices used to price assets and liabilities do not change at precisely the same time or in the same magnitude. This results in individual yield curves that do not move concurrently or in a parallel fashion. Basis Risk can cause the Credit Union's interest margin to contract or widen. For example, the rates earned on certain loans may be tied to a financial institution's prime rate and funded with liabilities that are priced off the Treasury or secondary market CD yield curves. Typically, when interest rates move, these individual pricing indices will not change at the same time or in the same proportion. This could adversely impact net interest income.
- D. **Yield Curve Risk.** Yield Curve Risk is the risk that arises from variation in the movement of interest rates across the maturity spectrum. Yield Curve Risk differs from Basis Risk in that it refers to changes in the relationships between spot interest rates of different maturities of the same index or market; i.e., the differences between the two and ten year Treasury rates. These relationships often vary since the shape of the yield curve for a specific instrument can change dramatically during the course of an interest rate cycle by becoming steeper, flatter, or negatively sloped.
- E. **Option Risk.** Option Risk refers to the changes in earnings that can result if members exercise their options against the Credit Union. Member options may be explicit or embedded in the balance sheet. Explicit options give the holder the right to buy or sell a financial instrument at a specified price within a specified period of time. Embedded options are implied options such as the member's right to prepay a loan without a penalty or a member's option to withdraw funds early from a time deposit account.

Typically, members exercise these options in response to interest rate changes at a time when it is profitable for them, not the Credit Union. For example, when interest rates decline, mortgage borrowers are likely to exercise their option to prepay their old higher rate loans. If members refinance their mortgages elsewhere or switch to mortgage products with a shorter maturity, these prepayments could shorten the average life of the loan portfolio and impact income. Conversely, when interest rates rise, fewer loan members will prepay their lower rate loans. A decline in prepayments lengthens the average maturity of the Credit Union's loans.
- F. **Spread Risk.** Spread Risk is the risk to earnings and/or value resulting from variations through time of the spread between assets or liabilities to an underlying index such as the Treasury curve

4. **INTEREST RATE RISK MEASUREMENT.** For fixed-rate assets, the Credit Union will use its latest Call Report filing information to measure the amount of net interest income at risk over future periods and/or net economic value presently at risk, using one or more of the following methods:

A. **GAP:** A re-pricing GAP measures the mismatch between the amount of assets and liabilities re-pricing within a defined time period.

B. **Income Simulation:** This model simulates the impact on net interest income resulting from (positive and negative) changes in interest rates of 200, 300 and 400 basis points. The Credit Union will use such a “rate shock” model to measure the effect on earnings. IRR exposures will be projected over at least a two-year period. The Credit Union will use both static and dynamic simulations in order to provide the ALCO and senior management a complete and comparative description of the Credit Union’s IRR exposure. The stress test scenarios will include the following:

i. Instantaneous and significant changes in the level of interest rates (instantaneous rate shocks);

ii. Substantial changes in rates over time (prolonged rate shocks);

iii. Changes in the relationships between key market rates (i.e., basis risk); and

iv. Changes in the slope and the shape of the yield curve (i.e., yield curve risk).

C. **Net Asset Valuation Tables.** Net Asset Valuation Tables are prepared and made available each quarter by NCUA. These measures provide an indication of a given credit union’s potential IRR, based on the risk associated with the asset categories of greatest concern (e.g., mortgage loans and investment securities). The tables provide a simple measure of the potential devaluation of a given credit union’s mortgage loans and investment securities that occur during ± 300 basis point parallel rate shocks, and report the resulting impact on net worth

D. **Net Economic Value (NEV):** NEV measures the effect of interest rate risk on capital. NEV estimates the balance sheet’s future earnings capacity, and provides an analysis of option risk. The Credit Union will use the NEV to reduce the volatility of earnings and net worth. To determine the NEV, the Credit Union will subtract the present value of liabilities from the present value of assets. The Credit Union will compute the value of capital under current interest rates (no rate change) and then under a “shocked” interest rate scenario. The variance between these two NEV calculations represents the potential impact on capital if rates were to change.

E. **Assumptions.** The Credit Union will regularly assess the reasonableness of assumptions that underlie the Credit Union’s IRR exposure estimates. The Credit Union will document, monitor and regularly update key assumptions used in IRR measurement models. At a minimum, the Credit Union will ensure the reasonableness of asset prepayments, non-maturity deposit price sensitivity and decay rates, and key rate drivers for each interest rate shock scenario. The Credit Union will test the key assumptions that exert the greatest impact on measurement results as frequently as needed to obtain the fullest awareness of the Credit Union’s IRR exposure.

F. **New Strategies and Products.** Before implementing new strategies or products, the Credit Union will measure the potential exposure to the Credit Union’s IRR as an essential part of the due diligence process. In some cases, it may be appropriate to use alternative means of measuring risk in such new strategies or products, where the alternative output is then incorporated into the primarily model results.

G. **Chart of Accounts.** When using an IRR measurement method, the Credit Union will define a sufficient

number of accounts to capture key IRR characteristics inherent in their product lines. For example, adjustable-rate mortgages will be broken down by periodic and lifetime caps and floors, the reset frequency, and the rate index used for rate resets. Fixed-rate mortgages will be broken down by original term (e.g., 15 years vs. 30 years) to reflect differences in prepayment behaviors.

H. **Aggregation of Data Input.** As the Credit Union's complexity, risk exposure, and size increases, the degree of detail will be based on data that is increasingly disaggregated. Because imprecision in the measurement process can materially misstate risk levels, management will evaluate the potential loss of precision from any aggregation and simplification used in its measurement of IRR.

I. **Account Attributes.** The Credit Union will measure IRR by account attributes that define products, including: principal type, rate type, rate index, re-pricing interval, new volume maturity distribution, accounting accrual basis, prepayment driver, and discount rate

5. **RISK LIMITS.** The Credit Union's Board of Directors approves the following risk limits, in relation to the Credit Union's capital position, under which management is expected to operate:

A. One-Year GAP Limit: [5300-1]

B. Earnings-at-Risk Limit: [5300-2]

C. Capital-at-Risk Limit: [5300-3]

D. In the event the IRR exposure exceeds or approaches these limits, the Credit Union will mitigate its risk through balance sheet alteration and/or hedging.

i. **Balance Sheet Alteration.** This will involve the achievement of an appropriate distribution of asset maturities or re-pricing structures, with the maturity or re-pricing mix of liabilities that will avoid the potential for severe maturity or duration mismatches between assets and liabilities.

ii. **Hedging Strategies.** Hedging strategies will be designed to limit downside earnings exposure or manage income or economic value of equity (EVE) volatility. The Board and senior management will approve and understand the Credit Union's hedging strategy when using derivative instruments to mitigate IRR exposures, including the potential risks and benefits of the strategy.

E. **Policy Exceptions.** Exceptions to policies will be viewed by the Board with an eye toward whether the Credit Union's IRR tolerances would remain at acceptable levels.

6. **MANAGEMENT SYSTEMS.** The Credit Union management systems will carefully monitor its interest rate exposure limits by considering the impact of future interest rate changes on earnings as well as the economic values of capital. As part of its monitoring process, Management will present the following reports to the Board on a monthly basis:

A. **Interest Rate Risk Exposure Reports.** Reports assessing the Credit Union's exposure to interest rate risk given the investment portfolio, maturing liabilities, and economic trends.

B. **GAP Management Report.** The GAP report measures risk to net interest income arising from current positioned assets, liabilities and off-balance sheet contracts carried at historic cost. In compiling the report, the Credit Union categorizes current and contracted positions by respective re-pricing date and calculates the difference between assets and liabilities or the "gap" for each category over a two-year time

horizon.

C. **EAR Management Report.** Since GAP limits by themselves do not directly identify earnings exposure, the Credit Union translates its GAP report into an Earnings at Risk report ("EAR") that allows management to focus attention on the variation in net interest income. The report estimates the impact on net interest margin given a change in interest rates and current asset liability positions. The report also allows the Credit Union to project how changes in interest margin will affect capital.

D. **Simulation Models and Market Value Sensitivity Programs.** The Board of Directors recognizes that GAP and ERA reports primarily focus on re-pricing risk and afford little assistance in the assessment of reinvestment, basis, yield curve, and option risk. Thus, the Board may periodically review performance interest rate risk management and implement additional systems such as simulation models and market value sensitivity programs when the need justifies the cost.

i. When creating a model or evaluating a third-party model, Management will thoroughly assess the model's ability to reasonably capture the Credit Union's risks. Management will reevaluate the model's appropriateness as risk positions, strategies and activities change.

ii. When reviewing model options, Management will, at a minimum, consider the following:

1. The ability to reasonably model the Credit Union's current and planned on- and off-balance sheet product types (on both income and capital valuation methods). Material positions in highly structured instruments or Credit Union-specific products will be key considerations. The model selected will support the level of data aggregation and stratification necessary to properly measure the types of products.
2. The extent to which the model uses automated processes compared with manual procedures. Management will consider whether the model has automated interfaces with Credit Union source systems. Management will also consider the cost, hardware and software requirements, staff resources, and expertise needed to run the model and integrate any separate (manual) add-ons.
3. The level of model transparency and the adequacy and comprehensiveness of vendor model validations and internal control reviews.
4. The level of vendor implementation and ongoing support received, including available training from the vendor.

iii. Management will also ensure contingency plans for when lapses in vendor support occur.

7. INTERNAL CONTROLS, VALIDATION AND REVIEW.

A. **Internal Controls.** The Credit Union's internal control structure is designed to ensure the integrity of all elements of the Credit Union's IRR management process. These internal controls will promote effective and efficient operations, reliable financial and regulatory reporting, and compliance with relevant laws, regulations and institution policies.

i. **Separation of Risk Takers from those Measuring Risk.** Whenever possible, the Credit Union will ensure a separation between those taking risks and those measuring them.

B. **Validation.** The Credit Union will validate its IRR models by obtaining an independent review of the

models' logical and conceptual soundness. The scope of this review will include assessing the Credit Union's measurement of IRR, including the reasonableness of assumptions, the process used in determining assumptions, and the back-testing of assumptions and results. The results will be made available to the relevant supervisory authorities. Management will ensure the implementation of follow-up procedures to monitor necessary corrective actions.

C. **Review.** Staff responsible for maintaining controls will periodically assess the overall IRR program as well as compliance with policy. This review will include policy compliance, timeliness, and accuracy of reports given to management and the Board. Audit findings will be reported to the Board with recommended corrected actions and timeframes.

D. **Response.** When the Credit Union's IRR measurement systems show a high level of IRR or when measurement results approach board-approved limits, the Credit Union will make operational decisions, such as changing balance sheet structure, funding, pricing strategies, and business planning. Management will also use the results to adjust asset liability management (ALM) for changes in interest rate environments

8. **MONITORING.** In addition to the independent review of the Credit Union's measurement of IRR, the Credit Union's Supervisory Committee will conduct periodic independent reviews of the interest rate risk management process to ensure the adequacy of the Credit Union's policies and compliance with policy limits. IRR calculation techniques, measures and tests will be sufficiently rigorous to capture risk.

A. Changes to assumptions based on observed information will be documented.

B. Special attention will be paid to positions with uncertain maturities, rates and cash flows, such as non-maturity shares, fixed rate mortgages where prepayments may vary, adjustable rate mortgages, and instruments with embedded options, such as calls.

Policy 5400: Capital Management

Revised Date: 06/29/2016

Model Policy Revised Date: 06/29/2016

General Policy Statement:

[CUNAME] (Credit Union) is committed to accumulating and maintaining sufficient capital to ensure safe and sound operations and to facilitate growth in accordance with the Strategic Plan. The Credit Union will carefully consider the interests of current members versus future members when establishing capital targets.

In recognition of federal regulations and applicable state laws governing minimum capital levels, it is the intent of the Credit Union to be "Well Capitalized" according to regulatory guidelines. The Board and Management of the Credit Union will ensure that strategic plans, business plans, and operating budgets support the capital targets established in this policy.

Guidelines:

1. **MINIMUM CAPITAL REQUIREMENTS.** The Federal Credit Union Act establishes the following designations for capital adequacy for Credit Unions not designated as "complex":

A. Well Capitalized	7.00% or above
B. Adequately Capitalized	6.00% to 6.99%
C. Undercapitalized	4.00% to 5.99%
D. Significantly Undercapitalized	2.00% to 3.99%
E. Critically Undercapitalized	Less than 2%

A "complex" Credit Union must meet its risk based net worth requirement ("RBNW") in order to be considered "Well Capitalized." A Credit Union is "complex" if its assets exceed \$50,000,000 and its RBNW requirement, calculated in accordance with NCUA Regulations Part 702, exceeds 6.00%.

The Act requires prompt corrective action (PCA) in the form of required transfers to reserves for Credit Unions not classified as "Well Capitalized," and permits the NCUA to take more drastic corrective action for Credit Unions not classified as "Adequately Capitalized."

2. **CALCULATING THE RBNW REQUIREMENT.** A Credit Union's RBNW requirement is calculated by applying increased risk weighting to the following categories of assets:

- A. Long term real estate loans (fixed rate or variable with repricing at less than 5 years) exceeding 25% of assets (14% risk weight)
- B. Member business loans exceeding 12.25% of assets (14% risk weight)
- C. Investments over 3 years weighted average life maturity (12% risk weight from 3-10 years, 20% for 20 years and longer)

Investments one year or less are risk-rated at 3%. Low risk assets (as defined in the regulation) are weighted at 0.0%, and all other assets are rated at 6%. The allowance for loan losses receives a full credit (1.0% risk weight) against the RBNW requirement. Thus, a Credit Union with 30% of its assets in long term real estate loans, 15% of assets in member business loans, and 5% of assets in investments over 3 years, “low risk assets” of 5% of assets, and a loan loss reserve equal to 1.5% of assets would calculate its RBNW as follows:

Long term real estate loans:	$5 \times .14 = .70$
MBL over 12.25% of assets:	$2.75 \times .14 = .385$
Investments over 3 years:	$5 \times .12 = .60$
Low risk assets:	$5 \times 0 = 0.0$
Loan Loss Allowance:	$1.5 \times 1 = (1.5)$
Other assets:	$80.75 \times .06 = 4.845$
TOTAL	5.03 %

3. **CALCULATING CAPITAL.** Capital will be calculated and reported at least quarterly. For purposes of calculating capital under this policy, NCUA requires that the following formula shall be used:

$$\frac{\text{Retained Earnings}}{\text{Assets}}$$

Retained earnings are defined as undivided earnings, regular reserves, and any other appropriations designated by management or regulatory authorities. The Allowance For Loan Loss account is NOT included in this calculation.

Assets may be determined according to several options defined in the Act. Management will select the appropriate approach.

4. **CAPITAL TARGET.** The Credit Union establishes the following range as its capital target. This target takes into consideration anticipated growth, complexity of operations, avoidance of regulatory action, and the appropriate allocation of earnings between current members and future members.

A. Capital Target Range: [5400-1] to [5400-2]

5. **MONITORING.** Management will calculate capital adequacy and the RBNW requirement monthly. If the Credit Union’s RBNW requirement exceeds 5.50%,

A. management shall inform the board of directors of the reason why the RBNW has increased, and the board shall consider whether any adjustments to the Credit Union’s asset mix is needed.

6. **REPORTING.**

A. **Reports to Regulators.** The Credit Union shall file its call reports as required by NCUA regulations. If the Credit Union is only required to file call reports semi-annually, the Credit Union shall notify the NCUA [and, for state charter Credit Unions, the applicable state regulator] of any change in the Credit

Union's net worth ratio that places it in a lower net worth category as of the quarters ended March 31 and September 30. This notice shall be provided no later than May 15 or November 15, respectively.

B. **Monthly.** In addition to the regulatory reporting requirements, management will report the results of its capital adequacy and risk-based net worth calculations to the Board of Directors on a monthly basis

Policy 5500: Ownership of Fixed Assets

Revised Date: 03/30/2017

Model Policy Revised Date: 03/30/2017

General Policy Statement:

The Federal Credit Union Act (FCU Act) authorizes an FCU to purchase, hold, and dispose of property necessary or incidental to its operations. The NCUA rules on a Federal Credit Union ownership of fixed assets limits investments in fixed assets; establishes occupancy, planning, and disposal requirements for acquired and abandoned premises; and prohibits certain transactions.

Guidelines:

1. **PREMISES NOT CURRENTLY USED.** If the Credit Union acquires premises for future expansion (including unimproved land or unimproved real property), it must partially occupy each of them within a reasonable period, but no later than six years after the date of acquisition (unless a waiver is sought for an extended period of time, from the NCUA Regional Director).
 - A. Premises are considered partially occupied when at least fifty percent of each premises is used and occupied by the federal credit union (or the federal credit union and a credit union service organization in which the credit union has a controlling interest in accordance with GAAP) on a full-time basis.
 - B. NCUA may waive the partial occupancy requirements.
2. **ABANDONED PREMISES.** A federal credit union must make diligent efforts to dispose of abandoned premises and any other real property it does not intend to use in transacting business.
 - A. The federal credit union must seek fair market value for the property, and record its efforts to dispose of abandoned premises.
 - B. After premises have been abandoned for four years, the federal credit union must publicly advertise the property for sale.
 - C. The federal credit union must complete the sale within five years of abandonment, unless NCUA waives this requirement.
3. **PROHIBITED TRANSACTIONS.** A federal credit union must not acquire or lease for one year or longer, premises from any of the following:
 - A. A member of the federal credit union's board of directors, credit committee, supervisory committee, or senior management, or an immediate family member of such individual (unless NCUA waives this prohibition);
 - B. A corporation in which a member of the federal credit union's board of directors, credit committee, supervisory committee, or senior management, or an immediate family member of such individual, is an officer or director, or has a stock interest of 10% or more (unless NCUA waives this prohibition);
 - C. A partnership, limited liability company, or other entity in which a member of the federal credit union's board of directors, credit committee, supervisory committee, or senior management, or an immediate

family member of such individual, is a general partner, or a limited partner or entity member with an interest of 10 percent or more (unless NCUA waives this prohibition);

D. Employees, if the employee is directly involved in acquiring premises in fixed assets, unless the federal credit union's board of directors determines the employee's involvement is not a conflict of interest; or

E. Business associates or family members not specifically prohibited by this section must be conducted at arm's length and in the interest of the federal credit union.

4. **NCUA WAIVERS.** To seek a waiver, the Credit Union will submit a written request to its Regional NCUA Office and will fully explain why it needs the waiver.

5. **DEFINITIONS.**

A. **Abandoned premises** – means premises previously used to transact credit union business but no longer used for that purpose. It also means premises originally acquired to transact future credit union business but no longer intended for that purpose.

B. **Partially Occupy** – occupation and use, on a full-time basis, of at least fifty-percent of the premises by the federal credit union, or by a combination of the federal credit union and a credit union service organization (CUSO) in which the federal credit union has a controlling interest in accordance with GAAP.

Chapter 6000: Investments

Duly Approved by Credit Union

BOARD OF DIRECTORS

Approval Date:

- [Policy 6100: General Investment Policy](#)
- [Policy 6105: ASC 320 Compliance](#)
- [Policy 6110: Broker-Dealer Relations](#)
- [Policy 6115: Concentration Risk](#)
- [Policy 6120: Investment Accounting](#)
- [Policy 6130: Investment Controls and Monitoring](#)
- [Policy 6150: Safekeeping of Investments](#)
- [Policy 6200: Investment Portfolio](#)
- [Policy 6210: Authorized Investments](#)
- [Policy 6215: Derivative Investments](#)
- [Policy 6220: Non-Deposit Investment Products](#)

Policy 6100: General Investment Policy

Revised Date: 06/17/2013

Model Policy Revised Date: 06/17/2013

General Policy Statement:

[CUNAME]'s (Credit Union) investment policy establishes appropriate parameters within which management can pursue earnings and growth objectives. Specifically, the policy strives to facilitate key asset/liability management goals such as generating optimum levels of quality earnings and maintaining adequate liquidity to meet both predicted and unexpected cash needs.

Guidelines:

1. **INVESTMENT AUTHORITY.** The Board of Directors delegates investment authority to the Credit Union's qualified investment officers. The Board will continue to supervise the Credit Union's investment portfolio notwithstanding this delegation. Investment officer responsibilities include:
 - A. Determination of investable funds;
 - B. Selection of appropriate investments;
 - C. Computation of legal reserve requirements;
 - D. Management of liquidity;
 - E. Management of interest rate risk;
 - F. Management of credit risk, including specifically listing institutions, issuers, and counterparties that may be used, or criteria for their selection, and limits on the amounts that may be invested with each;
 - G. Management of concentration risk, which can result from dealing with a single or related issuers, lack of geographic distribution, holding obligations with similar characteristics like maturities and indexes, holding bonds having the same trustee, and holding securitized loans having the same originator, packager, or guarantor.; Concentrations that exceed 100% of net worth must be monitored carefully, and the board of directors will document an adequate rationale for undertaking that level of risk;
 - H. Investigation of broker-dealers;
 - I. Authorization of payment for purchases;
 - J. Maintenance of investment records;
 - K. Accounting for investments, receipts and disbursements; and
 - L. Ensuring that all investments stay within the prescribed limits (See section (7)).
2. **INVESTMENT OFFICER APPOINTMENT.**
 - A. The Board may appoint one or more investment officers within thirty days after the Credit Union's

Annual Meeting. In the absence of such appointments, the Credit Union President and Vice President will serve as investment officers.

B. Individuals selected as investment officers must be professionally qualified by education and/or experience to:

- i. Exercise their authority in a prudent manner and
- ii. Fully comprehend and assess the risk characteristics (such as interest rate, liquidity, credit, and concentration risk) of investments and investment transactions made under their authority.

C. Only Credit Union officials and employees may be voting members of the Investment Committee.

3. **AUTHORIZED ACTIVITIES.** Investment officers may purchase authorized securities at the market price.

A. All investments should be held to maturity or held available for sale:

- i. **Held-To-Maturity securities:** Debt securities that the credit union has the positive intent and ability to hold to maturity. The credit union reports held-to-maturity securities at amortized cost; and
- ii. **Available-For-Sale securities:** Debt and equity securities not classified as either trading or held-to-maturity securities. Credit unions report available-for-sale securities at fair value through a separate component of equity on the balance sheet, Accumulated Unrealized Gains/Losses on Available-for-Sale Securities.

B. Investment officers may not purchase investments for trading purposes. The Board anticipates a minimum holding period of [6100-1] months. However, investment officers may sell securities whenever prudent funds management so warrants.

4. **CREDIT ANALYSIS.** The Credit Union will perform and document a credit analysis on an investment and the issuing entity before purchasing it, except for investments listed or fully guaranteed as to principal and interest by the U.S. government or its agencies, enterprises, or corporations, or fully insured (including accumulated interest) by the NCUA or the Federal Deposit Insurance Corporation (FDIC). This analysis will be updated at least annually for as long as an investment is held.

A. In evaluating the creditworthiness of a security, a credit union may consider any of the following factors, to the extent appropriate:

- i. Credit spreads (i.e., whether it is possible to demonstrate that a security is subject to a particular amount of credit risk based on the spread between the security's yield and the yield of Treasury or other securities);
- ii. Securities-related research (i.e., whether providers of securities-related research believe the issuer of the security will be able to meet its financial commitments, generally or specifically, with respect to the securities held by the credit union);
- iii. Internal or external credit risk assessments (i.e., whether credit assessments developed internally by the credit union or externally by a credit rating agency, irrespective of its status as an NRSRO, express a view as to a particular security's credit risk);

- iv. Default statistics (i.e., whether providers of credit information relating to securities express a view that specific securities have a probability of default consistent with other securities with a particular amount of credit risk);
- v. Inclusion on an index (i.e., whether a security, or issuer of the security, is included as a component of a recognized index of instruments that are subject to a specific amount of credit risk);
- vi. Priorities and enhancements (i.e., the extent to which a security is covered by credit enhancements, such as overcollateralization and reserve accounts);
- vii. Price, yield, and/or volume (i.e., whether the price and yield of a security are consistent with other securities that the credit union has determined are subject to a particular amount of credit risk and whether the price resulted from active trading); and
- viii. Asset class-specific factors (e.g., in the case of structured finance products, the quality of the underlying assets).

5. **CONFLICTS OF INTEREST.** Credit Union officials, senior management employees, and their immediate family members may not receive anything of value in connection with the Credit Union's investment transactions. This prohibition includes gifts, gratuities, and travel expenses, but excludes compensation as a Credit Union employee.

A. Definitions.

- i. Officials are members of the Board of Directors, Credit Committee, Supervisory Committee, and other committees.
- ii. Senior management employees are the President and Vice-President, the manager and assistant managers, the treasurer and assistant treasurers, and the comptroller.
- iii. Immediate family members are spouses and other family members living in the same household.

B. Other Employees. The prohibition stated above also applies to any other employee, such as an investment officer, if the employee is directly involved in investments, unless the Board of Directors determines that the employee's involvement does not present a conflict of interest. For example, investment officers may not engage in personal securities transactions with those firms with whom the Credit Union purchases and sells securities.

C. Other Transactions Must Be Arms-Length. All transactions with business associates or family members that are not specifically prohibited above must be conducted at arm's length and in the Credit Union's best interest.

6. **APPROVING ISSUERS.** The Credit Union understands that there can be a significant lag time between a credit deterioration and the credit downgrade. However, the Credit Union will use one or more of the following in approving specific issuers:

- A. Financial measures of the issuer's risk and performance using call reports or other financial information;
- B. Determine that the issuer has a very strong capacity to meet its financial commitments; and
- C. Ratio and peer institution analysis.

7. NON-CONFORMING INVESTMENTS.

- A. **Notice to Board.** If an investment officer or other Credit Union employee becomes aware of an investment that fails to conform with either the Board's written investment policy or the NCUA investment requirements, then that officer or employee must notify the Board of the non-conforming investment as soon as possible, but no later than the Board's next regularly scheduled meeting.
- B. **Risk Evaluation Analysis.** The investment officer will perform a risk evaluation analysis to assist the Board in determining whether to hold or sell an investment.
- C. **Action by Board.** The Board must document its action regarding the investment in the minutes of its meeting. This documentation must include a detailed explanation of any decision to not sell an investment that has failed the NCUA investment requirements.
- D. **Monitoring.** The investment officer will continue to monitor the investments that are held. New evaluations will be made every [6100-2] as to whether to continue holding the investment(s).
- E. **Notice to Regional Director.** Within 5 days after the Board's meeting, the Credit Union must notify the appropriate regional officer of an investment that has failed the NCUA investment requirements.

8. DISCRETIONARY CONTROL. Except as set forth below, the Credit Union must retain discretionary control over the purchase and sale of all investments.

- A. **What Constitutes "Delegation" of Discretionary Control.** If the Credit Union is required to authorize a recommended purchase or sale transaction prior to its execution and, in practice, actually reviews such recommendations and authorizes such transactions, then the Credit Union is not deemed to have delegated discretionary control.
- B. **Exception for Certain Investment Advisers.** The Credit Union may delegate discretionary control over the purchase and sale of investments, within established parameters, to a person other than a Credit Union official or employee, provided that the person is an investment adviser registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940 (15 U.S.C. section 80b), and subject to the following criteria:
 - i. In determining whether to transact business with an investment adviser, the Credit Union must analyze the adviser's background and information available from state or federal securities regulators, including any enforcement actions against the adviser or associated personnel.
 - ii. The Credit Union may not compensate such an adviser on a per transaction basis or based on capital gains, capital appreciation, net income, performance relative to an index, or any other incentive basis.
 - iii. The Credit Union cannot direct the holdings under that person's control. Therefore, the Credit Union must classify such holdings as Available-for-Sale. (This policy does not permit investments to be held as Trading Securities.)
 - iv. The Credit Union must obtain a report from its investment adviser, at least monthly, that details the Credit Union's investments under the adviser's control and how those investments are performing.
 - v. The Credit Union's aggregate delegation of discretionary control over the purchase and sale of

investments to such investment advisers is limited to 100% of net worth at the time of delegation.

- a. The Credit Union will adjust the amount of funds held in discretionary control to comply with the 100% net worth cap.
- b. The Board will be notified as soon as possible, but no later than its next regularly scheduled board meeting, of the amount exceeding the net worth cap. The Credit Union will also notify the regional director within 5 days after the board meeting.
- c. When the amount exceeds the net worth cap, the Credit Union will develop a plan to comply with the cap within a reasonable period of time.

Policy 6105: ASC 320 Compliance

Revised Date: 01/01/2013

Model Policy Revised Date: 01/01/2013

General Policy Statement:

All of [CUNAME]'s (Credit Union) investments shall be classified as Held to Maturity (HTM), Trading Securities, or Available for Sale (AFS) at time of acquisition. At each reporting date, the appropriateness of the classification will be reassessed.

In addition, management will maintain a current list of investments falling into each classification. Quarterly, management will also submit a written plan to the Board that identifies specific courses of action for achieving Accounting Standards Codification (ASC) 320, *Investments—Debt and Equity Securities* policy objectives. The Board will review the plan and approve strategies consistent with Asset/Liability Management and Investment Goals. The strategies should identify anticipated holding periods and circumstances that may cause investment officers to sell. The anticipated holding period and circumstances that may trigger sales will dictate how the security is classified.

Guidelines:

1. HTM (HELD TO MATURITY).

- A. Securities will be classified as HTM where the Credit Union has a positive intent and ability to hold the security until its maturity. Securities that will be held for an indefinite period or that do not fall within the safe harbor provisions will be classified as AFS (Available For Sale) or Trading Securities.
- B. HTM are carried at cost.
- C. Safe Harbor Sales.
 - i. Sales within 90-days of maturity.
 - ii. Sales of securities that have had an 85% pay down of principal since the time of purchase.
 - iii. Sales in response to deterioration in the issuer's creditworthiness.
 - iv. Sales in response to regulatory changes.
 - v. Other events that are isolated, nonrecurring, and unusual for the Credit Union that could not have been reasonably anticipated.
- D. The Board delegates authority to management to develop and implement adequate policies and practices for AFS holdings. Specifically, management must design systems for:
 - i. Limiting market risk;
 - ii. Pricing AFS holdings from independent sources;
 - iii. Assigning personal accountability; and

iv. Quantifying, monitoring and projecting market risk as a percentage of capital.

2. **TRADING SECURITIES.**

- A. Securities will be classified as Trading Securities whenever they are purchased with the intent to take gains on short-term price movement. The holding period may be as long as 30-days.
- B. Trading Securities are marked to market daily, weekly, or monthly, depending on price risk, duration, liquidity, and market volatility. Adjustments are made directly to income on a net aggregate basis; i.e., unrealized gains and losses, net of deferred taxes. This means that unrealized gains will offset unrealized losses when calculating the adjustments.
- C. The Credit Union is prohibited from engaging in adjusted trading.

3. **AFS (AVAILABLE FOR SALE).**

- A. All other securities not held to maturity or for trading purposes will be classified as AFS. Securities that may be sold in response to the following will be classified as AFS:
 - i. Needs for liquidity such as deposit withdrawals or increased loan demand;
 - ii. Changes in funding sources and terms;
 - iii. Changes in interest rates and prepayment speeds.
 - iv. Changes in availability of or yield on alternative investments.
- B. AFS assets are marked to market daily, weekly, or monthly, depending on price risk, duration, liquidity, and market volatility. Adjustments will be made to capital.

4. **TRANSFERS.** Transfers between classifications should be rare. Any transfer from the HTM account to another type of account (such as AFS or trading) must be fully explained and approved by the Board.

5. **COMPLIANCE MONITORING.** The Supervisory Committee will track the pattern of sale and purchase activity in the designated HTM account. In addition, the committee will assess the:

- A. Appropriateness of original and subsequent allocations;
- B. Reasonableness and rationale for sales and types of securities acquired as reinvestments.
- C. Ability to hold to maturity.
- D. Degree of compliance with this policy and ASC 320.

Policy 6110: Broker-Dealer Relations

Revised Date: 06/24/2013

Model Policy Revised Date: 06/24/2013

General Policy Statement:

[CUName] (Credit Union) may use a broker-dealer to purchase and sell investments as long as the broker-dealer either is registered with the Securities and Exchange Commission under the Securities Exchange Act of 1934 (15 U.S.C. section 78a) or is a depository institution whose broker-dealer activities are regulated by a federal regulatory agency.

Guidelines:

1. The credit union will use only established, well-capitalized, registered broker-dealers.
2. The credit union will use established, well-capitalized, and reputable national and regional firms.
3. In determining whether to buy or sell investments through a broker-dealer, the investment officers must analyze and annually update the following factors:
 - A. The background of any sales representative with whom the Credit Union is doing business.
 - i. Education (college, training)
 - ii. Experience (work history); and
 - iii. References (a list of clients)
 - B. Information available from state or federal securities regulators and securities industry self-regulatory organizations, such as the Financial Industry Regulatory Authority (FINRA), about any enforcement actions against the broker-dealer, its affiliates, or associated personnel. This information will be reviewed annually.
 - C. Management should regularly review the financial strength of the broker using the broker's latest audited financial statements, paying particular attention to the capital and leverage positions, such as notes payable and securities purchased on margin (see Letter to Credit Unions No. 157.)
 - D. If the broker-dealer is acting as the Credit Union's counterparty, the ability of the broker-dealer and its subsidiaries and affiliates to fulfill commitments, as evidenced by capital strength, liquidity, and operating results. The investment officers should consider current financial data, annual reports, external assessments of credit worthiness, relevant disclosure documents, and other sources of financial information.
 - E. The broker-dealer's general reputation for financial stability and fair and honest dealing, as reported by past or current financial institution customers.
 - F. The likelihood that broker-dealer procedures will ensure possession or control of securities purchased.
4. Presently, the following broker-dealers are approved by the Board: [6110-1]. Investment officers will maintain this list, which will be updated and re-approved by the Board periodically. Investment officers may conduct

transactions with firms not on this list with prior Board approval.

5. The Credit Union will maintain the documentation that the Board used to approve a broker-dealer:

A. As long as the broker-dealer is approved; and

B. Until the documentation has been audited as part of the Credit Union's annual audit and has been examined by NCUA.

Policy 6115: Concentration Risk

Revised Date: 06/17/2013

Model Policy Revised Date: 06/17/2013

General Policy Statement:

[CUNAME]'s (Credit Union) officials and management have a fiduciary responsibility to identify, measure, monitor and control concentration risk. Concentration risk must be managed in conjunction with credit, interest rate and liquidity risks. The policy addresses the Board of Directors philosophy on concentration risk, limits commensurate with net worth levels, and the rationale as to how the limits fit into the overall strategic plan of the credit union.

Guidelines:

The Credit Union is subject to the following requirements:

1. **IDENTIFICATION AND REPORTING OF CONCENTRATION RISK.** Each product or service carries some risk of financial exposure or loss for the credit union.
 - A. **Risk Assessment.** Management will perform a risk assessment, which demonstrates their understanding of the risk of the product, or service, quantifies the potential loss exposure, and documents a rational business decision on the acceptable concentration level based on the analysis.
 - B. **Analysis Techniques.** The larger the concentration level, the more robust and advanced the analysis and risk management techniques should be.
 - C. **Reporting.** Management will perform a risk assessment that quantifies the potential loss exposure at least semiannually. The results of the risk assessment will be reported to the board, along with a rational business recommendation on acceptable changes to concentration levels. The reports should be in a format that clearly indicates changes in concentration risk and is commensurate with the size, complexity, and risk exposure of the credit union. The reports should measure concentration risk against board approved parameters, comment on macro-economic factors that could influence concentration risk (unemployment, foreclosure rate, property values, etc.), and also measure how the risks change over time.
2. **COMPREHENSIVE AND ACCURATE DATA.** Credit union management will maintain comprehensive and accurate data for each risk area. This includes:
 - A. Quality control functions to ensure that data entry and changes are accurate and timely.
 - B. Data processing system capable of warehousing data on various lines of business to properly identify and measure concentration risk.
3. **RISK RATING SYSTEM.** The Credit Union will develop and maintain an effective, accurate, and timely risk rating system to manage concentration risk in the loan portfolio. Risk ratings methodology should be:
 - A. Objective
 - B. Sensitive to changes in borrower and/or loan characteristics
 - C. Documented, and

- D. Validated via an independent review function once development is finalized.
- E. The concentration risk for deposits, interest rate risk, liquidity risk, investments, and critical vendors will be derived from the processes and metrics outlined in the applicable board approved policy that govern each of those areas.
- F. Concentration risk has a substantial influence on credit, strategic, reputation, interest rate, and liquidity risks as all are closely related. Each of these risks impacts net worth and must be supported by a net worth level commensurate with the risk in the balance sheet. The board of directors and senior management must work to manage each of these risk areas simultaneously.
- G. That aggregate holdings of municipal securities that exceed 75 percent of net worth, or the aggregate holdings of municipal securities issued by a single issue that exceed 25 percent of net worth are not allowed

4. **CONCENTRATION LIMITS.** The parameters set by the board should be specific to each portfolio and should include:

- A. Limits on loan types, share types, third party relationship exposure, etc.
- B. Risk limits should correlate to the overall growth objectives, financial targets, and net worth plan.
- C. Should be closely linked to those codified in related policies, including, but not limited to, real estate loan, member business loan, loan participation, asset liability management (ALM), and investment policies.
- D. Concentrations that exceed 100 percent of net worth must be monitored carefully, and the board of directors should document an adequate rationale for undertaking that level of risk.

5. **THIRD PARTY VENDOR OVERSIGHT.** Vendor concentration risk(s) will be managed in accordance with the Third Party Due Diligence and Oversight Policy (see **Policy 2185**). When working with third parties due diligence is essential to ensure the risks are properly identified and managed. Examples of third party services include:

- A. Purchase of participations in loans.
- B. Underwriting, processing and safekeeping member loans.
- C. Purchase of safekeeping investments.
- D. Due diligence reviews will take into account the nature of services, length and depth of expertise exhibited by the vendor, staffing changes, economic and regulatory changes, and risk mitigation strategies associated with vendor oversight.

6. **SCENARIO AND SENSITIVITY ANALYSIS.** Management should routinely perform portfolio-level scenario and sensitivity tests to quantify the impact of changing economic conditions on asset quality, earnings, and net worth. In general, scenario analysis uses the model to predict a possible future outcome given an event or a series of events, while sensitivity analysis tests a model's parameters without relating those changes to an underlying event or real world outcome.

A. **Common Risk Characteristics.** Assets and liabilities can be grouped for analysis by common risk characteristics. Examples of common risk characteristics can include, but are not limited to:

- i. Loan type
- ii. Investment type
- iii. Collateral type
- iv. Geographic area
- v. Individual or associational groups of borrowers, business lines, etc.

B. **Analysis Complexity.** The analyses should be multi-faceted to explore the effect of single and multiple simultaneous negative events on the portfolio. The sophistication of scenario and sensitivity analyses should be consistent with the size, complexity, and risk characteristics of the portfolio as a whole.

C. **Analysis Results.** The outcome of sensitivity analysis is to determine which assumptions have the most impact on the model's results. Management should consider the susceptibility of portfolio segments with common risk characteristics to changing market conditions.

7. **COMPLIANCE STATEMENT.** This policy is intended to comply with all NCUA regulations and guidelines, as well as applicable federal and state laws. Management must implement procedures and controls to effectively adhere to and monitor compliance with established policies and strategies. Both the board and management must periodically review information that identifies and measures the level and nature of concentration risk and implement corrective action should the risk from any one area exceed the board approved tolerance level.

From a reporting perspective, management should demonstrate compliance with every board established policy limit dealing with concentration risk, as well as limits on associated risk such as credit, interest rate and liquidity.

Policy 6120: Investment Accounting

Revised Date: 01/01/2013

Model Policy Revised Date: 01/01/2013

General Policy Statement:

[CUName] (Credit Union) follows the guidelines set forth below in accounting for investments.

Guidelines:

1. **ASC 320 COMPLIANCE.** Investments shall be accounted for in accordance with Generally Accepted Accounting Principles and in particular, Accounting Standards Codification (ASC) 320, *Investments–Debt and Equity Securities*. Investment officers will classify all investments subject to ASC 320 as Hold to Maturity (HTM) or Available for Sale (AFS). This policy does not permit investments to be classified as Trading Securities.

A. **Basic Requirements.** Management will maintain a current list of investments falling into each classification. Management will also submit quarterly a written plan to the Board that identifies specific courses of action for achieving ASC 320 policy objectives. The Board will review the plan and approve those strategies consistent with Asset/Liability Management and Investment Goals. The strategies should identify anticipated holding periods and circumstances that may cause investment officers to sell. The anticipated holding period and circumstances that may trigger sales will dictate how the security is classified. Investment officers will not classify investments as HTM, unless the Credit Union can demonstrate the intent and ability to hold the asset for long-term investment. Transfers out of HTM to AFS categories should be rare because it may result in an adverse classification of all HTM investments.

B. **Additional Requirements.** In addition, management will comply with the ASC 320 requirements (see **Policy 6105**, ASC 320 Compliance).

2. **DISBURSEMENTS.** Investment officers are responsible for authorization of checks and wire transfers necessary to consummate investments transactions. The officers will authorize payment only **after** delivery is confirmed.

3. **RECEIPTS.** Investment officers are responsible for assuring the receipt and proper accounting of funds received from investments, including dividends and sales proceeds.

Policy 6130: Investment Controls and Monitoring

Revised Date: 06/17/2013

Model Policy Revised Date: 06/17/2013

General Policy Statement:

[CUname] (Credit Union) follows the controls and monitoring set forth below to protect its investments.

Guidelines:

1. RISK MANAGEMENT.

- A. **Due Diligence.** The Credit Union will perform adequate due diligence before making any investment. As part of this due diligence, the Credit Union will ensure it understands the fundamental elements of each investment, including the following:
- i. **Basic Nature.** Whether the instrument is a U.S. Treasury bond, Federal Agency Security, Mortgage-Backed Security (MSB), etc.
 - ii. **Federal Guarantees.** Whether the instrument is backed by any government agency which offsets an implicit or explicit federal guarantee.
 - iii. **Collateralization.** Whether the investment is backed by any collateral. If so, what the collateral is and how it affects the price and cash flows of the instrument.
 - iv. **Interest Rate.** The interest rate structure is (i.e., fixed or floating rate). If a floating rate, what the rate is tied to. The Credit Union will understand how the interest rate structure fits within the Credit Union's own strategies.
 - v. **Size.** Whether the size of the specific instrument is significant in relation to the Credit Union's investment portfolio or asset size, and whether the investment size poses any undue risk to the Credit Union.
 - vi. **Maturity.** The maturity of the instrument, and whether it is fixed or the repayment of principal and/or interest varies based on market conditions.
 - vii. **Policy Compliance.** Whether the instrument fits within the Credit Union's investment policies and asset-liability management (ALM) constraints.
- B. **Suitability.** The Credit Union will ensure that its investments fit within the Credit Union's investment policies and business strategies.
- C. **Assessing Risk.** Management will identify the risk in each investment product, quantify the risk, and set appropriate concentration limits based on this analysis. The larger the concentration level, the more robust and advanced the analysis and risk management techniques will be.
- D. **Maintaining Comprehensive and Accurate Data.** Management will emphasize the importance of maintaining comprehensive and accurate data for each investment risk area. This will include a quality control function to ensure that data entry and changes are accurate and timely. For example the Credit

Union will maintain information on the following:

- i. Types of investments;
- ii. Interest rate of each investment;
- iii. Collateral information;
- iv. Market value (original and updated periodically); and
- v. Capacity of the issuer to meet financial commitments for the life of the investment.

2. **CONCENTRATION.** The Credit Union will follow the guidelines of the Concentration Risk Policy (**See Policy 6115**).

A. **Board Responsibilities.** The Board is ultimately responsible for setting the level of concentration risk assumed by the Credit Union. The risk limits will correlate to the Credit Union's overall growth objectives, financial targets, and net worth plan. Concentrations that exceed 100% of net worth will be monitored carefully, and the Board will document an adequate rationale for undertaking that level of risk.

3. **NO STREET STOCK.** All investments shall be issued in the name of the Credit Union. All securities will be safeguarded and properly secured in the Credit Union's vault or held by approved safekeeping agents.

4. **PAYMENT AND DELIVERY.** Investment officers will authorize payment for purchased securities only after receiving delivery. The use of due bills is NOT authorized. Similarly, Investment officers will authorize delivery of securities sold only after receiving payment. Delivery should occur within 30 days from the trade date.

5. **SEGREGATION OF DUTIES.** Management will design procedures that ensure segregation of duties among those who:

- A. Approve, access, or post investment transactions; and
- B. Reconcile investment records.
- C. Where staff size allows, duties of approving, accessing, and posting should also be segregated.

6. **INVESTMENT VALUATION.**

A. Before purchasing or selling a security (except for new issues purchased at par), the Credit Union must obtain either:

- i. Price quotations on the security from at least two broker-dealers; or
- ii. A price quotation on the security from an industry-recognized information provider.

B. At least monthly, the Credit Union must determine the fair value of each security it holds. This may be done by obtaining a price quotation on the security from an industry-recognized information provider, a broker-dealer, or a safekeeper.

C. When the Credit Union is unable to obtain the price quotation described above for the precise security

being valued, it may obtain a quotation for a security with substantially similar characteristics.

7. INVESTMENT DOCUMENTATION. The investment officers will document each investment transaction, including the following:

- A. **Initial Credit Analysis.** Before the Credit Union purchases an investment, it must conduct and document a credit analysis of the issuing entity and investment. The Credit Union must update the analysis at least annually as long as it holds the investment. The foregoing is not required, however, for investments that are issued or fully guaranteed by the U.S. government or its agencies, enterprises, or corporations, or are fully insured by the NCUA or the FDIC.
- B. **Investment Record.** A record of each investment will be maintained (See **Policy 10005**, Table 5 - General Accounting Records). The record will include, where applicable, bids and prices at purchase and sale and for periodic updates, relevant disclosure documents or a description of the security from an industry-recognized information provider, financial data, and relevant tests and reports. It will also include the name of the organization with whom the Credit Union has invested, term of the investment, date of purchase, settlement date, maturity, rate, denomination, serial number, and name of any involved broker or dealer. Investment officers will also document the reason purchases and sales were made, the respective ASC 320 classifications, and the compliance with or deviation from the ASC 320 policy.
- C. **Transaction Record.** Investment officers will also record transactions in the general ledger on-line system for additional internal control. At least monthly the investment records will be reconciled to the computer as well as to statements of investments as generated by those organizations where funds are invested. This reconciliation shall be completed by or at the direction of the accounting department and shall not be completed by any investment officer.
- D. **Maintenance.** The Credit Union must maintain documentation regarding an investment transaction as long as it holds the investment and until the documentation has been both audited and examined.

8. RISK MONITORING.

- A. At least monthly, the Credit Union will prepare a written report setting forth, for each security it holds, the fair value and dollar change since the prior month-end, with summary information for the entire portfolio.
- B. At least quarterly, the Credit Union will prepare a written report of all investments with the following features:
 - i. Embedded options;
 - ii. Remaining maturities greater than 3 years; or
 - iii. Coupon formulas that are related to more than one index or are inversely related to, or multiples of, an index.
- C. This report will include a listing of shares and deposits in banks, Credit Unions and other depository institutions, as well as the sum of the fair values of all fixed and variable rate securities.
- D. Where the amount calculated in the quarterly report is greater than the Credit Union's net capital, the quarterly report must provide a reasonable and supportable estimate of the potential impact, in percentage and dollar terms, of an immediate and sustained parallel shift in market interest rates of plus and minus

300 basis points on:

- i. The fair value of each security in the Credit Union's portfolio;
- ii. The fair value of the Credit Union's portfolio as a whole; and
- iii. The Credit Union's net capital.

E. The monthly and quarterly reports will be distributed to the Investment Committee and Board of Directors.

9. MONITORING NON-SECURITY INVESTMENTS.

A. At least quarterly, the Credit Union will prepare a written report listing all of its shares and deposits in banks, credit unions and other depository institutions that have one or more of the following features:

- i. Embedded options;
- ii. Remaining maturities greater than 3 years; or
- iii. Coupon formulas that are related to more than one index or are inversely related to, or multiples of, an index.

10. OTHER REPORTS. Other investment reports may be prepared to assist the Investment Committee and Board of Directors in reviewing the investment portfolio. The reports may contain the following information:

- A. Composition including par value and, where applicable, book and market values;
- B. Market values and depreciation by investment type;
- C. Maturity distribution by investment type;
- D. Quality ratings for each rated investment and a summary of non-rated investments;
- E. Pledging by type and total;
- F. Yield analysis; each type of investment and overall;
- G. Transactions since last report and any profits or loss;
- H. ASC 320 classifications, transfers, and sales from HTM (Hold to Maturity); and
- I. Impact of changes in market value of AFS on capital and income.

11. INVESTMENT COMMITTEE AND BOARD REVIEW. The Investment Committee and the Board of Directors regularly review all transactions for compliance with this investment policy and applicable regulations, rules, and laws. The Board of Directors will also review the portfolio monthly to ensure the level of risk remains acceptable and consistent with previously approved portfolio objectives. In addition, the Board will review all investment policies at least annually.

12. SUPERVISORY COMMITTEE REVIEW.

- A. At each reporting date, the Supervisory Committee will compare ASC 320 policies and strategies with actual practices and report findings to the Board.
- B. The Supervisory Committee will compare recorded amounts of investments with safekeeping ledgers, custodial confirmations, and current market values on a regular basis. The committee will also compare buy or sell orders to brokers' advices. Any differences will be investigated and resolved.
- C. Periodically, the Supervisory Committee will assess compliance with:
 - i. Authorized list of broker-dealers and signatures.
 - ii. Segregation of duties;
 - iii. Internal controls and safekeeping policies.
- D. Periodically, the Supervisory Committee will:
 - i. Determine whether selected transactions comply with this investment policy and applicable regulations, rules, and laws.
 - ii. Monitor valuation of investments classified AFS and review adjustments to accounts.
 - iii. Conduct any other prudent review and assessment.
 - iv. Review interest and dividend income for accuracy by referencing supporting documentation.
- E. At least annually, the Supervisory Committee must independently assess the reliability of monthly price quotations the Credit Union receives from a broker-dealer or a safekeeper. The Supervisory Committee must follow Generally Accepted Auditing Standards, which require either recomputation or reference to market quotations.

Policy 6150: Safekeeping of Investments

Revised Date: 06/24/2013

Model Policy Revised Date: 06/24/2013

General Policy Statement:

[CUname] (Credit Union) will either take physical possession of securities or hold them in safekeeping accounts. The Credit Union will maintain safekeeping accounts with institutions other than the selling broker-dealer.

Guidelines:

1. **APPROVED SAFEKEEPING FACILITIES.** Presently, the following safekeeping facilities are approved by the Board: [6150-1]. Investment officers will maintain this list, which will be updated and re-approved by the Board periodically.
2. **DUE DILIGENCE.** The Credit Union will perform adequate due diligence of its prospective safekeepers, pursuant to the Credit Union's Vendor Due Diligence and Oversight policy (**See Policy 2185**). Additionally, the Credit Union's due diligence review will include the following:
 - A. A determination that approved safekeepers are regulated by the Securities and Exchange Commission, or a federal or state depository institution regulatory agency, such as the Federal Deposit Insurance Corporation, or a state trust company regulatory agency.
 - B. An assessment of the reputation of the safekeepers. The Credit Union will track and review publicity regarding the safekeeper, both positive and negative.
 - C. Documentation of the capital strength of the safekeeper. Generally, the safekeeper should have more capital than the amount of investments it holds for the Credit Union.
 - D. Execution of a custodial agreement with safekeepers before any transactions take place. This agreement must ensure that safekeepers will exercise at least "ordinary care."
 - E. Annually, the Federal credit union must analyze the ability of the safekeeper to fulfill its custodial responsibilities, as evidenced by capital strength, liquidity, and operating results. The Federal credit union should consider current financial data, annual reports, external assessments of creditworthiness, relevant disclosure documents, and other sources of financial information.
3. **SAFEKEEPING PROCEDURES.** The Credit Union's purchased investments and repurchase collateral must be in its possession, recorded as owned by the Credit Union through the Federal Reserve Book-Entry System, or held by a Board-approved safekeeper under a written custodial agreement.
 - A. A custodial agreement is a contract in which a safekeeping institution agrees to exercise ordinary care in protecting the securities held in safekeeping for its customers. Unless specifically covered by statute or contract, the institution is not an insurer of the securities.
 - B. The Credit Union must obtain an individual confirmation for each investment purchased or sold.
 - C. The Credit Union may not allow the selling broker-dealer to safekeep purchased investments or repurchase collateral; except that where the broker-dealer is a bank or corporate Credit Union, the Credit

Union may allow a separately identifiable department or division of the bank or corporate Credit Union to safekeep investments or collateral.

D. Each month the Credit Union must obtain and reconcile a statement of purchased investments and repurchase collateral held in safekeeping.

Policy 6200: Investment Portfolio

Revised Date: 06/01/2008

Model Policy Revised Date: 06/01/2008

General Policy Statement:

The investment portfolio's primary objectives are to provide for liquidity and to generate a reasonable rate of return while minimizing risk. Investment officers should seek to develop a diversified investment portfolio that achieves asset/liability management goals and maximizes return within [CUnion]'s (Credit Union) tolerance for interest rate, liquidity and credit risk.

Guidelines:

1. **LIQUIDITY.** Investment strategy shall provide the necessary liquidity to meet members' savings and borrowing demands. The Credit Union's lending objective shall maintain a [6200-1] % loan-to-share ratio. Variations from this objective shall take place when necessary because of current economic conditions. The amount of liquid holdings at any time will be based upon the evaluation of funding needs in relation to:
 - A. Current and prospective trends on loans, deposits, and leverage;
 - B. Trends in rate sensitivities of interest bearing assets and liabilities;
 - C. Stability of funding sources; and
 - D. Conditions in the financial markets.
2. **DIVERSITY.** Investment officers will maintain a diversified portfolio, since price fluctuations, quality deterioration, or loss of principal affecting any concentration in the portfolio could negatively impact earnings exponentially. In diversifying the portfolio, Investment officers will avoid concentrations resulting from: lack of geographic distribution; single or related issuers; and holdings of obligations with similar characteristics.
3. **EXPECTED RETURN.** Investment officers will seek the highest yields available within the Credit Union's risk tolerance. However, officers will not extend the maturity of the portfolio to obtain higher yields without proper regard to liquidity and funding sources.
4. **INVESTMENT LIMITS.** The Board of Directors has set per cent-of-asset limits for various investments. The purpose of these limits is to achieve diversification and avoid an unwarranted concentration of funds in a single entity that is subject to default risk. The limits are large enough that transactions can be consummated in round lots, enabling the Credit Union to obtain maximum yields. All limits are subject to periodic Board review.
 - A. **Overall Portfolio Limits.** [6200-3]
 - B. **Individual Investment Limits.** [6200-4]
 - C. **Specific Issuer Investment Limits.** [6200-5]
5. **MATURITY STRUCTURE.** The portfolio's maturity distribution is limited to control the risk of loss resulting from increases in the level of interest rates and the forced sale of securities. As a general rule, maturities are

limited to one year or less. However, the investment officers may consider maturities of 1-5 years whenever the Asset/Liability Management Committee determines that liquidity is sufficient to cover short-term needs. No more than [6200-2] % of surplus funds should be invested in long-term investments. Long-term investments are those with maturities exceeding 1 year.

6. **ACCEPTABLE RISK AND QUALITY.** The Investment Portfolio may not be used to engage in trading or other speculative securities transactions. Investment officers will invest surplus funds conservatively by carefully balancing safety, liquidity and yield. (Surplus funds are funds exceeding anticipated fund requirements for loan and demand withdrawal demand.) In so doing, officers will obtain and evaluate current information on investments such as prospectuses to verify that terms and risks match those represented by the dealer. Officers will also perform initial and ongoing credit analyses of all investments (except investments that are issued or fully guaranteed by the U.S. government or its agencies, enterprises, or corporations, or are fully insured by the NCUA or the FDIC).

Policy 6210: Authorized Investments

Revised Date: 10/05/2016

Model Policy Revised Date: 10/05/2016

General Policy Statement:

[CUname] (Credit Union) only invests its funds in investments authorized by the Board of Directors.

Guidelines:

1. **AUTHORIZED INVESTMENTS.** The Board has authorized the Credit Union to:

- A. Invest in accounts and the below listed instruments of federally insured financial institutions.
 - i. Accounts or shares of banks or savings and loan associations, provided such accounts or shares are insured by the FDIC.
 - ii. Shares, share certificates, or share deposits of a federally insured Credit Union.
 - iii. Instruments such as Yankee dollar deposits, Eurodollar deposits, banker's acceptances, deposit notes, and bank notes with weighted average maturities of less than 5 years.
 - iv. As a general rule, the Board limits deposits in such accounts to [6210-1] % of the Credit Union's paid-in and unimpaired capital and surplus, for each financial institution.
- B. Invest in loans to other Credit Unions in the total amount not exceeding 25% of the Credit Union's paid-in and unimpaired capital and surplus.
- C. Invest in shares or deposits of any corporate Credit Union, except where the NCUA has notified the Credit Union that the corporate Credit Union is not operating in compliance with part 704 of the NCUA Rules and Regulations.
 - i. The Credit Union's aggregate purchase of member paid-in capital and membership capital in one corporate Credit Union is limited to two percent (2%) of the Credit Union's assets (measured at the time of investment or adjustment).
 - ii. The Credit Union's aggregate amount of paid-in capital and membership capital in all corporate credit unions is four percent (4%) of assets (measured at the time of investment or adjustment).
- D. Invest in U.S. government obligations or securities fully guaranteed as to principal and interest by the U.S. government. The Board limits such investments to [6210-2] % of the Credit Union's paid-in and unimpaired capital, for each issue.
- E. Invest in the following U.S. government obligations:
 - i. Obligations issued by banks for cooperatives, Federal land banks, Federal intermediate credit banks, Federal home loan banks, the Federal Home Loan Bank board, or other corporations wholly owned by the U.S. government.
 - ii. Obligations, participations, or other instruments issued by, or fully guaranteed by, the Federal

National Mortgage Association (FNMA) or the Government National Mortgage Association (GNMA).

- iii. Mortgages, obligations, or other securities sold by the Federal Home Loan Mortgage Association.
 - iv. The Board limits such investments to [6210-3] % of the Credit Union's paid-in and unimpaired capital, for each obligation.
- F. Invest in participation interests evidencing beneficial interests in obligations, or in the right to receive interest and principal collections there from, which obligations have been subjected by an agency of the federal government to a trust for which any executive department, agency, or instrumentality of the United States has been named to act as trustee. The Board limits such investments to [6210-4] % of the Credit Union's paid-in and unimpaired capital, for each participation.
- G. Invest in shares, stocks, or obligations of an organization providing services which are associated with the routine operations of Credit Unions, up to 1% of the total paid in and unimpaired capital and surplus of the Credit Union, provided that the Board of Directors approve the investment.
- H. Contract for the purchase or sale of a security as long as the delivery of the security is by regular way settlement, which means delivery of a security from a seller to a buyer within the time frame that the securities industry has established for that type of security.
- I. Invest in variable rate investments, as long as the index is tied to domestic interest rates and not, for example, to foreign currencies, foreign interest rates, or domestic or foreign commodity prices, equity prices, or inflation rates.
- J. Invest in a registered investment company or collective investment fund, as long as the prospectus of the company or fund restricts the investment portfolio to investments and investment transactions that are permissible for federal Credit Unions.
- K. Invest in a fixed or variable rate collateralized mortgage obligation/real estate mortgage investment conduit.
- L. Purchase and hold a municipal security (such as a general obligation or revenue bond) only after conducting and documenting a credit analysis that concludes that the security is at least investment grade as defined by the NCUA. The Credit Union will limit aggregate municipal security holdings to no more than 75% of net worth and limits its holdings of municipal securities issued by any single issuer to no more than 25% of net worth.
- M. [As a Federal Chartered Credit Union, purchase Treasury Inflation Protected Securities (TIPS) issued by the U.S. Department of the Treasury, Bureau of Public Debt.]
- N. [As a Federal Chartered Credit Union, Purchase derivatives permitted under NCUA Part 703; embedded options not required under generally accepted accounting principles (GAAP) adopted in the United States to be accounted for separately from the host contract; and interest rate lock commitments or forward sales commitments made in connection with a loan originated by a Federal credit union.]

2. UNAUTHORIZED INVESTMENTS.

- A. Adjusted trading (any method or transaction used to defer a loss whereby the Credit Union sells a security to a vendor at a price above its current market price and simultaneously purchases or commits to purchase from the vendor another security at a price above its current market price).

- B. Short sales.
- C. Wash sales (sale of securities with the intent to reacquire the same or substantially the same securities).
- D. Stripped mortgage backed securities (SMBSs), residual interests in CMOs/REMICs, mortgage servicing rights, commercial mortgage related securities, or small business related securities.
- E. Zero coupon securities with maturities over 30 years from the settlement date when the Credit Union is well-capitalized, or 10 years from the settlement date when the Credit Union has not met the well-capitalized standard (unless approval has been provided by the Regional Director).
- F. Mortgage servicing rights as an investment (the Credit Union may, however, perform mortgage servicing functions for loans owned by a member).

3. INVESTMENT VALUATION RESERVE ACCOUNT.

- A. The Credit Union will establish and maintain an Investment Valuation Reserve Account if:
 - i. The Credit Union is state-chartered,
 - ii. The accounts of the Credit Union's members are insured through the share insurance program of the NCUA, and
 - iii. The Credit Union makes any investments beyond those authorized by the Federal Credit Union Act or the NCUA Rules and Regulations (See Policy 10001, Table 1).
- B. The amount of the Investment Valuation Reserve Account will be at least equal to the net excess of the book value over current market value for such investments.
 - i. If the market value of such investments cannot be determined, an amount equal to the full book value of the investments will be established.
 - ii. When at the end of any dividend period, the amount in the Investment Valuation Reserve Account exceeds the difference between the book value and market value, the Board of Directors may authorize the transfer of the excess to undivided earnings.

4. GRANDFATHERED INVESTMENTS.

- A. Subject to safety and soundness considerations, the Credit Union is authorized to hold investments that were purchased prior to the effective date of this policy. Those investments are governed by the regulations in effect at the time of purchase, as well as the amended NCUA Regulation 703, as it is applicable.
- B. All grandfathered investments are subject to the valuation, monitoring and reporting requirements of this policy.

Policy 6215: Derivative Investments

Revised Date: 06/27/2014

Model Policy Published Date: 06/27/2014

General Policy Statement:

[CUNAME] (Credit Union) may enter into derivative transactions allowed under NCUA Regulations Section 703 Permissible Investments exclusively for the purpose of reducing interest rate risk exposure.

Guidelines:

1. DEFINITIONS.

- A. Derivative is a financial contract which derives its value from the value and performance of some other underlying financial instrument or variable, such as an index or interest rate.
- B. Fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date, as defined by GAAP.
- C. Forward sales commitment is an agreement to sell an asset at a price and future date specified in the agreement.
- D. Interest rate lock commitment means an agreement by a credit union to hold a certain interest rate and points for a specified amount of time while a prospective borrower's application is processed.

2. ELIGIBILITY.

- A. The Credit Union will apply for, receive, and maintain authority from the NCUA for derivative investments. The requirements include:
 - i. The Credit Union's most recent NCUA-assigned composite CAMEL code rating is 1, 2, or 3, with a management component of 1 or 2; and
 - ii. The Credit Union has assets of at least \$250 million as of its most recent call report.
- B. If the Credit Union no longer meets the NCUA requirements or fails to comply with the investment requirements it will:
 - i. Immediately stop entering into any new derivatives transactions until it is in compliance;
 - ii. Within three business days from the regulatory violation, provide the appropriate NCUA Field Director notification of the regulatory violation, which will include a description of the violation and the immediate corrective action the Credit Union is taking; and
 - iii. Within 15 business days after notifying the appropriate field director, submit a written corrective action plan to the appropriate field director.

- ### 3. PERMISSIBLE INVESTMENTS.
- The Credit Union, with NCUA authority, may enter into derivative transactions that are limited to:

- A. Derivatives permitted under Part 703 Investment and Deposit Activities;
- B. Embedded options not required under generally accepted accounting principles (GAAP) adopted in the United States to be accounted for separately from the host contract; and
- C. Interest rate lock commitments or forward sales commitments made in connection with a loan originated by a Federal credit union.

4. **LIMITS TO INVESTMENT AUTHORITY.** The Credit Union will adhere to any limitations imposed in the granting of authority by the NCUA for investments in derivatives. This includes either:

A. **Entry Limits Authority.** The aggregate fair value loss on all of the Credit Union's derivative positions will not exceed fifteen percent (15%) of net worth, and the Credit Union's weighted average remaining maturity notional will not exceed sixty-five percent (65%) of net worth.

B. **Standard Limit Authority.** The aggregate fair value loss on all of the Credit Union's derivatives positions will not exceed twenty-five percent (25%) of net worth, and a weighted average remaining maturity notional of one hundred percent (100%) of net worth.

- i. The Credit Union will not engage the standard limit authority until it has engaged in derivatives at the entry limits authority for a continuous period of one year (beginning on the trade date of its first derivatives transaction); and has not been notified in writing by NCUA of any relevant safety and soundness concerns while engaged in derivatives at the entry limits authority.

5. **OPERATIONAL SUPPORT.** To attain and retain authority to invest in derivatives the Credit Union will ensure that the following experience and competencies are met:

A. **Personnel.**

- i. **Board.** Before entering into any derivatives transactions, and annually thereafter, the Credit Union's board members will receive training that provides a general understanding of derivatives and the knowledge required to provide strategic oversight of the Credit Union's derivatives program. This will include providing board members with an understanding how derivatives fit into the Credit Union's business model and risk management process.

- ii. **Executive Officers.** The Credit Union's senior executive officers will be able to understand, approve, and provide oversight for the derivatives activities. These individuals will have a comprehensive understanding of how derivatives fit into the Credit Union's business model and risk management process.

- iii. **Support Staff.** The Credit Union will employ staff with experience in the following areas:

- 1. **Asset/Liability Risk Management.** Staff will be qualified to understand and oversee asset/liability risk management, including the appropriate role of derivatives. This includes identifying and assessing risk in transactions, developing asset/liability risk management strategies, testing the effectiveness of asset/liability risk management, determining the effectiveness of managing interest rate risk under a range of stressed rates and statement of financial condition scenarios, and evaluating the relative effectiveness of alternative strategies. Staff will be qualified to understand and undertake or oversee the appropriate modeling and analytics related to scope of risk to earnings and economic value over the

expected maturity of derivatives positions.

2. **Accounting and Financial Reporting.** Staff will be qualified to understand and oversee appropriate accounting and financial reporting for derivatives transactions in accordance with GAAP.
3. **Derivatives Execution and Oversight.** Staff will be qualified to undertake or oversee trade executions.
4. **Counterparty, Collateral, and Margining Management.** Staff will be qualified to evaluate counterparty, collateral, and margining risk as required by regulation.

iv. **Record Retention.** The Credit Union will maintain evidence of training.

B. Internal Controls Structure. The Credit Union's internal control structures will include:

- i. **Transaction Support.** Before executing any derivatives transaction, the Credit Union will identify and document the circumstances that lead to the decision to hedge, specify the derivatives strategy the Credit Union will employ, and demonstrate the economic effectiveness of the hedge.
- ii. **Internal Controls Review.** The Credit Union will have an internal controls review that is focused on the integration and introduction of derivatives functions for the first two years after commencing its derivatives program. This review will be performed by an independent external unit or, if applicable, the Credit Union's internal auditor. The review will ensure the timely identification of weaknesses in internal controls, modeling methodologies, risk, and all operational and oversight processes.
- iii. **Financial Statement Audit.** The Credit Union will obtain an annual financial statement audit and be compliant with GAAP for all derivatives-related accounting and reporting.
- iv. **Process and Responsibility Framework.** The Credit Union will maintain a written and schematic description of the derivatives management process in its derivatives procedures. The description will include the roles of staff, qualified personnel, external service providers, senior executive officers, the board of directors, and any others involved in the derivatives program.
- v. **Separation of Duties.** The Credit Union will have appropriate separation of duties for the following functions:
 1. Asset/liability risk management;
 2. Accounting and financial reporting;
 3. Derivatives execution and oversight; and
 4. Collateral, counterparty, and margining management.
- vi. **Legal Review.** The Credit Union will hire or engage legal counsel to reasonably ensure that all derivatives contracts adequately protect the legal and business interests of the Credit Union. The Credit Union's counsel will have legal expertise with derivatives contracts and related matters.
- vii. **Procedures.** The Credit Union will operate according to comprehensive written policies and

procedures for control, measurement, and management of derivatives transactions. The Credit Union's board of directors will review the policies and procedures described in this section annually and update them when necessary.

viii. External Service Providers.

1. If the Credit Union uses external service providers to support or conduct aspects of its derivatives program the third party provider will not:
 - a. Act as a counterparty to the Credit Union's derivatives transactions;
 - b. Act as a principal or agent in the Credit Union's derivatives transactions; or
 - c. Have discretionary authority to execute any of the Credit Union's derivatives transactions.
2. The Credit Union has the internal capacity, experience, and skills to oversee and manage any external service providers it uses.
3. The Credit Union documents the specific uses of external service providers in its process and responsibility framework.
4. The Credit Union will perform asset/liability risk management and liquidity risk management functions internally and independently. A third party service provider can provide assistance and input but will not conduct these functions for the Credit Union.

6. REPORTING REQUIREMENTS.

A. Comprehensive Derivatives Report. All derivatives reports will:

- i. Identify any areas of noncompliance with any provision of the Credit Unions authority, NCUA regulations or the Credit Union's policies;
- ii. Utilize the limits in effect based on the regulatory requirements;
- iii. Itemize the Credit Union's individual positions and aggregate current fair values, and compare them with the Credit Union's fair value loss and notional limit authority;
- iv. Provide a comprehensive view of the Credit Union's statement of financial condition, including, but not limited to, net economic value calculations for the Credit Union's statement of financial condition done with derivatives included and excluded;
- v. Evaluate the effectiveness of the derivatives transactions in mitigating interest rate risk; and
- vi. Evaluate the effectiveness of the hedge relationship and reporting for derivatives in compliance with GAAP.

B. Executive Reporting. On a monthly basis a comprehensive derivatives report will be delivered to senior executive officers and, if applicable, the Credit Union's asset liability committee.

C. Board Reporting. At least quarterly, the Credit Union's senior executive officers will deliver a

comprehensive derivatives report to the Board of Directors.

- 7. IMPERMISSABLE INVESTMENTS.** The Credit Union will not invest in registered investment companies or collective investment funds where the prospectus of the company or fund permits the investment portfolio to contain derivatives.

Policy 6220: Non-Deposit Investment Products

Revised Date: 06/30/2017

Model Policy Revised Date: 06/30/2017

General Policy Statement:

[CUNAME] (Credit Union) honors the trust that members have placed in them and views the members' interests as critical to all aspects of the services offered through the credit union, its affiliates and third party vendors.

The guidelines of this policy apply to Credit Union-related sales, including marketing and promotional activities, of non-deposit investment products and services.

Guidelines:

1. **SCOPE.** Sales of non-deposit investments include the following:

- A. Sales by a CUSO wholly or partly owned by a Credit Union;
- B. Sales by a "dual employee" operating as both a credit union employee and an employee of a third party broker;
- C. Sales resulting from a Credit Union bringing a registered third party broker to its members through a networking agreement or other means; and
- D. Sales resulting from member referrals.

2. **CREDIT UNION RESPONSIBILITIES.**

- A. The Credit Union will comply with all applicable laws, rules, regulations and sound business practices in any Credit Union-related sale of mutual funds, annuities or other non-deposit investment products. The Board will evaluate the risks posed by the subject sales of non-deposit investment activities, including legal risks, reputation risks and economic risks.
- B. The Credit Union will only make prudent recommendations that are in their members' best interest and will not make any misleading statements about the recommendation, fees or potential conflicts of interest.
- C. The Credit Union must have a written agreement with any entity involved in Credit Union-related sales and services that outlines the duties and responsibilities of each party.
 - i. The agreement must specify that such entities will comply with all applicable requirements. The Credit Union will make clear to other entities that Credit Union management, and appropriate regulators, will be verifying such compliance.
 - ii. The agreement must also include provisions regarding the Credit Union's oversight and examiner access to related records.
 - iii. The agreement should describe the types of products that may be offered to credit union members.
 - iv. Credit Union agreements and contracts will include provisions to indemnify the Credit Union for

any monetary damages arising from non-deposit investment sales activities.

3. MANAGEMENT RESPONSIBILITIES. Management will be responsible for the following:

- A. Supervising personnel involved in non-deposit investment sales programs. Management will ensure that specific individuals employed by the Credit Union, affiliated broker/dealer, or a third party vendor are responsible for each activity outlined in the Credit Union's sales policy.
- B. Monitoring compliance by other entities on an on-going basis. The degree of management's involvement will be dictated by the nature and extent of non-deposit investment product sales, the effectiveness of member protection systems, and members' responses.
- C. Determining the types of products that the Credit Union will sell. For each type of product sold, management will identify specific laws, regulations, regulatory conditions and any other limitations or requirements, including qualitative considerations, that will expressly govern the selection and marketing of products that the Credit Union will offer.
- D. Conducting third party due diligence according to the provision of the Third Party Due Diligence and Oversight Policy (**See Policy 2185**), including, if applicable, the review and compliance with the Best Interest Contract for an exemption under the Department of Labor's rules regarding "fiduciary" activities.

4. MARKETING NON-DEPOSIT INVESTMENT SALES.

- A. The Credit Union will market non-deposit investments in a manner that does not mislead or confuse members as to the nature or risks of these uninsured products. To avoid member confusion about these products, the Credit Union will separate the locations for deposit-taking and the non-deposit investment sales functions.
- B. The Credit Union will not offer uninsured products with a product name that is identical to the Credit Union's name.

5. DISCLOSURES AND ADVERTISING.

- A. Complete and accurate disclosures will be provided to avoid member confusion as to whether the Credit Union-related product is an uninsured investment product or an insured deposit. When selling, advertising or otherwise marketing uninsured investment products to members, the following product disclosures will be made:
 - i. The products offered:
 - a. Are not federally insured;
 - b. Are not obligations of the Credit Union;
 - c. Are not guaranteed by the Credit Union or an affiliated entity;
 - d. Involve investment risks, including the possible loss of principal; and
 - e. If applicable, are being offered by an employee who serves both functions of accepting members' deposits and the selling of non-deposit investment products.

- B. The disclosures will be in a location and type size that are clear and conspicuous to the member. The disclosures will also be featured conspicuously in all written or oral sales presentations, advertising and promotional materials, prospectuses, and periodic statements that include information on both deposit non-deposit products.
- C. The Credit Union will obtain a separately signed statement acknowledging such disclosures from members at the time a non-deposit investment account is opened.
- D. The Credit Union will review its Credit Union-related sales advertisements to ensure they are accurate, do not mislead members about the nature of the product, and include required disclosures.

6. **COMPLIANCE PROGRAM.** The Credit Union will maintain a compliance program to ensure compliance with regulatory requirements and guidance. As part of the program, the Credit Union will monitor member complaints and periodically review member accounts to detect and prevent abusive practices.

- A. In constructing the compliance program, the Credit Union will refer to the Rules of Financial Industry Regulatory Authority (FINRA).

7. **REIMBURSEMENT.** When the Credit Union contracts directly with third parties to provide non-deposit investment products to its members, based on the provisions of the incidental powers rule - 12 CFR 721.3(f), a credit union may earn income from finder activities. Additionally, the Securities and Exchange Commission (SEC) permits credit unions to receive transaction-related compensation from the third party broker as long as the brokerage arrangement adheres strictly to the terms of the SEC Chubb Letter. The Credit Union will also comply with the Department of Labor's rules regarding "fiduciary" activities. The Credit Union's recommendations or referrals to unaffiliated third parties will be prudent and in the best interest of the member. Any associated referral fees the Credit Union receives will be reasonable and the Credit Union will not make any materially misleading statements about the recommendation, the fees or potential conflicts of interest.

8. **INVESTMENT ADVICE.** Credit Union employees may **not** provide investment advice. However, employees should have a thorough product knowledge and understand member protection requirements.

Chapter 7000: Lending

Duly Approved by Credit Union

BOARD OF DIRECTORS

Approval Date:

- [Policy 7100: General Lending Policy](#)
- [Policy 7101: Loans](#)
- [Policy 7102: Performance Ratios](#)
- [Policy 7105: Collateral](#)
- [Policy 7110: Loan Concentrations](#)
- [Policy 7115: Credit Underwriting Standards](#)
- [Policy 7120: Fair Lending](#)
- [Policy 7125: Loan Application](#)
- [Policy 7130: Loan Authorization](#)
- [Policy 7135: Loan Documentation](#)
- [Policy 7140: Loan Insurance](#)
- [Policy 7145: Loan Limits](#)
- [Policy 7150: Loan Portfolio Mix](#)
- [Policy 7155: Loan Quality Board Reports](#)
- [Policy 7160: Loans to Insiders](#)
- [Policy 7165: Pricing and Terms](#)
- [Policy 7170: Risk-Based Lending](#)
- [Policy 7175: Anti-Steering in Lending Practices](#)
- [Policy 7180: Anti-Predatory Lending Policy](#)
- [Policy 7200: Consumer Loans](#)
- [Policy 7205: Automobile Loans](#)
- [Policy 7206: Lease-Like Loans](#)
- [Policy 7210: Credit Cards](#)
- [Policy 7213: Military Personnel Loans](#)
- [Policy 7215: Overdraft Protection \(Courtesy Pay\)](#)
- [Policy 7217: Payday Lending](#)
- [Policy 7218: Payday Alternative Loans \(PALs\)](#)
- [Policy 7220: Rapid Refund Loans](#)
- [Policy 7225: Recreational Vehicle Loans](#)
- [Policy 7230: Share Secured Loans](#)
- [Policy 7235: Stock-Secured Loans](#)
- [Policy 7240: Student Loans](#)
- [Policy 7244: Integrated Mortgage Disclosures](#)
- [Policy 7245: Truth-in-Lending Disclosures for Closed-End Credit](#)
- [Policy 7250: Truth-in-Lending Disclosures for Open-Ended Credit](#)
- [Policy 7251: Regulation Z - Home Equity Plans](#)
- [Policy 7255: Personal Loans](#)
- [Policy 7260: Multi-Featured Loan Programs](#)
- [Policy 7270: Skip Payment Program](#)
- [Policy 7301: Registration of Mortgage Loan Originators \(S.A.F.E. Act\)](#)
- [Policy 7302: Real Estate Appraisals](#)
- [Policy 7303: Real Estate Appraisals - Appendices](#)
- [Policy 7305: Environmental Risk Management](#)

- [Policy 7310: Construction Loans](#)
- [Policy 7315: Commercial Real Estate Loan Workouts](#)
- [Policy 7320: Home Equity Loans](#)
- [Policy 7330: Residential Real Estate Loans](#)
- [Policy 7331: Non-Traditional Residential Real Estate Loans](#)
- [Policy 7332: Loan Originator Compensation](#)
- [Policy 7335: Loans Secured by Unimproved Property](#)
- [Policy 7350: Ability to Repay](#)
- [Policy 7351: Small Creditor Ability to Repay](#)
- [Policy 7360: Mortgage Servicing Rules](#)
- [Policy 7361: Small Servicer Mortgage Servicing Rules](#)
- [Policy 7370: HOEPA Rule Requirement](#)
- [Policy 7410: Indirect Dealer Financing](#)
- [Policy 7415: Sub-Prime Auto Indirect Auto Lending Policy](#)
- [Policy 7420: Member Business Loans/Commercial Lending](#)
- [Policy 7425: Member Business Credit Cards](#)
- [Policy 7430: Participation Loans](#)
- [Policy 7510: Collection Process](#)
- [Policy 7520: Collection Staff Members and Responsibilities](#)
- [Policy 7600: Loan Review and Classification](#)
- [Policy 7615: Allowance for Loan and Lease Losses](#)
- [Policy 7616: Loan Extensions](#)
- [Policy 7620: Loan Charge-Offs](#)
- [Policy 7625: Residential Real Estate Loss Mitigation Strategies](#)
- [Policy 7630: Multi-Dimensional Loan Portfolio Analysis](#)

Policy 7100: General Lending Policy

Revised Date: 10/09/2017

Model Policy Revised Date: 10/09/2017

General Policy Statement:

[CUNAME]'s (Credit Union) lending policy strives to serve the legitimate credit needs of Credit Union members while safeguarding the investments of members. The policy promotes prudent underwriting, fair treatment of applicants, sound loan management, and compliance with all applicable federal and state laws and regulations.

Further, it is the Credit Union's policy to provide all members with complete information and base credit decisions on a careful evaluation of facts. The Credit Union is an equal opportunity lender. The Credit Union will not allow discrimination on the basis of race, color, national origin, religion, sex, marital or familial status, age (providing applicant has capacity to contract), income derived from public assistance, exercise of consumer rights, disability, or any other prohibited basis.

1. Nondiscrimination Requirements

- A. A Federal credit union may not deny a real estate-related loan, nor may it discriminate in setting or exercising its rights pursuant to the terms or conditions of such a loan, nor may it discourage an application for such a loan, on the basis of the race, color, national origin, religion, sex, handicap, or familial status (having children under the age of 18) of:
 - i. Any applicant or joint applicant;
 - ii. Any person associated, in connection with a real estate-related loan application, with an applicant or joint applicant;
 - iii. The present or prospective owners, lessees, tenants, or occupants of the dwelling for which a real estate-related loan is requested;
 - iv. The present or prospective owners, lessees, tenants, or occupants of other dwellings in the vicinity of the dwelling for which a real estate-related loan is requested.
- B. With regard to a real estate-related loan, a Federal credit union may not consider a lending criterion or exercise a lending policy which has the effect of discriminating on the basis of race, color, national origin, religion, sex, handicap, or familial status (having children under the age of 18). Guidelines concerning possible exceptions to this provision appear in paragraph (1)(A) of this section.
- C. Consideration of any of the following factors in connection with a real estate-related loan is not necessary to a Federal credit union's business, generally has a discriminatory effect, and is therefore prohibited:
 - i. The age or location of the dwelling;
 - ii. Zip code of the applicant's current residence;
 - iii. Previous home ownership;
 - iv. The age or location of dwellings in the neighborhood of the dwelling;

v. The income level of residents in the neighborhood of the dwelling.

D. Loan guidelines should be used by loan officers and credit committees in making credit decisions. Such guidelines are not to be used as a substitute for good judgment on the part of the loan officers. Allowances based on individual circumstances may occasionally be made on an exception basis.

2. PREVENTING AND DETECTING FRAUD. The Credit Union will enact the following internal controls to prevent and detect fraud:

A. Sufficient staffing to allow for segregation of duties. One person will not be responsible for loan approval, reporting, reconciliations and collection. This also includes situations where staff entering data into an automated underwriting system (considered loan officer) are segregated from loan disbursement duties. When staffing levels do not allow for proper segregation of duties, the Credit Union will compensate with other internal controls;

B. Safeguards to restrict inappropriate access to data;

C. Knowledge of credit union policies. Staff will receive training at least annually and when policies change;

D. Procedures to ensure limited exceptions to the established policies;

E. Quality control processes; and

F. Third party review functions that include testing loans.

Policy 7101: Loans

Revised Date: 06/17/2013

Model Policy Revised Date: 06/17/2013

General Policy Statement:

Loans are originated with the intent to either hold them to maturity or to hold them for sale. [CUname] (Credit Union) will properly account for each type of loan.

Guidelines:

1. **LOANS HELD TO MATURITY.** As a general rule, the Credit Union will originate consumer and construction loans with the intent of holding them to maturity. From time to time, the Credit Union may also originate residential real estate loans and business loans with the intent to hold to maturity.
 - A. **Financial Reporting.** These loans will be reported at amortized cost (outstanding principal balance plus or minus any unamortized net deferred fees or costs).
 - B. **Allowance for Loan Losses.** An Allowance for Loan Losses (ALL) account will be maintained to reduce loan balances to collectible amounts. The Board will review ALL reports at least monthly. All adjustments to the account must be approved by the Board.
 - C. **Control Accounts.** When prudent, the Credit Union will maintain separate control accounts by type of loan. These accounts will be supported by subsidiary records containing all relevant information relating to the loan.
 - D. **Concentrations.** The Credit Union will generate reports accurately documenting and disclosing concentration credit risk in accordance with Accounting Standards Codification 105. The Board will review concentration reports at least monthly.
 - E. **Loan Watch.** At least monthly, the Credit Union will generate and submit to the Board various loan reports designed to monitor the composition and performance of the loan portfolio, including but not limited to analysis of:
 - i. Loan balances and maturities;
 - ii. Collateral value (when applicable);
 - iii. Past-dues, non-accruals, and collection efforts;
 - iv. Modifications, renewals, extensions, and deferrals; and
 - v. Charge-offs, allowances, and classifications.
2. **LOANS HELD FOR SALE.**
 - A. **Financial Reporting.** Residential real estate loans originated with the intent to sell in the secondary market will be reported at the lower of cost or market value.

B. Gains or Losses. Gains or losses will be recognized at time of sale. As a general rule, gains and losses will be calculated by taking the difference between the sales prices and carrying amount of loans sold.

3. TROUBLED DEBT RESTRUCTURING. Troubled debt restructuring (TDR) is a type of loan modification. In a TDR, the Credit Union grants the borrower a concession that the Credit Union would not otherwise consider, due to economic or legal reasons related to the borrower's financial difficulties. This concession may either in the form of an agreement between the borrower and the Credit Union, or required by law or a court.

A. Accounting. The Credit Union will properly account for and report its TDRs pursuant to the requirements of ASC 310-40, *Troubled Debt Restructurings by Creditors*, which establishes standards of financial accounting and reporting by the debtor and by the Credit Union for TDRs. The Credit Union will account for the restructured loan in accordance with the provisions of ASC 310, *Receivables* (loans will be considered "impaired" when it is probable that the Credit Union will be unable to collect all amounts due according to the original contract terms of the loan agreement).

B. Reporting. The Credit Union will report TDRs according to the Credit Union's Troubled Debt Restructuring policy (See **Policy 3170**).

4. IN SUBSTANCE FORECLOSURES. The Credit Union will treat certain troubled loans secured by real estate as OREO (Other Real Estate Owned) where the borrower has little or no equity and the sale of the property is the only source of repayment.

A. Financial Reporting. The prior investment in the loan will be reduced to the fair value of the collateral; the Credit Union will establish a new cost basis in the same manner as a legal foreclosure.

B. Losses. Any excess of the recorded loan over the fair market value of the collateral will be recognized as a loan loss to the extent that it is not offset against previously established allowances for uncollectible amounts or other valuation accounts.

5. OVERDRAFTS. The exception report generated by overdraft items will be handled in a timely manner. Accounting personnel will post all items overdrawn due to late deposits or transfers from other accounts. All remaining overdrawn accounts will be charged an NSF fee and the appropriate notice will be sent.

6. LOAN FEES AND ORIGINATION COSTS. The Credit Union will account for loan fees and origination costs in accordance with ASC 310-20, *Nonrefundable Fees and Other Costs*.

Policy 7102: Performance Ratios

Revised Date: 07/01/2008

Model Policy Revised Date: 07/01/2008

General Policy Statement:

The Board will analyze relevant performance ratios at least monthly. In particular, the Board will compare actual performance to budgeted ratios, investigate significant deviations, and document contributing factors. The Board will also monitor changes in market conditions and economic forecasts and adjust budgeted ratios whenever sound business judgment dictates.

Guidelines:

Ratio	Calculation	Indicator
Share Growth	Deduct prior period shares from current period shares. Divide the net amount by prior period shares.	Ability to compete for member savings.
Loan Growth	Deduct prior period loans from current period loans.	Ability to compete for member loans.
Loans to Assets	Divide total loans by total assets.	Percent of assets invested with the membership.
Capital to Assets	Capital (inc. Allowance) divided by total assets.	Ability to absorb losses.
Delinquent Loans to Total Loans	Delinquent loans divided by total loans.	Potential for future loan losses.
Classified Assets to Capital	Classified assets divided by capital.	Ability to absorb current losses.

Loan Loss Ratio	Net loans charged off divided by average loans.	Effectiveness of lending and loan collection practices.
Asset Yield	Gross income divided by the average of the previous and current period's assets.	Yield on assets.
Operating Expenses to Assets	Operating expenses less provision for loan losses and cost of borrowed money, interest, and dividends, divided by average assets.	Relative cost of operating [CUname] (Credit Union).
Cost of Funds to Assets	Cost of funds divided by average assets.	Relative cost of investment in assets.
Net Income (Loss) from Operations to Assets	Earnings after current period reserve transfers divided by average assets.	Earnings on assets invested in the Credit Union.
Net Loans to Deposits	Net loans divided by deposits.	How much of the Credit Union's deposits are lent and the Credit Union's ability to fund additional loan volume with these deposits.
Allowance to Total Loans	Allowance for Loan Losses divided by total loans.	Percentage of the total loan portfolio reserved for troubled loans.
Net Loss to Allowance	Amount of net loss divided by the Allowance for Loan Losses.	Indicates the percentage of allowance for loan loss allocated for loss coverage.

Policy 7105: Collateral

Revised Date: 03/24/2016

Model Policy Revised Date: 03/24/2016

General Policy Statement:

[CUNAME] (Credit Union) will create, attach, and perfect security interests in the collateral listed below. Security interests will be perfected by mortgage or trust deed or by possession or filing the security agreement or UCC (Uniform Commercial Code) form with proper authorities.

1. CONSUMER LOANS.

- A. Residential real estate.
- B. Automobiles, trucks, vans, and recreational vehicles.
- C. Publicly traded stock.
- D. Credit Union shares.
- E. Other types of security approved by the Board on a case-by-case basis.

2. COMMERCIAL LOANS.

A. Minimum Collateral Requirements.

- i. **Personal Guarantee.** The credit union may require the full and unconditional personal guarantee from the principal(s) who have a controlling interest in the borrowing entity. If a personal guarantee is not required, the credit union will document the loan file with mitigating factors that sufficiently offset the relevant risk.
- ii. **Maximum Loan to Value.** The maximum loan-to-value (LTV) for all liens must not exceed 80%, unless the value in excess of 80% is covered through private mortgage insurance or equivalent type of insurance, or insured, guaranteed, or subject to advance commitment to purchase by an agency of the federal government, and agency of a state or any of its political subdivisions, but in no case may the ratio exceed 95%.
- iii. **Collateral Documentation Requirements for Loans Secured by Real Property.**
 - 1. **Completed appraisal report.** Appraisal reports must be prepared for the Credit Union by a qualified appraiser within 120 days of loan application. Reports must also include pictures and rental data for property in the same general area.
 - 2. Clear title policy issued by a title company.
 - 3. Proof of owner's insurance with loss payable to the Credit Union, and evidence of flood insurance where applicable.

4. Deed of trust, recording, and closing documents.

5. Proof of balance of first mortgage (if applicable).

B. Steps to Be Taken to Secure Collateral.

i. For member business loans secured by real property, the Credit Union will follow the same steps to secure the loan as it does for home equity loans.

ii. For member business loans secured by personal property, the Credit Union will follow the same steps to secure the loan as the Credit Union follows for a consumer loan secured by that type of personal property.

C. Reevaluation of Collateral. The Credit Union will reevaluate the value and marketability of the collateral at least once every [7420-9.1] year(s).

Policy 7110: Loan Concentrations

Revised Date: 01/01/2011

Model Policy Revised Date: 01/01/2011

General Policy Statement:

[CUname] (Credit Union) will control concentration credit risk.

Guidelines:

1. **GENERAL.** Concentrations of credit risk occur when a group of borrowers are so similarly related that adverse changes in the economy negatively affect the entire group's ability to meet contractual obligations.
2. **CONCENTRATION CREDIT RISK MANAGEMENT.** The Credit Union will control concentration credit risk by:
 - A. Requiring perfection in an adequate security interest;
 - B. Monitoring levels of concentration risk, and relevant changes in the economy; and/or
 - C. Selling loans, in whole or in part.
3. **BOARD REPORTS.** Management will identify, disclose, and monitor significant concentrations of credit risk, and submit monthly reports to the Board. Specifically, management will document and evaluate:
 - A. The relationship, including the activity, region, and/or economic characteristic.
 - B. Potential loss that would result if members of the group failed to perform.
 - C. Outstanding balance of each loan and payment history.
 - D. Type and value of collateral securing each loan.
 - E. Priority of the Credit Union's security interest.

Policy 7115: Credit Underwriting Standards

Revised Date: 06/29/2016

Model Policy Revised Date: 06/29/2016

General Policy Statement:

[CUNAME]'s (Credit Union) goal is to grant loans on a sound and collectible basis. Accordingly, the Credit Union will use credit underwriting standards in evaluating loan applications.

Guidelines:

Borrowers are subject to the following lending criteria:

1. **MEMBER IN GOOD STANDING.** To be eligible for loan approval, the applicant must be a member in good standing with a minimum share balance of \$[7115-1]. Loan advances, refinances, or rewrites will not normally be considered for any member who is currently delinquent or has a history of delinquency with the Credit Union. Any exception needs approval by the credit manager.
2. **APPLICATION.** The borrower must complete a **written** application for credit, whether in person or via the internet or online where available. Members are welcome to credit shop via telephone or in person, but loan officers cannot base credit decisions on oral requests. The Credit Union will conscientiously respond to oral inquiries by providing general loan terms. However, members will be informed that completion of a written loan application is necessary. Members may receive application forms and a copy of current underwriting standards upon request.
3. **CREDITWORTHY BORROWER.** Creditworthiness is determined by established credit history, length of employment (if applicable), length of residence, and ability to repay the loan.
 - A. **Credit History.** The member's credit history should demonstrate a clear pattern of financial responsibility. The Credit Union requires a current credit bureau report. Current means less than 90 days old. The Credit Union may deny credit if the report reveals:
 - i. Current or serious previous delinquencies;
 - ii. Considerable number of recent inquiries;
 - iii. Excessive unsecured lines of credit;
 - iv. Charged-off accounts, repossessions, or bankruptcy;
 - v. Unsatisfied judgments or collections; or
 - vi. Significant accounts purposely omitted from the application.
 - B. **Employment.** If the credit union relies upon employment income, loan officers will verify employment. As a general rule, applicants need at least [7115-2] months of continuous employment. Prior time in a related job will be considered with focus on stability. Credit should not be granted to members with temporary or irregular employment with no source of regular income
 - C. **Residence.** Loan officers will verify rent and mortgage information. The length of time a member has

lived at his/her residence could be a deciding factor in a borderline case.

D. Capacity. The borrower's ability to repay the loan depends upon several factors including cash flow, liquidity and capital, in addition to the requirements outlined in the Credit Union's Ability to Repay Policy. Analysis of a borrower's financial condition may require current financial statements and verification of asset value and income. One measure of income is the debt/income ratio. Loan officers will calculate each borrower's debt ratios by dividing total debt payments by gross and net monthly income. Total debt payments consist of rent and all monthly installment debt, including the monthly debt service for the requested loan. Members will be held accountable for all debt reported on their credit report. Any debt ratio over [7115-3] % must be documented by the loan worksheet. The Board of Directors cautions loan officers to remember to use debt ratios as tools and not decision makers.

All of the borrower's monthly income will be considered so long as it can be verified. If all or part of an applicant's income is derived from public assistance, retirement, pension, disability, or social security income, then that income will be interpreted as regular income. Income verification requires:

- i. Two most recent check stubs;
- ii. Check copies evidencing alimony, child support, or separate maintenance payments for past 6 months when applicable and if not prohibited by Equal Credit Opportunity Act;
- iii. Most recent statement of social security, retirement or pension plan; and
- iv. Previous year tax returns (IRS form 1040 and supporting schedules) if the borrower is self employed.

4. LEGAL MAJORITY. The Credit Union shall not extend credit to members under 18 years of age.

5. CO-APPLICANTS. Two members may apply for one loan using both incomes to qualify. To be approved, both borrowers must comply with loan policy and guidelines.

A. Credit Scores of Co-Applicants. When two or more credit scores are offered, the Credit Union will follow its Risk-Based Lending policy (**See Policy 7170**).

6. CO-SIGNERS WHEN APPLICABLE. Members may have another individual share the responsibility of repaying their loan by co-signing. Members may need a co-signer if they have not reached legal majority; have no credit history; lack required time on the job; or have not lived at their residence for the required time. The Credit Union will not ask for a co-signer where evidence suggests that the primary borrower is unable or unwilling to repay the loan. The Board reasons that in such circumstances it is unfair to ask for a co-signer where the co-signer will likely make all of the payments. Thus, if an applicant has a poor credit history, loan officers should not suggest a co-signer.

If the loan officer determines that a co-signer is prudent, he or she must review the creditworthiness of the co-signer. Co-signers must qualify for the loan they wish to sign on, just as if it were their own loan. Co-signers must satisfy the Credit Union's credit criteria including debt ratio guidelines and must agree to assume responsibility for the entire loan balance. In addition, co-signers must be residents of the state. The Credit Union will provide all co-signers with proper notice explaining rights and responsibilities as required by the Fair Credit Reporting Act.

A. Credit Scores of Co-Signers. When a co-signer applies for a loan with a member, the Credit Union will follow its Risk-Based Lending policy (**Policy 7170**).

7. **BANKRUPTCY.** Management prefers borrowers with no bankruptcy filings in the last [7115-4] years. However, approval of such applicants will be considered on a case-by-case basis. Applicants who have filed bankruptcy within the last 10 years must submit a written and signed explanation for management review. Loan approvals will be based on management's assessment of character, capital, collateral, and capacity to repay. Reaffirmation of discharge debt and positive payment history with the Credit Union will weigh favorably.

8. **CONSOLIDATION LOANS.** The Credit Union will allow members to borrow money in order to consolidate debt. Typically, the Credit Union requires a perfected security interest in an authorized form of collateral. Signature loans for debt restructuring purposes are extremely rare.

A. **Disbursement.** Consolidation loan proceeds will be disbursed directly to the member's creditors.

B. **Credit Counseling.** Members obtaining a consolidation loan must obtain financial counseling. The Credit Union's counseling sessions focus on:

i. Developing a realistic budget;

ii. Informing the member that the consolidation loan is a one-time measure and thus, life style and spending habits must be restructured to ensure responsible funds management;

iii. Encouraging the member to increase savings with the Credit Union; and

iv. Encouraging the member to reduce consumer credit card debt by cutting up credit cards.

9. **CREDIT SCORING.** Loan officers must credit score all loans and document results on the loan worksheet.

A. **Point Scoring Approval.**

<u>Credit Score</u>	<u>Approval</u>
[7115-5] and over	Junior loan officers.
[7115-6] and over.	Senior loan officers.
[7115-7] and under	President, Vice President of credit, credit manager, or assistant credit manager.

10. **ABILITY TO REPAY.**

A. **Consideration of Ability to Pay.** The Credit Union will consider the ability of the member to repay the loan obligation under the terms of the account based on the member's income or assets and current obligations, and when applicable according to the requirements of the Ability to Repay Rule published by the Consumer Financial Protection Bureau (CFPB) and the provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act (See Policy 7350 or 7351 - Ability to Repay Policy).

11. SPECIAL RULES FOR CREDIT CARDS – THE ABILITY TO PAY.

A. **Consideration of Ability to Pay.** The Credit Union will not open a credit card account for a member under an open-end (not home-secured) consumer credit plan, or increase any credit limit applicable to such account, unless it considers the ability of the member to make the required minimum periodic payments under the terms of the account based on the member's income or assets and current obligations, regardless of the member's age.

i. The Credit Union will **not** open a credit card account under an open-end (not home-secured) consumer credit plan for a member, unless the member has submitted a written application and the Credit Union has:

1. Financial information indicating the member has an independent ability to make the required minimum periodic payments on the proposed extension of credit in connection with the account; or
2. A signed agreement of a cosigner, guarantor, or joint applicant who is at least 21 years old to be either secondarily liable for any debt on the account incurred by the member, or jointly liable with the member for any debt on the account, and
3. Financial information indicating such cosigner, guarantor, or joint applicant has the ability to make the required minimum periodic payments on such debts.

ii. **Consideration of "Household Income."** It is not enough to consider a member's household income; the Credit Union must consider the member's independent ability to make payments. The Credit Union may, however, use the income provided by an applicant to satisfy the ability-to-repay requirement by listing "income" or "salary" on its credit card application.

iii. **Credit Line Increases.** If a credit card account has been opened pursuant to this section, no increase in the credit limit will be made on such account unless the cosigner, guarantor, or joint account holder who assumed liability at account opening agrees in writing to assume liability on the increase.

12. **Reasonable Policies and Procedures.** The Credit Union will take the following into consideration in assessing the ability of a member to repay a credit card loan: The ratio of debt obligations to income; the ratio of debt obligations to assets; or the income the member will have after paying debt obligations. It would be unreasonable for the Credit Union to **not** review any information about a member's income, assets, or current obligations, or to issue a credit card to a member who does not have any income or assets.

Policy 7120: Fair Lending

Revised Date: 10/09/2017

Model Policy Revised Date: 10/09/2017

General Policy Statement:

[CUNAME] (Credit Union) is firmly committed to the principles of fair lending. We view this commitment seriously and will not tolerate discrimination in policy or practice in any of our lending activities. The purpose of this policy is to promote the availability of credit on equal terms to ALL credit worthy applicants.

Guidelines:

1. **REGULATIONS.** The key regulations governing discrimination in lending at our Credit Union are:

- A. Equal Credit Opportunity Act (ECOA) - Regulation B
- B. Home Mortgage Disclosure Act (HMDA) - Regulation C
- C. Fair Housing Act (FHA)
- D. NCUA Non-discrimination Requirements (NCUA Rules and Regs 701.31)
- E. Americans With Disabilities Act (28 CFR 36; 29 CFR 1630)

2. **RESPONSIBILITY.**

- A. It is the duty of each employee and volunteer involved in lending or the audit of lending to understand this fair lending policy and the regulations upon which it is based.
- B. The [7120-1] is responsible for training employees and volunteers in the principles of fair lending and for overseeing the application of fair lending principles in daily operations. Training will vary based on the role of the employee and volunteer and will be conducted annually. At a minimum, training will include the laws and regulations that govern fair lending and how the Credit Union has incorporated those laws and regulations in their applicable policies and procedures.

3. **Nondiscrimination Requirements**

- A. The Credit Union will not deny a real estate-related loan, nor may it discriminate in setting or exercising its rights pursuant to the terms or conditions of such a loan, nor may it discourage an application for such a loan, on the basis of the race, color, national origin, religion, sex, handicap, same-sex marriage or familial status (having children under the age of 18) of:
 - i. Any applicant or joint applicant;
 - ii. Any person associated, in connection with a real estate-related loan application, with an applicant or joint applicant;
 - iii. The present or prospective owners, lessees, tenants, or occupants of the dwelling for which a real estate-related loan is requested;

iv. The present or prospective owners, lessees, tenants, or occupants of other dwellings in the vicinity of the dwelling for which a real estate-related loan is requested.

B. With regard to a real estate-related loan, the Credit Union will not consider a lending criterion or exercise a lending policy which has the effect of discriminating on the basis of race, color, national origin, religion, sex, handicap, or familial status (having children under the age of 18). Guidelines concerning possible exceptions to this provision appear in NCUA Rules 701.31 (e)(1).

C. Consideration of any of the following factors in connection with a real estate-related loan is not necessary to the Credit Union's business, generally has a discriminatory effect, and is therefore prohibited (with limited exception as noted in NCUA Rules 701.31(e)(2)):

i. The age or location of the dwelling;

ii. Zip code of the applicant's current residence;

iii. Previous home ownership;

iv. The age or location of dwellings in the neighborhood of the dwelling;

v. The income level of residents in the neighborhood of the dwelling.

4. **PROTECTED CLASSES.** The following classes are protected by fair lending regulations and will not be factors considered in the lending process:

A. Race, Religion, Color, Sex, National Origin, Age (provided the applicant has the capacity to contract), Marital or Family Status, Disability, Receipt of Public Assistance, the Exercise of Rights Under the Consumer Credit protection Act, Handicap or Same-Sex Marriage.

5. **NON-DISCRIMINATION IN THE LENDING PROCESS.**

A. No officer, employee, agent or contracted vendor of the Credit Union will discourage, or selectively encourage, any applicant in seeking credit on the grounds of any protected class. Further, information regarding the lending process, such as the availability of credit, marketing and promotion, available lending services, and how to apply for a loan, will not be withheld or presented differently based on a protected class.

B. All loan applications, whether individual or business, written or oral, submitted in person, by phone, or by any electronic means will be evaluated fairly. Prohibited class characteristics will not be considered in the underwriting decision. In addition, the Credit Union will not use any application evaluation system that discriminates among applicants by using any of the protected factors as variables.

C. None of the protected factors are to be used in determining loan amounts, interest rates, duration of financing, extensions, value of collateral, or any other circumstances regarding the granting of any loan underwritten by this institution.

D. Decisions and actions relating to the servicing or collecting of any loan will not be based on any protected factor.

E. The Credit Union will not discriminate in the lending process because of a person associated with the

application (other than the borrower), or, in the case of real estate loans, because of the present or prospective residents of the area where the property to be financed is located.

- F. Different standards for pooling and packaging loans in the secondary market will not be used on the basis of prohibited class characteristics.
- G. Reasonable accommodations will be made to enable persons with disabilities to afford them opportunity to apply for credit.
- H. The Credit Union will ensure that its marketing efforts do not specifically target or exclude certain persons based on prohibited class characteristics (such as advertising in only non-minority areas of the market, excluding certain zip codes from loan availability).

6. TYPES OF LENDING DISCRIMINATION. The courts have recognized three methods of proof of lending discrimination:

- A. **Overt Evidence of Disparate Treatment.** There is overt evidence of discrimination when a lender openly discriminates on a prohibited basis. No one associated with the Credit Union will make statements or decisions that openly discriminate against anyone in a protected class.
- B. **Comparative Evidence of Disparate Treatment.** This occurs when a lender treats a credit applicant differently based on one of the prohibited bases. It does not require showing that the treatment was motivated by prejudice or a conscious intention to discriminate against a person. It is considered to be intentional because no credible, nondiscriminatory reason explains the difference in treatment on a prohibited basis. The Credit Union will ensure that any difference in treatment of its members will be solely based upon nondiscriminatory reasons.
- C. **Evidence of Disparate Impact.** This occurs when a lender applies a neutral policy or practice equally to all credit applicants, but the policy or practice disproportionately excludes or burdens certain persons on a prohibited basis, without a justification of business necessity. The Credit Union will ensure that it performs a review of its policies and practices to ensure that there is no disparate impact associated with them.

7. FAIR LENDING REVIEW.

- A. Management will periodically evaluate marketing initiatives, credit denials, credit approvals, and collection practices to detect and correct any prohibited discrimination.
- B. The Supervisory/Audit Committee is responsible for an audit of the lending function of the Credit Union at least annually. This audit will include assessing the level of compliance with fair lending regulations.
- C. Any evidence of overt discrimination, disparate treatment, or disparate impact shall be reported to the Board immediately. The Board will in turn adopt programs to reverse and overcome the effects of discriminatory practices.
- D. The Credit Union will ensure complaints received are evaluated in accordance with policy. Complaints that allege a potential fair lending issue or discrimination will be escalated and reviewed by Management.

Policy 7125: Loan Application

Revised Date: 06/27/2015

Model Policy Revised Date: 06/27/2015

General Policy Statement:

Every application for a loan shall be made in writing, whether in person or online, shall state the purpose for which the loan is desired and the endorsement or security offered, and shall otherwise comply with the Equal Credit Opportunity Act (ECOA; Regulation B), the Fair Credit Reporting Act (FCRA) and the USA PATRIOT Act. [CUname] (Credit Union) must be aware that entering an application into a computer system and retaining it qualifies as a written application. Further, the application will document the source of repayment and collateral value as determined by appraisal or inspection.

Guidelines:

1. **STANDARD FORM.** Member requests for residential real estate loans require completion of a standard FHA, VA, FHLMC, FNMA, or FHLMC/FNMA application form. Members requesting other types of loans must complete a special Credit Union credit application.
2. **RECORDS.** For consumer loans, the Credit Union will retain all applications on file for at least 25 months after the Credit Union notifies an applicant of the action taken. For business loans, the Credit Union will retain all applications on file for at least 12 months after the date the Credit Union notifies an applicant of the action taken. However, a new credit application or an updated application is required on all loans. The application or update must be dated and signed by each applicant. See **Policy 11007** in the Records Retention Chapter (Table 7 - Lending Records).
3. **LOAN APPLICATION REGISTER.** The Credit Union will maintain its loan application register data in the format required by the Home Mortgage Disclosure Act and 12 CFR 1003.4 of the federal regulations, documenting information regarding applications received, withdrawn, approved, and denied available for inspection and copying during the hours the office is normally open for business. At a minimum this HMDA data will be available at the Credit Union's main office and notice of availability will be posted in the lobby of its main branch and any other branches located in a Metropolitan Statistical Area and Metropolitan Division.
4. **NOTICE OF INCOMPLETE APPLICATION.** The Credit Union will notify applicants who submit incomplete applications and afford them a reasonable opportunity to complete the applications.
5. **EQUAL CREDIT OPPORTUNITY COMPLIANCE.** In compliance with the Equal Credit Opportunity Act, the Credit Union prohibits discrimination based on a member applicant's race, color, religion, national origin, sex, marital status, age, receipt of income from public assistance or separate maintenance programs, or the fact that the applicant exercised a right in good faith under the Consumer Credit Protection Act or any state law on which an exemption has been granted by the Consumer Financial Protection Board.

A. Exceptions.

- i. **Marital Status.** The Credit Union must not ask questions about an applicant's marital status, spouse, or former spouse unless the applicant plans to rely on the spouse's income or support payments for repayment of the credit requested, or the applicant resides in a community property state or is relying on property located in a such a state as the basis for repayment of the credit requested. When referring to marital status, loan officers will only use the terms "married,"

"separated," and "unmarried." Unmarried includes divorced, widowed, and single persons. The fact that information may indirectly disclose marital status does not prohibit the Credit Union from asking for such information. For example, the Credit Union may ask the following questions:

1. The applicant's obligation to pay alimony, child support or separate maintenance;
 2. The source of income to be used as the basis for repayment, which could disclose that it is the income of a spouse;
 3. Whether any obligation disclosed by the applicant has a co-obligor, which could disclose that the co-obligor is a spouse or former spouse; or
 4. The ownership of assets, which could disclose the interest of a spouse.
- ii. **Income.** The Credit Union will advise applicants that they need not disclose the receipt of support payments, unless they desire the Credit Union to consider such payments as a source of income. A statement of the fact that this income need not be revealed will come *before* the inquiry, as it may lead the applicant to disclose the income.
- iii. **Sex.** The Credit Union will not ask an applicant what sex he or she is. However, loan officers may request applicants to designate a title such as Mr., Mrs., Ms., or Miss (with a disclosure that this designation is optional on the part of the applicant).
- iv. **Family Planning.** The Credit Union will not ask whether applicants intend to bear or rear children. This includes questions about birth control and capability of bearing children. However, loan officers may inquire about the number and ages of dependents and dependent-related financial obligations provided the request is without regard to sex, age, marital status, or any other prohibited basis.
- v. **Equal Treatment for Same-Sex Married Couples.** Legally married same-sex spouses and couples will receive equal treatment, under the protections of the Equal Credit Opportunity Act, as will all other types of applicants. This is consistent with the Consumer Financial Protection Bureau's policy on Equal Treatment for Same-Sex Married Couples. A member is considered "married" if they are legally married under the laws of any jurisdiction; while a member would be considered "unmarried" if they were in a domestic partnership, civil union, or other relationship not denominated as a marriage by a state.

B. Special Exemptions for Governmental Monitoring. Regulation B and Regulation C require information about the applicant's sex and race or national origin when the Credit Union makes a loan for the purchase or refinancing of a residential dwelling with one to four units, one of which will be used by the applicant for a primary residence. If the applicant refuses to provide this information, the loan officer or other Credit Union employee **must** note the sex and race or national origin by visual observation or surname. For applications taken by telephone, the Internet, or mailed in, loan applicants must be advised that requesting information about ethnicity, race, and sex is mandated by the federal government to assist in the enforcement of fair lending laws. In addition, applicants must be advised that the lenders are prohibited from discriminating on the basis of the information provided, or on the basis of the applicant's choosing to provide or not provide the information. (If the applicant does not provide the information, credit unions must enter the code for "information not provided by applicant in mail or telephone application.")

C. Joint Applicants. The Credit Union may not require an applicant who is individually creditworthy to

provide a co-signor. A person's intent to be a joint applicant must be expressly evidenced on the application. The mere fact that the credit applicant owns property with another and submits information concerning the property and the joint owner in order to establish creditworthiness is not sufficient. Furthermore, the method used to establish intent must be distinct from the means used by individuals to affirm the accuracy of information.

6. **WRITTEN AND SIGNED AUTHORIZATION.** Each applicant must agree to pay the costs incurred in processing and closing the loan. Such costs include, but are not limited to the costs of obtaining credit reports, title reports, and appraisal reports. The Credit Union will not impose any fee (with the exception of a credit report fee) on an applicant for a mortgage transaction until the applicant has received the Loan Estimate disclosure and has indicated an intent to proceed with the transaction as defined in Truth in Lending.
7. **NOTICE.** The Credit Union will provide persons with notice that the Credit Union is requesting information to verify their identities, in a manner reasonably designed to ensure that a member or person is able to view the notice before opening a loan account. The Credit Union will use a notice substantially similar to the following:
 - A. **IMPORTANT INFORMATION ABOUT PROCEDURES FOR OPENING A NEW ACCOUNT.** To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial institutions to obtain, verify, and record information that identifies each person who opens an account. What this means for you: When you open an account, we will ask for your name, address, date of birth, and other information that will allow us to identify you. We also may ask to see your driver's license or other identifying documents.
8. **ADVERSE ACTIONS.**
 - A. The Credit Union will provide an adverse action notice to applicant in accordance with the ECOA and FCRA under the following circumstances:
 - i. A refusal to grant credit in substantially the same amount or on substantially the terms requested in an application unless the Credit Union makes a counteroffer (granting credit in a different amount or on other terms) and the applicant uses or expressly accepts the credit offered;
 - ii. A termination of an account or an unfavorable change in the terms of an account that does not affect all or substantially all of a class of the Credit Union's accounts; or
 - iii. A refusal to increase the amount of credit available to an applicant who has made an application for an increase.
 - B. A FCRA adverse action notice will be provided when an adverse action is based in whole or in part on information in a consumer report.
9. **NOTICE OF ADVERSE ACTION.** Notification occurs when the Credit Union delivers or mails a notice to an applicant's last known address or, in the case of a verbal notification, when the Credit Union communicates the credit decision to an applicant. The notification may appear on either or both sides of a form or letter. The Credit Union prefers to inform members of credit rejections in person or by telephone before sending written notice within the following time frames:
 - A. 30 days after receiving a completed application concerning the Credit Union's approval of, counteroffer to, or adverse action on the application;

- B. 30 days after taking adverse action on an incomplete application, unless within 30 days after receiving an application that is incomplete regarding matters that an applicant can complete, the Credit Union notifies the applicant of the action taken or the incompleteness of the application;
- C. 30 days after taking adverse action on an existing account; or
- D. 90 days after notifying the applicant of a counteroffer if the applicant does not expressly accept or use the credit offered.

10. **CONTENT OF THE ADVERSE ACTION NOTICE.** The Credit Union's adverse action notices will contain the following information:

- A. Statement of action taken with specific reasons for the denial, condition, or other action, or disclosure that the applicant has the right to receive a statement specifying why the application was denied if requested within 60 days, and that the Credit Union will respond to such request within 30 days;
- B. If the creditor chooses to provide the reasons orally, the creditor shall also disclose the applicant's right to have them confirmed in writing with 30 days of receiving the applicant's written request for confirmation;
- C. Name and address of the Credit Union;
- D. Name, address and telephone number of the person or office from which the statement of reasons can be obtained;
- E. ECOA Notice prohibiting discrimination;
- F. Name and address of credit bureau if rejection is based on credit report information;
- G. Name and address of NCUA; and
- H. The notice will also contain the following information when a credit score is used in taking an adverse action:
 - i. A statement that the Credit Union obtained the consumer's credit score from a consumer reporting agency (CRA) named in the notice and used the score making the credit decision;
 - ii. A statement that a credit score is a number that reflects the information in the consumer's credit report and that the consumer's credit score can change, depending on how the information in the consumer's credit report changes; and

iii. Space for the creditor to include the content required under the Dodd-Frank Act that is specific to the consumer, which includes the following:

1. The consumer's credit score;
2. The date the credit score was created;
3. The range of possible credit scores under the model used; and
4. Up to four key factors that adversely affected the consumer's credit score (or up to five factors if the number of inquiries made with respect to that consumer report is one of the factors).

11. NOTICE OF ADVERSE ACTION TO NATURAL PERSON APPLICANTS.

A. **Co-Applicants.** When an adverse action is based in whole or in part on information in a consumer report, the Credit Union will provide a separate notice to each applicant with each applicant's respective credit score on the notices. Otherwise, an adverse action can be provided to either applicant. If one applicant has good credit, and the other applicant does not, the combined FCRA/ECOA notice will be provided to the applicant with bad credit.

B. **Guarantors and Co-Signers.** Under the ECOA and FCRA, a guarantor or co-signer would not receive an adverse action notice. The combined ECOA/FCRA notice will be provided to the applicant, even if the adverse action decision is made solely based on information in the guarantor's or co-signer's consumer report. However, the guarantor's or co-signer's credit score will not be disclosed to an applicant in an adverse action notice.

C. **Multiple Scores.** When the Credit Union obtains multiple scores, but only uses one in making the decision, any of the scores may be disclosed.

12. NOTIFICATION OF ADVERSE ACTION TO BUSINESS CREDIT APPLICANTS.

A. **Businesses with Gross Revenues of \$1 Million or Less in its Preceding Fiscal Year** (other than an extension of trade credit, credit incident to a factoring agreement, or other similar types of business credit). For these businesses, the Credit Union will comply with the following requirements:

- i. The statement of the adverse action taken may be given orally or in writing;
- ii. Disclosure of an applicant's right to a statement of reasons may be given at the time of application, instead of when adverse action is taken, provided the disclosure contains the information required by the regulation; and

iii. For an application made entirely by telephone, a verbal statement of the action taken and of the applicant's right to a statement of reasons for the adverse action.

B. Businesses with Gross Revenues in Excess of \$1 Million in its Preceding Fiscal Year (or an extension of trade credit, credit incident to a factoring agreement, or other similar types of business credit). The Credit Union will comply with the following requirements:

- i. Notifying the applicant, within a reasonable time, orally or in writing, of the action taken; and
- ii. Providing a written statement of the reasons for the adverse action and the ECOA notice if the applicant makes a written report for the reasons within 60 days of the Credit Union's notification.

13. **RISK-BASED PRICING NOTICES.** For credit extended primarily for personal, household or family purposes, the Credit Union will provide a notice when a member receives credit on terms materially less favorable than terms offered to most members, pursuant to the Credit Union's Risk Based Pricing Notice Policy (**Policy 11010**).

14. **PROVIDING APPRAISALS TO APPLICANTS.** The Credit Union must provide applicants for first-lien loans on a dwelling with copies of appraisals, as well as other written valuations, developed in connection with the application, whether or not the applicants request copies.

A. Notification Requirements. After receiving the member's application the Credit Union has three business days to notify the member of their right to receive a copy of the appraisal.

- i. The Credit Union must promptly share copies of appraisals and other written valuations with the applicant. Promptly means promptly upon completion, or at least three business days before consummation (for closed-end credit) or account opening (for open-end credit), whichever is earlier.

B. Content of the Appraisal Notice. The Credit Union's Appraisal Notice will state:

"We may order an appraisal to determine the property's value and charge you for this appraisal. We will promptly give you a copy of any appraisal, even if your loan does not close. You can pay for an additional appraisal for your own use at your own cost."

C. Waive Appraisal Right. The applicant can waive the right to receive copies of the appraisal or other written valuations in advance of the closing, but in those cases, the Credit Union must still deliver the copies at or prior to consummation or account opening.

D. No Fee For Appraisal Copy. The Credit Union cannot charge a fee for the copy of the appraisal.

E. Handling Loans That Do Not Close. If the Credit Union does not consummate the loan or open the account and the applicant has provided a waiver, the Credit Union has 30 days after determining that the loan will not consummate or open to send the applicant a copy of the appraisal and other written valuations.

Policy 7130: Loan Authorization

Revised Date: 06/27/2015

Model Policy Revised Date: 06/27/2015

General Policy Statement:

Credit decisions are made by the loan officers appointed by the Board. Approvals should be based on lending policy compliance, credit score criteria, adequate collateral, disposable income, credit history, and creditworthiness.* A loan officer may approve an application. However, only a senior loan officer, a credit committee or the Board of Directors may deny an application.

Guidelines:

1. **CREDIT DECISIONS.** If loan officers decide to deny the loan, they may extend a counter offer for a smaller loan amount and/or shorter repayment term, or with additional terms such as obligating the borrower to:

- A. Pledge additional collateral;
- B. Cure a delinquent account;
- C. Pay down over lines to approved limit;
- D. Increase share balance;
- E. Increase down payment;
- F. Obtain co-signer; and/or
- G. Reduce total obligations.

Counter offers must be accepted within [7130-1] weeks. Otherwise [CUname] (Credit Union) will withdraw the offer and send a notice of adverse action letter.

2. **APPROVAL LIMITS.** The Board of Directors may appoint one or more loan officers with different loan limits. The loan officers act under the supervision and direction of the credit manager, who reports to the Board. The following are loan amount approval limits.

Title	Approved Secured Limit	Approved Unsecured Limit
[7130-2]	[7130-3]	[7130-4]

3. **HOME EQUITY APPROVAL LIMITS.** Senior loan officers may approve home equity loans up to \$[7320-1]. Loans over \$[7320-2] must be approved by the President or credit manager. Any second mortgage loan over \$[7320-3] requires both President and credit manager approval or executive loan committee approval.

<u>Loan Amount</u>	<u>Required Approval</u>
[\$7320-4] and under	Senior loan officer
Over \$[7320-5]	Either President or credit manager

Second Mtg over \$[7320-6]	Either both President and credit manager or executive loan committee
First Mtg over \$[7320-7]	Either both President and credit manager or executive loan committee

4. **RESIDENTIAL REAL ESTATE APPROVAL LIMITS.** Senior loan officers may approve residential real estate loans up to \$[7330-1]. Loans over \$[7330-2] must be approved by the President or credit manager. Any second mortgage loan over \$[7330-3] requires both President and credit manager approval or executive loan committee approval.

<u>Loan Amount</u>	<u>Required Approval</u>
\$[7330-4] and under	Senior loan officer
Over \$[7330-5]	Either President or credit manager
Second Mtg over \$[7330-6]	Either both President and credit manager or executive loan committee
First Mtg over \$[7330-7]	Either both President and credit manager or executive loan committee

5. **INDIRECT DEALER FINANCING.** The Credit Union will approve bona fide transactions that constitute acceptable credit risks. The following officers are authorized to approve indirect dealer financing up to the following amounts:

<u>Loan Amount</u>	<u>Required Approval</u>
\$ [7130-8] and under	Senior loan officer
Over \$ [7130-9]	Either President or credit manager or executive loan committee

6. **SPECIAL APPROVALS.**

A. **Loans Over Limits.** Loans exceeding approval limits require approval from the credit manager.

B. **Nonconforming Loans and High Debt Ratios.** The credit manager must approve loans that fail to meet secondary market investor requirements and loans with debt ratios exceeding [7130-5] % of gross income and [7130-6] % of net income.

C. **Member Business Loans to Management.** As required by regulation, the Credit Union may not make member business loans to the Credit Union's Chief Executive Officer (e.g., President, Treasurer/Manager), any Assistant Chief Executive Officer (e.g., Assistant President, Vice President, or Assistant Treasurer/Manager), the Chief Financial Officer (e.g., Comptroller), and any associated member or immediate family member of these senior members of management. Associated members are members with a shared ownership, investment, or other pecuniary interest in a business or commercial endeavor with the borrower.

D. **Loans to Credit Union Staff.** Any extension of credit to Credit Union staff requires prior credit manager approval.

E. **Loans to Management/Credit Manager.** Board of Directors must approve loans to management where aggregate amounts exceed [7130-7], including loans where managers serve as endorsers or guarantors but

excluding any amounts secured by shares pledged by the official. Management is defined as the President, Vice Presidents, and Credit Manager.

F. **Loans to Officials.** Board of Directors must approve loans to officials or their immediate family members where aggregate amounts exceed \$20,000, including loans where officials serve as endorsers or guarantors but excluding any amounts secured by shares pledged by the official. Officials are members of the Board of Directors, Credit Committee, or Supervisory Committee.

G. **Modifications.** Senior loan officers and the credit manager are empowered to grant extensions on the repayment of existing loans, adjust payment amount, and release or substitute security whenever such modifications are prudent given the creditworthiness of the borrower.

7. **DENIAL GUIDELINES.** Junior loan officer denials require concurrence by a senior loan officer. Senior loan officers may deny credit without concurrence by another loan officer.

8. **CONFLICTS OF INTEREST.** No loan officer shall participate in the deliberation, approval or processing of any loan application, request for extension or release of collateral on any account in which he or she has a direct or indirect interest.

* Credit decisions may be made by credit committee where applicable to a particular Credit Union.

Policy 7135: Loan Documentation

Revised Date: 01/01/2004

Model Policy Revised Date: 12/01/2004

Model Policy Reviewed Date: 06/29/2016

General Policy Statement:

Loan files will contain proper documentation including but not limited to: applications, credit reports, financial statements and tax returns, loan histories, Truth-in-Lending estimates, worksheets and approvals, loan advance vouchers, and when applicable, proof of insurance (including flood insurance), certificates of title, title reports, trust deeds, security interest agreement and filing forms, appraisal reports, proof of hold placed on deposits, modifications, workout agreements, and any other relevant loan documentation.

Policy 7140: Loan Insurance

Revised Date: 07/01/2008

Model Policy Revised Date: 07/01/2008

General Policy Statement:

[CUNAME] (Credit Union) offers credit life, credit disability, and collateral protection insurance to borrowers in certain circumstances. The option of purchasing credit life or disability insurance will be offered to every eligible member. The purchase of credit life and credit disability insurance is at the member's discretion. Under no circumstance will the Credit Union refuse to extend credit or terminate an account because credit life or disability insurance is not available on the basis of the applicant's age.

Guidelines:

1. **CREDIT LIFE.** Members may purchase credit life insurance for all loans except those secured by real estate. Credit life insurance provides insured borrowers with life insurance that pays off the balance of the loan in the event of death.
 - A. **Eligibility.** Eligible members must be primary borrowers under the age of [7140-1]. Coverage will discontinue when the insured reaches age [7140-2].
 - B. **Premiums.** Insurance premiums are automatically added to the member's loan payment each month until the member pays off the loan or cancels insurance coverage.
 - C. **Coverage Limits.** The maximum amount of credit life insurance per loan is limited as follows:
 - i. Consumer Loans: [7140-3]
 - ii. Home Equity Loans: [7140-4]
2. **CREDIT DISABILITY.** Members may buy credit disability insurance for all types of loans. Credit disability insurance provides for the continued payment of the insured borrower's loan in the event of total disability resulting from a covered accident or sickness.
 - A. **Eligibility.**
 - i. Primary borrower must be under the age of [7140-5]. Coverage will discontinue when the insured reaches age [7140-6].

Note: See contract provisions of Insurance policy as coverage will vary from state to state.
 - ii. Primary borrower must be actively employed and performing the usual duties of a full-time occupation on the date of the loan.
 - B. **Premiums.** Insurance premiums are automatically added to the member's loan payment each month until the member pays off the loan or cancels insurance coverage.
 - C. **Coverage Limits.** The maximum amount of credit disability insurance per loan is limited as follows:

i. Consumer Loans: [7140-7]

ii. Home Equity Loans: [7140-8]

3. **COLLATERAL PROTECTION INSURANCE.** The Credit Union will automatically purchase collateral protection insurance when a borrower's vehicle insurance lapses. Collateral protection insurance protects the Credit Union's interest only; it does not protect the borrower in any way. The cost of collateral protection insurance is added to the borrower's loan balance as stipulated in the security agreement.
4. **DISCLOSURE.** The following disclosures will be provided to applicants wherever loan insurance products are advertised or offered:
 - A. Insurance products sold through or in the credit union are not insured by the National Credit Union Administration and are not issued, guaranteed, or underwritten by the Credit Union or the National Credit Union Administration or any other federal government agency; and
 - B. That there is no requirement or obligation to purchase insurance from the Credit Union or any subsidiary, affiliate, or particular unaffiliated third party as a condition to obtaining a loan, and a decision as to insurance agents will not affect the credit terms in any way. The Credit Union may not condition an extension of credit on an agreement not to obtain, or a prohibition on the applicant from obtaining an insurance product or annuity from an unaffiliated entity.”
5. **HOEPA DISCLOSURE.** The Home Ownership & Equity Protection Act (“HOEPA”) requires that the Credit Union disclose whether credit insurance or debt cancellation insurance is included in the “total amount borrowed” in compliance with Regulation Z.

Policy 7145: Loan Limits

Revised Date: 12/20/2017

Model Policy Revised Date: 12/20/2017

General Policy Statement:

[CUname] (Credit Union) limits loans to one borrower, and limits loans based on the value of the collateral.

Guidelines:

1. **LOAN TO ONE BORROWER.** Total loans to any one borrower at any one time may not exceed 10% of the Credit Union's total unimpaired capital and surplus.
2. **MAXIMUM LOAN TO VALUE RATIOS.** After satisfying all requirements secured loans may be made for the following:

Secured Loan Collateral	Loaned Amount
First Mortgage	[7145-1]%
Second Mortgage	[7145-2]%
Home Equity Loans	[7145-3]%
New automobile, truck, van	[7145-4]%
Recreational Vehicles	[7145-5]%
Used Automobiles 3 years old or less	[7145-6]% high Blue Book
Used Automobiles over 3 years old	[7145-7]% low Blue Book

3. **MEMBER BUSINESS LOANS.** The NCUA has adopted special rules applicable to member business loans. In general, the aggregate limit on the Credit Union's outstanding member business loans is the lesser of 1.75 times the Credit Union's actual net worth or 1.75 times the minimum net worth required under the NCUA's Prompt Corrective Action Rules. Member business loans are also subject to the following limits in addition to limits outlined in Policy 7420 – Member Business Loans / Commercial Lending:

A. **LOAN TO ONE BORROWER.** The Credit Union must limit member business loans to one borrower to a maximum of 15% of the Credit Union's net worth or \$100,000, whichever is higher. Plus an additional 10% of the credit union's net worth is permissible, if that amount that exceeds the 15% is fully secured at all times with a perfected security interest in readily marketable collateral.

Policy 7150: Loan Portfolio Mix

Revised Date: 01/01/2008

Model Policy Revised Date: 01/01/2008

General Policy Statement:

The Board has set the following goals for [CUNAME]'s (Credit Union) loan portfolio mix.

1. CONSUMER LOANS: [7150-1] %

A. Automobile Loans: [7150-2] %

i. New automobile: [7150-3] %

ii. Used automobile: [7150-4] %

B. Recreational Vehicles: [7150-5] %

i. New vehicles: [7150-6] %

ii. Used vehicles: [7150-7] %

C. Student Loans: [7150-8] %

D. Unsecured Consumer Loans: [7150-9] %

E. Share Secured Loans: [7150-9.1] %

F. Rapid Refund Loans: [7150-9.2] %

G. Credit Card Loans: [7150-9.3] %

H. Other [7150-9.4] : [7150-9.5] %

2. RESIDENTIAL REAL ESTATE LOANS: [7150-9.6] %

A. First Trust Deeds: [7150-9.7] %

B. Home Equity Loans: [7150-9.8] %

C. Non-Traditional Mortgage Products: [7150-9.9]%

3. MEMBER BUSINESS LOANS: [7150-9.10] %

A. Business Credit Card Lines of Credit [7150-10.1] %

4. CONSTRUCTION LOANS: [7150-9.10A] %

Policy 7155: Loan Quality Board Reports

Revised Date: 07/01/2008

Model Policy Revised Date: 07/01/2008

General Policy Statement:

[CUname] (Credit Union) closely monitors loan portfolio quality and reports findings to the Board of Directors on a monthly basis. Management reports are designed to identify troubled loans promptly so that management can resolve problems in a timely and efficient manner.

Guidelines:

1. **GENERAL.** In general, management reports analyze loan balances and maturities; collateral value (when applicable); past-dues; non-accruals; renewals; extensions; deferrals; collection efforts; charge-offs and classifications; and concentrations.
2. **DELINQUENT LOANS TO AVERAGE LOANS OR TOTAL LOANS.** The ratio indicates what proportion of the loan portfolio is 60 days or more past due.
3. **NET LOAN LOSSES TO AVERAGE LOANS.** The ratio shows how much of the loan portfolio was charged off during the period.
4. **ALLOWANCE FOR LOAN LOSS TO TOTAL LOANS.** The ratio identifies amount reserved to cover possible losses in the loan portfolio.
5. **NONPERFORMING LOANS TO ALLOWANCE FOR LOANS.** The ratio determines how much of the loan loss reserve exists to cover the nonperforming loans.

Policy 7160: Loans to Insiders

Revised Date: 03/28/2015

Model Policy Revised Date: 03/28/2015

General Policy Statement:

[CUname] (Credit Union) will not offer Credit Union officials or their immediate family members, rates, terms, or conditions on any loan or line of credit either made, endorsed or guaranteed by them, more favorable than those offered to members on comparable loans. This prohibition against preferential treatment also applies to individuals who have common ownership, investment or other pecuniary interest in a business enterprise with an official, or with an immediate family member of an official.

A Credit Union “official” includes any member of the Board of Directors, the Credit Committee, or the Supervisory Committee (where applicable). An “immediate family member” for purposes of this rule is a spouse or other family member living in the same household.

The Board of Directors must approve loans to officials or their immediate family members where aggregate amounts exceed \$20,000, including loans where officials serve as endorsers or guarantors but excluding any amounts secured by shares pledged by the official. Officials are members of the Board of Directors, Credit Committee, or Supervisory Committee.

Policy 7165: Pricing and Terms

Revised Date: 07/01/2009

Model Policy Revised Date: 07/01/2009

General Policy Statement:

Pricing and terms of loans are coordinated through asset liability management to match rate-sensitive assets with rate-sensitive liabilities. Maturity periods are consistent with the loan purpose, security, creditworthiness of the borrower, and sound lending policies. Pricing decisions are based on market/competitive information and are subject to frequent management review.

[CUname] (Credit Union) is firmly committed to the principles of fair lending. Pricing and terms of loans shall be determined based strictly on non-discriminatory guidelines, pursuant to the Credit Union's Fair Lending policy (See Policy 7120).

Guidelines:

The Credit Union offers both fixed and variable rate financing.

1. **VARIABLE RATE FINANCING.** Variable interest fluctuates with the prime interest rate as quoted in the [7165-1]. A monthly log of such rates will be kept. The spread of prime rate and interest rates charged by the Credit Union is governed by the rate and term structure set forth by the loan management team each month.
2. **FIXED RATE FINANCING.** Fixed interest rates are set at levels that match the Board's forecast of economic growth and management goals of (1) maintaining a healthy spread between current cost of funds and projected loan rates and (2) maintaining a competitive position in the financial marketplace.
3. **MONTHLY AMORTIZATION.** Loans granted by the Credit Union will be repaid through regular payments based on amortization schedules requiring payment at least monthly. The payment schedule will be calculated to pay the loan in full within the appropriate term. Exceptions to this payment requirement are authorized for single pay loans, balloon payment loans, and loans subject to extension agreements or similar collection activity.
4. **SINGLE PAY LOANS.** The Credit Union is authorized to grant single pay loans provided the terms and conditions governing any single pay loan product are approved in advance by the Board of Directors.
5. **BALLOON PAYMENT LOANS.** Balloon payment loans are authorized for the following loan products:
 - A. **Automobile Loans.** The Credit Union will grant balloon payment automobile loans based on the Credit Union's Lease-Like Loan policy (See Policy 7206).
 - B. **Real Estate Loans.** Balloon payments may be used on longer term real estate loans as a tool to manage interest rate risk. Balloon payment real estate loans will be designed and authorized based on asset/liability management objectives. Specific balloon payment real estate loan products are authorized in the real estate section of this lending policy.
 - C. **Share Secured Loans.**
6. **PREPAYMENT PENALTIES.** Borrowers may prepay loans in full or in part at any time without a

prepayment penalty.

Policy 7170: Risk-Based Lending

Revised Date: 03/28/2015

Model Policy Revised Date: 03/28/2015

General Policy Statement:

[CUName] (Credit Union) has established a risk-based lending program, which includes a credit scoring and pricing model, which will reward the members based on the degree of individual credit risks. The Credit Union also desires to reward its most credit worthy members with a preferred loan commitment utilizing a tiered interest rate structure while attempting to assist those members who may have weaker credit. Both the credit scoring and pricing models will be used in determining the loan decision and the initial rate to the borrower(s). Risk-based lending may be offered on all lending products. The risk-based lending program will be monitored at least annually and may be discontinued at any time.

Guidelines:

1. **CREDIT SCORING.** The Credit Union will utilize [7170-1] to obtain a member's credit score.

A. When determining which credit grade to assign, the Credit Union will adhere to the following:

- i. In the event that there are two or more borrowers, the credit grade will be based on an average of all borrowers' scores.
- ii. In the event there is no credit report or score, the Credit Union will assign the rates and limits set by grade D. This includes first time borrowers with no previous credit history.
- iii. If two credit bureau reports are obtained, resulting in two different scores, the Credit Union will use the most detailed score which is most indicative of how the member pays.

2. **CREDIT GRADE.** The Credit Union will loan to high risk members based on their credit score and individual circumstances. Both will be considered when assigning a credit grade. The Credit Union will utilize a four level grading system with Grade A representing the highest scoring and D the lowest. Depending on the type of loan requested, the credit grades may determine loan approval, loan amount, and/or the interest rate to be charged.

A. **Grade A.** Grade A reflects a score of [7170-2] and above. To be classified at this level the member must meet the following requirements:

- i. No current delinquency and no past delinquencies greater than 30 days;
- ii. No judgments of any type on credit report;
- iii. Debt ratio is 50% or less; and
- iv. No bankruptcies, charge offs, or collection accounts.

B. **Grade B.** Grade B reflects a score of [7170-3] to [7170-4]. To be classified at this level the member must meet the following requirements:

- i. No current delinquency and no past delinquency greater than 60 days;

- ii. Previous collection accounts, charge offs, or judgments acceptable if paid;
- iii. Debt ratio is 50% or less; and
- iv. No bankruptcies in the last seven years

C. **Grade C.** Grade C reflects a score of [7170-5] to [7170-6]. To be classified at this level the member must meet the following requirements:

- i. No current delinquency and no past delinquency greater than 120 days;
- ii. Previous collection accounts, charge offs, or judgments acceptable if paid;
- iii. Debt ratio is 50% or less; and
- iv. No bankruptcies in the last 4 years; OR
- v. A minimally established credit history

D. **Grade D.** Grade D reflects a score of [7170-7] to [7170-8]. To be classified at this level the member must meet the following requirements:

- i. No accounts currently delinquent more than 60 days;
- ii. Outstanding collections accounts, charge-offs or judgments acceptable, if paid, or payment history has been re-established;
- iii. Debt ratio is 50% or less; and
- iv. Has filed bankruptcy within the past four years, but has stable income, stable employment and has re-established payment history; OR
- v. No Credit History

3. **GRADE ADJUSTMENTS.** The Credit Union may provide an evaluation of each loan. The loan manager or Credit Committee may adjust the grade based on an analysis, but will ensure any adjustments made will conform to the Credit Union's Fair Lending policy (**See Policy 7120**). The adjustment will be based on information the Credit Union has that may not be accurately reflected in the credit score. Such information may include:

- A. Debt ratio (which will be calculated based on the gross monthly salary to monthly payments);
- B. Evidence of debts paid;
- C. Credit history with the Credit Union;
- D. Quality of collateral;
- E. Capacity to repay; and

F. Purpose of the loan

4. **RISK-BASED PRICING NOTICES.** For credit extended primarily for personal, household or family purposes, the Credit Union will provide a notice when a member receives credit on terms materially less favorable than terms offered to most members, pursuant to the Credit Union's Risk Based Pricing Notice Policy (**See Policy 11010**).
5. **MONITORING AND TRACKING.** The Credit Union will monitor and track the risk-based lending program for compliance and effectiveness as follows:
 - A. System monitoring reports will be run and analyzed on a regular basis. Monitoring reports will be run at the product level or wherever distinct cutoff scores are determined.
 - B. Tracking of all tiered loans will be performed regularly to determine how they are performing. Adjustments will be made to policies and procedures to effectively implement the risk-based lending programs to ensure that the Credit Union is effectively serving members while upholding the quality of our loan portfolio.
 - C. The Asset Liability Committee (the ALCO) shall monitor, analyze, track and report on an ongoing basis the performance of both the credit-scoring and pricing models to ensure accuracy and compliance with all required regulations. Overall performance of the risk-based lending program will be reviewed to ensure that the strategic goals and objectives of the Credit Union are being met.
 - D. The loan manager is responsible for having the risk based lending models statistically validated on a periodic basis no less than every two (2) years to ensure that the model's data base is empirically sound.

Policy 7175: Anti-Steering in Lending Practices

Revised Date: 12/20/2013

Model Policy Published Date: 12/20/2013

General Policy Statement:

[CUNAME]'s (Credit Union) lending practices strive to serve the legitimate credit needs of Credit Union members while safeguarding the investments of members. The Credit Union promotes prudent underwriting, fair treatment of applicants, sound loan management, and compliance with all applicable federal and state laws and regulations.

Further, it is the Credit Union's policy to provide all members with complete information and base credit decisions on a careful evaluation of facts, rather than steering them into less favorable loans than those for which they are otherwise qualified.

Guidelines:

1. GENERAL CONSIDERATIONS

- A. **Compliance.** The Credit Union will comply with the Truth in Lending requirements and the Consumer Financial Protection Bureau's Loan Originator Compensation Rule amendments to Regulation Z, in addition to all other Federal and State requirements.
- B. **Member Loan Requests.** The Credit Union will provide members with information for each type of transaction the member has expressed an interest in that is provided by the Credit Union.
- C. **Loan Options.** The Credit Union will provide members with loan options that the loan originator has a good faith belief the member is likely to qualify for.
- D. **Mortgage Transaction Types.** The mortgage loan transaction options provided to members will include, at a minimum:
 - i. Loan with the lowest interest rate;
 - ii. Loan with the lowest total dollar amount of discount points;
 - iii. Loan with the lowest total dollar amount of origination points and/or fees; and
 - iv. A loan with the lowest interest rate without negative amortization, a prepayment penalty, interest-only payments, a balloon payment in the first 7 years of the life of the loan, a demand feature, shared equity, or shared appreciation; or, in the case of a reverse mortgage, a loan without a prepayment penalty, or shared equity, or shared appreciation.

Policy 7180: Anti-Predatory Lending Policy

Revised Date: 06/29/2016

Model Policy Published Date: 06/29/2016

General Policy Statement:

[CUNAME] (Credit Union) is committed to protecting their members from predatory lending practices and providing them with the most cost-effective products that meet their financial needs. The Credit Union also complies with anti-predatory laws and the guidelines outlined are a demonstration of that commitment and compliance.

The Credit Union will not knowingly purchase or fund any mortgage loans that may be in violation of anti-predatory lending laws and the guidelines in this policy.

Guidelines:

- 1. Mandatory Arbitration.** The Credit Union's contract or other agreement for credit transactions secured by a dwelling (including a home equity line of credit) will not include terms that require arbitration or any other non-judicial procedure to resolve any controversy or settle claims arising out of the transaction.
- 2. Home Ownership and Equity Protection Act (HOEPA).** The Credit Union complies with the Home Ownership and Equity Protection Act (HOEPA) and its implementing regulations (See Policy 9220). The Home Ownership and Equity Protection Rule requires that the Credit Union give additional disclosures, avoid certain loan terms, and ensure the member receives additional protections, including homeownership counseling when a member applies and consummates a high-cost mortgage loan.
- 3. Prepayment Penalties.** The Credit Union will not charge prepayment penalties for mortgage loans that are covered transactions for HOEPA Rules.
- 4. Ability-to-Repay.** The Credit Union will comply with the Ability-to-Repay requirements under Regulation Z (See Policy 7350 or 7351).
- 5. Unfair, Deceptive or Abusive Acts or Practices (UDAAP).** The Consumer Financial Protection Bureau (CFPB) has enforcement authority to prevent unfair, deceptive or abusive acts in connection with any transaction with a consumer for a consumer financial product or service, or the offering of a consumer financial product or service. Therefore, Credit Unions will consider UDAAP in all dealings with consumers, including, but not limited to, the advertising, offering, lending, servicing and collecting of products and services (See Policy 9150).
- 6. Anti-Steering.** It is the Credit Union's policy to provide all members with complete information and base credit decisions on a careful evaluation of facts, rather than steering them into less favorable loans than those for which they are otherwise qualified (See Policy 7175).

Policy 7200: Consumer Loans

Revised Date: 08/29/2013

Model Policy Revised Date: 08/29/2013

General Policy Statement:

[CUNAME] (Credit Union) extends credit to qualifying members for consumer purposes. Qualifying members are those members who meet the Credit Union's underwriting standards, pursuant to the Credit Union's General Lending Policy (See Policy 7100). As a general rule, qualified members are those who demonstrate capacity to service the debt and pledge adequate collateral where necessary. The Credit Union offers a variety of consumer loan products, each of which described and authorized in the policies that follow. These loan products may be structured as closed-end or open-end credit transactions.

1. **COMPLIANCE.** The Credit Union will comply with all state and federal laws and regulations associated with consumer lending, including but not limited to the following:

- A. Regulation Z, which implements the Truth-in-Lending Act (12 C.F.R.1026).
- B. Regulation B, which implements the Equal Credit Opportunity Act (12 C.F.R. 1002).
- C. The Fair Credit Reporting Act (12 C.F.R. 1022).
- D. The Fair Housing Act (42 U.S.C. 3601).
- E. Regulation C, which implements the Home Mortgage Disclosure Act (12 C.F.R.1003).
- F. Regulation Z, which implements the Home Ownership and Equity Protection Act (12 C.F.R. 1026.32 through 1026.34).
- G. Article 9 of the Uniform Commercial Code.
- H. The Servicemembers Civil Relief Act.
- I. NCUA Parts 701, 706, 717, 722, and 760.
- J. [7200-1]

2. **RESPONSIBILITY.**

A. **Credit Committee Responsibilities.** The Credit Committee is responsible for the following duties:

- i. Review and approve lending policies;
- ii. Set, and recommend changes to, loan rates and fees for Board approval;
- iii. Meet with members to discuss loan application denials upon request;
- iv. Review all loans approved and denied on a monthly basis; and

- v. Provide monthly reports to the Board regarding the number of loans approved and denied each month.

B. Management/Loan Officers. The Board of Directors delegates the authority to approve and deny loan applications to management and the loan officers, pursuant to the Credit Union's loan policies.

3. UNDERWRITING.

A. Guidelines. The Credit Union will follow the following underwriting criteria:

[7200-2]

B. Multi-Featured Open-End Lending. The Credit Union offers open-end credit through a multi-featured plan. Under such a plan, the member has a single account with the Credit Union that can be accessed repeatedly via a number of sub-accounts established for the different program features and rate structures. Some features of the plan may be used repeatedly, while others may be used infrequently.

i. Verification of Creditworthiness and Underwriting of Loans. The Credit Union may "occasionally and routinely" verify a member's credit information. This verification may **not** be done as a condition of granting a member's request for a particular advance under the plan. Therefore, the Credit Union will ensure that the plan itself is underwritten, and not each subsequent advance.

1. Creditworthiness Reviews. The Credit Union will occasionally and routinely verify a member's credit for the following types of loans:

[7200-3]

ii. No Separate Applications Under Plans. The Credit Union may **not** require separate applications for additional advances under multi-featured open-end plans. Notwithstanding this requirement, members do **not** have an absolute right to further extensions of credit.

4. COLLATERAL. The Credit Union will create, attach, and perfect security interests in the collateral as listed in the Credit Union's Collateral policy (**See Policy 7105**).

5. OPEN-END LOANS. The Credit Union offers the following types of open-end loans:

[7200-4]

6. CLOSED-END LOANS. The Credit Union offers the following types of closed-end loans:

[7200-5]

7. AUDIT. The Credit Union will conduct an internal audit of the loan files to ensure compliance with the Credit Union's regulatory requirements. In addition, the Credit Union will obtain an independent audit to determine same.

8. LOAN EXTENSIONS. The Credit Union will follow its Loan Extension policy for all loan extension requests (**See Policy 7616**).

9. **ALLOWANCE FOR LOAN & LEASE LOSSES (ALLL).** The ALLL represents the Credit Union management's evaluation of various factors influencing the collectability and probable losses for all categories of loans and the proper valuation of loans. The allowance encompasses specifically identified loans, as well as estimated losses inherent in the loan portfolio. To determine the ALLL, the Credit Union will follow its Allowance for Loan and Lease Losses policy (**See Policy 7615**).

Policy 7205: Automobile Loans

Revised Date: 07/01/2008

Model Policy Revised Date: 07/01/2008

General Policy Statement:

[CUNAME] (Credit Union) will finance the purchase of new and used automobiles, vans and pick-up trucks.

Guidelines:

1. VEHICLE CATEGORIES.

A. **New Vehicles.** New vehicles are vehicles of the current or previous model year or newer with less than 10,000 miles. Mileage must be verified by loan personnel.

B. **Used Vehicles.** Used vehicles are vehicles older than the current model year up to 7 model years in age.

2. **VALUE.** Management will determine the value of new vehicles by confirming purchase order or dealer invoice. The value of used vehicles will be determined by the NADA appraisal guide. The credit manager has the right to have any vehicle appraised when necessary.

3. **TERMS.** Interest rates, repayment terms and NADA collateral value for the above loans will be determined by the age of the vehicle, and are governed by the current rate structure set by the Asset/Liability Management Committee each month. As a general rule, the Credit Union limits maturities to 60 months. However, the repayment period may vary depending on the expected life and salvage value of the vehicle. For example, older used vehicles typically have repayment periods less than 60 months and certain luxury vehicles and rare classics may be financed for as long as 84 months.

4. REQUIRED LOAN DOCUMENTATION.

A. Certificate of title with the Credit Union as lien holder.

B. Insurance binder listing the Credit Union as the lien holder and indicating adequate collision, comprehensive and liability coverage, plus:

i. Name and address of insurance agent;

ii. Policy number and expiration date; and

iii. Complete description of collateral.

C. Purchase money security agreement.

D. Evidence of purchase price: purchase order, dealer invoice, or bill of sale.

E. Evidence of down payment, trade, cash, or rebate and net amount due the seller, third party or financial institution.

F. Information on seller (name and address), vehicle identification number, previous lien information, etc.

G. Authorization of pay-off when applicable.

5. **INSURANCE.** Borrowers must maintain full coverage (comprehensive and collision) insurance on the vehicle until the loan is paid in full or until the balance is low enough to warrant release (approximately \$2,000).

A. **Deductible.** The maximum deductible for vehicle insurance is [7205-1].

B. **Cancellation.** Insurance carriers will contact the Credit Union immediately if a policy is canceled for any reason. The Credit Union has collateral protection insurance available to protect its interest in this case.

C. **Waiver.** Loan officers may waive the insurance coverage requirement where prudent.

6. **AUTOMOBILE LOAN WATCH.** Management monitors past-due percentages and loss trends closely and implements corrective action as necessary. Management reports include documentation of renewals, extensions and deferrals, past-dues, charge-offs, and collection efforts associated with consumer vehicle loans.

Policy 7206: Lease-Like Loans

Revised Date: 06/01/2008

Model Policy Revised Date: 06/01/2008

General Policy Statement:

Leasing has become a common financing option in the automobile industry. [CUnion] (Credit Union) has developed this lease-like loan policy in an effort to meet member needs and to respond to the competitive market for auto loans. It is the policy of the Credit Union to grant lease-like loans in situations that meet the financial or operating needs of the member. Lease-like loans SHOULD NOT be used merely to reduce the loan payment, thus allowing the member to purchase a vehicle they could not otherwise afford.

Guidelines:

1. QUALIFYING VEHICLES.

A. **Eligible Vehicles.** This policy applies to automobiles, trucks and vans up to [7206-1] years old that are listed in the residual value guide in use by the Credit Union. Trucks and vans must not exceed [7206-2] ton.

B. **Ineligible Vehicles.** The following is a non-exclusive list of ineligible vehicles:

[7206-3]

2. **TERMS.** The loan rates and terms will be established by the loan management team in accordance with the asset/liability management needs of the Credit Union. The requirements for loan documentation and insurance are the same as the Automobile Loan policy.

3. RESIDUAL VALUE.

A. **Calculation.** The residual value will be derived using the methods and guides generally accepted for this purpose in the industry.

B. **Insurance.** It is the policy of the Credit Union to obtain, whenever feasible, residual value insurance in order to protect against loss should the loan balance exceed actual value at the end of term. This insurance will include endorsements covering total loss and repossession. If the member fails to obtain insurance, the Credit Union reserves the right to purchase insurance and add the premium to the monthly lease payments, if permitted by the lease agreement.

4. **REVIEW.** Management will review this Lease-Like Loan policy at least annually. Special consideration will be given to accuracy of residual value calculations, loan loss experience, potential loan loss experience based on a comparison of loan balances to actual values, and whether the policies objectives are being met.

5. **DELINQUENCY AND COLLECTIONS.** All motor vehicle lease delinquencies shall be handled pursuant to the Credit Union's Collection Process policy.

6. **REPOSSESSIONS.** If the member is [7206-4] past due on the lease without good cause, repossession efforts shall begin, in compliance with applicable law and pursuant to the Credit Union's Collection Process policy.

Policy 7210: Credit Cards

Revised Date: 06/29/2016

Model Policy Revised Date: 06/29/2016

General Policy Statement:

[CUname] (Credit Union) offers credit cards to consumer members who meet the Credit Union's credit underwriting standards.

Guidelines:

1. CREDIT CARD APPROVAL.

- A. All credit decisions will be made by the loan officers appointed by the Board of Directors of the Credit Union. Limits will be approved by the same guidelines as stated in the consumer Personal Loan policy (See **Policy 7255**).
- B. Co-Makers and/or pledged shares will be accepted for security on credit cards if the member has no current or previous established credit in his/her name. A co-maker or cosigner must be informed in writing of his or her responsibilities before the loan is consummated, and must be provided a cosigner notice in accordance with 12 CFR 706.3, advising the cosigner, among other things, that he or she is being asked to guarantee the debt and may be held responsible for the full amount if the borrower does not pay.

2. REQUIRED DOCUMENTATION.

- A. Application;
- B. Driver's License;
- C. Security agreement;
- D. Proof of income;
- E. Credit report; and
- F. Debt-ratio calculation.

3. **MONTHLY PAYMENTS.** Monthly payments are required on all credit card accounts. Minimum payments are set at [7210-1]% of unpaid balance or \$[7210-2], whichever is greater.

4. **DISCLOSURES.** The Credit Union will disclose the rates and terms of its credit card program in accordance with Regulation Z (See **Policy 7250**).

5. **FINANCE CHARGE CALCULATION.** The Credit Union affords a 25 day grace period. If the balance is paid in full within the grace period, the account will incur no finance charge. Otherwise, the Credit Union will calculate interest based on a daily balance for the month.

6. **LATE CHARGES.** The Credit Union may assess late charges. However, with respect to consumer loans, the

Credit Union may **not** collect any late charge or delinquency charge on a payment when the delinquency is due to unpaid late fees or delinquency charges assessed earlier (a/k/a “pyramiding” of late fees).

7. **INCREASING APRS OR CHANGING TERMS OF AGREEMENT.** The Credit Union will provide members 45 days' notice before increasing a member's annual percentage rate (APR) or changing any other significant terms in the credit agreement, pursuant to the Credit Union's Truth in Lending Policy (See Policy 7250).

A. **Monitoring and Review.** When the Credit Union increases an APR due to market conditions or a cardholder's credit risk, the Credit Union will periodically monitor these factors to determine whether an APR decrease is appropriate. The Credit Union will review accounts where the APR has been increased at least every 6 months.

B. **Changes Where Advance Notice is Required.** The Credit Union will provide **45 days** advance written notice regarding “significant account changes” to all members who may be affected, unless the member has agreed to the change (in which case, the notice must be provided any time before the effective date of the change).

i. The member acceptance exception only applies when a member substitutes collateral or when the Credit Union can advance additional credit only of a change relatively unique to that member is made (such as the member's providing additional security or paying an increased minimum payment amount). The following are NOT considered agreements between the member and Credit Union under this section:

1. The member's general acceptance of the Credit Union's contract reservation of the right to change terms;
2. The member's use of the account (which might imply acceptance of its terms under state law);
3. The member's acceptance of a unilateral term change that is not particular to that member; and
4. The member's request to re-open a closed account or to upgrade an existing account to another account offered by the Credit Union with different credit or other features.

C. **Significant Changes in Account Terms.** For purposes of this section, this term means a change to a term required to be disclosed in the account-opening table, an increase in the required minimum periodic payment, or the acquisition of a security interest. For changes that are not “significant,” the Credit Union will provide the 45 day notice, or notify the member of the change before the member becomes obligated to pay the charge (orally or in writing), pursuant to the Credit Union's Truth-in-Lending Disclosures for Open-Ended Credit Policy (see Policy 7250).

D. **Right to Reject for Credit Cards Under an Open-End (Not Home-Secured) Plan.** In addition to the significant change in terms disclosure requirements, if the Credit Union makes such a change, the Credit Union will generally provide the information on the notice pursuant to **Policy 7250**.

i. The member's right to reject does NOT apply in the following circumstances: increases in the periodic payment, an increase in a fee as a result of a reevaluation of a determination made under Reg Z 1026.52(b)(1)(i) (See Section (20)) or an adjustment to the safe harbors in Reg Z 1026.52(b)(1)(ii) (See Section (19)) to reflect changes in the Consumer Price Index, a change in the APR

applicable to a member's account, a change in the balance computation method, or when the change results from the Credit Union not receiving the member's required minimum periodic payment within 60 days after the due date for that payment.

E. Changes Resulting from Failure to Make Required Minimum Periodic Payment Within 60 Days of Due Date (for Credit Cards Under an Open-End (Not Home-Secured) Plans). The notice in these cases will include the information found in **Policy 7250**.

F. Notice Not Required. For open-end (not home-secured) plans, the change-in-terms notice is NOT required for the following changes:

- i. Changes involving charges for documentary evidence; a reduction of any component of a finance or other charge; suspension of future credit privileges or termination of an account or plan; when the change results from an agreement involving a court proceeding; when the change is an extension of the grace period; or if the change is applicable only to checks that access a credit card account and the changed terms are disclosed on or with the checks in accordance with the regulation.
- ii. When the change is an increase in the APR upon the expiration of a specified period of time, provided that:
 1. Prior to the commencement of that period, the Credit Union disclosed in writing to the member, in a clear and conspicuous manner, the length of the period and the APR that would apply after expiration of the period;
 2. The disclosure of the length of the period and the APR that would apply after expiration of the period are set forth in close proximity and in equal prominence to the first listing of the disclosure of the rate that applies during the specified period of time; and
 3. The APR that applies after the period does **not** exceed the previous rate or, if the rate was variable, the rate following such increase is a variable rate determined by the same formula (index and margin) that was used to calculate the variable rate disclosed;
- iii. When the change is an increase in a variable APR in accordance with the credit card agreement that provides for changes in the rate according to operation of an index that is not under the control of the Credit Union and is available to the general public; or
- iv. When the change is an increase in an APR, a fee or charge required to be disclosed, or the required minimum periodic payment due to the completion of a workout or temporary hardship arrangement by the member or the member's failure to comply with the terms of such an arrangement, provided that:
 1. The APR or fee or charge applicable to a category of transactions or the required minimum periodic payment following any such increase does **not** exceed the rate or fee or charge or required minimum periodic payment that applied to that category of transactions prior to commencement of the arrangement or, the rate that applied to a category of transactions prior to the commencement of the workout or temporary hardship arrangement was a variable rate, the rate following any such increase is a variable rate determined by the same formula (index and margin) that applied to the category of transactions prior to commencement of the workout or temporary hardship arrangement; and

2. The Credit Union has provided the member, prior to the commencement of such arrangement, with a clear and conspicuous disclosure of the terms of the arrangement (including any increases due to such completion or failure). This disclosure must generally be provided in writing, but may be provided by telephone if the disclosure is mailed or delivered in writing as soon as reasonably practicable after the oral disclosure is provided.

G. Format. The notice must be in a tabular format. If provided on with the periodic statement, it must be disclosed on the front of any page of the statement. If not provided on or with the periodic statement, it must either be on the front of the first page of the notice, or segregated on a separate page from other information given with the notice. If the notice continues, the notice on the front page must indicate such.

H. Reduction of the Credit Limit. For open-end (not home-secured) plans, if the Credit Union decreases the credit limit on an account, advance notice will be provided before an over-the-limit fee or a penalty rate can be imposed solely as a result of the member extending the newly decreased credit limit. Notice must be provided in writing or orally **at least 45 days before** imposing the over-the-limit fee or penalty rate and must state that the credit limit on the account has been or will be decreased.

I. Effect of Rejection. If the Credit Union is notified of a rejection of a significant change to an account term, the Credit Union will **not** (unless the member fails to make a payment within 60 days after the due date):

i. Apply the change to the account;

ii. Impose a fee or charge or treat the account as in default solely as a result of the rejection; or

iii. Require repayment of the balance on the account using a method that is less beneficial to the member than one of the methods listed in the regulation.

8. PERIODIC STATEMENTS.

A. Delivery. The Credit Union will mail periodic statements to cardholders at least 21 days before payment is due for each billing cycle at the end of which an account has a debit or credit balance of more than \$1 or on which a finance charge has been imposed.

i. A periodic statement need not be sent for an account if the Credit Union deems it uncollectible, if delinquency collection proceedings have been instituted, or if furnishing it would violate Federal law.

B. Due Date. The due date of payment will be the same each month, or the next day if payments are not accepted on the given date.

C. Disclosures. The periodic statement will contain all of the information outlined in **Policy 7250** (Truth-in-Lending Disclosures for Open-End Credit).

9. PROMPT CREDITING OF PAYMENTS. The Credit Union will credit a payment to the member's account as of the date of receipt, except when a delay in crediting does not result in a finance charge or other charge.

A. Specific Requirements for Payments. The Credit Union will specify reasonable requirements for payments that enable most members to make conforming payments, such as:

- i. Requiring that payments be accompanied by the account number or payment stub;
- ii. Setting reasonable cut-off times for payments to be received by mail, by electronic means, by telephone, and in person, provided that such cut-off times shall be no earlier than 5 p.m. on the payment due date at the location specified by the Credit Union for the receipt of such payments;
- iii. Specifying that only checks or money orders should be sent by mail;
- iv. Specifying that payment is to be made in U.S. dollars; or
- v. Specifying one particular address for receiving payments, such as a post office box.
- vi. **In Person Payments.** Payments on a credit card account under an open-end (not home-secured) consumer credit plan made in person or at the Credit Union's a branch or office prior to the close of business of that branch or office must be considered received on the date on which the member makes the payment. The Credit Union will **not** impose a cut-off time that is earlier than the close of business for any such payments made in person at any branch or office at which such payments are accepted, unless the close of business of the branch or office is earlier than 5 p.m.
- vii. **Non-Conforming Payments.** If the Credit Union specifies requirements for the member to follow in making payments (such as on or with the periodic statement or website), but accepts a payment that does not conform to the requirements, the Credit Union will credit the payment within 5 days of receipt.

B. Adjustment of Account. If the Credit Union fails to credit a payment in time to avoid the imposition of finance or other charges, the Credit Union will adjust the member's account so that the charges imposed are credited to the member's account during the next billing cycle.

C. Crediting of Payments When the Credit Union Does Not Receive or Accept Payments on Due Date. If the Credit Union does not receive or accept payments by mail on the due date for payments, the Credit Union will generally **not** treat a payment received the next business day as late for any purpose. If the Credit Union accepts or receives payments made on the due date by a method other than mail, such as electronic or telephone payments, the Credit Union will **not** treat a payment made by that method on the next business day as late, even if it does not accept mailed payments on the due date.

D. Limitations on Fees Related to Method of Payment. For credit card accounts under an open-end (not home-secured) consumer credit plan, the Credit Union will **not** impose a separate fee to allow members to make a payment by any method, such as mail, electronic, or telephone payments, unless such payment method involves an expedited service by the Credit Union's member service representative.

E. Changes by Credit Union. If the Credit Union makes a material change in the address for receiving payments or procedures for handling payments, and such change causes a material delay in the crediting of a payment to the member's account during the 60-day period following the date on which such change took effect, the Credit Union will **not** impose any late fee or finance charge for a late payment on the credit card account during the 60-day period following the date on which the change took effect.

10. TREATMENT OF CREDIT BALANCES.

A. Credit Balances. When a credit balance in excess of \$1 is created on a credit account, the Credit Union will do the following:

- i. Credit the amount of the credit balance to the member's account;
- ii. Refund any part of the remaining credit balance **within 7 business days** from receipt of a written request from the member;
- iii. Make a good faith effort to refund to the member by cash, check, or money order, or credit to a deposit account of the member, any part of the credit balance remaining in the account for more than 6 months. No further action is required if the member's current location is not known to the Credit Union and cannot be traced through the member's last known address or telephone number.

B. Account Termination. The Credit Union will **not** terminate an account prior to its expiration date solely because the member does not incur a finance charge. The Credit Union may, however, terminate an account if it is inactive for 3 or more consecutive months.

C. Timely Settlement of Debts. Upon request by the administrator of an estate, the Credit Union will provide the amount of the balance on a deceased consumer's account in a timely manner (**within 30 days**) to the administrator.

- i. **Limitations After Receipt of Request from Administrator.** After receiving such a request, the Credit Union will **not** impose any fees on the account (such as a late fee, annual fee or over-the-limit fee) or increase any APR (unless it's a variable rate). If payment is received in full **within 30 days after disclosure**, the Credit Union will waive or rebate any additional finance charge due to a periodic interest rate.

11. SPECIAL CREDIT CARD PROVISIONS.

A. Issuance of Cards. No card may be issued to any person except in response to an oral or written request or application for the card; or as a renewal of, or substitute for, an accepted card.

B. Liability for Unauthorized Use.

- i. Liability shall not exceed the lesser of \$50 or the amount of money, property, labor or services obtained by the unauthorized use before notification to the Credit Union. If state law or an agreement between the cardholder and the Credit Union imposes lesser liability, the lesser liability will govern.

ii. Cardholders will be liable for unauthorized card use only if:

1. The credit card is an accepted credit card;

2. The Credit Union has provided adequate notice of the cardholder's maximum potential liability and of means by which the Credit Union may be notified of loss or theft of the card. The cardholder must be notified of the following:

- a. The maximum amount of liability;

- b. The fact that cardholder may give oral or written notification; and

- c. A means of notification (i.e., a telephone number, address, or both); and

3. The Credit Union has provided a means to identify the cardholder on the account or the authorized user of the card.

iii. **Business Use of Credit Cards.** If 10 or more credit cards are issued for the use by the employees of an organization, the Credit Union and the organization may agree to liability provisions outside of this subsection.

C. Right of Cardholder to Assert Claims or Defenses Against the Card Issuer. When a person who honors a credit card fails to satisfactorily resolve a dispute related to a credit card purchase, the cardholder may assert all claims (other than torts) and defenses against the Credit Union arising out of the transaction and the failure to resolve the dispute. The cardholder may withhold payment up to the disputed amount and any finance or other charges imposed on that amount.

- i. The Credit Union will **not** report the amount as delinquent to a credit reporting agency until the dispute is settled or judgment is rendered.
- ii. In order for this to apply, the cardholder must make a good faith attempt to resolve the dispute with the person honoring the card; the amount is over \$50; and the disputed transaction occurs in the same state as the cardholder's current designated address or, if not within the same state, within 100 miles from that address.

D. Offsets Prohibited.

- i. The Credit Union will **not** take any action, either before or after termination of credit card privileges, to offset a cardholder's indebtedness against funds held on deposit.
- ii. However, the cardholder may authorize an offset in writing. Examples of such authorization include the following:
 1. A separate signature or initials on the agreement indicating that a security interest is being given;
 2. Placement of the security agreement on a separate page or otherwise separating the security interest provisions from other terms of the agreement; or
 3. Referencing a specific amount of deposited funds or to a specific deposit account number.

E. Prompt Notification of Returns and Crediting of Funds. The Credit Union will credit a member's account **within 3 days** of receiving a credit from a third party.

12. DISPUTES.

- A. Credit Card bylaws dictate the following procedures for charge disputes: members must first attempt to settle discrepancies directly with merchants. If settlement efforts fail, the member must submit a written report to the Credit Union, explaining all of the details. The Credit Union will present the report to the credit card organization who will in turn confront the merchant. The organization will consider all the facts and circumstances and make a chargeback decision. The credit card organization, not the Credit Union, has final say on all chargebacks.
- B. The Credit Union will **not** accelerate any part of a member's indebtedness or restrict or close an account solely because the member has exercised its billing error resolution rights in good faith.

C. **“Billing Error” Defined.** The term “billing error” means a reflection on the periodic statement of the following:

- i. An extension of credit that is not made to the member, or to a person with actual, implied or apparent authority to use the member’s credit card or open-end credit plan.
- ii. An extension of credit for property or services not accepted by the member or the member’s designee, or not delivered to the member or the member’s designee.
- iii. The Credit Union’s failure to properly credit a payment or other credit issued to the member’s account.
- iv. A computational or similar error of an accounting nature that is made by the Credit Union.
- v. An extension of credit for which the member requests additional clarification, including documentary evidence.
- vi. The Credit Union’s failure to make or deliver a periodic statement to the member’s last known address if that address was received by the Credit Union, in writing, at least 20 days before the end of the billing cycle for which the statement was required.

D. **Billing Error Notice.** A billing error notice is a written notice from a member that:

- i. Is received by the Credit Union no later than 60 days after the Credit Union transmitted the first periodic statement that reflects the alleged billing error;
- ii. Enables the Credit Union to identify the member’s name and account number; and
- iii. To the extent possible, indicates the member’s belief and the reasons for the belief that a billing error exists, and the type, date and amount of the error.

E. **Time for Resolving Errors.** The Credit Union will mail or deliver written acknowledgement to the member **within 30 days** of receiving a billing error notice, unless the Credit Union has complied with the appropriate response procedures within the 30-day period. The Credit Union will comply with the response procedures within 2 complete billing cycles.

F. **Rules Pending Resolution.** Until a billing error is resolved, the following rules apply:

- i. The member need not pay (and the Credit Union will **not** try to collect) any portion of any required payment that the member believes is related to the disputed amount (including related finance or other charges). If the member pays its indebtedness through periodic deductions from a deposit account, the Credit Union will **not** deduct any part of the disputed amount if a billing error notice is received any time **up to 3 business days** before the scheduled payment date.
- ii. The Credit Union will **not** make or threaten to make an adverse report to any person about the member’s credit standing, or report that an amount or account is delinquent, because the member failed to pay the disputed amount or related finance or other charges.
- iii. The Credit Union will **not** accelerate any part of the member’s indebtedness or restrict or close a member’s account solely because the member has exercised in good faith rights provided by this

section. However, the Credit Union will collect any undisputed portion of the item or bill; deduct any disputed amount and related finance charge or other charges from the member's credit limit on the account; or reflect a disputed amount and related finance or other charges on a periodic statement, provided the Credit Union indicates on or with the periodic statement that payment of any disputed amount and related finance or other charges is **not** required pending the Credit Union's compliance with this section.

G. Procedures if Billing Error Occurred as Asserted. If the Credit Union determines that a billing error occurred as asserted, the Credit Union will correct the error, credit the member's account with any disputed amount and related finance and other charges, and mail or deliver a correction notice to the member. This all must be done within the required 30-day period for resolving errors.

- i. The Credit Union may reverse an amount previously credited to a member's account when the account has been credited more than once for the same billing error (for example, when a merchant has credited the member's account). In these cases, the Credit Union will **not** impose any fees or charges on the member's account as a result of the timing of the reversal.

H. Procedures of Different Billing Error or No Billing Error Occurred. If, after a reasonable investigation, the Credit Union determines that no billing error occurred or that a different error occurred from that asserted, the Credit Union will do the following within the required 30-day error resolution timeframe:

- i. Mail or deliver to the member an explanation that sets forth the reasons for the Credit Union's belief that the alleged billing error is incorrect in whole or in part;
- ii. Provide copies of documentary evidence of the member's indebtedness, if the member so requests; and
- iii. If a different billing error occurred, correct the error and credit the member's account with any disputed amount and related finance or other charges, if applicable.

I. Credit Union's Rights and Duties After Resolution. If the Credit Union determines, after a reasonable investigation, that the member owes all or part of the disputed amount and related finance and other charges, the Credit Union:

- i. Will promptly notify the member in writing of the time when payment is due and the portion of the disputed amount and related finance or other charges that the member still owes;
- ii. Will allow any time period during which the member can pay the amount due without incurring additional finance or other charges;
- iii. May report an account or amount as delinquent after any time period allowed if the amount due is not paid, but
- iv. May **not** report that an amount or account is delinquent because the amount remains unpaid, if the Credit Union receives further written notice that any portion of the amount is still in dispute, *unless* the Credit Union also:
 1. Promptly reports that the amount or account is still in dispute;
 2. Mails or delivers to the member (at the same time the report is made) a written notice of the

name and address of each person to whom the Credit Union makes a report; and

3. Promptly reports any subsequent resolution of the reported delinquency to all persons to whom the Credit Union has made a report.

v. If the Credit Union fully complies with this section, it has no further responsibilities under this section if the member reasserts substantially the same billing error.

13. **LOST OR STOLEN CARDS.** When a lost or stolen card is reported, the Credit Union promptly enters a block on the account. The Credit Union closely monitors the account, watching to determine if further action is required.

14. **AUTHORIZATIONS.** Generally, the credit card organization will authorize charges up to the member's credit limit unless a block is on the card, or unless the issuing credit union has placed restriction on the card usage. Authorization may not be given for various technical reasons such as ATM malfunction, inoperative credit card switches, or member using wrong PIN number.

15. **ISSUANCE OF ADDITIONAL AND REPLACEMENT CARDS.**

A. The Credit Union will not issue an additional or replacement credit card if such a request is received within a short time period (which must be at least 30 days) after receiving notification of a change of address for that account, unless the Credit Union does the following:

i. Notifies the cardholder of the request either (1) at the cardholder's former address; or (2) by any other means of communication that the Credit Union and the cardholder have previously agree to use; and provides the cardholder with a reasonable means of promptly reporting incorrect address changes; and

ii. Otherwise assess the validity of the change of address in accordance with Credit Union's policies and procedures.

iii. Any written or electronic notice that is provided under these rules will be "clear and conspicuous," and provided separately from the regular correspondence that is sent to the member. "Clear and conspicuous" is defined as "reasonably understandable and designed to call attention to the nature and significance of the information." Verbal notices may also be provided, if outlined in the policies and procedures that the Credit Union has established under the Red Flag rules.

16. **MANAGEMENT CONTROLS.** Management controls are designed to minimize the risks associated with misuse of open-ended credit and misuse of the credit card. Credit misuse is reduced by carefully screening cardholders before issuance and by monitoring individual accounts for abuse. Misuse of credit cards is reduced by internal controls designed to prevent fraudulent use of lost or stolen cards or interception of cards before delivery to the member. Management reports include:

A. Over-the-limit reports identifying members who exceed credit limits.

B. Stagnant maximum usage reports identifying accounts that are constantly at their limit, an indication that the member may be experiencing credit problems and may have difficulty making payments.

17. **UNLAWFUL INTERNET GAMBLING.** The Credit Union will follow the guidance of the Credit Union's Unlawful Internet Gambling Policy (See Policy 2205) in regards to Credit Cards.

18. ABILITY TO PAY.

A. **Consideration of Ability to Pay.** The Credit Union will **not** open a credit card account for a member under an open-end (not home-secured) consumer credit plan, or increase any credit limit applicable to such account, unless it considers the ability of the member to make the required minimum periodic payments under the terms of the account based on the member's income or assets and current obligations, regardless of the member's age.

i. The Credit Union will not open a credit card account under an open-end (not home-secured) consumer credit plan for a member, unless the member has submitted a written application and the Credit Union has:

1. Financial information indicating the member has an independent ability to make the required minimum periodic payments on the proposed extension of credit in connection with the account; or
2. A signed agreement of a cosigner, guarantor, or joint applicant who is at least 21 years old to be either secondarily liable for any debt on the account incurred by the member, or jointly liable with the member for any debt on the account, and
3. Financial information indicating such cosigner, guarantor, or joint applicant has the ability to make the required minimum periodic payments on such debts.

ii. **Consideration of "Household Income."** It is not enough to consider a member's household income; the Credit Union must consider the member's independent ability to make payments. The Credit Union may, however, use the income provided by an applicant to satisfy the ability-to-repay requirement by listing "income" or "salary" on its credit card application.

iii. **Credit Line Increases for Members Under 21.** If a credit card account has been opened for a member under the age of 21, no increase in the credit limit will be made on such account unless the member has the independent ability to make the required minimum periodic payments on the increased limit or the cosigner, guarantor, or joint account holder who assumed liability at account opening agrees in writing to assume liability on the increase.

iv. **Reasonable Policies and Procedures.** The Credit Union will take the following into consideration in assessing the ability of a member to repay: The ratio of debt obligations to income; the ratio of debt obligations to assets; or the income the member will have after paying debt obligations. It would be unreasonable for the Credit Union to **not** review any information about a member's income, assets, or current obligations, or to issue a credit card to a member who does not have any income or assets.

v. **Minimum Periodic Payments.** The Credit Union will use a reasonable method for estimating the minimum periodic payments the member would be required to pay under the terms of the account. The Credit Union complies if it estimates required minimum periodic payments using the following method:

1. Assuming utilization, from the first day of the billing cycle, of the full credit line that the issuer is considering offering to the member; and
2. Using a minimum payment formula employed by the issuer for the product the issuer is considering offering to the member or, in the case of an existing account, the minimum

payment formula that currently applies to that account, provided that:

- a. If the applicable minimum payment formula includes interest charges, the Credit Union estimates those charges using an interest rate that it is considering offering to the member for purchases or, in the case of an existing account, the interest rate that currently applies to purchases; and
- b. If the applicable minimum payment formula includes mandatory fees, the Credit Union must assume that such fees have been charged to the account.

19. LIMITATIONS ON FEES.

A. Limitations During First Year Prior to or After Account Opening. Except as provided below, if the Credit Union charges any fees to a credit card account under an open-end (not home-secured) consumer credit plan during the first year after the account is opened, the total amount of fees the member will be required to pay with respect to the account during that year will **not** exceed 25% of the credit limit in effect when the account is opened and prior to account-opening.

i. **Fees Not Subject to Limitations.** Section (19)(A) does **not** apply to the following:

1. Late payment fees, over-the-limit fees, and returned-payment fees; or
2. Fees that the member is **not** required to pay with respect to the account.

B. Limitations on Penalty Fees. The Credit Union may either (1) assess fees that are reasonable and proportional to the omission and violation to which the fee or charge relates, or (2) impose the safe harbor fee structure pursuant to Regulation Z as outlined herein.

i. **Fees Based on Costs.** The Credit Union may assess penalty fees that are reasonable and proportional to a violation, meaning the fee will represent a reasonable proportion of the total costs incurred by the Credit Union as a result of all violations of the same type. This amount will be reassessed every 12 months. If the fee becomes lower, it will begin to be imposed within 45 days of the reevaluation. If higher, the Credit Union will comply with the 45-day change-in-terms notice requirements. The cost assessment will be applied as follows:

1. **Late Payment Fees.** The costs associated with the collection of late payments, such as notifying members of delinquencies and resolving delinquencies (including the establishment of workout and temporary hardship arrangements).
2. **Returned Payment Fees.** The costs associated with processing returned payments and reconciling the Credit Union's systems and accounts to reflect returned payments, investigating potential fraud with respect to returned payments, as well as notifying members of the returned payments and arranging for new payments.
3. **Over-the-Limit Fees.** The costs associated with determining whether to authorize over-the-limit transactions and notifying members that the credit limit has been exceeded and arranging for payments to reduce the balance below the credit limit. The costs associated with obtaining the affirmative consent of members to the Credit Union's payment of over-the-limit transactions may **not** be considered.
4. **Declined Access Check Fees** – The costs associated with determining whether to decline

payment on access checks, processing declined checks and reconciling the card issuer's systems and accounts to reflect declined access checks, investigating potential fraud with respect to declined access checks, and notifying members or other parties that accepted the access checks that payment on the check has been declined.

- ii. **Safe Harbor Fee Assessment.** The Credit Union may choose, in the alternative, to impose a \$27 fee for the first violation of a particular type and a \$38 fee for each additional (consecutive) violation of the same type during the next six (6) billing cycles (this \$38 maximum will be adjusted annually by the CFPB to reflect changes in the Consumer Price Index in effect on June 1 of each year).

C. **Prohibited Fees.** Notwithstanding the above, the Credit Union is prohibited by Regulation Z from imposing penalty fees that exceed the dollar amount associated with the violation (for example, a member who exceeds the credit limit by \$5 **cannot** be charged an over-the-limit fee of more than \$5). Additionally, the Credit Union may **not** charge multiple penalty fees based on a single event or occurrence (for example, a late payment fee and a returned payment fee **cannot** be imposed on a single payment).

- i. **Late Payment Fees.** The dollar amount associated with the late payment is the full amount of the required minimum periodic payment, rather than the unpaid portion. When a late payment is not imposed until the following billing cycle (due to the 21-day mailing requirement), the Credit Union must base the late payment fee on the required minimum periodic payment due immediately prior to assessment of the late payment fee.

- ii. **Returned Payment Fees.** The dollar amount associated with returned payments is the amount of the required minimum periodic payment due immediately prior to the date on which the payment is returned to the Credit Union. If a payment has been returned and is submitted again for payment by the Credit Union, **no** separate or additional dollar amount associated with a subsequent return of that payment may be imposed. However, if two *separate payments* are made in the same billing cycle, the increased fee could be imposed for the second payment.

- iii. **Over-the-Limit Fees.** The dollar amount associated with extensions of credit in excess of the credit limit during the billing cycle in which the over-the-limit fee is imposed.

- iv. **Declined Check Fees.** The dollar amount associated with declining payment on a check that accesses a credit card account is the amount of the check. NOTE: this amount cannot exceed the cost determination or the safe harbor amount.

- v. **Declined Transaction Fees.** These fees are prohibited.

- vi. **Account Inactivity Fees.** These fees are prohibited.

- vii. **Account Closure/Termination Fees.** These fees are prohibited, even if disclosed prior to the closure or termination of the account.

20. **REEVALUATION OF RATE INCREASES.** When the Credit Union increases an APR that applies to a credit card account under an open-end (not home-secured) consumer credit card plan, based on the credit risk of the consumer, market conditions, or other factors, the Credit Union will review changes in such factors and, if appropriate, reduce the APR applicable to the account. The requirements of this section of Regulation Z do not apply to rate increases for which 45 days' advanced notice is **not** required. Forty-five days advanced notice is only required if the reevaluated fees are actually imposed on an account.

A. **Factors.** The Credit Union will take into account the following factors when reevaluating rate increases:

i. [7211-3]

B. **Changes in the Type of Rate.** If a change is made to the type of rate (e.g., non-variable to variable), a reevaluation will be conducted if the new rate exceeds the rate that would have applied if the change in the type of rate had not occurred.

C. **Rate Reductions.** Rate reductions will apply to both outstanding balances, as well as new transactions that occur after the effective date of the rate reduction.

D. **Timing.** The Credit Union will conduct the required review no less frequently than once every six (6) months after a rate increase. The Credit Union may reevaluate each account every six (6) months or review all accounts at the same time every six (6) months.

E. **Rate Increases Subject to 60-Day Delinquencies.** If the Credit Union increases a rate due to a member's account becoming more than 60 days delinquent, the Credit Union is **not** required to review factors prior to the 6th payment due date following the effective date of the rate increase. However, if the rate has **not** been decreased based on the member making six (6) consecutive timely minimum payments, Credit Union *would* be required to begin performing the required review; the first such review to occur no later than six (6) months after the 6th payment due following the effective date of the increase.

F. **Termination of Obligation to Review Factors.** The obligation to review factors ceases to apply if:

i. The Credit Union reduces the APR applicable to a credit card account under an open-end (not home-secured) consumer credit plan to a rate applicable immediately prior to the increase or, if variable, to a variable rate determined by the same formula (index and margin) that was used to calculate the rate immediately prior to the increase; or

ii. The Credit Union reduces the APR to a rate that is lower than the rate described above.

iii. If the Credit Union decides to offer a lower rate on similar new credit card accounts prior to a review, the rate on the existing accounts may be reduced to the rate that was in effect prior to the rate increase (**not** the lower rate that would be offered to a comparable new member).

G. **Acquired Accounts.** For accounts acquired from another credit union, the Credit Union may either review the factors that the other credit union considered when imposing the rate increase, or review the factors that the Credit Union currently considers in determining the APRs applicable to its credit card accounts. If the current factors are used, the review must occur no later than six (6) months after acquisition.

H. **Exceptions.** The review requirements do not apply in the following circumstances:

i. Rate increases imposed when the requirement to reduce rates pursuant to the Servicemembers Civil Relief Act (SCRA) (See **Policy 7213**);

ii. Changes from a variable rate to a non-variable rate (or vice versa), if the rate in effect immediately prior to the change in the type of rate is equal to or greater than the rate in effect immediately after the change; and

iii. Charged-off accounts.

21. **ALLOCATION OF PAYMENTS.** When a member makes a payment in excess of the required minimum periodic payment for a credit card account under an open-end (not home-secured) consumer credit plan, the Credit Union will allocate the excess amount first to the balance with the highest APR and any remaining portion to the other balances in descending order based on the applicable APR, unless the member makes a specific request to apply a payment to a different balance.

22. **LIMITATIONS ON THE IMPOSITION OF FINANCE CHARGES.**

A. **Limitations on Imposing Finance Charges as a Result of the Loss of a Grace Period.** Except for adjustments to finance charges due to a dispute or the return of a payment, the Credit Union will **not** impose finance charges as a result of the loss of a grace period on a credit card account under an open-end (not home-secured) consumer credit plan if those finance charges are based on:

- i. Balances for days in billing cycles that precede the most recent billing cycle; or
- ii. Any portion of a balance subject to a grace period that was repaid prior to the expiration of the grace period.

23. **LIMITATIONS ON INCREASING ANNUAL PERCENTAGE RATES, FEES, AND CHARGES.**

A. **General Rule.** Except as provided in Section (23)(B), the Credit Union will not increase an APR or a fee or charge required to be disclosed on a credit card account under an open-end (not home-secured) consumer credit plan.

B. **Exceptions.** The Credit Union will increase an APR or a fee or charge required to be disclosed pursuant to an exception set forth in this paragraph even if that increase would not be permitted under a different exception.

i. **Temporary Rate, Fee or Charge Exception.** Before the Credit Union will increase an APR, fee or charge (to the account as a whole or in part), upon the expiration of a specified period of 6 months or longer, it will ensure that:

1. Prior to the commencement of that period, the Credit Union disclosed in writing to the member, in a clear and conspicuous manner, the length of the period and the APR, fee or charge that would apply after expiration of the period; and
2. Upon expiration of the specified period:
 - a. The Credit Union may **not** apply an APR to transactions that occurred prior to the period that exceeds the APR that applied to those transactions prior to the period;
 - b. If the required disclosures are provided, the Credit Union may **not** apply an APR to transactions that occurred within 14 days after provision of the notice that exceeds the APR that applied to that category of transactions prior to provision of the notice; and
3. The Credit Union may **not** apply an APR to transactions that occurred during the period that exceeds the increased APR previously disclosed.

ii. **Variable Rate Exception.** Before the Credit Union will increase an APR, it will ensure the

following:

1. The APR varies according to an index that is not under the Credit Union's control and is available to the general public; and
2. The increase in the APR is due to an increase in the index.

iii. **Advance Notice Exception.** The Credit Union will increase an APR or a fee or charge required to be disclosed after complying with the applicable notice requirements, provided that:

1. If the Credit Union discloses an increased APR, fee, or charge, the Credit Union may **not** apply that rate, fee, or charge to transactions that occurred prior to provision of the notice;
2. If the Credit Union discloses an increased APR, fee, or charge, the Credit Union may **not** apply that rate, fee, or charge to transactions that occurred prior to or within 14 days after provision of the notice; and
3. This exception does **not** permit the Credit Union to increase an APR or a fee or charge required to be disclosed, or during the first year after the account is opened.
4. An increased rate, fee or charge **cannot** be imposed on an account that is closed or while the Credit Union does not permit the member to use the account for new transactions. However, an increased rate, fee or charge could be applied on a particular date and the account is closed/transaction privileges are suspended on that date, if the application of the increased rate, fee or charge is delayed until the first day of the following billing cycle without giving up the ability to apply that rate, fee or charge. If the account is closed or privileges are suspended on the first day of the billing cycle, the Credit Union must provide a new notice of the increased rate, fee or charge to the member.

iv. **Delinquency Exception.** The Credit Union will increase an APR or a fee or charge required to be disclosed due to the Credit Union not receiving the member's required minimum periodic payment within 60 days after the due date for that payment, provided that:

1. The Credit Union must disclose in a clear and conspicuous manner in the notice of the increase:
 - a. A statement of the reason for the increase; and
 - b. That the increased APR, fee, or charge will cease to apply if the Credit Union receives 6 consecutive required minimum periodic payments on or before the payment due date beginning with the first payment due following the effective date of the increase; and
2. If the Credit Union receives 6 consecutive required minimum periodic payments on or before the payment due date beginning with the first payment due following the effective date of the increase, the Credit Union must reduce any APR, fee, or charge increased pursuant to this exception to the APR, fee, or charge that applied prior to the increase with respect to transactions that occurred prior to or within 14 days after provision of the change-in-terms notice.

v. **Workout and Temporary Hardship Arrangement Exception.** The Credit Union will increase an APR or a fee or charge required to be disclosed due to the member's completion of a workout or

temporary hardship arrangement or the member's failure to comply with the terms of such an arrangement, provided that:

1. Prior to commencement of the arrangement, the Credit Union has provided the member with a clear and conspicuous written disclosure of the terms of the arrangement (including any increases due to the completion or failure of the arrangement); and
2. Upon the completion or failure of the arrangement, the Credit Union may **not** apply to any transactions that occurred prior to commencement of the arrangement an APR, fee, or charge that exceeds the APR, fee, or charge that applied to those transactions prior to commencement of the arrangement.

vi. **Servicemembers Civil Relief Act Exception.** If an APR has been decreased pursuant to 50 U.S.C. app. 527, the Credit Union will increase that APR once 50 U.S.C. app. 527 no longer applies, provided that the Credit Union may **not** apply to any transactions that occurred prior to the decrease an APR that exceeds the APR that applied to those transactions prior to the decrease.

1. When the Credit Union decreases fees and charges for active duty members under the SCRA, the Credit Union may increase these as well, consistent with the way the APR is increased under the SCRA pursuant to Regulation Z.

C. **Treatment of Protected Balances.**

i. **Definition of Protected Balance.** For purposes of this section, “protected balance” means the amount owed for a category of transactions to which an increased APR or an increased fee or charge required to be disclosed cannot be applied after the APR, fee, or charge for that category of transactions has been increased.

ii. **Repayment of Protected Balance.** The Credit Union will **not** require repayment of the protected balance using a method that is less beneficial to the member than one of the following methods:

1. The method of repayment for the account before the effective date of the increase;
2. An amortization period of not less than 5 years, beginning no earlier than the effective date of the increase; or
3. A required minimum periodic payment that includes a percentage of the balance that is equal to no more than twice the percentage required before the effective date of the increase.

D. **Continuing Application.** This section continues to apply to a balance on a credit card account under an open-end (not home-secured) consumer credit plan after:

- i. The account is closed or acquired by another creditor; or
- ii. The balance is transferred from a credit card account under an open-end (not home-secured) consumer credit plan issued by a creditor to another credit account issued by the same creditor or its affiliate or subsidiary (unless the account to which the balance is transferred is a home equity loan).

24. **REQUIREMENTS FOR OVER-THE-LIMIT TRANSACTIONS.**

A. **Definition.** For purposes of this section, the term “over-the-limit transaction” means any extension of credit by the Credit Union to complete a transaction that causes a member's credit card account balance to exceed the credit limit.

B. Opt-In Requirement.

i. **General.** The Credit Union will **not** assess a fee or charge on a member's credit card account under an open-end (not home-secured) consumer credit plan for an over-the-limit transaction unless the Credit Union:

1. Provides the member with an oral, written or electronic notice, segregated from all other information, describing the member's right to affirmatively consent, or opt in, to the Credit Union's payment of an over-the-limit transaction;
2. Provides a reasonable opportunity for the member to affirmatively consent, or opt in, to the Credit Union's payment of over-the-limit transactions;
3. Obtains the member's affirmative consent, or opt-in, to the Credit Union's payment of such transactions;
4. Provides the member with confirmation of the member's consent in writing, or if the member agrees, electronically; and
5. Provides the member notice in writing of the right to revoke that consent following the assessment of an over-the-limit fee or charge.

ii. **Completion of Over-the-Limit Transactions Without Consumer Consent.** Notwithstanding the absence of a member's affirmative consent, the Credit Union will pay any over-the-limit transaction on a member's account provided that the Credit Union does **not** impose any fee or charge on the account for paying that over-the-limit transaction.

C. **Method of Election.** The Credit Union will permit a member to consent to the Credit Union's payment of any over-the-limit transaction in writing, orally, or electronically, at the Credit Union's option. The Credit Union will also permit the member to revoke his/her consent using the same methods available to the member for providing consent.

D. Timing and Placement of Notices.

i. **Initial Notice.** The notice required by this section will be provided prior to the assessment of any over-the-limit fee or charge on a member's account.

1. **Oral or Electronic Consent.** If a member consents to the Credit Union's payment of any over-the-limit transaction by oral or electronic means, the Credit Union will provide the notice immediately prior to obtaining that consent.

ii. **Confirmation of Opt-In.** The required notice will be provided no later than the first periodic statement sent after the member has consented to the Credit Union's payment of over-the-limit transactions.

iii. **Notice of Right of Revocation.** The required notice must be provided on the front of any page of each periodic statement that reflects the assessment of an over-the-limit fee or charge on a

consumer's account.

E. Content.

i. **Initial Notice.** The required notice will include all applicable items in this sub-section and will **not** contain any information not specified in or otherwise permitted by this sub-section.

1. **Fees.** The dollar amount of any fees or charges assessed on a member's account for an over-the-limit transaction;
2. **APRs.** Any increased periodic rate(s) (expressed as an annual percentage rate(s)) that may be imposed on the account as a result of an over-the-limit transaction; and
3. **Disclosure of Opt-In Right.** An explanation of the member's right to affirmatively consent to the Credit Union's payment of over-the-limit transactions, including the method(s) by which the member may consent.

ii. **Subsequent Notice.** The required notice will describe the member's right to revoke any consent, including the method(s) by which the member may revoke.

iii. **Safe Harbor.** Use of the Consumer Financial Protection Board's Model Forms of Appendix G to the regulation, or substantially similar notices, constitutes compliance with the notice content requirements of this section.

F. **Joint Relationships.** If two or more members are jointly liable on a credit card account under an open-end (not home-secured) consumer credit plan, the Credit Union will treat the affirmative consent of any of the joint members as affirmative consent for that account. Similarly, the Credit Union will treat a revocation of consent by any of the joint members as revocation of consent for that account.

G. **Continuing Right to Opt In or Revoke Opt-In.** A member may affirmatively consent to the Credit Union's payment of over-the-limit transactions at any time in the manner described in the required notice. Similarly, the member may revoke the consent at any time in the manner described in the required notice.

H. **Duration of Opt-In.** A member's affirmative consent to the Credit Union's payment of over-the-limit transactions is effective until revoked by the member, or until the Credit Union decides for any reason to cease paying over-the-limit transactions for the member.

i. **Time to Comply with Revocation Request.** The Credit Union will comply with a member's revocation request as soon as reasonably practicable after the Credit Union receives it.

I. **Prohibited Practices.** Notwithstanding a member's affirmative consent to the Credit Union's payment of over-the-limit transactions, the Credit Union is prohibited from engaging in the following practices:

i. **Fees or Charges Imposed Per Cycle.**

1. **General Rule.** The Credit Union may **not** impose more than one over-the-limit fee or charge on a member's credit card account per billing cycle, and, in any event, only if the credit limit was exceeded during the billing cycle. In addition, unless an exception applies, the Credit Union may **not** impose an over-the-limit fee or charge on the member's credit card account for more than 3 billing cycles for the same over-the-limit transaction where the member has not reduced the account balance below the credit limit by the payment due date for either of

the last 2 billing cycles.

2. **Exception.** The prohibition in Section (24)(I)(i)(1) on imposing an over-the-limit fee or charge in more than 3 billing cycles for the same over-the-limit transaction(s) does **not** apply if another over-the-limit transaction occurs during either of the last 2 billing cycles.

ii. **Failure to Promptly Replenish.** The Credit Union will **not** impose an over-the-limit fee or charge solely because of the Credit Union's failure to promptly replenish the member's available credit following the crediting of the member's payment.

iii. **Conditioning.** The Credit Union will **not** condition the amount of a member's credit limit on the consumer affirmatively consenting to the Credit Union's payment of over-the-limit transactions if the Credit Union assesses a fee or charge for such service.

iv. **Over-the-Limit Fees Attributed to Fees or Interest.** The Credit Union will **not** impose an over-the-limit fee or charge for a billing cycle if a member exceeds a credit limit solely because of fees or interest charged by the Credit Union to the member's account during that billing cycle.

25. REPORTING AND MARKETING RULES FOR COLLEGE STUDENT OPEN-END CREDIT.

A. Definitions:

i. **College Student Credit Card.** This term, as used in this section, means a credit card issued under a credit card account under an open-end (not home-secured) consumer credit plan to any college student.

ii. **College Student.** This term, as used in this section, means a consumer who is a full-time or part-time student of an institution of higher education.

iii. **Institution Of Higher Education.** This term, as used in this section, has the same meaning as in sections 101 and 102 of the Higher Education Act of 1965 (20 U.S.C. 1001 and 1002).

iv. **Affiliated Organization.** This term, as used in this section, means an alumni organization or foundation affiliated with or related to an institution of higher education.

v. **College Credit Card Agreement.** This term, as used in this section, means any business, marketing or promotional agreement between a card issuer and an institution of higher education or an affiliated organization in connection with which college student credit cards are issued to college students currently enrolled at that institution.

B. **Public Disclosure of Agreements.** An institution of higher education shall publicly disclose any contract or other agreement made with the Credit Union for the purpose of marketing a credit card.

C. **Prohibited Inducements.** The Credit Union will **not** offer a college student any tangible item to induce such student to apply for or open an open-end consumer credit plan offered by the Credit Union, if such offer is made:

i. On the campus of an institution of higher education;

ii. Near the campus of an institution of higher education; or

iii. At an event sponsored by or related to an institution of higher education.

D. Annual Report to the Consumer Financial Protection Board (CFPB).

i. **Requirement to Report.** If the Credit Union was a party to one or more college credit card agreements in effect at any time during a calendar year, it must submit to the CFPB an annual report regarding those agreements in the form and manner prescribed by the CFPB.

ii. **Contents of Report.** The annual report to the CFPB must include the following:

1. The Credit Union's identifying information and the agreements submitted, including the Credit Union's name, address, and identifying number (such as an RSSD ID number or tax identification number);
2. A copy of any college credit card agreement to which the Credit Union was a party that was in effect at any time during the period covered by the report;
3. A copy of any memorandum of understanding in effect at any time during the period covered by the report between the Credit Union and an institution of higher education or affiliated organization that directly or indirectly relates to the college credit card agreement or that controls or directs any obligations or distribution of benefits between any such entities;
4. The total dollar amount of any payments pursuant to a college credit card agreement from the Credit Union to an institution of higher education or affiliated organization during the period covered by the report, and the method or formula used to determine such amounts;
5. The total number of credit card accounts opened pursuant to any college credit card agreement during the period covered by the report; and
6. The total number of credit card accounts opened pursuant to any such agreement that were open at the end of the period covered by the report.

iii. **Timing of Reports.** Except for the initial report described in this section, the Credit Union must submit its annual report for each calendar year to the CFPB by the first business day on or after March 31 of the following calendar year.

26. INTERNET POSTING OF CREDIT CARD AGREEMENTS.

A. Definitions.

i. **Agreement.** For purposes of this section, "agreement" or "credit card agreement" means the written document or documents evidencing the terms of the legal obligation, or the prospective legal obligation, between a card issuer and a consumer for a credit card account under an open-end (not home-secured) consumer credit plan. "Agreement" or "credit card agreement" also includes the pricing information, as defined in the regulation.

ii. **Amends.** For purposes of this section, an issuer "amends" an agreement if it makes a substantive change (an "amendment") to the agreement. A change is substantive if it alters the rights or obligations of the Credit Union or the consumer under the agreement. Any change in the pricing information is deemed to be substantive.

- iii. **Business Day.** For purposes of this section, “business day” means a day on which the creditor's offices are open to the public for carrying on substantially all of its business functions.
- iv. **Offers.** For purposes of this section, an issuer “offers” or “offers to the public” an agreement if the issuer is soliciting or accepting applications for accounts that would be subject to that agreement.
- v. **Open Account.** For purposes of this section, an account is an “open account” or “open credit card account” if it is a credit card account under an open-end (not home-secured) consumer credit plan and either:
 - 1. The cardholder can obtain extensions of credit on the account; or
 - 2. There is an outstanding balance on the account that has not been charged off. An account that has been suspended temporarily (for example, due to a report by the cardholder of unauthorized use of the card) is considered an “open account” or “open credit card account.”
- vi. **Pricing Information.** For purposes of this section, “pricing information” means the information listed in **Policy 7250(4)(C)** (the account-opening disclosure table). Pricing information does **not** include temporary or promotional rates and terms or rates and terms that apply only to protected balances.
- vii. **Private Label Credit Card Account and Private Label Credit Card Plan.** For purposes of this section:
 - 1. “Private label credit card account” means a credit card account under an open-end (not home-secured) consumer credit plan with a credit card that can be used to make purchases only at a single merchant or an affiliated group of merchants; and
 - 2. “Private label credit card plan” means all of the private label credit card accounts issued by a particular issuer with credit cards usable at the same single merchant or affiliated group of merchants.

B. Submission of Agreements to the CFPB.

- i. **Quarterly Submissions.** Unless an exception applies (See Section (26)(B)(v-vii)), the Credit Union will make quarterly submissions to the CFPB, no later than the first business day on or after January 31, April 30, July 31 and October 31 of each year, in the form and manner specified by the CFPB, that contain:
 - 1. The Credit Union’s identifying information and the agreements submitted, including the Credit Union's name, address, and identifying number (such as an RSSD ID number or tax identification number);
 - 2. The credit card agreements that the Credit Union offered to the public as of the last business day of the preceding calendar quarter that the Credit Union has not previously submitted to the CFPB;
 - 3. Any credit card agreement previously submitted to the CFPB that was amended during the preceding calendar quarter; and
 - 4. Notification regarding any credit card agreement previously submitted to the CFPB that the

Credit Union is withdrawing.

ii. **Amended Agreements.** If a credit card agreement has been submitted to the CFPB, the agreement has not been amended and the Credit Union continues to offer the agreement to the public, no additional submission regarding that agreement is required. If a credit card agreement that previously has been submitted to the CFPB is amended, the Credit Union must submit the entire amended agreement to the CFPB, in the form and manner specified by the CFPB, by the first quarterly submission deadline after the last day of the calendar quarter in which the change became effective.

iii. **Withdrawal of Agreements.** If the Credit Union no longer offers to the public a credit card agreement that previously has been submitted to the CFPB, the Credit Union will notify the CFPB, in the form and manner specified by the CFPB, by the first quarterly submission deadline after the last day of the calendar quarter in which the Credit Union ceased to offer the agreement.

iv. **De Minimis Exception.**

1. The Credit Union is **not** required to submit any credit card agreements to the CFPB if the Credit Union had fewer than 10,000 open credit card accounts as of the last business day of the calendar quarter.
2. If the Credit Union previously qualified for the de minimis exception but ceases to qualify, the Credit Union will begin making quarterly submissions to the CFPB no later than the first quarterly submission deadline after the date as of which the Credit Union ceased to qualify.
3. If the Credit Union later qualifies for the de minimis exception, the Credit Union will continue to make quarterly submissions to the CFPB until it notifies the CFPB that the Credit Union is withdrawing all agreements it previously submitted to the CFPB.

v. **Private Label Credit Card Exception.**

1. The Credit Union is **not** required to submit to the CFPB a credit card agreement if, as of the last business day of the calendar quarter, the agreement:
 - a. Is offered for accounts under one or more private label credit card plans each of which has fewer than 10,000 open accounts; and
 - b. Is **not** offered to the public other than for accounts under such a plan.
2. If an agreement that previously qualified for the private label credit card exception ceases to qualify, the Credit Union will submit the agreement to the CFPB no later than the first quarterly submission deadline after the date as of which the agreement ceased to qualify.
3. If an agreement that did not previously qualify for the private label credit card exception qualifies for the exception, the Credit Union will continue to make quarterly submissions to the CFPB with respect to that agreement until the Credit Union notifies the CFPB that the agreement is being withdrawn.

vi. **Product Testing Exception.**

1. The Credit Union is **not** required to submit to the CFPB a credit card agreement if, as of the

last business day of the calendar quarter, the agreement:

- a. Is offered as part of a product test offered to only a limited group of consumers for a limited period of time;
 - b. Is used for fewer than 10,000 open accounts; and
 - c. Is **not** offered to the public other than in connection with such a product test.
2. If an agreement that previously qualified for the product testing exception ceases to qualify, the Credit Union will submit the agreement to the CFPB no later than the first quarterly submission deadline after the date as of which the agreement ceased to qualify.
 3. If an agreement that did not previously qualify for the product testing exception qualifies for the exception, the Credit Union will continue to make quarterly submissions to the CFPB with respect to that agreement until the Credit Union notifies the CFPB that the agreement is being withdrawn.

vii. Form and Content of Agreements Submitted to the CFPB.

1. Form and Content Generally.

- a. Each agreement must contain the provisions of the agreement and the pricing information in effect as of the last business day of the preceding calendar quarter.
- b. Agreements must not include any personally identifiable information relating to any cardholder, such as name, address, telephone number, or account number.
- c. The following are not deemed to be part of the agreement for purposes of this section and therefore are **not** required to be included in submissions to the CFPB:
 1. Disclosures required by state or federal law, such as affiliate marketing notices, privacy policies, or disclosures under the E-Sign Act;
 2. Solicitation materials;
 3. Periodic statements;
 4. Ancillary agreements between the Credit Union and the consumer, such as debt cancellation contracts or debt suspension agreements;
 5. Offers for credit insurance or other optional products and other similar advertisements; and
 6. Documents that may be sent to the consumer along with the credit card or credit card agreement such as a cover letter, a validation sticker on the card, or other information about card security.
- d. Agreements must be presented in a clear and legible font.

2. Pricing Information.

- a. Pricing information must be set forth in a single addendum to the agreement that contains only the pricing information.
- b. Pricing information that may vary from one cardholder to another depending on the cardholder's creditworthiness or state of residence or other factors must be disclosed either by setting forth all the possible variations (such as purchase APRs of 13%, 15%, 17%, and 19%) or by providing a range of possible variations (such as purchase APRs ranging from 13% to 19%).
- c. If a rate included in the pricing information is a variable rate, the Credit Union will identify the index or formula used in setting the rate and the margin. Rates that may vary from one cardholder to another must be disclosed by providing the index and the possible margins (such as the prime rate plus 5%, 8%, 10%, or 12%) or range of margins (such as the prime rate plus from 5 to 12%). The value of the rate and the value of the index are **not** required to be disclosed.

3. **Optional Variable Terms Addendum.** Provisions of the agreement other than the pricing information that may vary from one cardholder to another depending on the cardholder's creditworthiness or state of residence or other factors may be set forth in a single addendum to the agreement separate from the pricing information addendum.

4. **Integrated Agreement.** The Credit Union will **not** provide provisions of the agreement or pricing information in the form of change-in-terms notices or riders (other than the pricing information addendum and the optional variable terms addendum). Changes in provisions or pricing information must be integrated into the text of the agreement, the pricing information addendum or the optional variable terms addendum, as appropriate.

C. Posting of Agreements Offered to the Public.

- i. Except as provided below, the Credit Union will post and maintain on its publicly available website the credit card agreements that the Credit Union is required to submit to the CFPB. With respect to an agreement offered solely for accounts under one or more private label credit card plans, the Credit Union will fulfill this requirement by posting and maintaining the agreement in accordance with the requirements of this section on the publicly available website of at least one of the merchants at which credit cards issued under each private label credit card plan with 10,000 or more open accounts may be used.
- ii. Posted agreements may be posted in any electronic format that is readily usable by the general public. Agreements will be placed in a location that is prominent and readily accessible by the public and must be accessible without submission of personally identifiable information.
- iii. The Credit Union will update the agreements posted on its website at least as frequently as the quarterly schedule required for submission of agreements to the CFPB. If the Credit Union chooses to update the agreements on its website more frequently, the posted agreements will contain the provisions of the agreement and the pricing information in effect as of a date other than the last business day of the preceding calendar quarter.

D. Agreements for All Open Accounts.

- i. **Availability of Individual Cardholder's Agreement.** With respect to any open credit card

account, the Credit Union will either:

1. Post and maintain the cardholder's agreement on its website; or
2. Promptly provide a copy of the cardholder's agreement to the cardholder upon the cardholder's request. If the Credit Union makes an agreement available upon request, it will provide the cardholder with the ability to request a copy of the agreement both by using the Credit Union's website (such as by clicking on a clearly identified box to make the request) and by calling a readily available telephone line the number for which is displayed on the Credit Union's website and clearly identified as to purpose. The Credit Union will send to the cardholder or otherwise make available to the cardholder a copy of the cardholder's agreement in electronic or paper form no later than 30 days after the Credit Union receives the cardholder's request.

ii. **Special Rule for Issuers Without Interactive Websites.** If the Credit Union does **not** maintain a website from which cardholders can access specific information about their individual accounts, the Credit Union will make agreements available upon request by providing the cardholder with the ability to request a copy of the agreement by calling a readily available telephone line, the number for which is displayed on the Credit Union's website and clearly identified as to purpose or included on each periodic statement sent to the cardholder and clearly identified as to purpose. The Credit Union will send to the cardholder or otherwise make available to the cardholder a copy of the cardholder's agreement in electronic or paper form no later than 30 days after the issuer receives the cardholder's request.

iii. **Form and Content of Agreements.**

1. Agreements posted on the Credit Union's website or made available upon the cardholder's request will conform to the form and content requirements for agreements submitted to the CFPB.
2. If the Credit Union posts an agreement on its website or otherwise provides an agreement to a cardholder electronically, the agreement will be posted or provided in any electronic format that is readily usable by the general public and will be placed in a location that is prominent and readily accessible to the cardholder.
3. Agreements posted or otherwise provided may contain personally identifiable information relating to the cardholder, such as name, address, telephone number, or account number, provided that the issuer takes appropriate measures to make the agreement accessible only to the cardholder or other authorized persons.
4. Agreements posted or otherwise provided will set forth the specific provisions and pricing information applicable to the particular cardholder. Provisions and pricing information must be complete and accurate as of a date no more than 60 days prior to: (1) the date on which the agreement is posted on the Credit Union's website; or (2) the date the cardholder's request is received.
5. Agreements provided upon cardholder request will be provided by the Credit Union in either electronic or paper form, regardless of the form of the cardholder's request.

E. **E-Sign Act Requirements.** The Credit Union may provide credit card agreements in electronic form without regard to the consumer notice and consent requirements of section 101(c) of the Electronic

27. **CREDIT CARD ADD-ON PRODUCTS.** The Credit Union will ensure that it markets and sells its credit card add-on products (i.e., debt protection, identity theft protection, credit score tracking, etc.) in a manner that limits the potential for statutory or regulatory violations and related consumer harm.
- A. Marketing materials, including direct mail promotions, telemarketing scripts, internet and print ads, radio recordings, and television commercials will reflect the actual terms and conditions of the products and are not deceptive or misleading to consumers;
 - B. Employee incentive or compensation programs tied to the sale and marketing of add-on products do not encourage employees to provide inaccurate information about the products.
 - C. Members are only enrolled when they provide clear affirmative consent to purchase the add-on products after they are informed of the terms and conditions.
 - D. Staff is not encouraged to repeatedly rebut a member's request for additional information or when products are declined.
 - E. Members will not be told that a product is required as a condition of obtaining credit, unless there is such a requirement.
 - F. Cancellation requests are handled in a manner consistent with the product's actual terms and conditions and are not misleading.
 - G. The Credit Union will review its add-on product program to ensure that these programs do not present an elevated risk of harm to members.
 - H. Employees involved in the marketing, sale and operation of the Credit Union's credit card add-on products will receive training to ensure members are not misled or otherwise harmed.
 - I. The Credit Union will ensure its third-party vendors that perform marketing or other functions related to credit card add-on products are held to the same standards as the Credit Union, including audits, quality assurance reviews, training, and compensation structure.
 - J. The Credit Union will establish and maintain appropriate channels for receiving, investigating and properly resolving member complaints related to add-on products.

Policy 7213: Military Personnel Loans

Revised Date: 06/30/2017

Model Policy Revised Date: 06/30/2017

General Policy Statement:

On loans to military personnel, [CUName] (Credit Union) will comply with the Servicemembers Civil Relief Act (SCRA) of 2003 (50 U.S.C. 501 et seq.). This Act requires that the interest rate on loans incurred before military personnel began active duty be reduced to 6% for the duration of the active duty. It also affords additional protections to such personnel. The Credit Union will also comply with the Department of Defense's Military Lending Act (MLA) and the NCUA Letter to Federally Insured Credit Unions (12-CU-07) "Mortgage Servicing Practices Impacting Military Homeowners" which provides additional protections for the loans outlined herein.

Additionally, the Credit Union will comply with any applicable state law that may cover a particular member.

Guidelines:

1. SCRA

A. Persons Protected.

i. **Primary Coverage.** The Act protects persons on active duty in the Army, Air Force, Navy, Marine, and Coast Guard. This includes reserve units that are called to active duty. National Guard members are covered when called to active service authorized by the President or the Secretary of Defense for a period longer than 30 days. "Active duty" can occur during peacetime, including active duty training (boot camp), training and education programs (ROTC), or a reserve component call-up (such as Operation Desert Shield in 1990-91).

ii. **Special Coverage.** In certain situations, protection extends to:

1. Persons who are financially dependent on the service member, defined as the service member's spouse, child, or an individual for whom the service member provided more than one half of the individual's support for 180 days immediately preceding an application for SCRA relief.

2. Cosigners, guarantors, or endorsers of debts incurred by the service member.

B. **Debts Covered.** The SCRA applies to debts incurred by the service member before they entered into active duty. Thus, credit card charges made after active duty began are not subject to the protections of the Act.

C. Interest Rate Reduction To 6%.

i. On any covered debt incurred **prior** to active duty, the Credit Union must reduce the interest rate to 6% during the period of active duty.

1. The service member must provide the Credit Union with a written notice and military orders calling him/her to active duty, as well as any orders further extending military service.

2. The rate reduction takes effect when active duty began, not when the Credit Union receives notice of the active duty.

3. "Interest" includes all service charges, renewal charges, fees or any other charges (except bona fide insurance).
 4. The Credit Union **must** reduce the amount of the payment on outstanding balances and **cannot** reduce the number of total payments to be made.
- ii. Under the Housing and Economic Recovery Act of 2008 (HERA), the 6% rate reduction for all obligations and liabilities consisting of a mortgage, deed of trust or other security in the nature of a mortgage, incurred **during** the period of active military service is to be extended until one year **after** active duty status.
 - iii. The Credit Union **must** forgive any interest in excess of 6% that would have been incurred if no rate cap was in effect.
 - iv. The 6% limit does **not** apply to new advances under an existing credit card or home equity line of credit program.
 - v. The Credit Union **cannot** automatically refuse to lower the rate. In order to challenge the rate reduction, the Credit Union can petition an appropriate court to authorize a higher interest rate. The Credit Union must show that the service member's ability to repay the loan is "not materially affected" by the active duty service.
 - vi. The Credit Union may reinstate the original contract rate on non-mortgage loan debt outstanding balances as soon as the service member is no longer on active duty.
 - vii. The Credit Union may reinstate the original contract rate on mortgage loan debt outstanding balances one year following the end of active duty service to the military.
 - viii. Unless there is a joint obligation with the service member, dependents are generally **not** entitled to receive reduced rates of interest on loans, but may seek court protection to prevent foreclosure, repossession or an out of court sale.

D. Renegotiation of Loan Contracts. Rather than collect the 6%, the Credit Union and the service member may choose to renegotiate the original loan contract. Under the SCRA, contracts may be modified, terminated or cancelled, and that property which is security for an obligation may be repossessed, foreclosed, sold or forfeited pursuant to a written agreement between the service member and the Credit Union that is entered into during or after the period of active duty. All decisions to renegotiate contracts shall be made by management.

E. Truth-In-Lending Issues.

- i. **Open-End Loans.** For open-end loans, a change-in-terms notice is required when the Credit Union reinstates the contractual rate. This notice may be sent when the Credit Union receives notice of active duty.
- ii. **Closed-End Loans.** For closed-end loans, an additional disclosure is only required for variable-rate loans secured by a member's principal dwelling that have a term of greater than one year. This notice must be sent at least 25 days and no more than 120 calendar days prior to the date that a payment at the new level is due, and includes the following information:
 1. The current and prior interest rates;
 2. The index values upon which the current and prior rates are based;

3. The extent to which the Credit Union has foregone an increase in the interest rate;
4. The contractual effects of the adjustment, including the payment due after the adjustment and a statement of the loan balance; and
5. The payment, if different from the disclosure in 1.E.ii. 4 (above) that would be required to fully amortize the loan at the new interest rate over the remainder of the loan term.

F. Suspension of Payments and Extension of Loan. A service member may request a court to suspend loan payments that fall due during active duty. If the service member is being sued for repayment of an obligation, the court may authorize reduced or suspended payments.

i. If such payments are suspended, the service member must begin making payments when active duty ends over an extended period of time authorized by the court. The maximum extension that may be authorized depends on the type of security.

a. **Loans Secured by Real Estate.** The maximum extension is the remaining term of the loan plus the period of active duty service.

b. **Loans Secured by Personal Property.** The maximum extension is no longer than the period of active duty service.

ii. Loan payments that fall due after active duty terminates must be paid on time.

G. Restriction on Default Judgments. In order to obtain a default judgment, the Credit Union must provide an affidavit stating facts showing that the defendant is not in military service. If the statement is not filed, the judgment is voidable (i.e., can be set aside and reopened by the service member upon proper showing that he/she has been prejudiced because of military service in making a defense).

H. Reopening Default Judgments. A service member may have a default judgment reopened if the judgment was entered during service or within 60 days after separation from service. The service member must apply to the same court that entered the judgment and must file within 90 days after his or her military service ends.

i. Setting aside a default judgment will not impair the rights or title to property that has been acquired by a bona fide purchaser. Thus, if a car is properly repossessed and resold to a bona fide purchaser, the defendant would not be able to reclaim the car, but could seek money damages from the Credit Union.

I. Prohibition of Foreclosures and Repossessions. For covered debts secured by a service member's real or personal property, the Credit Union cannot foreclose on or repossess the security unless the Credit Union has first obtained prior authorization from a court, unless the service member and Credit Union entered into a loan agreement or modification after the member's active duty service that allows the Credit Union to foreclose on the loan and repossess the property.

i. **Default Notification.** Pursuant to Section 688 of the National Defense Authorization Act for Fiscal Year 2006, the Credit Union will provide homeownership counseling notification (prepared by the Department of Housing and Urban Development [HUD]) to all members in default regarding the foreclosure rights of service members and their dependents under the SCRA. The notice must:

1. Be sent to all homeowners who are in default on a residential mortgage (HUD's counseling notification requirement only applies to a loan that is secured by the principal residence of the homeowner);

2. Include the toll-free military one-source number to call if service members or their dependents require further assistance (1-800-342-9647); and
3. Be made within 45 days from the date of a missed payment was due, unless the homeowner pays the overdue amount before the expiration of the 45-day period.

ii. In order to initiate a foreclosure under HERA, the Credit Union must wait **twelve (12) months after** a service member returns from active duty service.

J. Stay of Legal Proceedings. During service or within 90 days of separation, the service member can request a stay of any legal proceeding including enforcement of a judgment (e.g., execution, garnishment), or the court may enter a stay on its own motion. The court shall grant the stay unless the service member's active duty does not materially affect his or her ability to defend the proceeding. If the proceeding is stayed, the Credit Union cannot assess any fines or penalties against the service member while the stay is in effect. This protection applies to all of a service member's debts, including those incurred during active duty.

i. The fact that a service member applies for or is granted temporary relief from his/her obligations and liabilities pursuant to the SCRA may not in and of itself be the basis for any of the following by the Credit Union:

1. A determination that the service member is unable to pay the obligation or liability under its terms;
2. A denial or revocation of credit, change in the terms of an existing credit arrangement, or refusal to grant credit in substantially the same amount or on substantially the same terms requested;
3. An adverse report related to the creditworthiness of the service member by or to a credit bureau;
4. A note in the service member's record identifying him/her as a member of the National Guard or a Reserve component;
5. A refusal to insure the service member; or
6. A change in terms offered or conditions required for the issuance of insurance.

K. Statute of Limitations. The time period in which a claim must be made is suspended during the period of military service, even if a claim arose prior to or during active duty service.

L. Eviction and Distress. When the Credit Union becomes the owner of residential property that is rented to a service member, the Credit Union may **not** evict a service member or his/her dependents unless a court order is obtained. Additionally, the Credit Union may **not** subject the premises to "distress" (seizure of property to secure payment of overdue rent) during the period of military service.

M. Termination of Leases. The SCRA permits service members to terminate a "covered lease" if he/she delivers written notice of termination, along with a copy of his/her military orders to the Credit Union or its agent. This notice must be delivered by hand, private business carrier, or U.S. Mail, posted prepaid, return receipt requested.

i. **Real Property Leases.** A "covered lease" of real property is a lease of premises occupied, or intended to be occupied, by a service member or his/her dependents for a "residential, professional, business, agricultural or similar purpose" **and** either (1) is executed by or on behalf of a person

who thereafter and during the term of the lease enters military service; or (2) is executed by a service member while in military service who thereafter receives military orders for a permanent change of station or to deploy with a military unit for a period of at least 90 days.

1. For residential leases that provide for monthly rent payments, once the notice is delivered, the termination is effective 30 days after the next rental due date.

ii. **Motor Vehicle Leases.** A “covered lease” is a lease of a motor vehicle used, or intended to be used, by a service member or his/her dependents for personal or business transportation if (1) the lease is executed by or on behalf of a person who thereafter and during the term of the lease enters military service under a call or order specifying a period of not less than 180 days (or who enters service under such a call and, without a break in service, receives orders extending the period of military service to a period of not less than 180 days); or (2) the service member, while in military service, executes the lease and later receives military orders for a permanent change of station or to deploy with a military unit for a period of not less than 180 days.

1. Along with the termination notice, the service member must return the vehicle to the Credit Union no later than 15 days after the date of the delivery of the written notice.
2. Termination is effective once the notice requirement and return of the vehicle are satisfied.
3. Early termination fees are prohibited, but any taxes, summonses, title and registration fees or other lessee obligations, including reasonable charges for excessive wear and tear, use and mileage, etc. that are due and unpaid at the time of termination may be charged.

N. **Installment Contracts.** If a service member has paid a deposit or installment of the purchase price prior to military service, the Credit Union may **not**, without a court order, exercise a right or option to terminate the contract or repossess the property for nonpayment that occurs prior to or during military service.

O. **Protection of Dependents, Cosigners, Guarantors, and Endorsers.** If a legal proceeding is stayed, the court may extend the stay to any dependent, cosigner, guarantor, or endorser of the service member's debt.

2. MILITARY LENDING ACT (MLA)

A. **Loans Covered.** The Credit Union will follow the Military Lending Act when granting “Consumer credit” to service members and their dependents. “Consumer credit” means credit offered or extended to a covered borrower primarily for personal, family, or household purposes and that is (1) subject to a finance charge; or (2) payable by a written agreement in more than four installments.

i. **Exceptions.** “Consumer credit” does not mean:

1. A residential mortgage, which includes any credit transaction secured by an interest in a dwelling, including a transaction to finance the purchase or initial construction of the dwelling, any refinance transactions, home equity line of credit, or reverse mortgage;
2. Any credit transaction that is intended to finance the purchase of personal property when the credit is secured by the property being purchased;
3. Any credit transaction that is considered “exempt” under Regulation Z (other than a transaction exempt under 1026.29) or otherwise is not subject to disclosure requirements under Regulation Z; and

4. Any credit transaction or account for credit which the Credit Union determines that a consumer is not a covered borrower by using a method and comply with the recordkeeping requirements.

B. Covered Borrowers.

- i. A “covered borrower” is defined as a person with the following status at the time he/she becomes obligated on a consumer credit transaction:
 1. *Covered Member* - A member of the armed forces who is serving on active duty pursuant to title 10, title 14, or title 32 of the United States Code under a call or order that does not specify a period of 30 days or less, or such a member serving on Active Guard and Reserve duty [as defined in 10 U.S.C. 101(d)(6)]; or
 2. A “dependent” with respect to the covered member as described in subparagraph (A), (D), (E), or (I) of 10 U.S.C. 1072(2).
- ii. A covered borrower does not mean a consumer who (though they were a covered borrower at the time they became obligated on a consumer credit transaction or established an account for consumer credit) is no longer a covered member or dependent of a covered member.
- iii. The Credit Union may apply their own method to assess whether a consumer is a covered borrower. The Credit Union is provided a safe harbor and may conclusively determine whether credit is offered or extended to a covered borrower, by assessing the status using the following methods:
 1. The Credit Union may verify the status of a consumer by using information related to that consumer in a database maintained by the Department of Defense. The Credit Union will need the consumer’s last name, date of birth and social security number to perform the search. Historical lookbacks in this database by the Credit Union to ascertain whether the consumer was a covered borrower after a contract has been established is prohibited.
 2. The Credit Union may also verify the status of a consumer by using a statement, code, or similar indicator describing the status (if any) contained in a consumer report obtained from the consumer reporting agency.

C. Recordkeeping. The Credit Union making a determination regarding the status of a consumer by using one of the methods described above must timely create and maintain a record of the information obtained. The Credit Union may make the determination of covered status solely at the time consumer initiates the transaction or applies to establish the account or 30 days prior to that time, or at the time the Credit Union develops or processes a firm offer of credit that includes the status of the consumer as a covered borrower, so long as the consumer responds to that offer not later than 60 days after the time that the Credit Union had provided that offer to the consumer. If the consumer responds to the Credit Union’s offer 60 days after the time the Credit Union provided it to the consumer, the Credit Union may act as though the consumer is initiating a new transaction.

D. Military Annual Percentage Rate (MAPR) Limitation. The MAPR, defined as “the cost of consumer credit transactions expressed as an annual rate,” and includes the following:

- i. Finance charges (as defined in Regulation Z) associated with the consumer credit;
- ii. Any application fee charged to a covered borrower who applies for consumer credit, other than an application fee charged by the Credit Union when making a short-term, small amount loan,

- provided that the application fee is charged not more than once in any rolling 12 month period;
- iii. Participation fees for a plan or arrangement for consumer credit;
 - iv. Credit insurance premiums or fees, including charges for single premium credit insurance;
 - v. Fees for debt cancellation or debt suspension agreements; and
 - vi. Fees for credit-related ancillary products sold in connection with the credit transaction for closed-end credit or an account for open-end credit.
 - vii. Even if the abovementioned charges would be excluded from the finance charge calculation under Regulation Z, they shall still be included in the MAPR calculation.
 - viii. The MAPR may not exceed 36%.

E. Military Annual Percentage Rate (MAPR) Calculation for Credit Cards. For credit card accounts (not home secured), a bona fide, reasonable fee, other than a periodic rate is not required to be included in the MAPR.

- i. The exclusion of certain fees only applies to those fees that are bona fide and reasonable for that particular type of fee. In determining whether a bona fide fee is reasonable, the Credit Union will rely upon the safe harbor method defined within the MLA.
- ii. The exclusion for bona fide fees does not apply to the fees below and they must be included in the MAPR calculation:
 - a. Credit insurance premiums or fees; or
 - b. Fees for credit-related ancillary products sold in connection with the credit transaction.

F. Mandatory Disclosures. The Credit Union must provide covered borrowers with a clear and conspicuous written disclosure in a form the member can keep.

- i. The disclosures (except for the Regulation Z disclosures) must be provided verbally before or at the time of consummation of the loan. For mail or internet transactions, the Credit Union complies with this requirement by providing a toll-free telephone number on or with the written disclosures that consumers may use to obtain the verbal disclosures, and the Credit Union provides the verbal disclosures to the covered borrowers upon request.
- ii. The required disclosures must be kept separate from the Regulation Z disclosures.
- iii. The written disclosures must be provided before consummation of the transaction. Disclosure of the MAPR in advertisements is not required.
- iv. The refinancing or renewal of a covered loan requires new disclosures only when the transaction would be considered a new transaction that requires Regulation Z disclosures.
- v. The disclosures must include the following information:
 - 1. A statement of the MAPR applicable to the extension of consumer credit, which can be satisfied with the following model language: "Federal law provides important protections to members of the Armed Forces and their dependents relating to extension of consumer credit. In general, the cost of consumer credit to a member of the Armed Forces and his or her

dependent may not exceed an annual percentage rate of 36 percent. This rate must include, as applicable to the credit transaction or account: The costs associated with credit insurance premiums; fees for ancillary products sold in connection with the credit transaction; any application fee charged (other than certain application fees for specified credit transactions or accounts); and any participation fee charged (other than certain participation fees for a credit card account).”;

2. Any disclosures required by Regulation Z (which shall be provided in accordance with the requirements of Regulation Z that apply to that disclosure); and;
3. A clear description of the payment obligation of the covered borrower, as applicable (i.e., payment statement or account-opening disclosure pursuant to Regulation Z).

G. Preemption. This regulation would preempt any inconsistent State or Federal law, rule or regulation, including any State usury law, unless such a law, rule or regulation provides additional protection to covered borrowers. States may not charge MAPRs that are higher than the limit for residents of the State, or permit the violation or waiver of any State consumer lending protection that is for the benefit of the residents of that State, solely on the basis of the covered borrower’s non-resident or military status.

H. Limitations. The rule prohibits the Credit Union and its assignees from the following activities:

- i. Requiring covered borrowers to waive their legal recourse under any applicable State or Federal law, including any provision of the Servicemembers Civil Relief Act.
- ii. Requiring covered borrowers to submit to arbitration or imposing other onerous legal notice provisions if the event of a dispute.
- iii. Demanding unreasonable legal notice as a condition for legal action.
- iv. Using a check or other method of access to a deposit, savings, or other financial account maintained by the member. However, creditors may do the following:
 1. Require an EFT to repay the debt, unless otherwise prohibited by Regulation E;
 2. Require direct deposit of the covered borrower’s salary as a condition of eligibility for credit, unless otherwise prohibited by law; or
 3. Take a security interest in the funds that are deposited after the extension of credit in an account established in connection with the transaction.
- v. Requiring that the covered borrower establish an allotment to repay the obligation.
- vi. Prohibiting the covered borrower from prepaying the debt, or charging a fee for prepaying all or part of the debt.

3. MORTGAGE SERVICING PRACTICES FOR MILITARY MEMBERS WITH PERMANENT CHANGE OF STATION ORDERS

A. Persons Protected.

- i. **Primary Coverage.** The NCUA Letter to Credit Unions 12-CU-07 applies to military service members who have received mortgage services from the Credit Union and have received Permanent Change of Station orders from the military.

1. Mortgage services include managing a member's loan account and collecting and crediting monthly payments.
2. Permanent Change of Station (PCS) orders require service members to move to a new duty station, are non-negotiable, and operate under short, strict timelines.

B. Loans Covered. The Credit Union will follow the guidance of NCUA Letter to Credit Unions 12-CU-07 for all mortgage loans and mortgage services provided to military service members.

C. Servicing Assistance. The Credit Union will protect military homeowners with PCS orders by:

- i. Providing homeowners with accurate, clear, and readily understandable information about available assistance options they may qualify for, based on information known to the Credit Union.
- ii. Provide a reasonable means for members to obtain information on the status for their request for assistance.
- iii. Communicating the Credit Unions decisions on requesting assistance in a timely manner.
- iv. The Credit Union will **NOT** ask a service member to waive their rights under the Servicemembers Civil Relief Act as a prerequisite to providing information about available assistance options or eligibility for assistance.
- v. The Credit Union will **NOT** advise service members who are current on their loans and able to make monthly payments to skip payments creating the appearance of financial distress in order to qualify for assistance.

D. Training. The Credit Union will provide training to employees in the capacity to assist service members with mortgage servicing issues covering assistance programs and options available to military service members.

Policy 7215: Overdraft Protection (Courtesy Pay)

Revised Date: 02/01/2012

Model Policy Revised Date: 02/01/2012

General Policy Statement:

[CUname] (Credit Union) may honor a member transaction that results in an overdrawn account through the use of the Credit Union's overdraft protection program. Under this program, the Credit Union charges a fee to provide for the payment of a transaction that would otherwise be returned due to non-sufficient funds (NSF). The Credit Union is under no obligation to pay every overdraft.

Guidelines:

1. **TYPES OF TRANSACTIONS SUBJECT TO OVERDRAFT PROTECTION.** The Credit Union offers overdraft protection for the following types of transactions which could result in an overdrawn account: [7215-1]
2. **ATM AND ONE-TIME DEBIT CARD TRANSACTIONS.** Prior to assessing a fee for ATM and one-time debit card transaction overdrafts, the Credit Union will provide members with the right to opt in, or affirmatively consent, to the Credit Union's overdraft service for ATM and one-time debit card transactions *for each account*, pursuant to the Credit Union's ATM/Debit Cards Policy (**See Policy 2615**).
3. **MEMBER QUALIFICATIONS.** The Credit Union will only offer this program to members "in good standing." To be considered "in good standing," the following qualifications must be met: [7215-2]
 - A. Members who are automatically enrolled in the program will be provided with a notice of enrollment, along with an opportunity to "opt out," at the time the eligibility is established.
4. **DOLLAR LIMITS.**
 - A. The total dollar amount of all overdrafts the Credit Union will honor is not to exceed \$[7215-3], including fees at any given time.
 - B. The total dollar amount of overdrafts the Credit Union will honor per member at any given time is not to exceed \$[7215-4], including fees, if there is no right of offset or there will be a verifiable direct deposit in the account within five business days and is sufficient to cover the overdraft; or \$[7215-5], including fees, if there are available funds in a share account that can be pledged.
5. **REPAYMENT.**
 - A. A member has [7215-6] calendar days from the day the advance was made, not to exceed 45 calendar days, to either deposit the funds or obtain an approved overdraft loan set forth in Section (5)(B) from the Credit Union to cover each overdraft.
 - B. Overdraft loans that remain unpaid will be handled in a manner consistent with the Credit Union's Collection Procedures and/or Loan Charge Offs policy. If a member does not qualify for a loan under these policies and guidelines (i.e., credit underwriting, risk-based lending requirements, loan documentation, etc.), the member may sign a promissory note to repay the overdraft at an interest rate not to exceed [7215-7]%.

6. FEES.

A. Applicable fees will be assessed for each overdraft. A list of current fees and applicable interest rate(s) will be furnished when the account is opened.

7. DISCLOSURES.

A. At the time an account is opened, members will be provided with a disclosure of the fees and list of categories of transactions for which an overdraft fee may be imposed. Those automatically included in the program will also be provided notice of automatic eligibility and an opportunity to opt out.

B. The Credit Union will also provide a periodic statement disclosure regarding the total amount of overdraft fees or charges imposed on an account for the statement period and calendar year to date.

8. **ADVERTISING.** The Credit Union will not state the available overdraft limit or indicate the amount of overdraft funds available in individual member accounts in any advertisement or periodic statement.

9. **NO PREFERENTIAL TREATMENT.** Credit Union staff and board members will not be granted preferential treatment through waived or reduced fees.

10. **NEGATIVE ACCOUNT BALANCES.** The Credit Union may immediately terminate this program for members who fail to pay any negative balance amounts upon demand. The Credit Union may also close the member's account [7215-8] days after written notice to the member of his/her negative account balance, as this will be deemed to be a voluntary withdrawal from Credit Union membership.

Policy 7217: Payday Lending

Revised Date: 06/01/2008

Model Policy Revised Date: 06/01/2008

General Policy Statement:

[CUNAME] (Credit Union) will engage in "Payday Lending" only in accordance with the following guidelines:

Guidelines:

1. **PAYDAY LOAN DEFINITION.** For purposes of this policy, a payday loan is a short-term (30 days or less) loan offered to members with regular paychecks to meet unexpected financial emergencies or other temporary cash flow needs.
2. **CONCENTRATION LIMITS.** The board of directors will establish reasonable and prudent concentration limits for the Credit Union's payday lending activities.
3. **REPORTS.** Management will provide the board of directors with periodic payday lending activity reports. These reports will address issues such as: loan volume, delinquency, performance, audit information, and information concerning compliance with applicable Federal and state law.
4. **LOAN LIMITATIONS.** Payday loans contain substantial risks for the Credit Union not present in standard consumer loans. To address these risks, management will establish a payday lending program which:
 - A. Limits the number of times payday loans can be rolled over.
 - B. Limits the number of payday loans a borrower may have in one year.
 - C. Creates substantial waiting periods between payday loans.
 - D. Provides the borrower the right to rescind the loan, without charge, within 24 hours after it is made (if required by law).
 - E. Provides clear and understandable disclosures concerning the costs and risk associated with payday loans.
 - F. Complies with all applicable state and federal laws governing payday loans, interest, fees, and charges.
5. **RISK ASSESSMENT.** Credit Union management will create procedures to measure, monitor, and control the following payday lending risks.
 - A. **Credit Risk.** Management will create and periodically review internal controls to minimize its credit risk in the following areas:
 - i. **Borrower's Credit History.** The Credit Union will establish guidelines to address borrower's financial capacity and credit history.
 - ii. **Sub-prime Loans.** The Credit Union will comply with the specific credit risks identified in regulatory guidelines on sub-prime lending if the payday loan is considered sub-prime.

iii. **Renewals.** The Credit Union will adopt standards to control the use of renewals based on the borrower's willingness and ability to repay the payday loan.

iv. **Third Party Agreements.** Management will:

a. Exercise due diligence in any contractual agreements with third parties that originate, purchase, or service payday loans.

b. Exercise oversight and control over the third party agreement.

c. Create and maintain a contingency plan if a third party servicing the loans fails.

v. **Collection.** Management will monitor collection activities of third parties to ensure adequate compliance with applicable consumer protection laws and regulations.

vi. **Capital and Allowances for Loan Losses.** Management will review and adjust the Credit Union's capital and allowances for loan losses in accordance with generally accepted accounting principles and regulatory guidelines to account for the added credit risks associated with payday lending.

B. Transaction Risk. Payday loans pose high levels of transaction risk, given the large volume of loans and documents, frequency of renewals, and add-ons. The Credit Union will ensure that its employees and agents adhere to its established underwriting guidelines for payday loans.

C. Reputation Risk. The Credit Union will ensure that loan fees are reasonable, especially for loans that are frequently rolled over, to combat the perception of high fees that may cause loss of community, member, and business support.

D. Compliance Risk. The Credit Union will create a compliance management program for its payday lending activities to identify, monitor, and control the risks associated with the Credit Union's payday lending program at all points in the process, recognizing the following compliance requirements of fair lending, consumer protection laws and regulations, and applicable provisions of state usury and deceptive practices law (as applicable):

i. Equal Credit Opportunity Act and (Regulation B).

ii. Truth in Lending and (Regulation Z).

iii. Fair Credit Reporting Act.

iv. Fair Debt Collection Practices Act.

6. PAYDAY LOANS TO MILITARY SERVICE MEMBERS AND THEIR DEPENDENTS. If the Credit Union provides the following types of payday loans to military service members and their dependents, the Credit Union will adhere to its Military Personnel Loans policy (**see Policy 7213**).

A. Closed-end transactions having a term of 91 days or less, where the amount financed does not exceed \$2,000 and the borrower does the following:

i. Receives funds from and incurs interest and/or is charged a fee by the Credit Union, and at the same time provides a check or other payment instrument that the Credit Union agrees to hold for more than one day; or

- ii. Receives funds from and incurs interest and/or is charged a fee by the Credit Union, and at the same time authorizes the Credit Union to initiate a debit(s) to cover the borrower's deposit account (by electronic fund transfer [EFT] or remotely created check).

Policy 7218: Payday Alternative Loans (PALs)

Revised Date: 09/30/2014

Model Policy Revised Date: 09/30/2014

General Policy Statement:

[CUname] (Credit Union) will provide payday alternative loans (PALs) to members as an alternative to potentially predatory payday lenders. In developing a successful PAL loan program, the Credit Union will consider how the program will help benefit a member's financial well-being while considering the higher degree of risk associated with this type of lending. This policy outlines this loan program.

Guidelines:

1. **INTEREST RATE.** The Credit Union may charge an interest rate of 1000 basis points above the maximum interest rate as established by the NCUA Board, provided the Credit Union is making a closed-end loan in accordance with the following conditions:
 - A. **Principal.** The principal of the loan is not less than \$200 or more than \$1000;
 - B. **Maturity.** The loan has a minimum maturity term of one month and a maximum maturity term of six months;
 - C. **Loan Limits.** The Credit Union does not make more than three PAL loans in any rolling six-month period to any one borrower and will make no more than one short-term, payday alternative loan at a time to a borrower;
 - D. **No Roll-Over.** The Credit Union does **not** roll-over any PAL loan. However, the prohibition against roll-overs does **not** apply to an extension of the loan term within the maximum loan term (above), provided the Credit Union does **not** charge any additional fees or extends any new credit;
 - E. **Full Amortization.** The Credit Union fully amortizes the loan;
 - F. **Minimum Length of Membership.** The Credit Union sets a minimum length of membership requirement of at least one month;
 - G. **Application Fee.** The Credit Union charges an application fee to all members applying for a new loan that reflects the actual costs associated with processing the application, but in no case may the application fee exceed \$20; and
 - H. **Aggregate Dollar Limits.** The Credit Union includes, in its written lending policies, a limit on the aggregate dollar amount of loans made under this section of a maximum of 20% of net worth and implements appropriate underwriting guidelines to minimize risk; for example, requiring a borrower to verify employment by producing at least two recent pay stubs.
2. **PROGRAM FEATURES.** The Credit Union will make an effort to assist its members by adding a savings component to its PAL loan program, as well as to provide financial education. The Credit Union will also encourage or incentivize members to utilize payroll deduction and direct deposit.
3. **UNDERWRITING.** The Credit Union will adhere to minimum underwriting standards that account for a

member's need for quickly available funds, while adhering to principles of responsible lending. For new accounts, the Credit Union will require documentation for proof of employment or income, including at least two recent paycheck stubs. The Credit Union use a borrower's proof of recurring income as the key criterion in developing standards for maturity lengths and loan amounts so a borrower can manage repayment of the loan. For members with established accounts, the Credit Union will review a member's account records and proof of recurring income or employment.

4. **CONCENTRATION LIMITS.** The board of directors will establish reasonable and prudent concentration limits for the Credit Union's PAL lending activities.
5. **REPORTS.** Management will provide the board of directors with PAL lending activity reports. These reports will address issues such as: loan volume, delinquency, performance, audit information, and information concerning compliance with applicable Federal and state law.
6. **RISK ASSESSMENT.** Credit Union management will create procedures to measure, monitor, and control the following PAL lending risks.
 - A. **Credit Risk.** Management will create and periodically review internal controls to minimize its credit risk in the following areas:
 - i. **Borrower's Credit History.** The Credit Union will establish guidelines to address borrower's financial capacity and credit history.
 - ii. **Renewals.** The Credit Union will adopt standards to control the use of renewals based on the borrower's willingness and ability to repay the PAL loan.
 - iii. **Capital and Allowances for Loan Losses.** Management will review and adjust the Credit Union's capital and allowances for loan losses in accordance with generally accepted accounting principles and regulatory guidelines to account for the added credit risks associated with payday lending.
 - B. **Transaction Risk.** PAL loans pose high levels of transaction risk, given the large volume of loans and documents, frequency of renewals, and add-ons. The Credit Union will ensure that its employees and agents adhere to its established underwriting guidelines for PAL loans.
 - C. **Reputation Risk.** The Credit Union will ensure that loan fees are reasonable, especially for loans that are frequently rolled over, to combat the perception of high fees that may cause loss of community, member, and business support.
 - D. **Compliance Risk.** The Credit Union will create a compliance management program for its PAL lending activities to identify, monitor, and control the risks associated with its PAL lending program at all points in the process, recognizing the following compliance requirements of fair lending, consumer protection laws and regulations, and applicable provisions of state usury and deceptive practices law (as applicable):
 - i. Equal Credit Opportunity Act and (Regulation B).
 - ii. Truth in Lending and (Regulation Z).
 - iii. Fair Credit Reporting Act.
 - iv. Fair Debt Collection Practices Act.

Policy 7220: Rapid Refund Loans

Revised Date: 01/01/2008

Model Policy Revised Date: 01/01/2008

General Policy Statement:

[CUname] (Credit Union) offers rapid refund loans to eligible members who want to receive federal and state tax refunds in advance.

Guidelines:

1. ELIGIBILITY.

- A. Member in good standing with the Credit Union;
- B. Tax return prepared by approved C.P.A.; and
- C. Entitlement to tax refund acknowledged by IRS.

2. PROCEDURE.

- A. Approved tax preparers will submit completed loan applications to the Credit Union along with:
 - i. Copies of completed tax return and electronic filing form specifying direct deposit to the Credit Union;
 - ii. IRS Acknowledgement Report verifying that the member is entitled to a refund for the amount shown; and
 - iii. Copy of borrower's social security card and driver's license.
- B. Loan officers will approve any rapid refund loan that meets the Credit Union's risk tolerance. In assessing risk, loan officers will determine the likelihood that the refund would be usurped to satisfy garnishments or child support. Loan officers will also consider the borrower's capacity to service the debt in the event of a reformation.
- C. Borrowers will agree to a reformation should the Credit Union fail to receive a full refund within 30 days. As a general rule, reformations will provide for full repayment of the unpaid loan balance plus interest for a period not to exceed three years.

3. **RAPID REFUND LOAN REPORT.** The rapid refund loan report is designed to assist management in monitoring the risks associated with rapid refund loans. The report identifies rapid refund loan defaults per tax preparer, allowing management to determine the quality of loans generated from each C.P.A. The report also tracks rapid refund loan losses compared to fees generated year-to-date. The Board will periodically review this report and determine whether adjustments in pricing or underwriting standards are necessary.

4. **REFUND ANTICIPATION LOANS FOR MILITARY MEMBERS AND THEIR DEPENDENTS.** If the Credit Union provides refund anticipation loans to military service members and their dependents, the Credit Union will adhere to its Military Personnel Loans policy.

Policy 7225: Recreational Vehicle Loans

Revised Date: 01/01/2004

Model Policy Revised Date: 01/01/2004

Model Policy Reviewed Date: 06/29/2016

General Policy Statement:

[CUName] (Credit Union) will extend credit for the purpose of financing new recreational vehicles.

Guidelines:

1. **SECURITY.** The Credit Union will create, attach, and perfect purchase money security interests in the following recreational vehicles:

- A. Motorboats,
- B. Motor homes,
- C. Truck campers,
- D. Travel trailers,
- E. Folding camp trailers,
- F. Motorcycles, and
- G. Snowmobiles.

2. **VALUE.**

A. **New Recreational Vehicles.** "New" recreational vehicles are the most recent models purchased new from the dealership. Value is determined by purchase order, dealer invoice or NADA appraisal guide.

3. **TERMS.** The interest rate, repayment terms and loan to value are determined by the age of the vehicle and are governed by the current rate structure set by the Asset/Liability Management Committee each month.

4. **REQUIRED LOAN DOCUMENTATION.**

- A. Certificate of title with the Credit Union as lien holder.
- B. Insurance binder listing the Credit Union as the lien holder and indicating adequate collision, comprehensive and liability coverage, plus:
 - i. Name and address of insurance agent.
 - ii. Policy number and expiration date.
 - iii. Complete description of collateral.

C. Purchase money security agreement.

D. Evidence of purchase price: purchase order, dealer invoice, or bill of sale.

E. Evidence of down payment, trade, cash, or rebate and net amount due the seller, third party or financial institution.

F. Information on seller (name and address), vehicle identification number, previous lien information, etc.

G. Authorization of pay-off when applicable.

5. **INSURANCE.** Borrowers must maintain full coverage (comprehensive and collision) insurance on the vehicle until the loan is paid in full or until the balance is low enough to warrant release (approximately \$2,000).

A. **Cancellation.** Insurance carriers will contact the Credit Union immediately if a policy is canceled for any reason. The Credit Union has Collateral Protection Insurance available to protect its interest in this case.

B. **Waiver.** Loan officers may waive the insurance coverage requirement where prudent.

6. **RECREATIONAL VEHICLE LOAN WATCH.** Management monitors past-due percentages and loss trends closely and implements corrective action as necessary. Management reports include documentation of renewals, extensions and deferrals, past-dues, charge-offs, and collection efforts associated with consumer vehicle loans.

Policy 7230: Share Secured Loans

Revised Date: 01/01/2004

Model Policy Revised Date: 01/01/2004

Model Policy Reviewed Date: 06/29/2016

General Policy Statement:

[CUName] (Credit Union) will extend credit secured by Credit Union passbook shares, share certificates, and money market accounts. Loans 100% secured with the member's shares have no maximum loan limit.

Guidelines:

1. **HOLDS.** Members may withdraw funds from pledged accounts up to the balance of the loan.
2. **INTEREST.** Share loans are structured with both fixed and variable interest rates. Specific rates are set by the Asset/Liability Management Committee each month.
3. **FULLY AMORTIZING.** Payments on this type of loan must be large enough to cover principal and interest to avoid negative amortization. The Credit Union will accept single payment notes under the following circumstances:
 - A. Fully secured by Credit Union shares or deposits.
 - B. If the secured shares are held in a share certificate account, the term of the loan cannot exceed the maturity date of the certificate account.
 - C. The maximum repayment term shall not exceed 90 days.
 - D. The loan interest rate will be above the dividend (interest) rate being paid on the secured shares at a spread established by the loan management committee.

Policy 7235: Stock-Secured Loans

Revised Date: 01/01/2011

Model Policy Revised Date: 01/01/2011

General Policy Statement:

[CUname] (Credit Union) extends credit for loans secured by publicly traded stock.

Guidelines:

1. LOAN LIMITS.

<u>Type of Stock</u>	<u>LTV</u>
[7235-1]	[7235-2]

2. COLLATERAL REQUIREMENTS.

- A. **National Stock Exchange.** The Credit Union only accepts stock that is traded on a national stock exchange.
- B. **Stock Power.** The member must sign a stock power which facilitates the transfer of the stock into the Credit Union's name in the event of default.
- C. **Possession.** The Credit Union will take possession of the stock certificates until the loan is paid in full.

3. TERMS.

- A. **Maturity.** Maximum repayment period of [7235-3] months.
- B. **Interest.** Interest rates are governed by the current rate structure set by the Asset/Liability Management Committee each month.

4. REGULATION U.

- A. **Application of Regulation.** The Credit Union will follow Regulation U for its stock-secured loans when it meets one of two threshold tests for the amount of "margin" stock-secured credit extended or outstanding:
 - i. \$200,000 or more in such credit is extended in the most recent calendar quarter; or
 - ii. If at any time in the most recent quarter the amount of margin stock-secured credit outstanding was \$500,000 or more.
- B. **Definition of "Margin Stock."** Margin stock is defined under Regulation U as:
 - i. Any equity security registered or having unlisted trading privileges on a national securities exchange;
 - ii. Any over-the-counter (OTC) security designated as qualified for trading in the National Market

System (NMS security) under a designation plan approved by the Securities and Exchange Commission (SEC);

iii. Any debt security convertible into a margin stock or carrying a warrant or right to subscribe to or purchase a margin stock; or

iv. Any warrant or right to subscribe to or purchase a margin stock.

C. **Definition of “Purpose Credit.”** Purpose credit is defined as any credit for the purpose, whether immediate, incidental or ultimate, of buying or carrying margin stock (with certain exceptions).

D. **Applications and Reports.** Registration statements, applications to terminate registration, and annual reports must be filed with the Federal Reserve Bank of the district in which the Credit Union’s principal office is located.

i. **Registration.** When the Credit Union meets the above threshold criteria, it will register on Federal Reserve Form FR G-1 within 30 days after the end of any calendar quarter in which the credit secured by margin stock has been extended or is outstanding. The form must be filed in duplicate.

ii. **De-Registration.** The registration statement will remain in effect until Form FR G-2 is approved by the Federal Reserve (i.e., when the threshold amount is no longer met).

iii. **Purpose Statement.** When the Credit Union meets the threshold and extends credit secured directly or indirectly by any margin stock, the Credit Union will require its members to execute Form FR G-3. This form must be signed and accepted by a duly authorized representative of the Credit Union acting in good faith.

1. For revolving or multiple draw agreements, Form FR G-3 will be executed at the time the credit arrangement is originally established. This form will be amended for each disbursement if all of the collateral for the arrangement is not pledged at the time the arrangement is originally established.

2. If the Purpose Statement executed at the time the credit arrangement is initially made indicates that the purpose is to purchase or carry margin stock, the credit will be deemed in compliance if:

a. The maximum loan value of the collateral at least equals the aggregate amount of funds actually disbursed; or

b. At the end of any day on which credit is extended, the Credit Union calls for additional collateral sufficient to bring the credit with the maximum loan value of margin stock and other collateral.

iv. **Annual Report.** The Credit Union will file FR G-4 within 30 days following June 30 of every year, along with balance sheet. The balance sheet must be certified by an independent public accountant as of the end of the most recent fiscal year. The form lists alternative methods of filing if a certified balance sheet is not available.

E. **Single Credit Rule.** All (secured and unsecured) credit extended for the purpose of buying or carrying margin stock will be treated as a single loan, and all the collateral securing it must be considered in determining whether the Credit Union complies with Regulation U.

- i. When the Credit Union extends purpose credit secured by margin stock, it may not later extend unsecured purpose credit to the same member unless the combined credit does not exceed the maximum loan value of the collateral securing the prior credit.
- ii. Purpose credit secured by any margin stock and non-purpose credit extended to the same member must be treated as two separate loans. Credit unions may not rely upon the required collateral securing the purpose credit for the non-purpose credit.

F. Employee Stock Option, Purchase, and Ownership Plans.

- i. “Plan-lender” means any corporation, (including a wholly-owned subsidiary, or a lender that is a thrift organization whose membership is limited to employees and former employees of the corporation, its subsidiaries or affiliates) that extends or maintains credit to finance the acquisition of its own margin stock, its subsidiaries or affiliates under an eligible plan.
- ii. An “eligible plan” means any employee stock option, purchase, or ownership plan adopted by a corporation and approved by its stockholders that provides for the purchase of margin stock of the corporation, its subsidiaries, or affiliates.
- iii. When the Credit Union acts as a plan-lender extends or maintains credit under an eligible plan, any margin stock that directly or indirectly secured that credit must have good faith loan value. The maximum amount of the loan may not exceed 50% of the collateral’s value.
- iv. Credit extended under this section must be treated separately from credit extended under any other section of Regulation U.

G. Extending, Maintaining, and Arranging Credit. Only plan-lenders may extend any purpose credit, secured directly or indirectly by margin stock, in an amount that exceeds the maximum loan value of the collateral securing the credit.

- i. The Credit Union may continue to maintain any credit initially extended in compliance with this part, regardless of:
 1. Reduction in the customer's equity resulting from change in market prices;
 2. Change in the maximum loan value prescribed by this part; or
 3. Change in the status of the security (from non-margin to margin) securing an existing purpose credit.
- ii. The Credit Union will only arrange for the extension or maintenance of any purpose credit upon the same terms and conditions under which it may extend or maintain purpose credit.

Policy 7240: Student Loans

Revised Date: 06/17/2013

Model Policy Revised Date: 06/17/2013

General Policy Statement:

[CUName] (Credit Union) provides “private education loans,” defined under Regulation Z as loans that are not made, insured, or guaranteed under title IV of the Higher Education Act of 1965 and are extended expressly, in whole or in part, for postsecondary educational expenses to a member, regardless of whether the loan is provided through the educational institution that the student attends. The Credit Union does not grant Federally Guaranteed Student Loans.

Guidelines:

1. **PRIVATE EDUCATION LOANS.** While Regulation Z does not apply to credit transactions in which the total amount financed exceeds \$25,000 (unless the loan is secured by real property or a consumer’s principal dwelling), private education loans are covered by the Truth in Lending Act (TILA) and Regulation Z regardless of the loan’s total amount financed. The Credit Union will follow the requirements of TILA and Regulation Z.

A. Definitions.

- i. **Covered Educational Institution.** An educational institution (as well as an agent, officer or employee of the institution) that would meet the definition of an institution of higher education under the Higher Education Act of 1965, without regard to the institution’s accreditation status. A covered educational institution may include, for example, a private university or a public community college. It may also include an institution, whether accredited or unaccredited, that offers instruction to prepare students for gainful employment in a recognized profession such as flying, culinary arts, or dental assistance. However, under the definition, a covered educational institution will **not** include elementary or secondary schools.
- ii. **Postsecondary Educational Expenses.** Any of the expenses that are listed as part of the cost of attendance of a student under the Higher Education Act of 1965. Examples included in this definition are: tuition and fees, books, supplies, miscellaneous personal expenses, room and board, and an allowance for any loan fee, origination fee, or insurance premium charged to a student or parent for a loan incurred to cover the cost of the student’s attendance.
- iii. **Preferred Lender Arrangement.** An arrangement or agreement between a creditor and a covered educational institution under which a creditor provides education loans to consumers for students attending the covered educational institution, and the covered educational institution recommends, promotes, or endorses the private education loan products of the creditor. It does **not** include arrangements or agreements with respect to Federal Direct Stafford/Ford loans or Federal PLUS loans made under the Federal PLUS auction pilot program.

B. Form of Disclosures.

- i. Disclosures for private student loans will be made clearly and conspicuously, in writing, and in a form the member can keep. These disclosures will be grouped together, segregated from everything else, and will not contain any information that is not directly related to the required disclosures.

C. **Content of Disclosures.** The Credit Union will provide the following three disclosures during the private

education loan origination process:

- i. First, on or with an application or a solicitation that does not require the member to complete an application;
- ii. Second, with any notice of approval of the private education loan; and
- iii. Third, after the member accepts the loan.

D. Application or Solicitation Disclosures. The Credit Union will provide these disclosures pursuant to the requirements of Regulation Z. For telephone applications or solicitations, the Credit Union will provide or place in the mail the disclosures no later than three (3) business days after the consumer requests the credit (unless the application is denied within three (3) business days).

i. **Member's Right to Accept.** Members have 30 days to accept the terms of a private education loan at any time within 30 days after receiving the disclosures (though the Credit Union may provide a longer period of time, which must be disclosed). If the disclosure is mailed, the member will be considered to have received them three (3) "business days" after mailing (which means all calendar days except Sundays and the legal public holidays). The method of acceptance will be included in the disclosure.

ii. **Availability of Terms.** If an application is approved, the terms of the loan will be available for 30 days. The Credit Union may provide a longer period of time for acceptance. If this is provided, the Credit Union will disclose the alternate time period in the disclosure. During this acceptance time period, the rates and terms of the loan **cannot** be changed. However, within this 30-day acceptance period, the Credit Union may do the following without being required to provide new disclosures or provide an additional 30-day acceptance period:

1. Withdraw an offer before consummation of the transaction if the extension of credit would be prohibited by law or if the Credit Union has reason to believe that the member has committed fraud in connection with the loan application;
2. Change the interest rate based on adjustments to the index used for a loan;
3. Change the interest rate and terms if the change will unequivocally benefit the member; or
4. Reduce the loan amount based upon a certification or other information received from the covered educational institution, or from the member, indicating that the student's cost of attendance has decreased or the member's other financial aid has increased.

iii. **Self-Certification Information.** The Credit Union will provide to members a self-certification form developed by the U.S. Department of Education. This form must be completed and signed before the loan can be consummated. This form is not required for consolidation loans and or loans to students attending covered educational institutions that do not meet the definition of institution of higher education under the Higher Education Act of 1965.

E. Approval Disclosures. The Credit Union will provide approval disclosures, pursuant to the requirements of Regulation Z, before consummation of private education loans. If the Credit Union provides the notice of approval by mail, the disclosures will be mailed at the same time as the approval notice. If provided by telephone, the Credit Union will place the disclosures in the mail within three (3) business days of the approval notice. If provided in electronic form, the disclosures will be provided electronically (if the

member consents and the other applicable provisions of the E-SIGN Act have been followed; otherwise, the creditor will be required to place the disclosures in the mail within three (3) business days).

i. **Loan Purpose.** If a member expressly indicates on an application that the proceeds of the loan will be used to pay for postsecondary educational expenses, the Credit Union will comply with the approval disclosure requirements. To determine the purpose of the loan, the Credit Union will rely on a check-box or purpose line on a loan application.

ii. **Availability of Terms.** If an application is approved, the terms of the loan will be available for 30 days. The Credit Union may provide a longer period of time for acceptance. If this is provided, the Credit Union will disclose the alternate time period in the disclosure. During this acceptance time period, the rates and terms of the loan **cannot** be changed. However, within this 30-day acceptance period, the Credit Union may do the following without being required to provide new disclosures or provide an additional 30-day acceptance period:

1. Withdraw an offer before consummation of the transaction if the extension of credit would be prohibited by law or if the Credit Union has reason to believe that the member has committed fraud in connection with the loan application;
2. Change the interest rate based on adjustments to the index used for a loan;
3. Change the interest rate and terms if the change will unequivocally benefit the member; or
4. Reduce the loan amount based upon a certification or other information received from the covered educational institution, or from the member, indicating that the student's cost of attendance has decreased or the member's other financial aid has increased.

F. **Final Disclosures.** The Credit Union will provide final disclosures "contemporaneously with consummations" of private education loans, pursuant to the requirements of Regulation Z. This term means the time after the member accepts a loan that is at least three (3) days before disbursement.

G. **Multiple Members.** If there are multiple members, the Credit Union may provide the disclosure to any member who is primarily liable on the obligation.

H. **Member's Right to Cancel.** Members have the right to cancel a private education loan without penalty until midnight of the third (3rd) business day following receipt of the final disclosures. The Credit Union will not disburse any funds until the expiration of the three-business day period. The term "business day" for these purposes means all calendar days except Sundays and the legal public holidays.

- i. The Credit Union may provide a period of time longer than three (3) business days in which the member may cancel, and may disburse funds after the minimum three (3) business day period so long as the member's later timely cancellation request is honored.
- ii. The Credit Union will **not** be required to refund fees, such as an application fee, when charged to all members regardless of whether loans are cancelled.

I. **Limitations on Private Education Loans.**

i. **Co-Branding Prohibited.** The Credit Union will not use the name, emblem, mascot or logo of a covered educational institution, or other words, pictures or symbols readily identified with a covered educational institution in the marketing of private education loans in any way that implies

that the covered educational institution endorses the Credit Union's loans.

ii. **Preferred Lender Arrangements.** In cases where the Credit Union has a preferred lender arrangement with a covered educational institution, the Credit Union will clearly and conspicuously disclose that loans are being offered by the Credit Union, not the educational institution.

1. The Credit Union will provide the educational institution with an annual report, which will contain the information required by the Federal Reserve model form for each type of private education loan the Credit Union plans to offer for the next award year (meaning the period from July 1 to June 30 of the following year). This information will be provided by April 1 of each year, or within 30 days of entering into, or learning that the Credit Union is a party to, a preferred lender arrangement.

Policy 7244: Integrated Mortgage Disclosures

Revised Date: 06/27/2015

Model Policy Published Date: 6/27/2015

Introduction:

The Integrated Mortgage Disclosures combine the disclosure requirements under the Real Estate Settlement Procedures Act (RESPA) and Truth in Lending Act (TILA) for mortgage loans. The Loan Estimate disclosure provides consumers the key features, costs and risks of the mortgage loan they are applying for, and the Closing Disclosure helps consumers understand all the costs associated with the mortgage loan transaction.

Highlights:

1. **COVERAGE.** The integrated mortgage disclosures apply to closed-end consumer credit transactions secured by real property.
2. **EXEMPTIONS.** Loans excluded from the integrated mortgage disclosure requirements include:
 - A. Home equity lines of credit (HELOCs);
 - B. Reverse mortgages; and
 - C. Mortgages secured by a mobile home or dwelling that is not attached to real property (i.e., land).
3. **REQUIRED DISCLOSURES AT THE TIME OF LOAN APPLICATION.** [CUname] (Credit Union) must provide the following disclosures **either** at the time of application for a mortgage loan or must deliver them (by mail, unless the consumer agrees to receiving them by fax or other electronic means) within **3 business days** of receiving the loan application:
 - A. **Special Information Booklet.** This booklet, required only for purchase transactions, contains consumer information regarding various real estate settlement services.
 - i. The Credit Union is **not** required to provide this booklet in the following cases:
 1. The loan application is denied within three (3) business days following receipt of the application;
 2. The Credit Union provides, for home equity lines of credit, the brochure entitled “When Your Home is on the Line: What You Should Know about Your Home Equity Lines of Credit”;
 3. Refinancing transactions;
 4. Closed-end loans where the Credit Union has a subordinate lien;
 5. Reverse mortgage transactions; and
 6. The purpose of the loan is **not** to purchase a 1-4 family residential property.

B. Loan Estimate Disclosure. The Loan Estimate contains a good faith estimate of credit costs and transaction terms and must be in writing and in a form prescribed by regulation. The Credit Union will provide the loan estimate no later than the third business day after receiving the application. Credit unions are not permitted to impose any fee on a consumer in connection with the consumer's application for a mortgage transaction until the consumer has received the Loan Estimate and indicated an intent to proceed with the transaction. The Credit Union is permitted to charge a bona fide and reasonable fee for obtaining a consumer's credit report.

i. **Intent to Proceed.** When the consumer communicates, in any manner, that the consumer chooses to proceed after the Loan Estimate has been delivered. The Credit Union will document the consumer's intent to proceed and retain for the required time period outlined in the Record Retention policy.

ii. **Application Information.** An application is the submission of a consumer's financial information for purposes of obtaining an extension of credit (in written or electronic format, and includes a written record of an oral application). An application consists of the following information:

1. The borrower's name, Social Security Number and income;
2. The property address;
3. An estimate of the property value; and
4. The amount of the mortgage loan sought.

iii. **Supplemental Information.** The Credit Union may collect additional information it deems necessary in connection with the request for the extension of credit. However, once the information outlined in (ii) is received, it has received an application for the purposes of the three business day timing requirement for the Loan Estimate.

iv. **Changed Circumstances.** If "changed circumstances" result in increased costs for any settlement services such that the charges at settlement would exceed the tolerances for those charges, the Credit Union may provide a revised Loan Estimate to the borrower. The term "changed circumstances" means:

1. An extraordinary event beyond the control of any interested party or other unexpected event specific to the consumer or transaction.
2. Information specific to the borrower or transaction that the Credit Union relied on when providing the Loan Estimate that changes or is found to be inaccurate after the Loan Estimate has been provided; or
3. New information particular to the borrower or transaction that was **not** relied on when the Credit Union provided the Loan Estimate.

v. **Revised Loan Estimates.** To comply with the good faith requirements, a Credit Union may use a revised estimate of a charge, instead of the charge originally disclosed on the Loan Estimate in the following situations:

1. A changed circumstance renders the borrower ineligible for an estimated charge previously disclosed.

2. The borrower requests revisions to the credit terms or the settlement that cause an estimated charge to increase;
3. The points or lender credits change because the interest rate was not locked when the loan estimate was provided. The creditor must provide a revised loan estimate no later than three business days after the date of an interest rate lock.
4. The borrower indicates an intent to proceed with the transaction more than ten business days after the Loan Estimate disclosures are provided.

vi. **Tolerances.** Provided that the estimated charge for a particular service was based on the best information reasonably available to the Credit Union at the time the disclosure was provided, a Credit Union may charge the consumer more than the amount disclosed in the Loan Estimate in specific circumstances.

1. Charges without any tolerance limitations include:

- a. Prepaid interest; property insurance premiums; amounts placed into an escrow or similar account;
- b. Services required by the Credit Union if the Credit Union allows the consumer to shop for the service provider and the service provider selected is not on the Credit Union's written list of providers; and
- c. Charges paid to third-party service providers for services not required by the Credit Union.

2. Charges that are aggregated and subject to a 10% cumulative tolerance include:

- a. Recording fees; and
- b. Charges for third-party services where:
 - i. The charge is not paid to the Credit Union or an affiliate; and
 - ii. The borrower is permitted to shop for the third-party service, and the borrower selects a third-party service provider on the Credit Union's list of providers.

3. Charges that are subject to zero tolerance include:

- a. Fees paid to the Credit Union or affiliate;
- b. Fees paid to unaffiliated third-parties if the Credit Union did not permit the borrower to shop for a third-party service provider for a settlement service; or
- c. Transfer taxes.

vii. **Revised Loan Estimates.** Revised Loan Estimates will be provided to the borrower no later than three business days after receiving the information sufficient to establish the need for a revised disclosure.

- C. **Mortgage Servicing Statement.** The Loan Estimate will also include the Credit Union's intent to service the loan or transfer the loan to another servicer.
- D. **Homeownership Counseling Organizations.** The Credit Union will provide applicants with a written list of homeownership counseling organizations.
- E. **Consumer Handbook on Adjustable Rate Mortgages and Loan Program disclosures.** The Credit Union will provide certain disclosures if the annual percentage rate may increase after consummation, including the Consumer Handbook on Adjustable Rate Mortgages and a loan program disclosure for each variable rate program in which the consumer expressed an interest.
- F. **Copy of Appraisal/Valuations.** The Credit Union will provide the applicant with copies of appraisals and other written valuations used promptly upon completion or three business days before consummation. The Credit Union will also provide applicants with the following disclosure: "We may order an appraisal to determine the property's value and charge you for this appraisal. We will promptly give you a copy of any appraisal, even if your loan does not close. You can pay for an additional appraisal for your own use at your own cost."
- G. **Written List of Providers.** If the Credit Union permits the consumer to shop for a settlement service, the Credit Union shall identify which services the consumer is permitted to shop and provide a list of available providers of that settlement service, stating that the consumer may choose a different provider for that service. The Credit Union must identify at least one available provider for each settlement service for which the consumer is permitted to shop.
- H. **Waiver of waiting period.** If the consumer determines that the extension of credit is needed to meet a bona fide personal financial emergency, the consumer may modify or waive the seven business day waiting period after receiving the early disclosures to consummate the transaction. The consumer shall give the Credit Union a written, dated statement that describes the emergency, specifically modifies or waives the waiting period and bears the signature of all the consumers who are primarily liable on the legal obligation.

4. **REQUIRED DISCLOSURES BEFORE SETTLEMENT.** The Credit Union must provide the **Affiliated Business Arrangement (AfBA)** disclosure whenever the Credit Union refers the member to a settlement service provider with whom the Credit Union has an ownership or other beneficial interest. The Credit Union must provide this disclosure to the member at or prior to the time of referral. The disclosure must describe the business arrangement that exists between the two parties and give the member an estimate of the settlement service provider's charges.

- A. Except in cases where the Credit Union refers a member to an attorney, a credit reporting agency or real estate appraiser to represent the Credit Union's interest in the transaction, the Credit Union may **not** require the member to use the particular provider being referred.
- B. In order to qualify under the RESPA affiliated business exemption, a settlement service provider may offer a combination of bona fide settlement services at a total price (net of the value of the associated discount, rebate or other economic incentive) lower than the sum of the market prices of the individual settlement services and will not be found to have required the use of the settlement service providers, so long as:
- i. The use of any such combination is optional to the purchaser; and

- ii. The lower price for the combination is **not** made up by higher costs elsewhere in the settlement process.

5. REQUIRED DISCLOSURES AT SETTLEMENT. The Credit Union must provide the following disclosures at settlement:

- A. **Closing Disclosure.** The Closing Disclosure reflects the actual terms and costs of the loan transaction. Separate forms may be prepared for the borrower and the seller. The Credit Union must ensure the borrowers receive the Closing Disclosure no later than three business days before consummation (when the borrower becomes contractually obligated on the credit transaction). The settlement agent must provide the seller its copy of the Closing Disclosure no later than the day of consummation.
- B. **Initial Escrow Statement.** This statement itemizes the estimated taxes, insurance premiums and other charges anticipated to be paid from the escrow account during the **first 12 months** of the loan. It lists the escrow payment amount and any required cushion. Although the statement is usually provided at settlement, the Credit Union has **45 days** from settlement to deliver it. This statement may be incorporated in the Closing Disclosure (in the basic text or as an attachment).

- i. The initial notice must contain the following information:

- 1. The amount of the monthly mortgage payments;
- 2. The portion of the monthly payment going into the escrow account;
- 3. Any discretionary payment made part of the mortgage payment;
- 4. An itemization of the types and amounts of charges that the Credit Union reasonably anticipates will be paid out of the escrow account over the following 12 months;
- 5. The anticipated disbursement dates for each of the charges;
- 6. The permitted cushion chosen by the servicer; and
- 7. A trial running balance of the account.

6. DISCLOSURES AFTER SETTLEMENT. The Credit Union must provide the following disclosures after settlement:

- A. **Annual Escrow Statement.** When the Credit Union is the servicer of the loan, an Annual Escrow Statement, which summarizes all escrow account deposits and payments during the Credit Union's 12-month computation year, and a projection of activity in the account for the next year.

- i. **Content.** Specifically, the following must be included in the annual statement:

- 1. The amount of the borrower's current monthly mortgage payment and the portion of the monthly payment going into the escrow account;
- 2. The amount of the past year's monthly mortgage payment and the portion of the monthly payment that went into the escrow account;
- 3. The total amount paid into the escrow account during the past computation year;

4. The total amount paid out of the escrow account during the same period for taxes, insurance premiums and other charges (as separately identified);
5. The balance in the escrow account at the end of the period;
6. An explanation of how any surplus is being handled by the servicer;
7. An explanation of how any shortage or deficiency is to be paid by the borrower; and
8. If applicable, the reason(s) why the estimated low monthly balance was not reached, as indicated by noting differences between the most recent account history and the last year's projection.

ii. **Timing.** The annual statement must be provided within **30 days** of the completion of the escrow account computation year, which may be delivered with other statements or materials, including the Substitute 1098. There is **no** requirement to provide this statement under the following circumstances:

1. The borrower is more than 30 days overdue;
2. The Credit Union has brought an action for foreclosure under the underlying mortgage loan;
or
3. The borrower is in bankruptcy proceedings.
4. If the borrower under one or more of the above situations becomes current, the Credit Union must provide a history of the account since the last statement, within 90 days of when the account became current.

B. Escrow Account Cancellation Notice. For closed-end consumer loans secured by first lien on real property or a dwelling (other than a reverse mortgage) for which an escrow account was established in connection with the transaction will be cancelled, the Credit Union shall provide an Escrow Account Cancellation Notice with the content, order and format requirements similar to the model form provided in appendix H to Regulation Z.

i. **Content Requirements.** The notice shall clearly indicate under the heading "Escrow Closing Notice" and contain the following information:

1. A statement informing the member of:
 - a. the date on which they will no longer have an escrow account;
 - b. that an escrow account may also be called an impound or trust account;
 - c. the reason why the escrow account will be closed;
 - d. that without an escrow account, the member must pay all property costs, such as taxes and homeowner's insurance directly, possibly in one or two large payments a year; and
2. Include a table titled "Cost to you" that contains an itemization of the amount of any fee the

Credit Union imposes on the consumer in connection with the closure of the escrow account, labeled “Escrow Closing Fee” and a statement that the fee is for closing the escrow account.

3. Under the title “In the future” include:

- a. A statement of the consequences if the member fails to pay the property costs, including the actions that a state or local government may take if the property taxes are not paid and the actions the Credit Union may take if the member does not pay, such as adding amounts to the loan balance, adding an escrow account to the loan, or purchasing a property insurance policy on the member’s behalf that may be more expensive and provide fewer benefits;
- b. A statement with a telephone number that the member can call to request additional information about the cancellation of the escrow account;
- c. A statement of whether the Credit Union offers the option of keeping the escrow account open and a corresponding phone number the member can use to request the account to be kept open; and
- d. A statement of whether there is a cut-off date by which the consumer can request that the account be kept open.

ii. Timing Requirements.

1. If the member requests the Credit Union cancel the escrow account, the Credit Union shall ensure that the member receives the required disclosures no later than 3 business days before the close of the escrow account.
2. If the cancellation is conducted by the Credit Union or not at the member’s request, the Credit Union shall ensure the member receives the disclosures no later than 30 business days before the closure of the escrow account.

C. Servicing Transfer Statement. This statement is required if the Credit Union, as loan servicer, transfers or assigns the servicing rights to a member’s loan to another loan servicer.

i. Timing. Generally, the Credit Union must notify the member **15 days before** the effective date of the loan transfer. So long as the member makes a timely payment to the Credit Union (the old servicer) within 60 days of the loan transfer, the member cannot be penalized.

ii. Content. The Servicing Transfer Statement must include the following information:

1. The effective date of the transfer;
2. The name and address of the new servicer;
3. Toll-free telephone numbers (of the old and new servicer);
4. The date the new servicer will begin accepting payments;
5. Information concerning any effect the transfer will have on the terms or the continued availability of mortgage life, disability or other insurance, and any action the borrower must

take to maintain coverage;

6. A statement that the transfer of servicing does not affect any other term or condition of the mortgage documents, other than terms directly related to the servicing of the loan; and
7. A statement of the borrower's rights in connection with complaint resolution.

iii. The following transfers are **not** considered an assignment, sale or transfer requiring a Servicing Transfer Statement:

1. Transfers between affiliates;
2. Transfers resulting from mergers or acquisitions of servicers or sub-servicers; and
3. Transfers between master servicers, where the sub-servicer remains the same.

D. Mortgage Transfer Disclosure. If the Credit Union acquires legal title to the debt obligation and becomes the owner of a covered mortgage loan, the Credit Union will mail or deliver the Mortgage Transfer Disclosure to the member on or before the 30th calendar day following the date the mortgage loan was transferred.

i. **Content.** The Mortgage Transfer Disclosure will identify the mortgage loan that was sold, assigned or otherwise transferred along with the following information:

1. The name, address and telephone number of the covered person;
2. The date of transfer;
3. The name, address and telephone number of an agent or party authorized to receive notice of the right to rescind and resolves issues concerning the consumer's payments on the loan;
4. Where the transfer of ownership of the debt to the covered person is or may be recorded in public records, or that the transfer of ownership has not been recorded in public records at the time the disclosure is provided.

ii. **Partial payment policy.** Listed under the subheading "Partial Payment."

1. If periodic payments that are less than the full amount due are accepted, a statement that the "Lender" (using that term) may accept partial payments and apply those payments to the loan;
2. If periodic payment that are less than the full amount due are accepted, but not applied to the loan until the consumer pays the remainder of the full amount due, a statement that the "Lender" (using that term) may hold partial payments in a separate account until the consumer pays the remainder of the payment and then apply the full periodic payments to the loan;
3. If periodic payments that are less than the full amount due are not accepted, a statement that the "Lender" (using that term), does not accept any partial payments;
4. A statement that, if the loan is sold, the new "Lender" (using that term) may have a different

policy.

- E. **Refinancing.** The Credit Union will provide the consumer borrower with new disclosures upon a refinancing. A refinancing occurs when an existing loan is satisfied and replaced by a new loan undertaken by the same consumer borrower.
- F. **Assumption.** The Credit Union will provide the consumer borrower with new disclosures, based upon the remaining obligation upon an assumption. An assumption occurs when the Credit Union expressly agrees in writing with a subsequent consumer to accept that consumer as a primary obligor on an existing residential mortgage transaction.
- G. **Interest Rate Adjustment Notification.** The Credit Union shall provide disclosures to the member in connection with the adjustment of interest rates pursuant to the loan contract that results in a corresponding adjustment to the payment. These requirements apply to an adjustable-rate mortgage (ARM) that is a consumer closed-end loan secured by the consumer's principal dwelling. The Credit Union will comply with the interest rate adjustment notification requirements, including timing and disclosure content (See Policy 7360 or 7361 – Mortgage Servicing Rules).

7. CONSUMER PROTECTIONS AND PROHIBITED PRACTICES.

- A. **Prohibition Against Kickbacks, Fee-Splitting and Unearned Fees.** Section 8 of RESPA prohibits anyone from giving or accepting a fee, kickback or “thing of value” in exchange for referrals of settlement service business involving a RESPA loan. RESPA also prohibits fee splitting and receiving unearned fees for services not actually performed.
- i. **“Thing of Value.”** This term is defined broadly and includes, without limitation, monies, things, discounts, salaries, commissions, fees, duplicate payment of a charge, stock, dividends, distributions of partnership profits, franchise royalties, credits representing monies that may be paid at a future date, the opportunity to participate in a money-making program, retained or increased earnings, increased equity in a parent or subsidiary entity, special bank deposits or accounts, special or unusual banking terms, services of all types at special or free rates, sales or rentals at special prices or rates, lease or rental payments based in whole or in part on the amount of business referred, trips and payment or another person's expenses, or reduction in credit against an existing obligation.
- ii. **Permitted Payments.** The following types of fees, compensation and other payments are *permitted* under RESPA Section 8:
1. A payment to an attorney for services actually rendered;
 2. A payment by a title company to its duly appointed agent for services actually performed in the issuance of a policy of title insurance;
 3. A payment by the Credit Union to its duly appointed agent or contractor for services actually performed in the origination, processing or funding of a loan;
 4. A payment to any person of a bona fide salary or compensation or other payment for goods or facilities actually furnished or for services actually performed;
 5. A payment pursuant to cooperative brokerage and referral arrangements or agreements between real estate agents and real estate brokers;

6. Normal promotional and educational activities that are not conditioned on the referral of business and that do not involve the defraying of expenses that would otherwise be incurred by persons in a position to offer settlement services or business incident thereto;
7. An employer's payment to its own employees for generating business for that employer (which may include bonuses tied to performance, so long as the amount is not calculated as a multiple of the number or value of referrals of settlement service business).

B. Title Insurance. Section 9 of RESPA prohibits a seller from requiring the home buyer to use a particular title insurance company, either directly or indirectly, as a condition of sale.

C. Escrow Account Limits. Section 10 of RESPA sets limits on the amounts that the Credit Union (as the servicer) may require a member to put into an escrow account for purposes of paying taxes, hazard insurance and other charges related to the property. RESPA does not require escrow accounts; however, certain government loan programs or lenders may require escrow accounts as a condition of the loan.

i. **Escrow Account.** Each month, the Credit Union may require a member to pay into the escrow account no more than 1/12 of the total of all disbursements payable during the year, plus an amount necessary to pay for any shortage in the account. Additionally, the Credit Union may require a cushion, not to exceed an amount equal to 1/6 of the total disbursements for the year.

ii. **Escrow Surpluses.** The Credit Union must perform an escrow account analysis once during the year and notify members whether a surplus, shortage or deficiency exists. Any excess of \$50 or more must be returned to the member. If the escrow surplus is less than \$50, the Credit Union may refund the amount to the borrower or credit the amount against the next year's escrow payments.

iii. **Escrow Shortages.** If a shortage of less than one month's escrow payment exists, the Credit Union may allow the shortage to exist and do nothing to change it; require the borrower to repay the shortage amount within 30 days; or require the borrower to repay the shortage in equal monthly payments over at least a 12-month period. If the shortage is greater than or equal to one month's escrow payment, the Credit Union may allow the shortage to exist and do nothing to change it, or require the borrower to repay the shortage in equal monthly payments over at least a 12-month period.

1. The Credit Union must notify the borrower at least once during the escrow account computation year if there is a shortage. The notice may be a part of the Annual Escrow Account Statement or may be a separate document.

iv. **Escrow Deficiencies.** If a deficiency of less than one month's escrow payment exists, the Credit Union may allow the deficiency to exist and do nothing to change it; require the borrower to repay the deficiency within 30 days; or require the borrower to repay the deficiency in 2 or more equal monthly payments. If the deficiency is greater than or equal to one month's escrow payments, the Credit Union may allow the deficiency to exist and do nothing to change it, or require the borrower to repay the deficiency in 2 or more equal monthly payments.

1. The deficiency provisions apply if the borrower is current at the time of the escrow account analysis. A borrower is current if the Credit Union receives the borrower's payments within 30 days of the payment due date.

2. If the Credit Union does not receive the borrower's payment within 30 days of the payment

due date, the Credit Union may recover the deficiency pursuant to the terms of the mortgage loan documents.

3. The Credit Union must notify the borrower at least once during the escrow account computation year if there is a deficiency. The notice may be part of the Annual Escrow Account Statement or may be a separate document.

8. **RIGHT TO CANCEL (RESCISSION).** Members who borrow against a security interest mortgage on their principal dwelling have a right to cancel their entire loan transaction without cost if they notify the Credit Union within three business days of loan consummation of their desire to cancel. Each member entitled to cancel must receive two copies of a “notice of right to cancel” form to use for this purpose and consistent with the format and requirements in the model form in appendix H of Regulation Z. If the notice is delivered in electronic form, one copy of the notice is sufficient, subject to the E-SIGN consent procedures.

Policy 7245: Truth-in-Lending Disclosures for Closed-End Credit

Revised Date: 06/27/2015

Model Policy Revised Date: 6/27/2015

General Policy Statement:

[CUName] (Credit Union) will comply with the Truth-in-Lending Act and its implementing regulation, Regulation Z, by providing consumer borrowers with proper Truth-in-Lending disclosures for closed-end credit in a timely manner.

Guidelines:

1. **FORM OF DISCLOSURES.** The Credit Union will provide the proper closed-end disclosures in the following manner:
 - A. **Clearly and Conspicuously in Writing.** The disclosures will be in a reasonably understandable form and legible.
 - B. **In a Form the Member May Keep.** The disclosures will be in a form that the consumer borrower may keep. This includes disclosures delivered electronically through a personal computer.
 - C. **Conspicuous Terms.** The terms “annual percentage rate” (APR, though the full use of the term must be used once) and “finance charge” when disclosed with a corresponding amount or rate will be more conspicuous than any other disclosure except the Credit Union’s name.

2. **TIMING OF DISCLOSURES.**
 - A. **Generally.** The Credit Union will provide the proper closed-end disclosures to the consumer borrower before consummation of the transaction. For residential mortgages and extensions of credit secured by the member’s dwelling, the timing requirements in the Credit Union's Integrated Mortgage Disclosures Policy (See Policy 7244) will be followed. For student loans, the timing requirements in the Credit Union's Student Loan Policy (See Policy 7240) will be followed.
 - B. **Electronic Delivery.** The Credit Union may provide the disclosures to applicants electronically, subject to the Electronic Signatures in Global and National Commerce Act (E-SIGN). See Paragraph (6). The Credit Union may provide the disclosures in both paper and electronic form, and rely on the paper form to satisfy the compliance obligations. If this is done, the Credit Union would not be required to comply with the E-SIGN consent procedures.
 - C. **Mail or Telephone Orders.** Except for private education loan disclosures and mortgage loan disclosures, when the Credit Union receives a request for credit by mail or telephone without face-to-face or direct telephone solicitation, the Credit Union may delay making the disclosures for the credit transaction until the due date of the first payment, provided the following disclosures are provided:
 - i. The cash price or the principal loan amount;
 - ii. The total sale price;
 - iii. The APR, and if the rate may increase after consummation, the following disclosures:

1. The circumstances under which the rate may increase;
 2. Any limitations on the increase;
 3. The effect of an increase; and
- iv. The terms of repayment.

D. **Website Orders.** If a member ordered a product via the Credit Union's website, the transaction-specific disclosures could **not** be delayed, and must be provided before consummation of the transaction. For disclosures to be provided electronically, the E-SIGN consent procedures would have to be followed.

3. **CONTENT OF DISCLOSURES.** For closed-end loans, except for residential mortgage transactions (not including reverse mortgages), the Credit Union will provide disclosures that will include the following information:

A. Credit Union Name.

B. Amount Financed (using that term and a brief description such as "the amount of credit provided to you or on your behalf").

C. Itemization of Amount Financed.

D. Finance Charge (using that term and a brief description such as "the dollar amount the credit will cost you").

E. Annual Percentage Rate (using that term and a brief description such as "the cost of your credit as a yearly rate").

F. Variable rate disclosures (when applicable) detailing:

i. Circumstances under which the rate may increase;

ii. Effect of an increase and example of resulting payments;

iii. Any limitations on the increased rate; and

iv. If structured with a rate cap, the maximum interest rate that may be imposed during the loan period.

G. Payment schedule, including number, amount, and timing of payments.

H. Total Payments (using that term, and a description such as "the amount you will have paid when you have made all scheduled payments").

I. Demand Feature (if applicable).

J. Total Sale Price (using that term and an explanation such as "the total price of your purchase on credit, including your downpayment of \$ ____").

K. Prepayment information.

L. Late payment penalty.

M. Description of the security interest (if applicable).

N. Insurance and Debt Cancellation.

O. Certain Security Interest Charges.

P. Reference to Contract for Additional Information (statement that the member should defer to the appropriate contract document for information about nonpayment, default, the right to accelerate the maturity of the obligation, and prepayment rebates and penalties).

Q. Required Deposit.

R. Credit sale disclosure if borrower is purchasing a vehicle repossessed by the Credit Union.

4. **RESIDENTIAL MORTGAGE TRANSACTIONS.** For closed-end consumer transactions secured by real property (other than reverse mortgages) federally related mortgage loans the credit union will follow the requirements within the RESPA-TILA Integrated Mortgage Disclosures Policy (**See Policy 7244**).

5. **SUBSEQUENT DISCLOSURE REQUIREMENTS, POST-CONSUMMATION.** The Credit Union will provide subsequent closed-end disclosures as required.

A. **Refinancing.** The Credit Union will provide the consumer borrower with new disclosures upon a refinancing. A refinancing occurs when an existing loan is satisfied and replaced by a new loan undertaken by the same consumer borrower.

6. **ELECTRONIC DISCLOSURE DELIVERY.** The Credit Union may deliver closed-end disclosures electronically, if the member affirmatively consents to the electronic delivery and receipt of the disclosures in accordance with the Electronic Signatures in Global and National Commerce Act (the “E-Sign Act”). This method of delivery includes visual text displayed on equipment such as a personal computer monitor. Prior to consent, the member must receive a Consent Notice that informs him or her of certain protections including: the right to receive disclosures in paper form, how to exercise that right, the fee, if any, the Credit Union charges for a paper copy; how to withdraw consent and the consequence of withdrawal, including fees; scope of consent; and hardware/software requirements to receive the electronic disclosures.

7. **ADVERTISING.** The credit union’s advertisement of closed-end loans will be based only on terms actually available and will be made clearly and conspicuously.

A. **Advertising Rate of Finance Charge.** No rate other than the APR may be stated, except a simple annual rate that is applied to an unpaid balance may be stated in conjunction with, but not more conspicuously than, the APR.

i. **Buydowns.** When a “buydown” (offering a reduced interest rate and reduced payments for a limited period of time) is offered, the following additional disclosures will be required:

1. the amount or percentage of the down payment;

2. the terms of repayment; and

3. the “annual percentage rate.”

- ii. **Discounted Variable Rate Transactions.** When these are offered, the limited term to which the simple annual rate applies and the APR that will apply after the term of the initial rate expires must be disclosed in close proximity to the discounted variable rate. If the advertisement shows the effect of a discount on the payment schedule, the additional disclosures (above) will be required.

B. Advertisements of Terms that Require Additional Disclosures – Trigger Terms.

- i. The amount or percentage of any downpayment, only if a downpayment is actually required, such as “as low as \$100 down” or “only 5% down.”
- ii. The number of payments or period of repayment, such as “48-month payment terms” or “30-year mortgage.”
- iii. The amount of any payment, such as “\$25 weekly” or “\$500,000 loan for just \$1,650 per month.”
- iv. The amount of any finance charge, such as “\$500 total cost of credit” or “\$50,000 mortgages, 2 points to the borrower.”
- v. If the credit union states any of the above trigger terms in an advertisement, the following terms must also be disclosed:
- vi. The total downpayment, listed as a dollar amount or percentage.
- vii. The terms of repayment which reflect the repayment obligations over the full term of the loan, including any balloon payment. Advertisements may state the number and timing of payments, the fact that the payments do not include amounts for mortgage insurance premiums, and that the actual payment obligation will be higher. For loans with one series of low payments, followed by another series of higher payments, the advertisement may state the number and time period of each series of payments (assuming the member makes the series of lower payments for the maximum allowable period of time). If a balloon payment will occur if the member only makes the minimum payments specified in an advertisement, the advertisement must state the amount and time of this balloon payment, with equal prominence and in close proximity to the minimum payment.
- viii. The “annual percentage rate” using that term or “APR” and if the rate may be increased after consummation, the advertisement must also state that fact.

C. Disclosure of Rates in Advertisements for Dwelling Secured Credit. If more than one simple annual rate of interest will apply over the term of the advertised loan, the advertisement must include the following information in a clear and conspicuous manner and in close proximity and equal prominence with the rate that triggered these additional disclosures:

- i. Each simple annual rate of interest that will apply. In variable rate transactions, a rate determined by an index and margin must be disclosed based on a reasonably current index and margin;
- ii. The period of time during which each simple annual rate of interest will apply; and
- iii. The APR for the loan.

D. Disclosure of Payments in Advertisements for Dwelling Secured Credit. Advertisements that state the amount of any payment must also include the following information in a clear and conspicuous

manner and in close proximity and equal prominence with the payment that triggered these additional disclosures:

- i. The amount of each payment that will apply over the term of the loan, including any balloon payment. In variable rate transactions, payments that will be determined based on the application of an index and margin must be disclosed based on a reasonable index and margin;
- ii. The period of time during which each payment will apply; and
- iii. If secured by a first lien on a dwelling, the fact that the payments do not include amounts for taxes and insurance premiums, if applicable, and that the actual payment obligation will be greater.

E. Tax Implications. For advertisements offering an extension of credit that may exceed the fair market value (FMV) of the dwelling, the advertisement must include a statement that the interest on the portion of credit that exceeds the FMV of the dwelling is **not** deductible for Federal income tax purposes, and that the member should consult a tax advisor.

F. Deceptive or Misleading Advertisements. The Credit Union will ensure that it does **not** engage in the following mortgage advertising practices:

- i. Advertisements that state “fixed” rates or payments for loans whose rates or payments for loans whose rates or payments can vary without adequately disclosing that the interest rate or payment amounts are “fixed” only for a limited period of time, rather than for the full term of the loan;
- ii. Advertisements that compare an actual or hypothetical rate or payment obligation to the rates or payments that would apply if the member obtains the advertised product unless the advertisement states the rates or payments that will apply over the full term of the loan;
- iii. Advertisements that characterize the products offered as “government loan programs,” “government-supported loans,” or otherwise endorsed or sponsored by a federal or state government entity through the advertised products are not government-supported or -sponsored loans; and
- iv. Foreign language advertisements in which certain information, such as a low introductory “teaser” rate, is provided in a foreign language, while required disclosures are provided only in English.

8. Treatment of Credit Balances. If a credit balance in excess of \$1 is created in connection with a transaction, the Credit Union shall:

- A. Credit the amount of the credit balance to the member’s account;
- B. Refund any part of the remaining credit balance, upon written request of the member; and
- C. Make a good faith effort to refund the member by cash, check or money order, or credit the member’s deposit account before 6 months have passed.

Policy 7250: Truth-in-Lending Disclosures for Open-Ended Credit

Revised Date: 12/30/2014

Model Policy Revised Date: 12/30/2014

General Policy Statement:

[CUNAME] (Credit Union) will comply with the Truth-in-Lending Act (12 C.F.R. 1026) and its implementing regulation, Consumer Financial Protection Bureau (CFPB) Regulation Z, by providing members with proper Truth-in-Lending disclosures for open-end credit in a timely manner.

Guidelines:

1. **GENERAL DISCLOSURE REQUIREMENTS.** The Credit Union will provide the proper open-end disclosures in the following manner:

A. **Clearly and Conspicuously in Writing.** The disclosures will be in a reasonably understandable form and legible.

B. **In a Form the Member May Keep.** The disclosures will be in a form that the consumer borrower may keep. This includes disclosures delivered electronically through a personal computer.

C. **Conspicuous Terms.**

i. **Home Equity Loans.** See **Policy 7251** (Regulation Z – Home Equity Plans).

ii. **Disclosures in a Tabular Format.** For disclosures required to be in a tabular format, the term “penalty APR” will be used, as applicable.

D. **Electronic Delivery.** The Credit Union may provide the disclosures to applicants electronically, subject to the Electronic Signatures in Global and National Commerce Act (E-SIGN). See Paragraph (8). The Credit Union may provide the disclosures in both paper and electronic form, and rely on the paper form to satisfy the compliance obligations. If this is done, the Credit Union would not be required to comply with the E-SIGN consent procedures.

2. **CREDIT CARD APPLICATIONS AND SOLICITATIONS.**

A. **Form of Disclosures.** The disclosures under this subsection must be provided in a prominent location on or with an application or solicitation, or other applicable document, and in the form of a table. Direct mail applications and solicitations must be accurate to within 30 days.

i. **Tabular Format.** The following disclosures must be provided in the form of a table, in a prominent location on or with an application or solicitation:

1. **Annual Percentage Rate (APR).** Each periodic rate that may be used to compute the finance charge on an outstanding balance for purchases, a cash advance, or a balance transfer, expressed as an APR. When more than one rate applies for a category of transactions, the range of balances to which each rate is applicable must also be disclosed. The APR for purchases must be in at least 16-point, **bold** type. If this rate depends on the applicant’s creditworthiness, this fact must be disclosed, along with the range of rates

available. The APR will be disclosed in **bold** text.

- a. **Loss of Employee Preferential Rate.** Disclosures of the loss of an employee preferential rate must be placed *beneath* the tabular disclosure. Directly beneath the table, the Credit Union must briefly disclose the circumstances under which such preferential rate may be revoked, and the rate that will apply after such preferential rate is revoked. If the employee preferential rate is **not** included in the initial account agreement, but is instead added by an amendment to the agreement after account opening, such a rate is **not** required to be disclosed in the tabular disclosure.
2. **Variable Rate Information.** If a rate is variable, it must be disclosed that the rate may vary and how the rate is determined. In describing this determination, the type of index or formula used in setting the rate must be disclosed. Neither the value of the index and the amount of the margin that are used to calculate the variable rate, nor the limitations on rate increases or decreases may be disclosed in the table.
 - a. **Balance Computation for Purchases.** The name of the balance computation method that is used to determine the balance for purchases on which the finance charge is computed, or an explanation of the method used if it is not listed. The explanation must appear *outside* the table if the table contains a reference to the explanation. In determining which balance computation method to disclose, the Credit Union must assume that credit extended for purchases will not be repaid with the grace period, if any.
3. **Introductory Rate.** The time period during which the introductory rate will be in effect and the rate that will apply after the introductory rate expires. The circumstances, if any, under which this rate may be revoked, and the type of rate that will apply after the introductory rate that will apply after this rate is revoked, may be disclosed directly beneath the table. The introductory rate, as well as the rate that will apply after the introductory period expires, will be disclosed in **bold** text.
4. **Penalty Rate.** If the rate may increase as a penalty for one or more events specified in the account agreement, such as a late payment or an extension of credit that exceeds the credit limit, a brief description of the event(s) that may result in the increase rate, and a brief description of how long the increased rate will remain in effect.
5. **Fixed Finance Charge; Minimum Interest Charge.** Any fixed finance charge and a brief description of the charge, as well as any minimum interest charge if it exceeds \$1.00 that could be imposed during the billing cycle and a brief description of the charge.
6. **Transaction Charges.** Any transaction charge imposed by the Credit Union for the use of the card for purchases.
7. **Grace Period.** The date by which or the period within which any credit extended for purchases may be repaid without incurring a finance charge. If no grace period is provided, that fact must be disclosed. If the length of the grace period varies, the Credit Union may disclose the range of days, the minimum number of days, or the average number of days in the grace period, if the disclosure is identified as a range, minimum or average. If the grace period applies to all types of purchases, the table heading must read “How to Avoid Paying Interest on Purchases.” If the grace period is **not** offered on all types of purchases, the table heading must read “Paying Interest.”

8. **Cash Advance Fee.** Any fee imposed for an extension of credit in the form of cash or its equivalent. The maximum fee for cash advances will be disclosed in **bold** text.
9. **Late Payment Fee.** Any fee imposed for a late payment. The late payment fee or, if a range of fees, the “up to” fee, will be disclosed in **bold** text.
10. **Over-the-Limit Fee.** Any fee imposed for exceeding a credit limit. The over-the-limit fee or, if a range of fees, the “up to” fee, will be disclosed in **bold** text.
11. **Balance Transfer Fee.** Any fee imposed to transfer an outstanding balance. The maximum fee for balance transfers will be disclosed in bold text.
12. **Returned Payment Fee.** Any fee imposed for a returned payment. The returned payment fee or, if a range of fees, the “up to” fee, will be disclosed in **bold** text.
13. **Required Insurance, Debt Cancellation or Debt Suspension Coverage.** The amount of the fee(s), as well as a cross reference to any additional information provided about the insurance or coverage accompanying the application or solicitation, as applicable.

ii. **Exceptions to the Tabular Format.** The tabular disclosure format does **not** apply to the following:

1. Home equity plans accessible by a credit or charge card;
2. Overdraft lines of credit tied to asset accounts accessed by check-guarantee cards or by debit cards;
3. Lines of credit accessed by check-guarantee cards or by debit cards that can be used only at automated teller machines (ATMs);
4. Lines of credit accessed solely by account numbers;
5. Additions of a credit or charge card to an existing open-end plan;
6. General purpose applications unless the application, or material accompanying it, indicates that it can be used to open a credit or charge card account; or
7. Consumer-initiated requests for applications.

iii. **Available Credit.** If the Credit Union *requires* fees for the issuance or availability of credit, or requires a security deposit for such credit, and the total amount of these fees and/or security deposit that will be imposed and charged to the account when the account is opened is 15% or more of the minimum credit limit for the card, the Credit Union must disclose the available credit remaining after these fees or security deposit are debited to the account, assuming that the member receives the minimum credit limit.

iv. **Website Reference.** A reference to the website established by the Consumer Financial Protection Bureau (CFPB) that members may obtain on the website information about shopping for and using credit cards.

B. Telephone Applications and Solicitations. The Credit Union must orally disclose 1) through 7) and (iii)

above in a telephone application or solicitation initiated by the Credit Union. These applications and solicitations must be accurate at the time they are given.

C. Applications and Solicitations Made to the General Public.

- i. The above disclosures may be provided in addition to the following:
 1. The date the required information was printed, including a statement that the required information was accurate as of that date and is subject to change after that date; and
 2. A statement that the member should contact the Credit Union (as card issuer) for any change in the required information since it was printed, and a toll-free telephone number or a mailing address for that purpose.
- ii. If none of the disclosures are provided with the application or solicitation, the Credit Union may state the following in a prominent location on the application or solicitation:
 1. There are costs associated with the use of the card; and
 2. The member may contact the Credit Union to request specific information about the costs, along with a toll-free telephone number and a mailing address for that purpose.
- iii. These disclosures must be accurate as of the date of printing. A variable APR is accurate if it is in effect within 30 days before printing.

D. Electronic Delivery.

- i. If a member accesses an application or solicitation for a credit or charge card in electronic form (such as on a home computer), the disclosures required on or with the application or solicitation *may* also be provided to the member in electronic form (as the credit card disclosures are not required to be in a form that an applicant can keep).
- ii. If a member is provided with a paper application or solicitation, the required disclosures must be provided in paper form on or with the application or solicitation (and not, for example, by including a reference in the paper application or solicitation to the website where the disclosures are located). If the Credit Union provides electronic disclosures for a paper application or solicitation, compliance with the E-SIGN notice and consent requirements are required.
- iii. Where a consumer accesses *and submits* an application form using a home computer via a card issuer's website, the card issuer *must* provide the disclosures in electronic form with the application form on the website in order to meet the requirement to provide disclosures in a timely manner on or with the application.
- iv. In contrast, if a member is physically present in the Credit Union's office, and accesses and submits an electronic application (such as via a terminal or kiosk), the Credit Union may provide disclosures in paper form to comply with the timing and delivery requirements of Regulation Z.

3. HOME EQUITY PLANS. See **Policy 7251** (Regulation Z – Home Equity Plans).

4. ACCOUNT-OPENING DISCLOSURES.

- A. **Timing of Disclosure.** The initial disclosure must be provided before the first transaction is made under the plan.
- B. **Content of Disclosure - Home Equity Plans.** See **Policy 7251** (Regulation Z – Home Equity Plans).
- C. **Content of Disclosure – Open-End (Not Home-Secured) Plans.** See Section 2.A. above. In addition to these disclosures, the following must be disclosed:

- i. **Billing Error Rights Reference.** A statement that information about consumers’ right to dispute transactions is included in the account-opening disclosures.
- ii. **Disclosure of Charges Imposed as Part of Open-End (Not Home-Secured) Plans.** The circumstances under which the charge may be imposed, including the amount of the charge or an explanation of how the charge is determined. For finance charges, a statement of when the charge begins to accrue and an explanation of whether any time period exists within which any credit that has been extended may be repaid without incurring the charge. If such a time period is provided, the Credit Union may, at its option and without disclosure, elect not to impose a finance charge when payment is received after the time period expires.

1. Charges imposed as part of the plan are:

- a. Finance charges.
- b. Charges resulting from the consumer’s failure to use the plan as agreed, except amounts payable for collection activity after default, attorney’s fees regardless of whether automatically imposed, and post-judgment interest rates permitted by law.
- c. Taxes imposed on the credit transaction by a state or other governmental body, such as documentary stamp taxes on cash advances.
- d. Charges for which the payment, on nonpayment, affect the consumer’s access to the plan, the duration of the plan, the amount of credit extended, the period for which credit is extended, or the timing or method of billing or payment.
- e. Charges imposed for terminating a plan.
- f. Charges for voluntary credit insurance, debt cancellation or debt suspension.

2. Charges that are **not** imposed as part of the plan include:

- a. Charges imposed on a cardholder by an institution other than the Credit Union for the use of the other institution’s ATM in a shared or interchange system.
- b. A charge for a package of services that includes an open-end credit feature, if the fee is required regardless of whether the open-end credit feature is included and the non-credit services are not merely incidental to the credit feature.

- iii. **Disclosure of Rates for Open-End (Not Home-Secured) Plans.** The following, to the extent possible, must be disclosed:

1. For each periodic rate that may be used to calculate interest:

- a. **Rates.** The rate, expressed as a periodic rate and a corresponding APR.
- b. **Range of Balances.** The range of balances to which the rate is applicable; however, the Credit Union is not required to adjust the range of balances disclosure to reflect the balance below which only a minimum charge applies.
- c. **Type of Transaction.** The type of transaction to which the rate applies, if different rates apply to different types of transactions.
- d. **Balance Computation Method.** An explanation of the method used to determine the balance to which the rate is applied. The average daily balance method for all features will be disclosed as “average daily balance (including new purchases).” When the average daily balance is different for different features, it will be disclosed as such (for example, “average daily balance (excluding new cash advances”).
- e. **Variable Rate Accounts Tied to Increases in an Index or Formula.**
 - i. The fact that the APR may increase.
 - ii. How the rate is determined, including the margin.
 - iii. The circumstances under which the rate may increase.
 - iv. The frequency with which the rate may increase.
 - v. Any limitation on the amount the rate may change.
 - vi. The effect(s) of an increase.
 - vii. A variable rate is accurate if it was in effect within the last 30 days before the disclosures are provided. If tied to an index not in the control of the Credit Union, the rates may be accurate if in effect within the last 90 days before the disclosures are provided, along with a reference directing the consumer to the account agreement or other disclosure provided with the account-opening table where an APR applicable to the consumer’s account in effect within the last 30 days before the disclosures are provided is disclosed.
- f. **Variable Rate Accounts Not Tied to Increases in an Index or Formula.**
 - i. The initial rate (expressed as a periodic rate and a corresponding APR).
 - ii. How long the initial rate will remain in effect and the specific events that cause the initial rate to change.
 - iii. The rate (expressed as a periodic rate and a corresponding APR) that will apply when the initial rate is no longer in effect and any limitation on the time period the new rate will remain in effect.
 - iv. The balances to which the new rate will apply.

v. The balances to which the current rate at the time of the change will apply.

g. **Additional Disclosures for Open-End (Not Home-Secured) Plans.** The Credit Union will disclose the following, to the extent applicable:

i. **Voluntary Credit Insurance, Debt Cancellation or Debt Suspension Coverage.**

ii. **Security Interests.** The fact that the Credit Union has or will acquire a security interest in the property purchased under the plan, or in the property identified by item or type.

iii. **Statement of Billing Rights.** A statement that outlines the consumer's rights and the Credit Union's responsibilities.

5. PERIODIC STATEMENTS.

A. **Timing of Statement.** The Credit Union must mail or deliver a periodic statement for each billing cycle at the end of which an account has a debit or credit balance of more than \$1 or on which a finance charge has been imposed.

i. It need not be sent for an account if the Credit Union deems it uncollectible, if delinquency collection proceedings have been instituted, or if furnishing it would violate Federal law.

ii. The Credit Union must mail or deliver the statement at least 21 days prior to any date or the end of any time period required to be disclosed under a grace period (See (2)(A)(i)(7)).

iii. **Payment Due Date.** The due date for payments must be on the same day each month, or the next day if payments are not accepted on the given date.

B. **Content of Statement - Home Equity Plans.** See **Policy 7251** (Regulation Z – Home Equity Plans).

C. **Content of Statement – Open-End (Not Home-Secured) Plans.**

i. **Previous Balance.** The previous balance outstanding at the beginning of the billing cycle.

1. **Multi-featured Plans.** In a multi-featured plan, the previous balance may be disclosed either as an aggregate balance for the account or as separate balances for each feature (for example, a previous balance for purchases and a previous balance for cash advances). If separate balances are disclosed, a total previous balance is optional.

ii. **Identification of Transactions.**

1. **Multi-featured Plans.** In identifying transactions under multi-featured plans, the Credit Union may, for example, choose to arrange transactions by feature (such as disclosing sale transactions separately from cash advance transactions) or in some other clear manner, such as by arranging the transactions in general chronological order.

2. **Automated Teller Machine (ATM) Charges Imposed by Other Institutions in Shared or Interchange Systems.** A charge imposed on the cardholder by an institution other than the Credit Union for the use of the other institution's ATM in a shared or interchange system and

included by the terminal-operating institution in the amount of the transaction need **not** be separately disclosed on the periodic statement.

- iii. **Credits.** Any credit to the account during the billing cycle, including the amount and the date of crediting. The date need not be provided if a delay in crediting does not result in any finance or other charge.
- iv. **Periodic Rates.** Each periodic rate that may be used to compute the interest charge (using the term “annual percentage rate”), the range of balances to which it is applicable, and the corresponding APR. If different periodic rates apply to different types of transactions, the types of transactions to which the periodic rates apply must be disclosed.
 1. If a variable rate plan is involved, a disclosure that the periodic rate(s) may vary.
 2. Promotional rates need only be disclosed in periods in which the offered rate is actually applied.
- v. **Balance on Which Finance Charge is Applied.** The amount of the balance to which a periodic rate was applied and an explanation of how that balance was determined, using the term “Balance Subject to Interest Rate.” When a balance is determined without first deducting all credits and payments must be disclosed. The Credit Union may identify the name of the balance computation method and provide a toll-free telephone number where consumers may obtain from the Credit Union more information about the balance computation method and how resulting interest charges were determined.
 1. **Multi-featured Plans.** In a multi-featured plan, the Credit Union must disclose a separate balance (or balances, as applicable) to which a periodic rate was applied for each feature. Separate balances are **not** required, however, merely because a grace period is available for some features but not others. A total balance for the entire plan is optional. This does not affect how many balances the Credit Union must disclose—or may disclose—within each feature.
- vi. **Charges Imposed.** The amounts of any charges imposed as part of the plan, grouped together, in proximity to the identification of transactions.
 1. **Interest.** The finance charges attributed to periodic interest rates, using the term “Interest Charge,” grouped together under the heading “Interest Charged,” itemized and totaled by type of transaction, and a total of finance charges attributable to periodic interest rates, using the term “Total Interest.” This information must be disclosed for the statement period and the calendar year to date.
 2. **Fees.** Charges imposed as part of the plan other than charges attributable to periodic interest rates, grouped together under the heading “Fees,” identified consistent with the feature or type, and itemized. A total of charges, using the term “Fees” must be disclosed for the statement period and year to date.
- vii. **Change-in-Terms and Increased Penalty Rate Summary.** If the Credit Union provides a change-in-terms notice, or a rate increase notice, on or with the periodic statement, it must appear on the front page of the statement and be disclosed in accordance with the model CFPB notices (provided in the Appendices to the regulation).

viii. **Grace Period.** The date by which or the time period within which the new balance or any portion of the new balance must be paid to avoid additional finance charges. If such a time period is provided, the Credit Union may, at its option and without disclosure, impose no finance charge if payment is received after the time period's expiration.

ix. **Address for Notice of Billing Errors.** The address to be used for notice of billing errors. Alternatively, this address may be provided on the billing rights statement.

x. **Closing Date.** The closing date of the billing cycle and the account balance outstanding on that date.

1. **Multi-featured Plans.** In a multi-featured plan, the new balance may be disclosed for each feature or for the plan as a whole. If separate new balances are disclosed, a total new balance is optional.

xi. **Due Date; Late Payment Costs.**

1. The due date for a payment, which must be the same day of the month for each billing cycle. The Credit Union may adjust a member's due date from time to time provided that the new due date will be the same numerical date each month on an ongoing basis.

2. The amount of any late payment fee and any increased periodic rate(s) (expressed as an "annual percentage rate(s)") that may be imposed on the account as a result of a late payment. If a range of late payment fees may be assessed, the Credit Union must state the range of fees or the highest fee and that the fee imposed could be lower. If the rate may be increased for more than one feature or balance, the Credit Union must state the range of rates or the highest rate that could apply and at the Credit Union's option, and that the rate imposed could be lower.

3. **Exception.** This section does NOT apply for a charged-off account where payment of the entire account balance is due immediately.

xii. **Repayment Disclosures.**

1. The following disclosures for credit card accounts under an open-end (not home-secured) plan:

a. The following statement with a bold heading: "**Minimum Payment Warning:** If you make only the minimum payment each period, you will pay more in interest and it will take you longer to pay off your balance";

b. The minimum repayment estimate. If less than 2 years, the Credit Union must disclose the estimate in months. Otherwise, the estimate must be disclosed in years and rounded to the nearest whole year;

c. The minimum payment total cost estimate, which must be rounded to the nearest whole dollar;

d. A statement that the minimum payment repayment estimate and the minimum payment total cost estimate are based on the current outstanding balance shown on the periodic statement. A statement that the minimum payment repayment estimate and the

minimum payment total cost estimate are based on the assumption that only minimum payments are made and no other amounts are added to the balance;

- e. A toll-free telephone number where the consumer may obtain from the Credit Union about credit counseling services; and
- f. The following disclosures:
 - i. The estimated monthly payment for repayment in 36 months, rounded to the nearest whole dollar;
 - ii. A statement that the card issuer estimates that the consumer will repay the outstanding balance shown on the periodic statement in 3 years if the consumer pays the estimated monthly payment each month for 3 years;
 - iii. The total cost estimate for repayment in 36 months, rounded to the nearest whole dollar; and
 - iv. The savings estimate for repayment in 36 months, rounded to the nearest whole dollar.
- g. **Exceptions to (f) Above.** The requirements of subsection (f) above do **not** apply in the following circumstances:
 - i. The minimum payment repayment estimate, after rounding, is 3 years or less;
 - ii. The estimated monthly payment for repayment is 36 months, rounded to the nearest whole dollar that is calculated for a particular billing cycle is less than the minimum payment required for the plan for that billing cycle; and
 - iii. A billing cycle where an account has both a balance in a revolving feature where the required minimum payments for this feature will not amortize that balance in a fixed amount of time specified in the account agreement and a balance in a fixed repayment feature where the required minimum payment for this fixed repayment feature will amortize that balance in a fixed amount of time specified in the account agreement which is less than 36 months.

2. **Negative or No Amortization.** If negative or no amortization occurs when calculating the minimum payment repayment estimate, the Credit Union must provide the following disclosures on the periodic statement (instead of those required in Section ((5)(C)(xii)):

- a. The following statement: “**Minimum Payment Warning:** Even if you make no more charges using this card, if you make only the minimum payment each month we estimate **you will never pay off the balance shown on this statement** because your payment will be less than the interest charged each month”;
- b. The following statement: “If you make more than the minimum payment each period, you will pay less in interest and pay off your balance sooner”;
- c. The estimated monthly payment for repayment in 36 months, rounded to the nearest whole dollar;

d. A statement that the card issuer estimates that the consumer will repay the outstanding balance shown on the periodic statement in 3 years if the consumer pays the estimated monthly payment each month for 3 years; and

e. A toll-free telephone number where the consumer may obtain from the Credit Union information about credit counseling services.

3. **Credit Counseling Services.** To the extent available from the United States Trustee or a bankruptcy administrator, the Credit Union must provide through the toll-free telephone number the name, street address, telephone number, and website address for at least 3 organizations that have been approved by the United States Trustee or a bankruptcy administrator to provide credit counseling services in, at the Credit Union's option, either the state in which the billing address for the account is located or the state specified by the consumer.

a. This information must be updated at least annually.

4. **Exceptions.** This Section ((5)(C)(xii)) does NOT apply to:

a. Charge card accounts that require the full payment each month;

b. A billing cycle immediately following 2 consecutive billing cycles in which the consumer paid the entire balance in full, had a zero outstanding balance or had a credit balance; and

c. A billing cycle where paying the minimum payment due for that billing cycle will pay the entire outstanding balance on the account for that billing cycle.

xiii. **Format Requirements.** The due date must be disclosed on the front of the first page of the periodic statement. The amount of the late payment fee and the APR(s) must be stated in close proximity to the due date. The ending balance must be disclosed closely proximate to the minimum payment due. The due date, late payment fee and APR, ending balance, minimum payment due must be grouped together.

6. **SUBSEQUENT DISCLOSURE REQUIREMENTS.** The Credit Union will comply with the following open-end subsequent disclosure requirements.

A. **Annual Statement of Billing Rights.** The Credit Union must mail or deliver the billing rights statement at least once per calendar year, at intervals of not less than 6 months, nor more than 18 months, to either all members or to each member entitled to receive a periodic statement for any one billing cycle.

i. The Credit Union may send a short form notice with the period statement in place of the annual notice.

B. **Supplemental Credit Devices and Additional Features.** If a supplemental device (i.e. access card) is provided or additional feature is added more than thirty (30) days after the initial disclosures are mailed or delivered, the Credit Union will disclose before the member uses the device for the first time, that the previously disclosed terms apply to the credit obtained through the new device. The Credit Union will supply updated disclosures with the device, if the finance charge terms differ from the previously delivered disclosures.

C. Checks that Access a Credit Card Account.

i. **Disclosures.** If checks can access a credit card account (NOT tied to HELOCs) are provided **more than 30 days** after account-opening are mailed and delivered, or are provided **within 30 days** of the account-opening disclosures and the finance charge terms for the checks differ from those previously disclosed, the Credit Union must disclose on the front of the page containing the checks the following terms in a tabular disclosure:

1. If a promotional rate applies to the checks:

- a. The promotional rate and the time period during which the promotional rate will remain in effect;
- b. The type of rate that will apply (such as whether the purchase or cash advance rate applies) after the promotional rate expires, and the APR that will apply after the promotional rate expires. For variable-rate accounts, the Credit Union must disclose an APR based on the applicable index or formula (describing the type of index or formula that is used to set the variable rate) in accordance with the accuracy requirements of this section; and
- c. The date, if any, by which the consumer must use the checks in order to qualify for the promotional rate. If the Credit Union will honor checks used after such date but will apply an APR other than the promotional rate, the Credit Union must disclose this fact and the type of APR that will apply if the consumer uses the checks after such date;

2. If **no** promotional rate applies to the checks: The type of rate that will apply to the checks and the applicable APR. For variable-rate accounts, the Credit Union must disclose an APR based on the applicable index or formula in accordance with the accuracy requirements of this section;

3. Any transaction fees applicable to checks; and

4. Whether a grace period is given within which any credit extended by use of the checks may be repaid without incurring a finance charge due to a periodic interest rate. When disclosing whether there is a grace period, the phrase “How to Avoid Paying Interest on Check Transactions” must be used as the row heading when a grace period applies to credit extended by the use of such checks. When disclosing the fact that no grace period exists for credit extended by the use of checks, the phrase “Paying Interest” must be used as the row heading.

ii. **Accuracy.** The disclosures in this section must be accurate as of the time they are mailed or delivered. A variable APR is accurate if it was in effect within 60 days of when the disclosures are mailed or delivered.

D. Change in Terms.

i. **Home Equity Plans.** See **Policy 7251** (Regulation Z – Home Equity Plans).

ii. **Open-End (Not Home-Secured) Credit.**

1. **Changes Where Advance Notice is Required.** The Credit Union must provide **45 days** advance written notice regarding “significant account changes” to all consumers who may be affected, unless the consumer has agreed to the change (in which case, the notice must be provided any time before the effective date of the change).

a. The consumer acceptance exception only applies when a consumer substitutes collateral or when the Credit Union can advance additional credit only of a change relatively unique to that consumer is made (such as the consumer’s providing additional security or paying an increased minimum payment amount). The following are NOT considered agreements between the consumer and creditor under this section:

i. The consumer’s general acceptance of the Credit Union’s contract reservation of the right to change terms;

ii. The consumer’s use of the account (which might imply acceptance of its terms under state law);

iii. The consumer’s acceptance of a unilateral term change that is not particular to that consumer; and

iv. The consumer’s request to re-open a closed account or to upgrade an existing account to another account offered by the creditor with different credit or other features.

2. **Significant Changes in Account Terms.** For purposes of this section, this term means a change to a term required to be disclosed in the account-opening table, an increase in the required minimum periodic payment, the acquisition of a security interest, or changes in the manner in which APRs are computed (i.e., changes in the frequency with which a variable rate may increase). For changes that are not “significant,” the Credit Union may provide the 45 day notice, or notify the consumer of the change before the consumer becomes obligated to pay the charge (orally or in writing). Significant changes require the following disclosures:

a. A summary of the changes made, a description of any increase in the required minimum periodic payment, and a description of any security interest being acquired by the Credit Union;

b. A statement that changes are being made to the account;

c. For accounts other than credit card accounts under an open-end (not home-secured) plan, a statement indicating the consumer has the right to opt out of these changes, if applicable, and a reference to additional information describing the opt-out right provided in the notice, if applicable;

d. The date the changes will become effective;

e. If applicable, a statement that the consumer may find additional information about the summarized changes, and other changes to the account, in the notice;

f. If the Credit Union is changing a rate on the account other than a penalty rate, a statement that if a penalty rate currently applies to the consumer’s account, the new rate described in the notice will not apply to the consumer’s account until the

consumer's account balances are no longer subject to the penalty rate;

- g. If the change in terms being disclosed is an increase in an APR, the balances to which the increased rate will be applied. If applicable, as statement identifying the balances to which the current rate will continue to apply as of the effective date of the change in terms; and
- h. If the change in terms being disclosed is an increase in an APR rate for a credit card account under an open-end (not home-secured) consumer credit plan, a statement of no more than four (4) principal reasons for the rate increase, listed in their order of importance. While the reasons for the increase may be described in general terms, violations of account terms must be disclosed with specificity.

3. Right to Reject for Credit Cards Under an Open-End (Not Home-Secured) Plan. In addition to the significant change in terms disclosure requirements, if the Credit Union makes such a change, the Credit Union must generally provide the following information on the notice:

- a. A statement that the consumer has the right to reject the change(s) prior to the effective date of the change(s), unless the consumer fails to make a required minimum periodic payment within 60 days after the due date for that payment;
- b. Instructions for rejecting the change(s), and a toll-free telephone number that the consumer may use to notify the Credit Union of the rejection; and
- c. If applicable, a statement that if the consumer rejects the change(s), the consumer's ability to use the account for further advances will be terminated or suspended.
- d. The consumer's right to reject does NOT apply in the following circumstances: increases in the periodic payment, an increase in a fee as a result of a reevaluation of a determination made under Reg Z 1026.52(b)(1)(i) (**See Policy 7210**) or an adjustment to the safe harbors in Reg Z 1026.52(b)(1)(ii) (**See Policy 7210**) to reflect changes in the Consumer Price Index, a change in the APR applicable to a consumer's account, a change in the balance computation method, when the change results from the Credit Union not receiving the consumer's required minimum periodic payment within 60 days after the due date for that payment, or when a fee is increased once the Servicemembers Civil Relief Act's application no longer applies.

4. Changes Resulting from Failure to Make Required Minimum Periodic Payment Within 60 Days of Due Date (for Credit Cards Under an Open-End (Not Home-Secured) Plans. The notice in these cases must include the following information:

- a. A statement of the reason for the increase; and
- b. That the increase will cease to apply to transactions that occurred prior to or within 14 days of provision of the notice, if the Credit Union receives 6 consecutive required minimum payments on or before the payment due date, beginning with the first payment due following the effective date of the increase.

5. Format. The notice must be in a tabular format (except for a summary of any increase in the required minimum periodic payment). If provided on with the periodic statement, it must be

disclosed on the front of any page of the statement. If **not** provided on or with the periodic statement, it must either be on the front of the first page of the notice, or segregated on a separate page from other information given with the notice. If the notice continues, the notice on the front page must indicate such.

6. **Notice Not Required.** For open-end (not home-secured) plans, the change-in-terms notice is NOT required for the following changes:
- a. Changes involving charges for documentary evidence; a reduction of any component of a finance or other charge; suspension of future credit privileges or termination of an account or plan; when the change results from an agreement involving a court proceeding; when the change is an extension of the grace period; or if the change is applicable only to checks that access a credit card account and the changed terms are disclosed on or with the checks in accordance with Section (6)(C).
 - b. When the change is an increase in the APR upon the expiration of a specified period of time, provided that:
 - i. Prior to the commencement of that period, the Credit Union disclosed in writing to the consumer, in a clear and conspicuous manner, the length of the period and the APR that would apply after expiration of the period;
 - ii. The disclosure of the length of the period and the APR that would apply after expiration of the period are set forth in close proximity and in equal prominence to the first listing of the disclosure of the rate that applies during the specified period of time; and
 - iii. The APR that applies after the period does **not** exceed the previous rate or, if the rate was variable, the rate following such increase is a variable rate determined by the same formula (index and margin) that was used to calculate the variable rate disclosed;
 - c. When the change is an increase in a variable APR in accordance with the open-end credit agreement that provides for changes in the rate according to operation of an index that is not under the control of the Credit Union and is available to the general public; or
 - d. When the change is an increase in an APR, a fee or charge required to be disclosed, or the required minimum periodic payment due to the completion of a workout or temporary hardship arrangement by the consumer or the consumer's failure to comply with the terms of such an arrangement, provided that:
 - i. The APR or fee or charge applicable to a category of transactions or the required minimum periodic payment following any such increase does **not** exceed the rate or fee or charge or required minimum periodic payment that applied to that category of transactions prior to commencement of the arrangement or, if the rate that applied to a category of transactions prior to the commencement of the workout or temporary hardship arrangement was a variable rate, the rate following any such increase is a variable rate determined by the same formula (index and margin) that applied to the category of transactions prior to commencement of the workout or temporary hardship arrangement; and

- ii. The Credit Union has provided the consumer, prior to the commencement of such arrangement, with a clear and conspicuous disclosure of the terms of the arrangement (including any increases due to such completion or failure). This disclosure must generally be provided in writing, but may be provided by telephone if the disclosure is mailed or delivered in writing as soon as reasonably practicable after the oral disclosure is provided.

7. **Reduction of the Credit Limit.** For open-end (not home-secured) plans, if the Credit Union decreases the credit limit on an account, advance notice must be provided before an over-the-limit fee or a penalty rate can be imposed solely as a result of the consumer extending the newly decreased credit limit. Notice must be provided in writing or orally **at least 45 days before** imposing the over-the-limit fee or penalty rate and must state that the credit limit on the account has been or will be decreased.

E. **Credit Card Renewal.** If the Credit Union imposes a renewal fee, it will mail a notice at least thirty (30) days or one billing cycle before the renewal to the cardholder, containing the required disclosures that would apply if the account was renewed, and how and when the cardholder may terminate credit availability to avoid paying the renewal fee. If the notice is provided on or with a periodic statement, the cardholder has thirty (30) days from the time the periodic statement is mailed or delivered to avoid paying the fee or to have the fee re-credited if the cardholder terminates his or her credit availability.

F. **Change in Insurance Provider.** If the Credit Union changes a credit card insurance provider, the Credit Union will mail written notice to the cardholder of the change not less than thirty (30) days before the change, and the notice will include: any increase in the rate, any substantial decrease in coverage, and a statement that the cardholder may discontinue the insurance. The Credit Union also will provide the cardholder with written notice no later than thirty (30) days after the change of provider, and the notice will include: the name and address of the new provider, a copy of the new policy or group certificate, and a statement that the cardholder may discontinue the insurance.

G. **Substantial Decrease in Coverage.** For purposes of this section, this phrase means a decrease in a significant term of coverage that might reasonably be expected to affect the cardholder's decision to continue the insurance. This may include, for example, the following:

- i. Type of coverage provided;
- ii. Age at which coverage terminates or becomes more restrictive;
- iii. Maximum insurable loan balance, maximum periodic benefit payment, maximum number of payments, or other term affecting the dollar amount of coverage or benefits provided;
- iv. Eligibility requirements and number and identity of persons covered;
- v. Definition of a key term of coverage such as disability;
- vi. Exclusions from or limitations on coverage; and
- vii. Waiting periods and whether coverage is retroactive.

H. **Increase in Rates Due to Delinquency or Default or as a Penalty.** For open-end (not home-secured)

credit, the Credit Union must provide a written notice, **at least 45 days prior** to the effective date of the increase, to each consumer who may be affected when a rate is increased due to the consumer's delinquency or default, or as a penalty for one or more events specified in the account agreement, such as making a late payment or obtaining an extension of credit that exceeds the credit limit.

i. **Rate Increase Disclosures.** The notice must include the following information, on or with the periodic statement:

1. A statement that the delinquency or default rate or penalty rate, as applicable, has been triggered;
2. The date on which the delinquency or default or penalty rate will apply;
3. The circumstances under which the delinquency or default rate or penalty rate, as applicable, will cease to apply to the consumer's account, or that the delinquency or default rate or penalty rate will remain in effect for a potentially indefinite period of time;
4. A statement indicating to which balances the delinquency or default rate or penalty rate will be applied; and
5. If applicable, a description of any balances to which the current rate will continue to apply as of the effective date of the rate increase, unless a consumer fails to make a minimum periodic payment within 60 days from the due date for that payment.
6. For a credit card account under an open-end (not home-secured) consumer credit plan, a statement of no more than four (4) principal reasons for the rate increase, listed in order of their importance.
7. If included in the periodic statement, the notice must be in the form of a table on the front page of the periodic statement (below the significant change-in-terms notice). If not provided on or with the periodic statement, this notice must appear on the front of the first page of the notice.

ii. **Rate Increases Resulting From Failure to Make Minimum Periodic Payment Within 60 Days from Due Date.** This notice must contain the following information:

1. A statement of the reason for the increase; and
2. That the increase will cease to apply to transactions that occurred prior to or within 14 days of the notice, if the Credit Union receives 6 consecutive required minimum periodic payments on or before the payment due date, beginning with the first payment due following the effective date of the increase.

iii. **Exception for Decrease in Credit Limit.** The Credit Union is **not** required to provide a notice prior to increasing the rate for obtaining an extension of credit that exceeds the credit limit, provided that:

1. The Credit Union provides at least 45 days notice in advance of imposing the penalty rate a written notice that includes the following:
 - a. A statement that the credit limit has been or will be decreased;

- b. A statement indicating the date on which the penalty rate will apply, if the outstanding balance exceeds the credit limit as of that date;
 - c. A statement that the penalty rate will not be imposed on the date specified in the notice if the outstanding balance does not exceed the credit limit as of that date;
 - d. The circumstances under which the penalty rate, if applied, will cease to apply to the account, or that the penalty rate, if applied, will remain in effect for a potentially indefinite time period;
 - e. A statement indicating to which balances the penalty rate may be applied; and
 - f. If applicable, a description of any balances to which the current rate will continue to apply as of the effective date of the rate increase, unless the consumer fails to make a minimum periodic payment within 60 days from the due date for that payment; and
2. The Credit Union does **not** increase the rate applicable to the consumer's account to the penalty rate if the outstanding balance does **not** exceed the credit limit on the date set forth in the notice.
- a. If this notice is provided on or with the periodic statement, the information must be in the form of a table on the front of any page of the periodic statement; or
 - b. If the notice is **not** provided on or with the periodic statement, it must be disclosed on the front of the first page of the notice.
- iv. **Effect of Rejection.** If the Credit Union is notified of a rejection of a significant change to an account term, the Credit Union may **not** (unless the consumer fails to make a payment within 60 days after the due date):
- 1. Apply the change to the account;
 - 2. Impose a fee or charge or treat the account as in default solely as a result of the rejection; or
 - 3. Require repayment of the balance on the account using a method that is less beneficial to the consumer than one of the methods listed in the regulation.

7. ADVERTISING.

- A. **Actually Available Terms.** If an advertisement for credit states specific credit terms, it must state only those that actually are or will be arranged or offered by the Credit Union.
- B. **Advertisement of Terms that Require Additional Disclosures.** Any term required to be disclosed in an advertisement for open-end credit (See Reg. Z 1026.16(b)) triggers the following additional disclosures:
- i. Any minimum, fixed, transaction, activity or similar charge that is a finance charge that could be imposed.
 - ii. Any periodic rate that may be applied expressed as an APR. If the rate is variable, this fact must be disclosed.

iii. Any membership or participation fee that could be imposed.

C. Catalogs or Other Multiple-Page Advertisements; Electronic Advertisements. If such advertisements give information in a table or schedule in sufficient detail to permit determination of the disclosures, it will be considered a single advertisement if:

- i. The table or schedule is clearly and conspicuously set forth; and
- ii. Any statement of terms appearing anywhere else in the catalog or advertisement clearly refers to the page or location where the table or schedule begins.

D. Additional Requirements for Home Equity Plans. See **Policy 7251** (Regulation Z – Home Equity Plans).

E. Alternative Disclosures – Television or Radio Advertisements. These types of advertisements may state any of the required terms (See Section (7)), or list a toll-free telephone number, or any telephone number that allows a consumer to reverse the phone charges when calling for information, along with a reference that such number may be used by consumers to obtain the additional cost information.

F. Misleading Terms. An advertisement may not refer to an APR as “fixed, or used a similar term, unless the advertisement also specifies a time period that the rate will be fixed and the rate will **not** increase during that period, or if no such time period is provided, the rate will not increase while the plan is open.

G. Promotional Rates and Fees – Open-End (Not Home-Secured) Credit.

i. **Introductory Rate/Fee.** If any APR and/or fee that may be applied to the account is an introductory rate and/or fee, the term “introductory” or “intro” must be in immediate proximity to each listing of the introductory rate and/or fee in a written or electronic advertisement.

ii. **Promotional Period and Post-Promotional Rate.** A promotional rate and/or fee stated in a written or electronic advertisement, the following information must be disclosed, in a prominent location closely proximate to the first listing of the promotional rate:

1. When the promotional rate and/or fee will end; and
2. The APR and/or fee that will apply after the end of the promotional period. If the rate is variable, the APR must comply with the accuracy standards of the regulation (See Section (6)(C)(ii)), or if they cannot be determined, the rates or range of rates that might apply.

iii. **Envelope Excluded.** The requirements of this section do **not** apply to an envelope in which an application or solicitation is mailed, or to a banner advertisement or pop-up advertisement linked to an application or solicitation provided electronically.

8. ELECTRONIC DISCLOSURE DELIVERY. The Credit Union may deliver open-end disclosures electronically, if the member affirmatively consents to the electronic delivery and receipt of the disclosures in accordance with the Electronic Signatures in Global and National Commerce Act (the “E-Sign Act”). This method of delivery includes visual text displayed on equipment such as a personal computer monitor. Prior to consent, the member must receive a Consent Notice that informs him or her of certain protections including: the right to receive disclosures in paper form, how to exercise that right, the fee, if any, the Credit Union charges for a paper copy; how to withdraw consent and the consequence of withdrawal, including fees; scope of

consent; and hardware/software requirements to receive the electronic disclosures.

Policy 7251: Regulation Z - Home Equity Plans

Revised Date: 12/30/2014

Model Policy Revised Date: 12/30/2014

General Policy Statement:

This policy covers the Truth-in-Lending Disclosures for Open-End Credit (Regulation Z) specific to Home Equity Plans. This policy is used in conjunction with the general Regulation Z information found in the Truth-in-Lending Disclosures for Open-Ended Credit Policy (See Policy 7250).

Guidelines:

1. GENERAL DISCLOSURE REQUIREMENTS.

- A. **Clearly and Conspicuously in Writing.** The disclosures will be in a reasonably understandable form and legible.
- B. **In a Form the Member May Keep.** The disclosures will be in a form that the consumer borrower may keep. This includes disclosures delivered electronically through a personal computer.
- C. **Conspicuous Terms.**
 - i. **Home Equity Loans.** For home equity loans, the terms “finance charge” and “annual percentage rate,” when required to be disclosed with a corresponding amount or percentage rate, must be more conspicuous than any other required disclosure.
 - ii. **Disclosures in a Tabular Format.** For disclosures required to be in a tabular format, the term “penalty APR” will be used, as applicable.
- D. **Electronic Delivery.** The Credit Union may provide the disclosures to applicants electronically, subject to the Electronic Signatures in Global and National Commerce Act (E-SIGN). See Paragraph(7). The Credit Union may provide the disclosures in both paper and electronic form, and rely on the paper form to satisfy the compliance obligations. If this is done, the Credit Union would not be required to comply with the E-SIGN consent procedures.

2. HOME EQUITY PLANS.

- A. **Form of Disclosures.** The home equity disclosures must be made clearly and conspicuously in writing, and must be grouped together and segregated from all unrelated information. The disclosures may be provided on the application form or on a separate form. For applications accessed by the member in electronic form, the required disclosures may be provided to the member electronically on or with the application. Except as noted below, the disclosures need not be in a form the member can keep, i.e., they may be part of the credit application that the applicant returns to the Credit Union.
- B. **Timing of Disclosures.** The required disclosures and brochure must be provided at the time an application is provided to the member. The Credit Union must provide either the brochure provided by the Consumer Financial Protection Bureau (CFPB) (“When Your Home is on the Line”) or a suitable substitute.

C. Content of Disclosures.

- i. A statement that the member should make a copy, or otherwise retain a copy, of the disclosures.
- ii. A statement of the time when the member must submit application to receive specific terms disclosed and information of a term that may change before the account is opened.
- iii. A statement that if a disclosed term changes prior to the account being opened (other than a change due to fluctuations in the index in a variable-rate plan), the member is entitled to a full refund of fees paid.
- iv. A statement that the Credit Union will take a security interest in the member's dwelling and that if there is a default, loss of the dwelling may occur.
- v. A statement that under certain conditions the creditor may:
 1. Terminate the plan, require payment of the entire outstanding balance in one payment, and impose fees upon termination;
 2. Prohibit additional extensions of credit or reduce credit limit; and
 3. Implement changes in the plan as the loan agreement specifies.
- vi. A statement that if the member requests it, he/she may receive information about the conditions under which actions listed in Disclosure (v) may occur.
- vii. The payment terms, including the following:
 1. The length of the draw period and any repayment period.
 2. An explanation of how the minimum periodic payment will be determined and the timing of the payments. If paying only the minimum periodic payments may not repay any of the principal or may repay less than the outstanding balance, a statement of this fact, as well as a statement that a balloon payment may result.
 3. An example, based on a \$10,000 outstanding balance and a recent APR, showing the minimum periodic payment, any balloon payment, and the time it would take to repay the \$10,000 outstanding balance if the member made only those payments and obtained no additional extensions of credit.
 4. If different payment terms apply to the draw and any repayment period, or if different payment terms may apply within either period, the disclosures must reflect the different payment terms.
- viii. A written list of homeownership counseling organizations within three business days after receiving the member's application.
- ix. For fixed-rate plans, a recent APR under the plan and a statement that the rate does not include costs other than interest.
- x. An itemization of any fees imposed by the Credit Union to open, use or maintain the plan, stated as

- a dollar amount or percentage, and when such fees are payable.
- xi. A good faith estimate, stated as a single dollar amount or range, of any fees that may be imposed by third parties to open the plan, as well as a statement that the member may receive, upon request, a good faith itemization of such fees.
 - xii. A statement that negative amortization may occur and that negative amortization increases the principal balance and reduces the member's equity in the dwelling.
 - xiii. Any limitations on the number of extensions of credit and the amount of credit that may be obtained during any time period, as well as any minimum outstanding balance and minimum draw requirements, stated as dollar amounts or percentages.
 - xiv. A statement that the member should consult a tax advisor regarding the deductibility of interest and charges under the plan.
 - xv. For variable rate plans, the following disclosures are required:
 - 1. The fact that the APR, payment or term may change due to the variable rate feature.
 - 2. A statement that the APR does not include costs other than interest.
 - 3. The index used in making rate adjustments and a source of information about the index.
 - 4. An explanation of how the APR will be determined, including an explanation of how the index is adjusted, such as by the addition of a margin.
 - 5. A statement that the member should ask about the current index value, margin, discount or premium, and APR.
 - 6. A statement that the initial APR is not based on the index and margin used to make later rate adjustments, and the period of time such initial rate will be in effect.
 - 7. The frequency of changes in the APR.
 - 8. Any rules pertaining to changes in the index value and the APR and resulting changes in the payment amount, including, for example, an explanation of payment limitations and rate carryover.
 - 9. A statement of any annual or more frequent periodic limitations on changes in the APR (or a statement that no limitation exists), as well as a statement of the maximum APR that may be imposed under each payment option.
 - 10. The minimum periodic payment required when the maximum annual percentage rate for each payment option is in effect for a \$10,000 outstanding balance, and a statement of the earliest date or time the maximum rate may be imposed.
 - 11. An historical example, based on a \$10,000 extension of credit, illustrating how APRs and payments would have been affected by index value changes implemented according to the terms of the plan. This example must be based on the most recent 15 years of index values (selected for the same time period each year) and must reflect all significant plan terms, such

as negative amortization, rate carryover, rate discounts, and rate and payment limitations that would have been affected by the index movement during the period.

12. A statement that rate information will be provided on or with each periodic statement.
13. If an advertisement for a variable rate home equity plan states an APR that is **not** based on the index and margin used to make later rate adjustments, the advertisement must also state the period of time the initial rate will be in effect, and a reasonably current APR that would have been in effect using the index and margin. The time period during which an index and margin are considered reasonably current is as follows:
 - a. Direct mail advertisements: An index and margin that was in effect within 60 days of mailing.
 - b. Printed ads made available to the general public or sent electronically: An index and margin that was in effect within 30 days before printing or sent to a member's e-mail address.
 - c. Internet advertisements: An index and margin in effect when viewed by the public.

3. ACCOUNT-OPENING DISCLOSURES.

- A. **Timing of Disclosure.** The initial disclosure must be provided before the first transaction is made under the plan.
- B. **Content of Disclosure - Home Equity Plans.** The following must be disclosed in an open-end initial disclosure for home equity plans:
 - i. **Finance Charge.** The circumstances under which it may be imposed and an explanation of how it will be determined, as follows:
 1. A statement of when the finance charge begins to accrue, including an explanation of whether any grace period exists.
 2. A disclosure of each periodic rate that may be used to compute the finance charge, the range of balances to which it is applicable, and the corresponding APR.
 3. An explanation of the method used to determine the balance on which the finance charge may be computed.
 4. An explanation of how the amount of any finance charge will be determined, including a description of how any finance charge other than the periodic rate will be determined.
 - ii. **Other Charges.** The amount of any charge other than a finance charge that may be imposed as part of the plan, or an explanation of how the charge will be determined.
 - iii. **Security Interests.** The fact that the Credit Union has or will acquire a security interest in the property purchased under the plan, or in other property identified by item or type.
 - iv. **Statement of Billing Rights.** A statement that outlines the member's rights and the Credit Union's responsibilities.

v. **Prohibition on Mandatory Arbitration Agreements.** The credit union will not include a mandatory arbitration agreement, or any other non-judicial procedure, for a member credit transaction secured by a dwelling (including home equity line of credit)

vi. **Home Equity Plan Formation.**

1. A statement of the conditions under which the Credit Union may take certain action, such as terminating the plan or changing the terms.
2. The payment information for both the draw period and any repayment period.
3. A statement that negative amortization may occur.
4. A statement of any transaction requirements.
5. A statement regarding the tax implications.
6. A statement that the APR imposed under the plan does not include costs other than interest.
7. The variable rate disclosures (See (2)(C)(xiv)) above.

4. PERIODIC STATEMENTS.

A. **Timing of Statement.** The Credit Union must mail or deliver a periodic statement for each billing cycle at the end of which an account has a debit or credit balance of more than \$1 or on which a finance charge has been imposed.

- i. It need not be sent for an account if the Credit Union deems it uncollectible, if delinquency collection proceedings have been instituted, or if furnishing it would violate Federal law.
- ii. The Credit Union must mail or deliver the statement at least 21 days prior to any date or the end of any time period required to be disclosed under a grace period (See **Policy 7250**, (2)(A)(i)(7)).
- iii. **Payment Due Date.** The due date for payments must be on the same day each month, or the next day if payments are not accepted on the given date.

B. **Content of Statement - Home Equity Plans.**

- i. **Previous Balance.** The previous balance outstanding at the beginning of the billing cycle.
- ii. **Identification of Transactions.**
 1. **Multifeatured Plans.** In identifying transactions under multifeatured plans, the Credit Union may, for example, choose to arrange transactions by feature (such as disclosing sale transactions separately from cash advance transactions) or in some other clear manner, such as by arranging the transactions in general chronological order.
 2. **Automated Teller Machine (ATM) Charges Imposed by Other Institutions in Shared or Interchange Systems.** A charge imposed on the cardholder by an institution other than the Credit Union for the use of the other institution's ATM in a shared or interchange system and

included by the terminal-operating institution in the amount of the transaction need not be separately disclosed on the periodic statement.

- iii. **Credits.** Any credit to the account during the billing cycle, including the amount and the date of crediting. The date need not be provided if a delay in accounting does not result in any finance or other charge.
- iv. **Periodic Rates.** Each periodic rate that may be used to compute the finance charge, the range of balances to which it is applicable, and the corresponding APR.
 1. If no finance charge is imposed when the outstanding balance is less than a certain amount, the Credit Union is not required to disclose that fact, or the balance below which no finance charge will be imposed.
 2. If different periodic rates apply to different types of transactions, the types of transactions to which the periodic rates apply must also be disclosed.
 3. For variable rates, the fact that the periodic rate(s) may apply.
 4. **Exception.** An APR that differs from the rate that would otherwise apply and is offered only for a promotional period need not be disclosed except in periods in which the offered rate is actually applied.
- v. **Balances to Which Finance Charge Computed.** The amount of balance to which a periodic rate was applied and an explanation of how that balance was determined. When a balance is determined without first deducting all credits and payments made during the billing cycle, the fact and the amount of the credits and payments must be disclosed.
- vi. **Amount of Finance Charge and Other Charges. "**
 1. **Finance Charge.** The amount of any "finance charge" debited or added to the account during the billing cycle, individually itemized and identified to show the amount(s) due to the application of any periodic rate and the amount(s) or any other type of finance charge. If there is more than one periodic rate, the amount of the finance charge attributable to each rate need not be separately itemized.
 2. **Other Charges.** The amounts, itemized and identified by type, of any charges other than finance charges debited to the account during the billing cycle.
- vii. **Annual Percentage Rate.** At the Credit Union's option, when a finance charge is imposed during the billing cycle, the "annual percentage rate(s)."
- viii. **Grace Period.** The date by which or the time period within which the new balance or any portion of the new balance must be paid to avoid additional finance charges. If such a time period is provided, the Credit Union may, at its option and without disclosure, impose no finance charge if payment is received after the time period's expiration.
- ix. **Address for Notice of Billing Errors.** The address to be used for notice of billing errors. Alternatively, the address may be provided on the billing rights statement.
- x. **Closing Date of Billing Cycle.** The closing date of the billing cycle and the account balance as of

that date.

1. **Multifeatured Plans.** In a multifeatured plan, the new balance may be disclosed for each feature or for the plan as a whole. If separate new balances are disclosed, a total new balance is optional.

5. SUBSEQUENT DISCLOSURE REQUIREMENTS.

A. **Annual Statement of Billing Rights.** See **Policy 7250**, Paragraph 6(A).

B. **Supplemental Credit Devices and Additional Features.** See **Policy 7250**, Paragraph 6(B).

C. **Checks that Access a Credit Card Account.** See **Policy 7250**, Paragraph 6(C).

D. **Change in Terms.**

- i. **Home Equity Plans.** Whenever any term required to be disclosed (See Reg. Z 1026.16(b)) is changed or the required minimum periodic payment is increased, the Credit Union must mail or deliver written notice of the change to each member who may be affected within **15 days** prior to the effective date of the change.

1. No notice is required if the member agrees to the change (so long as the notice is given before the effective date of the change); when the change involves a reduction of any component of a finance or other charge; or when the change results from an agreement involving a court proceeding.

2. If the Credit Union prohibits additional extensions of credit or reduces the credit limit applicable to a home equity plan, the Credit Union must mail or deliver written notice of the action to each member who will be affected within **3 business days** after the action is taken. The notice must contain specific reasons for the action. If the Credit Union requires the member to request reinstatement of credit privileges, this must also be disclosed.

E. **Substantial Decrease in Coverage.** See **Policy 7250**, Paragraph 6(G).

F. **Increase in Rates Due to Delinquency or Default or as a Penalty.** See **Policy 7250**, Paragraph 6(H).

6. ADVERTISING.

A. **Actually Available Terms.** See **Policy 7250**, Paragraph 7(A).

B. **Advertisement of Terms that Require Additional Disclosures.** See **Policy 7250**, Paragraph 7(B).

C. **Catalogs or Other Multiple-Page Advertisements; Electronic Advertisements.** See **Policy 7250**, Paragraph 7(C).

D. **Additional Requirements for Home Equity Plans.**

- i. **Advertisement of Terms that Require Additional Disclosures.** If any of the terms required to be disclosed (See Reg Z. 1026.16(d)) or the payment terms of the home equity plan are advertised (affirmatively or negatively), the advertisement must also clearly and conspicuously set for the following:

1. Any loan fee that is a percentage of the credit limit under the plan and an estimate of any other fees imposed for opening the plan, stated as a single dollar amount or a reasonable range.
2. Any periodic rate used to compute the finance charge, expressed as an APR.
3. The maximum APR that may be imposed in a variable-rate plan.

ii. **Discounted and Premium Rates.** If an advertisement states an initial APR that is not based on the index and margin used to make later rate adjustments in a variable-rate plan, the advertisement must also state, with equal prominence and in close proximity to the initial rate:

1. The period of time such initial rate will be in effect; and
2. A reasonably current APR that would have been in effect using the index and margin.

iii. **Balloon Payment.** If an advertisement contains a statement of any minimum periodic payment and a balloon payment may result if the only minimum periodic payments are made, even if such a payment is uncertain or unlikely, the advertisement must also state, with equal prominence and in close proximity to the minimum periodic payment statement, that a balloon payment may result, if applicable.

1. That a balloon payment will result; and
2. The amount and timing of the balloon payment that will result if the consumer makes only the minimum payments for the maximum period of time that the consumer is permitted to make such payments.

iv. **Tax Implications.** If an advertisement distributed in paper form or through the Internet is for a home equity plan secured by the consumer's principal dwelling, and the advertisement states that the advertised extension of credit may exceed the fair market value of the dwelling, the advertisement must clearly and conspicuously state the following:

1. The interest on the portion of credit extension that is greater than the fair market value of the dwelling is **not** tax deductible for Federal income tax purposes; and
2. The consumer should consult a tax advisor for further information regarding the deductibility of interest and charges.

v. **Misleading Terms.** An advertisement may **not** refer to a home equity plan as "free money" or contain a similarly misleading term.

vi. **Promotional Rates and Payments.**

1. If an APR that may be applied to a plan is a promotional rate, or if any payment applicable to a plan is a promotional rate, the following must be disclosed in any advertisement (other than radio and T.V. advertisements), in a clear and conspicuous manner with equal prominence and in close proximity to each listing of the promotional rate or payment:

- a. The period of time during which the promotional period or promotional rate will

apply;

- b. In the case of a promotional rate, any APR that will apply under the plan. If such rate is variable, the APR must be disclosed in accordance with the accuracy standards of the regulation (See **Policy 7250**, Paragraph (6)(C)(ii)); and
- c. In the case of a promotional payment, the amounts and time periods of any payments that will apply under the plan. In variable-rate transactions, payments that will be determined based on application of an index and margin must be disclosed based on a reasonably current index and margin.

2. **Envelope Excluded.** The requirements of this section do **not** apply to an envelope in which an application or solicitation is mailed, or to a banner advertisement or pop-up advertisement linked to an application or solicitation provided electronically.

E. **Alternative Disclosures – Television or Radio Advertisements.** See **Policy 7250**, Paragraph 7(E).

F. **Misleading Terms.** See **Policy 7250**, Paragraph 7(F).

7. **ELECTRONIC DISCLOSURE DELIVERY.** The Credit Union may deliver open-end disclosures electronically, if the member affirmatively consents to the electronic delivery and receipt of the disclosures in accordance with the Electronic Signatures in Global and National Commerce Act (the “E-Sign Act”). This method of delivery includes visual text displayed on equipment such as a personal computer monitor. Prior to consent, the member must receive a Consent Notice that informs him or her of certain protections including: the right to receive disclosures in paper form, how to exercise that right, the fee, if any, the Credit Union charges for a paper copy; how to withdraw consent and the consequence of withdrawal, including fees; scope of consent; and hardware/software requirements to receive the electronic disclosures.

Policy 7255: Personal Loans

Revised Date: 01/01/2010

Model Policy Revised Date: 01/01/2010

General Policy Statement:

[CUNAME] (Credit Union) will extend consumer credit to qualifying members for personal purposes only. The Credit Union offers personal loans consisting of interest-bearing term loans or open-ended lines of credit.

Guidelines:

1. LOAN LIMITS.

A. Aggregate personal loans shall not exceed \$[7255-1]. A member's aggregate amount of personal loans may not exceed \$[7255-2]. This includes personal loans, lines of credit, credit card loans and overdraft loans.

B. Members working at the same job for over [7255-3] years may obtain a personal loan or line of credit up to [7255-4] times their monthly salary.

C. Members working less than [7255-5] years may obtain a personal loan or line of credit up to [7255-6] % of their annual gross salary. Annual salary includes all stable and verifiable income.

2. **QUALIFYING MEMBERS.** Personal credit is reserved for those members with impeccable character and demonstrated capacity to repay. Loan officers will consider member status, prior credit history, and length of employment. In addition, loan officers will analyze the member's current and projected financial condition, including an assessment of cash flow, liquidity, leverage, and asset validity.

3. **INTEREST RATES.** Interest rates will be established periodically by the Asset/Liability Management Committee.

4. **STRUCTURE.** Personal loans are structured as fully amortizing term loans. As a general rule, the maturities depend on the amount of the loan.

5. **LINE OF CREDIT ADVANCES.** Members requesting advances on preapproved lines of credit must submit an advance request statement for approval. Advance requests must meet the Credit Union's terms and conditions at the time of the advance request. The Credit Union reserves the right to refuse any request when the member's current financial condition indicates an inability to repay. The Credit Union may also terminate a member's line of credit at any time due to loss of membership, default, breach of the open-ended loan agreement, or any reasonable cause.

6. **TRUTH-IN-LENDING DISCLOSURES.** The Credit Union will provide members with the proper Truth-in-Lending disclosures. The timing, type and delivery of disclosures depend on the type of personal loan and how the application is obtained, pursuant to the Credit Union's Truth in Lending Disclosures policies (**Section 7245** for Closed-End Credit and **Section 7250** for Open-End Credit)

Policy 7260: Multi-Featured Loan Programs

Revised Date: 03/29/2014

Model Policy Published Date: 03/29/2014

General Policy Statement:

[CUname] (Credit Union) will review its loan portfolio through the use of a more global approach to analyzing risk factors, both at the point of loan origination and periodically afterward. By reviewing its loan portfolio in a way that incorporates an ongoing review of the changing credit quality within a portfolio, the Credit Union is able to establish an active system of risk identification and mitigation.

Deciding on how to address an impaired or “at risk” credit will depend on the Credit Union’s risk tolerance levels and Board-authorized options for loan workouts.

Guidelines:

1. TYPES OF MULTI-FEATURED LOAN PROGRAMS.

- A. **Multi-Featured Open-End Lending (MFOEL).** MFOEL plans that utilize an umbrella loan agreement for a single account that can be accessed repeatedly via a number of sub-accounts established for different credit features. The plan as a whole, including all its sub-accounts, is designed to be treated as open-end credit. Examples of MFOEL include share overdrafts, unsecured lines of credit, share-secured lines of credit, vehicles, and home equity lines of credit.
- B. **Multi-featured lending (MFL).** MFL plans utilizing an umbrella loan agreement for a member’s open-end lines of credit and closed-end loans. Multi-featured lending (MFL) programs that utilize an umbrella loan agreement for a member’s open-end lines of credit and closed-end loans, and have the following features:
- i. One master loan agreement is signed when the multi-featured plan is first established;
 - ii. Multiple sub-accounts with both open-end and closed-end credit features are added under the one master loan agreement; and
 - iii. For single-disbursement, non-replenishing closed-end sub-accounts (e.g., a vehicle loan), the member will be required to apply for and be approved for the advance. Specific advance requests are fully underwritten and the member receives the closed-end disclosures in accordance with Regulation Z §§1026.17 and 1026.18.

2. REGULATORY REQUIREMENTS.

- A. **Regulation Z.** The Official Staff Interpretations to Regulation Z explains, essentially, that because the total amount of credit is provided at the outset and is occasionally replenished when earlier advances are repaid, the Credit Union may only “occasionally and routinely verify credit information such as the consumer’s continued income and employment status...but may not (Emphasis added) be done as a condition of granting a consumer’s credit request for the particular advance under the plan.” In other words, the open-end plan must be underwritten at the time of application, and cannot be repeated when the member takes further advances from the plan.

- i. The Credit Union will verify a borrower's continued creditworthiness on an "occasional," ad hoc basis (i.e., outside the regular verification timetable on a one-time or extemporaneous basis), or "routinely," on a [7260-1] basis.
- ii. The Credit Union will document for the reasons an occasional verification is performed in order to ensure it is not done in connection with an advance request.
- iii. However, as a safety and soundness issue, the Credit Unions can and will question the value of collateral when granting an advance.

B. Regulation B. The Credit Union will send an adverse action notice to all applicants who are denied credit.

3. TYPES OF LOAN PRODUCTS. The Credit Union will offer the following loan products under its MFL program: [7260-2]

4. CREDIT LIMITS. The Credit Union will set the following limits for each loan type:

A. Open-End Credit: [7260-3]

B. Closed-End Credit: [7260-4]

5. TYPES OF INFORMATION COLLECTED. The Credit Union will collect the following information from each applicant in order to establish creditworthiness, which will be used as a baseline for verifying future advance requests: [7260-5]

6. DISCLOSURES. The Credit Union will ensure it properly characterizes its open-end and closed-end credit, and will provide the appropriate disclosures.

7. DATA PROCESSORS. The Credit Union will ensure that its data processor can support the Credit Union's MFL program, identify members, and send the appropriate periodic statements.

8. TRAINING. Staff will be trained to be knowledgeable with the Credit Union's MFL program.

Policy 7270: Skip Payment Program

Revised Date: 02/01/2012

Model Policy Published Date: 02/01/2012

Skip payment programs are a win-win situation for both [CUnion] (Credit Union) and its members, as the Credit Union is able to earn more fee and interest income while the member benefits with extra cash for a month. This policy outlines the Credit Union's skip payment program.

1. **MEMBER IN GOOD STANDING.** To be eligible for a skipped payment, the member must be a member in good standing with a minimum share balance of \$[7270-1]. Skipped payments will not normally be considered for any member who is currently delinquent or has a history of delinquency with the Credit Union. Any exception needs approval by the credit manager.
2. **APPLICATION.** Borrowers may complete a written application for a skipped payment. Approvals will be based on whether the member has met the Credit Union's eligibility criteria.
3. **PRE-APPROVALS.** The Credit Union will pre-approve skipped payments to members that meet the eligibility criteria. Pre-approved members will be notified by [7270-2].
4. **MEMBER ELIGIBILITY.** The member's credit history should demonstrate a clear pattern of financial responsibility. The Credit Union requires a "current" credit bureau report. Current means less than 90 days old. The Credit Union may deny credit if the report reveals:
 - A. Current or serious previous delinquencies;
 - B. Considerable number of recent inquiries;
 - C. Excessive unsecured lines of credit;
 - D. Charged-off accounts, repossessions, or bankruptcy;
 - E. Unsatisfied judgments or collections; or
 - F. Significant accounts purposely omitted from the application.
5. **ELIGIBLE LOANS.** The following loans will be eligible for the skip payment program: [7270-3]
6. **FEES.** The Credit Union will charge members [7270-4] for each skipped payment. For both open- and closed-end loans, the amount of the skip payment fee must be included in the calculation of the Credit Union's APR for usury purposes as it is considered a finance charge under Regulation Z. The fee is considered a finance charge regardless of whether the fee is paid in cash, deducted from the members share or share draft account, or added to the loan balance. The usury limit is [7270-5].
7. **OPEN-END LOANS.**
 - A. **Disclosures.**
 - i. **Account-Opening Disclosures.** The Credit Union will ensure that it discloses its skip payment

program in its account opening disclosures in order to avoid having to provide a change-in-terms notice. The account opening agreement will include the following information:

1. Which month(s) skipped payments will be allowed (such as---"you may skip the December payment");
2. The amount of the fee charged;
3. How the Credit Union will collect that fee (for example, a withdrawal from the member's share account);
4. The fact that finance charges will continue to accrue on the account; and
5. The payment amount upon resumption of regular payments.

ii. **Change-in-Terms Notices.** If the skip payment features of an open-end loan are not provided in the initial account opening document, then a change-in-terms notice would be required before a member may skip a payment. Additionally, if no fee is charged, a change-in-terms notice *would be* required prior to resuming the original payment scheduled in order to notify members of the resumption of regular payments (even though no notice was required prior to the skipped payment).

1. **Timing.** A change-in-terms notice must be provided at least 45 days prior to resuming the regular payment schedule. When such a notice is provided to a member, it will be combined with the initial letter or notice offering the skip payment. The notice informs the member of the resumption of the original payment either by explicitly stating when the regular payment resumes or by indicating the duration of the skip. For instance, the Credit Union could print on the August statement: "You may skip your October payment" and this can serve as the change-in- terms notice required prior to resumption of the regular payment schedule.

If a fee is charged, the credit union must provide a change-in-terms notice 45 days prior to the date the fee is charged. This notice could also be combined with the "resumption of payment notice" in a letter or notice offering the skip payment or it could be printed on a monthly statement as long as the notice is provided at least 45 days prior to the date the fee is charged.

iii. **Periodic Statements.** The Credit Union will include the skip payment fee in the list of transactions on the periodic statement and also itemize the skip payment fee in the fee boxes for the month and year-to-date.

8. CLOSED-END LOANS.

A. Disclosures.

- i. New or subsequent disclosures for skip payments on closed-end loans are **not** required. Generally, the only time new disclosures are required for closed-end loans is if a refinancing occurs (i.e., when an existing obligation is satisfied and replaced by a new obligation for the same borrower). New or subsequent disclosures are **not** necessary if the existing agreement is only being modified, for example, by lowering the payment or permitting a payment to be skipped.
- ii. Although the fee for allowing a skipped payment is considered a finance charge, new disclosures are **not** required as long as the skipped payment is accomplished by amending the existing closed-

end loan agreement rather than by a complete refinancing. Because new disclosures are **not** required, the inaccuracy created by imposition of the fee is not a Truth-in-Lending violation according to Regulation Z.

iii. The Credit Union will make members aware of a number of issues including: which loans and borrowers are eligible for skip a payment, which month(s) a skip payment will be allowed, the amount of the fee, how the Credit Union will collect that fee, and the effect the skip payment will have on increasing the total finance charges and extending the loan term.

B. **Advertising.** A promotional piece advertising the skip payment offering may be sent as a letter with a tear-off along the bottom for the member to sign and return to the credit union which acknowledges the member's desire to skip a particular loan payment and indicates that the member understands and agrees to the skip payment terms and conditions.

Policy 7301: Registration of Mortgage Loan Originators (S.A.F.E. Act)

Revised Date: 03/24/2016

Model Policy Revised Date: 03/24/2016

General Policy Statement:

[CUName] (Credit Union) will ensure that its mortgage loan originators are properly registered, prior to engaging in mortgage loan origination activity that exceeds the exception limit, according to the Secure and Fair Enforcement for Mortgage Licensing Act (S.A.F.E. Act), its implementing regulation, and the Guidelines of this policy.

Guidelines:

1. **DEFINITIONS.** The following definitions apply to this policy:

A. **Mortgage Loan Originator** – An individual who:

- i. Takes a residential mortgage loan application; and
- ii. Offers or negotiates terms of a residential mortgage loan for compensation or gain.
- iii. The term does **not** include the following:
 1. An individual who performs purely “administrative or clerical tasks” on behalf of an individual who is described above.
 - a. “Administrative or clerical tasks” means the receipt, collection and distribution of information common for the processing or underwriting of a loan in the residential mortgage industry and communication with a member to obtain information necessary for the processing or underwriting of a residential mortgage loan;
 2. An individual who only performs real estate brokerage activities and is licensed or registered as a real estate broker in accordance with State law (unless the individual is compensated by a lender, a mortgage broker, or other mortgage loan originator, or by any agent of any of these parties), and meets the definition of mortgage loan originator above; or
 3. An individual or entity solely involved in extensions of credit related to timeshare plans (as defined in the S.A.F.E. Act).
 4. An individual who has never been registered or licensed through the Registry as a mortgage loan originator and who has acted as a mortgage loan originator for five (5) or fewer residential mortgage loans during the last 12 months.
- iv. See Section (6) for examples of what would cause an employee to fall under the definition of a “mortgage loan originator.”

B. **Nationwide Mortgage Licensing System and Registry (Registry)** – The system developed and maintained by the Conference of State Bank Supervisors and the American Association of Residential Mortgage Regulators for the State licensing and registration of State-licensed mortgage loan originators

and the registration of mortgage loan originators pursuant to the S.A.F.E. Act.

C. **Registered Mortgage Loan Originator or Registrant** – Any individual who:

- i. Meets the definition of mortgage loan originator and is an employee of a credit union; and
- ii. Is registered, and maintains a unique identifier, through the Registry.

D. **Residential Mortgage Loan** – Any loan primarily for personal, family or household use that is secured by a mortgage, deed of trust or other equivalent consensual security interest on a dwelling (as defined under Regulation Z), or residential real estate upon which is constructed or intended to be constructed a dwelling, and includes refinancings, reverse mortgages, home equity lines of credit and other first and second lien loans that meet the qualifications listed in this definition.

E. **Unique Identifier** – A number or other identifier that:

- i. Permanently identifies a registered mortgage loan originator;
- ii. Is assigned by protocols established by the Nationwide Mortgage Licensing System and Registry, the Federal banking agencies, and the Farm Credit Administration to facilitate the following:
 1. Electronic tracking of mortgage loan originators; and
 2. Uniform identification of, and public access to, the employment history of and the publicity adjudicated disciplinary and enforcement actions against mortgage loan originators; and
- iii. Must **not** be used for purposes other than those set forth in the S.A.F.E. Act.

2. **MORTGAGE LOAN ORIGINATORS QUALIFICATIONS.** To comply with the requirements of the Truth in Lending Act the Credit Union must:

- A. Conduct a criminal background check on the MLO through the Nationwide Mortgage Licensing System and Registry (NMLSR), or in the case of a loan originator who is not registered under the NMLSR, from a law enforcement agency or commercial service;
- B. Review the MLO's credit history as reported by a consumer reporting agency; and
- C. Review information from the NMLSR about any administrative, civil, or criminal findings by any government jurisdiction or, in the case of an individual loan originator who is not a registered loan originator under the NMLSR, such information from the individual loan originator.
- D. Confirm that before acting as a loan originator that the employee has not been convicted of, or pleaded guilty or nolo contendere to a felony in a domestic or military court during the preceding seven-year period or at any time been involved in a felony for the act of fraud, dishonest, a breach of trust or money laundering.
- E. Ensure the loan originator has demonstrated financial responsibility, character, and general fitness that warrants a determination that they will operate honestly, fairly and efficiently.
- F. Ensure that the loan originator receives periodic training covering Federal and State law requirements that apply to the loan originator's activities.

3. REGISTRATION OF MORTGAGE LOAN ORIGINATORS.

A. Registration.

i. **Employee Registration.** Each Credit Union employee who acts as a mortgage loan originator must register with the Registry, obtain a unique identifier, and maintain this registration in accordance with the requirements of the S.A.F.E. Act and regulation. The Credit Union will ensure that this registration is completed and maintained. The Credit Union will not permit an employee who is subject to the registration requirements to act as a mortgage loan originator for the Credit Union unless such employee is registered with the Registry.

ii. Employees Previously Registered or Licensed Through the Registry.

1. **In general.** If an employee of a credit union was registered or licensed through, and obtained a unique identifier from, the Registry and has maintained this registration or license before the employee becomes subject to this part at this credit union, then the registration requirements of the S.A.F.E. Act and this part are deemed to be met, provided that:

- a. The employment information is updated and the employee authorization and attestation requirements are met (See Section (3)(D)(ii));
- b. New fingerprints of the employee are submitted to the Registry for a background check, unless the employee has fingerprints on file with the Registry that are less than 3 years old;
- c. The Credit Union and employee information (to the extent the Credit Union has **not** previously met these requirements) is submitted to the Registry; and
- d. The registration is maintained as of the date that the employee is employed by the Credit Union.

iii. **Rule for Certain Acquisitions, Mergers or Reorganizations.** When registered or licensed mortgage loan originators become Credit Union employees as a result of an acquisition, merger or reorganization, the requirements of Section (3)(A)(ii)(1)(a)(c) and (d) above must be met within 60 days from the effective date of the acquisition, merger, or reorganization.

B. **Maintaining Registration.** A mortgage loan originator who is registered with the Registry must do the following:

i. Except when Section (3)(A)(ii) applies, renew the registration during the annual renewal period (November 1 through December 31 of each year), confirming the responses set forth in Section (3)(D)(i)(1) through (8) of this section remain accurate and complete, and updating this information, as appropriate; and

ii. Update the registration within 30 days of any of the following events:

1. A change in the name of the registrant;
2. The registrant ceases to be an employee of the Credit Union; or
3. The information required under Section (3)(D)(i)(1) through (8) becomes inaccurate, incomplete, or out-of-date.

- iii. A registered mortgage loan originator must maintain his/her registration, unless the individual is no longer engaged in the activity of a mortgage loan originator.
- iv. The annual registration renewal requirement does not apply to a registered mortgage loan originator who has completed his/her registration with the Registry less than 6 months prior to the end of the annual renewal period.

C. Effective Dates.

- i. **Registration.** A registration is effective on the date the Registry transmits notification to the registrant that the registrant is registered.
- ii. **Renewals or Updates.** A renewal or update is effective on the date the Registry transmits notification to the registrant that the registration has been renewed or updated.

D. Required Employee Information.

- i. **In General.** For purposes of the required registration, the Credit Union will require each employee who is a mortgage loan originator to submit to the Registry, or must submit on behalf of the employee, the following categories of information, to the extent this information is collected by the Registry:

1. Identifying information, including the employee's:

- a. Name and any other names used;
- b. Home address and contact information;
- c. Principal business location address and business contact information;
- d. Social security number;
- e. Gender; and
- f. Date and place of birth;

- 2. Financial services-related employment history for the 10 years prior to the date of registration or renewal, including the date the employee became a Credit Union employee;
- 3. Convictions of any criminal offense involving dishonesty, breach of trust, or money laundering against the employee or organizations controlled by the employee, or agreements to enter into a pretrial diversion or similar program in connection with the prosecution for such offense(s);
- 4. Civil judicial actions against the employee in connection with financial services-related activities, dismissals with settlements, or judicial findings that the employee violated financial services-related statutes or regulations, except for actions dismissed without a settlement agreement;
- 5. Actions or orders by a State or Federal regulatory agency or foreign financial regulatory

authority that:

- a. Found the employee to have made a false statement or omission or been dishonest, unfair or unethical; to have been involved in a violation of a financial services-related regulation or statute; or to have been a cause of a financial services-related business having its authorization to do business denied, suspended, revoked, or restricted;
 - b. Are entered against the employee in connection with a financial services-related activity;
 - c. Denied, suspended, or revoked the employee's registration or license to engage in a financial services-related activity; disciplined the employee or otherwise by order prevented the employee from associating with a financial services-related business or restricted the employee's activities; or
 - d. Barred the employee from association with an entity or its officers regulated by the agency or authority or from engaging in a financial services-related business;
6. Final orders issued by a State or Federal regulatory agency or foreign financial regulatory authority based on violations of any law or regulation that prohibits fraudulent, manipulative, or deceptive conduct;
 7. Revocation or suspension of the employee's authorization to act as an attorney, accountant, or State or Federal contractor;
 8. Customer-initiated financial services-related arbitration or civil action against the employee that required action, including settlements, or which resulted in a judgment; and
 9. Fingerprints of the employee, in digital form if practicable and any appropriate identifying information for submission to the Federal Bureau of Investigation and any governmental agency or entity authorized to receive such information in connection with a State and national criminal history background check; however, fingerprints provided to the Registry that are less than 3 years old may be used to satisfy this requirement.

ii. **Employee Authorization and Attestation.** An employee registering as a mortgage loan originator or renewing or updating his/her registration, and **not** the employing Credit Union or other credit union employees, must:

1. Authorize the Registry and the employing institution to obtain information related to sanctions or findings in any administrative, civil or criminal action, to which the employee is a party, made by any governmental jurisdiction;
2. Attest to the correctness of all required information, whether submitted by the employee or on behalf of the employee by the employing credit union; and
3. Authorize the Registry to make the required information available to the public. The following employee information will not be made publicly available:
 - a. Social security number;
 - b. Gender; and
 - c. Date and place of birth.

iii. **Submission of Information.** The Credit Union may identify one or more of its employees who may submit the required information to the Registry on behalf of its employees provided that this individual, and any employee delegated such authority, does **not** act as a mortgage loan originator. In addition, the Credit Union may submit to the Registry some or all of the required information for multiple employees in bulk through batch processing in a format to be specified by the Registry, to the extent such batch processing is made available by the Registry.

E. **Required Credit Union Information.** The Credit Union must submit the following categories of information to the Registry:

i. **Credit Union Record.**

1. The following information in connection with the registration of one or more mortgage loan originators:
 - a. Name, main office address, and business contact information;
 - b. Internal Revenue Service Employer Tax Identification Number (EIN);
 - c. Research Statistics Supervision and Discount (RSSD) number, as issued by the Federal Reserve Board;
 - d. Identification of NCUA (as its primary Federal regulator);
 - e. Name(s) and contact information of the individual(s) with authority to act as the Credit Union's primary point of contact for the Registry;
 - f. Name(s) and contact information of the individual(s) with authority to enter the required information to the Registry and who may delegate this authority to other individuals. For the purpose of providing this information, this individual and their delegates may **not** act as mortgage loan originators unless the Credit Union has 10 or fewer full time or equivalent employees.
2. **Attestation.** The individual(s) identified in Section (3)(E)(i)(1)(e) and (f) above must comply with Registry protocols to verify their identity and must attest that they have the authority to enter data on behalf of the Credit Union; that the information provided to the Registry is correct; and that the Credit Union will keep the required information current and will file accurate supplementary information on a timely basis.
3. The Credit Union must update the required information within 30 days of the date this information becomes inaccurate.
4. The Credit Union must renew the required information annually.

ii. **Employee Information.** In connection with the registration of each employee who acts as a mortgage loan originator:

1. After the information required by Section (3)(D) has been submitted to the Registry, confirmation that it employs the registrant; and

2. Within 30 days of the date the registrant ceases to be a Credit Union employee, notification that it no longer employs the registrant and the date the registrant ceased being an employee.

4. **COMPLIANCE.** The Credit Union will develop procedures to ensure the following is done in order to comply with this policy:

- A. Establishing a process for identifying which Credit Union employees are required to be registered mortgage loan originators;
- B. Informing all mortgage loan originators of the registration requirements and how to comply with such requirements and procedures;
- C. Complying with the unique identifier requirements;
- D. Confirming the adequacy and accuracy of employee registrations, including updates and renewals, by comparisons with its own records;
- E. Tracking and monitoring for compliance with registration and renewal requirements and procedures;
- F. Providing for independent testing for compliance at least annually by Credit Union personnel or by an outside party;
- G. Providing for appropriate action in the case of non-compliance by any employee, including prohibiting such employees from acting as mortgage loan originators or other appropriate disciplinary actions;
- H. Establishing a process for reviewing employee criminal history background reports received pursuant to this part, taking appropriate action consistent with applicable Federal law, and implementing regulations with respect to these reports, and maintaining records of these reports and actions taken with respect to applicable employees; and
- I. Establishing procedures designed to ensure that any third party with which the Credit Union has arrangements related to mortgage loan origination has policies and procedures to comply with the S.A.F.E. Act, including appropriate licensing and/ or registration of individuals acting as mortgage loan originators.
- J. Providing internally or through a third party periodic training that is sufficient in frequency, timing, duration, and content to ensure that the individual loan originator has the knowledge of State and Federal legal requirements that apply to the individual loan originator's loan origination activities.

5. **USE OF UNIQUE IDENTIFIER.**

- A. The Credit Union will make the credit union's unique identifier(s) and credit union name and the unique identifier(s) of its registered mortgage loan originator(s) available to members in a manner and method practicable to the Credit Union.
- B. The Credit Union will provide the credit union's name and unique identifier and the name and unique identifier of the individual loan originator primarily responsible for origination, on loan documents that include:
 - i. Credit Application;

- ii. The Loan Estimate and Closing Disclosure required by Regulation Z;
- iii. Note or Loan Contract; and
- iv. Security Instrument.

If there is more than one loan originator on the transaction, the name and unique identifier of the originator primarily responsible for the transaction will be listed.

C. A registered mortgage loan originator must provide his/her own name and unique identifier to a member:

- i. Upon request;
- ii. Before acting as a mortgage loan originator;
- iii. Through the originator's initial written communication with a member, if any, whether on paper or electronically; and
- iv. On each Regulation Z covered loan documents.

6. EXAMPLES OF MORTGAGE LOAN ORIGINATOR ACTIVITIES.

A. **Taking a Loan Application.** The following examples illustrate when an employee takes, or does not take, a loan application:

- i. Taking an application includes: receiving information provided in connection with a request for a loan to be used to determine whether the member qualifies for a loan, even if the employee:
 - 1. Has received the member's information indirectly in order to make an offer or negotiate a loan;
 - 2. Is not responsible for further verification of information;
 - 3. Is inputting information into an online application or other automated system on behalf of the member; or
 - 4. Is **not** engaged in approval of the loan, including determining whether the member qualifies for the loan.
- ii. Taking an application does **not** include any of the following activities performed solely or in combination:
 - 1. Contacting a member to verify the information in the loan application by obtaining documentation, such as tax returns or payroll receipts;
 - 2. Receiving a loan application through the mail and forwarding it, without review, to loan approval personnel;
 - 3. Assisting a member who is filling out an application by clarifying what type of information is necessary for the application or otherwise explaining the qualifications or criteria necessary to obtain a loan product;

4. Describing the steps that a member would need to take to provide information to be used to determine whether the member qualifies for a loan or otherwise explaining the loan application process;
5. In response to an inquiry regarding a prequalified offer that a member has received from a credit union, collecting only basic identifying information about the member and forwarding the member to a loan originator; or
6. Receiving information in connection with a modification to the terms of an existing loan to a borrower as part of the Credit Union's loss mitigation efforts when the borrower is reasonably likely to default.

B. Offering or Negotiating Terms of a Loan. The following examples are designed to illustrate when an employee offers or negotiates terms of a loan, and conversely, what does not constitute offering or negotiating terms of a loan.

i. Offering or negotiating the terms of a loan includes:

1. Presenting a loan offer to a member for acceptance, either verbally or in writing, including, but not limited to, providing a disclosure of the loan terms after application under the Truth in Lending Act, even if:
 - a. Further verification of information is necessary;
 - b. The offer is conditional;
 - c. Other individuals must complete the loan process; or
 - d. Only the rate approved by the Credit Union's loan approval mechanism function for a specific loan product is communicated without authority to negotiate the rate.
2. Responding to a member's request for a lower rate or lower points on a pending loan application by presenting to the member a revised loan offer, either verbally or in writing, that includes a lower interest rate or lower points than the original offer.

ii. Offering or negotiating terms of a loan does **not** include solely or in combination:

1. Providing general explanations or descriptions in response to member queries regarding qualification for a specific loan product, such as explaining loan terminology (i.e., debt-to-income ratio); lending policies (i.e., the loan-to-value ratio policy of the Credit Union); or product-related services;
2. In response to a member's request, informing a member of the loan rates that are publicly available, such as on the Credit Union's website, for specific types of loan products without communicating to the member whether qualifications are met for that loan product;
3. Collecting information about a member in order to provide the member with information on loan products for which the member generally may qualify, without presenting a specific loan offer to the member for acceptance, either verbally or in writing;

4. Arranging the loan closing or other aspects of the loan process, including communicating with a member about those arrangements, provided that communication with the member only verifies loan terms already offered or negotiated;
5. Providing a member with information unrelated to loan terms, such as the best days of the month for scheduling loan closings at the Credit Union;
6. Making an underwriting decision about whether the member qualifies for a loan;
7. Explaining or describing the steps or process that a member would need to take in order to obtain a loan offer, including qualifications or criteria that would need to be met without providing guidance specific to that member's circumstances; or
8. Communicating on behalf of a mortgage loan originator that a written offer, including disclosures provided pursuant to the Truth in Lending Act, has been sent to a member without providing any details of that offer.

C. Offering or negotiating a loan “for compensation or gain.”

- i. Offering or negotiating terms of a loan for compensation or gain includes engaging in any of the activities in Section (6)(B)(i) in the course of carrying out employment duties, even if the employee does **not** receive a referral fee or commission or other special compensation for the loan.
- ii. Offering or negotiating terms of a loan for compensation or gain does **not** include engaging in a seller-financed transaction for the employee's personal property that does not involve the Credit Union.

Policy 7302: Real Estate Appraisals

Revised Date: 06/27/2015

Model Policy Revised Date: 06/27/2015

General Policy Statement:

This real estate appraisal policy is derived, in part, from the Interagency Appraisal and Evaluation Guidelines, dated December 2, 2010, adopted pursuant to Title XI of the Federal Financial Institutions Reform, Recovery, and Enforcement Act of 1989, as well as NCUA Part 722 (Appraisals) and the appraisal and valuation provisions of Regulation Z including the Higher-Priced Mortgage Loans (HPML) Appraisal Rule Issued by the Joint Agencies.

This policy applies to all real estate lending functions and real estate-related financial transactions originated or purchased by [CUNAME] (Credit Union) for its own portfolio or for assets held for sale.

While borrowers' ability to repay their real estate loans according to reasonable terms remains the primary consideration in the lending decision, the Credit Union also must consider the value of the underlying real estate collateral in accordance with the NCUA's appraisal regulation (NCUA Part 722).

Guidelines:

1. **APPRAISAL AND EVALUATION PROGRAM.** The Credit Union's board of directors is responsible for developing and reviewing the policies and procedures of the Credit Union's appraisal and evaluation program, and for ensuring that this program does the following:
 - A. Provides for the independence of the persons ordering, performing, and reviewing appraisals or evaluations.
 - B. Establishes selection criteria and procedures to evaluate and monitor the ongoing performance of appraisers and persons who perform evaluations.
 - C. Ensures that appraisals comply with NCUA Part 722 and are consistent with supervisory guidance.
 - D. Ensures that appraisals and evaluations contain sufficient information to support the credit decision.
 - E. Maintains criteria for the content and appropriate use of evaluations consistent with safe and sound banking practices.
 - F. Provides for the receipt and review of the appraisal or evaluation report in a timely manner to facilitate the credit decision.
 - G. Develops criteria to assess whether an existing appraisal or evaluation may be used to support a subsequent transaction.
 - H. Implements internal controls that promote compliance with these program standards, including those related to monitoring third party arrangements.
 - I. Establishes criteria for monitoring collateral values.
 - J. Establishes criteria for obtaining appraisals or evaluations for transactions that are not otherwise covered

by the appraisal requirements of NCUA Part 722.

2. INDEPENDENCE OF THE APPRAISAL AND EVALUATION PROGRAM.

A. Collateral Valuation Program. For both appraisal and evaluation functions, the Credit Union will maintain standards of independence as part of an effective collateral valuation program for all of its real estate lending activity. The collateral valuation program is an integral component of the credit underwriting process and, therefore, will be isolated from influence by the credit union's loan production staff.

i. The Credit Union will establish reporting lines independent of loan production for staff who administer its collateral valuation program, including the ordering, reviewing, and acceptance of appraisals and evaluations.

ii. Conflicts of Interest.

1. Appraisers will be independent of the loan production and collection processes and have no direct, indirect or prospective interest, financial or otherwise, in the property or transaction. These standards of independence will also apply to persons who perform evaluations.

2. When the Credit Union has less than \$250 million in assets as of December 31 for either of the past two calendar years, and absolute lines of independence *cannot* be achieved, the Credit Union will clearly demonstrate that it has prudent safeguards to isolate its collateral valuation program from influence or interference from the loan production process. In such cases, another loan officer, other officer, or director may be the only person qualified to analyze the real estate collateral. To ensure their independence, such lending officials, officers, or directors will abstain from any vote or approval involving loans on which they ordered, performed, or reviewed the appraisal or evaluation, and at no time will compensation of the person preparing the valuation or performing valuation management functions be based on the value arrived at in any valuation.

B. Communication. The Credit Union will establish procedures to specify the methods for communication between the Credit Union's collateral valuation staff and an appraiser or person performing an evaluation to ensure independence in the collateral valuation function. These procedures will foster timely and appropriate communications regarding the assignment and establish a process for responding to questions from the appraiser or person performing an evaluation.

C. Exchange of Information with Appraiser. The Credit Union may exchange information with appraisers and persons who perform evaluations, which may include providing a copy of the sales contract for a purchase transaction. However, the Credit Union will **not** directly or indirectly coerce, influence, or otherwise encourage an appraiser or a person who performs an evaluation to misstate or misrepresent the value of the property. Consistent with this policy and its procedures, the Credit Union may also request the appraiser or person who performs an evaluation to do the following:

i. Consider additional information about the subject property or about comparable properties.

ii. Provide additional supporting information about the basis for a valuation.

iii. Correct factual errors in an appraisal.

iv. Withhold compensation due to breach of contract or substandard performance of services.

- v. Take action permitted or required by applicable federal or state statute, regulation, or agency guidance.

D. Coercion and the Avoidance of Inappropriate Actions. The Credit Union will ensure that it does not attempt to directly or indirectly cause the value assigned to the member's principal dwelling to be based on any factor other than the independent judgment of the person that prepares valuations, through coercion, extortion, inducement, bribery, or intimidation of, compensation or instruction to, or collusion with a person that prepares valuations or performs valuation management functions. The Credit Union will ensure that it avoids inappropriate actions that would compromise the independence of the collateral valuation function, including:

- i. Communicating a predetermined, expected, or qualifying estimate of value, or a loan amount or target loan-to-value ratio to an appraiser or person performing an evaluation.
- ii. Specifying a minimum value requirement for the property that is needed to approve the loan or as a condition of ordering the valuation.
- iii. Conditioning a person's compensation on loan consummation.
- iv. Failing to compensate a person because a property is not valued at a certain amount.
- v. Implying that current or future retention of a person's services depends on the amount at which the appraiser or person performing an evaluation values a property.
- vi. Excluding a person from consideration for future engagement because a property's reported market value does not meet a specified threshold.
- vii. Threatening to report a false allegation of non-compliance with the Uniform Standards of Professional Appraisal Practice (USPAP) to the appropriate authorities in order to influence or coerce an appraiser or a person who performs an evaluation.
- viii. Causing or attempting to cause the value assigned to the property to be based on a factor other than the independent judgment of an appraiser, by compensating, coercing, extorting, colluding with, instructing, inducing, bribing, or intimidating a person conducting or involved in an appraisal.
- ix. Mischaracterizing, or suborning any mischaracterization of, the appraised value of the property securing the extension of credit.
- x. Seeking to influence an appraiser or otherwise to encourage a targeted value in order to facilitate the making or pricing of the transaction.

E. Additional Appraisals. After obtaining an appraisal or evaluation, or as part of its business practice, the Credit Union may find it necessary to obtain another appraisal or evaluation of a property. In this event, the Credit Union will select the most credible appraisal or evaluation, rather than the appraisal or evaluation that states the highest value.

F. Mischaracterization of Value. A misrepresentation is material if it is likely to significantly affect the value assigned to the member's principal dwelling. A bona fide error is not a misrepresentation. The Credit Union will not induce a person to mischaracterize the value of any property.

G. Reasonable Diligence When Violations Occur. Extensions of credit based on the valuation will not be provided when the Credit Union knows, at or before consummation, that a violation of this policy has occurred, unless the Credit Union documents that it has acted with reasonable diligence to determine that the valuation does not materially misstate or misrepresent the value of the member's principal dwelling.

3. SELECTION OF APPRAISERS OR PERSONS WHO PERFORM EVALUATIONS.

A. Selection Criteria. The Credit Union's collateral valuation program criteria to select, evaluate, and monitor the performance of appraisers and persons who perform evaluations will ensure that:

- i. The person selected possesses the requisite education, expertise, and experience to competently complete the assignment.
- ii. The work performed by appraisers and persons providing evaluation services is periodically reviewed by the Credit Union.
- iii. The person selected is capable of rendering an unbiased opinion.
- iv. The person selected is independent and has no direct, indirect, or prospective interest, financial or otherwise, in the property or the transaction.
- v. The appraiser selected to perform an appraisal holds the appropriate state certification or license at the time of the assignment. Persons who perform evaluations should possess the appropriate appraisal or collateral valuation education, expertise, and experience relevant to the type of property being valued. Such persons may include appraisers, real estate lending professionals, agricultural extension agents, or foresters.

B. Selection Process. The Credit Union or its agent will directly select and engage appraisers (unless NCUA Part 722.5(b) applies, allowing the Credit Union to use an appraisal prepared for another financial services institution provided certain conditions are met). The Credit Union or its agents will also directly select and engage persons who perform evaluations. Independence is compromised when a borrower recommends an appraiser or a person to perform an evaluation. Independence is also compromised when loan production staff selects a person to perform an appraisal or evaluation for a specific transaction. For certain transactions, the Credit Union will also comply with the provisions addressing valuation independence in Regulation Z (Truth in Lending).

- i. The Credit Union's selection process will ensure that a qualified, competent and independent person is selected to perform a valuation assignment.
- ii. The Credit Union will maintain documentation to demonstrate that the appraiser or person performing an evaluation is competent, independent, and has the relevant experience and knowledge for the market, location, and type of real property being valued. Further, the person who selects or oversees the selection of appraisers or persons providing evaluation services will be independent from the loan production area.
- iii. The Credit Union will **not** use a borrower-ordered or borrower-provided appraisal in violation of NCUA Part 722. However, a borrower can inform the Credit Union that a current appraisal exists, and the Credit Union may request it directly from the other financial services institution.

C. Approved Appraiser List. If the Credit Union establishes an approved appraiser list for selecting an appraiser for a particular assignment, it will have appropriate procedures for the development and

administration of the list.

- i. These procedures will include a process for qualifying an appraiser for initial placement on the list, as well as periodic monitoring of the appraiser's performance and credentials to assess whether to retain the appraiser on the list.
- ii. Further, there will be periodic internal review of the use of the approved appraiser list to confirm that appropriate procedures and controls exist to ensure independence in the development, administration, and maintenance of the list.
- iii. For residential transactions, loan production staff may use a revolving, pre-approved appraiser list, provided the development and maintenance of the list is **not** under their control.

D. Engagement Letters. The Credit Union will use written engagement letters when ordering appraisals, particularly for large, complex, or out-of-area commercial real estate properties. In addition to the other information, the engagement letter will identify the intended use and user(s), as defined in USPAP. An engagement letter also may specify whether there are any legal or contractual restrictions on the sharing of the appraisal with other parties.

- i. The Credit Union will include the engagement letter in its credit file.
- ii. To avoid the appearance of any conflict of interest, appraisal or evaluation development work will **not** begin until the Credit Union has selected and engaged a person for the assignment.

4. CUSTOMARY AND REASONABLE COMPENSATION. The Credit Union will ensure that its fee appraisers will be compensated at a rate that is customary and reasonable for comparable appraisal services performed in the geographic market of the property being appraised.

A. Presumption of Compliance. The Credit Union will be presumed to comply with this requirement in the following cases:

- i. The Credit Union compensates the fee appraiser in an amount that is reasonably related to the recent rates paid for comparable appraisal services performed in the geographic market of the property being appraised. In determining this amount, the Credit Union will review the factors below and make any adjustments to recent rates paid in the relevant geographic market necessary to ensure that the amount of compensation is reasonable:
 1. The type of property;
 2. The scope of work;
 3. The time in which the appraisal services are required to be performed;
 4. Fee appraiser qualifications;
 5. Fee appraiser experience and professional record;
 6. Fee appraiser work quality; and
- ii. The Credit Union does not engage in any anticompetitive acts in violation of state or federal law that affect the compensation paid to fee appraisers, including the following:

1. Entering into any contracts or engaging in any conspiracies to restrain trade through methods such as price fixing or market allocation, as prohibited under Section 1 of the Sherman Antitrust Act, 15 U.S.C. 1, or any other relevant antitrust laws; or
2. Engaging in any acts of monopolization such as restricting any person from entering the relevant geographic market or causing any person to leave the relevant geographic market, as prohibited under Section 2 of the Sherman Antitrust Act, 15 U.S.C. 1, or any other relevant antitrust laws.

B. Alternative Presumption of Compliance. As an alternative, the Credit Union will be presumed to comply with this requirement when the Credit Union determines the amount of compensation paid to the fee appraiser by relying on information about rates that:

- i. Is based on objective third-party information, including fee schedules, studies, and surveys prepared by independent third parties such as government agencies, academic institutions, and private research firms;
- ii. Is based on recent rates paid to a representative sample of providers of appraisal services in the geographic market of the property being appraised or the fee schedules of those providers; and
- iii. In the case of information based on fee schedules, studies, and surveys, such fee schedules, studies, and surveys, or the information derived therefrom, excludes compensation paid to fee appraisers for appraisals ordered by appraisal management companies.

5. MINIMUM APPRAISAL STANDARDS. Credit union will ensure that its appraisals meet the following requirements:

- A. Conform to generally accepted appraisal standards as evidenced by the USPAP promulgated by the Appraisal Standards Board of the Appraisal Foundation, unless safety and soundness requires compliance with stricter standards. Although allowed by USPAP, NCUA Part 722 does **not** permit an appraiser to appraise any property in which the appraiser has an interest, direct or indirect, financial or otherwise in the property or transaction.
- B. Contain an opinion of market value as defined NCUA Part 722.2.
- C. Contain a certification that the appraiser has complied with USPAP. The Credit Union may refer to the appraiser's USPAP certification in its assessment of the appraiser's independence concerning the transaction and the property.
- D. Be written and contain sufficient information and analysis to support the Credit Union's decision to engage in the transaction.
- E. **Scope of Work.** As provided by the USPAP Scope of Work Rule, appraisers are responsible for establishing the scope of work to be performed in rendering an opinion of the property's market value. The Credit Union will ensure that the scope of work is appropriate for the assignment. The appraiser's scope of work will be consistent with the extent of the research and analyses employed for similar property types, market conditions, and transactions. Therefore, the Credit Union will be cautious in limiting the scope of the appraiser's inspection, research, or other information used to determine the property's condition and relevant market factors, which could affect the credibility of the appraisal. The Credit Union will ensure the following:

- i. The appraisal analyzes and reports appropriate deductions and discounts for proposed construction or renovation, partially leased buildings, non-market lease terms, and tract developments with unsold units.
- ii. Appraisers analyze, apply, and report appropriate deductions and discounts when providing an estimate of market value based on demand for real estate in the future.
- iii. The appraisal is based upon the definition of market value set forth in NCUA Part 722.2. Value opinions such as going concern value, value in use, or a special value to a specific property user may **not** be used as market value for federally-related transactions. An appraisal may contain separate opinions of such values so long as they are clearly identified and disclosed.
- iv. The estimate of market value will consider the real property's actual physical condition, use, and zoning as of the effective date of the appraiser's opinion of value. For a transaction financing construction or renovation of a building, the Credit Union will generally request an appraiser to provide the property's current market value in its "as is" condition, and, as applicable, its prospective market value upon completion and/or prospective market value upon stabilization.
- v. Prospective market value opinions are based upon current and reasonably expected market conditions. When an appraisal includes prospective market value opinions, there should be a point of reference to the market conditions and time frame on which the appraiser based the analysis. The Credit Union will understand the real property's "as is" market value and consider the prospective market value that corresponds to the credit decision and the phase of the project being funded, if applicable.
- vi. Be performed by state certified or licensed appraisers in accordance with requirements set forth in NCUA Part 722.3.
 - a. In determining competency for a given appraisal assignment, the Credit Union will consider an appraiser's education and experience, with a state certification or license as a minimum credentialing requirement.
 - b. Appraisers will be selected for individual assignments based on their competency to perform the appraisal, including knowledge of the property type and specific property market.
 - c. In communicating an appraisal assignment, the Credit Union will convey to the appraiser that the Agencies' minimum appraisal standards must be followed.

6. **APPRAISAL DEVELOPMENT.** While an appraiser must comply with USPAP and establish the scope of work in an appraisal assignment, the Credit Union is responsible for obtaining an appraisal that contains sufficient information and analysis to support its decision to engage in the transaction.

A. **Discussion of Needs and Expectations.** To ensure that an appraisal is appropriate for the intended use, the Credit Union will discuss its needs and expectations for the appraisal with the appraiser, without unduly influencing the appraiser.

- i. The Credit Union will **not** allow lower cost or the speed of delivery time to inappropriately influence its appraisal ordering procedures or the appraiser's determination of the scope of work for an appraisal supporting a federally-related transaction.

B. Valuation. As required by USPAP, the appraisal must include any approach to value (that is, the cost, income, and sales comparison approaches) that is applicable and necessary to the assignment. The Credit Union will ensure that the following is included in appraisals:

- i. The rationale for the omission of a valuation approach. The appraiser must analyze and reconcile the information from the approaches to arrive at the estimated market value.
- ii. A discussion on market conditions, including relevant information on property value trends, demand and supply factors, and exposure time. Other information might include the prevalence and effect of sales and financing concessions, the list-to-sale price ratio, and availability of financing.
- iii. An analysis of the property's sales history and an opinion as to the highest and best use of the property. USPAP requires the appraiser to disclose whether the subject property was inspected and whether anyone provided significant assistance to the appraiser signing the appraisal report.

7. APPRAISAL REPORTS. The Credit Union is responsible for identifying the appropriate appraisal report option to support its credit decisions. The Credit Union will consider the risk, size, and complexity of the transaction and the real estate collateral when determining the appraisal report format to be specified in its appraisal engagement instructions to an appraiser.

A. Report Option. USPAP provides various appraisal report options that an appraiser may use to present the results of appraisal assignments. Regardless of the report option, the Credit Union will ensure that the appraisal report contains sufficient detail to allow the Credit Union to understand the scope of work performed.

- i. Sufficient information includes the disclosure of research and analysis performed, as well as disclosure of the research and analysis typically warranted for the type of appraisal, but omitted, along with the rationale for its omission.

8. TRANSACTIONS THAT REQUIRE EVALUATIONS.

A. The Credit union will consider obtaining an appraisal as its portfolio risk increases or for higher risk real estate-related financial transactions, such as those involving:

- i. Loans with combined loan-to-value ratios in excess of the supervisory loan-to-value limits.
- ii. Atypical properties.
- iii. Properties outside the institution's traditional lending market.
- iv. Transactions involving existing extensions of credit with significant risk to the Credit Union.
- v. Borrowers with high risk characteristics.

B. Exceptions. The Credit Union will obtain an appropriate evaluation of real property collateral in lieu of an appraisal for transactions that qualify for certain exemptions under NCUA Part 723. These exemptions include a transaction that:

- i. There has been no obvious and material change in market conditions or physical aspects of the property that threaten the adequacy of the institution's real estate collateral protection after the transaction, even with the advancement of new monies; or

- ii. There is no advancement of new monies other than funds necessary to cover reasonable closing costs.

*For more information on real estate-related financial transactions that are exempt from the appraisal requirement, see Policy 7303, Appendix A, *Appraisal Exemptions*.

9. HIGH PRICED LOAN APPRAISAL REQUIREMENTS

A. **High Priced Mortgage Loans.** A Mortgage loan is a Higher Priced Mortgage Loan (HPML) if they are secured by a consumer's principal dwelling and have interest rates above certain thresholds:

- i. The loan is a first-lien mortgage with an annual percentage rate (APR) that exceeds the Average Prime Offer Rate (APOR) published by the Federal Financial Institutions Examination Council (FFIEC) at the time the APR is set by 1.5 percentage points or more;
- ii. The loan is a first-lien jumbo loan with an APR that exceeds the APOR at the time the APR is set by 2.5 percentage points or more; or
- iii. The loan is a subordinate-lien with an APR that exceeds the APOR at the time the APR is set by 3.5 percentage points or more.

B. **High Priced Mortgage Loan Exemptions.** The Credit Union is not required to meet the HPML Appraisal Rule requirements if the loan falls into the following classifications:

- i. Qualified mortgages;
- ii. Reverse mortgages;
- iii. Bridge loans (for 12 months or less);
- iv. Loans for initial construction of a dwelling;
- v. Loans secured by new manufactured homes and land will be exempt from the requirement that the appraisal include a physical inspection of the interior of the property. All other HPML appraisal requirements under section C will apply (loan secured by existing or used manufactured homes and land are subject to all of the HPML appraisal requirements);
- vi. Loans secured by boats, trailers, and mobile homes; and
- vii. An extension of credit for which the amount of credit extended is equal to or less than the applicable threshold amount, which is adjusted every year to reflect increases in the Consumer Price Index for Urban Wage Earners and Clerical Workers, as applicable, and published in the official staff commentary to 12 CFR 1026.35(c).
- viii. Additionally an extension of credit that is a refinancing secured by a first lien (except that the creditor need not be the original creditor or a holder or servicer of the original obligation), provided that the refinancing meets the following criteria:
 - 1. The refinancing occurs when an existing obligation is satisfied and replaced by a new obligation undertaken by the same consumer. A refinancing is a new transaction requiring

new disclosures to the consumer. The new finance charge shall include any unearned portion of the old finance charge that is not credited to the existing obligation.

2. Either:

- a. The credit risk of the refinancing is retained by the person that held the credit risk of the existing obligation and there is no commitment, at consummation, to transfer the credit risk to another person; or
- b. The refinancing is insured or guaranteed by the same Federal government agency that insured or guaranteed the existing obligation;

3. The regular periodic payments under the refinance loan do not:

- a. Cause the principal balance to increase;
- b. Allow the consumer to defer repayment of principal; or
- c. Result in a balloon payment; and

4. The proceeds from the refinancing are used solely to satisfy the existing obligation and amounts attributed solely to the costs of the refinancing.

ix. Loans solely secured by a manufactured home and not land will be exempt from the rules if the Credit Union gives the member one of three types of information about the home's value:

1. The manufacturer's invoice of the unit cost (for loans secured by a new manufactured home);
2. An independent cost service unit cost; or
3. A valuation conducted by an individual who has no financial interest in the property or loan, and has training in valuing manufactured homes.

C. HPML Appraisal Requirements. When the Credit Union originates a higher-priced first-lien or subordinate-lien mortgage loan the Credit Union will:

- i. Use a licensed or certified appraiser who certifies the appraisal complies with the Uniform Standards of Professional Appraisal Practice (USPAP) and the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA) of 1989, as amended, 12 U.S.C. 3331 *et seq.*, and any implementing regulations;
- ii. Have the appraiser physically visit the property and view the interior and produce a written appraisal report;
- iii. Provide a disclosure within three business days of application explaining the consumer's rights with regard to appraisals;
- iv. Give consumers free copies of the appraisal reports performed in connection with the loan at least three days before consummation of the transaction; and
- v. Obtain an additional appraisal at its own expense if the property's seller acquired the dwelling within the past 180 days (flipped property) and is reselling it for a price that exceeds certain thresholds.

D. Flipped Property. The Credit Union will:

- i. Obtain an additional appraisal from a separate independent appraiser if a member is purchasing a property that the property's seller acquired within the past 180 days (flipped property) and is reselling it for a price that exceeds certain thresholds:
 1. More than a 10% price increase over the last sale price if the seller acquired the property in the past 90 days; or
 2. More than a 20% price increase the last sale price if the seller acquired the property in the past 91 to 180 days.
- ii. The Credit Union will cover the cost of the additional appraisal and not pass the additional appraisal cost on to the member.
- iii. The Credit Union is not required to provide an additional appraisal for property acquired from:
 1. A local, state, or federal government agency;
 2. A person who acquired title from the holder of a defaulted mortgage on the property via foreclosure, deed-in-lieu of foreclosure, or other similar judicial or non-judicial procedure through exercise of the holder's rights in the defaulted loan;
 3. A nonprofit entity as part of a local, state, or federal government program that lets nonprofits acquire title to single-family properties for resale from a seller who itself acquired title to the property through foreclosure, deed-in-lieu of foreclosure, or other similar judicial or non-judicial procedure;
 4. A person who inherited the property or acquired it through a court-ordered dissolution of marriage, civil union, or domestic partnership, or through the partition of the seller's joint or marital assets;
 5. An employer or relocation agency in connection with an employee relocation; and
 6. A service member who received a deployment or permanent change of station order after purchasing the property.
- iv. The Credit Union is not required to provide an additional appraisal for property:
 1. Located in a presidentially-declared disaster area during any time period during which the federal financial institutions regulatory agencies, waive the requirements in Title XI of FIRREA and any implementing regulations in that area; or
 2. Located in a rural county.

E. HPML Appraisal Disclosure. The Credit Union will provide an appraisal disclosure to members:

- i. Promptly after a member applies for a higher-priced first-lien or subordinate-lien mortgage loan, and at the latest with the Loan Estimate.
- ii. The disclosure will state: "We may order an appraisal to determine the property's value and charge

you for this appraisal. We will promptly give you a copy of any appraisal, even if your loan does not close. You can pay for an additional appraisal for your own use at your own cost.”

10. EVALUATION DEVELOPMENT.

A. **Reliability.** The Credit Union will ensure that it will be able to demonstrate that an evaluation, whether prepared by an individual or supported by an analytical method or a technological tool, provides a reliable estimate of the collateral’s market value as of a stated effective date prior to the decision to enter into a transaction. (Refer to Policy 7303, Appendix B, *Evaluations Based on Analytical Methods or Technological Tools.*)

i. A valuation method that does **not** provide a property’s market value or sufficient information and analysis to support the value conclusion is **not** acceptable as an evaluation. Likewise, information on local housing conditions and trends, such as a competitive market analysis, does **not** contain sufficient information on a specific property that is needed. The information obtained from such sources, while insufficient as an evaluation, may be useful to develop an evaluation or appraisal.

B. **Valuation Method.** The Credit Union will establish procedures to address the process for selecting the appropriate valuation method for a transaction rather than using the method that renders the highest value, lowest cost, or fastest turnaround time.

i. The Credit Union will ensure the valuation method addresses the property’s actual physical condition and characteristics as well as the economic and market conditions that affect the estimate of the collateral’s market value.

ii. The Credit Union will ensure an inspection is performed to determine the actual physical condition of the property and market factors that affect its market value. When an inspection is **not** performed, the Credit Union will ensure it can demonstrate how these property and market factors were determined.

C. **Evaluation Content.** The Credit Union will ensure the evaluation will contain sufficient information detailing the analysis, assumptions, and conclusions to support the credit decision. An evaluation’s content will be documented in the credit file or electronically in a reproducible format. The Credit Union will ensure that the evaluation, at a minimum:

i. Identifies the location of the property.

ii. Provides a description of the property and its current and projected use.

iii. Provides an estimate of the property’s market value in its actual physical condition, use and zoning designation as of the effective date of the evaluation (that is, the date that the analysis was completed), with any limiting conditions.

iv. Describes the method(s) the Credit Union used to confirm the property’s actual physical condition and the extent to which an inspection was performed.

v. Describes the analysis that was performed and the supporting information that was used in valuing the property.

vi. Describes the supplemental information that was considered when using an analytical method or technological tool.

- vii. Indicates all source(s) of information used in the analysis, as applicable, to value the property, including:
 - a. External data sources (such as market sales databases and public tax and land records);
 - b. Property-specific data (such as previous sales data for the subject property, tax assessment data, and comparable sales information);
 - c. Evidence of a property inspection;
 - d. Photos of the property;
 - e. Description of the neighborhood; or
 - f. Local market conditions.
- viii. Includes information on the preparer when an evaluation is performed by a person, such as the name and contact information, and signature (electronic or other legally permissible signature) of the preparer. (See Policy 7303, Appendix B, *Evaluations Based on Analytical Methods or Technological Tools*, for guidance on the appropriate use of analytical methods and technological tools for developing an evaluation.)

11. **VALIDITY OF APPRAISALS AND EVALUATIONS.** When the Credit Union uses an existing appraisal or evaluation to support a later transaction, the documentation in the credit file will provide the facts and analysis to support this decision. A new appraisal or evaluation is necessary if the originally reported market value has changed due to factors such as:

- A. Passage of time.
- B. Volatility of the local market.
- C. Changes in terms and availability of financing.
- D. Natural disasters.
- E. Limited or over-supply of competing properties.
- F. Improvements to the subject property or competing properties.
- G. Lack of maintenance of the subject or competing properties.
- H. Changes in underlying economic and market assumptions, such as capitalization rates and lease terms.
- I. Changes in zoning, building materials, or technology.
- J. Environmental contamination.

12. **REVIEWING APPRAISALS AND EVALUATIONS.**

- A. **Consistency with Regulations and Supervisory Guidance.** As part of the credit approval process and

prior to a final credit decision, the Credit Union will review appraisals and evaluations to ensure they comply with NCUA Part 722 and are consistent with supervisory guidance and its own internal policies. This review will also ensure that an appraisal or evaluation contains sufficient information and analysis to support the decision to engage in the transaction.

- B. Evaluation of Appraiser Competency.** The Credit Union will use the review findings to monitor and evaluate the competency and ongoing performance of appraisers and persons who perform evaluations. (See the discussion in these Guidelines on *Selection of Appraisers or Persons Who Perform Evaluations*.)
- C. Second Opinions of Market Value.** When the Credit Union identifies an appraisal or evaluation that is inconsistent with NCUA Part 722 and the deficiencies cannot be resolved with the appraiser or person who performed the evaluation, the Credit Union will obtain an appraisal or evaluation that meets the regulatory requirements prior to making a credit decision. The Credit Union may rely on the second opinion of market value obtained through an acceptable USPAP-compliant appraisal review to support its credit decision.
- D. Reviewer Qualifications.** Persons who review appraisals and evaluations will be independent of the transaction and have no direct or indirect interest, financial or otherwise, in the property or transaction, and be independent of and insulated from any influence by loan production staff.
- i. Reviewers must also possess the requisite education, expertise, and competence to perform the review commensurate with the complexity of the transaction, type of real property, and market. Further, reviewers must be capable of assessing whether the appraisal or evaluation contains sufficient information and analysis to support the Credit Union's decision to engage in the transaction.
 - ii. In the event this cannot be achieved (due to limited staff), the Credit Union will implement prudent safeguards for reviewing appraisals and evaluations. Under these circumstances, the review may be part of the originating loan officer's overall credit analysis, as long as the originating loan officer abstains from directly or indirectly approving or voting to approve the loan.
 - iii. The Credit Union will assess the level of in-house expertise available to review appraisals for complex projects, high-risk transactions, and out-of-market properties, but may find it appropriate to employ additional personnel or engage a third party to perform the reviews. When using a third party, the Credit Union remains responsible for the quality and adequacy of the review process, including the qualification standards for reviewers. (See the discussion in these Guidelines on *Third Party Arrangements*.)
- E. Depth of Review.** The Credit Union will implement a risk-focused approach for determining the depth of the review needed to ensure that appraisals and evaluations contain sufficient information and analysis to support the Credit Union's decision to engage in the transaction. This process will differentiate between high- and low-risk transactions so that the review is commensurate with the risk. The depth of the review will be sufficient to ensure that the methods, assumptions, data sources, and conclusions are reasonable, well-supported, and appropriate for the transaction, property, and market. The review will also consider the process through which the appraisal or evaluation is obtained, either directly by the Credit Union or from another financial services institution. The review process should be commensurate with the type of transaction as discussed below:
- i. **Commercial Real Estate.** Transactions involving complex properties or high-risk commercial loans (i.e., large-dollar credits, loans secured by complex or specialized properties, and properties

outside the Credit Union's traditional lending market) will be reviewed more comprehensively to assess the technical quality of the appraiser's analysis. Persons performing such reviews must have the appropriate expertise and knowledge relative to the type of property and its market. The Credit Union will establish criteria for when to expand the depth of the review.

- ii. **1-to-4 Family Residential Real Estate.** The reviews for residential real estate transactions will reflect a risk-focused approach that is commensurate with the size, type, and complexity of the underlying credit transaction, as well as loan and portfolio risk characteristics. These risk factors will include debt-to-income ratios, loan-to-value ratios, level of documentation, transaction dollar amount, or other relevant factors.
- iii. **Sampling.** With prior approval from NCUA, the Credit Union may employ various techniques, such as automated tools or sampling methods, for performing pre-funding reviews of appraisals or evaluations supporting lower risk residential mortgages. When using such techniques, the Credit Union will maintain sufficient data and employ appropriate screening parameters to provide adequate quality assurance and will ensure that the work of all appraisers and persons performing evaluations is periodically reviewed. In addition, the Credit Union will establish criteria for when to expand the depth of the review.
 - a. The Credit Union may use sampling and audit procedures to verify the seller's representations and warranties that the appraisals for the underlying loans in a pool of residential loans satisfy NCUA Part 722 and are consistent with supervisory guidance and the Credit Union's internal policies. If the Credit Union is unable to confirm that the appraisal meets NCUA Part 722, the Credit Union will obtain an appraisal prior to engaging in the transaction.
- iv. **Appraisals from Other Financial Services Institutions.** The Credit Union will assess whether to use the appraisal prior to making a credit decision. The Credit Union will subject such appraisals to at least the same level of review that it performs on appraisals it obtains directly for similar properties and document its review in the credit file. The documentation of the review will support the Credit Union's reliance on the appraisal.

F. Resolution of Deficiencies. The Credit Union will establish procedures for resolving any inaccuracies or weaknesses in an appraisal or evaluation identified through the review process, including procedures for:

- i. Communicating the noted deficiencies to and requesting correction of such deficiencies by the appraiser or person who prepared the evaluation. The Credit Union will implement adequate internal controls to ensure that such communications do **not** result in any coercion or undue influence on the appraiser or person who performed the evaluation.
- ii. Addressing significant deficiencies in the appraisal that could **not** be resolved with the original appraiser by obtaining a second appraisal or relying on a review that complies with Standards Rule 3 of USPAP and is performed by an appropriately qualified and competent state certified or licensed appraiser prior to the final credit decision.
- iii. Replacing evaluations prior to the credit decision that do **not** provide credible results or lack sufficient information to support the final credit decision.

G. Documentation of the Review. The Credit Union will establish procedures for documenting the review of appraisals and evaluations in the credit file. The documentation will describe the resolution of any appraisal or evaluation deficiencies, including reasons for obtaining and relying on a second appraisal or

evaluation. The documentation will also provide an audit trail that documents the resolution of noted deficiencies or details the reasons for relying on a second opinion of market value.

13. THIRD PARTY ARRANGEMENTS.

A. **Oversight.** When the Credit Union engages a third party to perform certain collateral valuation functions on its behalf, it will follow its Vendor Due Diligence & Oversight policy (**See Policy 2185**).

- i. **Internal Controls.** The Credit Union will have internal controls for identifying, monitoring, and managing the risks associated with using a third party arrangement for valuation services, including compliance, legal, reputational, and operational risks.
- ii. **Written Contract.** Consistent with safe and sound practices, the Credit Union will execute a written contract that clearly defines the expectations and obligations of both the Credit Union and the third party, including that the third party will perform its services in compliance with NCUA Part 722 and consistent with supervisory guidance.
- iii. **Assessment of Risk.** Prior to entering into any arrangement with a third party for valuation services, the Credit Union will compare the risks, costs, and benefits of the proposed relationship to those associated with using another vendor or conducting the activity in-house. The decision to outsource any part of the collateral valuation function will **not** be unduly influenced by any short-term cost savings. The Credit Union will take into account all aspects of the long-term effect of the relationship, including the managerial expertise and associated costs for effectively monitoring the arrangement on an ongoing basis.
- iv. **Due Diligence.** When the Credit Union outsources any part of the collateral valuation function, it will exercise appropriate due diligence in the selection of a third party. This process will include sufficient analysis by the Credit Union to assess whether the third party provider can perform the services consistent with the Credit Union's performance standards and regulatory requirements.
- v. **Third Party Selection of Appraiser.** The Credit Union will ensure that a third party selects an appraiser or a person to perform an evaluation who is competent and independent, has the requisite experience and training for the assignment, and thorough knowledge of the subject property's market. The Credit Union will ensure that the third party conveys to that person the intended use of the appraisal or evaluation and that the regulated institution is the client.
- vi. **Monitoring.** The Credit Union's risk management system will reflect the complexity of the outsourced activities and associated risk. The Credit Union will document the results of ongoing monitoring efforts and periodic assessments of the arrangement(s) with a third party for compliance with applicable regulations and consistency with supervisory guidance and its performance standards. If deficiencies are discovered, the Credit Union will take remedial action in a timely manner.

14. PROGRAM COMPLIANCE.

A. **Internal Controls.** The Credit Union will ensure that its internal controls to promote an effective appraisal and evaluation program will do the following:

- i. Maintain a system of adequate controls, verification, and testing to ensure that appraisals and evaluations provide credible market values.

- ii. Insulate the persons responsible for ascertaining the compliance of the Credit Union's appraisal and evaluation function from any influence by loan production staff.
- iii. Ensure the Credit Union's practices result in the selection of appraisers and persons who perform evaluations with the appropriate qualifications and demonstrated competency for the assignment.
- iv. Establish procedures to test the quality of the appraisal and evaluation review process.
- v. Use, as appropriate, the results of the Credit Union's review process and other relevant information as a basis for considering a person for a future appraisal or evaluation assignment.
- vi. Report appraisal and evaluation deficiencies to appropriate internal parties and, if applicable, to external authorities in a timely manner.

B. Monitoring Collateral Values. The Credit Union will monitor collateral risk on a portfolio and on an individual credit basis. The Credit Union will obtain current collateral valuation information to understand its collateral position over the life of a loan and effectively manage the risk in its real estate credit portfolios. Current valuation information for collateral will be obtained in order to support an existing loan that may be modified or considered for a loan workout.

C. Portfolio Collateral Risk. The Credit Union will ensure it can demonstrate that it has sufficient, reliable, and timely information on market trends to understand the risk associated with its lending activity. Among other considerations, the criteria for determining when to obtain a new appraisal or evaluation will address deterioration in the loan since origination or changes in market conditions.

- i. Changes in market conditions could include material changes in current and projected vacancy, absorption rates, lease terms, rental rates, and sale prices, including concessions and overruns and delays in construction costs. Fluctuations in discount or direct capitalization rates also are indicators of changing market conditions.
- ii. In assessing whether changes in market conditions are material, the Credit Union will consider the individual and aggregate effect of these changes on its collateral protection and the risk in its real estate lending programs or credit portfolios.
- iii. Moreover, as the Credit Union's reliance on collateral becomes more important, the Credit Union will do the following:
 - a. Ensure that timely information is available to management for assessing collateral and associated risk.
 - b. Specify when new or updated collateral valuations are appropriate or desirable to understand collateral risk in the transaction(s).
 - c. Delineate the valuation method to be employed after considering the property type, current market conditions, current use of the property, and the relevance of the most recent appraisal or evaluation in the credit file.

15. MODIFICATIONS AND WORKOUTS OF EXISTING CREDITS. The Credit Union will consider current collateral valuation information to assess its collateral risk and facilitate an informed decision on whether to engage in a modification or workout of an existing real estate loan. (See the discussion above on *Portfolio Collateral Risk*.)

A. **Loan Modifications.** The Credit Union is not required to obtain an appraisal for a loan modification to an existing loan that involves a limited change(s) in the terms of the note or loan agreement and that does **not** adversely affect the Credit Union's real estate collateral protection after the modification. However, the Credit Union will ensure that it has an understanding of its collateral risk (i.e., through the use of automated valuation models (AVMs) or other valuation techniques).

i. The Credit Union will establish procedures for ensuring an alternative collateral valuation method provides reliable information. In addition, the Credit Union will ensure it is able to demonstrate that a modification reflects prudent underwriting standards and is consistent with safe and sound lending practices.

B. **Loan Workouts.** The Credit Union will maintain current information on the value of real estate collateral supporting a loan workout.

i. If the loan workout does **not** include the advancement of new monies other than reasonable closing costs, the Credit Union may obtain an evaluation in lieu of an appraisal.

ii. For loan workouts that involve the advancement of new monies, the Credit Union may obtain an evaluation in lieu of an appraisal provided there has been no obvious and material change in market conditions **and** no change in the physical aspects of the property that threatens the adequacy of the Credit Union's real estate collateral protection after the workout. In these cases, the Credit Union will support and document its rationale for using this exemption. (See also Policy 7303, Appendix A, *Appraisal Exemptions*, for transactions where an evaluation would be allowed in lieu of an appraisal.)

16. **REFERRALS.** The Credit Union will file a complaint with the appropriate state appraiser regulatory officials when it suspects that a state certified or licensed appraiser failed to comply with USPAP, applicable state laws, or engaged in other unethical or unprofessional conduct. The Credit Union will also file a suspicious activity report (SAR) with the Financial Crimes Enforcement Network of the Department of the Treasury (FinCEN) when suspecting fraud or identifying other transactions meeting the SAR filing criteria.

17. **PROVIDING APPRAISALS TO APPLICANTS.** The Credit Union must provide applicants for first-lien loans on a dwelling with copies of appraisals, as well as other written valuations, developed in connection with the application, whether or not the applicants request copies.

A. **Notification Requirements.** After receiving the member's application the Credit Union has three business days to notify the member of their right to receive a copy of the appraisal.

i. The Credit Union must promptly share copies of appraisals and other written valuations with the applicant. Promptly means promptly upon completion, or at least three business days before consummation (for closed-end credit) or account opening (for open-end credit), whichever is earlier.

B. **Content of the Appraisal Notice.** The Credit Union's Appraisal Notice will state:

"We may order an appraisal to determine the property's value and charge you for this appraisal. We will promptly give you a copy of any appraisal, even if your loan does not close. You can pay for an additional appraisal for your own use at your own cost."

C. **Waive Appraisal Right.** The applicant can waive the right to receive copies of the appraisal or other written valuations in advance of the closing, but in those cases, the Credit Union must still deliver the

copies at or prior to consummation or account opening.

D. No Fee For Appraisal Copy. The Credit Union cannot charge a fee for the copy of the appraisal.

E. Handling Loans That Do Not Close. If the Credit Union does not consummate the loan or open the account and the applicant has provided a waiver, the Credit Union has 30 days after determining that the loan will not consummate or open to send the applicant a copy of the appraisal and other written valuations.

Policy 7303: Real Estate Appraisals - Appendices

Revised Date: 08/01/2011

Model Policy Revised Date: 08/01/2011

Real Estate Appraisals - Appendix A

Appraisal Exemptions

Under Title XI of FIRREA, the Agencies were granted the authority to identify categories of real estate-related financial transactions that do **not** require the services of an appraiser to protect federal financial and public policy interests or to satisfy principles of safe and sound lending. This appendix provides further clarification on the application of the regulatory exemptions and should be read in the context of Part 722. If a [CUname] (Credit Union) has a question as to whether a particular transaction qualifies for an exemption, the credit union should seek guidance from NCUA. For those transactions qualifying for the appraisal threshold, a credit union is exempted from the appraisal requirement, but still must, at a minimum, obtain an evaluation consistent with these Guidelines.

(**Note:** Part 722 does **not** provide an exemption from the appraisal requirements specific to member business loans.)

Appraisal Threshold

For transactions with a transaction value equal to or less than \$250,000, Part 722, at a minimum, requires an evaluation consistent with safe and sound banking practices. If a credit union enters into a transaction that is secured by several individual properties that are **not** part of a tract development, the estimate of value of each individual property should determine whether an appraisal or evaluation would be required for that property. For example, a credit union makes a loan secured by seven commercial properties in different markets with two properties valued in excess of the appraisal threshold and five properties valued less than the appraisal threshold. A credit union would need to obtain an appraisal on the two properties valued in excess of the appraisal threshold and evaluations on the five properties below the appraisal threshold, even though the aggregate loan commitment exceeds the appraisal threshold.

Abundance of Caution

A credit union may take a lien on real estate and be exempt from obtaining an appraisal if the lien on real estate is taken by the lender in an abundance of caution. This exemption is intended to have limited application, especially for real estate loans secured by residential properties in which the real estate is the only form of collateral. In order for a business loan to qualify for the abundance of caution exemption, NCUA expects the extension of credit to be well supported by the borrower's cash flow or collateral other than real property. The credit union's credit analysis should verify and document the adequacy and reliability of these repayment sources and conclude that knowledge of the market value of the real estate on which the lien will be taken as an abundance of caution is unnecessary in making the credit decision.

A credit union should **not** invoke the abundance of caution exemption if its credit analysis reveals that the transaction would **not** be adequately secured by sources of repayment other than the real estate, even if the contributory value of the real estate collateral is low relative to the entire collateral pool and other repayment sources. Similarly, the exemption should **not** be applied to a loan or loan program unless the credit union verifies and documents the primary and secondary repayment sources. In the absence of verification of the repayment sources, this exemption should **not**

be used merely to reduce the cost associated with obtaining an appraisal, to minimize transaction processing time, or to offer slightly better terms to a borrower than would be otherwise offered.

In addition, prior to making a final commitment to the borrower, the credit union should document and retain in the credit file the analysis performed to verify that the abundance of caution exemption has been appropriately applied. If the operating performance or financial condition of the company subsequently deteriorates and the lender determines that the real estate will be relied upon as a repayment source, an appraisal should then be obtained, unless another exemption applies.

Liens for Purposes Other Than the Real Estate's Value

This exemption allows a credit union to take liens against real estate without obtaining an appraisal to protect legal rights to, or control over, other collateral. Institutions frequently take real estate liens to protect legal rights to other collateral rather than because of the contributory value of the real estate as an individual asset. For example, a credit union making a loan to a logging operation may take a lien against the real estate upon which the timber stands to ensure its access to the timber in the event of default. To apply the exemption, the credit union should determine that the market value of the real estate as an individual asset is **not** necessary to support its decision to extend credit.

Leases

A credit union is required to obtain appraisals of leases that are the economic equivalent of a purchase or sale of the leased real estate. For example, a credit union must obtain an appraisal on a transaction involving a capital lease, as the real estate interest is of sufficient magnitude to be recognized as an asset of the lessee for accounting purposes. Operating leases that are **not** the economic equivalent of the purchase or sale of the leased property do **not** require appraisals.

Renewals, Refinancings, and Other Subsequent Transactions

Under certain circumstances, renewals, refinancings, and other subsequent transactions may be supported by evaluations rather than appraisals. Part 722 permits an evaluation for a renewal or refinancing of an existing extension of credit at the credit union when:

- i. There has been no obvious and material change in market conditions or physical aspects of the property that threatens the adequacy of the credit union's real estate collateral protection after the transaction, even with the advancement of new monies; **and**
- ii. There is no advancement of new monies, other than funds necessary to cover reasonable closing costs.

For the purposes of these Guidelines, a credit union is considered to have advanced new monies (excluding reasonable closing costs) when there is an increase in the principal amount of the loan over the amount of principal outstanding before the renewal or refinancing. When a credit union advances funds to protect its interest in a property, such as to repair damaged property, a new appraisal or evaluation would **not** be required because these funds would be used to restore the damaged property to its original condition.

To satisfy the condition for no obvious and material change in market conditions or the physical aspects of the property, the current or planned future use of the property should be consistent with the use identified in the existing appraisal or evaluation. For example, if a property has reportedly increased in value because of a planned change in use of the property resulting from rezoning, an appraisal should be performed unless another exemption applies.

If an evaluation is permitted under this exemption, a credit union may use an existing appraisal or evaluation as long as the institution verifies and documents that the appraisal or evaluation continues to be valid. (See the discussion in the *Validity of Appraisals and Evaluations* section of these Guidelines.) Even if a subsequent transaction qualifies for this exemption, a credit union should consider the risk posed by the transaction and may wish to consider obtaining a new appraisal.

Transactions Involving Real Estate Notes

This exemption applies to appraisal requirements for transactions involving the purchase, sale, investment in, exchange of, or extension of credit secured by a loan or interest in a loan, pooled loans, or interests in real property, including mortgage-backed securities. If each note or real estate interest meets Part 722 requirements the time the real estate note was originated, the credit union need **not** obtain a new appraisal to support its interest in the transaction. The credit union should employ audit procedures and review a representative sample of appraisals supporting pooled loans or real estate notes to determine that the conditions of the exemption have been satisfied.

Principles of safe and sound banking practices require a credit union to determine the suitability of purchasing or investing in existing real estate-secured loans and real estate interests. These transactions should have been originated according to secondary market standards and have a history of performance. The information from these sources, together with original documentation, should be sufficient to allow a credit union to make appropriate credit decisions regarding these transactions.

A credit union may presume that the underlying loans in a marketable, mortgage-backed security satisfy the requirements of Part 722 whenever an issuer makes a public statement, such as in a prospectus, that the appraisals comply with Part 722. A marketable security is one that may be sold with reasonable promptness at a price that corresponds to its fair value.

If the mortgages that secure the mortgage warehouse loan are sold to Fannie Mae or Freddie Mac, the sale itself may be used to demonstrate that the underlying loans complied with Part 722. In such cases, NCUA expects a credit union to monitor its borrower's performance in selling loans to the secondary market and take appropriate steps, such as increasing sampling and auditing of the loans and the supporting documentation, if the borrower experiences more than a minimal rate of loans being put back by an investor.

Transactions Insured or Guaranteed by a U.S. Government Agency or U.S. Government-sponsored Agency

This exemption applies to transactions that are wholly or partially insured or guaranteed by a U.S. government agency or U.S. government-sponsored agency. NCUA expects these transactions to meet all the underwriting requirements of its insurer or guarantor, including its appraisal requirements, in order to receive the insurance or guarantee.

Transactions that Qualify for Sale to, or Meet the Appraisal Standards of, a U.S. Government Agency or U.S. Government-sponsored Agency

This exemption applies to transactions that either (i) qualify for sale to a U.S. government agency or U.S. government-sponsored agency, or (ii) involve a residential real estate transaction in which the appraisal conforms to Fannie Mae or Freddie Mac appraisal standards applicable to that category of real estate. A credit union may engage in these transactions without obtaining a separate appraisal conforming to Part 722. Given the risk to the credit union that it may have to repurchase a loan that does **not** comply with the appraisal standards of the U.S. government agency or U.S. government-sponsored agency, the credit union should have appropriate policies to confirm its compliance with the underwriting and appraisal standards of the U.S. government agency or U.S. government-

sponsored agency.

A credit union that relies on exemption (i) should maintain adequate documentation that confirms that the transaction qualifies for sale to a U.S. government agency or U.S. government-sponsored agency. If the qualification for sale is **not** adequately documented, the transaction should be supported by an appraisal that conforms to Part 722, unless another exemption applies.

To qualify for the (ii) exemption, transactions that do **not** conform to all of Fannie Mae or Freddie Mac underwriting standards, such as jumbo or other residential real estate loans, must be supported by an appraisal that meets these government-sponsored agencies' appraisal standards for the applicable property type and is documented in the credit file or reproducible.

Appraisals Not Necessary to Protect Federal Financial and Public Policy Interests or the Safety and Soundness of Financial Institutions

The Agencies retain the authority to determine when the services of an appraiser are **not** required in order to protect federal financial and public policy interests or the safety and soundness of financial institutions. This exemption is intended to apply to individual transactions on a case-by-case basis rather than broad categories of transactions that would otherwise be addressed by an appraisal exemption. A credit union would need to seek a waiver from NCUA before entering into the transaction.

Real Estate Appraisals - Appendix B

Evaluations Based on Analytical Methods or Technological Tools

[Part 722.3\(d\)](#) permits a credit union to use an evaluation in lieu of an appraisal for certain transactions. A credit union may use a variety of analytical methods and technological tools for developing an evaluation, provided the credit union can demonstrate that the valuation method is consistent with safe and sound banking practices and these Guidelines (see sections on *Evaluation Development and Evaluation Content*). A credit union should **not** select a method or tool solely because it provides the highest value, the lowest cost, or the fastest response or turnaround time.

A credit union should establish policies and procedures that provide a sound process for using various methods or tools. Such policies and procedures should:

- Ensure staff has the requisite expertise and training to manage the selection, use, and validation of an analytical method or technological tool. If a credit union does **not** have the in-house expertise relative to a particular method or tool, then it should employ additional personnel or engage a third party. (See the *Third Party Arrangements* section in these Guidelines.)
- Address the selection, use, and validation of the valuation method or tool.
- Establish criteria for determining whether a particular valuation method or tool is appropriate for a given transaction or lending activity, considering associated risks. These risks include, but are not limited to, transaction size and purpose, credit quality, and leverage tolerance (loan-to-value).
- Specify criteria when a market event or risk factor would preclude the use of a particular method or tool.
- Address standards for the use of multiple methods or tools, if applicable, for valuing the same property or to support a particular lending activity.
- Provide criteria for ensuring that the credit union uses a method or tool that produces a reliable estimate of market value that supports the credit union's decision to engage in a transaction.
- Address the extent to which:
 - An inspection or research is necessary to ascertain the property's actual physical condition, and
 - Supplemental information is needed to assess the effect of market conditions or other factors on the estimate of market value.

A credit union should establish an effective system of controls for verifying that a valuation method or tool is employed in a manner consistent with internal policies and procedures.

Moreover, the credit union's staff responsible for internal controls should have the skills commensurate with the complexity or sophistication of the method or tool. Examiners will review a credit union's policies, procedures, and internal controls to ensure that a credit union's use of a method or tool is appropriate and consistent with safe and sound banking practices.

Automated Valuation Models (AVMs)

AVMs are computer programs that estimate a property's market value based on market, economic, and demographic factors. Credit unions may employ AVMs for a variety of uses such as loan underwriting and portfolio monitoring. A credit union may **not** rely solely on the results of an AVM to develop an evaluation unless the resulting evaluation is consistent with safe and sound banking practices and these Guidelines. (See the *Evaluation Development* and *Evaluation Content* sections.)

Credit unions should establish policies and procedures that govern the use of AVMs and specify the supplemental information that is required to develop an evaluation. When the supplemental information indicates the AVM is **not** an acceptable valuation tool, the credit union's policies and procedures should require the use of an alternative method or tool.

Selecting an AVM(s)

When selecting an AVM or multiple AVMs, a credit union should:

- Perform the necessary level of due diligence on AVM vendors and their models, including how model developers conducted performance testing as well as the sample size used and the geographic level tested (such as, county level or zip code).
- Establish acceptable minimum performance criteria for a model prior to and independent of the validation process.
- Perform a detailed validation of the model(s) considered during the selection process and document the validation process.
- Evaluate underlying data used in the model(s), including the data sources and types, frequency of updates, quality control performed on the data, and the sources of the data in states where public real estate sales data are not disclosed.
- Assess modeling techniques and the inherent strengths and weaknesses of different model types (such as hedonic, index, and blended) as well as how a model(s) performs for different property types (such as condominiums, planned unit developments, and single family detached residences).
- Evaluate the vendor's scoring system and methodology for the model(s). Determine whether the scoring system provides an appropriate indicator of model reliability by property types and geographic locations.

Following the selection of an AVM(s), a credit union should develop policies and procedures to address the appropriate use of an AVM(s) and its monitoring and ongoing validation processes.

Determining AVM Use

A credit union should establish policies and procedures for determining whether an AVM can be used for a particular transaction. The credit union should:

- Maintain AVM performance criteria for accuracy and reliability in a given transaction, lending activity, and geographic location.
- Establish internal confidence score minimums, or similar criteria, for when each model can be used.

- Implement controls to preclude “value shopping” when more than one AVM is used for the same property.
- Establish procedures for obtaining an appraisal or using a different valuation method to develop an evaluation when an AVM’s resulting value is **not** reliable to support the credit decision. For example, in areas that have experienced a high incidence of fraud, the credit union should consider whether the AVM may be relied upon for the transaction or another valuation method should be used.
- Identify circumstances under which an AVM may not be used, including:
 - When market conditions warrant, such as during the aftermath of a natural disaster or a major economic event;
 - When a model’s performance is outside of specified tolerances for a particular geographic market or property price-tier range; or
 - When a property is non-homogeneous, such as atypical lot sizes or property types.

Validating AVM Results

A credit union should establish standards and procedures for independent and ongoing monitoring and model validation, including the testing of multiple AVMs, to ensure that results are credible. A credit union should be able to demonstrate that the depth and extent of its validation processes are consistent with the materiality of the risk and the complexity of the transaction. Validation can be performed internally or with the assistance of a third party, as long as the validation is conducted by qualified individuals that are independent of the model development or sales functions. A credit union should **not** rely solely on validation representations provided by an AVM vendor. A credit union should perform appropriate model validation regardless of whether it relies on AVMs that are supported by value insurance or guarantees. If there are insurance or guarantee components of any particular AVM, the credit union is responsible for understanding the extent and limitations of the insurance policy or guarantee, and the claim process and financial strength of the insurer.

A credit union should ensure that persons who validate an AVM on an ongoing basis are independent of the loan production and collection processes and have the requisite expertise and training. In the AVM validation procedures, a credit union should specify, at a minimum:

- Expectations for an appropriate sample size.
- Level of geographic analysis.
- Testing frequency and criteria for re-testing.
- Standards of performance measures to be used.
- Range of acceptable performance results.

To ensure unbiased test results, a credit union should compare the results of an AVM to actual sales data in a specified trade area or market prior to the information being available to the model. If a credit union uses more than one AVM, each AVM should be validated. To assess the effectiveness of its AVM practices, a credit union should verify whether loans in which an AVM was used to establish value met the credit union’s performance expectations relative to similar loans that used a different valuation process. A credit union should document the results of its validation and audit findings. A credit union should use these findings to analyze and periodically update its policies and procedures for an AVM(s) when warranted.

Tax Assessment Valuations (TAVs)

A credit union may **not** rely solely on the data provided by local tax authorities to develop an evaluation unless the resulting evaluation is consistent with safe and sound banking practices and these Guidelines. (See the *Evaluation Development* and *Evaluation Content* sections.) Because analytical methods such as TAVs generally need additional support to meet these Guidelines, credit unions should develop policies and procedures that specify the level and extent of supplemental information that should be obtained to develop an evaluation. Such policies and procedures also should require the use of an alternate valuation method when such information does **not** support the transaction.

A credit union may use a TAV in developing an evaluation when it can demonstrate that a valid correlation exists between the tax assessment data and the market value. In using a TAV to develop an evaluation, a credit union should:

- Determine and document how the tax jurisdiction calculates the TAV and how frequently property revaluations occur.
- Perform an analysis to determine the relationship between the TAV and the property market values for properties within a tax jurisdiction.
- Test and document how closely TAVs correlate to market value based on contemporaneous sales at the time of assessment and revalidate whether the correlation remains stable as of the effective date of the evaluation.

Real Estate Appraisals - Appendix C

Deductions and Discounts

[Part 722.4\(c\)](#) requires an appraiser to analyze and report appropriate deductions and discounts for proposed construction or renovation, partially leased buildings, non-market lease terms, and tract developments with unsold units. For such transactions, an appraisal must include the market value of the property, which should reflect the property's actual physical condition, use, and zoning designation (referred to as the "as is" value of the property), as of the effective date of the appraisal. Therefore, if the highest and best use of the property is for development to a different use, the cost of demolition and site preparation should be considered in the analysis.

Proposed Construction or Renovation

For properties where improvements are to be constructed or rehabilitated, a credit union may request a prospective market value upon completion and a prospective market value upon stabilization. While a credit union may request the appraiser to provide the sum of retail sales for a proposed development, the result of such calculation is **not** the market value of the property for purposes of Part 722.

Partially Leased Buildings

For proposed and partially leased rental developments, the appraiser must make appropriate deductions and discounts to reflect that the property has not achieved stabilized occupancy. The appraisal analysis also should include consideration of the absorption of the unleased space. Appropriate deductions and discounts should include items such as leasing commission, rent losses, tenant improvements, and entrepreneurial profit, if such profit is **not** included in the discount rate.

Non-market Lease Terms

For properties subject to leases with terms that do **not** reflect current market conditions, the appraisal must clearly state the ownership interest being appraised and provide a discussion of the leases that are in place. If the leased fee interest is being appraised and contract rent is less than market rent on one or more long term lease(s) to a highly rated tenant, the market value of the leased fee interest would be less than the market value of the unencumbered fee simple interest in the property. In these situations, the market value of the leased fee interest should be used.

Tract Developments with Unsold Units

A tract development is defined in [Part 722.2\(k\)](#) as a project of five units or more that is constructed or is to be constructed as a single development. Appraisals for these properties must reflect deductions and discounts for holding costs, marketing costs, and entrepreneurial profit supported by market data. In some cases entrepreneurial profit may be included in the discount rate. The applicable discount rate is developed based on investor requirements and the risk associated with the physical and financial characteristics of the property. In some markets, entrepreneurial profit is treated as a line item deduction while in other markets it is reflected as a component of the discount rate. Regardless of how entrepreneurial profit is handled in the appraisal analysis, an appropriate explanation and discussion should be

provided in the appraisal report. The projected sales prices and absorption rate of units should be supported by anticipated demand at the time the units are expected to be exposed for sale. Anticipated demand for the units should be supported and presented in the appraisal. A reader of the appraisal report should be able to understand the risk characteristics associated with the subject property and the market, including the anticipated supply of competing properties.

Raw Land. The appraiser must provide an opinion of value for raw land based on its current condition and existing zoning. If an appraiser employs a developmental approach to value the land that is based on projected land sales or development and sale of lots, the appraisal must reflect appropriate deductions and discounts for costs associated with developing and selling lots in the future. These costs may be incurred during the permitting, construction or selling stages of development. Appropriate deductions and discounts should include items such as feasibility studies, permitting, engineering, holding costs, marketing costs, and entrepreneurial profit and other costs specific to the property. If sufficient market data exists to perform both the sales comparison and developmental approaches to value, the appraisal report should detail a reconciliation of these two approaches in arriving at a market value conclusion for the raw land.

Developed Lots. For existing or proposed developments of five or more residential lots in a single development, the appraiser must analyze and report appropriate deductions and discounts. Appropriate deductions and discounts should reflect holding costs, marketing costs, and entrepreneurial profit during the sales absorption period for the sale of the developed lots. The estimated sales absorption period should reflect the appraiser's estimate of the time frame for the actual development and sale of the lots, starting on the effective date of value and ending as of the expected date of the last lot sale. The absorption period should be based on market demand for lots in light of current and expected competition for similar lots in the market area.

Attached or Detached Single-family Homes. For proposed construction and sale of five or more attached or detached single-family homes in the same development, the appraiser must analyze and report appropriate deductions and discounts. Appropriate deductions and discounts should reflect holding costs, marketing costs, and entrepreneurial profit during the sales absorption period of the completed units. If a credit union finances construction on an individual unit basis, an appraisal of the individual units may be used if the credit union can demonstrate through an independently obtained feasibility study or market analysis that all units collateralizing the loan can be constructed and sold within 12 months. However, the transaction should be supported by an appraisal that analyzes and reports appropriate deductions and discounts if any of the individual units are **not** completed and sold within the 12-month time frame.

Condominiums. For proposed construction and sale of a condominium building with five or more units, the appraisal must reflect appropriate deductions and discounts. Appropriate deductions and discounts should include holding costs, marketing costs, and entrepreneurial profit during the sales absorption period of the completed units. If a credit union finances construction of a single condominium building with less than five units or a condominium project with multiple buildings with less than five units per building, the credit union may rely on appraisals of the individual units if it can demonstrate through an independently obtained feasibility study or market analysis that all units collateralizing the loan can be constructed and sold within 12 months. However, the transaction should be supported by an appraisal that analyzes and reports appropriate deductions and discounts if any of the individual units are not completed and sold within the 12-month time frame.

Real Estate Appraisals - Appendix D

Glossary of Terms

Agent – While Part 722 does **not** specifically define this term, it is generally intended to refer to one who undertakes to transact business or to manage business affairs for another. According to Part 722, fee appraisers must be engaged directly by the federally regulated institution or its agent (unless an exception applies), and have no direct or indirect interest, financial or otherwise, in the property or the transactions. NCUA does **not** limit the arrangements that credit unions have with their agents, provided those arrangements do **not** place the agent in a conflict of interest that prevents the agent from representing the interests of the credit union.

Appraisal – A written statement independently and impartially prepared by a qualified appraiser (state licensed or certified) setting forth an opinion as to the market value of an adequately described property as of a specific date(s), supported by the presentation and analysis of relevant market information.

Appraisal Management Company – For purposes of these Guidelines, an appraisal management company includes, but is not limited to, a third-party entity that provides real property valuation-related services, such as selecting and engaging an appraiser to perform an appraisal based upon requests originating from a regulated institution. The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) has a specific definition for this term in connection with transactions secured by a consumer’s principal dwelling or mortgage secondary market transactions. See the *Third Party Arrangements* section in these Guidelines.

Appraisal Report Options – Refer to the definitions for Restricted Use Appraisal Report, Self-Contained Appraisal Report, and Summary Appraisal Report.

Appraisal Threshold – An appraisal is **not** required on transactions with a transaction value of \$250,000 or less. As specified in Part 722, a credit union must obtain an evaluation of the real property collateral, if no other appraisal exemption applies.

Approved Appraiser List – A listing of appraisers who a credit union has determined to be generally qualified and competent to perform appraisals and may address the appraiser’s expertise in a particular market and property type.

Automated Valuation Model (AVM) – A computer program that estimates a property’s market value based on market, economic, and demographic factors. Hedonic models generally use property characteristics (such as square footage and room count) and methodologies to process information, often based on statistical regression. Index models generally use geographic repeat sales data over time rather than property characteristic data. Blended or hybrid models use elements of both hedonic and index models.

Broker Price Opinion (BPO) – An estimate of the probable sales or listing price of the subject property provided by a real estate broker, sales agent, or sales person. A BPO generally provides a varying level of detail about a property’s condition, market, and neighborhood, as well as comparable sales or listings. A BPO is **not** by itself an appraisal or evaluation, but could be used for monitoring the collateral value of an existing loan, when deemed appropriate. Further, the Dodd-Frank Act provides “(i)n conjunction with the purchase of a consumer’s principal dwelling, broker price opinions may not be used as the primary basis to determine the value of a piece of property for the purpose of loan origination of a residential mortgage loan secured by such piece of property.”

Client – According to USPAP, the party or parties who engage(s) an appraiser by employment or contract for a specific appraisal assignment. For the purposes of these Guidelines, the appraiser should be aware that the client is the regulated institution. (Refer to the section on *Third Party Arrangements* in these Guidelines.)

Credible (Appraisal) Assignment Results – According to USPAP, credible means “worthy of belief” used in the context of the Scope of Work Rule. Under this rule, credible assignment results depend on meeting or exceeding both (1) the expectations of parties who are regularly intended users for similar assignments, and (2) what an appraiser’s peers’ actions would be in performing the same or a similar assignment.

Credit File – A hardcopy or electronic record that documents all information necessary to (1) analyze the credit before it is granted and (2) monitor the credit during its life. A credit union may use a computerized or manual system to manage the information in its credit files.

Date of the Appraisal Report – According to USPAP, the date of the appraisal report indicates when the appraisal analysis was completed.

Effective Date of the Appraisal – USPAP requires that each appraisal report specifies the effective date of the appraisal and the date of the report. The date of the report indicates the perspective from which the appraiser is examining the market. The effective date of the appraisal establishes the context for the value opinion. Three categories of effective dates—retrospective, current, or prospective—may be used, according to the intended use of the appraisal assignment.

Effective Date of the Evaluation – The date that the analysis is completed.

Engagement Letter – This letter documents the expectations of each party to the appraisal assignment. For example, an engagement letter may specify, among other items: (i) the property’s location and legal description; (ii) intended use and users of the appraisal; (iii) the requirement to provide an opinion of the property’s market value; (iv) the expectation that the appraiser will comply with applicable laws and regulations, and be consistent with supervisory guidance; (v) appraisal report format; (vi) expected delivery date; and (vii) appraisal fee.

Evaluation – A valuation permitted by Part 722 for transactions that qualify for the appraisal threshold exemption or subsequent transaction exemption.

Exposure Time – As defined in USPAP, the estimated length of time the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal. Exposure time is always presumed to precede the effective date of the appraisal. Exposure time is a function of price, time, and use – not an isolated opinion of time alone. (See USPAP Standard 1-2(c) and Statement 6.)

Extraordinary Assumption – As defined in USPAP, an assumption, directly related to a specific assignment, which, if found to be false, could alter the appraiser’s opinions or conclusions regarding the property’s market value. An example of an extraordinary assumption is when an appraiser assumes that an application for a zoning change will be approved and there is no evidence to suggest otherwise.

Federally Related Transaction – Any real estate-related financial transaction in which NCUA or any federally insured credit union engages or contracts for, and that requires the services of an appraiser.

Going Concern Value – The value of a business entity rather than the value of the real property. The valuation is based on the existing operations of the business and its current operating record, with the assumption that the business will continue to operate.

Hypothetical Condition – As defined in USPAP, a condition that is contrary to what exists but is supposed for the purpose of analysis. An example of a hypothetical condition is when an appraiser assumes a particular property’s zoning is different from what the zoning actually is.

Loan Production Staff – Generally, all personnel responsible for generating loan volume or approving loans, as well as their subordinates and supervisors. These individuals would include any employee whose compensation is based on loan volume (such as processing or approving of loans). An employee is **not** considered loan production staff just

because part of their compensation includes a general bonus or profit sharing plan that benefits all employees. Employees responsible solely for credit administration or credit risk management are **not** considered loan production staff.

Marketing Time – According to USPAP Advisory Opinion 7, the time it might take to sell the property interest at the appraised market value during the period immediately after the effective date of the appraisal. A credit union may request an appraiser to separately provide an estimate of marketing time in an appraisal. However, this is **not** a requirement of Part 722.

Market Value – The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition are the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- Buyer and seller are typically motivated;
- Both parties are well informed or well advised, and acting in what they consider their own best interests;
- A reasonable time is allowed for exposure in the open market;
- Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
- The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

Presold Unit – A unit may be considered presold if a buyer has entered into a binding contract to purchase the unit and has made a substantial and non-refundable earnest money deposit. Further, the credit union should obtain sufficient documentation that the buyer has entered into a legally binding sales contract and has obtained a written prequalification or commitment for permanent financing.

Prospective Market Value “as Completed” and “as Stabilized” – According to USPAP, an appraisal with a prospective market value reflects an effective date that is subsequent to the date of the appraisal report. Prospective value opinions are intended to reflect the current expectations and perceptions of market participants, based on available data. Two prospective value opinions may be required to reflect the time frame during which development, construction, and occupancy will occur. The prospective market value “as completed” reflects the property’s market value as of the time that development is expected to be completed. The prospective market value “as stabilized” reflects the property’s market value as of the time the property is projected to achieve stabilized occupancy. For an income-producing property, stabilized occupancy is the occupancy level that a property is expected to achieve after the property is exposed to the market for lease over a reasonable period of time and at comparable terms and conditions to other similar properties. (See USPAP Statement 4 and Advisory Opinion 17.)

Put Back – Represents the ability of an investor to reject mortgage loans from a mortgage originator if the mortgage loans do **not** comply with the warranties and representations in their mortgage purchasing agreement.

Raw Land – A parcel or tract of land with no improvements, for example, infrastructure or vertical construction. When an appraisal of raw land includes entitlements, the appraisal should disclose when such entitlements will expire if improvements are **not** completed within a specified time period and the potential effect on the value conclusion.

Real Estate-Related Financial Transaction – Any transaction involving:

- The sale, lease, purchase, investment in or exchange of real property, including interests in property, or the financing thereof;

- The refinancing of real property or interests in real property; or
- The use of real property or interests in property as security for a loan or investment, including mortgage-backed securities.

Restricted Use Appraisal Report – According to USPAP Standards Rule 2-2(c), a restricted use appraisal report briefly states information significant to solve the appraisal problem as well as a reference to the existence of specific work-file information in support of the appraiser’s opinions and conclusions. The Agencies believe that the restricted use appraisal report will **not** be appropriate to underwrite a significant number of federally related transactions due to the lack of supporting information and analysis in the appraisal report. However, it may be appropriate to use this type of appraisal report for ongoing collateral monitoring of a credit union’s real estate transactions and other purposes.

Sales Concessions – A cash or noncash contribution that is provided by the seller or other party to the transaction and reduces the purchaser’s cost to acquire the real property. A sales concession may include, but is not limited to, the seller paying all or some portion of the purchaser's closing costs (such as prepaid expenses or discount points) or the seller conveying to the purchaser personal property which is typically not conveyed with the real property. Sales concessions do **not** include fees that a seller is customarily required to pay under state or local laws. In developing an opinion of market value, an appraiser must take into consideration the effect of any sales concessions on the market value of the real property. (See "market value" above and USPAP Standards Rule 1-2(c).)

Sales History and Pending Sales – According to USPAP Standards Rule 1-5, when the value opinion to be developed is market value, an appraiser must, if such information is available to the appraiser in the normal course of business, analyze: (1) all current agreements of sale, options, and listings of the subject property as of the effective date of the appraisal, and (2) all sales of the subject property that occurred within three years prior to the effective date of the appraisal.

Scope of Work – According to USPAP Scope of Work Rule, the type and extent of research and analyses in an appraisal assignment. (See the Scope of Work Rule in USPAP.)

Self-contained Appraisal Report – According to USPAP Standards Rule 2-2(a), a self-contained appraisal report is the most complete and detailed appraisal report option.

Sum of Retail Sales – A mathematical calculation of the sum of the expected sales prices of several individual properties in the same development to an individual purchaser. The sum of retail sales is **not** the market value for purposes of meeting the minimum appraisal standards in Part 722.

Summary Appraisal Report – According to USPAP Standards Rule 2-2(b), this report summarizes all information significant to the solution of an appraisal problem while still providing sufficient information to enable the client and intended user(s) to understand the rationale for the opinions and conclusions in the report.

Tract Development – As defined in the Agencies’ appraisal regulations, a project of five units or more that is constructed or is to be constructed as a single development. For purposes of these Guidelines, a “unit” refers to: a residential or commercial building lot, a detached single-family home, an attached single-family home, and a residence in a condominium, cooperative, or timeshare building.

Transaction Value – As defined [Part 722.2](#):

- For loans or other extensions of credit, the amount of the loan or extension of credit;
- For sales, leases, purchases, and investments in or exchanges of real property, the market value of the real property interest involved; and
- For the pooling of loans or interests in real property for resale or purchase, the amount of the loan or market

value of the real property calculated with respect to each such loan or interest in real property.

For purposes of this definition, the transaction value for loans that permit negative amortization should be the credit union's total committed amount, including any potential negative amortization.

Uniform Standards of Professional Appraisal Practice (USPAP) – USPAP identifies the minimum set of standards that apply in all appraisal, appraisal review, and appraisal consulting assignments. These standards are promulgated by the Appraisal Standards Board of the Appraisal Foundation and are incorporated as a minimum appraisal standard in the Agencies' appraisal regulations.

Unsold Units – An unsold unit is a unit that does not meet the conditions listed in the definition of Presold Units.

Value of Collateral (for Use in Determining Loan-to-Value Ratio) – The term “value” means an opinion or estimate set forth in an appraisal or evaluation, whichever may be appropriate, of the market value of real property, prepared in accordance with Part 722 and these Guidelines.

Policy 7305: Environmental Risk Management

Revised Date: 12/01/2008

Model Policy Published Date: 12/01/2008

General Policy Statement:

[CUname] (Credit Union) understands that the potential of environmental contamination on the value of real property, as well as liability under various environmental laws are important factors in evaluating real estate transactions and making loans secured by real estate. The Credit Union will be especially diligent in performing due diligence for loans secured for commercial use. The purpose of this policy is to set forth the guidelines for the Credit Union's environmental risk management program.

Background:

The Comprehensive Environmental Response, Contamination, and Liability Act (CERCLA) authorizes the U.S. Environmental Protection Agency (EPA) to respond to human health and environmental hazards posed by hazardous substances at properties. Under CERCLA, the EPA may require liable parties to conduct cleanups, or conduct cleanup and seek cleanup costs from liable parties (i.e., "owners and operators" of a contaminated property).

Financial institutions are exempt from CERCLA liability when holding ownership in a CERCLA facility primarily to protect their security interest, provided they do not "participate in the management of the facility;" i.e., exercising decision-making control over a property's environmental compliance, or exercising control at a level similar to that enjoyed by a manager of the facility or property.

Additionally, the secured creditor exemption provides that merely foreclosing on a property does not result in liability, provided the financial institution takes reasonable steps to divest itself of the property "at the earliest practicable, commercially reasonable time, on commercially reasonable terms."

Guidelines:

1. **ENVIRONMENTAL RISK DUE DILIGENCE.** Before granting a real estate loan, the Credit Union will research the current and former property uses to determine the likelihood of environmental impact. Although the Credit Union is NOT required to follow the EPA's "All Appropriate Inquiries" Rule (AAI Rule) in order to obtain protection from CERCLA liability, the Credit Union will encourage its members to comply with the due diligence requirements under the AAI Rule in order to further protect itself from loss due to decreases in property value or collateral.
 - A. **Types of Environmental Risks.** The Credit Union will identify the types of environmental risks associated with different industries and real estate in the Credit Union's trade areas. In making these determinations, the Credit Union will consult with legal counsel knowledgeable in the types of environmental concerns.
 - B. **Loan Application.** The Credit Union will request information on its loan application regarding relevant environmental information, such as the present and past uses of the property, as well as the occurrence of any contacts by federal, state or local government agencies regarding environmental matters.
 - C. **Loan Officer Duties.**
 - i. **Applicant Interviews.** Loan officers will interview applicants in an effort to gather information

regarding the business activities of the applicants.

- ii. **Site Inspections.** Depending on the nature of the loan and the information obtained in the interview process and loan application, it may be necessary for the loan officer to visit the site to evaluate whether there is obvious visual evidence of environmental concerns.

D. Risk Assessment. The Credit Union will procure a more detailed investigation of a site by a qualified individual whenever the application, interview or site visit indicates a possible environmental concern. This assessment will include the following:

- i. Surveying prior owners of the property;
- ii. Researching past uses of the property;
- iii. Inspecting the site and contiguous parcels;
- iv. Reviewing company records for past use or disposal of hazardous materials;
- v. Searching for environmental cleanup liens; and
- vi. Reviewing public records and contact with federal and state environmental protection agencies to determine whether the member has been cited for violations concerning environmental laws or if the property has been identified on federal and state lists of real property with significant environmental contamination.

2. LOAN DOCUMENTATION. All loan documentation will include language to safeguard the Credit Union against potential environmental losses and liabilities. The Credit Union will consult with legal counsel knowledgeable in federal and state environmental laws to ensure that the following language is included (as well as any other language to help safeguard against environmental liability):

- A. Requirement of the member to comply with environmental laws;
- B. Disclosure of information about the environmental status of the collateral;
- C. The right of the Credit Union to acquire additional information regarding potential hazardous contamination by inspecting the collateral for environmental concerns;
- D. The right of the Credit Union to call the loan, refuse to extend funds under a line of credit, or to foreclose if the hazardous contamination is discovered in the real property collateral; and
- E. An indemnity of the Credit Union by the member and any loan guarantors for environmental liability associated with the collateral.

3. MONITORING. The Credit Union will continue its environmental risk assessment during the life of the loan by monitoring the member and the collateral for potential environmental concerns.

A. Changes in Business Activity. The Credit Union will monitor its member relationships to ensure that it is aware of changes in the business activities of members that result in a significant increased risk of environmental liability associated with the collateral.

B. Exercising Rights to Protect Property Value. If there is a potential for environmental contamination to

adversely affect the value of the collateral, the Credit Union may exercise its rights under the loan to require the member to resolve the environmental condition and take those actions that are reasonably necessary to protect the value of the property.

4. **TRAINING.** The Credit Union will train its staff regarding the environmental risk management program to ensure that the program is implemented and followed. The Credit Union will ensure that appropriate personnel have the knowledge and experience to determine and evaluate potential environmental concerns that might affect the Credit Union. Where necessary, the Credit Union will consult legal counsel, environmental consultants, or other qualified experts.

5. **FORECLOSURE.** The Credit Union will ensure that it has the ability to exercise its rights under loans, pursuant to Section 2. In the event that the Credit Union decides to foreclose, an evaluation of the potential costs and liability for environmental contamination will be conducted, in conjunction with an assessment of the value of the collateral. In order to avoid CERCLA liability as an owner or operator of a given foreclosed property, the Credit Union will close down operations at a foreclosed property, list the property for sale shortly after the foreclosure date, or at the earliest practicable, commercially reasonable time.

Policy 7310: Construction Loans

Revised Date: 03/30/2017

Model Policy Revised Date: 03/30/2017

General Policy Statement:

[CUNAME] (Credit Union) offers short-term loans to qualifying members for construction of their primary residence. In obtaining a construction loan, the member-borrower assumes financial responsibility for all costs involved in the construction of the home and all fees charged to the Credit Union. As a general rule, permanent financing will replace the Credit Union's loan when construction is complete.

Guidelines:

1. **PRIMARY RESIDENCE.** The Credit Union extends construction financing only to single family primary residences. The member-borrower will need to move into the home as soon as the home is completed.
2. **REQUIREMENTS FOR LOAN APPROVAL.** Before a construction loan will be approved, the following must be procured:
 - A. Long-term financing upon completion of construction. Whenever possible, terms of permanent financing will provide for extensions should the construction project fail to finish on time;
 - B. Detailed cost estimates, building plans and copies of contracts;
 - C. An evaluation of the quality of the builder, including financial stability, experience and track record and copies of builder's insurance;
 - D. Building permits;
 - E. 30% equity in either the member's funds or land value (members' funds should be used before disbursing the proceeds of the loan); and
 - F. An appraisal based on an "as is" condition and as if completed to specified plans.
3. **QUALIFYING BORROWERS.** Qualifying borrowers are those borrowers who meet the Credit Union's credit underwriting standards. Loans involving unimproved land are considered highly speculative and lower LTV ratios may be required.
4. **GENERAL CONTRACTOR.** Members are urged to use general contractors to assist in building the home. The Credit Union should have documentation to indicate that the contractor, developer and subcontractors have demonstrated the capacity to successfully complete the project being undertaken.
5. **REQUIRED DOCUMENTATION.**
 - A. Written application;
 - B. Recent credit report, financial and background information on the borrower;
 - C. Construction loan agreement outlining the rights and obligations of the credit union and borrower,

conditions for advancing funds, and events of default;

D. Clear title policy issued by a title company (updated with each advance of funds); and

E. Completed appraisal report showing the value on an “as is” and “as completed” basis.

6. **DRAWS.** Funds will be released in stages based on the percentage of the home’s completion, which will be verified by on-site inspections (See (7) below). The Credit Union will maintain meticulous records of all draws. Whenever possible, draw checks will be made out to the subcontractor or material supplier in the form of a lien waiver check. Any evidence of cost overruns will be reported to the credit manager who will in turn reassess the risk exposure and classify the loan if necessary. Before disbursing draws, the Credit Union will update the title search to ensure that title remains clear.

7. **INSPECTIONS.** The Credit Union will carefully monitor the progress of the construction by conducting periodic on-site inspections. Inspections will be performed by qualified individuals. Typically, the Credit Union will hire an independent general contractor to determine whether the construction of the home is on schedule with the cost breakdown. Loan officers will review these inspection reports along with county or city building inspector reports prepared in connection with building permits. If the loan officer determines a large difference in the loan value and the collateral value, the loan will be referred to the credit manager for classification.

8. **TERMS.**

A. **Interest.** Interest rates will be consistent with the Credit Union's rate structure as determined by the Asset/Liability Management Committee.

B. **Repayment Period.** Maximum repayment period for any construction loan is 1 year.

9. **DISCLOSURES.** The Credit Union will comply with applicable regulations and other credit union lending policies, including the requirements outlined in Policy 7244 – Integrated Mortgage Disclosures.

Policy 7315: Commercial Real Estate Loan Workouts

Revised Date: 10/05/2016

Model Policy Revised Date: 10/05/2016

General Policy Statement:

While commercial real estate (CRE) borrowers may experience deterioration in their financial condition, many continue to be creditworthy members who have the willingness and capacity to repay their debts. [CUname] (Credit Union) will work constructively with its CRE borrowers who are financially unable to make their contractual payment obligations on their loans, consistent with safe and sound lending practices. This policy outlines the factors that the Credit Union will take into consideration when deciding whether to enter into a loan workout with its CRE borrowers.

Guidelines:

1. **RISK MANAGEMENT PRACTICES.** The Credit Union will employ the following risk management practices with respect to loan workout arrangements for its CRE borrowers:
 - A. Sufficiently identify, control and manage the volume of and complexity of workout activity. All loans under a workout arrangement, along with the status of each, will be reported to the Board [7315-1].
 - B. Maintain documentation in the loan file regarding the borrower's financial condition that justifies a loan workout arrangement, as well as the value of the collateral involved.
 - C. Ensure that its information systems and internal controls adequately identify and track loan performance and risk, including concentration risk.
 - D. Report all commercial real estate loan workouts pursuant to the requirements of Generally Accepted Accounting Principles (GAAP). Management will ensure that loan workout staff appropriately communicates with the accounting and regulatory reporting staff concerning the Credit Union's loan restructurings, and that the reporting consequences of restructurings are presented accurately in regulatory reports.
 - E. Follow its Collection Process policy (**See Policy 7510**) in the event the CRE borrower cannot repay a loan under a workout arrangement.
 - F. Adhere to all statutory and regulatory requirements, as well as its internal lending limits for CRE loans.
 - G. Properly administer its collateral by ensuring the proper lien perfection of the Credit Union's collateral interests for both real and personal property.
 - H. Review the credit of its borrowers on a regular basis.
 - I. Monitor the ongoing performance of the borrower and guarantor under the terms of a workout.
 - J. Implement and maintain an internal loan grading system that accurately and consistently reflects the risk in the workout arrangements executed.
 - K. Employ an Allowance for Loan and Lease Loss (ALLL) methodology that covers estimated credit losses in the restructured loan, measured in accordance with GAAP, and recognizes credit losses in a timely

manner through provisions and charge-offs, as appropriate.

2. **ELIGIBILITY REQUIREMENTS.** Before granting a loan extension, the Credit Union will take the following factors into consideration:

A. Borrowers.

- i. The ability to repay a loan under a workout arrangement; including a review of current credit reports and income verification.
- ii. Whether the inability to repay the loan under the current terms is temporary or long-term.
- iii. Whether there is a guarantor.

B. The Condition of the Loan.

- i. The amount delinquent.
- ii. The length of time the loan is past due.
- iii. Whether the loan documents are in order (i.e., signed, recorded and contain all of the correct information).

C. The Condition of the Property.

- i. Determine current property value.
- ii. Obtain an updated title search to confirm the Credit Union's lien position and verify that no one other than the member has title to the property.
- iii. Whether there is property damage that would significantly affect its value (i.e., damage due to fire, flood, wind or other natural disaster; environmental contamination, etc.).
- iv. Whether there has been a significant change in the area surrounding the property that would affect its value (i.e., zoning changes, or physical or environmental damage to surrounding area).
- v. A material deterioration in the factors outlined in Section 4(C)(ii) herein.

3. **TYPES OF WORKOUT ARRANGEMENTS.** The type of workout arrangement will be determined by the type of commercial loan granted. The following will be considered when entering into a workout arrangement:

A. Refinancing. The Credit Union may choose to refinance a loan if the CRE borrower has sufficient cash flow, equity, the ability to complete a project or rent remaining space, and/or the ability to pay a more affordable loan.

B. Loan Modifications. When a borrower has little or no equity and the inability to pay the current loan payment, but desires to continue construction or fill available rental space, the Credit Union may choose to modify the loan. The following types of loan modifications may be considered:

- i. Extending the term of the loan in order to reduce the monthly payment amount.

- ii. Reducing the interest rate to lower the monthly payment amount;
- iii. Changing from an adjustable rate to a fixed rate interest loan to eliminate payment shock;
- iv. Rolling over past-due amounts and re-amortizing the new amount due;
- v. Forgiving past due amounts;
- vi. Forgiving past due amounts and requiring a share of the equity in a future sale;
- vii. Obtaining a second lien on further assets; or
- viii. Any other type of prudent, creative solution that does not violate safety and soundness.

4. **ANALYSIS AND MAINTENANCE OF INFORMATION.** The Credit Union will analyze and maintain the following information:

A. Updated and Comprehensive Financial Information on the Borrower and Real Estate Project.

When analyzing a commercial borrower's repayment ability, the Credit Union will analyze the following:

- i. A realistic projection of the borrower's expenses.
- ii. The character, overall financial condition, resources and payment record of the borrower.
- iii. The nature and degree of protection provided by the cash flow from business operations or the collateral on a global basis that considers the borrower's total debt obligations.
- iv. Market conditions that may influence repayment prospects and the cash flow potential of the business operations or underlying collateral.
- v. The prospects for repayment support from any financially responsible guarantors.

B. Updated and Comprehensive Financial Information on the Guarantor. The Credit Union will analyze the following attributes of a financially responsible guarantor:

- i. A realistic projection of the guarantor's expenses, including financial condition, income, liquidity, cash flow, contingent liabilities and other relevant factors (including credit ratings, when available) to demonstrate the guarantor's financial capacity to fulfill the obligation.
 - 1. This assessment will include the consideration of the total number and amount of guarantees currently extended by a guarantor in order to assess whether the guarantor has the financial capacity to fulfill the contingent claims that exist.
- ii. The financial capacity and willingness to provide support for the credit through ongoing payments, curtailments or re-margining.
 - 1. This assessment will include whether past performance under guarantees was voluntary or the result of legal or other actions by the Credit Union to enforce the guarantee.
- iii. The adequacy of the guarantor to provide support for repayment of the indebtedness, in whole or in part, during the remaining loan term.

iv. The legality and enforceability of the guarantee.

C. Current Valuations of the Collateral Supporting the Loan and Workout Plan. This analysis ensures that the Credit Union's assumptions and conclusions are reasonable.

i. Collateral valuations will be updated as part of the ongoing credit review, as market conditions change, or a borrower's financial condition deteriorates.

ii. For CRE loans involved in a workout situation, a new or updated appraisal or evaluation, as appropriate, will address current project plans and market conditions are considered in the workout plan. The consideration will include whether there has been material deterioration in the following factors:

1. The performance of the project.
2. Conditions for the geographic market and property type.
3. Variances between actual conditions and original appraisal assumptions.
4. Changes in project specifications (i.e., changing a planned condominium project to an apartment building).
5. Loss of a significant lease or a take-out commitment.
6. Increases in pre-sales fallout.

iii. Estimate the cost to the credit union, as measured by a NPV test, of any approved modification to verify it is less than the estimated cost of foreclosure or other foreclosure prevention alternative (e.g., short sale, deed in lieu of foreclosure, cash for keys, etc.), unless extenuating circumstances exist, and document the NPV analysis in the loan file

iv. The Credit Union will ensure that the documentation on the collateral's market value will demonstrate a full understanding of the property's current "as is" condition (considering the property's highest and best use) and other relevant risk factors affecting value.

1. However, depending on the type of loan workout and loan commitment, the Credit Union may also consider an "as complete" market value, or an "as stabilized" market value.
2. The Credit Union will use the fair value (less costs to sell) of the property in its current "as is" condition, in the event the Credit Union decides to foreclose.

D. Documentation on the Value of Additional CRE Borrower Assets. Many CRE borrowers may have other indebtedness secured by other business assets, such as furniture, fixtures, equipment, inventory, and accounts receivable. The Credit Union will quantify the value of such assets, determine the acceptability of the collateral, and perfect its security interests. The Credit Union will monitor the value of its collateral interests and security protection.

E. Documentation on the Appropriate Loan Structure (i.e., term and amortization schedule), curtailment, covenants, or re-margining requirements.

F. Appropriate Legal Documentation for any Loan Term Changes.

5. **CLASSIFICATION OF LOANS.** The Credit Union will “classify,” or assign a grade and place on a “watch list,” all CRE loans that demonstrate well-defined weaknesses that jeopardize the orderly repayment of the loan in accordance with reasonably modified terms. A loan’s record of performance will be considered when determining whether a loan should be classified.

A. Troubled Debt Restructuring. All restructured loans will be evaluated to determine whether the loan should be reported as a TDR, in accordance with the Credit Union’s Troubled Debt Restructuring policy (See **Policy 3170**).

Policy 7320: Home Equity Loans

Revised Date: 06/27/2015

Model Policy Revised Date: 06/27/2015

General Policy Statement:

Home equity loans allow qualifying borrowers to obtain credit based on the equity in their home. [CUname] (Credit Union) offers both open and closed-end home equity loans. Open-end credit allows qualifying borrowers to draw against a pre-authorized line of credit by voucher. Closed-end loans are generally reserved for loans with higher loan to value ratios.

Guidelines:

1. **LOAN AUTHORIZATION.** The Credit Union's loan authorization levels are outlined in the Credit Union's Loan Authorization Policy (See Policy 7130).
2. **QUALIFYING BORROWERS.** Qualifying borrowers are those members who demonstrate creditworthiness. Loan officers will consider all criteria outlined in the credit underwriting standards. In particular, loan officers will focus on:
 - A. Income stability;
 - B. Monthly housing expense ratio;
 - C. Debt ratio;
 - D. Credit score (if obtained);
 - E. Previous credit history;
 - F. Loan size;
 - G. Collateral value;
 - H. Total liens on the property;
 - I. Lien position; and
 - J. Property type and location.
3. **CLOSED END LOANS – ABILITY TO REPAY.** In addition to the above, loan officers will consider all criteria outlined in the credit underwriting standards and ability to repay requirements from the Credit Union's Ability to Repay Policy (See **Policy 7350 or 7351**). In particular, loan officers will focus on:
 - A. Current or reasonably expected income or assets that the member relies on to repay the loan (other than the value of the property that secures the loan);
 - B. Current employment status;

- C. Income stability;
- D. Monthly mortgage payment of the loan under consideration;
- E. Monthly payment on other simultaneous loans secured by the same property;
- F. Monthly payments for mortgage related obligations that could include (but is not limited to) property taxes, insurance, and homeowners association fees;
- G. Debts, alimony, and/or child support obligations;
- H. Monthly debt-to-income ratio and/or monthly residual income, calculated using the total of all of the mortgage and non-mortgage obligations as a ratio of gross monthly income;
- I. The member's credit history; AND
- J. Purpose of the loan.

4. **COLLATERAL.** Home equity loans are secured by the member's primary residence. The Credit Union will accept both first and second trust deeds.

5. **VALUE.** Value of the collateral is determined by an independent appraisal report or in some cases a property tax assessment and inspection.

6. **MARKETING.**

A. **New Initiatives.** When developing marketing initiatives, the Credit Union will employ a review and approval process that is broad enough to ensure compliance with internal policies and applicable laws and regulations, as well as a risk assessment that addresses the credit, interest rate, operational, compliance, reputation and legal risks.

B. **Management Information Systems (MIS).** The Credit Union will ensure that it has the appropriate marketing tools and MIS to measure the performance of various marketing initiatives, including (if applicable) offers to increase a line, extend the interest-only period, or adjust the interest rate or term.

7. **PRODUCT DEVELOPMENT.** When new home equity products are developed, the Credit Union will evaluate the targeted population and the product(s) being offered. Material changes in the targeted market, origination source, or pricing could have a significant impact on credit quality and must receive management approval.

8. **OPEN-END HOME EQUITY LOANS.**

A. **LTV.** Maximum LTV of [7320-8]% of value minus first mortgage.

B. **Interest.** Variable interest rate based on an internal index.

C. **Limits.**

i. Minimum Line of Credit of \$[7320-9].

ii. Maximum Line of Credit:

a. First Mortgage: \$[7320-9.1]

b. Second Mortgage: \$[7320-9.2]

iii. Minimum Advance:

a. First Advance: \$[7320-9.3]

b. Subsequent Advances: \$[7320-9.4]

D. **Underwriting.** The Credit Union will consider all of the criteria outlined in section (2) above.

Underwriting standards for interest-only and variable-rate home equity lines of credit (HELOCs) will include an assessment of the borrower's ability to amortize the fully-drawn line over the loan term and to absorb potential rate increases.

E. **Marketing.** When promoting or describing HELOCs that permit interest-only payments, the Credit Union will provide members with information designed to help make informed decisions. All communications with members will provide clear and balanced information about the relative benefits and risks of HELOCs with interest-only features, including the risk of the potential for increased payment obligations (such as, among other things, the circumstances in which interest rates reach a contractual limit). This information will be provided at the time a member inquires about such a loan, or when the Credit Union provides the member with marketing materials for such loans.

F. **Advances.** Advances against the member's equity line are initiated by voucher. The member's creditworthiness will not be reassessed at an advance request.

G. **Payment.** Minimum monthly payments for open-end loans are based on the outstanding balance after the most recent advance on the line of credit. The payment will not change as the principal balance declines.

The Credit Union will periodically review the effect that interest rate increases have on the credit line. If the annual percentage rate has increased to the point where payments are no longer sufficient to repay the balance within the payoff period (plus 12 months), the payment will be increased by the amount necessary to repay the balance within the original payoff period.

H. **Repayment.** The length of the payoff period depends on the balance at the time of each credit advance.

I. **Termination.** The Credit Union may terminate the member's line of credit at any time. Termination may be based on loss of membership, default, breach of the open-end loan agreement, or other good cause.

9. CLOSED-END HOME EQUITY LOANS.

A. **LTV.** Maximum LTV of [7320-11]% of value minus first mortgage.

B. **Interest.** Variable or fixed interest.

C. **Repayment.** Maximum maturity of 180-months.

10. **THIRD PARTY ORIGINATIONS.** When using third-party originators, the Credit Union will have strong control systems to ensure the quality of originators and compliance with all applicable laws and regulations, as well as to prevent fraud. Before entering into third-party relationships, comprehensive due diligence will be performed. Once the relationship is established, the Credit Union will have adequate audit procedures and controls to verify that third parties are not being paid to generate incomplete or fraudulent mortgage

applications, or are not otherwise receiving referral or unearned income or fees prohibited by the Real Estate Settlement Procedures Act (RESPA). If ongoing credit or documentation problems are discovered, the Credit Union will take appropriate action against a third party, which could include terminating the relationship.

- A. **Brokers.** Brokers generally process applications and underwrite loans to qualify the application for a particular lender. When brokers are used for these purposes, the Credit Union will retain appropriate oversight of all critical loan-processing activities, such as verification of income and employment and independence in the appraisal and evaluation function.
- B. **Correspondents.** Correspondents are financial companies that usually close and fund loans in their own name and later sell them to a lender. When the underwriting function is delegated to correspondents, the Credit Union will have systems and controls to provide assurances that the correspondent is appropriately managed, financially sound, and provides mortgages that meet the institution's underwriting guidelines, and complies with applicable consumer protection laws and regulations. The Credit Union will closely monitor the quality of loans that the correspondent underwrites. Monitoring activity will also include post-purchase underwriting reviews and ongoing portfolio performance management activities.

11. REQUIRED DOCUMENTATION.

- A. Application and financial statements;
- B. Recent credit report;
- C. Clear title policy issued by a title company;
- D. Proof of property, home owner's, fire and extended coverage insurance;
- E. Completed appraisal report (with pictures) prepared for the Credit Union by a qualified appraiser within 120 days of loan application;
- F. Evidence of flood insurance where applicable;
- G. Proof of balance of first mortgage (if applicable); and
- H. Recordings of trust deed, reconveyance, and notice of default when applicable.

12. TRUTH-IN-LENDING (TILA) DISCLOSURES.

- A. **Open-End Home Equity Loans Disclosures.** The Credit Union will provide TILA disclosures for open-end credit plans secured by the member's dwelling, outlined in the Credit Union's Home Equity Plans Policy (see Policy 7251).
- B. **Closed-End Home Equity Loans Disclosures.** The Credit Union will provide the combined TILA and RESPA disclosures outlined in the Credit Union's Integrated Mortgage Disclosures Policy (See Policy 7244) for closed-end home equity loans.
- C. **Periodic Statements.** For open-end home equity loans, the Credit Union will send members periodic statements identifying transactions, credits, previous balance, periodic rates, annual percentage rate, closing date of billing cycle, charges, and balance on which the finance charge is computed. For closed-end home equity loans, the Credit Union (if not utilizing the coupon book exemption) will provide the member with a periodic statement including the amount due, explanation of amount due, past payment

breakdown, transaction activity, partial payment information, Credit Union contact information, account information (outstanding principal balance, current rate in effect for the loan, the date after which the interest rate may change, prepayment penalty, and the website or HUD list of homeownership counselors and the HUD toll-free number) and delinquency information.

D. Electronic Delivery of Disclosures.

- i. If a member accesses a HELOC application in electronic form (such as on a home computer), the required disclosures *may* also be provided to the member in electronic form on or with the application (as the HELOC application disclosures are not required to be in a form that an applicant can keep).
- ii. If a member is physically present in the Credit Union's office, and accesses an electronic HELOC application (such as via a terminal or kiosk), the Credit Union may provide disclosures in paper form to comply with the timing and delivery requirements of Regulation Z.
- iii. For closed-end and home-equity loans, if the Credit Union provides electronic disclosures they are subject to compliance with the E-SIGN notice and consent requirements would be required.

13. **RESPA DISCLOSURES.** The Credit Union will also provide members with applicable RESPA disclosures. See **Policy 7244** (Integrated Mortgage Disclosures).

14. **PROVIDING APPRAISALS/VALUATIONS TO APPLICANTS.** The Credit Union must provide applicants for first-lien loans on a dwelling with copies of appraisals, as well as other written valuations, developed in connection with the application, whether or not the applicants request copies.

A. Notification Requirements. After receiving the member's application the Credit Union has three business days to notify the member of their right to receive a copy of the appraisal.

- i. The Credit Union must promptly share copies of appraisals and other written valuations with the applicant. Promptly means promptly upon completion, or at least three business days before consummation (for closed-end credit) or account opening (for open-end credit), whichever is earlier.

B. Content of the Appraisal Notice. The Credit Union's Appraisal Notice will state:

"We may order an appraisal to determine the property's value and charge you for this appraisal. We will promptly give you a copy of any appraisal, even if your loan does not close. You can pay for an additional appraisal for your own use at your own cost."

C. Waive Appraisal Right. The applicant can waive the right to receive copies of the appraisal or other written valuations in advance of the closing, but in those cases, the Credit Union must still deliver the copies at or prior to consummation or account opening.

D. No Fee For Appraisal Copy. The Credit Union cannot charge a fee for the copy of the appraisal.

E. Handling Loans That Do Not Close. If the Credit Union does not consummate the loan or open the account and the applicant has provided a waiver, the Credit Union has 30 days after it determines that the loan will not consummate or open to send the applicant a copy of the appraisal and other written valuations.

F. Closed-End HPML First or Subordinate Lien. If the home equity loan is determined to be a high-

priced mortgage loan, the Credit Union is also required to obtain a written appraisal performed by a certified or licensed appraiser, required to have the appraiser visit the interior of the property providing a written report and deliver copies of those appraisals to applicants no later than three business days before consummation.

15. **HOME MORTGAGE DISCLOSURE ACT (HMDA).** The Credit Union will collect and record HMDA data on Home Equity Loans that are classified as Home Improvement Loans. Home Improvement Loans are loans where the purpose of the loan is for repairing, rehabilitating, or remodeling the member's dwelling.
16. **COLLATERAL VALUATION MANAGEMENT.** With regard to collateral valuation management, the Credit Union will do the following:
 - A. Establish criteria for determining the appropriate valuation method for a particular transaction based on the transaction and loan portfolio risk (higher risk should result in more thorough valuations);
 - B. Determine the extent to which an inspection of the collateral is necessary;
 - C. Ensure that an expected or estimated value of the property is not communicated to an appraiser or individual performing an evaluation;
 - D. Implement policies and controls to prevent "value shopping." Use of several valuation tools may return different values for the same property. If several different valuation tools are used, credit unions should adhere to a policy for selecting the most reliable method, rather than the highest value; and
 - E. Require sufficient documentation to support the collateral valuation in the appraisal/evaluation.
 - F. **Asset Valuation Methods (AVMs).** When AVMs are used to support evaluations or appraisals, the Credit Union will validate the models on a periodic basis to mitigate the potential valuation uncertainty in the model. The validation's analysis, assumptions and conclusions will be documented. The validation process will cover properties representative of the geographic area and property type for which the tool is used.
 - i. If AVM vendors are used and provide a "confidence score," the Credit Union will have an understanding of how the model works as well as what the score means. The Credit Union will also establish the confidence levels that are appropriate for the risk in a given transaction or group of transactions.
 - ii. When tax assessment valuations are used as a basis for the collateral valuation, the Credit Union will be able to demonstrate and document the correlation between the assessment value and the property's market value.
17. **ACCOUNT MANAGEMENT.** The Credit Union will have risk management techniques that identify higher risk accounts and adverse changes in account risk profiles, in order to enable management to implement timely preventive action (i.e., freezing or reducing lines). The Credit Union will also have risk management procedures to evaluate and approve additional credit on an existing line or extending the interest-only period. Account management practices will be appropriate for the size of the portfolio and the risks associated with the types of home equity lending
 - A. Effective account management practices for large or high-risk portfolios include the following:
 - i. Periodically refreshing credit risk scores on all members;

- ii. Using behavioral scoring and analysis of individual borrower characteristics to identify potential problem accounts;
- iii. Periodically assessing utilization rates;
- iv. Periodically assessing payment patterns, including borrowers who make only minimum payments over a period of time, or those who rely on the line to keep payments current;
- v. Monitoring home values by geographic area; and
- vi. Obtaining updated information on the collateral's value when significant market factors indicate a potential decline in home values, or when the borrower's payment performance deteriorates and greater reliance is placed on the collateral.

B. The Credit Union will conduct annual credit reviews of HELOC accounts to determine whether the line of credit should be continued, based on the borrower's current financial condition.

C. Authorizations of over-limit HELOCs will be restricted and subject to appropriate policies and controls. Over-the-limit borrowers will be required repay in a timely manner the amount that exceeds established credit limits. The Credit Union's MIS will be sufficient to enable management to identify, measure, monitor and control the unique risks associated with over-limit accounts.

18. **PORTFOLIO MANAGEMENT.** The Credit Union will implement an effective portfolio credit risk management process for its home equity portfolio that includes the following:

A. **Policies.** To ensure that the Credit Union's home equity policy is consistent with safe and sound banking practices, the policy will be review and approved by a Board of Directors at least annually. Before changing policies or underwriting standards, management will assess the potential effect on the Credit Union's overall risk profile, which would include the effect on concentrations, profitability, and delinquency and loss rates. The accuracy of these estimates will be tested by comparing them with actual experience.

B. **Portfolio Objectives and Risk Diversification.** Portfolio objectives such as growth targets, utilization, rate of return hurdles, and default and loss expectations will be clearly communicated. When the Credit Union has large concentrations of home equity loans or HELOCs, limits will be set and monitored for key portfolio segments (such as geographic area, loan type and higher risk products). When appropriate, consideration will be given to the use of risk mitigation, such as private mortgage insurance, pool insurance or securitization. As the portfolio approaches concentration limits, the Credit Union will analyze the situation well enough to enable the Board and senior management to make a well-informed decision to either raise concentration limits or take a different course of action.

C. The various risk characteristics of the home equity portfolio need to be understood. To gain this understanding, the Credit Union will analyze the portfolio by segment using criteria such as product type, credit risk score, DTI, LTV, property type, geographic area, collateral valuation method, lien position, size of credit relative to prior liens, and documentation type (i.e., "low doc" and "no doc").

19. **MANAGEMENT INFORMATION SYSTEMS.** Adequate credit MIS enables credit unions to segment loan portfolios and accurately assess key risk characteristics and HEL concentrations.

A. The Credit Union's MIS will be periodically assessed to determine the adequacy in light of growth and risk levels. When the Credit Union has a high concentration of home equity loans and HELOCs, the MIS

will include, at a minimum, the following reports and analysis:

- i. Production and portfolio trends by product, loan structure, originator channel, credit score, LTV, DTI, lien position, documentation type, market and property type;
- ii. Delinquency and loss distribution trends by product and originator channel with some accompanying analysis of significant underwriting characteristics (i.e., credit score, LTV and DTI);
- iii. Vintage tracking;
- iv. The performance of third-party originators; and
- v. Market trends by geographic area and property type to identify areas of rapidly appreciating or depreciating housing values.

B. Policy and Underwriting Exception Systems. Processes for identifying, approving, tracking and analyzing underwriting exceptions will be maintained. Reporting systems that capture and track information on exceptions, both by transaction and relevant portfolio segments, aid the management of a portfolio's credit risk.

C. High LTV (HLTV) Monitoring. The Credit Union will accurately track the volume of HLTV loans, including HLTV home equity and residential mortgages, and report the aggregate of such loans to the Board of Directors. The following will be followed:

- i. Loans in excess of the supervisory LTV limits should be identified in the Credit Union's records. The aggregate of HLTV one- to four-family residential loans should not exceed 100% of the Credit Union's total capital. Within that limit, HLTV loans for other types of properties should not exceed 30% of capital;
- ii. In calculating the LTV and determining compliance with the supervisory LTVs, the Credit Union will consider all senior liens. All loans held and secured by the property are reported as an exception if the combined LTV of a loan and all senior liens on an owner-occupied one- to four-family residential property **equals** or exceeds 90 percent and if there is no additional credit enhancement in the form of either mortgage insurance or readily marketable collateral;
- iii. For the LTV calculation, the loan amount is the legally binding commitment (that is, the entire amount that the Credit Union is legally committed to lend over the life of the loan); and
- iv. All real estate secured loans in excess of supervisory LTV limits should be aggregated and reported quarterly to the board.

D. Insurance Policies. Insurance policies that cover a "pool" of loans can be an efficient and effective credit risk management tool. But if a policy has a coverage limit, the coverage may be exhausted before all loans in the pool mature or pay off. Pool insurance is a sufficient credit enhancement to remove the HLTV designation in the following circumstances:

- i. The policy is issued by an acceptable mortgage insurance company;
- ii. It reduces the LTV for each loan to less than 90 percent; and
- iii. It is effective over the life of each loan in the pool.

E. **Stress Testing for Portfolios.** The Credit Union will perform sensitivity analyses on key portfolio segments, which identify possible events that could increase risk within a portfolio segment or for the portfolio as a whole. Stress tests that incorporate interest rates increases and declines in home values will be considered. Because these events often occur simultaneously, testing for these events will occur together. Markets in key geographic areas will be periodically analyzed. Management will consider developing contingency strategies for scenarios and outcomes that extend credit risk beyond internally established risk tolerances. These contingency plans might include increased monitoring, tightening underwriting, limiting growth, and selling loans or portfolio segments.

20. **OPERATIONS, SERVICING AND COLLECTIONS.** Effective procedures and controls will be maintained for such support functions as perfecting liens, collecting outstanding loan documents, obtaining insurance coverage (including flood insurance), and paying property taxes. Management will oversee these support functions to ensure that operational risks are properly controlled.

A. **Lien Recording.** The Credit Union will take appropriate measures to safeguard its lien position. The Credit Union will verify the amount and priority of any senior liens prior to closing the loan (this information is necessary to determine the loan's LTV ratio and to assess the credit support of the collateral). Senior liens include first mortgages, outstanding liens for unpaid taxes, outstanding mechanic's liens, and recorded judgments on the borrower.

B. **Problem Loan Workouts and Loss Mitigation Strategies.** While the Credit Union may work with borrowers on a case-by-case basis, workout strategies will not be used to defer losses. The Credit Union will ensure that credits in workout programs are evaluated separately for the ALLL, because such credits tend to have higher loss rates than other portfolio segments.

i. Prior to offering a workout, the Credit Union will analyze a borrower's financial capacity to service the debt under the new terms;

ii. The Credit Union will employ loss-mitigating strategies, including foreclosure, when [7320-10]

iii. The Credit Union will ensure appropriate MIS to track and monitor the effectiveness of workout programs, including tracking the performance of all categories of workout loans. For large portfolios, vintage delinquency and loss tracking will also be included.

21. **SECONDARY MARKET ACTIVITIES.** Although such secondary market activities can enhance credit availability and an institution's profitability, they also pose certain risk management challenges. The Credit Union's risk management systems will address the risks of HELOC securitizations.

22. **PORTFOLIO CLASSIFICATIONS, ALLOWANCE FOR LOAN AND LEASE LOSSES AND CAPITAL.** The Credit Union has the discretion to classify entire retail portfolios, or segments thereof, when underwriting weaknesses or delinquencies are pervasive and present an excessive level of credit risk. Portfolios of HLTV loans to borrowers who show inadequate capacity to repay the debt within a reasonable time may be subject to classification.

A. The Credit Union will establish appropriate ALLL and hold capital commensurate with the risk of their portfolios. In determining the ALLL adequacy, how the interest-only and draw features of HELOCs during the lines' revolving period could affect the loss curves for its HELOC portfolio will be considered. Should the Credit Union offer sub-prime home equity lending or higher risk products, the Credit Union will recognize the elevated risk of the activity when assessing capital and ALLL adequacy.

Policy 7330: Residential Real Estate Loans

Revised Date: 03/24/2016

Model Policy Revised Date: 03/24/2016

General Policy Statement:

[CUName] (Credit Union) will originate residential real estate loans in compliance with all applicable federal and state laws and regulations. Mortgage loans will be held in portfolio or sold on the secondary market as directed by the Asset/Liability Management Committee.

Guidelines:

1. **LOAN TYPES.** The Credit Union offers the following types of residential real estate loans: [7330-11]
2. **LOAN AUTHORIZATION.** Loan Authorization limits are set forth in the Loan Authorization Policy (See **Policy 7130**).
3. **SECURITY.** The Credit Union will accept first and second trust deeds in fee simple on 1-4 family dwellings.
4. **VALUE.**

A. **First Mortgages.** Value is determined by the lower of the sales price or independent appraisal report. Appraisers must have at least 5-year's experience in the appraisal industry and must be affiliated with either the Society of Real Estate Appraisers or the American Institute of Appraisers (as a candidate member or having either the SRA or RM designation). Management will maintain a current list of approved appraisers.

B. **Second Mortgages.** Value is determined by [7330-8] % of the appraised value minus the amount owing on the first mortgage.

5. APPRAISALS

A. The Credit Union will follow the requirements of NCUA Part 722 (Appraisals), pursuant to title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA), Equal Credit Opportunity Act Valuations Rule, as amended by the Consumer Financial Protection Bureau; as well as Regulation Z appraisal requirements, in accordance with the Credit Union's Real Estate Appraisal policies (**Policies 7302 & 7303**).

6. LOAN LIMITS.

A. **Maximum Loans.** Mortgage loans shall not exceed [7330-9] % of the Credit Union loan portfolio.

B. **Maximum Loans Per Loan Type.**

[7330-12]

C. **Maximum Loan to Value Ratios.**

Owner Occupied [7330-9.1] %

Non-owner Occupied [7330-9.2] %

Owner occupied means that the dwelling is or will be the borrower's principal residence. Deviations from this policy require Board waiver.

D. Maximum Aggregate to One Borrower. The maximum aggregate to one borrower is [7330-13].

E. Maximum Maturity. Loans originated with the intent to sell on the secondary market are limited to maturities of [7330-9.3] years. Those originated with the intent to retain in portfolio are limited to maturities of [7330-9.4] years.

F. Balloon Payments. Loans originated with the intent to retain in portfolio may be written with maturities extending to [7330-9.5] years provided they require a balloon payment within [7330-9.6] years.

7. QUALIFYING BORROWERS. Qualifying borrowers are those members who demonstrate creditworthiness. Loan officers will consider all criteria outlined in the credit underwriting standards and ability to repay requirements from the Credit Union's Ability to Repay Policy. In particular, loan officers will focus on:

A. Current or reasonably expected income or assets that the member relies on to repay the loan (other than the value of the property that secures the loan);

B. Current employment status;

C. Income stability;

D. Monthly mortgage payment of the loan under consideration;

E. Monthly payment on other simultaneous loans secured by the same property;

F. Monthly payments for mortgage related obligations that could include (but is not limited to) property taxes, insurance, and homeowners association fees;

i. Private mortgage insurance (PMI) will be required for borrowers with a loan-to-value (LTV) of [7330-14].

G. Debts, alimony, and/or child support obligations;

H. Monthly debt-to-income ratio and/or monthly residual income, calculated using the total of all of the mortgage and non-mortgage obligations as a ratio of gross monthly income;

I. The member's credit history; AND

J. Purpose of the loan.

8. REQUIRED DOCUMENTATION.

A. The Credit Union will verify the information it relies on to evaluate a member's ability to repay the mortgage loan using reasonable reliable third party records.

B. Completed FNMA/FHCMC application.

C. Recent credit report and employment income verification.

- D. Clear title policy issued by a title company.
- E. Proof of homeowner's insurance with loss payable to the Credit Union.
- F. Deed of trust, recording, and legal description.
- G. Completed appraisal report (with pictures) prepared for the Credit Union by a qualified appraiser within 120 days of loan application. All single family home appraisals will be completed on the Uniform Residential Appraisal Report.
- H. Evidence of flood insurance where applicable.
- I. Proof of balance of first mortgage (if applicable).
- J. Closing statements and disclosures.

9. **TITLE COMPANIES.** Management will maintain a current list of approved title companies. Approved companies must demonstrate:

- A. Proven track record (at least 5-years business experience); and
- B. Ability to meet financial commitments (as evidenced by a signed financial statement).

10. **USE OF THIRD PARTY BROKERS AND CORRESPONDENTS.** Before entering into a relationship with a third party broker or correspondent, the Credit Union will adhere to its Vendor Due Diligence and Oversight policy (**See Policy 2185**).

A. **Due Diligence.** Specifically, with regard to mortgage brokers and correspondents, the Credit Union will perform the following due diligence:

- i. **Background Check.** The Credit Union will perform a background check on the business and the key individuals involved in the transactions. This check will include: complaints filed against those parties, licensure status (where applicable), and past and current lawsuits. The Credit Union will obtain this information from the Better Business Bureau, the Federal Trade Commission, state agencies, credit reporting agencies, and current and past clients.
- ii. **Business Practices and Operations/Potential Conflicts of Interest.** The Credit Union will determine whether the third party has a sound business model for long-term operations. The Credit Union will also determine who has a controlling interest over companies providing related services to the broker and/or correspondent (i.e., appraisers, title companies, insurance companies, etc.).
- iii. **Financial Standing.** The Credit Union will investigate the third party's financial condition; will determine whether its cash flow is adequate; and will obtain independently audited financial statements.
- iv. **Accounting Considerations.** The Credit Union will understand the sources of the third party's cash, as well as how cash flows through the third party's operation and between all of the parties involved. The Credit Union will obtain an independently verification of cash flows, and will ensure that every third party complies with Generally Accepted Accounting Principles (GAAP) in maintaining their account records.

v. **Internal Controls.** The Credit Union will ensure that each third party has sound internal controls to help prevent fraud and abuse, as well as to ensure compliance with consumer laws and regulations.

vi. **Contracts and Legal Review.** The Credit Union will obtain a legal review of its contracts with brokers and correspondents, and will ensure that the following issues will be addressed:

1. Adequate default, termination and escape clauses;
2. An agreement that the third party will comply with all applicable laws;
3. A stipulation that the third party will use its best efforts to ensure loans offered to borrowers are consistent with each borrower's needs, objectives and financial situation;
4. The Credit Union's right to not to purchase, or to put back on the broker or originator, any loans that fail to comply with the above standards;
5. The Credit Union's contract or other agreement for credit transactions secured by a dwelling (including a home equity line of credit) will not include terms that require arbitration or any other non-judicial procedure to resolve any controversy or settle claims arising out of the transaction.

B. **Monitoring.** The Credit Union will monitor the relationship to ensure that the fees paid to third parties are legitimate; that mortgage applications are complete and do not contain fraud; that referral or unearned income of fees are legal and not contrary to RESPA prohibitions; and will review the quality of each loan by origination source in an effort to uncover incomplete packages and early payment defaults.

C. **Controls.** The Credit Union will ensure that adequate controls are in place in order to ensure:

- i. Adherence to board established lending policies and risk parameters. A sample of loans underwritten by brokers or correspondents will be reviewed for compliance with board policies, applicable regulations and written agreements to determine whether ongoing loan quality is maintained. Additional targeted loan reviews will be performed based on any performance concerns of a third party, such as increasing default rates, foreclosure rates, complaints, and/or higher than average fees charged to borrowers.
- ii. Loan approval authority is not delegated to the broker, and that all loan underwriting criteria and subsequent modifications are approved by the Credit Union.
- iii. Broker and correspondent reports are accurate, timely, and contain sufficient detail to adequately monitor activity.
- iv. Loan fees, terms and practices are not predatory.
- v. The Credit Union is obtaining appraisals directly, or the quality of completed appraisals is adequate.

11. **DETERMINATION AND NOTICE OF FLOOD HAZARDS.** The Credit Union will comply with NCUA Part 760 regarding the determination of loans in areas having special flood hazards.

- A. **Determination.** For all loans made, increased, extended or renewed that are secured by a building or mobile home located or to be located in a special flood hazard area, the Credit Union will complete the standard flood hazard determination form developed by the Administrator of the Federal Emergency Management Agency (FEMA). This applies to loan originations, extensions, refinances, and renewals. The Credit Union will retain a copy of the completed form for as long as the Credit Union owns the loan. See **Policy 10007** in the Records Retention Chapter (Table 7 - Lending Records).
- B. **Fee.** The Credit Union may charge a reasonable fee for determining whether the building securing the loan or mobile home is, or will be located, in a special flood hazard area. The portion of the cost for the life-of-loan monitoring will be disclosed as a finance charge pursuant to Regulation Z.
- C. **Notice.** If the building securing the loan or mobile home is in a special flood hazard area, the Credit Union must:

- i. Notify the borrower and the loan servicer of the special flood hazard within a reasonable time before completion of the transaction, the requirement for the purchase of flood insurance, whether flood insurance coverage is available from the National Flood Insurance Program, and whether federal disaster relief assistance may be available in the event of flooding. The Credit Union will retain a written receipt by the borrower and the loan servicer of this notice for as long as the Credit Union owns the loan. Notice may be provided to the servicer electronically.
- ii. Notify the Administrator of FEMA, or their designee, of the loan servicer. To ensure that the insurance policy is maintained in full force, the Credit Union will send this notice to the insurance carrier that issued the insurance policy so that the mortgagee endorsement can be updated. The Credit Union will notify the Administrator of FEMA of any change in the servicer of a loan within sixty (60) days after the effective date of the change.

12. **FLOOD INSURANCE.** The Credit Union will not make a loan secured by a building, or mobile home on a permanent foundation, that is located in a special flood hazard area for which flood insurance is available, unless the building is covered by flood insurance for the term of the loan. This applies to all originations, extensions, refinances, and renewals of loans over \$5,000 or with a repayment term greater than a year. The credit union is not required to obtain flood insurance for a structure (used for personal, family or household purposes) that is a part of a residential property, but detached from the primary residential structure and does not serve as a residence.

- A. **Term.** The borrower must maintain flood insurance for the term of the loan, unless flood map revisions determine that the underlying collateral is no longer in a designated flood hazard area.
- B. **Coverage.** The policy amount must cover the loan amount or the maximum amount available under the National Flood Insurance Program, whichever is less.
- C. **Escrow.** If flood insurance is required, the Credit Union will escrow the flood insurance premiums, unless an exception applies. The escrow account will be subject to the escrow requirements of the Real Estate Settlement Procedures Act (RESPA). Following receipt of notice from the Administrator of FEMA or other provider of flood insurance that premiums are due, the Credit Union will ensure that payment is made to the insurance provider from the escrow account on the date when such premiums are due.
- D. **Notification; Forced Placement.** The Credit Union will determine whether flood insurance is required and promptly notify prospective borrowers of the need to acquire flood insurance within 45 days, at the borrower's expense. If the borrower fails to provide evidence of flood insurance within 45 days of notification, the Credit Union will purchase flood insurance for borrower at borrower's expense. If the borrower subsequently obtains sufficient flood insurance coverage, within 30 days of receipt of

confirmation, the credit union will notify the insurance provider to terminate any insurance purchased by the credit union and refund to the borrower all premiums and fees paid by the borrower during the time both the borrower's flood insurance and the credit union-paid flood insurance were in effect.

E. **Records.** The Credit Union will maintain records documenting the method used to determine the need for flood insurance and notices sent to borrowers.

13. **“HIGHER-PRICED MORTGAGE LOANS.”** “Higher-priced mortgage loans” are defined as consumer-purpose loans secured by a consumer's principal dwelling which have an annual percentage rate (APR) that exceed the “average prime offer rates” for a comparable transaction published by the Federal Financial Institutions Examination Council (FFIEC) and by at least 1.5 percentage points for first-lien loans, or 3.5 percentage points for subordinate-lien loans (reverse mortgages, construction-only loans, loans originated and directly financed by the Housing Finance Agency (HFA) or U.S. Department of Agriculture (USDA), and bridge loans are **excluded** from this definition).

A. **Average Prime Offer Rate.** The average prime offer rate is available on the Federal Financial Institutions Examination Council (FFIEC) website.

B. **Protections Covering Higher-Priced Mortgage Loans.** For higher-priced mortgage loans, the following protections will apply:

i. **Member's Ability to Repay.** The Credit Union will consider a member's ability to repay the loan's principal and interest, as well as the property taxes, homeowners insurance and similar mortgage-related expenses (i.e., homeowners association or condominium dues). This ability will be based on the member's reasonably expected income, employment, assets other than collateral, current obligations and mortgage-related obligations. Expectations for improvements in income or employment may be relied upon, but must be reasonable and verified with third-party documents (i.e., tax returns, payroll receipts, and/or account statements).

ii. **Verification of Income and Assets.** The Credit Union will verify income and assets using reliable third-party documents. The Credit Union will never rely solely on an income statement from an applicant, and will never make even an isolated “no income, no asset” loan in the higher-priced mortgage market. Ability to repay a higher-priced mortgage loan will be determined as follows:

1. Using the largest-scheduled payment of principal and interest in the first 7 years following consummation, and taking into account property taxes, insurance obligations and similar mortgage-related expenses;

2. Using at least one of two measures: (1) total debt-to-income ratio; or (2) the income the member will have after paying debt obligations.

iii. **Escrow for Taxes and Insurance.** Beginning with applications received on or after **April 1, 2010**, the Credit Union will establish escrow accounts for taxes and insurance for all higher priced mortgage loans. Required hazard and flood insurance premiums will be escrowed when these products are required by the Credit Union. Based on Dodd-Frank Act requirements that amended the Truth in Lending Act escrow account will be maintained on higher priced mortgage loans for a period of not less than five (5) years.

1. **Borrower's Right to Cancel.** Borrowers may cancel escrows sixty (60) months after loan consummation. The Credit Union will consult with its legal counsel as to whether an escrow cancellation fee may be imposed.

2. **Optional Insurance Items.** The Credit Union [7330-15] escrow optional insurance items chosen by members (and not otherwise required by the Credit Union).
3. **Administration.** The Real Estate Settlement Procedures Act (RESPA) applies to the administration of the escrow accounts.
4. **Condominiums.** Escrows for property taxes for first-lien higher-priced mortgage loans secured by condominium units will be required, unless the condominium's association maintains and pays for insurance through a master policy.
5. **Manufactured Housing.** Beginning with applications received on or after October 1, 2010, the Credit Union will required escrow accounts for all covered loans secured by manufactured housing, regardless of whether state law treats manufactured housing as personal or real property.

14. **DISCLOSURES.** The Credit Union will provide applicants with proper disclosures in a timely manner, pursuant to the Credit Union's RESPA – TILA Integrated Mortgage Disclosures Policy (See **Policy 7244**).

15. **HOME MORTGAGE DISCLOSURE ACT.** The Credit Union will maintain a loan application register (LAR) that documents data regarding applications for home purchase and home improvement loans. Management shall develop and implement procedures that ensure:

- A. Compliance with the Home Mortgage Disclosure Act.
- B. Timely delivery of a completed LAR to proper supervisory agencies.
- C. Proper maintenance. The LAR should be kept current throughout the year as data is collected. As a general rule, transactions should be fully recorded within 1 month after final action is taken.

16. **SERVICING.**

A. **Crediting Payments.** The Credit Union will credit all mortgage loan payments as of the date of receipt, except when a delay would not result in any charge to the member or in the reporting of negative information to a consumer reporting agency.

- i. **Non-Conforming Payments.** In the event the Credit Union specifies, in writing, reasonable requirements for making payments, and a member makes a non-conforming payment, the Credit Union will credit the account within 5 days of receipt.

B. **Providing Loan Payoff Statements.** The Credit Union will provide a loan payoff statement within 7 days of a member's written or oral request. Prior to delivering this statement, the Credit Union will take reasonable measures to verify the identity of those purporting to act on behalf of a member, and will obtain the member's authorization to release information to any such persons before the 7 days timeframe begins to run. The payoff statement may be sent electronically, by fax, or physical delivery.

17. **LOAN WATCH.** Since residential real estate loans constitute large balances and long maturities, they shall be monitored regularly so that the amount of obligation and potential percentage of portfolio is understood. Board reports include the amount approved, average maturity, and in the case of home equity loans, undisbursed credit. Board reports also closely monitor past dues and collection efforts.

18. **LOSS MITIGATION STRATEGIES.** The Credit Union may enter into a loan modification or take other loss mitigation strategies as a means of avoiding foreclosure. In doing so, the Credit Union will take into account the issues presented in the Credit Union's Residential Real Estate Loss Mitigation Strategies Policy (see **Policy 7625**) and the loss mitigation requirements of the Mortgage Servicing Rule published by the Consumer Financial Protection Bureau (CFPB) and the provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act and presented in the Credit Union's Mortgage Servicing Policy (See Policy 7360 or 7361).

19. **RISK MANAGEMENT.**

A. **Interest Rate Risk.** The Credit Union will sell all [7330-9.7] -year FHA, VA, and conventional loans to qualified investors. All portfolio loans will be limited to a maximum amortization term of [7330-9.8] years, unless waived by Board approval. Interest rates on any portfolio loans will not be fixed for longer than [7330-9.9] years.

B. **Liquidity Risk.** The Credit Union is primarily committed to provide consumer financing to its membership. Funding mortgage lending in our portfolio is only permissible if the Credit Union loan to deposit ratio is less than [7330-9.9A] %. The Credit Union will ensure it only grants loans that are suitable for potential sale on the secondary market (See (22) below). The Credit Union's asset liability management program (See **Policy 5100**) will indicate the point at which the loans will be sold to minimize losses.

C. **Credit Risk.** The Credit Union will closely scrutinize applicants for default risk; applicants must adhere to the Credit Union's strict underwriting standards. In particular, all mortgage loans are required to have an in-file TRW credit report before the loan is approved, and any loan over \$[7330-9.9B] must have a complete mortgage credit report. The Credit Union also minimizes risk exposure by limiting the LTV ratios, monitoring delinquent loans, and implementing effective collection procedures.

20. **PROPERTY TAXES PAID FROM MORTGAGE ESCROW ACCOUNTS.** If the Credit Union services mortgage loans, it will follow HUD's suggestions regarding annual versus installment disbursements for paying property taxes.

A. For each such loan, the Credit Union will total all payments associated with paying property taxes annually (if permitted) and all payments associated with paying in installments (if permitted).

B. If the total associated with annual payments is less, the Credit Union will pay the property taxes annually. If the total associated with paying in installments is less, the Credit Union will pay installments.

C. If funds in the escrow account are insufficient to make a property tax payment, the Credit Union will advance funds to make the payment unless the borrower is more than 30 days past due.

21. **HAZARD INSURANCE PAID FROM MORTGAGE ESCROW ACCOUNTS.** The Credit Union will follow the requirements of the Mortgage Servicing Rule (See Policy 7360 or 7361) in respects to force placing hazard insurance on a member's property.

22. **SECONDARY MARKET STANDARDS.** In order to ensure that the Credit Union's loans meet secondary market standards, the following issues will be considered:

A. **Documentation – Uniform Instruments.** The Credit Union will use uniform instruments, as accepted by the Federal Housing Administration (FHA), the Department of Veterans Affairs (VA), FNMA and FHLMC.

- B. **Appraisals.** An appraisal that conforms with NCUA Part 722; Equal Credit Opportunity Act Valuations Rule, as amended by the Consumer Financial Protection Bureau; as well as Regulation Z appraisal requirements.
- C. **LTV Ratio Limits.** For conventional loans, the maximum LTV permissible will be no greater than 80% of the lower of the appraised value or sales prices unless PMI is obtained. PMI will be obtained from a company acceptable to the Credit Union and to established secondary markets. On government-insured loans, the LTV will not exceed the applicable FHA or VA guidelines.
- D. **Credit Reports.** The Credit Union will obtain credit reports acceptable to the secondary market (i.e., “residential mortgage credit reports” as opposed to “in file” credit reports).
- E. **Hazard Insurance.** Hazard insurance policies will be obtained that name the Credit Union as the loss payee. The policies will be in the amount of the original loan balance or the replacement value of the structure, whichever is less. Coverage must be sufficient to pay the mortgage balance including prior liens, if any.
- F. **Grace Periods and Interest Calculations Basis.** All residential real estate loans will have calculations acceptable to the secondary market. To satisfy this objective, loans will be based on a 30-day month/360-day year interest calculation basis and have a 15-day grace period.
- G. **Title Search and Abstract.** Title searches and abstracts will be performed prior to the closing of all residential real estate loans.
- H. **Title Insurance.** The Credit Union will obtain a lender’s title insurance policy for all residential real estate loans.
- I. **Indexes for Adjustable Rate Loans.** The index used to establish the rate for adjustable rate loan programs, as well as the margins over the index, will be acceptable to secondary markets and appropriate to the type of loan granted. Therefore, the Credit Union will not use internal indexes for loans the Credit Union desires to sell on the secondary market.

23. **SUBORDINATION.** The Credit Union will agree to subordinate its lien position only in the following circumstances: [7330-16]

Policy 7331: Non-Traditional Residential Real Estate Loans

Revised Date: 12/30/2014

Model Policy Revised Date: 12/30/2014

General Policy Statement:

[CUNAME] (Credit Union) will originate non-traditional residential real estate loans in compliance with all applicable federal and state laws and regulations. Non-traditional mortgages (NTMs) include “interest-only” mortgages, mortgages provided with reduced documentation, and/or “payment option” adjustable rate mortgages. Mortgage loans will be held in portfolio or sold on the secondary market as directed by the Asset/Liability Management Committee.

In providing residential real estate loans, the Credit Union will follow its Residential Real Estate Loan policy. However, given the potential for heightened risk levels, the Credit Union will carefully consider, and appropriately mitigate, the exposures created by NTMs by following the Guidelines of this policy.

Guidelines:

1. **LOAN TERM AND UNDERWRITING STANDARDS.** For NTMs, the Credit Union’s underwriting standards will address the effect of a substantial payment increase on the borrower’s capacity to repay when the amortization begins. These standards will also comply with the Credit Union’s Residential Real Estate Loans policy (**See Policy 7330**), as well as the appropriate appraisal regulations and associated guidelines. Loan terms will be based on a disciplined analysis of potential exposures and compensating factors to ensure risk levels remain manageable.

A. **Qualifying Borrowers.** The Credit Union’s qualifying standards will recognize the potential impact of “payment shock” (which occurs when payments significantly increase as the loan begins to amortize), especially for borrowers with high loan-to-value (LTV) ratios, high debt-to-income (DTI) ratios, and low credit scores. These factors will be considered jointly in the qualification process and ranges of reasonable tolerances should be developed for each factor.

i. Analyzing Repayment Ability.

- a. **Fully Indexed Rate.** For all NTMs, the Credit Union’s analysis of a borrower’s repayment ability will include an evaluation of their ability to repay the debt by final maturity at the fully indexed rate (which equals the index rate prevailing at origination plus the margin that will apply after the expiration of an introductory interest rate), assuming a fully amortizing repayment schedule (which is based on the term of the loan). In these cases, a credible market rate will be used to qualify the borrower and determine repayment capacity.
- b. **Negative Amortization.** For products that permit negative amortization, the repayment analysis will be based upon the initial loan amount plus any balance increase that may accrue from the negative amortization provision. The spread between the introductory rate and the accrual rate will determine whether a loan balance has the potential to reach the negative amortization cap before the end of the initial payment option period.
- c. **Credit Scores.** The analysis of repayment ability will avoid over-reliance on credit scores as a substitute for income verification in the underwriting process. The higher a loan’s credit risk, either from loan features or borrower’s characteristics, the more important it is to verify the borrower’s income, assets, and outstanding liabilities.

B. Collateral-Dependent Loans. The use of loan terms and underwriting practices that may increase the need for a borrower to rely on the sale or refinancing once amortization begins will be avoided. Loans to those who do not demonstrate the ability to repay, as structured, from sources other than the collateral pledged are considered unsafe and unsound.

C. Risk Layering. When features, such as interest only loans with reduced documentation or simultaneous second-lien loans, are layered, the Credit Union will demonstrate that mitigating factors support the underwriting decision and the borrower's repayment ability. Examples of mitigating factors include the following:

- i. Higher credit scores;
- ii. Lower LTV and DTI ratios;
- iii. Significant liquid assets;
- iv. Mortgage insurance; or
- v. Other credit enhancements.

D. Reduced Documentation. Reliance on reduced documentation, such as unverified income, will be used with caution. As the level of credit risk increases, the Credit Union will diligently verify and document a borrower's income and debt reduction capacity. For example, stated income should only be accepted if there are mitigating factors that clearly minimize the need for direct verification of repayment ability. The Credit Union will ensure documentation of income using recent W-2 statements, pay stubs, or tax returns.

E. Simultaneous Second-Lien Loans. These types of loans reduce owner equity and increase credit risk. A delinquent borrower with minimal or no equity in a property may have little incentive to work with the Credit Union to bring the loan current and avoid foreclosure. Loans with minimal or no owner equity will not have a payment structure that allows for delayed or negative amortization without other significant risk mitigating factors.

F. Introductory Interest Rates. When developing NTM terms, the Credit Union will consider the spread between the introductory rate and the fully indexed rate. Because initial and later monthly payments are based on these low introductory rates, a wide initial spread means that borrowers are more likely to experience negative amortization, severe payment shock, and an earlier-than-scheduled recasting of monthly payments. The Credit Union will minimize the likelihood of disruptive early re-castings and extraordinary payment shock when setting interest rates.

G. Non-Owner-Occupied Investor Loans. Borrowers financing these loans must qualify based on their ability to service the debt over the life of the loan. Loan terms will reflect an appropriate combined LTV ratio that considers the potential for negative amortization and maintains significant member equity over the life of the loan. Additionally, underwriting standards must require evidence that the borrower has sufficient cash reserves to service the loan, considering the possibility of extended periods of property vacancy and the variability of debt service requirements associated with NTMPs.

2. PORTFOLIO AND RISK MANAGEMENT PRACTICES. The Credit Union's risk management practices will keep pace with the growth and changing risk profile of NTM loan portfolios, and changes in the market.

A. Portfolio Limits. The maximum amount of exposure the Credit Union will accept in NTM loans is

[7331-1] percent of its loan portfolio.

- B. Loan Authorization.** Loan authorization will be approved pursuant to the Credit Union's Residential Real Estate Loans policy.
- C. Risk Assessment.** Credit Union management will create procedures to measure, monitor, and control the following NTM lending risks:
- i. **Credit Risk.** Management will create and periodically review internal controls to minimize its credit risk in the following areas:
 - a. **Member's Credit History.** The Credit Union will establish guidelines to address a borrower's financial capacity and credit history.
 - b. **Subprime Loans.** The Credit Union will comply with the specific credit risks identified in regulatory guidelines on sub-prime lending if the NTM loan is considered sub-prime.
 - c. **Capital and Allowances for Loan Losses.** Management will review and adjust the Credit Union's capital and allowances for loan losses (ALLL) in accordance with generally accepted accounting principles (GAAP) and regulatory guidelines to account for the added credit risks associated with NTM lending.
 - ii. **Transaction Risk.** NTM loans pose high levels of transaction risk. The Credit Union will ensure that its employees and agents adhere to its established underwriting guidelines for NTM loans.
 - iii. **Reputation Risk.** The Credit Union will ensure that borrowers are fully informed of the risks associated with NTMs in order to avoid a loss of community, member, and business support. Additionally, reputation risk exists when credit losses in mortgage loans sold to third parties exceed expectations. As a result, the Credit Union may determine that it is necessary to repurchase defaulted mortgages in order to protect its reputation and maintain access to the secondary markets. In this event, pursuant to NCUA Part 702, the Credit Union would be required to maintain risk-based capital against the entire pool or securitization.
 - iv. **Compliance Risk.** The Credit Union will create a compliance management program for its NTM lending activities to identify, monitor, and control the risks associated with the Credit Union's NTM lending program at all points in the process, recognizing the following compliance requirements of fair lending, consumer protection laws and regulations (as applicable):
 - a. Equal Credit Opportunity Act and (Regulation B).
 - b. Truth in Lending and (Regulation Z).
 - c. Fair Credit Reporting Act.
 - d. Fair Debt Collection Practices Act.
 - e. Credit Union Lending Limits.
 - f. **Member Complaints.** The Credit Union will monitor, analyze and resolve of consumer complaints concerning NTM loans, whether received by the institution or a third party participating in the transaction.

D. Concentrations. The Credit Union will monitor its concentrations in key portfolio segments, such as loan types, third-party originations, geographic area, and property occupancy status.

i. Concentrations will also be monitored by key portfolio characteristics, such as:

1. Loans with high combined LTV ratios;
2. Loans with high DTI ratios;
3. Loans with the potential for negative amortization;
4. Loans to borrowers with credit scores below established thresholds;
5. Loans with risk-layered features; and
6. Non-owner-occupied investor loans.

ii. The Credit Union will also consider the effect of employee incentive programs that could produce higher concentrations of NTM loans.

E. Controls. The Credit Union's quality control, compliance and audit procedures will focus on mortgage lending activities posing high risk. Controls to monitor compliance with underwriting standards are especially important.

i. **Samples.** The quality control function will regularly review a sample of NTM loans from all origination channels, along with a representative sample of underwriters to confirm that policies are being followed. Portfolio managers will be accountable for correcting deficiencies in a timely manner.

ii. **Exceptions.** Policy exceptions made by servicing and collections personnel will be monitored carefully to confirm that practices such as re-aging, payment deferrals, and loan modifications are not inadvertently increasing risk.

iii. **Legal Review.** Attention will be paid to appropriate legal review and ensuring that compensation programs do not encourage lending personnel to direct members to particular products.

iv. **Training and Adherence to Policies.** Member service and collections personnel will receive product-specific training on the features and potential member issues with NTMs. Lending personnel will be monitored to determine whether they are following policies and procedures related to these products.

F. Third-Party Originations. Oversight of third parties that are used to originate the NTM loans will involve monitoring the quality of originations so that they reflect the Credit Union's lending standards and compliance with applicable laws and regulations.

i. **Due Diligence.** The Credit Union will perform adequate due diligence of third parties pursuant to the Credit Union's Third Party Due Diligence and Oversight policy (**See Policy 2185**).

ii. **Monitoring.** Monitoring procedures will track loan quality by both origination source and key borrower characteristics. If appraisal, loan documentation, credit problems or consumer complaints

are discovered, the Credit Union will take immediate action.

G. Management Information and Reporting.

- i. **Risk Profile Changes.** Reporting systems will be designed to allow management to detect changes in the risk profile of its NTM loan portfolio. The structure and content will allow the isolation of key loan products, risk-layering loan features, and borrower characteristics.
- ii. **Deteriorating Performance.** Reporting will also be designed to allow management to recognize deteriorating performance in any of these areas before it has progressed too far. At a minimum, information should be available by loan type; by risk-layering features; by underwriting characteristics; and by borrower performance.
- iii. **Portfolio Volume and Performance Tracking.** Portfolio volume and performance will be tracked against expectations (at both the sub-portfolio and aggregate portfolio levels), internal lending standards and policy limits. Variance analysis, an integral part of establishing and adjusting risk tolerance levels, will be performed regularly to identify exceptions to policies and thresholds. Qualitative analysis will occur when actual performance deviates from the established policies and thresholds.

H. **Stress Testing.** The Credit Union will perform sensitivity analysis on key portfolio segments to identify and quantify events that may increase risks in a segment or the entire portfolio. The scope will generally include stress tests on key performance drivers such as interest rates, employment levels, economic growth, housing value fluctuations, and other factors beyond the Credit Union's immediate control.

I. **Capital Allowance for Loan and Lease Losses (ALLL).** An appropriate ALLL will be established for the estimated credit losses inherent in NTMs. The higher risk of loss for layered risks will also be considered in the ALLL.

- i. **Segmentation.** The Credit Union will segment its NTM loan portfolios into pools with similar credit risk characteristics. The basic segments typically include collateral and loan characteristics, geographic concentrations, and borrower qualifying attributes. Segments will also differentiate loans by payment and portfolio characteristics, such as loans on which borrowers usually make only minimum payments, mortgages with existing balances above original balances, and mortgages subject to sizable payment shock.

3. **CONSUMER PROTECTION ISSUES.** The Credit Union will take appropriate steps to alert its borrowers to the risks of NTMs. This information will be provided in a timely manner – before disclosures may be required under the Truth in Lending Act (TILA) or other laws – to assist borrowers in the product selection process.

A. **Concerns and Objectives.** In order to help borrowers make informed decisions when selecting and using NTMPs, all communications (including advertisements, oral statements, promotional materials, and monthly statements), will provide clear and balanced information about the relative benefits and risks of NTMs. In such communications, the Credit Union will strive to do the following:

- i. Focus on information important to consumer decision-making;
- ii. Highlight key information so that it will be noticed;
- iii. Employ a user-friendly and readily navigable format for presenting the information; and

iv. Use plain language, with concrete and realistic examples.

B. Highlighting Product Risks. Promotions materials and other product descriptions will provide information about the costs, terms, features, and risks of NTMs that can assist members in their product selection decisions, including information about the matters discussed below:

i. **Payment Shock.** Potential increases in payment obligations will be disclosed, including circumstances in which interest rates or negative amortization reach a contractual limit (including any balloon payments). Information will also describe when structural payment changes will occur (i.e., expiration of introductory rate or when amortizing payments are required), and what the new payment would be or how it would be calculated. Disclosures will also include that higher payments may be required at other points in time due to factors such as negative amortization or increases in the interest rate index.

ii. **Negative Amortization.** When this is possible under the terms of an NTM, members will be made aware of the potential for increasing principal balances and decreasing home equity, as well as other potentially adverse consequences (such as increased difficulty in refinancing the loan or to obtaining cash upon a sale of the home).

iii. *[Prepayment Penalties – Federal credit unions are prohibited from charging prepayment penalties under NCUA Part 701.21. If state law allows these to be charged, they should be disclosed.]*

iv. **Cost of Reduced Documentation Loans.** Members will be made aware of any pricing premium attached to these kinds of loans.

v. **Monthly Statements on Payment Option ARMs.** Information will be provided that enables members to make informed payment choices, including an explanation of each payment option available and the impact of that choice on loan balances. Statements will also provide the member's current loan balance, what portion of the member's previous payment was allocated to principal and to interest and, if applicable, the amount by which the principal balance increased.

vi. **Interest Rate Adjustment Notices.** The Credit Union will provide members with ARM Interest Rate Adjustment Notifications to meet the requirements of the Mortgage Servicing Rule, established by the Consumer Financial Protection Bureau as required by the Dodd-Frank Wall Street Reform and Consumer Protection Act. The notification will meet the requirements of the Rule and the policy guidelines of the Credit Union's Mortgage Servicing Policy.

C. Legal Risks. When offering NTMs, the Credit Union will ensure that it complies with all applicable laws and regulations. With respect to the disclosures and other information provided to borrowers, these include the following:

i. Truth in Lending and (Regulation Z);

ii. Section 5 of the Federal Trade Commission Act and Sections 1031 and 1036 of the Dodd-Frank Act, which prohibits unfair or deceptive acts or practices;

iii. Other federal laws, including the fair lending laws and the Real Estate Settlement Procedures Act (RESPA); and

iv. State laws, including those regarding unfair or deceptive acts or practices.

D. Practices to Avoid. The Credit Union will avoid the following practices when offering NTMs.

- i. Promoting NTMs by emphasizing the comparatively lower initial payments, but failing to include prominent information alerting the member to the risks;
- ii. Promoting payment patterns that are structurally not likely to occur (marketing for payment option ARMs that promote low predictable payments until the recast date should be avoided when circumstances in which the minimum payments are so low that negative amortization caps would be reached and higher payment obligations would be triggered before the scheduled recast, even if interest rates remain constant);
- iii. Giving borrowers unwarranted assurances or predictions about the future direction of interest rates (and, as a result, the borrower's future obligations);
- iv. Making one-sided representations about the cash savings or expanded buying power to be realized from NTMs in comparison with amortizing mortgages;
- v. Suggesting that initial minimum payments in a payment option ARM will cover accrued interest (or principal and interest) charges; and
- vi. Making misleading claims that interest rates or payment obligations for these products are "fixed."

Policy 7332: Loan Originator Compensation

Revised Date: 03/28/2015

Model Policy Revised Date: 03/28/2015

General Policy Statement:

[CUname] (Credit Union) will ensure that it complies with Regulation Z in an effort to protect its members from unfair or abusive mortgage lending practices that can arise from certain loan originator compensation and “steering” practices, while preserving responsible lending and sustainable homeownership. This policy applies to all “loan originators,” which includes employees of the Credit Union.

This policy applies to all closed-end transactions secured by real property or a dwelling, regardless of price or lien position. The policy does not apply to open-end credit plans including HELOCs, timeshare plans, or loans secured by real property that do **not** include a dwelling.

Guidelines:

1. DEFINITIONS.

- A. **Loan Originator** – With respect to a particular transaction, a person who for compensation or monetary gain, or in expectation of compensation or other monetary gain, takes a loan application, offers, arranges, assists a consumer in obtaining or apply to obtain, negotiates, obtains an extension of consumer credit for another person; or otherwise refers a person to a loan originator or creditor; or through advertising or other means of communication represents to the public that such person can or will perform any of these activities. This term includes Credit Union employees who meet this definition.
- i. The term does **not** apply to when a modification of an existing obligation’s terms do **not** constitute a refinancing under Regulation Z.
 - ii. The term does **not** apply to a Credit Union employee who does not take a consumer credit application or offer or negotiate credit terms available from the credit union based on the consumer’s financial characteristics, but who performs purely administrative or clerical tasks on behalf of a person who does engage in such activities.
- B. **Person** – A natural person or an organization (including those companies that close loan in their own names but use table funding from a third party).
- C. **Compensation** – For purposes of this policy, “compensation” includes salaries, commissions, and any financial or similar incentive provided to a loan originator. It also includes the following:
- i. Annual or other periodic bonus;
 - ii. Awards of merchandise, services, trips, or similar prizes;
 - iii. Amounts the loan originator retains and is not dependent on the label or name of any fee imposed in connection with the transaction; and
 - iv. “Up-charged” amounts paid to third parties (i.e., the difference between the actual charge owed to a third party for a bona fide and reasonable service and the marked-up charge).

D. **Administrative or clerical tasks** – Means the receipt, collection, and distribution of information common for the processing or underwriting of a loan in the residential mortgage industry and communication with a consumer to obtain information necessary for the processing or underwriting of a residential mortgage loan.

E. **Credit Terms** – includes rates, fees, and other costs. Credit terms are selected based on the consumer's financial characteristics when those terms are selected based on any factors that may influence a credit decision, such as debts, income, assets or credit history.

2. **PROHIBITION AGAINST CERTAIN PAYMENTS TO LOAN ORIGINATORS.** No person may compensate a loan originator, directly or indirectly, based on the terms and conditions of a loan transaction secured by real property or a dwelling. The compensation **cannot** change based on changed terms (for example, by lowering the compensation due to a negotiated lower interest rate).

A. Examples of compensation that is based on transaction terms or conditions include the following:

- i. Compensation based on the transaction's interest rate;
- ii. Compensation based on the transaction's annual percentage rate;
- iii. Compensation based on the collateral type;
- iv. Compensation based on the origination points or fees paid to the creditor or loan originator;
- v. Fees for creditor-required title insurance;
- vi. Compensation based on the borrower's loan-to-value ratio; or
- vii. Compensation based on the existence of a prepayment penalty.

3. **PERMITTED COMPENSATION.**

A. **Compensation Based on the Loan Amount.**

i. A loan originator may not receive compensation that is based on:

1. A term of a single transaction;
2. The terms of multiple transactions conducted by the loan originator; and
3. The terms of multiple transactions conducted by multiple loan originators, taken in the aggregate (such as most profits-based compensation plans).

Varying compensation to a loan originator based on the "product type" often will violate the rule because many "products" (which is not a defined term) in the market refer to different bundles of specific transaction terms.

- ii. To prevent circumvention of Regulation Z, the minimum or maximum amount will be consistent for each credit transaction. In other words, the Credit Union **cannot** pay a loan originator a fixed percentage that varies with different levels or tiers of amounts.
- iii. Higher interest rates can be offered to recoup the loan originator's compensation.

B. Compensation NOT Based on the Transaction's Terms and Conditions. The following are examples of the types of compensation that would **not** be considered part of a transaction's terms or conditions:

- i. The loan originator's overall loan volume (i.e., the total dollar amount of credit extended or total number of loans originated), delivered to the Credit Union.
- ii. The long-term performance of the originator's loans.
- iii. An hourly rate of pay to compensate the originator for the total number of hours worked.
- iv. The amount of credit extended if the loan originator compensation is based on a fixed percentage.
- v. Whether the consumer is a new or existing member of the Credit Union.
- vi. A payment that is fixed in advance for every loan the originator arranges for the Credit Union (e.g., \$600 for every loan arranged for the Credit Union, or \$1,000 for the first 1,000 loans arranged and \$500 for each additional loan arranged).
- vii. The percentage of applications submitted by the loan originator to the Credit Union that result in consummated transactions.
- viii. The quality of the loan originator's loan files (e.g., accuracy and completeness of the loan documentation) submitted to the Credit Union.

C. Consumers' Direct Payments to Loan Originators. In circumstances where the loan originator receives direct compensation from a member, the loan originator may **not** receive compensation from the Credit Union or any other person.

- i. Payments to a loan originator made out of loan proceeds are considered compensation received directly from the consumer, while payments derived from increased interest rates are **not**.
- ii. Points paid on a loan by a consumer to the Credit Union are **not** considered payments received directly from a consumer whether they are paid in cash or out of the loan proceeds. When points are paid by a consumer, the originator **cannot** also receive compensation directly from the consumer.

4. RECORD RETENTION. When the Credit Union pays loan originator compensation, it is required to retain the following records for three (3) years:

- A. A record of the compensation agreement with the loan originator that was in effect on the date the transaction's rate was set; and
- B. A record of the actual amount of compensation it paid to a loan originator in connection with each covered transaction.

5. PROHIBITION ON LOAN STEERING. Loan originators may **not** direct or "steer" a member to consummate a dwelling-secured loan based on the fact that the originator will receive greater compensation from the Credit Union in that transaction than in other transactions the originator offered or could have offered to a member, *unless* the consummated transaction is in the member's interest.

A. **“In the Member’s Interest.”** The Credit Union will provide members with information for each type of transaction the member has expressed an interest in and loan options that the loan originator has a good faith belief the member is likely to qualify for. In determining whether a transaction is in the member’s interest, the loan originator must compare that transaction to other possible loan offers available through the originator, and for which the loan originator in good faith believes the member is likely to qualify, at the time the transaction was offered to the member.

B. Safe Harbor – Loan Options Presented.

- i. A loan originator is deemed to be in compliance with the anti-steering provisions of Regulation Z when all of the following three requirements are met:
 - a. The loan originator obtains loan options from the creditors with which the originator regularly does business and, for each type of transaction in which the member expressed an interest (i.e., a fixed-rate, adjustable-rate, or a reverse mortgage), the member is presented with and able to choose from loan options that include:
 1. A loan with the lowest interest rate;
 2. A loan with the lowest interest rate without negative amortization, a prepayment penalty, interest-only payments, a balloon payment in the first 7 years of the life of the loan, a demand feature, shared equity, or shared appreciation; or, in the case of a reverse mortgage, a loan without a prepayment penalty, or shared equity, or shared appreciation; and
 3. A loan with the lowest total dollar amount of origination points or fees and discount points;
 - b. The loan originator believes in good faith that the member likely qualifies for the loan options presented to the member. The loan officer need only evaluate loan offers that are available from lenders with whom the loan originator regularly does business; and
 - c. For each type of transaction, if the originator presents more than three loans to the member, the originator highlights the loans that satisfy the criteria above.
- ii. The rules do **not** require loan originators to establish new business relationships in order to provide better options.
- iii. Loan originators may present fewer than three loans so long as the loans presented to the member satisfy the criteria above.

Policy 7335: Loans Secured by Unimproved Property

Revised Date: 12/30/2014

Model Policy Revised Date: 12/30/2014

General Statement:

[CUNAME] (Credit Union) will make unimproved real property loans in compliance with all applicable federal and state laws and regulations.

Guidelines:

1. **LOAN TERMS.** The Board of Directors will review and approve the Credit Union's policies on the extension of credit to members secured by unimproved real property. The Board of Directors from time to time will set interest rates and maturities for unimproved real property loans. If the Credit Union is a federally-chartered credit union, the maximum maturity for unimproved real property loans may not exceed fifteen years.
2. **QUALIFICATIONS OF LOAN OFFICERS.** Loan officers involved in making and administering unimproved real property loans will have a minimum of [7335-1] years of experience in processing, underwriting, and administering these loans.
3. **CREDIT EVALUATION.** Before making or recommending an unimproved real property loan, the loan officer will analyze and document the ability of the borrower to repay the loan. The loan officer will establish and maintain a separate loan file for each unimproved real property loan. The loan file will reflect the borrower's loan history at the Credit Union and will include copies of all documents and correspondence pertinent to each loan. This documentation will include when applicable, but not limited to, the following:
 - A. Loan Application
 - B. Financial Statement
 - C. Balance Sheet
 - D. Tax Returns
 - E. Credit Report
 - F. Guarantor Application (if applicable)

Each loan officer shall be responsible for obtaining sound valuations and approvals of collateral accepted as security for an unimproved real property loan. Every unimproved real property loan file will be reviewed by the [7335-2] for correct documentation and format prior to consideration by the [7335-3].

4. **COLLATERAL REQUIREMENTS.** All unimproved real property loan requests will contain an analysis of the Credit Union's collateral position. This will include, but is not limited to, the following specifics:
 - A. **Valuation.** How the Credit Union determined the value of the collateral.
 - B. **Control.** How the Credit Union can exercise control over the collateral.

C. Examination. On an [7335-3A] basis, the Credit Union will perform an examination of the value of the collateral. The Credit Union will examine the unimproved real property loans to determine that they are adequately collateralized based upon their current value and the outstanding loan balance.

D. Marketability.

- i. The Credit Union will make unimproved real property loans with the Credit Union as [7335-4] lien holder.
- ii. Unimproved real property loans will require appraisals by a Credit Union approved appraiser.
- iii. The loan-to-value ratio should not exceed [7335-5].
- iv. The Credit Union will require an ALTA title insurance policy.
- v. The county tax assessed value will be used to re-evaluate the real property on a periodic basis.

5. COLLECTION AND REPORTING.

A. The [7335-6] will be responsible for collection procedures as follows:

- i. Within [7335-7] of the delinquency on an unimproved real property loan, a late notice will be sent.
- ii. Within [7335-8] of a delinquency, telephone contact is to be attempted.
- iii. Within [7335-9] of delinquency, a certified letter will be sent giving formal notice that the loan is in default.

B. The [7335-9.1] will be responsible for the following:

- i. After [7335-9.2] of delinquency, the [7335-9.3] will do an analysis of the [7335-9.4] report and plan for future handling.
- ii. From the time of delinquency, the Credit Union will make every attempt to determine the cause of the situation and the efforts needed to solve the problem.
- iii. When the Credit Union's usual collection efforts fail, and legal or other outside collection efforts are the only recourse, the facts will be presented to the [7335-9.5] for a decision.

Policy 7350: Ability to Repay

Revised Date: 12/20/2017

Model Policy Revised Date: 12/20/2017

[Note: CU PolicyPro contains two “Ability to Repay” Policies – Policy 7350, Ability to Repay and Policy 7351, Small Creditor Ability to Repay. The credit union should use only one of these policies, based on whether or not the credit union meets the Small Creditor Definition.]

General Policy Statement:

[CUName] (Credit Union) will comply with the Ability to Repay Rule published by the Consumer Financial Protection Bureau (CFPB) and the provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act. The Ability to Repay Rule requires that the Credit Union make a reasonable, good-faith determination before or when a mortgage loan is consummated that the member has a reasonable ability to repay the loan, considering such factors as the member’s income or assets and employment status. The rule permits the Credit Union to make a determination on a member’s ability to repay based on a general ability to repay test or by making one or more types of qualified mortgages.

1. COVERED TRANSACTIONS.

- A. **Determination.** The Credit Union will determine if a mortgage loan transaction is a Covered Transaction according to the Ability to Repay Rule.
- B. **Covered Transaction.** A Covered Transaction is defined as a closed end consumer credit transaction that is secured by a dwelling, other than:
- i. A mortgage loan on a timeshare;
 - ii. A reverse mortgage;
 - iii. A temporary bridge loan with a term of 12 months or less;
 - iv. A construction loan with a term of 12 months or less;
 - v. An extension of credit made through a program administered by a Housing Finance Agency;
 - vi. An extension of credit made through a program authorized by sections 101 and 109 of the Emergency Economic Stabilization Act of 2008; or
 - vii. A modification of an existing covered loan transaction, as long as the modification is not refinance.
- C. **Obligation.** If the transaction is a Covered Transaction the Credit Union will determine a member’s ability to repay the loan based on the requirements of this policy.
- D. **Exemption.** If the transaction is not a Covered Transaction it is exempt from the Ability to Repay Rule and the Credit Union will use the underwriting policies, procedures and standards that apply to that type of transaction.

2. ABILITY TO REPAY STANDARD.

- A. **Good Faith Determination.** The Credit Union must make a reasonable, good-faith determination before or when a covered mortgage loan is consummated that the member has a reasonable ability to repay the loan.
- B. **Eight Underwriting Factors.** A reasonable, good-faith Ability to Repay (ATR) evaluation must include eight ATR underwriting factors including:
- i. Current or reasonably expected income or assets that the member relies on to repay the loan (other than the value of the property that secures the loan);
 - ii. Current employment status;
 - iii. Monthly mortgage payment of the loan under consideration;
 - iv. Monthly payment on other simultaneous loans secured by the same property;
 - v. Monthly payments for mortgage related obligations that could include (but is not limited to) property taxes, insurance, and homeowners association fees;
 - vi. Debts, alimony, and/or child support obligations;
 - vii. Monthly debt-to-income ratio and/or monthly residual income, calculated using the total of all of the mortgage and non-mortgage obligations listed in factors i. through vi. above, as a ratio of gross monthly income; **AND**
 - viii. The member's credit history.
- C. **Verification of Information.** The Credit Union will verify the information it relies on to evaluate a member's ability to repay a covered transaction using reasonable reliable third party records.

3. GENERAL QUALIFIED MORTGAGES.

- A. **Safe Harbor.** Qualified mortgages that are not higher-priced have an Ability to Repay safe harbor, meaning that they are conclusively presumed to comply with the rule.
- B. **Requirements.** For a member's mortgage to be considered a qualified mortgage, the transaction will need to meet all of Ability to Repay safe harbor requirements, which include:
- i. Regular periodic payments that are substantially equal (no two monthly payments should vary by more than 1 percent);
 - ii. Loan is underwritten based on a fully-amortizing schedule using the maximum rate permitted during the first five years after the date of the first periodic payment;
 - iii. Loan term cannot exceed 30 years;
 - iv. Loan does not negatively amortize or contain interest-only payments;
 - v. Loan does not include a balloon payment;

- vi. The member's total monthly debt-to-income ratio is no more than 43%; and
- vii. Points and fees for the transaction cannot exceed the Ability to Repay points and fees caps:
 - 1. 3% of the total loan amount for a loan greater than or equal to \$105,158;
 - 2. \$3,155 for a loan greater than or equal to \$63,095 but less than \$105,158;
 - 3. 5% of the total loan amount for a loan greater than or equal to \$21,032 but less than \$63,095;
 - 4. \$1,052 for a loan greater than or equal to \$13,145 but less than \$21,032; or
 - 5. 8% of the total loan amount for a loan less than \$13,145.

4. TEMPORARY QUALIFIED MORTGAGES.

- A. **Temporary Status.** The Ability to Repay Rule extends the Qualified Mortgage status to loans that are originated during a transitional period if they are eligible for purchase or guarantee by Fannie Mae or Freddie Mac (the government-sponsored enterprises (GSEs)) or for insurance or guarantee by federal agencies.
- B. **General Qualified Mortgage Requirements.** Loans falling under the Temporary QM definition must meet the same requirements as general Qualified Mortgage loans regarding prohibitions on risky features (negative-amortization, interest-only, and balloon-payment features), a maximum loan term of 30 years, and points-and-fees restrictions.
- C. **Expiration.**
 - i. The temporary provision for loans eligible for purchase by Fannie Mae or Freddie Mac expires:
 - 1. On the date that the GSEs exit federal conservatorship or receivership; or
 - 2. On January 10, 2021, **whichever occurs first.**
 - ii. The temporary provision for loans eligible for insurance or guarantee by federal agencies expires:
 - 1. On the date that the relevant agency's own Qualified Mortgage rules take effect; or
 - 2. On January 10, 2021, **whichever occurs first.**

5. HIGH PRICED QUALIFIED MORTGAGES.

- A. **Rebuttable Presumption.** Qualified Mortgages that are higher-priced have a rebuttable presumption that they comply with the Ability to Repay requirements if the Credit Union meets all of the requirements of the General Qualified Mortgages, but consumers can rebut that presumption.
- B. **Higher Priced Definition.** A Qualified Mortgage under the General or Temporary definition is higher-priced if:
 - i. It is a first-lien mortgage for which, at the time the interest rate on the loan was set, the APR was 1.5 percentage points or more over the Average Prime Offer Rate (APOR).

- ii. It is a subordinate-lien mortgage with an APR that, when the interest rate was set, exceeded the APOR by 3.5 percentage points or more.

6. QUALIFIED MORTGAGE CURE PROVISION

- A. The Credit Union will conduct a periodic review, as determined by the Credit Union, for covered transactions consummated on or before January 10, 2021 to determine if points and fees exceed the applicable limit for a Qualified Mortgage.
- B. If the Credit Union determines after consummation that the transactions' total points and fees exceed the Qualified Mortgage limits, the loan is not precluded from being a Qualified Mortgage provided that:
 - i. The loan meets the other requirements of being a Qualified Mortgage outlined in Sections 3 and 4;
 - ii. The Credit Union pays the borrower the amount specified in 6(D) within 210 days **prior to** the occurrence of any action by the borrower in connection with the loan, any written notice from the consumer that the transaction's points and fees exceed the applicable limit, or the borrower becoming 60 days past due on their loan; and
 - iii. The Credit Union maintains appropriate policies and procedures.
- C. If the conditions under 6(B) are satisfied, the credit union has the ability to refund the borrower, as a cure provision in order for that mortgage loan to be considered a Qualified Mortgage with the safe harbor protections.
- D. If the Credit Union determines to issue a refund to be a Qualified Mortgage, it must pay to the borrower, in a manner mutually agreeable to the borrower and credit union, an amount that is not less than the sum of the following:
 - i. The dollar amount by which the transactions' total points and fees exceeds the applicable Qualified Mortgage limit; and
 - ii. Interest on the dollar amount, calculated using the contract interest rate applicable during the period from consummation until the payment is made to the borrower.

- 7. **SUCCESSOR-IN-INTEREST.** If a member obligated on a consumer credit transaction secured by a dwelling passes away, the Credit Union may add a successor as obligor on the loan without having to meet the requirements of the Ability-to-Repay Rule.

Policy 7351: Small Creditor Ability to Repay

Revised Date: 12/20/2017

Model Policy Revised Date: 12/20/2017

[Note: CU PolicyPro contains two “Ability to Repay” Policies – Policy 7350, Ability to Repay and Policy 7351, Small Creditor Ability to Repay. The credit union should use only one of these policies, based on whether or not the credit union meets the Small Creditor Definition.]

General Policy Statement:

[CUName] (Credit Union) will comply with the Ability to Repay Rule published by the Consumer Financial Protection Bureau (CFPB) and the provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act. The Ability to Repay Rule requires that the Credit Union make a reasonable, good-faith determination before or when a mortgage loan is consummated that the member has a reasonable ability to repay the loan, considering such factors as the member’s income or assets and employment status. The rule permits the Credit Union to make a determination on a member’s ability to repay based on a general ability to repay test or by making one or more types of qualified mortgages.

1. SMALL CREDITOR.

A. **Small Creditor Definition.** The Credit Union qualifies as a small creditor if:

- i. The Credit Union and its affiliates had assets below \$2 billion (to be adjusted annually for inflation by the Bureau) at the end of the last calendar year; **AND**
- ii. The Credit Union extended no more than 2,000 closed-end covered residential mortgage transactions secured by first-lien that were sold, assigned or otherwise transferred to another person (non-portfolio loans).

2. COVERED TRANSACTIONS.

A. **Determination.** The Credit Union will determine if a mortgage loan transaction is a Covered Transaction according to the Ability to Repay rule.

B. **Covered Transaction.** A Covered Transaction is defined as a closed end consumer credit transaction that is secured by a dwelling, other than:

- i. A mortgage loan on a timeshare;
- ii. A reverse mortgage;
- iii. A temporary bridge loan with a term of 12 months or less;
- iv. A construction loan with a term of 12 months or less;
- v. An extension of credit made through a program administered by a Housing Finance Agency;
- vi. An extension of credit made through a program authorized by sections 101 and 109 of the Emergency Economic Stabilization Act of 2008; or

vii. A modification of an existing covered loan transaction, as long as the modification is not refinance.

C. **Determination.** If the transaction is a Covered Transaction the Credit Union will determine a member's ability to repay the loan based on the requirements of this policy.

D. **Exemption.** If the transaction is not a Covered Transaction it is exempt from the Ability to Repay Rule and the Credit Union will use the underwriting policies, procedures and standards that apply to that type of transaction.

3. ABILITY TO REPAY STANDARD.

A. **Good Faith Determination.** The Credit Union must make a reasonable, good-faith determination before or when a covered mortgage loan is consummated that the member has a reasonable ability to repay the loan.

B. **Eight Underwriting Factors.** A reasonable, good-faith Ability to Repay evaluation must include eight ATR underwriting factors including:

i. Current or reasonably expected income or assets that the member relies on to repay the loan (other than the value of the property that secures the loan);

ii. Current employment status;

iii. Monthly mortgage payment of the loan under consideration;

iv. Monthly payment on other simultaneous loans secured by the same property;

v. Monthly payments for mortgage related obligations that could include (but is not limited to) property taxes, insurance, and homeowners association fees;

vi. Debts, alimony, and/or child support obligations;

vii. Monthly debt-to-income ratio and/or monthly residual income, calculated using the total of all of the mortgage and non-mortgage obligations listed in factors i. through vi. above, as a ratio of gross monthly income; **AND**

viii. The member's credit history.

C. **Verification of Information.** The Credit Union will verify the information it relies on to evaluate a member's ability to repay a covered transaction using reasonable reliable third party records.

4. GENERAL QUALIFIED MORTGAGES.

A. **Safe Harbor.** Qualified mortgages that are not higher-priced have an Ability to Repay safe harbor, meaning that they are conclusively presumed to comply with the rule.

B. **Requirements.** For a member's mortgage to be considered a qualified mortgage the transaction will need to meet all of Ability to Repay safe harbor requirements, which include:

- i. Regular periodic payments that are substantially equal (no two monthly payments should vary by more than 1 percent);
- ii. Loan is underwritten based on a fully-amortizing schedule using the maximum rate permitted during the first five years after the date of the first periodic payment;
- iii. Loan term cannot exceed 30 years;
- iv. Loan does not negatively amortize or contain interest-only payments;
- v. Loan does not include a balloon payment;
- vi. The member's total monthly debt-to-income ratio is no more than 43%; and
- vii. Points and fees for the transaction cannot exceed the Ability to Repay points and fees caps:
 1. 3% of the total loan amount for a loan greater than or equal to \$105,158;
 2. \$3,155 for a loan greater than or equal to \$63,095 but less than \$105,158;
 3. 5% of the total loan amount for a loan greater than or equal to \$21,032 but less than \$63,095;
 4. \$1,052 for a loan greater than or equal to \$13,145 but less than \$21,032; or
 5. 8% of the total loan amount for a loan less than \$13,145.

5. TEMPORARY QUALIFIED MORTGAGES.

A. Temporary Status. The Ability to Repay Rule extends the Qualified Mortgage status to loans that are originated during a transitional period if they are eligible for purchase or guarantee by Fannie Mae or Freddie Mac (the government-sponsored enterprises (GSEs)) or for insurance or guarantee by federal agencies.

B. General Qualified Mortgage Requirements. Loans falling under the Temporary QM definition must meet the same requirements as general Qualified Mortgage loans regarding prohibitions on risky features (negative-amortization, interest-only, and balloon-payment features), a maximum loan term of 30 years, and points-and-fees restrictions.

C. Expiration.

- i. The temporary provision for loans eligible for purchase by Fannie Mae or Freddie Mac expires:
 1. On the date that the GSEs exit federal conservatorship or receivership; or
 2. On January 10, 2021, **whichever occurs first.**
- ii. The temporary provision for loans eligible for insurance or guarantee by federal agencies expires:
 1. On the date that the relevant agency's own Qualified Mortgage rules take effect; or
 2. On January 10, 2021, **whichever occurs first.**

6. HIGH PRICED QUALIFIED MORTGAGES.

A. **Rebuttable Presumption.** Qualified Mortgages that are higher-priced have a rebuttable presumption that they comply with the Ability to Repay requirements if the Credit Union meets all of the requirements of the General Qualified Mortgages, but consumers can rebut that presumption.

B. **Higher Priced Definition.** A Qualified Mortgage for small creditors or for balloon-payment QMs under the General or Temporary definition is higher-priced if:

- i. It is a first or subordinate lien mortgage for which, at the time the interest rate on the loan was set, the APR was 3.5 percentage points or more over the Average Prime Offer Rate (APOR).

7. SMALL CREDITOR QUALIFIED MORTGAGES.

A. **Requirements.** For a member's mortgage to be considered a small creditor qualified mortgage the transaction will need to meet all of Ability to Repay small creditor safe harbor requirements, which include:

- i. Loan is underwritten based on a fully-amortizing schedule using the maximum rate permitted during the first five years after the date of the first periodic payment;
- ii. Loan term cannot exceed 30 years;
- iii. Loan does not negatively amortize or contain interest-only payments;
- iv. Loan does not include a balloon payment;
- v. Loan must not be subject to a forward commitment;
- vi. The member's income or assets, and debts, alimony, and child support must be considered and verified;
- vii. The member's debt-to-income ratio (DTI) or residual income must be considered, although the rule sets no specific threshold for DTI or residual income; and
- viii. Points and fees for the transaction cannot exceed the Ability to Repay points and fees caps found in Section 4.B.vii.

B. **Sale of Small Creditor Qualified Mortgages.** Small Creditor Qualified Mortgages generally lose their Qualified Mortgage status if the Credit Union sells or otherwise transfers them less than three years after consummation. However, a Small Creditor Qualified Mortgage keeps its Qualified Mortgage status if it meets **ONE** of these criteria:

- i. The loan is sold more than three years after consummation;
- ii. The loan is sold to another creditor that meets the small creditor criteria regarding number of originations and asset size, at any time.
- iii. The loan is sold pursuant to a supervisory action or agreement, at any time.
- iv. The loan is transferred as part of a merger or acquisition of or by the creditor, at any time.

8. BALLOON PAYMENT QUALIFIED MORTGAGES.

A. Balloon Payment Qualified Mortgages.

- i. Credit unions that meet the small creditor definition and extended at least one covered transaction on a property that is located in a rural or underserved area, as determined by the CFPB, in the previous calendar year or if the application was received before April 1 of the current calendar year, during either of the two preceding calendar years are eligible for the Balloon Payment Qualified Mortgage safe harbor.

B. Requirements. For a member's mortgage to be considered a small creditor balloon payment qualified mortgage the transaction will need to meet all of safe harbor requirements, which include:

- i. Loan does not negatively amortize or contain interest-only payments;
- ii. Loan has a term of five years or longer;
- iii. Loan must have a fixed interest rate and periodic payments (other than the balloon payment) that would fully amortize the loan over 30 years or less;
- iv. Loan must not be subject to a forward commitment;
- v. The member must be able to make the scheduled periodic payments (including mortgage-related obligations) other than the balloon payment;
- vi. The member's income or assets, and debts, alimony, and child support must be considered and verified.
- vii. The member's debt-to-income ratio (DTI) or residual income must be considered, although the rule sets no specific threshold for DTI or residual income; and
- viii. Points and fees for the transaction cannot exceed the Ability to Repay points and fees caps found in Section 4.B.vii.

C. Sale of Small Creditor Balloon Payment Qualified Mortgages. Small Creditor Balloon Payment Qualified Mortgages generally lose their Qualified Mortgage status if the Credit Union sells or otherwise transfers them less than three years after consummation. However, a Small Creditor Balloon Payment Qualified Mortgage keeps its Qualified Mortgage status if it meets **ONE** of these criteria:

- i. The loan is sold more than three years after consummation;
- ii. The loan is sold to another creditor that meets the small creditor criteria regarding number of originations and asset size, at any time.
- iii. The loan is sold pursuant to a supervisory action or agreement, at any time.
- iv. The loan is transferred as part of a merger or acquisition of or by the creditor, at any time.

9. QUALIFIED MORTGAGE CURE PROVISION

A. The Credit Union will conduct a periodic review, as determined by the Credit Union, for covered

transactions consummated on or before January 10, 2021 to determine if points and fees exceed the applicable limit for a Qualified Mortgage.

B. If the Credit Union determines after consummation that the transactions' total points and fees exceed the Qualified Mortgage limits, the loan is not precluded from being a Qualified Mortgage provided that:

- i. The loan meets the other requirements of being a Qualified Mortgage outlined in Sections 4, 5, 7 and 8;
- ii. The Credit Union pays the borrower the amount specified in 9(D) within 210 days **prior to** the occurrence of any action by the borrower in connection with the loan, any written notice from the consumer that the transaction's points and fees exceed the applicable limit, or the borrower becoming 60 days past due on their loan; and
- iii. The Credit Union maintains appropriate policies and procedures.

C. If the conditions under 9(B) are satisfied, the credit union has the ability to refund the borrower, as a cure provision in order for that mortgage loan to be considered a Qualified Mortgage with the safe harbor protections.

D. If the Credit Union determines to issue a refund to be a Qualified Mortgage, it must pay to the borrower, in a manner mutually agreeable to the borrower and credit union, an amount that is not less than the sum of the following:

- i. The dollar amount by which the transactions' total points and fees exceeds the applicable Qualified Mortgage limit; and
- ii. Interest on the dollar amount, calculated using the contract interest rate applicable during the period from consummation until the payment is made to the borrower.

10. **SUCCESSOR-IN-INTEREST.** If a member obligated on a consumer credit transaction secured by a dwelling passes away, the Credit Union may add a successor as obligor on the loan without having to meet the requirements of the Ability-to-Repay Rule.

Policy 7360: Mortgage Servicing Rules

Revised Date: 03/28/2018

Model Policy Revised Date: 03/28/2018

[Note: CU PolicyPro contains two “Mortgage Servicing Rules” Policies – Policy 7360, Mortgage Servicing Rules and Policy 7361, Small Servicer Mortgage Servicing Rules. The credit union should use only one of these policies, based on whether or not the credit union meets the Small Servicer Definition.]

General Policy Statement:

[CUname] (Credit Union) will comply with the Mortgage Servicing Rule published by the Consumer Financial Protection Bureau (CFPB) and the provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) amended the Real Estate Settlement Procedures Act (RESPA) of 1974, which is implemented by Regulation X, and the Truth in Lending Act (TILA), which is implemented by Regulation Z, with regard to the servicing of certain residential mortgage loans.

The Mortgage Servicing Rule applies to Regulation X including: error resolution and information requests; force-placed insurance; general servicing policies, procedures, and requirements; early intervention with delinquent members; continuity of contact with delinquent members; and loss mitigation; and Regulation Z including: interest rate adjustment notices for ARMs; prompt crediting of mortgage payments and responses to requests for payoff amounts; and periodic statements for mortgage loans, which are covered in this policy.

1. DEFINITIONS

- A. **Delinquency.** A period of time during which a borrower and a borrower’s mortgage loan obligation are delinquent. A borrower and a borrower’s loan obligation are delinquent beginning on the date a periodic payment sufficient to cover principal, interest and, if applicable, escrow becomes due and unpaid, until such time as no periodic payment is due and unpaid {Regulation X - 1024.31}.
- B. **Successor in Interest.** A person to whom an ownership interest in a property securing a mortgage loan subject to the Mortgage Servicing subpart (1024.31) or in a dwelling securing a closed-end consumer credit transaction (1026.2) is transferred from a borrower, provided that the transfer is:
- i. A transfer by devise, descent, or operation of law on death of a joint tenant or tenant by the entirety;
 - ii. A transfer to a relative resulting from the death of a borrower;
 - iii. A transfer where the spouse or children of the borrower become an owner of the property;
 - iv. A transfer resulting from a decree of dissolution of marriage, legal separation agreement, or from an incidental property settlement agreement, by which the spouse of the borrower becomes an owner of the property; or
 - v. A transfer into an inter vivos trust in which the borrower is and remains a beneficiary and which does not relate to a transfer of rights of occupancy in the property.
- C. **Confirmed Successor in Interest.** A successor in interest once a servicer has confirmed the successor in interest’s identity and ownership interest in a property that secures a mortgage loan subject to this

subpart.

2. COVERED TRANSACTIONS.

A. **Covered Transaction.** A Covered Transaction for this policy, under the Mortgage Servicing Rules includes closed end consumer credit transactions that are secured by a dwelling. Credit Unions are subject to this policy and all of the provisions of the mortgage servicing rules if they are not considered a small servicer. Small servicers would include:

- i. Credit Unions that service less than 5,000 mortgage loans per year, AND
- ii. Credit Unions that service only mortgage loans for which it (or an affiliate) is the creditor or assignee.

3. POLICIES, PROCEDURES AND REQUIREMENTS.

A. **Policy, Procedure and Requirement Establishment.** The Credit Union will establish policies and procedures reasonably designed to achieve the following objectives:

- i. Accessing and providing timely and accurate information;
- ii. Properly evaluating loss mitigation applications;
- iii. Promptly identify and obtain documents or information not in the member's control that the credit union requires to determine loss mitigation options.
- iv. Facilitating oversight of, and compliance by, service providers;
- v. Facilitating transfer of information during servicing transfers;
- vi. Informing members of the written error resolution and information request procedures; **and**
- vii. Setting standards for record retention and service file creation.

4. SUCCESSORS IN INTEREST.

- A. The Credit Union will maintain appropriate policies and procedures reasonably designed to ensure prompt communication with any potential or confirmed successor in interest when notified of the death of a borrower or any transfer of property securing a mortgage loan.
- B. The Credit Union will determine and communicate the appropriate documentation needed to confirm the potential successor in interest's identity and ownership interest in the property.
- C. Upon receipt of documentation, the Credit Union will promptly notify the successor in interest if they have confirmed them as a successor in interest or if additional documentation is required.
- D. When the Credit Union has confirmed a successor in interest, they will treat them as a borrower for purposes of the Mortgage Servicing rules, including providing disclosures and information required for:
 - i. Escrow accounts, payments and account balances;

- ii. Mortgage servicing transfers and mortgage transfers;
- iii. Error resolution;
- iv. Information requests;
- v. Force-placed insurance;
- vi. Early intervention;
- vii. Loss mitigation;
- viii. Post-consummation events;
- ix. Payoff statements; and
- x. Periodic statements.

E. If the Credit Union provides the confirmed successor in interest (who is not liable on the loan) the written notice and disclosure form in compliance with Regulation X (1024.32(c)), the Credit Union need not provide the written disclosures for the mortgage servicing requirements below or comply with the live contact requirements under the mortgage servicing rules, until either the confirmed successor in interest assumes the mortgage loan under state law or provides the Credit Union with the executed acknowledgement form:

- i. Escrow accounts (1024.17);
- ii. Mortgage servicing transfers (1024.33);
- iii. Timely escrow payments and treatment of escrow account balances (1024.34);
- iv. Force-placed insurance (1024.37);
- v. Early intervention requirements for certain borrowers (1024.39);
- vi. Rate adjustments with corresponding change in payment (1026.20(c));
- vii. Initial rate adjustments (1026.20(d));
- viii. Escrow account cancellation notice for certain mortgage transactions (1026.20(e));
- ix. Mortgage transfer disclosure (1026.39(b)); and
- x. Periodic statements (1026.41).

5. SERVICING FILE.

A. **Servicing File Documentation.** The Credit Union will maintain the following documents and data:

- i. A schedule of all transactions credited or debited to the mortgage loan account, including escrow and suspense accounts;

- ii. A copy of the security instrument that establishes the lien securing the mortgage loan;
- iii. Any notes Credit Union employees create that reflect communications with the member about the mortgage loan account;
- iv. A report of the data fields the Credit Union's electronic system creates related to the member's mortgage loan account, such as the terms of the member's mortgage loan, the occurrence of automated or manual collection calls, loss mitigation evaluation information, owner or assignee information, or any credit reporting history; **and**
- v. Copies of documents and information members submit as part of loss mitigation or error resolution requests.

B. Servicing File Timing. The Credit Union will compile the required servicing information into a servicing file within 5 days of loan consummation.

C. Member's Request. If a member makes a written request for their servicing file, the Credit Union will give them a copy of the information contained in their servicing file, subject to the procedures and limitations set forth in the information request provisions of the Mortgage Servicing Rules.

6. MORTGAGE SERVICING TRANSFER NOTICE.

A. Timing. The Credit Union purchasing the servicing rights of a covered mortgage are required to mail or deliver required disclosures on or before the 30th calendar day following the date of transfer.

B. Content of Disclosure. The disclosure should identify the mortgage loan that was sold, assigned or otherwise transferred, in addition to the below:

- i. The name, address, and telephone number of the Credit Union;
- ii. The date of the transfers;
- iii. The name, address and telephone number of an agent or party authorized to receive notice of the right to rescind and resolve issues concerning the member's payments on the loan;
- iv. Where transfer of ownership of the loan to the Credit Union is or may be recorded in public records (or has not);
- v. Partial payment policy, indicating how the Credit Union will treat periodic payments that are less than the full amount due and a statement that if the loan is sold a new lender may have a different policy (Section 8.C.).

C. Pending Loss Mitigation. If the Credit Union acquires servicing of a mortgage loan for which a loss mitigation application is pending as of the transfer date, generally the Credit Union will comply with the requirements for that loss mitigation application within the timeframes that were applicable to the transferor servicer based on the date the transferor servicer received the loss mitigation application.

7. PERIODIC BILLING STATEMENTS.

A. Covered Mortgage Accounts and Exemptions. The Credit Union will provide periodic statements to members with closed end consumer credit transactions that the Credit Union services under the Mortgage Servicing Rule; with the exception of:

- i. Open-end lines of credit and home-equity lines of credit;
- ii. Reverse mortgages;
- iii. Timeshare loans;
- iv. Fixed rate loans with coupon books that meet certain requirements;
- v. Members in bankruptcy; **and**
- vi. Loans serviced by small servicers.

B. Sending Periodic Billing Statements. Mortgage servicers covered under the Mortgage Servicing Rule must send a periodic statement to members each billing cycle.

- i. A billing cycle corresponds to the frequency of payments. If a loan requires the member to make monthly payments, that member will have a monthly billing cycle. Likewise, if a member makes quarterly payments (4 payments a year), that member will have a quarterly billing cycle.
- ii. The Credit Union is not required to send statements more frequently than once a month.
- iii. The statement must be delivered, emailed, or placed in the mail within 4 days of the close of the courtesy period of the previous billing cycle.

C. Discontinuing Periodic Billing Statements. The Credit Union should not send periodic statements when:

- i. The loan is transferred to another servicer;
- ii. The loan is fully paid or paid off through a refinance or sale of the house; or
- iii. The loan is discharged in a foreclosure sale.

D. Certain Members in Bankruptcy. The Credit Union is exempt and will also discontinue sending periodic billing statements for a mortgage loan if the borrower on the mortgage loan is a debtor in bankruptcy or has discharged personal liability for the mortgage loan pursuant to chapters 7, 11, 12 or 13; AND with regard to any borrower on the mortgage loan that:

- i. The consumer requests in writing that the servicer cease providing a periodic statement or coupon book;
- ii. The consumer's bankruptcy plan provides that the consumer will surrender the dwelling securing the mortgage loan, provides for the avoidance of the lien securing the mortgage loan, or otherwise does not provide for, as applicable, the payment of pre-bankruptcy arrearage or the maintenance of payments due under the mortgage loan;
- iii. A court enters an order in the bankruptcy case providing for the avoidance of the lien securing the mortgage loan, lifting the automatic stay with regard to the dwelling securing the mortgage loan, or requiring the servicer to cease providing a periodic statement or coupon book; or
- iv. The consumer files with the court overseeing the case a statement of intention identifying an intent

to surrender the dwelling securing the mortgage loan and a consumer has not made any partial or periodic payment on the loan after the commencement of the consumer's bankruptcy case.

The Credit Union ceases to qualify for the exemption and will be required to resume providing periodic billing statements if the borrower reaffirms personal liability for the loan or any consumer on the loan requests in writing that the Credit Union provide a periodic statement or coupon book (unless a court enters an order in the bankruptcy case requiring the Credit Union to cease providing a periodic statement or coupon book).

E. Content of the Periodic Billing Statements. The Credit Union will provide the information required by the Mortgage Servicing Rule in a clear and conspicuous manner and group the information as required and in a substantially similar manner to Appendix H-30 of Regulation Z.

i. The information that the Credit Union will include on the billing statement includes:

1. Amount due;
2. Explanation of the amount due;
3. Past payment breakdown;
4. Transaction activity;
5. Partial payment information;
6. Contact information;
7. Account information; **and**
8. Delinquency information.

ii. The Credit Union may at its own discretion include a tear-off coupon or the use of legal-size paper; however this is not required by the rules.

8. COUPON BOOKS.

A. Coupon Book Qualifications. The Credit Union may provide the member with a coupon book for their covered mortgage transaction in accordance with the Mortgage Servicing Rule as long as:

- i. The member has a fixed-rate loan. (The Credit Union will send periodic statements to all members who have ARMs);
- ii. The coupon book includes the information required to be printed on the coupons and in the coupon book;
- iii. The Credit Union provides requested information to members upon request; **and**
- iv. The Credit Union provides specific required information to members who are 45 days or more delinquent.

B. Coupon Book Information. The member's mortgage coupon book will include information as follows:

i. Each coupon in a member's coupon book will include:

1. The payment due date;
2. The amount of any late payment fee and the date on which the Credit Union will charge a late fee if payment is not received; **and**
3. The amount due

ii. The member's coupon book will also include:

1. The outstanding principal balance at the beginning of the time period covered by the coupon book;
2. The current interest rate;
3. The existence of any prepayment penalty;
4. HUD's toll-free telephone number ((800) 569-4287) to access contact information for homeownership counselors or counseling organizations and the website address for either the Bureau's information page on homeownership counselors (<http://www.consumerfinance.gov/mortgagehelp/>) or HUD's list of homeownership counselors and counseling organizations (<http://www.hud.gov/offices/hsg/sfh/hcc/hcs.cfm>); **and**
5. Contact information on where the member can get more information about their loan.

C. Providing Additional Information as Required. If the Credit Union chooses to provide members with a coupon book in lieu of a periodic billing statement the Credit Union will also make additional information available to members with mortgage loans by telephone, in writing, in person, or electronically (if the member consents) upon request, including:

i. An explanation of the amount due including:

1. The periodic payment amount (including a breakdown showing how the Credit Union will apply the payment to principal, interest, and escrow);
2. The total fees or charges the Credit Union imposed since the last statement; **and**
3. Any payment amount past due.

ii. A breakdown of past payments, including:

1. The total of all payments the Credit Union received since the previous statement, including a breakdown showing the amount, if any, the Credit Union applied to principal, interest, escrow, fees and charges, and the amount, if any, the Credit Union sent to a suspense or unapplied funds account.
2. The total of all payments the Credit Union received since the beginning of the calendar year, including a breakdown showing the amount, if any, the Credit Union applied to principal, interest, escrow, fees and charges, and the amount, if any, the Credit Union is currently

holding in a suspense or unapplied funds account.

iii. A list of the transaction activity that occurred since the last statement, including:

1. The date;
2. Brief description; **and**
3. The amount of each transaction on the list.

D. Modified Periodic Statements and Coupon Books for Borrowers in Bankruptcy. Depending on the type of bankruptcy for the borrower, the Credit Union will make adjustments to the periodic statement or coupon book as required by Regulation Z. The Credit Union will also structure their modified periodic statements or coupon books in a substantially similar manner to Appendix H-30 of Regulation Z.

9. INTEREST RATE ADJUSTMENT NOTICES.

A. Interest Rate Adjustment Notification Qualification. The Credit Union will make disclosures in connection with the initial reset of an adjustable-rate mortgage (ARM) and each time an interest rate adjustment results in a payment change. This requirement includes exceptions when:

- i. ARMs have a term of 1 year or less
- ii. The ongoing interest rate adjustment disclosure is not required the first time the ARM adjusts if the first payment at the adjusted level is due within 210 days after consummation and the newly disclosed interest rate in the notice at consummation was not an estimate.
- iii. The ongoing interest rate adjustment notice also is not required if the Credit Union is acting as a debt collector under the FDCPA to whom the member has sent a written cease communication request; however, the Credit Union will still provide the initial interest rate adjustment notice.

B. Notification Contents. The Credit Union will provide the information required by the Mortgage Servicing Rule in a clear and conspicuous manner and group the information as required and in a substantially similar manner to the model and sample forms in Appendix H-4 of Regulation Z. The information that the Credit Union will include on the Notification of Interest Rate Adjustment includes:

- i. Date of the disclosure;
- ii. An explanation that under the terms of the loan, the interest rate may change;
- iii. The effective date of the adjustment and future adjustments;
- iv. The current and new rates;
- v. The current and new payments and the date the first payment is due;
- vi. Payment allocation and other information for interest only or negatively amortizing loans;
- vii. An explanation of how the rate is determined;
- viii. Any limits on the interest rate or payment increases;

- ix. An explanation of how the new payment is determined;
- x. The circumstances under which a prepayment penalty may be imposed;
- xi. The Credit Union's telephone number;
- xii. Alternatives to paying the new rate; **and**
- xiii. Housing counseling information; which includes:
 - 1. The website to access either the CFPB list or the HUD list of homeownership counselors and counseling organizations;
 - 2. The HUD toll-free number to access the HUD list of homeownership counselors and counseling organizations ((800) 569-4287); **and**
 - 3. The CFPB website to access contact information for state housing finance authorities.

C. Notification Delivery.

i. **Initial Disclosure.** The Credit Union will send the initial interest rate adjustment disclosure at least 210 days, but no more than 240 days, before the first payment at the adjusted level is due.

- 1. If the first payment at the adjusted level is due within the first 210 days after consummation, provide the disclosures at consummation.
- 2. For the initial interest rate notice, if the new interest rate (or the new payment calculated from the new interest rate) is not known as of the date of the disclosure, the Credit Union will use an estimate and label it as such. This estimate will be based on the index as reported within 15 business days prior to the date of the disclosure.
- 3. The initial interest rate adjustment disclosure will be a separate document, but may be on the same document as other information and may be sent in the same envelope with other disclosures, such as the periodic statement.

ii. **Ongoing Disclosure.** The Credit Union will send the ongoing interest rate adjustment notice disclosing an interest rate adjustment causing a payment change at least 60 days, but no more than 120 days, before the first payment at the adjusted level is due. The ongoing interest rate adjustment disclosure will be segregated from other information but may be on the same document as other information and may be sent in the same envelope with other disclosures, such as the periodic statement.

iii. **Special Timing Requirements.** Special timing requirements apply to frequently-adjusting ARMs, ARMs with short look-back periods, and ARMs adjusting soon after consummation:

- 1. If an ARM has regularly scheduled interest rate adjustments occurring every 60 days or more frequently, the Credit Union will provide the disclosures at least 25 days, but no more than 120 days, before the first payment at the adjusted level is due.
- 2. If an ARM was originated prior to January 10, 2015, and the adjusted interest rate and payment are calculated based on an index figure available less than 45 days prior to the

adjustment date, the Credit Union will provide the disclosures at least 25 days, but no more than 120 days, before the first payment at the adjusted level is due.

3. If the first adjustment to an ARM is to occur within 60 days of consummation and the notice the Credit Union provided at consummation contained an estimated adjusted interest rate, the Credit Union will provide the disclosure as soon as practicable, but not less than 25 days before the first payment at the adjusted level is due.

10. PROMPT PAYMENT CREDITING.

- A. **Reasonableness.** The Credit Union's payment requirements must be reasonable and cannot make it difficult for most members to make conforming payments.
- B. **Payment Crediting.** The Credit Union will credit a periodic payment to the member's loan account as of the day of receipt, except when a delay in crediting does not result in any charge to the member, or in the reporting of negative information to a consumer reporting agency.
 - i. In cases where the Credit Union specified in advance and in writing requirements for the member to follow when making payments and then accepts a payment that does not conform to the requirements, the Credit Union may wait up to 5 days after receipt to credit the payment.
- C. **Partial Payments.** A partial payment is a member loan payment that does not cover the essential components of a periodic payment (principal, interest, and escrow if applicable). If the Credit Union receives a member's partial loan payment the Credit Union has the option of:
 - i. Crediting the partial payment upon receipt;
 - ii. Returning the partial payment to the member; or
 - iii. Holding the payment in a suspense or unapplied funds account.
 1. If the member's payment is applied to a suspense account the Credit Union will disclose on the member's periodic statement the total amount of funds being held in the suspense or unapplied funds account; **and**
 2. When sufficient funds are accumulated to cover a periodic payment, the Credit Union will credit them as a periodic payment.

11. PAYOFF STATEMENTS.

- A. **Payment Statement Delivery.** If a member makes a written request for a payoff statement, the Credit Union will provide the statement within 7 business days.
 - i. If the Credit Union is not able to provide the statement within 7 business days because the loan is in bankruptcy or foreclosure, the loan is a reverse mortgage or shared appreciation mortgage, or because of natural disasters or other similar circumstances, the payoff statement will be provided within a reasonable time.

12. DELINQUENT LOAN ACCOUNTS.

- A. **Live Contact.** The Credit Union will at a minimum, establish or make good faith efforts to establish live

contact with a delinquent member no later than the 36th day of delinquency and again no later than 36 days after each payment due date so long as the member remains delinquent. If appropriate, the Credit Union will, promptly inform the member of loss mitigation options that may be available.

- i. The Credit Union will provide loss mitigation information orally, in writing, or through electronic communication.
- ii. The Credit Union will provide delinquent members with access to personnel who can assist them with loss mitigation options. The Credit Union will assign personnel to delinquent members by the time the Credit Union provides the required written notice, but not later than the 45th day of delinquency.
- iii. Personnel assigned to delinquent members will be able to respond to inquiries and assist the member with available loss mitigation options until the member has made (without incurring a late charge), two consecutive payments in accordance with the terms of the agreement.
- iv. Personnel will provide delinquent members with accurate information including:
 1. The specific loss mitigation options made available to them by the Credit Union;
 2. The action the member must take to be evaluated for loss mitigation options, including how to submit a complete loss mitigation application, get it evaluated and, if applicable, how to appeal an application that is denied;
 3. The status of a member's submitted loss mitigation application;
 4. The circumstances under which the Credit Union may make a referral to foreclosure;
 5. Loss mitigation deadlines set by the Credit Union and the provisions of the Mortgage Servicing Rules;
 6. The ability to timely retrieve a complete record of the member's payment history and written information that the member has provided to the servicer in connection with a loss mitigation application; **and**
 7. Procedures on how to submit a written notice of error or an information request.

B. Written Notification. The Credit Union will provide the member with written information about any available loss mitigation options no later than the 45th day of delinquency and again no later than 45 days after each payment due date so long as the member remains delinquent (notice does not need to be provided more than once during a 180-day period, beginning on the date the written notice is provided). The Credit Union will provide the information required by the Mortgage Servicing Rule in a clear and conspicuous manner and group the information as required and in a substantially similar manner to the model clauses in MS-4 of Regulation X. The information that the Credit Union will include on the Loss Mitigation Notice includes:

- i. A statement encouraging the member to contact the Credit Union;
- ii. The telephone number for the personnel assigned to the member;
- iii. The Credit Union's mailing address;

- iv. If applicable, a statement providing a brief description of examples of loss mitigation options that may be available;
- v. If applicable, either application instructions or a statement informing the member how to obtain more information about loss mitigation options from the Credit Union;
- vi. The website to access either the CFPB list or the HUD list of homeownership counselors or counseling organizations, and the HUD toll-free telephone number to access homeownership counselors or counseling organizations; **and**
- vii. The Credit Union may also include additional information that it determines to be helpful, or which may be required by applicable law or the Credit Union.

C. Members in Bankruptcy. While a member is a debtor in bankruptcy (Chapter 11), the Credit Union is exempt from the following:

- i. The live contact requirements.
- ii. If no loss mitigation option is available, or if any member has provided notification to the Credit Union pursuant to the Fair Debt Collection Practices Act (FDCPA) with respect to that loan, the written notice requirements.
- iii. If the member has not provided notification under the FDCPA and there are loss mitigation options available, the Credit Union will comply with the below:
 - 1. If the member is delinquent when they become a debtor in bankruptcy, the Credit Union will provide the required written notice no later than the 45th day after the member files a bankruptcy petition (Chapter 11), regardless of whether the Credit Union provided the written notice in the preceding 180-day period.
 - 2. If the member is not delinquent when they file a bankruptcy petition, but later become delinquent while a debtor in bankruptcy, the Credit Union will provide the written notice no later than the 45th day of the member's delinquency, regardless of whether the Credit Union provided the written notice in the preceding 180-day period.
- iv. The written notice will not contain a request for payment.
- v. The Credit Union is not required to provide written notice more than once during a single bankruptcy case.

D. Members after Bankruptcy.

- i. The Credit Union will resume compliance with the live and written notice requirements after the next payment due date that follows the earliest of the following events:
 - 1. The bankruptcy case is dismissed;
 - 2. The bankruptcy case is closed; and
 - 3. The member reaffirms personal liability for the mortgage loan.

- ii. When a member has discharged personal liability for a mortgage loan, the Credit Union is not required to resume compliance with the live contact requirements. The Credit Union will resume compliance with the written notice requirements if the member has made any partial or periodic payment on the loan after the commencement of the member's bankruptcy case.

E. Member notification pursuant to the Fair Debt Collection Practices Act (FDCPA). If the Credit Union is subject to the FDCPA with respect to the member's loan, they are exempt from:

1. The live contact requirements.
2. If no loss mitigation option is available, or while any member on that mortgage loan is a debtor in bankruptcy (chapter 11), the written notice requirements.
3. If the member is not a debtor in bankruptcy and there are loss mitigation options available, the Credit Union will comply with the below the written notice requirements with the following modifications:
 1. The Credit Union will include a statement similar to the model language in the Regulation's appendix that they may or intend to invoke a specified remedy of foreclosure.
 2. The written notice will not contain a request for payment.
 3. The Credit Union will not provide the written notice more than once during any 180-day period.

F. Payment Statement Requirements.

- i. If a member is 45 days or more delinquent on their loan account the Credit Union will provide them with the following information on their periodic billing statement or in a separate notice:
 1. The date that the member became delinquent;
 2. A notification of possible risks and expenses (for example, foreclosure or legal fees) that the members could face if the delinquency is not cured;
 3. An account history showing the previous 6 months or the period since the last time the account was current, whichever is shorter;
 4. The amount remaining past due from each billing cycle;
 5. A notice showing any loss mitigation program the member has agreed to, if applicable;
 6. A notice that the Credit Union has made the first notice or filing required to start a foreclosure, if applicable;
 7. The total payment the member would have to make to bring the account current; **and**
 8. A reference to the homeownership counselor information the Credit Union includes elsewhere in the periodic statement.

- ii. If the Credit Union is not able to provide the statement within 7 business days because the loan is in bankruptcy or foreclosure, the loan is a reverse mortgage or shared appreciation mortgage, or because of natural disasters or other similar circumstances, the payoff statement will be provided within a reasonable time.

13. LOSS MITIGATION.

A. Application Received 45 Days Before Foreclosure. When the Credit Union receives a loss mitigation application 45 days or more before a foreclosure sale is scheduled (or at any time when no foreclosure sale has been scheduled), the Credit Union will:

- i. Acknowledge receipt of the application;
- ii. Inform the member whether the application is complete or incomplete;
- iii. Inform the member of any documents or information necessary to complete the application;
- iv. Provide a reasonable date by which the member should submit the missing information or documents needed to complete the application; **and**
- v. Include a statement that the member should consider contacting servicers of any other mortgage loans secured by the same property to discuss available loss mitigation options.

B. Application Received 37 Days Before Foreclosure. When the Credit Union receives a loss mitigation application 37 days or more before a foreclosure sale is scheduled (or at any time when no foreclosure sale has been scheduled), the Credit Union will:

- i. Evaluate the complete loss mitigation application;
- ii. Notify the member about the result of the Credit Union's evaluation, including the determination of the particular loss mitigation options available to the member or specifics about why an application for a loan modification option was denied and information about any applicable appeal process.
- iii. Provide a reasonable date by which the member should submit the missing information or documents needed to complete the application, if applicable; **and**
- iv. Include a statement that the member should consider contacting servicers of any other mortgage loans secured by the same property to discuss available loss mitigation options.

C. Correcting Loss Mitigation Applications.

i. If the Credit Union erroneously notifies the member that a loss mitigation application is complete and then determines that additional information is needed to determine a member's eligibility the Credit Union will:

1. Promptly request whatever corrected documents or information are needed;
2. Give the member a reasonable amount of time to provide the documents and information requested;
3. Not make the first notice or filing for a foreclosure process or otherwise refer the member to

foreclosure until the member has had a reasonable amount of time to provide the documents or information;

- ii. If the member provides the corrected documents or information to the Credit Union in a reasonable amount of time, the application is complete as of that date for the purpose of evaluation and must be evaluated within 30 days of receiving the requested documents or information.

D. Evaluating Loss Mitigation Applications. If the Credit Union receives a complete loss mitigation application more than 37 days before a scheduled foreclosure sale (or at a time when no foreclosure sale is scheduled), the Credit Union will evaluate it within 30 days for all available loss mitigation options and provide the member a notice in writing stating the determination of which loss mitigation options, if any, the Credit Union will offer to the member. The notice will also include the amount of time the member has to accept or reject and offer and if applicable, notice that that the member has the right to appeal the denial along with the amount of time the member has to file such an appeal and the requirements.

- i. If the member submits a complete loss mitigation application 90 days or more before a scheduled foreclosure sale (or at a time when no foreclosure sale is scheduled), the member must have 14 days to accept or reject a loss mitigation offer.
- ii. If the member submits a complete loss mitigation application less than 90 days but more than 37 days before a scheduled foreclosure sale, the member must have 7 days or more to accept or reject a loss mitigation offer.

E. Short-Term Loss Mitigation Options. The Credit Union may offer a short-term payment forbearance program or short-term payment plan to a member based upon an evaluation of an incomplete loss mitigation application. The Credit Union will provide written notice (unless rejected by the member) stating:

- i. The specific payment terms and duration of the program or plan that the Credit Union offered based on an incomplete application; and
- ii. Notice that other loss mitigation options may be available and that the member has the option to submit a complete loss mitigation application to receive an evaluation of other loss mitigation options that may be available, regardless of whether the member accepts this program or plan.

F. Documents or Information not in the Member's Control. If the Credit Union requires documents or information outside of the member's control in determining loss mitigation options, the Credit Union will promptly identify those documents and exercise reasonable due diligence in obtaining those documents or information.

- i. The Credit Union will not deny a complete loss mitigation application solely because it lacks the required documents or information not in the member's control unless:
 1. The Credit Union has exercised reasonable diligence to obtain the required documentation or information, but has been unable to receive anything for 30 days after the Credit Union has evaluated the member for loss mitigation in compliance with Section D above and is unable to determine loss mitigation options.
 2. The Credit Union has provided written notice to the member that required documentation or information has not been received, the specific documents or information that were needed and that the Credit Union will complete its evaluation of the member for loss mitigation

options promptly when those documents or information are received.

G. Denying Loss Mitigation Applications. If the Credit Union denies a complete loss mitigation application more than 37 days before a scheduled foreclosure sale (or at a time when no foreclosure sale is scheduled), the Credit Union will send the member a notice that states:

- i. The specific reasons for the Credit Union's decision for each trial or permanent loan modification option denied; and
- ii. If the Credit Union based the denial on a net present value calculation, notice must include the specific inputs used in the net present value calculation.

H. Loss Mitigation Appeals. If a member appeals the Credit Union's loss mitigation decision the Credit Union must:

- i. Provide an independent evaluation of the loss mitigation application;
- ii. Within 30 days of a member making an appeal, notify the member of the decision to offer or reject the loan modification option that is the subject of the appeal.
- iii. Give the member at least 14 days to accept or reject an offer of a loss mitigation option resulting from the Credit Union's independent evaluation.

I. Notice of Complete Application. Within 5 days after receiving a member's complete loss mitigation application, the Credit Union will provide written notice that includes:

- i. That the loss mitigation application is complete;
- ii. The date the Credit Union received the complete application;
- iii. That the Credit Union expects to complete its evaluation within 30 days of the date it received the complete application;
- iv. That the member is entitled to certain foreclosure protections because the servicer has received the complete application, and, as applicable:
 1. The Credit Union has not made the first notice or filing for any judicial or non-judicial foreclosure process, that the Credit Union can't make the first notice or filing to initiate the foreclosure process before evaluating the member's complete application; or
 2. If the Credit Union has made the first notice or filing, that the Credit Union has begun the foreclosure process, and that the Credit Union cannot conduct a foreclosure sale before evaluating the member's complete application;
- v. That the Credit Union may need additional information at a later date to evaluate the application, where notification would be provided along with a reasonable period of time to submit it, that the evaluation process may take longer and the foreclosure protections could end if the Credit Union does not receive the information requested; and
- vi. That the member may be entitled to additional protections under State or Federal law.

J. Successors in Interest. If the Credit Union receives a loss mitigation application from a potential successor in interest, the Credit Union will first confirm the person's identity and ownership interest in the property. The Credit Union will preserve the application and corresponding documentation received with the loss mitigation application until the successor in interest is confirmed. Upon confirmation of the successor in interest and determination that the property is the confirmed successor in interest's principal residence, the Credit Union will formally review and evaluate the loss mitigation application in accordance with procedures.

14. FORECLOSURE.

- A. The Credit Union will not make the first notice or filing for any judicial or non-judicial foreclosure process until the member is more than 120 days delinquent.
- B. If a member has submitted a complete loss mitigation application before the Credit Union begins the foreclosure process, the Credit Union may not begin the foreclosure process until one of the following occurs:
- i. The Credit Union sends the member a notice that the member is not eligible for any loss mitigation option, and the member has exhausted the appeal process. This can happen when the appeal process is not applicable, the member has not requested an appeal within the applicable time period, or the member's appeal has been denied.
 - ii. The member rejects all loss mitigation options the Credit Union offers.
 - iii. The member fails to perform under an agreement on a loss mitigation option.
- C. If a member submits a complete loss mitigation application after the Credit Union has made the first notice or filing for the foreclosure process, but more than 37 days before a scheduled foreclosure sale (or at a time when no sale has been scheduled), the Credit Union must not move for foreclosure judgment or order of sale, or conduct a foreclosure sale, until one of the following occurs:
- i. The Credit Union sends the member a notice that they are not eligible for any loss mitigation option and the member has exhausted the appeal process. This can happen when the appeal process is not applicable, the member has not requested an appeal within the applicable time period, or the Credit Union has denied the member's appeal;
 - ii. The member rejects all loss mitigation options; or
 - iii. The member fails to perform under an agreement on a loss mitigation option.
- D. **Proceeding with Foreclosure Process.** The prohibition on moving for judgment or order of sale does not prevent the Credit Union from proceeding with the foreclosure process, including any publication, arbitration, or mediation requirements, in cases where the Credit Union receives a complete and timely loss mitigation application after the Credit Union files the first notice or the Credit Union files for a foreclosure proceeding--so long as the steps the Credit Union takes in the foreclosure process does not cause or directly result in the issuance of a foreclosure judgment or order of sale, or the conduct of a foreclosure sale, in violation of the loss mitigation provisions of the servicing rule.
- E. **Interaction with Foreclosure Counsel.** The Credit Union will promptly instruct foreclosure counsel not to proceed with filing for foreclosure judgment or order of sale or to conduct a foreclosure sale if the Credit Union receives a complete loss mitigation application within the deadlines specified in the rule.

15. FORCE PLACED INSURANCE.

A. Limitations on Force Placing Hazard Insurance. The Credit Union will follow the limitation guidelines from the Mortgage Servicing Rule when force placing insurance on a member's property, including:

- i. The Credit Union must have a reasonable basis to believe that a member has failed to comply with the mortgage loan contract's requirement to maintain hazard insurance before charging for force-placed insurance.
- ii. The Credit Union must send 2 notices to the member and not have received in response to these notices evidence that the member has had in place, continuously, required hazard insurance before the Credit Union charges for force-placed insurance.
- iii. The Credit Union must notify the member and not have received in response to this notice evidence that the member has purchased required hazard insurance before the Credit Union charges the member for renewing or replacing force-placed insurance.
- iv. The Credit Union must cancel force-placed insurance within 15 days of receiving evidence that the member has required hazard insurance in place and refund to the member any fees or charges for periods of overlapping coverage.
- v. Force-placed insurance charges imposed by a servicer on a member, beyond those subject to state regulation as insurance charges, must be bona fide and reasonable.

B. Member Notification. The Credit Union must have a reasonable basis to believe a member has failed to maintain required hazard insurance to charge a fee or premium for force-placed insurance. As part of having a reasonable basis, the Credit Union must send two notices:

- i. The first notice will be sent at least 45 days before the Credit Union charges the member for force-placed insurance.
- ii. If the Credit Union does not receive evidence that the member has had hazard insurance that complies with the loan contract's requirements continuously in place, the Credit Union will deliver or place in the mail to the member a written reminder notice at least 30 days after sending the first notice.

C. Notification Content. The Credit Union will provide the information required by the Mortgage Servicing Rules in a clear and conspicuous manner and group the information as required and in a substantially similar manner to the model forms in the Appendix of Regulation X. Except for the mortgage loan account number, the Credit Union may not include any information other than what is required. The Credit Union may provide such additional information to a member on separate pieces of paper in the same transmittal. The information that the Credit Union will include on the Force Placed Insurance Notices includes:

i. First Notice.

1. The Date of Notice;
2. The Credit Union's name and mailing address;

3. The member's name and mailing address;
4. A statement that requests the member provide hazard insurance information for the property and identifies the property by its physical address;
5. A statement that the hazard insurance has expired (is expiring) or provides insufficient coverage, as applicable and the Credit Union does not have evidence of further insurance coverage past the expiration date or evidence that the member has hazard insurance that provides sufficient coverage, as applicable; and if applicable, a statement that identifies the type of hazard insurance for which the Credit Union lacks evidence of coverage;
6. A statement that hazard insurance is required and the Credit Union will purchase such insurance at the member's expense;
7. A statement requesting the member provide the Credit Union with insurance information;
8. A description of the requested insurance information, and how the member may provide the information;
9. A statement that the insurance the Credit Union will purchase may cost significantly more and not provide as much coverage as hazard insurance purchased by the member;
10. The Credit Union's telephone number for member inquiries; **and**
11. If applicable, a statement advising the member to review additional information provided in the same transmittal.

ii. **Reminder Notice.** The Credit Union will send a reminder notice with the content listed below when no hazard insurance information has been received.

1. The Date of Notice;
2. A statement that this is the second and final notice;
3. The Credit Union's name and mailing address;
4. The member's name and mailing address;
5. A statement that requests the member provide hazard insurance information for the property and identifies the property by its physical address;
6. A statement that the hazard insurance has expired (is expiring) or provides insufficient coverage, as applicable and the Credit Union does not have evidence of further insurance coverage past the expiration date or evidence that the member has hazard insurance that provides sufficient coverage, as applicable; and if applicable, a statement that identifies the type of hazard insurance for which the Credit Union lacks evidence of coverage;
7. A statement that hazard insurance is required and the Credit Union will purchase such insurance at the member's expense;

8. A statement requesting the member provide the Credit Union with insurance information;
9. A description of the requested insurance information, and how the member may provide the information;
10. A statement that the insurance the Credit Union will purchase may cost significantly more and not provide as much coverage as hazard insurance purchased by the member;
11. The Credit Union's telephone number for member inquiries;
12. If applicable, a statement advising the member to review additional information provided in the same transmittal;
13. The cost of the force-placed insurance, stated as an annual premium (or if the Credit Union does not know the cost, a reasonable estimate); **and**
14. If applicable, a statement that the information the member sent to the Credit Union is incomplete and the member must send the missing information to avoid charge for any period for which the Credit Union is unable to verify hazard insurance coverage.

iii. **Notice for lack of evidence of continuous coverage.** If the Credit Union has received hazard insurance information after delivering the required notice to the member, but has not received evidence demonstrating that the member has had sufficient hazard insurance coverage in place continuously, the Credit Union will provide notice that includes:

1. The Date of the Notice;
2. The Credit Union's name and mailing address;
3. The member's name and mailing address;
4. A statement that requests the member provide hazard insurance information for the property and identifies the property by its physical address;
5. A statement that the insurance the Credit Union will purchase may cost significantly more and not provide as much coverage as hazard insurance purchased by the member;
6. The Credit Union's telephone number for member inquiries;
7. If applicable, a statement advising the member to review additional information provided in the same transmittal.
8. A statement that the notice is the second and final notice;
9. The cost of the force-placed insurance, stated as an annual premium (or if the Credit Union does not know the cost, a reasonable estimate).
10. A statement that the Credit Union has received the hazard insurance information that the member provided;

11. A statement that requests the member provide the information that is missing; and
12. A statement that member will be charged for insurance the Credit Union has purchased or purchases for the period of time during which the Credit Union is unable to verify coverage.

iv. **Renewal Notice.**

1. The Date of Notice;
2. The Credit Union's name and mailing address;
3. The member's name and mailing address;
4. A statement that requests the member to update the hazard insurance information for the member's property and identifies the member's property by its physical address;
5. A statement that the Credit Union previously purchased insurance, charged to the member, because the Credit Union did not have evidence that the member had required hazard insurance on the property;
6. A statement that the insurance the Credit Union purchased previously has expired or is expiring, and because hazard insurance is required the Credit Union intends to maintain insurance by renewing or replacing the insurance it previously purchased;
7. A statement requesting the member promptly provide the Credit Union with insurance information if they have purchased it;
8. A description of the requested insurance information, and how the member may provide the information, and if applicable a statement that the requested information must be in writing;
9. A statement that the insurance the Credit Union will purchase may cost significantly more and not provide as much coverage as hazard insurance purchased by the member;
10. The Credit Union's telephone number for member inquiries;
11. If applicable, a statement advising the member to review additional information provided in the same transmittal; **and**
12. The cost of the force-placed insurance, stated as an annual premium (or if the Credit Union does not know the cost, a reasonable estimate).

D. **Force Placement Fee.** If the Credit Union does not receive evidence that the member has had in place required hazard insurance continuously after providing the first and second notice, the Credit Union can assess a force-placed insurance fee 15 days or more after sending the second notice.

E. **Escrow Account Requirements.** If a member has an escrow account for payment of hazard insurance, the Credit Union may not obtain force-placed insurance unless it is unable to maintain the member's existing hazard insurance coverage.

- i. The Credit Union will advance funds through the escrow account to maintain coverage;

- ii. The Credit Union will add this cost to the escrow balance or otherwise seek reimbursement from the member for the funds advanced.

F. Renewal Notice. Before each anniversary of the purchase of force-placed insurance on a member's property, the Credit Union will deliver or place in the mail to the member a written notice explaining the renewal and requesting evidence that the member has purchased hazard insurance on the property. The Credit Union will only provide this written renewal notice once a year.

G. Evidence of Hazard Insurance Coverage. If the member sends evidence of having hazard insurance coverage in place that complies with the loan contract's requirements, within 15 days the Credit Union will:

- i. Cancel any force-placed insurance purchased for the member;
- ii. Refund to the member all force-placed insurance premium charges and related fees for any period of overlapping insurance coverage; **and**
- iii. Remove from the member's account all force-placed insurance charges and related fees for the overlapping period.

H. Rejecting Evidence of Hazard Insurance Coverage. The Credit Union may reject evidence of hazard insurance coverage submitted by the member if:

- i. Neither the member's insurance provider nor insurance agent provides confirmation of the information the member submitted; or
- ii. The terms and conditions of the member's hazard insurance policy do not comply with the requirements of the member's loan contract.

16. ERROR RESOLUTION AND INFORMATION REQUESTS.

A. Applicability of Error Resolution and Information Requests.

- i. If a member provides the Credit Union with a notice that they believe there has been an error relating to their mortgage loan, the requirements of the Mortgage Servicing Rule will apply if the Error Resolution Request includes:
 - 1. The name of the member;
 - 2. Information that enables the Credit Union to identify the member's mortgage loan account; **and**
 - 3. The error the member believes has occurred.
- ii. A notice on a payment coupon or other payment form is not considered a notice of error.
- iii. The Credit Union would not have to respond, according to the requirements of the Mortgage Servicing Rule, to errors not related to mortgage servicing including:
 - 1. The origination of a mortgage loan;

2. The underwriting of a mortgage loan;
3. A subsequent sale or securitization of a mortgage loan; or
4. A determination to sell, assign, or transfer the servicing of a mortgage loan.

B. Member Notice. The Credit Union will inform members of the procedures for submitting written notices of errors and written information requests.

C. Duplicative Notices. If the asserted error or information request is substantially the same as one the member previously asserted, and the Credit Union has already complied with the requirements to respond to the earlier notice of error or request, the new notice of error or request does not trigger the error resolution or information request procedures. However, if a resubmitted notice of error contains new and material information to support the asserted error, the exception for duplicative notices of error does not apply.

D. Designated Notice Address. The Credit Union may set up an address for members to use to submit their notices of errors and requests for information:

- i. As long as the Credit Union provides them with written notice of the address;
- ii. The notice shall include a statement that the member must use the established address to assert an error or request information;
- iii. Before the Credit Union changes the designated address, the Credit Union will send a written notice to the members; **and**
- iv. The Credit Union will post the designated address on any websites it maintains that contain the Credit Union's contact address.

E. Error Notice Response. When the Credit Union receives a written notice of error, the Credit Union will:

- i. Provide the member a written response acknowledging receipt within 5 days (excluding legal public holidays, Saturdays, and Sundays);
- ii. Conduct a reasonable investigation;
- iii. Not later than 30 days (excluding legal public holidays, Saturdays, and Sundays) after receipt of the notice of error, either correct the errors and provide the member with written notice of the correction, or provide the member with written notice that no error occurred.

F. Information Request Response. When the Credit Union receives a written information request, the Credit Union will:

- i. Respond not later than 30 days (excluding legal public holidays, Saturdays, and Sundays) after receiving the information request;
- ii. When receiving an information request for the identity of, and address or other relevant contact information for, the owner or assignee of a mortgage loan, the Credit Union will respond to the member not later than 10 days (excluding legal public holidays, Saturdays, and Sundays) after the

Credit Union receives the request.

G. Error Resolution and Information Request Fee. The Credit Union will not charge a fee for an error resolution or information request.

H. Potential Successors in Interest. When the Credit Union receives a written request indicating that a person may be a potential successor in interest and the request includes the name of the borrower from whom the person received ownership interest and provides information that enables the Credit Union to identify the mortgage loan, the Credit Union will comply with the requirements of this section.

i. In response to requests for copies of documentation for a determination of error, the Credit Union may omit location and contact information and personal information (other than information about the terms, status, and payment history of the mortgage loan) if the information pertains to a potential or confirmed successor in interest who is not the requestor; or the requestor is a confirmed successor in interest and the information pertains to any borrower who is not the requestor.

17. ESCROW CLOSING NOTICE.

A. Timing. When the member requests cancellation of the Escrow account, the member must receive the notice no later than three business days before the escrow account is closed. For any other reason, the Credit Union must ensure that the member receives the Escrow Closing Notice no later than 30 business days before the member's escrow account is closed.

B. Content of Notice. The content of the Escrow Closing Notice will be consistent with the requirements in Regulation Z (1026.20).

18. RECORD RETENTION.

A. Record Retention Requirements. The Credit Union will retain records that document actions with respect to a member's mortgage loan account until one year after the date the Credit Union discharges the mortgage or transfers the servicing.

Policy 7361: Small Servicer Mortgage Servicing Rules

Revised Date: 03/28/2018

Model Policy Revised Date: 03/28/2018

[Note: CU PolicyPro contains two “Mortgage Servicing Rules” Policies – Policy 7360, Mortgage Servicing Rules and Policy 7361, Small Servicer Mortgage Servicing Rules. The credit union should use only one of these policies, based on whether or not the credit union meets the Small Servicer Definition.]

General Policy Statement:

[CUname] (Credit Union) will comply with the Mortgage Servicing Rule published by the Consumer Financial Protection Bureau (CFPB) and the provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) amended the Real Estate Settlement Procedures Act (RESPA) of 1974, which is implemented by Regulation X, and the Truth in Lending Act (TILA), which is implemented by Regulation Z, with regard to the servicing of certain residential mortgage loans.

The Mortgage Servicing Rule applies to Regulation X including: error resolution and information requests; force-placed insurance; general servicing policies, procedures, and requirements; early intervention with delinquent members; continuity of contact with delinquent members; and loss mitigation; and Regulation Z including: interest rate adjustment notices for ARMs; prompt crediting of mortgage payments and responses to requests for payoff amounts; and periodic statements for mortgage loans, which are covered in this policy. As a small creditor the Credit Union is exempt from certain provisions of the Mortgage Servicing rules. The Credit Union is adopting this policy to assist with the requirements of the Mortgage Servicing Rule components that apply to their operations.

1. SMALL SERVICER.

A. Small Servicer Definition.

i. The Credit Union qualifies as a small servicer if:

1. The Credit Union, together with any affiliates, services 5,000 or fewer mortgage loans, and the Credit Union (or an affiliate) is the creditor or assignee for all of them; or
2. The Credit Union is a Housing Finance Agency.

ii. If the Credit Union services any mortgage loan it (or an affiliate) did not originate or does not own, the Credit Union does not qualify as a small servicer, even if it services 5,000 or fewer loans overall.

B. The small servicer exemption is determined by the Credit Union each year based on the loans that are serviced as of January 1st of that calendar year. The Credit Union understands they have 6 months or until the next January 1st (whichever is later) from when they determine they no longer qualify as a small servicer to comply with the mortgage servicing requirements from which they were previously exempt.

2. SUCCESSORS IN INTEREST.

A. A person to whom an ownership interest in a property securing a mortgage loan subject to the Mortgage Servicing subpart (1024.31) or in a dwelling securing a closed-end consumer credit transaction (1026.2) is transferred from a borrower, provided that the transfer is:

- i. A transfer by devise, descent, or operation of law on death of a joint tenant or tenant by the entirety;
- ii. A transfer to a relative resulting from the death of a borrower;
- iii. A transfer where the spouse or children of the borrower become an owner of the property;
- iv. A transfer resulting from a decree of dissolution of marriage, legal separation agreement, or from an incidental property settlement agreement, by which the spouse of the borrower becomes an owner of the property; or
- v. A transfer into an inter vivos trust in which the borrower is and remains a beneficiary and which does not relate to a transfer of rights of occupancy in the property.

B. Confirmed Successor in Interest. A successor in interest once a servicer has confirmed the successor in interest's identity and ownership interest in a property that secures a mortgage loan subject to this subpart.

C. The Credit Union will ensure prompt communication with any potential or confirmed successor in interest when notified of the death of a borrower or any transfer of property securing a mortgage loan.

D. The Credit Union will determine and communicate the appropriate documentation needed to confirm the potential successor in interest's identity and ownership interest in the property.

E. Upon receipt of documentation, the Credit Union will promptly notify the successor in interest if they have confirmed them as a successor in interest or if additional documentation is required.

F. When the Credit Union has confirmed a successor in interest, they will treat them as a borrower for purposes of the Mortgage Servicing rules, including providing disclosures and information required for:

- Escrow accounts, payments and account balances;
- Mortgage servicing transfers and mortgage transfers;
- Error resolution;
- Information requests;
- Force-placed insurance
- Applicable loss mitigation provisions;
- Post-consummation events; and
- Payoff statements.

G. If the Credit Union provides the confirmed successor in interest (who is not liable on the loan) the written notice and disclosure form in compliance with Regulation X (1024.32(c)), the Credit Union need not provide the written disclosures for the mortgage servicing requirements below, until either the confirmed successor in interest assumes the mortgage loan under state law or provides the Credit Union with the executed acknowledgement form:

- Escrow accounts (1024.17);
- Mortgage servicing transfers (1024.33);
- Timely escrow payments and treatment of escrow account balances (1024.34);
- Force-placed insurance (1024.37);
- Rate adjustments with corresponding change in payment (1026.20(c));
- Initial rate adjustments (1026.20(d));

- Escrow account cancellation notice for certain mortgage transactions (1026.20(e)); and
- Mortgage transfer disclosure (1026.39(b)).

3. INTEREST RATE ADJUSTMENT NOTICES.

A. Interest Rate Adjustment Notification Qualification. The Credit Union will make disclosures in connection with the initial reset of an adjustable-rate mortgage (ARM) and each time an interest rate adjustment results in a payment change. This requirement includes exceptions when:

- i. ARMs have a term of 1 year or less
- ii. The ongoing interest rate adjustment disclosure is not required the first time the ARM adjusts if the first payment at the adjusted level is due within 210 days after consummation and the newly disclosed interest rate in the notice at consummation was not an estimate.
- iii. The ongoing interest rate adjustment notice also is not required if the Credit Union is acting as a debt collector under the FDCPA to whom the member has sent a written cease communication request; however, the Credit Union will still provide the initial interest rate adjustment notice.

B. Notification Contents. The Credit Union will provide the information required by the Mortgage Servicing Rule in a clear and conspicuous manner and group the information as required and in a substantially similar manner to the model and sample forms in Appendix H-4 of Regulation Z. The information that the Credit Union will include on the Notification of Interest Rate Adjustment includes:

- i. Date of the disclosure;
- ii. An explanation that under the terms of the loan, the interest rate may change;
- iii. The effective date of the adjustment and future adjustments;
- iv. The current and new rates;
- v. The current and new payments and the date the first payment is due;
- vi. Payment allocation and other information for interest only or negatively amortizing loans;
- vii. An explanation of how the rate is determined;
- viii. Any limits on the interest rate or payment increases;
- ix. An explanation of how the new payment is determined;
- x. The circumstances under which a prepayment penalty may be imposed;
- xi. The Credit Union's telephone number;
- xii. Alternatives to paying the new rate; **and**
- xiii. Housing counseling information; which includes:
 1. The website to access either the CFPB list or the HUD list of homeownership counselors and

counseling organizations;

2. The HUD toll-free number to access the HUD list of homeownership counselors and counseling organizations ((800) 569-4287); **and**
3. The CFPB website to access contact information for state housing finance authorities.

C. Notification Delivery.

i. **Initial Disclosure.** The Credit Union will send the initial interest rate adjustment disclosure at least 210 days, but no more than 240 days, before the first payment at the adjusted level is due.

1. If the first payment at the adjusted level is due within the first 210 days after consummation, provide the disclosures at consummation.
2. For the initial interest rate notice, if the new interest rate (or the new payment calculated from the new interest rate) is not known as of the date of the disclosure, the Credit Union will use an estimate and label it as such. This estimate will be based on the index as reported within 15 business days prior to the date of the disclosure.
3. The initial interest rate adjustment disclosure will be a separate document, but may be on the same document as other information and may be sent in the same envelope with other disclosures, such as the periodic statement.

ii. **Ongoing Disclosure.** The Credit Union will send the ongoing interest rate adjustment notice disclosing an interest rate adjustment causing a payment change at least 60 days, but no more than 120 days, before the first payment at the adjusted level is due. The ongoing interest rate adjustment disclosure will be segregated from other information but may be on the same document as other information and may be sent in the same envelope with other disclosures, such as the periodic statement.

iii. **Special Timing Requirements.** Special timing requirements apply to frequently-adjusting ARMs, ARMs with short look-back periods, and ARMs adjusting soon after consummation:

1. If an ARM has regularly scheduled interest rate adjustments occurring every 60 days or more frequently, the Credit Union will provide the disclosures at least 25 days, but no more than 120 days, before the first payment at the adjusted level is due.
2. If an ARM was originated prior to January 10, 2015, and the adjusted interest rate and payment are calculated based on an index figure available less than 45 days prior to the adjustment date, the Credit Union will provide the disclosures at least 25 days, but no more than 120 days, before the first payment at the adjusted level is due.
3. If the first adjustment to an ARM is to occur within 60 days of consummation and the notice the Credit Union provided at consummation contained an estimated adjusted interest rate, the Credit Union will provide the disclosure as soon as practicable, but not less than 25 days before the first payment at the adjusted level is due.

4. PROMPT PAYMENT CREDITING.

A. **Reasonableness.** The Credit Union's payment requirements must be reasonable and cannot make it

difficult for most members to make conforming payments.

B. Payment Crediting. The Credit Union will credit a periodic payment to the member's loan account as of the day of receipt, except when a delay in crediting does not result in any charge to the member, or in the reporting of negative information to a consumer reporting agency.

i. In cases where the Credit Union specified in advance and in writing requirements for the member to follow when making payments and then accepts a payment that does not conform to the requirements, the Credit Union may wait up to 5 days after receipt to credit the payment.

C. Partial Payments. A partial payment is a member loan payment that does not cover the essential components of a periodic payment (principal, interest, and escrow if applicable). If the Credit Union receives a member's partial loan payment the Credit Union has the option of:

i. Crediting the partial payment upon receipt;

ii. Returning the partial payment to the member; or

iii. Holding the payment in a suspense or unapplied funds account.

1. If the member's payment is applied to a suspense account the Credit Union will disclose on the member's periodic statement the total amount of funds being held in the suspense or unapplied funds account; and

2. When sufficient funds are accumulated to cover a periodic payment, the Credit Union will credit them as a periodic payment.

5. MORTGAGE SERVICING TRANSFER NOTICE.

A. Timing. The Credit Union purchasing the servicing rights of a covered mortgage are required to mail or deliver required disclosures on or before the 30th calendar day following the date of transfer.

B. Content of Disclosure. The disclosure should identify the mortgage loan that was sold, assigned or otherwise transferred, in addition to the below:

i. The name, address, and telephone number of the Credit Union;

ii. The date of the transfers;

iii. The name, address and telephone number of an agent or party authorized to receive notice of the right to rescind and resolve issues concerning the member's payments on the loan;

iv. Where transfer of ownership of the loan to the Credit Union is or may be recorded in public records (or has not);

v. Partial payment policy, indicating how the Credit Union will treat periodic payments that are less than the full amount due and a statement that if the loan is sold a new lender may have a different policy (Section 4.C.).

6. PAYOFF STATEMENTS.

A. Payment Statement Delivery. If a member makes a written request for a payoff statement, the Credit Union will provide the statement within 7 business days.

- i. If the Credit Union is not able to provide the statement within 7 business days because the loan is in bankruptcy or foreclosure, the loan is a reverse mortgage or shared appreciation mortgage, or because of natural disasters or other similar circumstances, the payoff statement will be provided within a reasonable time.

7. FORECLOSURE.

- A. **Delinquent Loan Requirement.** The Credit Union will not make the first notice or filing for any judicial or non-judicial foreclosure process until the member is more than 120 days delinquent.
- B. **Effect of Loss Mitigation Application.** The Credit Union may not move for foreclosure judgment or order of sale, or conduct a foreclosure sale, if a member is performing pursuant to the terms of a loss mitigation agreement.
- C. **Proceeding with Foreclosure Process.** The prohibition on moving for judgment or order of sale does not prevent the Credit Union from proceeding with the foreclosure process, including any publication, arbitration, or mediation requirements, in cases where the Credit Union receives notification from the borrower of their intention to pursue a loss mitigation option, as long as the Credit Union has complied with the timing and applicable provisions for small servicers under the rule.
- D. **Interaction with Foreclosure Counsel.** The Credit Union will promptly instruct foreclosure counsel not to proceed with filing for foreclosure judgment or order of sale or to conduct a foreclosure sale if the Credit Union receives a complete loss mitigation application within the deadlines specified in the rule.

8. FORCE PLACED INSURANCE.

- A. **Limitations on Force Placing Hazard Insurance.** The Credit Union will follow the limitation guidelines from the Mortgage Servicing Rule when force placing insurance on a member's property, including:
 - i. The Credit Union must have a reasonable basis to believe that a member has failed to comply with the mortgage loan contract's requirement to maintain hazard insurance before charging for force-placed insurance.
 - ii. The Credit Union must send 2 notices to the member and not have received in response to these notices evidence that the member has had in place, continuously, required hazard insurance before the Credit Union charges for force-placed insurance.
 - iii. The Credit Union must notify the member and not have received in response to this notice evidence that the member has purchased required hazard insurance before the Credit Union charges the member for renewing or replacing force-placed insurance.
 - iv. The Credit Union must cancel force-placed insurance within 15 days of receiving evidence that the member has required hazard insurance in place and refund to the member any fees or charges for periods of overlapping coverage.
 - v. Force-placed insurance charges imposed by a servicer on a member, beyond those subject to state regulation as insurance charges, must be bona fide and reasonable.

- B. **Member Notification.** The Credit Union must have a reasonable basis to believe a member has failed to

maintain required hazard insurance to charge a fee or premium for force-placed insurance. As part of having a reasonable basis, the Credit Union must send two notices:

- i. The first notice will be sent at least 45 days before the Credit Union charges the member for force-placed insurance.
- ii. If the Credit Union does not receive evidence that the member has had hazard insurance that complies with the loan contract's requirements continuously in place, the Credit Union will deliver or place in the mail to the member a written reminder notice at least 30 days after sending the first notice.

C. **Notification Content.** The Credit Union will provide the information required by the Mortgage Servicing Rules in a clear and conspicuous manner and group the information as required and in a substantially similar manner to the model forms in the Appendix of Regulation X. Except for the mortgage loan account number, the Credit Union may not include any information other than what is required. The Credit Union may provide such additional information to a member on separate pieces of paper in the same transmittal. The information that the Credit Union will include on the Force Placed Insurance Notices include:

i. **First Notice.**

1. The Date of Notice;
2. The Credit Union's name and mailing address;
3. The member's name and mailing address;
4. A statement that requests the member provide hazard insurance information for the property and identifies the property by its physical address;
5. A statement that the hazard insurance has expired (is expiring) or provides insufficient coverage, as applicable and the Credit Union does not have evidence of further insurance coverage past the expiration date or evidence that the member has hazard insurance that provides sufficient coverage, as applicable; and if applicable, a statement that identifies the type of hazard insurance for which the Credit Union lacks evidence of coverage;
6. A statement that hazard insurance is required and the Credit Union will purchase such insurance at the member's expense;
7. A statement requesting the member provide the Credit Union with insurance information;
8. A description of the requested insurance information, and how the member may provide the information;
9. A statement that the insurance the Credit Union will purchase may cost significantly more and not provide as much coverage as hazard insurance purchased by the member;
10. The Credit Union's telephone number for member inquiries; **and**
11. If applicable, a statement advising the member to review additional information provided in the same transmittal.

ii. **Reminder Notice.** The Credit Union will send a reminder notice with the content listed below when no hazard insurance information has been received.

1. The Date of Notice;
2. A statement that this is the second and final notice;
3. The Credit Union's name and mailing address;
4. The member's name and mailing address;
5. A statement that requests the member provide hazard insurance information for the property and identifies the property by its physical address;
6. A statement that the hazard insurance has expired (is expiring) or provides insufficient coverage, as applicable and the Credit Union does not have evidence of further insurance coverage past the expiration date or evidence that the member has hazard insurance that provides sufficient coverage, as applicable; and if applicable, a statement that identifies the type of hazard insurance for which the Credit Union lacks evidence of coverage;
7. A statement that hazard insurance is required and the Credit Union will purchase such insurance at the member's expense;
8. A statement requesting the member provide the Credit Union with insurance information;
9. A description of the requested insurance information, and how the member may provide the information;
10. A statement that the insurance the Credit Union will purchase may cost significantly more and not provide as much coverage as hazard insurance purchased by the member;
11. The Credit Union's telephone number for member inquiries;
12. If applicable, a statement advising the member to review additional information provided in the same transmittal;
13. The cost of the force-placed insurance, stated as an annual premium (or if the Credit Union does not know the cost, a reasonable estimate); and
14. If applicable, a statement that the information the member sent to the Credit Union is incomplete and the member must send the missing information to avoid charge for any period for which the Credit Union is unable to verify hazard insurance coverage.

iii. **Notice for lack of evidence of continuous coverage.** If the Credit Union has received hazard insurance information after delivering the required notice to the member, but has not received evidence demonstrating that the member has had sufficient hazard insurance coverage in place continuously, the Credit Union will provide notice that includes:

1. The Date of the Notice;

2. The Credit Union's name and mailing address;
3. The member's name and mailing address;
4. A statement that requests the member provide hazard insurance information for the property and identifies the property by its physical address;
5. A statement that the insurance the Credit Union will purchase may cost significantly more and not provide as much coverage as hazard insurance purchased by the member;
6. The Credit Union's telephone number for member inquiries;
7. If applicable, a statement advising the member to review additional information provided in the same transmittal.
8. A statement that the notice is the second and final notice;
9. The cost of the force-placed insurance, stated as an annual premium (or if the Credit Union does not know the cost, a reasonable estimate).
10. A statement that the Credit Union has received the hazard insurance information that the member provided;
11. A statement that requests the member provide the information that is missing; and
12. A statement that member will be charged for insurance the Credit Union has purchased or purchases for the period of time during which the Credit Union is unable to verify coverage.

iv. Renewal Notice.

1. The Date of Notice;
2. The Credit Union's name and mailing address;
3. The member's name and mailing address;
4. A statement that requests the member to update the hazard insurance information for the member's property and identifies the member's property by its physical address;
5. A statement that the Credit Union previously purchased insurance, charged to the member, because the Credit Union did not have evidence that the member had required hazard insurance on the property;
6. A statement that the insurance the Credit Union purchased previously has expired or is expiring, and because hazard insurance is required the Credit Union intends to maintain insurance by renewing or replacing the insurance it previously purchased;
7. A statement requesting the member promptly provide the Credit Union with insurance information if they have purchased it;
8. A description of the requested insurance information, and how the member may provide the

information, and if applicable a statement that the requested information must be in writing;

9. A statement that the insurance the Credit Union will purchase may cost significantly more and not provide as much coverage as hazard insurance purchased by the member;
10. The Credit Union's telephone number for member inquiries;
11. If applicable, a statement advising the member to review additional information provided in the same transmittal; **and**
12. The cost of the force-placed insurance, stated as an annual premium (or if the Credit Union does not know the cost, a reasonable estimate).

D. Force Placement Fee. If the Credit Union does not receive evidence that the member has had in place required hazard insurance continuously after providing the first and second notice, the Credit Union can assess a force-placed insurance fee 15 days or more after sending the second notice.

E. Escrow Account Requirements. As a small servicer the Credit Union may purchase force-placed insurance for a member with an escrow account when the mortgage loan obligation is more than 30 days overdue, if the cost of the force-placed insurance to the member **is less than the amount the small servicer would need to disburse** from the member's escrow account to pay the member's hazard insurance premium.

F. Renewal Notice. Before each anniversary of the purchase of force-placed insurance on a member's property, the Credit Union will deliver or place in the mail to the member a written notice explaining the renewal and requesting evidence that the member has purchased hazard insurance on the property. The Credit Union will only provide this written renewal notice once a year.

G. Evidence of Hazard Insurance Coverage. If the member sends evidence of having hazard insurance coverage in place that complies with the loan contract's requirements, within 15 days the Credit Union will:

- i. Cancel any force-placed insurance purchased for the member;
- ii. Refund to the member all force-placed insurance premium charges and related fees for any period of overlapping insurance coverage; **and**
- iii. Remove from the member's account all force-placed insurance charges and related fees for the overlapping period.

H. Rejecting Evidence of Hazard Insurance Coverage. The Credit Union may reject evidence of hazard insurance coverage submitted by the member if:

- i. Neither the member's insurance provider nor insurance agent provides confirmation of the information the member submitted; or
- ii. The terms and conditions of the member's hazard insurance policy do not comply with the requirements of the member's loan contract.

9. ERROR RESOLUTION AND INFORMATION REQUESTS.

A. Applicability of Error Resolution and Information Requests.

i. If a member provides the Credit Union with a notice that they believe there has been an error relating to their mortgage loan, the requirements of the Mortgage Servicing Rule will apply if the Error Resolution Request includes:

1. The name of the member;
2. Information that enables the Credit Union to identify the member's mortgage loan account;
and
3. The error the member believes has occurred.

ii. A notice on a payment coupon or other payment form is not considered a notice of error.

iii. The Credit Union would not have to respond, according to the requirements of the Mortgage Servicing Rule, to errors not related to mortgage servicing including:

1. The origination of a mortgage loan;
2. The underwriting of a mortgage loan;
3. A subsequent sale or securitization of a mortgage loan; or
4. A determination to sell, assign, or transfer the servicing of a mortgage loan.

B. Member Notice. The Credit Union will inform members of the procedures for submitting written notices of errors and written information requests.

C. Duplicative Notices. If the asserted error or information request is substantially the same as one the member previously asserted, and the Credit Union has already complied with the requirements to respond to the earlier notice of error or request, the new notice of error or request does not trigger the error resolution or information request procedures. However, if a resubmitted notice of error contains new and material information to support the asserted error, the exception for duplicative notices of error does not apply.

D. Designated Notice Address. The Credit Union may set up an address for members to use to submit their notices of errors and requests for information:

- i. As long as the Credit Union provides them with written notice of the address;
- ii. The notice shall include a statement that the member must use the established address to assert an error or request information;
- iii. Before the Credit Union changes the designated address, the Credit Union will send a written notice to the members; **and**
- iv. The Credit Union will post the designated address on any websites it maintains that contain the Credit Union's contact address.

E. Error Notice Response. When the Credit Union receives a written notice of error, the Credit Union will:

- i. Provide the member a written response acknowledging receipt within 5 days (excluding legal public holidays, Saturdays, and Sundays);
- ii. Conduct a reasonable investigation;
- iii. Not later than 30 days (excluding legal public holidays, Saturdays, and Sundays) after receipt of the notice of error, either correct the errors and provide the member with written notice of the correction, or provide the member with written notice that no error occurred.

F. Information Request Response. When the Credit Union receives a written information request, the Credit Union will:

- i. Respond not later than 30 days (excluding legal public holidays, Saturdays, and Sundays) after receiving the information request;
- ii. When receiving an information request for the identity of, and address or other relevant contact information for, the owner or assignee of a mortgage loan, the Credit Union will respond to the member not later than 10 days (excluding legal public holidays, Saturdays, and Sundays) after the Credit Union receives the request.

G. Error Resolution and Information Request Fee. The Credit Union will not charge a fee for an error resolution or information request.

H. Potential Successors in Interest. When the Credit Union receives a written request indicating that a person may be a potential successor in interest and the request includes the name of the borrower from whom the person received an ownership interest and provides information that enables the Credit Union to identify the mortgage loan, the Credit Union will comply with the requirements of this section.

- i. In response to requests for copies of documentation for a determination of error, the Credit Union may omit location and contact information and personal information (other than information about the terms, status, and payment history of the mortgage loan) if the information pertains to a potential or confirmed successor in interest who is not the requestor, or the requestor is a confirmed successor in interest and the information pertains to any borrower who is not the requester.

10. ESCROW CLOSING NOTICE.

A. Timing. When the member requests cancellation of the Escrow account, the member must receive the notice no later than three business days before the escrow account is closed. For any other reason, the Credit Union must ensure that the member receives the Escrow Closing Notice no later than 30 business days before the member's escrow account is closed.

B. Content of Notice. The content of the Escrow Closing Notice will be consistent with the requirements in Regulation Z (1026.20).

11. RECORD RETENTION.

A. Record Retention Requirements. The Credit Union will retain records that document actions with respect to a member's mortgage loan account until one year after the date the Credit Union discharges the mortgage or transfers the servicing.

Policy 7370: HOEPA Rule Requirement

Revised Date: 12/20/2017

Model Policy Revised Date: 12/20/2017

General Policy Statement:

[CUNAME] (Credit Union) will comply with the Home Ownership and Equity Protection Act Rule published by the Consumer Financial Protection Bureau (CFPB) and the provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act. The Home Ownership and Equity Protection Rule requires that the Credit Union give additional disclosures, avoid certain loan terms, and ensure the member receives additional protections, including homeownership counseling when a member applies and consummates a high-cost mortgage loan.

1. COVERED TRANSACTIONS.

- A. **Determination.** The Credit Union will determine if a mortgage loan transaction is a Covered Transaction according to the Home Ownership and Equity Protection Act Rule (HOEPA).
- B. **Covered Transaction.** A Covered Transaction is defined as a consumer credit transactions that is secured by a member's principal dwelling that meets any of the HOEPA coverage tests under the rule, including:
- i. Purchase-money mortgages;
 - ii. Refinances;
 - iii. Closed-end home equity loans; **and**
 - iv. Open-end credit plans (i.e., HELOCs).
- C. **Exemption.** If the transaction is a reverse mortgage, construction loan, mortgage loan originated and directly financed by a Housing Financing Agency, or a mortgage loan originated under the USDA Rural Development Direct Loan Program it is exempt from the HOEPA Rule and the Credit Union will use the underwriting policies, procedures and standards that apply to that type of transaction.
- D. **Structuring.** The Credit Union will not structure a member's mortgage loan transaction to evade HOEPA coverage.

2. HOEPA COVERAGE TEST.

- A. **APR Coverage Test.** The Credit Union will initially determine if the member's mortgage transaction is a high-cost mortgage based on the annual percentage rate (APR). A transaction is a high-cost mortgage if its APR (measured as of the date the interest rate for the transaction is set) exceeds the Average Prime Offer Rate (APOR) for a comparable transaction on that date by more than:
- i. 6.5 percentage points for first-lien transactions;
 - ii. 8.5 percentage points for first-lien transactions that are for less than \$50,000 and secured by personal property; or

iii. 8.5 percentage points for junior-lien transactions.

B. Points and Fees Coverage Test. The Credit Union will also determine if the member's mortgage transaction is a high-cost mortgage based on the points and fees coverage test. A transaction is a high-cost mortgage if its points and fees exceed the following thresholds:

i. 5% of the total loan amount for a loan amount greater than or equal to \$21,032; or

ii. 8% of the total loan amount or \$1,052 (whichever is less) for a loan amount less than \$21,032.

3. HOEPA RULE REQUIRED DISCLOSURES.

A. Disclosures. The Credit Union will provide members whose mortgage transaction qualifies as a high-cost mortgage with additional disclosure information, which includes:

i. Inform the member that the loan will not be effective until consummation or account opening occurs;

ii. Explain the consequences of default;

iii. Disclose loan terms such as APR, amount borrowed, and monthly payment; **and**

iv. In the case of variable-rate loans, explain the maximum monthly payment that may be required under the terms of the loan or credit plan.

B. Form. The Credit Union's HOEPA disclosures will be in writing and in a form the member can keep.

C. Timing. The Credit Union will provide the required HOEPA disclosures to members at least three business days prior to consummation or account opening of a high-cost mortgage.

4. HIGH-COST MORTGAGE RESTRICTIONS.

A. Risky Loan Features. The Home Ownership and Equity Protection Act Rule restricts or bans certain risky loan features for high-cost mortgages. The Credit Union will follow the guidance of the HOEPA Rule for risky loan features as defined under the requirements of the rule and the Home Equity Protection Act.

B. Balloon Payments. Balloon payments are generally banned for high-cost mortgages and allowed in only three circumstances:

i. The payment schedule is adjusted to accommodate the member's seasonal or irregular income;

ii. The loan is a short-term bridge loan (12 months or less) to finance a new home purchase for a member selling an existing home; or

iii. The Credit Union meets criteria for serving a rural or underserved area, and the loan meets specific criteria set forth in the Bureau's Ability-to-Repay/Qualified Mortgage Rule.

C. Prepayment Penalties. The Credit Union will not charge prepayment penalties for mortgage loans that are covered transactions for HOEPA Rules.

- D. Due-on-Demand Features.** The Credit Union will only require due-on-demand features for covered transactions under the HOEPA Rule if:
- i. The member commits fraud or makes a material misrepresentation in connection with the loan or credit agreement;
 - ii. The member defaults on payment; and/or
 - iii. The member's action or inaction adversely affects the Credit Union's security interest for the loan.
- E. Recommending Default.** The Credit Union will not recommend that a member default on a current mortgage obligation to be refinanced by a high-cost mortgage.
- F. Modification fee.** The Credit Union will not charge a fee to modify, defer, renew, extend, or amend a high-cost mortgage.
- G. Late fees.** The Credit Union will restrict late fees on high-cost mortgage loans to no more than 4% of the past due payment, and will not pyramid late fees.
- H. Payoff Statement Fees.** The Credit Union will not charge a payoff statement fee to members with high-cost mortgages.
- I. Points and Fees.** The Credit Union will not finance points and fees into high-cost mortgage loans.
- J. Negative Amortization.** The Credit Union will not offer negatively amortizing loans that are high-cost mortgages.
- K. Combined Payments.** The Credit Union will not offer a payment schedule that consolidates more than two periodic payments and pays them in advance from loan proceeds.
- L. Default Rates.** The Credit Union will not increase the interest rate on a high-cost mortgage loan in the event of default.
- M. Acceleration.** In the case of acceleration as a result of a member's default in payment, the Credit Union will not provide a refund of interest calculated in a manner less favorable to the member than the actuarial method.
- N. Contractor Payments.** The Credit Union will not pay a contractor under a home-improvement contract from the proceeds of a high-cost mortgage.
- O. Refinancing.** The Credit Union will not refinance a high-cost mortgage into another high-cost mortgage within one year after having extended credit, unless the refinancing is in the member's best interest.
- P. Secondary Market Sales.** The Credit Union will not sell a high-cost mortgage in the secondary market without providing a high-cost mortgage notice to the assignee.

5. ABILITY TO REPAY.

- A. Timing.** The Credit Union will determine a member's ability to repay a high-cost mortgage prior to consummation or account opening.

B. Closed-end Credit Transactions. When the Credit Union originates closed-end high-cost mortgages it will satisfy the ability to repay requirements as other closed-end mortgages under Truth in Lending and the CFPB's Ability-to-Repay and Qualified Mortgage Rule and guidance in the Ability to Repay Policy.

C. Open-end High-cost Mortgages. Repayment ability will still be determined using HOEPA's ability-to-repay rule and the Credit Union will consider:

- i. Current and reasonably expected income or assets (verified with W-2s, tax returns, payroll receipts, financial institution records, or other third-party documents that provide reasonably reliable evidence); **and**
- ii. Current obligations, including any mortgage-related obligations such as property taxes, required insurance premiums, community association fees, ground rent, and leasehold payments.

6. HOMEOWNERSHIP COUNSELING.

A. Homeownership Counseling List. Applicants for mortgage loans will receive a written list of homeownership counseling organizations within three business days of application.

B. Homeownership Counseling Certification. Prior to making a high-cost mortgage loan, or a loan to a first time homebuyer with a negative amortization loan, the Credit Union will receive written certification that the member has received homeownership counseling on the advisability of the mortgage from a HUD-approved counselor or a state housing finance authority, if permitted by HUD.

- i. The counseling will not be provided by a counselor affiliated with or employed by the Credit Union.

Policy 7410: Indirect Dealer Financing

Revised Date: 06/27/2015

Model Policy Revised Date: 06/27/2015

General Policy Statement:

[CUName] (Credit Union) will participate with approved automobile dealers in Indirect Dealer Financing in order to provide an additional service to Credit Union members. The Credit Union may purchase dealer/member contracts on a full recourse, limited recourse, and without recourse basis. However, the Credit Union reserves the right to reject any dealer/member contract that fails to meet the Credit Union's loan criteria.

The Credit Union's indirect lending program will be conducted in accordance with the Credit Union's General Lending Policy (See Policy 7100), its Asset Liability Management Policy (See Policy 5100) and program, and in compliance with all applicable state and federal laws and regulations, and other official guidance.

Guidelines:

1. DEFINITION OF TERMS.

- A. **Approved Dealers.** The Credit Union will exercise adequate due diligence prior to engaging in any relationship with a participating dealer, pursuant to the Credit Union's Vendor Due Diligence and Oversight policy (See Policy 2185).
- i. New and used automobile dealers in the State in good standing with the Credit Union;
 - ii. Engaged in the business of selling automobiles for a period of not less than six months;
 - iii. Who have signed a Master Dealer Agreement with the Credit Union; and
 - iv. Have been approved by the Board of Directors.
- B. **Dealer/Member Contracts.** Commercial paper and purchase money security agreements for new or used automobiles negotiated between approved dealers and current or eligible members.
- C. **New Automobile.** Current or prior model year not previously titled. Program cars or dealer demonstrators will be considered new if they are a current or prior model year and have fewer than [7410-1] miles.
- D. **Used Automobiles.** Any automobile which does not meet the new automobile definition guidelines.

2. LOAN LIMITS.

- A. **Volume in a Given Month or Period.** The total volume of indirect automobile loans in a given month or period will not exceed [7410-1.1]
- B. **Total Loans Outstanding.** Indirect automobile loans will not exceed [7410-1.2] of the Credit Union's loan portfolio.
- C. **Total Loans to One Dealer.** The total amount of loans to one dealer will not exceed [7410-1.3].

D. Total Loans Per Credit Quality.

- i. A [7410-1.4]
- ii. B [7410-1.5]
- iii. C (See **Policy 7415, Sub-Prime Auto Indirect Auto Lending Policy**)
- iv. D (See **Policy 7415, Sub-Prime Auto Indirect Auto Lending Policy**)

3. LOAN AUTHORIZATION.

A. **Field of Membership Eligibility.** The Credit Union will verify membership eligibility prior to loan authorization, pursuant to the Credit Union's Field of Membership Policy (See **Policy 1150**).

B. **Approval.** The Credit Union will approve bona fide transactions that constitute acceptable credit risks. The loan authorization for officers approving indirect dealer financing are located in the Credit Union's Loan Authorizations Policy (See Policy 7130).

4. CREDIT STANDARDS AND UNDERWRITING PROCESS.

A. The Credit Union management will review all loan documentation **prior to purchase** to ensure that extension of credit falls within the Credit Union's risk tolerance. In determining credit risk, loan officers will consider:

- i. Cash flow;
- ii. Debt-to-equity ratio;
- iii. Length of employment;
- iv. Length of residence;
- v. Credit history; and
- vi. Loan to value ratio.

B. Dealers must provide the following documentation:

- i. Completed credit application;
- ii. Notice of potential purchase;
- iii. Dealer purchase order;
- iv. Copies of factory invoice, service contract, and credit insurance certificate (if requested and applicable);
- v. Notice of requirement to provide insurance;

- vi. Co-signer and notice to co-signer acknowledgement form (if applicable);
- vii. Copy of title application with Credit Union listed as lien holder;
- viii. Completed new member account card and member fee (if applicable);
- ix. Income/employment verification;
- x. Current dealer financial statements for "with recourse" loans; and
- xi. Any other documentation deemed necessary by the Credit Union.

5. **FAIR LENDING REQUIREMENTS.** Credit Union loan officers will review all loan documentation and paperwork prior to purchase in order to verify compliance with the Credit Union's Fair Lending Policy. The Credit Union will communicate to dealers that the Credit Union's policy prohibits discrimination (intended or otherwise) against protected classes of consumers.

6. **PROGRAM GUIDELINES.** The Credit Union's guidelines provide a framework for prudent indirect lending practices. However, each loan must be evaluated on a case by case basis; these guidelines should not be a substitute for good judgment.

A. New Automobiles.

i. Maturities.

- a. Up to \$[7410-9] financed 48 months
- b. \$[7410-9.1] to \$[7410-9.2] 60 months
- c. Greater than \$[7410-9.3] 72 months

ii. Maximum Loan to Value.

- a. Up to [7410-9.4] % of factory invoice, plus.
- b. Dealer cost for dealer installed optional equipment/ accessories.
- c. Extended service contract - up to \$[7410-9.5]. May be increased with Credit Union approval.

B. Used Automobiles.

i. Maturities.

- a. Up to \$[7410-9.6] financed 48 months
- b. \$[7410-9.7] to \$[7410-9.8] 60 months
- c. Greater than \$[7410-9.9] 72 months

ii. Maximum Loan to Value.

- a. Up to [7410-9.9A] % of Kelly Blue Book adjusted retail value, plus.
- b. Extended service contract - up to \$1,200. May be increased with Credit Union approval.
- c. Premium for life/accident and health coverage.

7. **INDIRECT LOAN WATCH.** The Credit Union closely monitors indirect lending and reports findings to the Board of Directors on a monthly basis. Management reports are designed to identify troubled loans promptly so that management can resolve problem loans in a timely and efficient manner.

A. **Indirect Loan Report.** The indirect loan report tracks the status of indirect loans per borrower on a daily basis. Since indirect lending often involves narrow margins and little cushion for loss, a borrower's past due status automatically triggers Credit Union collection efforts. The report includes the following information:

- i. Borrower and account number;
- ii. Loan amount and maturity;
- iii. Collateral value;
- iv. Past-dues and non-accruals;
- v. Renewals, extensions, and deferrals;
- vi. Collection efforts; and
- vii. Charge-offs.

B. **Dealer Report.** The dealer report tracks the status of indirect loans per dealer which allows management to assess the quality of loans generated from each dealer and to identify relationships where credit criteria should be tightened to minimize delinquencies and loan losses. Dealer reports also allow management to determine the adequacy of dealer reserves. The following information will be included in these monthly reports:

- i. Applications submitted, approved, conditioned and denied;
- ii. Total loans outstanding;
- iii. Delinquency;
- iv. First payment defaults;
- v. Repossessions;
- vi. Charge-offs;
- vii. Average loan-to-value;
- viii. Average loan term; and

ix. Average credit score.

C. **Vintage Report.** The vintage report tracks delinquencies and loan losses by annual production pools. The program allows management to identify changes in the economy and analyze the effectiveness of credit criteria per dealer over time. The report is especially useful in situations where the Credit Union's indirect loan report loss figures are distorted due to a rapid growth in the indirect loan portfolio.

8. DEALER RELATIONSHIPS.

A. **Dealer Contracts.** The Credit Union will obtain a legal review of its contracts with dealers. The Credit Union will ensure that such contracts contain, at a minimum, the following information:

- i. The dealer's adherence to the Credit Union's field of membership eligibility requirements;
- ii. Dealer compensation;
- iii. Documentation requirements;
- iv. Maximum financing amount per vehicle, including add-ons;
- v. The dealer's adherence to the Credit Union's underwriting practices;
- vi. The dealer's adherence to consumer compliance requirements;
- vii. Dispute resolution; and
- viii. Exit clauses.

B. **Master Dealer Agreements.** Credit Union dealer relationships are governed by a written master dealer agreement that addresses the following issues:

- i. Acceptable types of merchandise;
- ii. Credit requirements for borrowers;
- iii. Maximum advance and repayment terms;
- iv. Discount rate, fee, or commission calculation;
- v. Recourse agreement;
- vi. Dealer reserve requirements;
- vii. Dispute resolution; and
- viii. Exit clauses.

C. **Dealer Payment.** Loan payments are to be made directly to the Credit Union. The Credit Union pays dealers by direct deposit or Credit Union share check/draft only. Dealers are not allowed to write their own sight drafts.

9. DEALER CONTROLS.

A. **Compliance.** The Credit Union will monitor its relationships with its participating dealers to ensure that the dealers are adhering to the Credit Union's underwriting and documentation standards, as well as any and all state and federal laws or regulations that apply to automobile lending.

i. The Credit Union will regularly test for compliance with the contract terms by comparing delinquency, loan losses, and rates of return to previous results and budget levels.

B. **Reserve Monitoring.** The Credit Union will monitor the loans to ensure that charges are not being made to the dealer's reserve accounts in an effort to disguise delinquent accounts.

C. **Loan Monitoring.** The Credit Union will also monitor loan accounts to ensure that the dealers are not making loan payments to disguise delinquent accounts.

10. **PREVENTING AND DETECTING FRAUD.** The Credit Union will enact the following internal controls to prevent and detect fraud:

A. Sufficient staffing to allow for segregation of duties. One person will not be responsible for loan approval, reporting, reconciliations and collection. When staffing levels do not allow for proper segregation of duties, the Credit Union will compensate with other internal controls;

B. Safeguards to restrict inappropriate access to data;

C. Knowledge of credit union policies. Staff will receive training at least annually and when policies change;

D. Procedures to ensure limited exceptions to the established policies. These exceptions will be infrequent and approved by [7410-10];

E. Quality control processes to ensure the Credit Union receives perfected liens, proof of insurance, and other necessary documentation, in addition to verifying the completeness, accuracy and validity of loan deals; and

F. Internal audit functions that include testing loans from each vendor through direct member communication.

Policy 7415: Sub-Prime Auto Indirect Auto Lending Policy

Revised Date: 07/01/2006

Model Policy Revised Date: 07/01/2006

General Policy Statement:

The Board of Directors authorizes [CUNAME] (Credit Union) to engage in sub-prime indirect auto lending in accordance with the guidelines of this policy. The Credit Union can help members who would otherwise be charged excessively higher auto loan rates by other lenders, by offering a managed risk program. As part of this risk management, the Credit Union may engage the services of a third party lender.

Sub-prime lending is the practice of extending credit to borrowers who have weak credit histories (i.e., delinquent payments, charge-offs, bankruptcies), or reduced payment capacity (i.e., high debt ratios or low credit scores). Sub-prime loan portfolios carry a higher credit risk, which could lead to greater losses than on loans to prime borrowers. Thus, these loans generally require greater controls, monitoring and collection efforts.

Indirect lending is an arrangement where a credit union contracts with a third party to originate loans at the point of sale (i.e., auto dealers) and to provide other related services. Indirect lending is generally associated with auto loans, and requires careful attention to contractual requirements, internal controls, due diligence of third party financial strength, underwriting criteria and practices, along with an on-going assessment of the credit union's financial position.

All sub-prime auto lending activities of the Credit Union and its third party lenders will be conducted in conjunction with the Credit Union's General Lending Policy, its Asset Liability Management Policy and program, and in compliance with all applicable state and federal regulations, and other official guidance.

Lending Authority:

The Board of Directors grants the Credit Union the authority to make and refuse loans in conformance with the Credit Union's General Lending Policy. Such lending decisions must observe the credit limits and guidelines stated in the lending policy.

Sub-Prime Indirect Auto Lending Guidelines:

- 1. MAXIMUM EXPOSURE.** The maximum amount of exposure the Credit Union will accept in sub-prime indirect auto loans is [7415-1] percent of its loan portfolio, the aggregate of which will not exceed 50 percent of the Credit Union's net worth *during* the initial 30 months of a third-party servicing relationship, or 100 percent of the Credit Union's net worth *after* the initial 30 months of a third-party servicing relationship. These net worth limits do not apply to servicers that are federally-insured depository institutions or wholly-owned subsidiaries of a federally-insured depository institution. In these cases, the maximum amount of exposure the Credit Union will accept in sub-prime indirect auto loans will not exceed [7415-2] percent of the Credit Union's net worth. The Credit Union will determine its expected and acceptable yield based on a consistent, measurable objective, such as return on average assets, or an internal rate of return.
- 2. REQUIRED DOCUMENTATION.** In order to approve a sub-prime loan application, the Credit Union requires the following documentation, regardless of whether the loan is originated through a third party: [7415-3]
- 3. UNDERWRITING CRITERIA AND RELATED STANDARDS.** The Board of Directors has set the following sub-prime indirect auto lending guidelines for the Credit Union:

- A. The applicant must be eligible for membership at the Credit Union.
- B. The applicant must have the legal capacity to contract for a loan.
- C. The applicant must show proof of full auto insurance coverage prior to loan approval. The Credit Union may force-place insurance on borrowers who fail to show proof of insurance, but otherwise meet the Credit Union's lending criteria. The Credit Union may also force-place insurance on borrowers who fail to maintain full auto insurance throughout the life of the loan.
- D. A payment-to-income ratio not greater than [7415-4] percent. Management has the discretion to approve a loan in excess of this limit.
- E. A debt-to-income ratio of not greater than [7415-5] percent. Management has the discretion to approve a loan in excess of this limit.
- F. The member has demonstrated the ability to repay the loan.
- G. One (1) repossession and/or one (1) foreclosure are allowed per applicant (unless the member caused the Credit Union a loss).
- H. One (1) bankruptcy is allowed per applicant, which must have been discharged (unless such bankruptcy has caused the Credit Union a loss).
- I. A dismissed bankruptcy will be considered on a case-by-case basis (unless the discharged bankruptcy caused the Credit Union a loss).
- J. No charge-offs, collections or judgments greater than \$[7415-6] will be allowed in the past [7415-7] months are allowed, unless included in a discharged bankruptcy (unless the member caused the Credit Union a loss).
- K. The Credit Union reserves the right to use a credit score to determine creditworthiness.
- L. Collateral is required as regulated by the Directors, bylaws and statutes that govern.
- M. All collateral (such as titles) have a properly recorded lien in the credit union's name or, where the collateral is other than a titled vehicle, a properly recorded lien is filed with the appropriate authority.
- N. [7415-8]

4. **VENDOR UNDERWRITING STANDARDS.** The Credit Union will ensure that a third party's underwriting standards are in line with that of the Credit Union. The Credit Union will **NOT** approve loans where the underwriting standards are not met, unless prior approval is obtained by Credit Union management.

5. **LOAN TERMS – ALTERATIONS.** Loan alterations, such as deferments and re-writes must be approved by the Credit Union using the following guidelines:

- A. Loan deferments are not to be granted on loans where the required payment is more than [7415-9] days past due. No more than one (1) deferment is to be granted during the life of the loan.
- B. As used in this policy, re-write means to alter the terms of the original note. It does NOT include those

instances where the principal balance has been reduced or added to, where there has been a change in the parties liable for the note, or where the collateral securing the note has changed.

C. Application to re-write a loan must meet all requirements of an application for a new loan. Additionally, all existing loans with the Credit Union must be current, with no delinquencies in the prior [7415-10]days.

D. No more than one (1) re-write of a loan is to be allowed during the life of the loan.

E. Management will inform the Board of Directors of all loan deferments or re-writes at the next regularly scheduled Board meeting.

F. Refinancing and re-aging of loans is NOT permitted, unless authorized by Credit Union management. Refinancing and re-aging of loans will be conducted under very limited and prudent standards set forth by the Board.

6. **CREDIT UNION DUE DILIGENCE.** Management may delegate due diligence to appropriate staff members as warranted, but shall be responsible for reviewing the information gathered and making the final decisions. All due diligence efforts will be documented and provided to the Board of Directors.

A. **Self-Assessment.** Prior to engaging in sub-prime auto indirect lending, the Credit Union will perform a self-assessment. As part of the Credit Union's self-assessment, management will determine whether the proposed activities, related costs, product and services standards, and third party involvement, are consistent with the credit union's overall business strategy and risk tolerances. Categories of risk to be assessed include loss of capital if the venture fails, loss of member confidence if the program, product or service fails to meet member expectations, and costs associated with attracting or training personnel and investing in required infrastructure. The self-assessment will take place in advance in the decision to offer new products and services and will be conducted periodically as long as the product or service is offered. The self-assessments will be shared with the Board of Directors.

B. **Insurance Review.** Third party relationships can result in increased liabilities. Therefore, Credit Union will maintain an adequate review of the Credit Union's insurance coverage, including the fidelity bond and policies covering such matters as errors and omissions, property and casualty losses, and fraud and dishonesty. The Credit Union will also review the financial strength and claims-paying ability of the insurer, prior to the purchase of collateral protection insurance and/or loss protection insurance. The Credit Union will review the rating of the insurance company(ies) used in connection with its sub-prime indirect auto loan programs, at least quarterly. The Credit Union will provide these ratings to the Board of Directors.

7. **THIRD PARTY DUE DILIGENCE.** Due Diligence of any third party providing products or services to the Credit Union must be conducted in accordance with the Credit Union's Third Party Due Diligence Policy. As part of this evaluation, it is important to understand how the third party has performed in other relationships. Management will contact other credit unions or clients of the third party. Other sources such as the Better Business Bureau and the Federal Trade Commission will be consulted to determine complaint histories on businesses.

A. **Contract Review.** All contracts will be reviewed by the Credit Union's legal counsel to ensure the Credit Union has a clear understanding of the rights and responsibilities of both parties. The Credit Union will exercise its right to modify contracts if necessary.

B. **Financial Statements.** Financial statements of the third party will be reviewed to determine the strength

of the institution. Undercapitalized companies or those exhibiting weak earnings may not be able to continue as ongoing concerns. This could lead to disruptions in member service, uncollected payments, and potential losses if the third party fails to remit funds due the credit union. A licensed CPA will be consulted when necessary.

C. **Sensitivity Analyses.** Credit Union management will routinely conduct sensitivity analyses, project its expected revenue, expenses, and net income on its investment, and recognize how each of these factors may change under different economic conditions. This analysis will be conducted internally by someone with the requisite knowledge, or through the use of an outside consultant. Data and other benchmarks, including yield and profit projections generated by the third party will be verified with the underlying assumptions fully understood by the Credit Union, and compared with Credit Union's own data. Services that are not directly income generating, such as infrastructure, will be subjected to a cost-benefit analysis.

D. **Insurance Coverage Review.** The Credit Union will ensure that it is the beneficiary on all insurance policies and will review all insurance contracts to ensure full coverage.

8. **PORTFOLIO MONITORING.** The Credit Union will regularly monitor its sub-prime portfolio, to determine the following:

A. **Interest Rate.** The interest rate(s) is(are) within usury limits.

B. **Compliance.** The program, as well as any third-party servicing, is in compliance with consumer compliance regulations (ECOA, TIL).

C. **Capital Exposure.** The Credit Union's capital exposure is adequate to implementation.

D. **Profitability.** Profitability will be monitored, taking into consideration the costs (collection expenses, increased personnel expenses, and increased loan losses).

E. **Credit Performance Measures.** The Credit Union will compare its portfolio's credit performance measures to the industry average. Performance measures will be monitored on a monthly basis with reports to management and Board (which will include, at a minimum: new loan volume by credit category, delinquency and charge-off data by credit category and in aggregate). Performance measures will be stratified by: loan type, creditworthiness, loan origination date, loan-to-value ratio, and collateral type.

F. **Pricing Structure.** The Credit Union will periodically assess its pricing structure, using a bond equivalent yield to determine the pricing scenarios.

G. **Stress Tests.** The Credit Union will perform stress tests of its sub-prime loan pool, including an estimate of the portfolio's susceptibility to deteriorating economic market and business conditions.

H. **Defaulted Loans.** Defaulted loans are reviewed on an on-going basis to determine changes to underwriting or collection practices. Decisions to "cure" delinquent or non-performing loans are subject to Credit Union management approval.

I. **Reports to Board.** The Board will receive a report at each Board meeting which will contain, at a minimum, the new loan volume, delinquency, and charge-off data of the Credit Union's sub-prime indirect auto loans.

9. **CONTROLS.** The Credit Union will maintain effective control over all of its accounts, with all sub-prime

loans segregated from other Credit Union loans.

- A. **Post-Execution Reviews.** The Credit Union will conduct post-execution reviews to determine that approved loans meet the Credit Union's pricing, creditworthiness, documentation, and collateral standards. Any and all exceptions will be brought to management's attention and tracked by the source of exceptions.
- B. **Loss Estimates.** The Credit Union's Allowance for Loan and Lease Losses includes an estimate for probable, incurred losses inherent in the sub-prime loan program.
- C. **Periodic Audits.** The Credit Union will conduct periodic [7415-11] audits to determine whether the Credit Union is in compliance with its policies and procedures. The scope of the audit will include: credit evaluation, underwriting/documentation, data integrity, servicing/collection practices, and consumer compliance.

10. SERVICING AND COLLECTIONS.

- 1. **Servicing Reports.** For all third-party relationships, the Credit Union will require adequate servicing reports. These reports will be reviewed and provided to the Board of Directors on a semi-annual basis.
- 2. **Replacement of Servicer.** The Credit Union reserves the right to replace an unsatisfactory servicer, and will ensure that it has the ability to terminate an agreement with an unsatisfactory servicer.
- 3. **Staff Training.** The collection department will be trained to deal with sub-prime borrowers. Additional training will be conducted to sub-prime servicing and collection staff when warranted.
- 4. **Responsibilities of Collection Staff.** Pursuant to the Credit Union's Collection/Charge-Off Policy, the collection department will be responsible for the following:
 - i. Maintaining contact logs on each borrower.
 - ii. Timely filing the first payment notices to each borrower (unless handled by a third-party servicer).
 - iii. Issuing monthly loan statements (unless handled by a third-party servicer).
 - iv. Timely initiation of collection activity on delinquent accounts.
 - v. The quick disposal of repossessed collateral.
 - vi. Ordering repossessions in a timely manner.
 - vii. Timely charge-off of uncollectible sub-prime loans.
 - viii. [7415-12].

Policy 7420: Member Business Loans/Commercial Lending

Revised Date: 10/05/2016

Model Policy Revised Date: 10/05/2016

General Policy Statement:

[CUname] (Credit Union) grants business and commercial loans to qualified members for the purposes set forth in the Guidelines below. Any exceptions made to this loan policy will be approved by the CEO and will be monitored accordingly.

Definitions:

1. **Associated borrower** – means any other person or entity with a shared ownership, investment, or other pecuniary interest in a business or commercial endeavor with the borrower (*exceptions permitted under Regulation*).
2. **Commercial loan** – any loan, line of credit, letter of credit (including any 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.

The following loans are excluded from the commercial loan definition:

- A. Loans made by a federally insured credit union (FICU) to another FICU.
 - B. Loans made by a FICU to a credit union service organization (CUSO).
 - C. Loans secured by a 1 to 4 family residential property (whether or not it is the borrower's primary residence).
 - D. Loans fully secured by shares in the Credit Union making the extension of credit or deposits in other financial intuitions.
 - E. Loans secured by a vehicle manufactured for household use.
 - F. Loans that would otherwise meet the definition, but when aggregated (outstanding balances plus unfunded commitments), less any portion secured by shares in a credit union to a borrower or an associated borrower, equal less than \$50,000.
3. **Construction and 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 policy.
 4. **Control** – means a person or entity directly or indirectly, or acting through or together with one or more persons or entities:
 - A. Owns, controls or has the power to vote 25% or more of any class of voting securities of another person

or entity;

B. Controls, in any manner, the election of a majority of the directors, trustees, or other persons exercising similar functions of another person or entity; or

C. Has the power to exercise a controlling influence over the management or policies of another person or entity.

5. **Member business loan (MBL)** – means any commercial loan, except that the following commercial loans are not considered member business loans and are not counted toward the aggregate limit:

A. Any loan in which a federal or state agency fully insures repayment, fully guarantees repayment or provides an advance commitment to purchase the loan in full; and

B. Any non-member commercial loan or non-member participation interest in a commercial loan made by another lender, provided the Credit Union acquired the non-member loans and participation interests in compliance with all relevant laws and regulations.

C. The following loans are **excluded** from the commercial loan definition, but are considered **member business loans** (if the outstanding aggregate new member business loan balance is \$50,000 or greater) and are counted toward the Credit Union's aggregate member business lending limit:

i. Loans secured by a lien on a 1 to 4 family residential property that is not member's primary residence; and

ii. Loans secured by a vehicle manufactured for household use that will be used for a commercial, corporate, or other business investment property or venture, or agricultural purposes.

6. **Residential property** – means a house, condominium unit, cooperative unit, manufactured home (whether completed or under construction), or unimproved land zoned for 1 to 4 family residential use. A boat or motor home, even if used as a primary residence or timeshare property, is not residential property.

Guidelines:

1. RISK MANAGEMENT.

A. **Board Oversight.** The Board of Directors has ultimate responsibility for the level of risk assumed by the Credit Union. The Board will approve the Credit Union's overall business lending strategy that addresses the level and nature of exposure acceptable to the Credit Union. This will include evaluating resources to ensure staffing levels are appropriate for the level and complexity of the portfolio, understanding and remaining informed on the level of risk in the Credit Union's portfolio and establishing a suitable pricing model that integrates the Credit Union's overall asset liability management (ALM) program.

B. **Management Responsibility.** Management will be responsible for the following:

i. Implementing procedures and controls to effectively adhere to and monitor compliance with established lending policies and strategies;

ii. Periodically reviewing information that identifies and quantifies the nature and level of risk based on the Credit Union's activities and borrowing relationships;

iii. Adjusting strategies and policies to respond to changes in market conditions;

iv. Regularly reporting information to the Board;

v. Obtaining updated appraisals or collateral valuation when a loan or project is impaired or when market conditions are deemed to have deteriorated;

vi. Regularly evaluating the degree of correlation between related business sectors and establishing internal lending guidelines and concentration limits to control the Credit Union's overall risk exposure; and

vii. Developing appropriate strategies for managing concentration levels by identifying specific adverse market conditions and creating feasible contingency plans to reduce or mitigate concentrations such as loan participations and whole loan sales.

C. Credit Risk Assessment. The Credit Union will perform a credit risk assessment to identify potential concentrations by stratifying the portfolio into segments that have common risk characteristics or sensitivities to economic, financial or business developments. Concentrations will be by loan type, industry, collateral, geographic area, individual or associational group of borrowers, business lines, etc.

D. Credit Risk Ratings. The Credit Union will establish a formal process that identifies and assigns a credit risk score to each commercial loan at inception and in portfolio. The score will be determined through an evaluation of quantitative factors based on financial performance and qualitative factors based on management, operational, market, and business environment. Risk ratings will be reviewed as necessary to ensure proper risk monitoring.

E. Loan Participation Risk Management. (See **Policy 7430**) The Credit Union will perform due diligence over the ongoing servicing at least annually, and will develop trigger points for action with originators when the loans do not perform in accordance with the loan documents (i.e., missing financial statements, noncompliance to loan covenants).

F. Market Analysis. The Credit Union will periodically perform a market analysis for the various types of loans and geographic areas represented in the Credit Union's portfolio. The Credit Union will also perform a market analysis prior to entering new markets, pursuing new lending activities, and/or expanding into existing markets. The Credit Union will obtain market information from sources such as: published research data, real estate appraisers and agents, information maintained by the property taxing authority, local contractors, builders, investors, and community development groups.

G. Portfolio Stress Testing and Sensitivity Analysis. The Credit Union will perform portfolio level stress tests or sensitivity analysis to quantify the impact of changing economic conditions on asset quality, earnings and net worth. The Credit Union will also consider the sensitivity of portfolio segments with common risk characteristics to potential market conditions (e.g., loan type, collateral, geographic area, individual or associational group of borrowers, business lines, etc.).

H. Allowance Funding. The Credit Union will ensure that the Allowance for Loan and Lease Losses (ALLL) is adequately funded in accordance with its ALLL policy (See **Policy 7615**).

I. Maintenance of Updated Financial and Analytic Information. The Credit Union will maintain the borrowers' most recent financial statements, cash flow statements, rent rolls, guarantor personal statements (if applicable), tax return data, and other income performance information for all business loans including loan participations. As real estate market conditions change, management will consider the continued relevance of appraisals performed during high growth periods, and update appraisal reports

as necessary. The Credit Union will also conduct periodic property inspections to ensure the collateral condition does not adversely impact the value.

2. **LOAN TYPES.** The Credit Union will only grant the following types of commercial and MBLs: [7420-1].
3. **TRADE AREA.** The Credit Union's trade area for commercial and MBLs encompasses the membership area as defined in the bylaws.
4. **TOTAL ASSET MIX.** The maximum amount of Credit Union assets that will be invested in all MBLs is the lesser of
 - A. 1.75 times the actual net worth of the Credit Union or
 - B. 1.75 times the minimum net worth required to be well capitalized under prompt corrective action rules.
5. **ASSET MIX BY TYPE.** The maximum amount of Credit Union assets, in relation to net worth that will be invested in commercial and MBLs by category or type of loan is as follows:

<u>Category or Type of Loan</u>	<u>Per Cent of Net Worth</u>
[7420-2]	[7420-3] %
[7420-4]	[7420-5] %
[7420-6]	[7420-7] %

6. **LOANS TO ONE BORROWER.** The aggregate amount of commercial loans to any one member or group of associated members will not exceed the greater of either (1) 15% of the Credit Union's net worth or (2) \$100,000. An additional 10% of the Credit Union's net worth is permissible if the amount that exceeds the Credit Union's 15% limit is fully secured at all times with a perfected security interest by readily marketable collateral. The Credit Union can exclude any insured or guaranteed portion of a commercial loan made through a program in which a federal or state agency insures repayment, guarantees repayment, or provides an advance commitment to purchase the loan in full.
7. **LOAN OFFICER QUALIFICATIONS AND EXPERIENCE.** The personnel involved in making or administering commercial and MBLs will have the following qualifications and experience.
 - A. **Qualifications.** [7420-8].
 - B. **Experience.** Such personnel will have underwriting and processing experience for the type of commercial lending in which the Credit Union is engaged. Experience should include overseeing and evaluating the performance of a commercial loan portfolio including rating and quantifying risk, and experience conducting collection and loss mitigation activities for the types of commercial lending in which the Credit Union is engaged. In order to ensure personnel have the appropriate experience, the Credit Union will utilize internal training and development, hiring qualified individuals with existing experience or utilizing the services of an outside party (e.g., a CUSO or other qualified third party).
 - C. **Third party.** When using a third party to meet the experience requirement associated with qualified lending personnel, the following conditions will be met:
 - i. The third-party will not be affiliated or have a contractual relationship with the borrower or any

- associated borrowers;
- ii. The decision to grant a loan resides with the Credit Union;
- iii. The Credit Union staff exercises ongoing oversight over the third-party regularly by evaluating the quality of work; and
- iv. The third-party arrangement complies with applicable regulation.

D. Loan approval. The Credit Union will ensure that loan approval authority is granted to employees with appropriate experience and proficiency in evaluating and understanding commercial loan risk.

8. UNDERWRITING STANDARDS AND ANALYSIS OF BORROWER'S ABILITY TO REPAY. The Credit Union will maintain underwriting guidelines commensurate with the size, scope and complexity of its commercial loan portfolio. The borrower must meet the Credit Union's general credit standards. In addition, loan officers will thoroughly analyze the borrower's ability to repay by addressing the entire cash flow picture and the following underwriting standards:

- A. Personal financial analysis necessary to evaluate financial trends and condition of the borrower, including analysis of liquidity, leverage, asset validity, and cash flow.
- B. Business analysis, including analysis of cash flow, asset validity, liquidity, leverage, and management.
- C. Industry analysis, including but not limited to analysis of industry, competition, and peer group.
- D. Due diligence of the principal(s) to determine whether any related interests may have a negative impact or place undue burden on the borrower and related interests with regard to meeting the debt obligations with the Credit Union.
- E. Identification of special concerns that may affect a borrower's cash flow and net worth, such as pending marital dissolution or lavish lifestyle.

9. REQUIRED DOCUMENTATION.

A. Financial Documentation. Each request for an extension of credit or an increase in an existing loan or line of credit will be supported by the following documentation:

- i. Balance sheet.
- ii. Cash flow analysis.
- iii. Income statement.
- iv. Tax data.
- v. Leveraging analysis.
- vi. Comparison with industry average.
- vii. Business plan.
- viii. Financial statements for the individual borrower and his or her business. The Credit Union prefers

CPA prepared or compiled financial statements if available. The Credit Union will review statement quality and will verify documentation is sufficient to support an accurate financial analysis and risk assessment.

- ix. Personal and business tax returns and supporting documentation.
- x. Sources and uses of funds; detailed schedules of real estate, partnership investments, securities owned, and notes receivable, when possible; and any other appropriate documentation.
- xi. Projections when historic performance does not support projected debt payments, supported by reasonable rationale and at a minimum, a projected balance sheet and income and expense statement.

B. Periodic Updating Required. The Credit Union requires periodic updating of financial statements, tax returns, and related required loan documentation.

C. Other Required Documentation.

- i. Written application.
- ii. Recent credit report.
- iii. Appropriate documentation for collateral (see below).

10. **MINIMUM COLLATERAL REQUIREMENTS.** The collateral will be commensurate with the level of risk associated with the size and type of the commercial loan. Collateral will be sufficient to ensure adequate loan balance protection along with appropriate risk sharing with borrower and principal(s). Unsecured loans will have loan documentation with mitigating factors to offset the relevant risk.

A. Personal Guarantee. The Credit Union may require the full and unconditional personal guarantee from the principal(s) who have a controlling interest in the borrowing entity. If a personal guarantee is not required, the Credit Union will document the loan file with mitigating factors that sufficiently offset the relevant risk.

B. Loan to Value (LTV) ratio. LTV ratio means, with respect to any item of collateral, the aggregate amount of all sums borrowed and secured by that collateral, including outstanding balances plus any unfunded commitment or line of credit from another lender that is senior to the Credit Union's position, divided by the current collateral value.

The Credit Union has established the following LTV limits by loan category:

<u>Category or Type of Loan</u>	<u>Maximum LTV</u>
{insert category(s) or loan type(s) here}	{insert maximum LTV(s) here}

C. Collateral Documentation Requirements for Loans Secured by Real Property.

- i. Completed appraisal report. Appraisal reports must be prepared for the Credit Union by a qualified appraiser within 120 days of loan application. Reports must also include pictures and rental data for property in the same general area.
- ii. Clear title policy issued by a title company.

- iii. Proof of owner's insurance with loss payable to the Credit Union, and evidence of flood insurance where applicable.
- iv. Deed of trust, recording, and closing documents.
- v. Proof of balance of first mortgage (if applicable).

D. Steps to Be Taken to Secure Collateral for commercial and MBLs.

- i. For loans secured by real property, the Credit Union will follow the same steps to secure the loan as it does for home equity loans.
- ii. For loans secured by personal property, the Credit Union will follow the same steps to secure the loan as the Credit Union follows for a consumer loan secured by that type of personal property.

E. Determination and Notice of Flood Hazards. The Credit Union will comply with NCUA Part 760 regarding the determination of loans in areas having special flood hazards.

- i. **Determination.** For all loans made, increased, extended or renewed that are secured by a building located or to be located in a special flood hazard area, the Credit Union will complete the standard flood hazard determination form developed by the Administrator of the Federal Emergency Management Agency (FEMA). This applies to loan originations, extensions, refinances, and renewals. The Credit Union will retain a copy of the completed form for as long as the Credit Union owns the loan (See Policy 10000, Table 7).
- ii. **Fee.** The Credit Union may charge a reasonable fee for determining whether the building securing the loan is, or will be located, in a special flood hazard area. The portion of the cost for the life-of-loan monitoring will be disclosed as a finance charge pursuant to Regulation Z.
- iii. **Notice.** If the building securing the loan is in a special flood hazard area, the Credit Union must:
 - 1. Notify the borrower and the loan servicer of the special flood hazard within a reasonable time before completion of the transaction, the requirement for the purchase of flood insurance, whether flood insurance coverage is available from the National Flood Insurance Program, and whether federal disaster relief assistance may be available in the event of flooding. The Credit Union will retain a written receipt by the borrower and the loan servicer of this notice for as long as the Credit Union owns the loan. Notice may be provided to the servicer electronically.
 - 2. Notify the Administrator of FEMA, or their designee, of the loan servicer. To ensure that the insurance policy is maintained in full force, the Credit Union will send this notice to the insurance carrier that issued the insurance policy so that the mortgagee endorsement can be updated. The Credit Union will notify the Administrator of FEMA of any change in the servicer of a loan within sixty (60) days after the effective date of the change.

F. Flood Insurance. The Credit Union will not make a loan secured by a building, on a permanent foundation, that is located in a special flood hazard area for which flood insurance is available, unless the building is covered by flood insurance for the term of the loan. This applies to all originations, extensions, refinances, and renewals of loans over \$5,000 or with a repayment term greater than a year. The Credit Union is not required to obtain flood insurance for a structure (used for personal, family or household purposes) that is a part of a residential property, but detached from the primary residential

structure and does not serve as a residence.

- i. **Term.** The borrower must maintain flood insurance for the term of the loan, unless flood map revisions determine that the underlying collateral is no longer in a designated flood hazard area.
- ii. **Coverage.** The policy amount must cover the loan amount or the maximum amount available under the National Flood Insurance Program, whichever is less.
- iii. **Escrow.** The Credit Union is not required to escrow for loans secured by residential improved real estate or a mobile home that is used as collateral for a business, commercial or agricultural purpose.
- iv. **Notification; Forced Placement.** The Credit Union will determine whether flood insurance is required and promptly notify prospective borrowers of the need to acquire flood insurance within 45 days, at the borrower's expense. If the borrower fails to provide evidence of flood insurance within 45 days of notification, the Credit Union will purchase flood insurance for borrower at borrower's expense. If the borrower subsequently obtains sufficient flood insurance coverage, within 30 days of receipt of confirmation, the Credit Union will notify the insurance provider to terminate any insurance purchased by the Credit Union and refund to the borrower all premiums and fees paid by the borrower during the time both the borrower's flood insurance and the Credit Union-paid flood insurance were in effect.
- v. **Records.** The Credit Union will maintain records documenting the method used to determine the need for flood insurance and notices sent to borrowers.

G. Reevaluation of Collateral. The Credit Union will reevaluate the value and marketability of the collateral at least once every [7420-9.1] year(s). The Credit Union will work with its auditors to determine a process for depreciating the collateral.

11. CONSTRUCTION AND DEVELOPMENT LENDING.

- A. The Credit Union will ensure collateral values associated with the construction/development project are properly determined and established. Collateral value is the lesser of the project's "cost to complete" (sum of all qualifying costs necessary to complete a construction project and documented in an approved construction budget) or its "prospective market value" (market value opinion determined by an independent appraiser in compliance with the relevant standards set forth in the Uniform Standards of Professional Appraisal Practice).
- B. Qualified personnel will conduct a review and approval of any line item construction budget prior to closing the loan.
- C. The Credit Union has a requisition and loan disbursement process. Disbursement or release of funds occurs only after on-site inspections, documented by qualified personnel, certifying that requisitioned work for payment has been satisfactorily completed and remaining funds available to be disbursed from the loan is sufficient to complete the project. Additionally, before disbursement, the Credit Union confirms that no intervening liens have been filed.
- D. The Credit Union will follow its Environmental Risk Management policy (See **Policy 7305**) with regard to its member business real estate loans.

12. INTEREST RATES AND MATURITIES. The Asset/Liability Management Committee will determine

appropriate interest rates and maturities for commercial and MBLs.

13. MONITORING, SERVICING, AND FOLLOW-UP PROCEDURES.

A. **Loan Monitoring.** The Credit Union monitors commercial and business loans using the reports and procedures for loans generally. Commercial and MBLs will be segregated from all other loans.

B. **Loan Servicing.** The Credit Union services such loans using the Credit Union's usual servicing facilities.

C. **Follow-Up Procedures.** The Credit Union follows up on such loans using its usual follow-up procedures. It collects on defaulted loans pursuant to its standard collection policies and guidelines.

14. **DISCLOSURE.** The Credit Union will periodically disclose the number and aggregate dollar amount of MBLs to Credit Union members.

15. PROHIBITED BUSINESS and COMMERCIAL LOANS.

A. **Prohibited Business and Commercial Loans.** No business or commercial loans will be granted to:

- i. Any senior management employee directly or indirectly involved in the Credit Union's commercial loan underwriting, servicing and collection process and any of their immediate family members;
- ii. Any member meeting the definition of an associated borrower with respect to an employee or immediate family member listed above;
- iii. Any compensated member of the Board of Directors, unless approved by the Board. Said Director must recuse himself or herself from the decision-making process;

B. **No Equity Kickers or Joint Ventures.** The Credit Union shall not grant business or commercial loans where the Credit Union or its senior management employees receives an amount tied to the profit or sale of the business or commercial endeavor for which the loan is made.

16. **BOARD REPORTS.** Management will provide the Board with detailed reports of MBLs on a monthly basis including:

A. Past due delinquency report;

B. Collection actions taken;

C. Concentrations of business credit; and

D. **Classified Business Loans. Business loans will be classified in accordance with the Credit Union's guidelines.** In particular, classification is based on factors not limited to the delinquency. Management is expected to obtain periodic financial statements and classify loans when businesses experience troubled cash flows. In addition, management will classify loans with inadequate documentation and analysis.

17. **COMMERCIAL LOAN WORKOUTS.** The Credit Union will develop and maintain a ready network of legal, appraisal, real estate brokerage and property management professionals to handle prospective workouts.

A. **Commercial Real Estate Loan Workouts.** The Credit Union will follow its Commercial Real Estate Loan policy (See **Policy 7315**).

Policy 7425: Member Business Credit Cards

Revised Date: 03/29/2014

Model Policy Revised Date: 03/29/2014

General Policy Statement:

This Member Business Credit Card policy shall conform to [CUnion]'s (Credit Union) lending and Member Business Loans policies. The Credit Union grants business loans to qualified members for the purposes set forth in the Guidelines below. All member business credit card accounts must comply with these Guidelines, except loans that are less than \$50,000; are fully secured by a lien on the member's primary residence; are share-secured; or are made to credit unions or credit union service organizations.

All business credit cards shall remain the property of the Credit Union and are not assignable or transferable and may be canceled by us at any time for any reason, without notice, except as law requires.

Guidelines:

1. AGGREGATE LIMITS.

- A. The aggregate dollar amount of business credit card lines of credit will not exceed [7425-1] % of the Credit Union's loan portfolio.
- B. The maximum amount of the Credit Union's assets, in relation to reserves, that will be invested in business credit card lines of credit is [7425-2] %.

2. CREDIT LIMITS.

- A. The Credit Union will not approve a business credit card for which the aggregate credit limit exceeds [7425-3].
- B. When a business card holder has exceeded his/her/its credit limit, the Credit Union [7425-4] bill the business member for the entire amount over the limit, in addition to the calculated monthly minimum payment.
- C. Accounts exceeding the credit limit shall be reviewed for possible credit limit increases or cancellation.
- D. The Credit Union will establish and advise each business member as to the credit limits for each business credit card held by an employee of that business. The business member will not make, authorize, or allow use of any business credit card for any purchases or cash advances that would exceed these credit limits.
- E. The established limits can be adjusted from time to time at the discretion of the [7425-5].

3. DOCUMENTATION

- A. The documentation requirements for business credit card applications and requests for increases in credit limits shall comply with the documentation requirements outlined in the Credit Union's Member Business Loans policy.
- B. Each business member credit card holder shall furnish the Credit Union with an annual financial

statement at the end of its accounting year.

4. **COLLATERAL REQUIREMENTS.** The collateral requirements for business credit cards shall comply with the collateral requirements outlined in the Credit Union's Member Business Loans policy.

5. **LENDING APPROVAL.** The [7425-6] must approve all business credit card applications subject to the Credit Union's lending and Member Business Loans policies. A record of all business credit card approvals and denials will be documented.

6. **EMPLOYEE DESIGNATION**

A. Business credit cards will only be issued to those employees designated by the business member. Each designated employee shall only charge purchases of goods and services and obtain cash advances which are necessary for or incidental to authorized business activities. The use of a business credit card by an employee constitutes an extension of credit to the business member.

B. Any designated employee of the business member will be provided with a business credit card so long as they meet the Credit Union's credit and eligibility requirements.

7. **CASH ADVANCES.** Business credit card cash advances shall be for a minimum of \$[7425-7] and a maximum of \$[7425-8].

8. **ANNUAL FEE.** Each business member that is approved for a business credit card shall pay an annual fee of \$[7425-9] for each card that is issued.

9. **FINANCE CHARGES AND BILLING.**

A. The finance charge for business credit cards shall be established and reviewed [7425-10] by the Board of Directors. When reviewing finance charges, the Board will consider the cost of funds so as to ensure the safety and soundness of the Credit Union.

B. The Credit Union will provide each business member card holder with a statement showing all charges and appropriate billing data regarding all fees relating to individual employee business credit cards.

C. The business member must pay the Credit Union within [7425-11] days of the billing cycle closing date an amount equal to [7425-12] % of the new balance shown on each statement and any minimum payment billed in prior statements shown as past due which will be included in the minimum payment due amount on the statement. The business member may prepay the amount of each statement in full or in part at any time.

D. Finance charges will not be imposed on current purchases if the new balance is paid in full within [7425-13] days from the billing cycle closing date shown on the statement. Finance charges will be imposed on the [7425-14] of unpaid cash advances, unpaid old purchases, and current purchases.

10. **RE-ISSUANCE OF BUSINESS CREDIT CARDS.**

A. The reissue of business credit cards shall be subject to review and re-qualification. At reissue, all credit card limits shall be reviewed by [7425-15].

B. Business members in good standing who have not abused their credit card privileges shall be reissued cards for one to two years. New accounts shall be issued for no more than one year.

11. **LATE CHARGES.** A late charge of \$[7425-16] will be charged to the business member when it is more than [7425-17] days past due on its credit card payment.

12. **LIABILITY**

- A. The business member must accept liability for any and all charges and cash advances made with a business credit card. The business member will pay for all charges and cash advances together with any finance charges accrued.
- B. The business member will be responsible for any unauthorized use of business credit cards that occurs before notifying the Credit Union of the loss, theft, or unauthorized use of the card.
- C. The business member will remain liable for all charges resulting from use of any employee's business credit card following his/her termination of employment until notice of said termination has been received by the Credit Union.
- D. The business member will be solely responsible for notifying the Credit Union of any cancellation of charging privileges for its employees. It will be the business member's responsibility to retain and return the business credit card to the Credit Card in case of its cancellation. The business member will be fully responsible for any and all charges made prior to the return of the card to the Credit Union.

13. **DEFAULT AND COLLECTIONS**

- A. All business credit cards shall be subject to the Credit Union's delinquency control and collection program for loans. Delinquency and collection procedures shall comply with the Credit Union's Collection policy.
- B. The full amount owed by the business member will, at the Credit Union's option and after notice required by law, become immediately due and payable (including collection costs) in the following circumstances:
 - i. The business member fails to comply with any term or condition of the Credit Union's card agreement;
 - ii. The business member fails to make any payment within [7425-18] days after the date when said payment is due;
 - iii. The business member becomes a subject of bankruptcy or insolvency proceedings; or
 - iv. It is discovered that any representation made to induce the Credit Union to extend credit was untrue.

14. **CARD AGREEMENT.** The Credit Union shall make and enter into a written card agreement with every business member card holder. The Credit Union may amend the agreement from time to time by providing our business members with [7425-19] days written notice.

15. **STAFF.** Only those employees who are qualified to make and administer member business loans may approve and administer business credit card lines of credit.

16. **PROHIBITIONS.** The Credit Union will not approve a business credit card for any person prohibited from receiving a member business loan.

17. **UNLAWFUL INTERNET GAMBLING.** The Credit Union will follow the guidance of the Credit Union's Unlawful Internet Gambling Policy (See Policy 2205) when opening Member Business Credit Cards.

Policy 7430: Participation Loans

Revised Date: 03/29/2014

Model Policy Revised Date: 03/29/2014

General Policy Statement:

The Board of Directors authorizes [CUNAME] (Credit Union) to engage in loan participations, either as an originator or participant, in accordance with the guidelines of this policy. The Credit Union recognizes the value of loan participations in maintaining member service and/or improving financial performance. During periods of high loan demand, the Credit Union will consider selling interests in the loan portfolio as a means of acquiring funds. During periods of low loan demand, the Credit Union will consider purchasing interests in other institutions' loan portfolios as a means of increasing yield.

All loan participation activities will be conducted in compliance with applicable state and federal regulations, within portfolio limitations of the approved loan policy, and in accordance with Asset Liability Management policy and strategy.

Guidelines:

1. GENERAL CONSIDERATIONS

- A. **Membership.** The borrower must be a member of the Credit Union, or of another participating credit union before the loan participation is made.
- B. **Yield.** Loan participations will not normally be considered unless the transaction will increase the asset yield available to the Credit Union.
- C. **Member Service.** Revenue neutral participations may be considered when the result of the transaction will sustain or improve member service.
- D. **Risk.** The risk assumed by the Credit Union through a loan participation should be comparable to the risk it assumes through its normal business practices. Care should be taken to ensure that underwriting procedures, agreements, and future oversight practices of participation partners are handled with the same consideration as other Credit Union business activities (see Section 2 of this policy).
- E. **Record Keeping and Documentation.** The Credit Union will ensure that adequate systems are in place to account for the loan participation transaction before an agreement is executed. The Credit Union will retain all loan participation records and documents in accordance with applicable record retention requirements for loan records. See **Policy 10007** in the Records Retention Chapter (Table 7 – Lending Records).
- F. **Concentration Limits.** The Credit Union has set the following concentration limits:
 - i. **Loan Type:** Will not exceed [7430-4]% of the Credit Union's net worth.
 - ii. **Collateral Types:** [7430-1]
 - iii. **Geographic Location (per location):** [7430-2]

1. Management will monitor and adjust to changing market conditions on an ongoing basis before expanding a trade area.
- iv. **Loan participations purchased by one originating lender:** Will not exceed the greater of \$5,000,000 or 100% of the Credit Union's net worth [7430-3]
- v. **Loan participations purchased with respect to a single borrower:** Will not exceed 15% of the Credit Union's net worth.

2. **RISK ASSESSMENT AND STRATEGIC PLANNING – CREDIT UNION AS**

PARTICIPANT/PURCHASER. Prior to entering into a loan participation agreement with a third party, the Credit Union will evaluate whether the program is compatible with the board's risk tolerance, depth of staff experience and expertise, loan policies and overall strategic plan.

A. **Risk Assessment.** The Credit Union's initial risk assessment will address the following issues:

- i. **Credit Risk.** When evaluating acceptable credit risk as a participant, the Credit Union will consider a broad range of issues, including the following:
 1. Credit scores;
 2. Loan-to-value limits;
 3. Cash flow analysis;
 4. Concentrations in volatile or unstable markets;
 5. Concentrations in geographical locations;
 6. Concentrations in certain types of investment properties;
 7. Feasibility of speculative development projects;
 8. Use of borrower information provided by brokers; and
 9. Full analysis of appraisal assumptions and final valuations.
- ii. **Interest Rate Risk.** Interest rate risk increases as the term of the loan extends. On an ongoing basis, the Credit Union will thoroughly evaluate the potential impact of extended maturities on the fair value of the Credit Union's balance sheet.
 1. **Reducing Rates and Terms.** A deterioration in a borrower's financial condition may prompt the consideration of a rate reduction. When this occurs, the Credit Union will re-evaluate its asset liability management (ALM) strategies.
- iii. **Liquidity Risk.** The Credit Union will ensure that it has sufficient liquidity before participating in loans. Before participating, the Credit Union will evaluate the adequacy of the following:
 1. Liquidity to meet the members' future loan demand before purchasing loan participations;
 2. Management reporting systems to measure and monitor cash flows including disbursements and scheduled payments; and
 3. Funding sources to meet all potential calls to fund loan disbursements.
- iv. **Transaction Risk.** The Credit Union will ensure that it has sufficient bond coverage for the new products and services. The Credit Union will also ensure that it adequately audits its loan participations and effectively implements its contingency and business recovery plans. Lastly, the Credit Union will properly account for and control cash flow streams between itself and its sellers.

- v. **Compliance Risk.** The Credit Union will follow and monitor all of the regulations associated with loan participations, including the following:
1. NCUA regulations applicable to loan participations;
 2. NCUA and CFPB regulations governing appraisals;
 3. State laws (where applicable);
 4. Bank Secrecy Act (related to mortgage fraud); and
 5. Consumer protection laws and their associated regulations, such as Truth in Lending (Regulation Z), Equal Credit Opportunity Act (Regulation B), and the Real Estate Settlement Procedures Act (RESPA).
- vi. **Strategic Risk.** The Credit Union will assess whether its proposed relationships complement the Credit Union's overall mission and philosophy. The Credit Union will document how the relationship relates to its strategic plan, considering long-term goals, objectives and resource allocation requirements.
- vii. **Reputation Risk.** The Credit Union will mitigate potential loss by ensuring it has and employs adequate resources to meet the contractual commitments to sellers (i.e., business recovery plans, adequate staffing and internal controls). The Credit Union will also perform adequate due diligence on all sellers with whom the Credit Union participates.

3. **DUE DILIGENCE.** The Credit Union will perform ongoing due diligence of its sellers as follows:

- A. **Business Model.** When evaluating a seller's loan participation program, the Credit Union will be aware of recent or pending changes in the regulatory, technological and/or economic environments. The following factors will be considered:
- i. **The Possibility of Conflicting Interests.** The Credit Union will ensure the product being purchased is within its established risk tolerance thresholds, including adherence to established underwriting standards.
 - ii. **Financial Condition.** The Credit Union will obtain a demonstrated ability to repurchase a participation based on a review on Call Reports, Financial Performance Reports (FPRs) or other financial information.
 - iii. **Time-Tested Products.** It is preferable to purchase a participation when the seller's loan portfolio has been through several economic cycles. As such, the Credit Union will strongly consider the additional risk taken when the seller is inexperienced in the product and/or the product has not weathered a full economic and interest rate cycle.
 - iv. **Significant Staffing Changes.** The Credit Union will determine whether the seller has maintained sufficient experience in all types of loans being underwritten and serviced.
 - v. **Trade Area.** The Credit Union will ensure there is diversification in the trade area, underwriters are knowledgeable of market condition throughout the trade area, and the servicer has the ability to handle servicing effectively, especially in the case of default.
 - vi. **Possibility of Loss of Control.** The Credit Union will ensure it has the mechanisms in place to maintain proper oversight over the party servicing loan participations.

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

- i. Representation and warranties that set out the promises on which the parties contract;
- ii. Specific remedies for breach (including the requirement of the seller to buy back loans with missing documents, loans made outside of policy, or those otherwise not in conformance with representations and warranties);
- iii. How risk will be shared among the participants, including whether the transaction qualifies, per Accounting Standards Codification (ASC) 860, *Transfers and Servicing*, for true sale accounting or is a secured borrowing; and
- iv. How and when information will be shared and what actions require the mutual approval of both parties. Specifically, the contract should address the following:
 1. Credit documents and information that the seller is required to share with the Credit Union;
 2. Status reports on payments and interest accrual;
 3. Exit strategies;
 4. Procedures for modifying loan terms;
 5. Standard loan covenants, including limiting the borrower's future loans, notification of adverse loan events, collection procedures, turnover in key staff, and other provisions necessary to effectively manage credit risk.
 6. Type and percentage of the interest being sold;
 7. Evidence of the sale;
 8. Timing of the transaction closing;
 9. Method and timing of funding;
 10. Originating lender's liability;
 11. Originating lender's servicing obligations;
 12. Originating lender's breach or default;
 13. Control of changes to the original loan terms; and
 14. Borrower's default.

C. Loan Underwriting. The Credit Union will underwrite loans to its own standards, and will identify all risks that could materially influence the Credit Union's decision to participate. Any exceptions to the Credit Union's policies will be reported to the board by management. Unless it is described in the seller's loan presentation or supported by loan documentation, the Credit Union will request the following information from the seller for member business loans (MBLs) and/or construction and development loans:

- i. Cash flow analysis, particularly for businesses and self-employed individuals;
- ii. Documentation of all responsible parties and guarantors to the agreement (as many borrowers form a separate limited liability company for each investment property)
- iii. Full disclosure of all associated borrowing relationships in order to meet regulatory requirements for loans to one borrower and to limit concentration risk;
- iv. Verification that all conditions of approval have been satisfied before the loan was funded (which protects the enforceability of a take-out commitment for long-term financing);

- v. Appraisal reviews that evidence appraisal assumptions were valid and relevant to the collateral property;
- vi. Identification of borrower's equity sources for construction and development loans; and
- vii. Verification of progress inspections, as required by NCUA Part 723.3(c). The Credit Union will obtain copies of written inspection reports from sellers when construction draws are requested.

4. RISK MEASUREMENT, MONITORING AND CONTROL – CREDIT UNION AS PARTICIPANT/PURCHASER..

- A. **Post-Closing Review.** The Credit Union will complete a post-closing review of all loan documents to determine that all terms and conditions are in accordance with the original terms presented. The seller will be notified of the Credit Union's findings and the corrective action desired whenever terms have changed.
- B. **Understanding Terms of Agreements and Transactions.** Management will fully understand the terms of all loan participation agreements and underlying loan transactions, and will be able to explain them to all interested parties, including regulators.
- C. **Monitoring MBLs.** The Credit Union will monitor its MBLs for annual financial statement review.
- D. **Audits.** Where practicable, the Credit Union will obtain a third party audit or review of a seller's loan participation program. The Credit Union will obtain the regularly updated audits from the seller, along with the seller's written response to findings and recommendations for corrective action.
- E. **Liquidity Monitoring.** The Credit Union will regularly monitor the liquidity and financial health of originating credit unions. The Credit Union will also monitor how CUSOs are structured and funded, along with the financial stability of the CUSO owners.

5. RISKS AND ISSUES – CREDIT UNION AS SELLER.

- A. **Risk Assessment and Strategic Planning.** The Credit Union will employ the same due diligence as when it is the purchaser (see Sections 2 and 3). The Credit Union will document its risk assessment and due diligence.
 - i. The Credit Union will ensure that management understands the terms of the loan participation agreement and underlying loan transactions, and will be able to explain them to all interested parties, including regulators.
 - ii. The Credit Union will monitor potential liability from maturing balloon extensions or rollovers, particularly with multiple participants on large member business loans. As participants are not legally bound to continue funding extensions or rollovers, the Credit Union will ensure that it has sufficient liquidity in the event the participants decline to renew their involvement.
 - iii. **CUSOs.** The Credit Union may choose to use CUSOs to underwrite, document and service loans. The Credit Union will notify all participants when a loan is sourced through a loan broker and the borrower was not an existing member, in order to put participants on notice that information about the borrower may not be based on the Credit Union's direct knowledge. In these cases, the Credit Union will verify that all third-party reports, such as appraisals and environmental

studies, were obtained in an arm's length, independent transaction, in full compliance with regulatory guidance.

- iv. **Regulatory Compliance.** In the event that a loan would exceed regulatory limits (i.e., NCUA Part 723), the Credit Union will make the loan approval conditioned on obtaining firm loan participation agreements from buying credit unions, or apply for a waiver before the participation is made. As recourse sales (if treated as secured borrowings) count toward regulatory limits, the Credit Union will distinguish between non-recourse and recourse transactions.
- v. **Full Disclosure.** The Credit Union will fully disclose all available historical information about the borrower to potential buyers, including information about the collateral and any potential conflicts of interest. For ongoing participation relationships, the Credit Union will advise buying credit unions when underwriting standards have been modified.
- vi. **Credit Administration.** The Credit Union will take the following actions when borrowers fail to comply with loan agreement covenants:
 - 1. Timely notify the borrower, in writing, regarding events of technical default;
 - 2. Provide buying credit unions with the financial information required by the loan agreement; and
 - 3. Report the results of loan monitoring to buying credit unions.

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

- A. **Minimum Loan Ownership.** The Credit Union will retain a minimum of 10% ownership interest in any loan for the life of the loan.
- B. **Documentation.** The original loan documents will be retained in the member's loan file. Copies of the original loan documents will be provided to participating institutions.
- C. **Servicing.** The Credit Union will normally seek to retain the servicing of the loans, both to retain the service relationship with the member and to provide a source of revenue.
- D. **Repurchase Rights.** Loans will normally be sold "without recourse".

7. **AS PARTICIPANT/PURCHASER.**

- A. **Purchase Eligibility.** The Credit Union may purchase a participation in a loan only from the participant with which the borrower initially or originally contracts for a loan.
- B. **Participating Interests.** The Credit Union cannot participate its interest in a loan because it is not the originating lender.
- C. **Eligible Loans.** The Credit Union will only purchase a participation in loans that are approved under the current loan policy.
- D. **Compatibility.** The Credit Union will seek loan participants with compatible needs and business interests. Other Credit Unions will be given first consideration, but any financial institution allowed by law may become a loan participant provided they meet the provisions of this policy and Federal regulations.

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

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

i. The loan participation agreement must:

1. Be properly executed;
2. Be properly authorized by the federally insured credit union's board of directors or, if the board has delegated in its policy, a designated committee or senior management official;
3. Be retained in the federally insured credit union's office (original or copies); and
4. Include the following additional provisions:
 - a. Prior to purchase, the identification of the specific loan participation(s) being purchased, either directly in the agreement or through a document which is incorporated by reference into the agreement;
 - b. The interest that the originating lender will retain in the loan to be participated. As we discussed earlier if the originating lender is a federal credit union, the retained interest must be at least 10 percent of the outstanding balance of the loan through the life of the loan. If the originating lender is any other type of eligible organization, the retained interest must be at least 5 percent of the outstanding balance of the loan through the life of the loan, unless a higher percentage is required under state law;
 - c. The location and custodian for original loan documents;
 - d. An explanation of the conditions for financial and other performance information about a loan so the loan can be monitored;
 - e. An explanation of the duties and responsibilities of the originating lender, servicer, and participants with respect to all aspects of the participation, including servicing, default, foreclosure, collection, and ongoing administration of the loan; and
 - f. Circumstances and conditions under which participants may replace the servicer.

Policy 7510: Collection Process

Revised Date: 01/17/2017

Model Policy Revised Date: 01/17/2017

General Policy Statement:

The tools of collection should be applied in a logical, progressive sequence: reminder notices, telephone call, letter, follow-up action, work-out plans, repossession, and litigation. The Credit Union will have procedures in place for the collection process that are compliant with Federal and state law. In addition to the policy guidelines, the Credit Union's procedures will include action permitted and taken, outlined in the respective contractual agreements with the member.

Guidelines:

1. **MORTGAGE SERVICING REQUIREMENTS.** [CUnion] (Credit Union) will follow all requirements of the Mortgage Servicing Rule published by the Consumer Financial Protection Bureau and the requirements, as they apply to the Credit Union, and the guidelines of the Credit Union's Mortgage Servicing Policy.
2. **REMINDER NOTICES.** Reminder notices should be sent, either manually or by computer, [7510-1], [7510-2] and [7510-3] days after the payment due date. Notices should contain information outlining the potential actions that the Credit Union may take based on applicable Federal law and provisions within respective account agreements.
3. **TELEPHONE CALLS.** The Credit Union's policy is to contact the borrower when it first becomes necessary. The timing of the call is determined by the collector's reasonable business judgment. As a general rule, loans with greater risk exposure, narrower margins, and/or troubled payment history warrant a quick response, and personal contact would be prudent as early as first day of delinquency. The circumstances surrounding other loans may justify delaying personal contact until the 20th to 35th day of delinquency. An effective collection call involves two basic steps:
 - A. State reason for the call and ask fact-finding questions;
 - B. Present proposal based on an analysis of the member's delinquency and obtain commitment from member.
4. **LETTERS.** Collection letters are designed to reach those members who cannot be contacted by telephone. These communications will only contain potential legal action that the Credit Union plans to take as a result of delinquency and are compliant with applicable Federal and state laws. Communications will refrain from utilizing language that implies an impact on the member's credit or credit reputation. Collections management will send the following letters when applicable:
 - A. **First Notice.** The Credit Union will send a letter to the member when his/her loan is [7510-4] days past due.
 - B. **Second Notice.** The Credit Union will send a second letter to the member when his/her loan is [7510-5] days past due.
 - C. **Third Notice.** The Credit Union will send a third letter to the member when his/her loan is [7510-6] days past due.

D. **Notice to Co-Signor.** The Credit Union will send a letter to the co-signor when the loan is [7510-7] days past due.

E. **Partial Payment Letter.** The Credit Union will send partial payment letters when the payment received fails to cure the delinquency.

F. **Final Notice.** The Credit Union will send a final notice by regular and certified mail when unsecured loans and loans secured by consumer goods are 60-days past due. Follow-up action will be carried out within 10-days.

G. **Attorney Letter.** The Credit Union's attorney will send a letter demanding payment before the account is assigned to a collection agency.

5. **ACCOUNT RESTRICTIONS.** Any Credit Union procedure to limit access to products and services will include an analysis of the impact specific to that member and will be compliant with applicable laws. The Credit Union's procedures will also provide for adequate member notification.

6. **FOLLOW UP ACTION.** Effective follow-up requires constant attention; collectors will closely monitor accounts to verify that payments are made as promised.

7. **WORK-OUT PLANS.** Occasionally it is in the best interest of the Credit Union to work out special arrangements with troubled borrowers, including extensions, modifications, and refinancing. Work-out plans require Credit Committee approval.

8. **REPOSSESSION, FORECLOSURE OR ABANDONMENT.** Collectors will give members reasonable opportunities to cure deficiencies before recommending repossession. The collector has two choices when collection efforts fail: taking and selling collateral or abandoning the collateral and suing the debtor for a monetary judgment. Sometimes the collector can do both. For example, in the case of a loan secured by an automobile, the collector can repossess the automobile, sell it at a private or public sale, and then sue for the deficiency.

A. **Repossession.** Voluntary surrenders may be handled by the collection staff with management's approval. Involuntary repossessions require CEO approval and must be executed by reputable agencies who are willing and able to proceed in a professional and cost effective manner. All agencies must be bonded, licensed, and insured in the event of damage or liability resulting from agency action. Repossession procedures shall adhere to accepted financial institution practices, including appropriate notice, inspection, and resale.

i. **Items to Consider Before Repossessing Collateral.** Prior to repossessing collateral, the Credit Union will ensure the following:

1. The Credit Union possesses a valid, enforceable security interest. (For covered borrowers under the Military Lending Act, the Credit Union will only take a security interest in funds deposited after the credit transaction and in an account established in connection with that credit transaction.)
2. The account is in default (i.e., that the Credit Union has not previously accepted late payments without any action or has made a deal with the debtor).
3. The debtor has not filed bankruptcy. In cases where the debtor threatens to file or has filed,

either before or after repossession, the Credit Union will consult with its attorney.

4. The debtor did not sign the loan agreement prior to active duty military service. In these cases, the Credit Union will consult with its attorney.

ii. **Use of Repossessed Property.** Credit Union employees may not in any way use the repossessed property for their own personal use, or for Credit Union business. To do so will generally result in forfeiture of the deficiency and can lead to additional damages.

iii. **Notice.** The Credit Union will ensure that its repossession and sale notices are accurate and consistent (i.e., the sale method (public or private) will be carried out as originally disclosed). If there is a change in the way a sale is handled, a new notice will be sent to the debtor.

iv. **Sale of Repossessed Property to Insiders.** The Credit Union will ensure that all sales to insiders will be set at the full retail value of the repossessed collateral.

B. Foreclosure. Foreclosures on security interests in real estate will commence only after the member receives proper notice and the Credit Union has first evaluated the feasibility of a loan modification. All foreclosures will be handled by Credit Union legal counsel in accordance with applicable laws and regulations. With respect to the foreclosure process, the Credit Union will ensure the following:

i. The Credit Union has properly documented and recorded the mortgage;

ii. The facts supporting a foreclosure action exist;

iii. The Credit Union exercises appropriate due diligence over its law firm(s) that handle its foreclosures; and

iv. Regular reports are made to the Board regarding the number and volume of foreclosure actions, and the financial impact on the Credit Union.

C. Abandonment. The decision to abandon collateral must be approved by the collection manager. Situations that may justify abandonment include:

i. Unable to locate collateral.

ii. Collateral has little or no value.

iii. Cost of taking, storing, and selling is equal to or greater than potential sales price.

iv. A lien has been placed on the collateral that equals or exceeds the collateral value and the collateral has no insurance.

9. **BANKRUPTCY.** When the Credit Union receives notice of bankruptcy, the Credit Union will do the following:

A. Bring an immediate halt to any and all collection procedures already underway.

B. Stop any foreclosure or legal action.

C. Complete all necessary forms and forward these forms, along with the bankruptcy notice, to the Credit

Union attorney for possible claim.

10. **LEGAL ACTION.** In general, legal action against a member will only occur after all other avenues of collection have been explored, and the potential for counterclaims has been examined. No suit shall be initiated without first advising the member of the Credit Union's intention to do so, by regular mail. The Credit Union will not utilize this communication to deceive the member with false action. The Credit Union will only use this communication when pursuing actual legal action against the member. All legal actions will be authorized by [7510-8]. When legal action is taken, the Credit Union will do the following:

- A. After receiving a judgment, the Collection Department will be responsible for changing data on the interest rates when and where applicable.
- B. If payment on the judgment does not occur within 30 days, the [7510-9] will determine the best next steps, including but not limited to, garnishments, attachments of assets, or a discovery hearing.
- C. A judgment will not be deemed satisfied until such time that the outstanding balance, all of the interest due to date, and the cost of all legal fees (if allowed by the court) have been paid by the Member/Defendant, unless otherwise decided by the [7510-10].
- D. All information regarding legal action and the reasons for its use will be duly noted on the collection card.

Policy 7520: Collection Staff Members and Responsibilities

Revised Date: 03/30/2017

Model Policy Revised Date: 03/30/2017

General Policy Statement:

The collections department staff consists of a manager, senior adjustment official, and collectors. A collector's responsibilities include being professional in collections.

Guidelines:

1. **MANAGER.** The collection manager oversees and is responsible for all adjustment department operations. The collection manager is also responsible for working delinquent accounts over 60 days, the accounts referred to outside collection agencies, as well as bankrupt accounts.
2. **SENIOR ADJUSTMENT OFFICER.** The senior adjustment officer is directly accountable to the department manager and responsible for his/her section of delinquent accounts. This officer works closely with the department manager and assumes full responsibility in the event of the manager's absence.
3. **COLLECTORS.** Collectors are responsible for controlling the delinquency of assigned sections of accounts; they seek to collect past-due payments on contractual bases; they also participate in counseling [CUname] (Credit Union) members regarding money management and market other Credit Union services; and they follow-up when borrowers fail to make payments according to pre-determined arrangements.
4. **COLLECTOR RESPONSIBILITIES.** Collection results affect the Credit Union profits, and collection approaches can significantly impact member relations. A collector's responsibility is to collect from members who are not making timely payments.

A. **Objectives.** A collector has two main sets of objectives.

- i. The first set involves the collection process which includes: exhausting all appropriate means of contacting every delinquent member, determining why the member has not paid on time, resolving the problem, gaining a commitment from the member to make payments by a specific date, **taking careful and accurate notes** which will document every commitment, date, and promise made by each member, and finally, referring cases to the collection manager when there is a doubt as to the proper course of action.
- ii. The second set of objectives concerns public relations responsibilities. As a Credit Union representative, a collector must be firm but fair with delinquent members, provide them with assistance in handling their financial responsibilities, display empathy but not necessarily sympathy with their financial difficulties, and finally, maintain strong member relations and a professional image.

B. **General Responsibilities.** Collectors are generally responsible for the collection efforts of many individual loans. They are responsible for documenting their collection work, sending letters, following their accounts according to review cycles established by the Credit Union, quoting the correct payoffs, recommending assignment of accounts for repossessions when appropriate, recommending liquidation of collateral, reviewing expenses, and making sure the collateral is delivered to its appropriate location. They are also responsible for updating non-financial data on the system.

C. Specific Responsibilities.

- i. Exhausting all possible means of contacting every assigned delinquent member.
- ii. Completing each member contact with a definite understanding and payment commitment.
- iii. Following up promptly and decisively on every member promise of payment.
- iv. Noting all information that will be of future use in handling the account, i.e., new address, phone numbers, place of employment, etc.

D. Professionalism in Collections.

- i. Under **no circumstances** should a collector use foul, abusive, or questionable language, either on the telephone or in person. Collectors must never represent themselves as employees of any branch or agency of the federal, State, county, or city government.
- ii. Collectors must never discuss the debt with **anyone** other than the debtor.
- iii. The Credit Union expressly forbids the practice of harassing members with repeated telephone calls. Collectors will never call debtors on Sundays or holidays or during the week after 9:00 p.m. or before 8:00 a.m. It is the responsibility of each collector to be aware of the Federal Trade Commission Guidelines on Collection Practices and the Fair Debt Collection Practices Act and to comply with these laws in the collection of accounts.
- iv. Under no circumstances discuss legal action that is not actually being pursued, indicate or insinuate that the Credit Union provides credit "repair" services, or discuss the effect of delinquency or repayment on the member's credit rating.

5. **TRAINING/EDUCATION.** Collection staff will receive regular training that is tailored to the relevant employee and the specific responsibilities of their role.

6. **DISCIPLINARY ACTION.** Collection staff violating the guidelines outlined in this policy and other applicable procedures will be handled in accordance with the Credit Union's personnel policy.

Policy 7600: Loan Review and Classification

Revised Date: 01/01/2013

Model Policy Revised Date: 01/01/2013

Most credit unions can rely on pool analysis under Accounting Standards Codification (ASC) 450-20, Loss Contingencies. Some credit unions with higher business loan concentrations that include large balance loans or other specialized types of non-homogenous loans may need to include ASC 310-40, Troubled Debt Restructurings by Creditors individual analysis in their policies. The italicized language provides general policy guidance for such credit unions. It can be deleted if it is inapplicable.

General Policy Statement:

[CUname] (Credit Union) will comply with ASC 450-20 – Allowance for Small Balance Homogeneous Pools of Loans, and (to the extent applicable) ASC 310-40 when evaluating loans for potential loss.

Guidelines:

1. **LOAN REVIEW PERSONNEL.** Personnel involved in the loan review and credit grading function will be knowledgeable in sound lending practices, the Credit Union's loan guidelines, and the relevant lending-related laws and regulations. Those involved in the loan review process will report *directly* to the Board.
 - A. **Loan Officers and Line Staff.** Based on their frequent contact with borrowers, loan officers and line staff will continually analyze the portfolio and will promptly report problem loans.
 - B. **Independent Staff.** Loans will also be reviewed by those who have no control over the loans they review, and who are not part of or influenced by anyone associated with the loan approval process.
2. **SCOPE OF REVIEW.** Management will document the scope of its reviews and ensure that the percentage of the portfolio selected for review have identified any credit quality deterioration and other unfavorable trends in the portfolio and reflect its quality as a whole. The Board will approve the scope of the loan reviews annually, or when necessary interim changes are made. The reviews will include the following:
 - A. Loans over [7600-1];
 - B. A sufficient sample of smaller loans;
 - C. Past due, non-accrual, renewed and restructured loans;
 - D. Insider loans;
 - E. Loans previously adversely classified or graded, and loans designated as warranting the special attention of management, the Credit Union, or the examiners; and
 - F. Loans constituting concentrations of credit risk and other loans affected by common repayment factors.
3. **CONTENT OF REVIEWS.** Reviews will analyze the following aspects of the loans selected for review:
 - A. Credit quality, including underwriting and borrower performance;

- B. Sufficiency of credit and collateral documentation;
- C. Proper lien perfection;
- D. Proper approval by the loan officer and loan committee(s);
- E. Adherence to any loan agreement covenants;
- F. Compliance with internal policies and procedures (such as aging, non-accrual, and classification or grading processes), and laws and regulations; and
- G. Appropriate identification of individually impaired loans, measurement of estimated loan impairment, and timeliness of charge-offs.

4. **REVIEW OF FINDINGS AND FOLLOW-UP.** Loan review personnel will discuss all noted deficiencies, identified weaknesses, and any existing or planned corrected actions, including time frames for correction, with the appropriate loan officers and department heads. These findings and corrective actions will then be reviewed with senior management. Any outstanding issues beyond the scheduled time frames for correction will be promptly reported to senior management and the Board.

5. **REVIEW REPORTS.** Loan review personnel will prepare a list of all loans reviewed (including the review date) and documentation (including a summary analysis) that supports the grades or classifications assigned to the loans reviewed. A summary of the review will be submitted to the Board on a quarterly basis, but will be more frequent whenever material adverse trends are noted.

6. **FREQUENCY OF REVIEWS.** Loan review personnel will perform periodic portfolio reviews, and will review significant credits at least annually, upon renewal, or more frequently when internal or external factors indicate a potential for deteriorating credit quality in a particular loan, loan product, or group of loans.

7. **LOAN SEGMENT IDENTIFICATION.**

A. **Various Pools of Loans.** Management will segment the Credit Union loan portfolio into several broad categories of loans. Each category will demonstrate similar risk characteristics. The assignment of categories will be reviewed annually to insure that they are still appropriate. At this time the loan portfolio is segmented as follows:

- i. Consumer Loans (Main Office)
- ii. Consumer Loans (Branch)
- iii. VISA Credit Card Loans
- iv. Real Estate Loans (all loans secured by residential property – fixed or variable)

B. **Individually Evaluated Loans.** *(list types) loans with balances over \$_____ shall be individually evaluated for impairment and allowance in accordance with ASC 310-40. If such loans are impaired, management shall evaluate the impairment in accordance with ASC 310-40 and document the amount of ALLL required for such loans. If not impaired, such loans may be included in one of the pools specified above for group classification if management documents characteristics of such loans that will support group classification. Otherwise, management will document its analysis of appropriate individual ALLL treatment for such loans.*

C. Annual Supervisory Committee Audit. The Credit Union's Supervisory auditor will periodically select loans for review on a random basis. The auditor will verify loan documentation, compliance with Credit Union's lending and charge-off policy, and proper reporting to the Board. The auditor will report findings directly to the Supervisory Committee.

8. SEGMENTATION DOCUMENTATION. The Credit Union will use a variety of documents to support the segmentation of their portfolio, including

- A. Loan trial balances by categories and types of loans;
- B. Management reports about the mix of loans in the portfolio;
- C. Delinquency and non-accrual reports;
- D. A summary presentation of the results of an internal or external loan grading review.

9. ESTIMATING LOSS ON LOAN SEGMENTS. Management will then apply an empirically derived loss rate to each loan segment to determine an appropriate level of funding for that segment's Allowance for Loan Loss Account. Initially, that loss rate will be equal to the loan loss ratio for the past twelve months. This is known as Present Value Funding of the ALLL based on last year's losses. Management will maintain supporting documentation for the technique used to develop their loss rates including the period of time over which they incurred the losses. These loss rates will be reviewed annually for appropriateness and refined as warranted. In developing and maintaining loss measurements, management will consider the impact of current environmental factors and document which factors have been used in the analysis and how these factors affect the loss measurements. Management should also consider the following factors when developing loss measurements:

- A. Levels of and trends in delinquencies and impaired loans;
- B. Levels of and trends in charge-offs and recoveries;
- C. Trends in the nature, volume and terms of loans;
- D. Effects of any changes in risk selection and underwriting standards, and other changes in lending policies, procedures, and practices;
- E. Experience, ability, and depth of lending management and other relevant staff;
- F. International, national, regional and local economic trends and conditions;
- G. Industry conditions;
- H. The volume and severity of adversely classified or graded loans;
- I. Effects of changes in credit concentrations;
- J. The effect of other external factors, such as competition and legal and regulatory requirements on the level of estimated credit losses in the Credit Union's existing portfolio; and
- K. The quality of the Credit Union's loan review system.

10. **DOCUMENTATION OF LOSS ESTIMATION.** Management will support adjustments to historical loss rates and explain how the adjustments reflect current information, events, circumstances, and conditions in the loss measurements. Management will maintain reasonable documentation to support the factors that affected the analysis and their impact on the loss management. Support and documentation include the following:

- A. Descriptions of each factor;
- B. Management's analysis of how each factor changed over time;
- C. Which loan groups' loss rates have been adjusted;
- D. The amount by which loss estimates have been adjusted for changes in conditions;
- E. An explanation of how management estimated the impact; and
- F. Any other available data that supports the reasonableness of the adjustments.

11. **OVERSIGHT.** Management should consider all known relevant internal and external factors that affect loan collectibility during any given period. Management's current judgments about the credit quality of the loan portfolio should determine the amounts of the ALLL and provisions for loan and lease losses and should include the following:

- A. The Board should review and approve the ALLL and provision for loan and lease losses reported each period;
- B. The Board should periodically validate and, if appropriate, revise the methodology to ensure it remains appropriate for the Credit Union;
- C. The Supervisory Committee should oversee and monitor the internal controls over the ALLL determination process;
- D. The officials should adjust the ALLL through current earnings in accordance with GAAP; and
- E. The officials should understand that they must meet the full and fair disclosure requirements of Part 702.402 of NCUA Rules and Regulations before distributing dividends.

12. **SUMMARIZATION OF REPORTS.** Management should prepare a summary document supporting the amount of ALLL it reports and the Credit Union's financial statements. This will verify that the ALLL is fairly presented in accordance with GAAP and is auditable. The Board should review and approve this summary. Common elements in the summary will include:

- A. An estimate of the probable loss incurred for each category;
- B. The aggregate probable loss estimated using the Credit Union's methodology;
- C. The amount, if any, of the necessary ALLL adjustment; and
- D. Detailed sub-schedules of loss estimates that reconcile to the summary schedule if so warranted by the level of detail supporting the ALLL analysis.

13. **NEW LOAN PRODUCTS.** For new loan products, management will use the experience of other enterprises

in the same lending business until the Credit Union has developed loss experience for these groups of loans.

Policy 7615: Allowance for Loan and Lease Losses

Revised Date: 01/01/2013

Model Policy Revised Date: 01/01/2013

Model Policy Reviewed Date: 09/30/2014

General Statement:

[CUNAME]'s (Credit Union) financial statements provide for the full and fair disclosure of all assets, liabilities, and members' equity, including such allowance accounts necessary to fairly present the Credit Union's financial condition. The allowance for loan and lease losses represents the Credit Union management's evaluation of various factors influencing the collectibility and probable losses for all categories of loans and the proper valuation of loans. The allowance encompasses specifically identified loans, as well as estimated losses inherent in the loan portfolio. This policy governs the Credit Union's allowance for lease and loan loss policy, methodology, and documentation practices. This policy is designed to comply with the NCUA Accounting Bulletin 06-01, Accounting Standards Codification (ASC) 450-20, *Loss Contingencies – Allowance for Small Balance Homogeneous Pools of Loans*, and (to the extent applicable) ASC 310-40, *Troubled Debt Restructurings by Creditors* when evaluating loans for potential loss, and all related laws and regulations, pursuant to the Credit Union's Loan Review and Classification (See Policy 7600).

Guidelines:

1. RESPONSIBILITY.

A. **Board of Directors.** The Board of Directors is responsible for ensuring that the Credit Union has controls in place to determine the appropriate allowance for loan and lease losses (ALLL) in accordance with the Credit Union's policies, procedures, generally accepted accounting principles (GAAP), and ALLL supervisory guidance. The Board of Directors also responsible for the following:

- i. Reviewing and approving the Credit Union's ALLL policies and procedures at least annually.
- ii. Reviewing management's assessment and justification that the loan review system, outlined in Policy 7600, is sound and appropriate for the size and complexity of the Credit Union.
- iii. Reviewing management's assessment and justification for the amounts estimated and reported each period for the ALLL.
- iv. Requiring management to periodically validate and, when appropriate, revise the ALLL methodology.

B. **Management.** The Board of Directors authorizes the [7615-1] to develop and maintain a process to determine ALLL amounts and provisions for loan losses, and to document the Credit Union's ALLL methodology. The Credit Union's ALLL process will incorporate management's current judgments about the credit quality of the loan portfolio, considering all significant factors that affect the collectibility of the loan portfolio.

- i. The Board of Directors delegates the daily administration of the Credit Union's ALLL policies, procedures, and recordkeeping to [7615-1a]. The [7615-1b] will review all loans, by groups as appropriate, for relevant internal and external factors, loss history, collateral values, and methods to ensure they are applied consistently when estimating probable existing losses and modify loss

estimates for new factors affecting collectibility.

- ii. The [7615-1c] will document the relationship between the findings of its detailed review of the loan portfolio, the ALLL amount, and the provision for loan and lease losses reported in each period.
- iii. The [7615-1d] will prepare a summary report of the amount to be reported in the financial statements for the ALLL. The Board of Directors will review and approve this summary, which will include:
 - a. An estimate of the probable loss or range of loss incurred for each category;
 - b. The aggregate probable loss estimated using the Credit Union's methodology;
 - c. A summary of the current ALLL balance;
 - d. The amount by which the ALLL is to be adjusted (if any); and
 - e. Detailed sub-schedules of loss estimates that reconcile to the summary schedule, if necessary.

C. **Review.** The Board of Directors will review the adequacy of the ALLL at least quarterly (prior to paying dividends), or more often as required, and will approve the amounts to be reported each period for the provision for loan and lease losses and the ALLL.

D. **Documentation.** The Credit Union will maintain and support its ALLL with documentation that is consistent with the Credit Union's stated policies, procedures, GAAP, and applicable supervisory guidance. At a minimum, the Credit Union will maintain documentation for the following:

- i. Policies and procedures,
- ii. Loan classification or credit grading system or process,
- iii. Summary or consolidation of the ALLL balance,
- iv. Validation of the ALLL methodology (the rationale used for determining the best estimate from within the range of losses), and
- v. Periodic adjustments to the ALLL process.

2. **ACCOUNTING POLICY.** The [7615-1h] will determine the provision for loan and lease losses and the ALLL in accordance with GAAP.

3. **METHODOLOGY.** The [7615-1i] will create and maintain an ALLL methodology that includes procedures that adjust loss estimation methods to reduce differences between estimated losses and actual subsequent charge-offs, as necessary, as of the Credit Union's financial statement date. The Credit Union's ALLL methodology will conform to GAAP. The Credit Union will adjust its ALLL balance in each period for differences between the results of the determination process and the unadjusted ALLL balance in the general ledger. Any change in the Credit Union's ALLL methodology will be supported by documentation that describes and supports the change based on the Credit Union's validation process.

A. **Procedures.** The Credit Union will create procedures to implement its ALLL methodology. The

procedures will describe the methodology:

- i. For segmenting the portfolio.
- ii. For determining and measuring impairment for groups of consumer and mortgage loans, ASC 450-20.
- iii. For determining and measuring impairment of business and agricultural loans, ASC 310-40.

B. Methods to Estimate ALLL. The [7615-1j] will use a method to estimate the Credit Union's ALLL that is consistent, comprehensive, logical, and relevant to the Credit Union's particular circumstances, and the calculations will be comprehensive, taking into account the risk inherent in the various types of loans offered by the Credit Union. For those segments that require an ALLL, the [7615-1k] will estimate the loan and lease losses, on at least a quarterly basis. The [7615-1l] will maintain supporting documentation for the technique used to develop the Credit Union's loss rates, including the period of time over which the losses were incurred. If a range of loss is determined, the [7615-1m] will maintain documentation to support the identified range and the rationale used for determining which estimate is the best estimate within the range of loan losses.

4. INTERNAL CONTROL SYSTEM. The [7615-1n] will establish and maintain a system of internal controls to verify that the Credit Union's ALLL methodology is valid and conforms to GAAP and supervisory guidance.

The Credit Union's internal control system will:

- A. Include measures to ensure the reliability and integrity of information and compliance with laws, regulations, and internal policies and procedures;
- B. Reasonably ensure that the Credit Union's financial statements and regulatory reports are prepared in accordance with GAAP and ALLL supervisory guidance; and
- C. Include a well-defined loan review process containing:
 - i. Loan classification or credit grading system that is consistently applied, identifies differing risk characteristics and loan quality problems accurately and in a timely manner, responds to changes in internal and external factors affecting the level of credit risk in the portfolio, and prompts appropriate administrative action;
 - ii. Internal controls to ensure that all relevant loan review information is considered in estimating losses; and
 - iii. Communication and coordination between the Credit Union's credit administration, financial reporting group, management, Board of Directors, and others who are involved in the ALLL determination and review process, as applicable.

5. INDEPENDENT REVIEW. The [7615-1e] will oversee and monitor the internal controls of the ALLL determination process. The [7615-1f] may delegate this responsibility to an internal or external auditor, as long as the party is independent of the ALLL estimation process. The [7615-1g] will periodically perform an independent review of the Credit Union's ALLL methodology and documentation practices.

6. LOAN LOSS IDENTIFICATION. The Credit Union will promptly charge-off loans, or portions of loans, that available information confirms to be uncollectible.

Policy 7616: Loan Extensions

Revised Date: 08/29/2013

Model Policy Revised Date: 08/29/2013

General Policy Statement:

Where economically feasible or appropriate, [CUname] (Credit Union) will work constructively with borrowers who are financially unable to make their contractual payment obligations on their loans, consistent with safe and sound lending practices. This policy outlines the factors that the Credit Union will take into consideration when deciding whether to authorize a loan extension.

Guidelines:

1. **APPLICATION AND APPROVAL.** All loan extension requests must be presented to the [7616-1]. It is the [7616-2]'s duty to investigate and document the circumstances, and present the findings to the [7616-3].
2. **CONSIDERATIONS.** Before granting a loan extension, the Credit Union will take the following factors into consideration:
 - A. The borrower's ability to repay the loan under an extension agreement.
 - B. The number of payments made under the original loan agreement.
 - C. The number of months requested to be extended.
 - D. Member's current credit situation as verified through a credit report
3. **CONDITIONS.** In order for a loan extension to be approved, the following conditions must be met:
 - A. The Credit Union will only agree to extend a loan when the extension will represent a permanent solution to a delinquency. A loan extension will NOT be used to hide a delinquency.
 - B. A loan extension agreement will not be executed unless [7616-4] or more payments have been made by the borrower under the original loan terms.
 - C. The Credit Union will not extend more than [7616-5] payments under any single extension agreement to a borrower that qualifies for a loan extension under the terms of this policy.
 - D. For closed-end loans, only one loan extension may be granted per loan. For open-end (revolving) loans, loan extensions may be granted every [7616-6] year period, provided no payments have been missed prior to the request.
4. **DOCUMENTATION.** The Credit Union will document the borrower's reasons for requesting an extension, the terms of the extension agreement, and any other information requested by [7616-7]. All loan extension agreements that have been executed will be recorded in the [7616-8] minutes.
5. **ADDITIONAL EXTENSIONS OF CREDIT.** Borrowers granted a loan extension will be presumed unable to qualify for additional credit for a period of [7616-9]. The borrower may rebut this presumption with proof of a substantial improvement in his/her financial condition during this period of time. Requests for additional credit

must be reviewed and approved by the [7616-10].

Policy 7620: Loan Charge-Offs

Revised Date: 12/01/2004

Model Policy Revised Date: 12/01/2004

Model Policy Reviewed Date: 06/29/2016

General Statement:

Granting loans to members is a primary function of [CUNAME] (Credit Union). We understand that a certain percent of the loans granted will not be repaid. This policy governs the process by which the Credit Union will charge-off certain loans.

Guidelines:

1. **IDENTIFYING LOANS FOR CHARGE-OFF.** The Credit Union will charge off certain loans from the books of the Credit Union when the Board of Directors and management deem them to be uncollectible. Loans that exhibit the following characteristics present a high degree of credit risk, and the Credit Union should consider them for charge-off:
 - A. Management becomes aware of information indicating that the loan will not be repaid and collateral securing the loan is insufficient to cover the loan balance.
 - B. The loan is [7620-1] days delinquent and contact with the member has been lost.
 - C. The loan is [7620-2] days delinquent, even though contact with the member may not be lost.
 - D. The loan is in the hands of an attorney or collection agency, unless there are extenuating circumstances to indicate the Credit Union will collect the loan.
 - E. The loan is a fraudulent loan, when the loss is determinable.
 - F. The account is in bankruptcy, where the Credit Union has received notification of filing from the bankruptcy court (e.g., loans discharged in Chapter 7 bankruptcy within 60 days of receipt of notification of filing from the bankruptcy court).
 - G. The loan is under the protection of Chapters 11, 12, or 13 Bankruptcy, where the Credit Union has received no payments for 6 consecutive months.
 - H. The debtor is deceased, when the loss is determinable.

Management will consider exceptions to these conditions based on the circumstances of each loan. When substantial evidence suggests that the loan will be repaid, it should not be charged-off. All exceptions will be clearly noted in the loan file.

2. RESPONSIBILITY.

- A. The Board of Directors authorizes the [7620-3] to prepare a loan charge-off report. It is management's responsibility to identify and monitor credit risk, delinquency, and charged-off loans on an ongoing basis. The [7620-4] will prepare a report of loans recommended for charge-off. At a minimum the report will include the following information:

- i. Member name
- ii. Account number
- iii. Loan date and original balance
- iv. Current balance
- v. Shares or deposits to be used to reduce to balance (where allowed by law)
- vi. Net charge-off
- vii. Reason for the charge-off

The report will be prepared as needed and presented to the Board of Directors.

B. The Board of Directors must review and approve all charge-offs prior to removing the loans from the books of the Credit Union.

C. When the Credit Union deems the loan a loss, it must charge off the loan to the Allowance for Loan and Lease Losses account.

D. The [7620-5] cannot charge off loans when such charge off constitutes a conflict of interest, such as loans to family members. Such loans should be referred to the Board of Directors for action.

3. **LOSS REDUCTION.** When permitted by the applicable loan agreements and when deemed appropriate by management, the Credit Union will reduce the amount of loan loss by:

A. Repossessing and liquidating collateral prior to the charge-off, including collateral covered by a cross-collateralization agreement.

B. Using shares and deposits of the borrower to offset the loan balance, where allowed by law.

C. Extending or refinancing the delinquent loan in accordance with Credit Union policies and procedures. As a general rule the Credit Union will not extend or refinance a loan more than once within a twelve-month period or two times within a five-year period.

4. **FUTURE COLLECTION.** It is the policy of the Credit Union to continue collection efforts after a loan is charged off. The cost of collection will be weighed against the potential recovery. Collection of charged-off loans may be handled internally or assigned to an outside agency at the discretion of management. If assigned to an outside agency, the Credit Union will require the outside collectors to issue periodic status reports. If these reports indicate a lack of follow up, management will take appropriate action. The Credit Union will use all legal and available remedies to protect its interests and recover loan losses.

5. **PERIODIC REVIEW.** The Board of Directors will periodically review the Credit Union's compliance with this loan charge-off policy and make appropriate recommendations when necessary.

Policy 7625: Residential Real Estate Loss Mitigation Strategies

Revised Date: 03/29/2014

Model Policy Revised Date: 03/29/2014

General Policy Statement:

Where economically feasible or appropriate, [CUnion] (Credit Union) will work constructively with residential borrowers who are financially unable to make their contractual payment obligations on their home loans, consistent with safe and sound lending practices. This policy outlines the factors that the Credit Union will take into consideration when deciding whether to modify a residential loan, and the options when a loan modification would not effectively mitigate a loss.

Guidelines:

1. **RISK ASSESSMENT AND STRATEGIC PLANNING.** The Credit Union will identify “at risk” loans before payment performance issues emerge. At a minimum, the risk assessment and strategic planning will consider the following:
 - A. The number and volume of adjustable rate mortgage loans that are at risk of default because of impending resets, including junior lien equity loans with subordinate lien positions to senior adjustable rate mortgages;
 - B. The number and volume of mortgage loans that are stated income, brokered, and/or non-traditional (e.g., interest only payments), as these types of loans are of higher risk than traditional mortgage loans;
 - C. The number and volume of mortgage loans that exceed the current fair market value of the property, and anticipated value over the next 12-24 months, and an estimate of the Credit Union’s total loss exposure (difference between the loan balance and fair value) in relation to net worth;
 - D. The impact of foreclosures versus any proposed loan modification on the financial performance of the Credit Union (earnings, net worth, asset liability management (ALM) model results, liquidity, etc.), ensuring management strategy provides for sufficient cash flow to meet operational and lending needs and the least expense to the Credit Union; and
 - E. Other foreclosure prevention options if borrowers do not qualify for a loan modification.
2. **RESPONSIBILITY.** The [7625-1] is responsible for approving all mortgage loan modifications. The recommendation and approval process will be kept completely separate.
3. **MORTGAGE SERVICING REQUIREMENTS.** The Credit Union will follow all requirements of the Mortgage Servicing Rule published by the Consumer Financial Protection Bureau and the requirements, as they apply to the Credit Union, and the guidelines of the Credit Unions Mortgage Servicing Policy.
4. **ELIGIBILITY REQUIREMENTS.** Before modifying a residential loan, the Credit Union will take the following factors into consideration:
 - A. **The Condition of the Borrower(s).**
 - i. The ability to repay a modified loan under a workout arrangement; including a review of current

credit reports and income verification.

- ii. Whether the inability to repay the loan under the current terms is temporary or long-term.
- iii. Whether there is a guarantor.

B. The Condition of the Loan.

- i. The amount delinquent.
- ii. The length of time the loan is past due.
- iii. Whether the loan documents are in order (i.e., signed, recorded and contain all of the correct information).

C. The Condition of the Property.

- i. Determine current property value.
- ii. Whether there is property damage that would significantly affect its value (i.e., damage due to fire, flood, wind or other natural disaster; environmental contamination, etc.).
- iii. Whether there has been a significant change in the area surrounding the property that would affect its value (i.e., high number of foreclosures, zoning changes, or physical or environmental damage to surrounding area).

D. The Condition of the Title.

- i. Whether the Credit Union remains in first lien position through an updated title search.
- ii. Whether there have been conveyances (i.e., deeds).
- iii. Whether there are any junior liens.
- iv. Whether there are any delinquent tax and/or mechanics liens on record.
- v. Whether there are any *lis pendens* on record.

5. **DOCUMENTATION.** The Credit Union will document the reason(s) for the mitigation strategy (e.g., hardship letter) and, if it is a modified loan, the borrower's commitment to pay. This documentation will be kept in the loan file.

6. TYPES OF LOSS MITIGATION STRATEGIES.

A. **Refinancing.** The Credit Union may choose to refinance a loan if the borrower has sufficient equity and the ability to pay a more affordable mortgage.

B. **Forbearance Plans.** The Credit Union may choose to temporarily agree to reduce or suspend payments for a short time to enable a borrower to catch up on missed payments or sell the home. The borrower must have some equity in the home, and the borrower's financial issues must be temporary.

C. Loan Modifications. When a borrower has little or no equity and the inability to pay the current loan payment, but desires to remain in the home, the Credit Union may choose to modify the loan.

i. **Types of Loan Modifications.** The following types of loan modifications may be considered:

1. Extending the term of the mortgage in order to reduce the monthly payment amount.
2. Reducing the interest rate to lower the monthly payment amount;
3. Changing from an adjustable rate to a fixed rate interest loan to eliminate payment shock;
4. Rolling over past-due amounts and re-amortizing the new amount due;
5. Forgiving past due amounts;
6. Forgiving past due amounts and requiring a share of the equity in a future sale;
7. Any other type of prudent, creative solution that does not violate safety and soundness.

ii. **Legal Review.** Before initialing a loan modification program, the Credit Union will consult with its attorney (who is versed in real estate law) to ensure that all of the loan modification documents conform to state law requirements (e.g., state real estate, lien, consumer protection, and Federal Trade Commission laws and regulations), as well as the applicable NCUA and state regulations and consumer protection laws (e.g., Truth-in-Lending, Equal Credit Opportunity, Fair Lending, Real Estate Settlement Procedures Act, etc.). The Credit Union will also request the legal review to also address state laws applicable to foreclosure and other debt collection options.

iii. **Underwriting.** The Credit Union will follow its underwriting standards including, at a minimum, the following:

1. A credible analysis of the borrower's capacity to repay the loan according to its modified terms (i.e., verification of gross monthly income for all borrowers who have signed the note (e.g., last year's tax returns, recent pay stubs, etc.)).
2. A current credit report for each borrower, or a joint report for a married couple, to validate monthly installment debt, revolving debt, and secondary mortgage debt.
3. A target affordable housing-to-gross income (HTI) ratio and total debt-to-income (DTI) ratio.
4. Estimate the cost to the credit union, as measured by a NPV test, of any approved modification to verify it is less than the estimated cost of foreclosure or other foreclosure prevention alternative (e.g., short sale, deed in lieu of foreclosure, cash for keys, etc.), unless extenuating circumstances exist, and document the NPV analysis in the loan file.

iv. **Cash Advances/Releases of New Money.** Cash advances and releases of new money as part of a loan modification will be prohibited, except for settlement of delinquent real estate taxes, insurance and other amounts that protect the Credit Union's collateral position.

v. **Limitations.** The Credit Union will only agree to modify a loan [7625-2] before proceeding to a short sale, deed in lieu of foreclosure, or foreclosure.

vi. **Monitoring And Reporting.** The Credit Union will monitor provide monthly reports to the Board on modified real estate loans. These reports will track the following:

1. The number and volume of each type of modified loan;
2. Delinquency and charge-offs;
3. First payment defaults;
4. Principal reductions;
5. High loan-to-value (LTV) ratios, particularly in areas with continued market declines, and total loss exposure in relation to net worth;
6. High DTI ratios;
7. Credit quality; and
8. Number of times a loan has been modified.

vii. **Accounting and Allowance for Loan and Lease Losses (ALLL).**

1. **Workout Loans and TDR Past Due Status.** The past due status of all loans will be calculated consistent with loan contract terms, including amendments made to loan terms through a formal restructure. Credit unions will report delinquency on the Call Report consistent with this policy.
2. **Troubled Debt Restructuring.** The Credit Union will classify account for troubled debt restructurings pursuant to its Troubled Debt Restructuring policy (**See Policy 3170**).

D. **Pre-Foreclosure Short Sale.** If the borrower has long-term financial problems and cannot afford even a modified loan, and the value of the property has fallen below the mortgage amount, the Credit Union may choose to release its mortgage and sell the home for less than the outstanding loan amount. In these situations, the Credit Union takes one hundred percent (100%) of the sale proceeds.

i. **Deficiencies.** The Credit Union will need to decide whether to release the borrower from any deficiency after the sale.

E. **Deed in Lieu of Foreclosure.** The Credit Union may choose to accept a deed from borrower signing over title to the property in exchange for being released from his/her debt. The Credit Union will first obtain an appraisal to determine whether the current value makes this an attractive option, and will seek the advice of legal counsel to ensure that the transaction, as well as the documentation, is conducted properly. The mortgage discharge will not be filed until the property is sold.

F. **Foreclosure.** As a last resort, the Credit Union will begin the process of foreclosing on the property. In doing so, the Credit Union will follow the state foreclosure law, or obtain legal counsel to do so.

7. **TAX IMPLICATIONS.** Some loss mitigation strategies may involve a reduction or forgiveness of principal that may result in additional tax liabilities for the borrower(s). The Credit Union will consult with its independent accountant regarding applicable IRS reporting requirements. The Credit Union will also encourage borrowers to consult with a tax advisor regarding the tax implications of principal forgiveness before an

agreement is completed.

Policy 7630: Multi-Dimensional Loan Portfolio Analysis

Revised Date: 08/01/2012

Model Policy Published Date: 08/01/2012

General Policy Statement:

[CUName] (Credit Union) will review its loan portfolio through the use of a more global approach to analyzing risk factors, both at the point of loan origination and periodically afterward. By reviewing its loan portfolio in a way that incorporates an ongoing review of the changing credit quality within a portfolio, the Credit Union is able to establish an active system of risk identification and mitigation.

Deciding on how to address an impaired or “at risk” credit will depend on the Credit Union’s risk tolerance levels and Board-authorized options for loan workouts.

Guidelines:

1. **ASSUMPTIONS.** Several assumptions underlie the use of a multi-dimensional portfolio analysis (MDPA).
 - A. **Credit Quality Changes.** Credit quality will change over time due to alteration of borrower circumstances.
 - B. **Use of Statistical Measurement Tools.** Reasonable estimates of a borrower’s willingness to repay can be determined through the use of statistical tools, such as FICO scores, current collateral valuation tools like Kelly Blue Book, and other sources.
 - C. **Risk Factors.** Risk factors, such as borrower-specific and environmental, influence whether loans will be repaid in full.
 - D. **Collection Activity by Credit Union.** Collection activity by Credit Union collection staff can improve the probability of collection and/or amount collected.
2. **MDPA CHARACTERISTICS.** The Credit Union’s MDPA will have the following characteristics:
 - A. **Risk Factors Identified.** The Credit Union will analyze the following risk factors:
 - i. **Borrower Risk Factors.**
 1. Change in Credit Scores (willingness to repay)
 2. Late payments with the Credit Union and other lenders (willingness to repay)
 3. Changes in aggregate unsecured and/or revolving debt (capacity to repay)
 4. Changes in debt to income ratio, using credit report information and updated application/information from the member (capacity to repay).
 - a. Current income can be estimated using: income disclosed at loan origination, income associated with census tract in which the borrower resides, and direct deposit amounts received by the Credit Union.

5. Cancellation of automatic payments (willingness to repay)
6. Cancellation of direct deposit (willingness to repay)

ii. **Environmental Risk Factors.**

1. **Real Property Values.** Liquidation value of collateral is compromised and willingness to repay may deteriorate as equity is lost. A rise in real property values may increase property taxes, but the liquidation value of the collateral may strengthen. Real property value will be measured in the following ways:
 - a. Free or low-cost internet sources (www.zillow.com, www.cyberhomes.com, www.eappraisal.com, etc.)
 - b. Full appraisal
 - c. Property tax valuations
 - d. Local realtor selling estimates
 - e. Recent comparable sales figures for neighborhoods or rural areas, and recent average sales figures from the National Association of Realtors.
 - f. Average value per square foot
2. **Unemployment.** The length of time needed to locate employment at similar or better pay will be extended, or reduced if employment is low. Unemployment will be measured by reviewing state and county websites, as well as local unemployment offices.
3. **Local Housing Costs and/or Rental Market Capacity.** Stable and rising rental costs can create a valuation floor for real estate and incent borrowers to continue making payments, even if their equity interest in a property has declined or disappeared. The Credit Union will review state and county websites, as well as local market advertising sites for rental property.

iii. **Field of Membership (FOM) Risk Factors.**

1. **Relationship.** Qualifying members may have a different level of commitment or security of employment than ancillary members, such as siblings and grandchildren.
 2. **Concentrations.** The Credit Union will track different employment and association segments within the FOM.
 3. **Geographic Diversification.** The Credit Union will track different employment and association segments by geographic location.
- iv. **Concentrations of Credit.** The Credit Union will track aggregate extensions of credit to individual borrowers. If all credit relationships are with the Credit Union, the incentive to perform may be higher than if the borrower has ready access to other sources.

3. **RISK MITIGATION.** Risk mitigation factors will be identified and monitored on an ongoing basis. Risk

mitigation methods will, at times, be linked to the type of loan product being analyzed.

A. Credit Union Collection Actions. The Credit Union will take the following actions to improve repayment performance:

- i. Accelerated collection contacts.
- ii. Imposing conditions on existing or new credit advances, such as:
 1. The borrower agrees not to open additional lines of credit within a certain timeframe in exchange for a loan modification, or the terms revert to the original terms.
 2. If the borrower makes on-time payments, the Credit Union will reduce the principal by a set dollar amount at the end of a given time period.
 3. The Credit Union will not exercise its cross-collateralization clause to repossess a vehicle while on-time payments are made on another loan. If the borrower does not meet or exceed payment amounts, the Credit Union will resume repossession of the vehicle.
- iii. Offsetting share balances against delinquent loan amounts.
- iv. Reducing available lines of credit by freezing or cancelling (subject to regulatory requirements).
- v. Loan workouts (See Policy 3165 - Loan Workouts and Nonaccrual Standards).
- vi. Repossessing/foreclosing on collateral

4. DECIDING ON A COURSE OF ACTION.

A. Determining Global Risk Tolerance for Loan Workouts. The Credit Union will evaluate its liquidity and interest rate risk to determine its tolerance for loan workouts and troubled debt restructurings (TDRs). Once a determination has been made regarding the aggregate dollar amount (of liquidity) that can be used and loan income that can be temporarily forgone for loan modifications, the Credit Union will evaluate whether these maximum amounts are prudent, in comparison to net worth.

B. Establishing Standard Options for Loan Workouts. Once the Credit Union has determined how many (aggregate dollars) workouts can be made, the Credit Union will ensure that its policies and procedures are followed so that similar borrowers are offered the same workout opportunities. Loan workouts will be underwritten and negotiated outside of the collection department by a loan officer that did not originate the loan.

C. Evaluating Individual Credits. The Credit Union will evaluate each “at risk” credit on an individual basis. Once the Credit Union has determined that action is needed (e.g., FICO declines, direct deposit is cancelled, payments are missed, etc.), the Credit Union will decide what action will best address identified risk (e.g., contacting the member, gathering more third-party information, repossessing or foreclosing, etc.).

D. Measuring Quantity and Performance of the Loan Workout Portfolio. The Credit Union will measure individual credit and portfolio performance levels against defined thresholds for global exposure to loan workouts and TDRs. The Credit Union will report on changes in portfolio, identify high risk credits, and continue cycle by taking action to refine risk mitigation strategies.

E. Reporting and Validating for Reasonableness. The Credit Union will periodically test the results of its MDPA risk mitigation decisions. The Credit Union will improve the risk mitigation process by maximizing use of the most successful methods, and reducing the techniques that do not generate improvement in portfolio condition. As conditions change within the FOM and economy, the Credit Union should expect to see changes in the success rate of various mitigation methods.

Chapter 8000: Other Real Estate Owned (OREO)

Duly Approved by Credit Union

BOARD OF DIRECTORS

Approval Date:

- [Policy 8100: General OREO Policy](#)
- [Policy 8110: Accounting Treatment of OREO](#)
- [Policy 8120: Eviction of OREO Inhabitants](#)
- [Policy 8130: Resale of OREO](#)

Policy 8100: General OREO Policy

Revised Date: 06/30/2017

Model Policy Revised Date: 06/30/2017

General Policy Statement:

The Other Real Estate Owned ("OREO") policy is designed to limit the risks associated with OREO property and ensure compliance with applicable laws, regulations, and accounting practices.

Guidelines:

1. **AUTHORIZED OREO.** [CUName] (Credit Union) may own OREO when real property becomes other real estate owned (OREO) through:
 - A. Purchases at sales under judgments, decrees, or mortgages when the property was security for debts previously contracted through the credit union.
 - B. Conveyance in satisfaction of debts previously contracted through the credit union.
 - C. Purchase to secure debts previously contracted through the credit union.
 - D. Relocation of banking premises.
 - E. Abandonment of plans to use real estate acquired for future expansion for banking premises.
 - F. In substance foreclosures, which include instances where the borrower may still retain possession and legal title to the property, the credit union may still classify certain troubled loans secured by real estate, considered to be "in substance foreclosures", as other real estate owned. An in substance foreclosure situation is generally characterized by a borrower still holding title to property with little or no equity and the sale of the property being the only source of repayment for the credit unions loan.

The Board of Directors will have final say in all OREO matters and may change or amend any or all of these guidelines by a majority vote.

2. **HOLDING PERIOD.** It is the intent of the Credit Union to sell the property within 12 months. The Credit Union will document the associated risks for property held longer than 12 months, but under no circumstances shall the property be retained for a time period that jeopardizes the Credit Union's safety and soundness.
3. **APPRAISAL REPORTS.** The Credit Union will order independent appraisal reports for OREO properties over \$[8100-1]. The Credit Union will ensure that these appraisals are in writing and conform with the generally accepted appraisal standards as evidenced by the Uniformed Standards of Professional Appraisal Practice (USPAP).
4. **TAXES AND INSURANCE.**
 - A. Real property taxes on property subject to foreclosure are to be paid as they come due.
 - B. Fire insurance will be purchased by the Credit Union as soon as possible.

C. Flood insurance will be maintained on the property in accordance to the National Flood Insurance Reform Act

5. OREO MANAGEMENT.

A. **Board Management.** The Board will determine on a case-by-case basis whether to:

- i. Cure the default on any prior loans or encumbrances and continue to make the payments or pay the entire prior encumbrance.
- ii. Settle or compromise subordinate encumbrances when doing so is in the best economic interest of the Credit Union.

B. **Property Management.** The Credit Union will oversee day-to-day property management. The Board will be fully informed of all significant aspects.

6. REPAIRS AND IMPROVEMENTS.

- A. The Credit Union may make repairs and improvements to the property to protect its interest before and after the foreclosure takes place.
- B. The Credit Union will maintain meticulous records documenting any repairs and improvements.

Policy 8110: Accounting Treatment of OREO

Revised Date: 07/01/2004

Model Policy Revised Date: 07/01/2004

Model Policy Reviewed Date: 06/29/2016

General Policy Statement:

Accounting treatment for Other Real Estate Owned (OREO) properties will fully comply with Generally Accepted Accounting Principles. As soon as the foreclosure is completed and the property is in the name of [CUNAME] (Credit Union), accounting personnel will transfer the loan from the member's loan account into a general ledger account. If the value of the property is less than the loan balance, the Credit Union will book an estimated loss on the property. This will happen when the Credit Union transfers the loan into a Credit Union asset. In most cases, the Credit Union will contact a realtor in the area and obtain a market analysis and estimated sales price. After the property is sold, the Credit Union will apply the money to the Credit Union asset account and then book either an additional loss or a gain on the sale.

Policy 8120: Eviction of OREO Inhabitants

Revised Date: 12/30/2014

Model Policy Revised Date: 12/30/2014

General Policy Statement:

[CUNAME] (Credit Union) will evict inhabitants of OREO properties as soon as legally possible. Applicable state law will govern. As soon as the property is vacant, the President may rent the property and/or have someone live on the property. It is best to have someone on the property to keep it from being vandalized and to ensure adequate insurance coverage as some fire insurance companies will not insure against some losses (such as vandalism) if the property is vacant. If the President has someone live in a home (rent free), they may be required to make improvements in the place of rent. In such cases, the Credit Union will verify that these improvements have been made as promised.

If it is not feasible to have someone live on the premises, proper precautions will be taken to prevent loss including but not limited to:

1. Disconnecting gas line;
2. Shutting off water main and draining all pipes;
3. Disconnecting electricity; and
4. Securing of windows and doors.

Policy 8130: Resale of OREO

Revised Date: 07/01/2004

Model Policy Revised Date: 07/01/2004

Model Policy Reviewed Date: 06/29/2016

General Policy Statement:

[CUName] (Credit union) will sell OREO subject to the following guidelines.

Guidelines:

1. **SELLING PRICE.** The selling price will be based on market comparatives and discounted cash flow analysis. If the Credit Union can rent the property and earn an attractive rate of return, it may list the property at top price which may take a little longer to sell. Property that is declining in value will be sold at a discount. If property is sold at a loss, the Credit Union may turn the account over for collections to recover the loss through a judgment. The cost of this type of action could be as much as 50% of the balance owed. The Board will determine whether to pursue litigation.
2. **REAL ESTATE AGENTS.** The Credit Union will decide whether to sell the property directly or list the property with a realtor on a case-by-case basis.
3. **NOTICE OF SALE.** Notice of sale will be posted in the Credit Union office.
4. **WARRANTIES.** The Credit Union will not warranty or guarantee the property or dwelling in any form.
5. **FINANCING.** As property is sold, purchasers will be required to provide their own financing. If the purchaser is a Credit Union member, he/she may have the opportunity to finance the property at the Credit Union at present rates and terms. If the purchaser of the property is a Credit Union employee, Board Member, or Supervisory Committee Member, the sale will need Board of Directors' approval. Notice will be posted in Credit Union office of all Other Real Estate Owned for sale.
6. **SPECIAL OFFERS.** In order to sell some properties, the Credit Union may need to make a special offer. The Credit Union may offer to carry the financing and offer better terms (these may be different than current loan policies). At that time the Credit Union may allow the purchaser to join the Credit Union for that one loan. No other membership rights apply while the loan is being paid. Once the loan is paid in full the account will be closed.

Chapter 9000: Federal Regulations

Duly Approved by Credit Union

BOARD OF DIRECTORS

Approval Date:

- [Policy 9110: Equal Credit Opportunity Act - Regulation B](#)
- [Policy 9120: Fair Debt Collection Practices Act](#)
- [Policy 9130: Holder in Due Course Rule](#)
- [Policy 9150: Unfair, Deceptive, or Abusive Acts or Practices](#)
- [Policy 9200: Home Mortgage Disclosure Act - Regulation C](#)
- [Policy 9210: Real Estate Settlement Procedures Act - HUD Regulation X](#)
- [Policy 9220: Home Ownership and Equity Protection Act](#)
- [Policy 9300: Bank Bribery Act](#)
- [Policy 9400: Equal Employment Opportunity Act](#)
- [Policy 9420: Monetary Control Act - Regulation D](#)
- [Policy 9500: Americans with Disabilities Act](#)
- [Policy 9600: Telephone Consumer Protection Act and Junk Fax Prevention Act](#)

This chapter is a supplement to the Operations Manual: Policies and Procedural Guidelines. The material contained in this chapter is not intended to be adopted as policy, but is a summary of key regulations. The abbreviated format is intended to highlight the key features of the regulations and save you time in finding answers to basic regulatory questions.

Policy 9110: Equal Credit Opportunity Act - Regulation B

Revised Date: 02/01/2012

Model Policy Revised Date: 02/01/2012

General Policy Statement:

The purpose of the Equal Credit Opportunity Act (the Act) is to promote the availability of credit to all creditworthy applicants without regard to race, color, religion, national origin, receipt of public assistance, sex, marital status, age, or the exercise of rights under the Consumer Credit Protection Act. In particular, the Act prohibits credit union practices that discriminate on the basis of any of these factors. The regulation also requires the Credit Union to notify applicants of action taken on their applications; to report credit history in the names of both spouses on an account; to retain records of credit applications; and to collect information about the applicant's race and other personal characteristics for certain dwelling-related loans.

Highlights:

1. **PROHIBITION AGAINST DISCRIMINATION.** The Credit Union shall not treat applicants for credit less favorably than other applicants because of:

- A. Race;
- B. Color;
- C. Religion;
- D. National Origin;
- E. The fact that all or part of the applicant's income derives from a public assistance program;
- F. Sex;
- G. Marital Status;
- H. Age (provided the applicant has the capacity to contract, (i.e., is over 18 years of age); or
- I. The fact that the applicant has in good faith exercised any right under the Consumer Credit Protection Act.

2. DEFINITIONS.

- A. **Applicant.** Applicant means any person who requests or who has received an extension of credit from the Credit Union, including any person who may become contractually liable (i.e., guarantors, sureties, endorsers, and similar parties).
- B. **Credit.** Credit means the right granted by the Credit Union to an applicant to defer payment of a debt, incur debt and defer its payment, or purchase property or services and defer payment.
- C. **Application.** Application means an oral or written request for an extension of credit that is made in accordance with procedures established by the Credit Union for the type of credit requested. The term

does not include the use of an account or line of credit to obtain an amount of credit that is within a previously established credit limit. A "completed" application is one where the Credit Union has received all the information that the Credit Union regularly obtains and considers in evaluating applications for the amount and type of credit requested.

3. **APPLICATIONS.** All members requesting credit will be given the opportunity to apply for a loan. This includes written, telephone, and in-person requests for credit. All of the Credit Union's advertising, letters, and any other written or oral communications will reflect this philosophy.

4. **INQUIRIES.**

A. **Race, Color, Religion and National Origin.** The Credit Union may inquire about the race, Ethnicity or sex of applicants for home-improvement and home-purchase loans if the Credit Union is subject to the requirements of the Home Mortgage Disclosure Act (See **Policy 9200**). The Credit Union may also inquire about the race, color, religion, national origin or sex of applicants for the purpose of conducting a self-test (See (8)).

B. **Spouse/Former Spouse.**

i. **Information.** The Credit Union may not request any information concerning an applicant's spouse or former spouse unless:

1. Spouse will be permitted to use the account;
2. Spouse will be contractually liable on the account;
3. Applicant is relying on the spouse's income as a basis for repayment of the credit requested;
4. The applicant resides in a community property state, or the property on which the applicant is relying as a basis for repayment of the credit requested is located in a community property state; or
5. Applicant is relying on alimony, child support or separate maintenance payments from a spouse or former spouse as a basis for repayment; the Credit Union must disclose that the applicant need not reveal such income if he or she does not want the Credit Union to consider it in determining the applicant's creditworthiness (*before* the inquiry, as it may lead the applicant to disclose the income).

C. **Marital Status.**

- i. If an applicant applies for individual unsecured credit, the Credit Union may not inquire about the applicant's marital status (unless (B)(i)(4) applies).
- ii. Otherwise, the Credit Union may inquire about an applicant's marital status, but may only use the terms "married," "unmarried" and "separated." The Credit Union may explain that the "unmarried" category includes single, divorced or widowed.
- iii. The fact that certain credit-related information may indirectly disclose marital status does not prohibit the Credit Union from seeking such information. For example, the Credit Union may ask the following:

1. The applicant's obligation to pay alimony, child support or separate maintenance income;
2. The source of income to be used as the basis for repayment, which could disclose the income of a spouse;
3. Whether any obligation disclosed by the applicant has a co-obligor, which could disclose that the co-obligor is a spouse or former spouse; or
4. The ownership of assets, which could disclose the interest of a spouse.

D. **Sex.** The Credit Union may not inquire about the applicant's sex, except for requesting the applicant to designate a title on an application at the applicant's option. Permissible titles include Mr., Ms., Miss, and Mrs. If these titles are provided, it must be disclosed that the designation of a title is optional.

E. **Childbearing and Childrearing.** The Credit Union may not inquire about birth control practices, intentions concerning the bearing or rearing of children, or capability to bear children. However, the Credit Union may inquire about the number and ages of dependents or dependent related financial obligations or expenditures, provided such information is requested without regard to sex, marital status, or any other prohibited basis.

F. **Permanent Residency and Immigration Status.** The Credit Union may inquire about the permanent residency and immigration status of an applicant or any other person in connection with a credit transaction.

G. **Other Accounts of the Applicant.** The Credit Union may request that an applicant list any account on which the applicant is contractually liable, and to provide the name and address of the person in whose name the account is held. The Credit Union may also ask an applicant to list the names in which the applicant has previously received credit.

5. EVALUATION OF APPLICATIONS.

A. Definitions.

i. **Credit Scoring System.** A credit scoring system means a system that evaluates an applicant's creditworthiness mechanically, based on key attributes of the applicant and aspects of the transaction, and that determines, alone or in conjunction with an evaluation of additional information about the applicant, whether an application is deemed creditworthy.

ii. **Judgmental System.** A judgmental system evaluates the creditworthiness of an applicant by a system other than a scientific system based on statistics and probabilities.

B. **Appropriate System.** The Credit Union may use a "demonstrably and statistically sound" credit scoring system. To qualify as a "demonstrably and statistically sound" scoring system, it must be:

i. Based on data that is derived from an empirical comparison of sample groups or the population of creditworthy and non-credit worthy applicants who applied for credit within a reasonable preceding period of time;

ii. Developed for the purpose of evaluating creditworthiness of applicants with respect to the legitimate business interests of the Credit Union including but not limited to minimizing bad debt losses and operating expense in accordance with the Credit Union's business judgment;

- iii. Developed and validated using accepted statistical principals and methodology; and
- iv. Periodically revalidated by the use of appropriate statistical principles and methodology and adjusted as necessary to maintain predictive ability. Although the Credit Union is responsible for revalidating its credit scoring system, it may use a third party to perform the revalidation.

C. Use of Sensitive Information.

i. Age and Receipt of Public Assistance.

1. **Statistically Sound System.** If the Credit Union uses an empirically derived, demonstrably and statistically sound credit scoring system, the Credit Union may use age as a predictive variable provided that the age of an elderly applicant is not assigned a negative factor or value. "Elderly" means age 62 or older.
2. **Judgmental System.** If the Credit Union uses a judgmental system of evaluating creditworthiness, the Credit Union may consider an applicant's age or whether an applicant's income derives from any public assistance program only for the purposes of determining a pertinent element of creditworthiness. For example, the Credit Union may consider the following:
 - a. The applicant's occupation and length of time to retirement to determine whether the applicant's income (including retirement income) will support the extension of credit to its maturity.
 - b. The adequacy of any security offered when the term of the credit extension exceeds the life expectancy of the applicant and the cost of realizing on the collateral could exceed the applicant's equity.
 - c. The applicant's age to assess the significance of length of employment or length of time at an address.
3. **Any System.** The Credit Union may consider the age of an elderly applicant when such age is used to favor the elderly applicant in extending credit.

- ii. **Childbearing and Childrearing.** The Credit Union may not use assumptions or aggregate statistics relating to the likelihood that a group of persons will bear or rear children or will, for that reason, receive diminished or interrupted income in the future.
- iii. **Telephone Listing.** The Credit Union may not take into account whether there is a telephone listing in the name of the applicant for consumer credit, but may take into account whether there is a telephone in the applicant's residence.
- iv. **Income.** The Credit Union may not discount or exclude from consideration the income of an applicant or the spouse of an applicant because of a prohibited basis or because the income is derived from part-time employment or is an annuity, pension, or other retirement benefit. However, the Credit Union may consider the amount and probable continuance of any income in evaluating an applicant's creditworthiness.

1. **Alimony, Child Support and Separate Maintenance Income.** When an applicant relies on

alimony, child support or separate maintenance income, the Credit Union may consider such payments as income to the extent that they are likely to be consistently made. In determining the likelihood of consistent payments, the Credit Union may consider factors such as:

- a. Whether payments are received pursuant to a written agreement or court decree;
- b. The length of time that payments have been received;
- c. The availability of court or other procedures to compel payment; and
- d. The creditworthiness of the payor, including the credit history of the payor when it is available to the Credit Union.

v. **Credit History.** To the extent the Credit Union evaluates the credit history of similarly qualified applicants for similar types and amounts of credit, the Credit Union may consider:

1. Credit history of accounts that the applicant and the applicant's spouse are permitted to use or for which both are contractually liable;
2. Any information that the applicant may present that tends to indicate that the credit history being considered by the creditor does not accurately reflect the applicant's creditworthiness; and
3. On the applicant's request, the credit history of any account reported in the name of the applicant's spouse or former spouse that the applicant can demonstrate accurately reflects the applicant's creditworthiness.

vi. **Immigration Status.** The Credit Union may consider whether an applicant is a permanent resident of the United States, the applicant's immigration status, and any additional information that may be necessary to ascertain the Credit Union's rights and remedies with regarding repayment. A denial on the ground that an applicant is not a U.S. citizen is not per se discrimination based on national origin.

6. EXTENDING CREDIT.

A. Designation of Name.

- i. The Credit Union may not refuse to allow an applicant to open or maintain an account in a birth-given first name and a surname that is the applicant's birth-given surname, the spouse's surname, or a combined surname.
- ii. In the absence of evidence of the applicant's inability or unwillingness to repay, the Credit Union may not take any of the following actions regarding an applicant who is contractually liable on an existing open-end account on the basis of the applicant's reaching a certain age or retiring, or on the basis of a change in the applicant's name or marital status:
 1. Requiring a reapplication, except in connection with a change in marital status (described in Section (6)(B));
 2. Changing the terms of the account; or

3. Terminating the account.

B. Requiring Reapplication. The Credit Union may require a reapplication for an open-end account of a change in the marital status of an applicant who is contractually liable, if the credit granted was based in whole or in part on the income of the applicant's spouse and if information available indicates that the applicant's income may not support the amount of credit currently available.

C. Signatures.

- i. **Qualified Applicant.** The Credit Union may **not** require the signature of an applicant's spouse or other person other than a joint applicant if the applicant qualifies under the Credit Union's standards of creditworthiness for the amount and terms of the credit requested.
- ii. **Unsecured Credit.** If an applicant relies in part upon property that the applicant owns jointly with another person to satisfy the creditor's standards of creditworthiness, the Credit Union may require the signature of the other person when the Credit Union reasonably believes it necessary to enable it to reach the property in the event of death or default of the applicant.
- iii. **Secured Credit.** If the applicant requests secured credit, the Credit Union may require the signature of the applicant's spouse or other person on any instrument when it reasonably believes that it is necessary to make the secured property available to satisfy the debt in the event of default.

D. Evidence of Intent to Apply for Joint Credit. A person's intent to be a joint applicant must be evidenced at the time of application. Signatures on a promissory note may **not** be used to show intent to apply for joint credit. On the other hand, signatures or initials on a credit application affirming applicants' intent to apply for joint credit may be used to establish said intent.

- i. The method used to establish intent must be distinct from the method used by individuals to affirm the accuracy of the information. For examples, signatures on a joint financial statement affirming the veracity of information are **not** sufficient to establish intent to apply for joint credit.

E. Insurance.

- i. The Credit Union may not refuse to extend credit and may not terminate an account because credit life, health, accident, disability or other credit-related insurance is not available on the basis of the applicant's age.
- ii. Differences in the availability, rates and other terms on which credit-related casualty insurance or credit life, health, accident or disability insurance is offered or provided to an applicant does not violate Regulation B.
- iii. The Credit Union may obtain information about an applicant's age, sex or marital status for insurance purposes. The information may only be used for determining eligibility and premium rates for insurance, and not in making the credit decision.

7. NOTIFICATION. The Credit Union must notify members of action taken on loan requests. Notifications include:

A. Notice of Incomplete Application. Within 30 days of receiving an incomplete application regarding matters that an applicant can complete, the Credit Union will notify the member when a submitted application is incomplete. The request to the member may be verbal. The notice will:

- i. Identify the information needed to complete and evaluate the application.
- ii. Set a reasonable deadline for receiving the information from the applicant and inform the member that once the deadline has expired, no further consideration will be given to the loan request.

B. Notice of Adverse Action Taken. “Adverse action” is defined as one of the following:

- i. A refusal to grant credit in substantially the same amount or on substantially different terms than those requested in an application, unless the Credit Union makes a counteroffer (granting credit in a different amount or on other terms);
- ii. A termination of an account or an unfavorable change in the terms of an account that does not affect all or substantially all of a class of the Credit Union’s accounts; or
- iii. A refusal to increase the amount of credit available to an applicant who has made an application for an increase.

iv. Notice of Action Taken. The Credit Union must notify an applicant of action taken:

1. **30 days** after receiving a completed application concerning the creditor’s approval of, counteroffer to, or adverse action on the application;
2. **30 days** after taking adverse action on an incomplete application, unless within 30 days after receiving an application that is incomplete regarding matters that an applicant can complete, the Credit Union notifies the applicant of the action taken on the incompleteness of the application;
3. **30 days** after taking adverse action on an existing account; or
4. **90 days** after notifying the applicant of a counteroffer if the applicant does not expressly accept or use the credit offered.
5. Notification occurs when the Credit Union delivers or mails to an applicant’s last known address or, in the case of verbal notification, when the Credit Union communicates the credit decision to the applicant.

C. Content of Adverse Action Notice. A notification given to an applicant when adverse action is taken must be in writing and must contain:

- i. A statement of the action taken;
- ii. The name and address of the creditor;
- iii. A statement of the provisions of the anti-discrimination section of the Act;
- iv. The name and address of the federal agency that administers compliance with respect to the Credit Union; and either:
 1. A statement of specific reasons for the action taken; or

2. A disclosure of the applicant's right to a statement of the specific reasons within 30 days, if the statement is requested within 60 days of the Credit Union's notification, including the name, address and telephone number of the person or office from which the statement of reasons can be obtained.
- v. The reasons must be specific and must indicate the principal reason(s) for the adverse action. Statements that adverse action was based on the Credit Union's internal standards or policies, or that the applicant, joint applicant or similar party failed to achieve a qualifying score on the Credit Union's scoring system are **insufficient**.
- vi. The following information when a credit score is used in taking an adverse action:
 1. A statement that the Credit Union obtained the consumer's credit score from a consumer reporting agency (CRA) named in the notice and used the score making the credit decision;
 2. A statement that a credit score is a number that reflects the information in the consumer's credit report and that the consumer's credit score can change, depending on how the information in the consumer's credit report changes; and
 3. Space for the creditor to include the content required under the Dodd-Frank Act that is specific to the consumer, which includes the following:
 - a. The consumer's credit score;
 - b. The date the credit score was created;
 - c. The range of possible credit scores under the model used; and
 - d. Up to four key factors that adversely affected the consumer's credit score (or up to five factors if the number of inquiries made with respect to that consumer report is one of the factors).

D. Notice Of Adverse Action To Natural Person Applicants.

- i. **Co-Applicants.** When an adverse action is based in whole or in part on information in a consumer report, the Credit Union will provide a separate notice to each applicant with each applicant's respective credit score on the notices. Otherwise, an adverse action can be provided to either applicant. If one applicant has good credit, and the other applicant does not, the combined FCRA/ECOA notice will be provided to the applicant with bad credit.
- ii. **Guarantors and Co-Signers.** Under the ECOA and FCRA, a guarantor or co-signer would not receive an adverse action notice. The combined ECOA/FCRA notice will be provided to the applicant, even if the adverse action decision is made solely based on information in the guarantor's or co-signer's consumer report. However, the guarantor's or co-signer's credit score will not be disclosed to an applicant in an adverse action notice.
- iii. **Multiple Scores.** When the Credit Union obtains multiple scores, but only uses one in making the decision, any of the scores may be disclosed.

E. Notification to Business Credit Applicants.

i. **Businesses with Gross Revenues of \$1 Million or Less in the Preceding Fiscal Year.** The Credit Union must comply with the following requirements:

1. When adverse action is taken, the statement of the action taken may be given orally or in writing.
2. Disclosure of an applicant's right to a statement of the reasons may be given at the time of application, instead of when adverse action is taken, provided the disclosure contains the information required by the regulation; and
3. For an application made entirely by telephone, a verbal statement of the action taken and of the applicant's right to a statement of the reasons for adverse action.

ii. **Businesses Revenues in Excess of \$1 Million in the Preceding Fiscal Year or an Extension of Trade Credit, Credit Incident to a Factoring Agreement, or Other Similar Type of Business Credit.** The Credit Union must comply with the following requirements:

1. Notify the applicant, within a reasonable time, orally or in writing, of the action taken; and
2. Provide a written statement of the reasons for adverse action and the ECOA notice if the applicant makes a written request for the reasons within 60 days of the Credit Union's notification.

8. **SELF-TESTS.** The Credit Union may inquire about the race, color, religion, national origin or sex of applicants for the purpose of conducting a self test. Such inquiries must disclose the following information verbally or in writing at the time the information is requested:

- A. The applicant will not be required to provide the information;
- B. The Credit Union is requesting the information to monitor its compliance with the Act;
- C. Federal law prohibits the Credit Union from discriminating on the basis of this information, or on the applicant's decision not to furnish this information; and
- D. If applicable, certain information will be collected based on visual observation or surname if not provided by the applicant or another person.

9. **RECORD RETENTION.**

A. **Applications.** The Credit Union must retain applications for **25 months** (12 months for business credit) after the date the Credit Union notifies an applicant of action taken on the application or notification of incompleteness, including any:

- i. Application the Credit Union receives;
- ii. Any information required to be obtained concerning characteristics of the applicant to monitor compliance with the Act, regulation or similar law;
- iii. Other written or recorded information used in evaluating the application not returned to the applicant at the applicant's request;

iv. Copy of notification of action taken and statement and reasons of action taken if issued to the applicant in written form; and

v. Written statement submitted by the applicant alleging a violation of the Act.

B. Existing Accounts. The Credit Union must retain the following for **25 months** (12 months for business credit) after the date the Credit Union notifies an applicant of adverse action regarding an existing account:

i. Any written or recorded information concerning the adverse action;

ii. Any written statement submitted by the applicant alleging a violation of the Act or the regulation.

C. Certain Business Credit Applications. For businesses with gross revenues in excess of \$1 million in its preceding fiscal year, or an extension of trade credit, credit incident to a factoring agreement, or other similar type of business credit, the Credit Union must retain records for at least **60 days** after notifying the applicant of the action taken.

i. If with that time period, an applicant makes a written request for the reasons for adverse action, or that records be retained, the Credit Union must retain the records for 12 months.

D. Enforcement Proceedings. If the Credit Union receives actual notice that it is under investigation or subject to an enforcement proceeding, it must retain the above information until final disposition of the matter, unless an earlier time is allowed by order of the agency or court.

E. Self Tests. The Credit Union must retain all written or recorded information about the self test for **25 months** after it has been completed (unless the Credit Union has actual knowledge that it is under investigation (See (9)(D))).

i. A self test is deemed completed when the Credit Union has obtained the results and made a determination about what corrective action, if any, is appropriate. The following self test information must be retained:

1. Information regarding the scope of the test;

2. The methodology used and the time period covered by the test;

3. The report or results of the self test, including any analysis or conclusions; and

4. Any corrective actions taken in response to the self test.

F. Pre-screened Solicitations. The Credit Union must retain information about the criteria used to select potential members that both receive the pre-screened solicitations and that are actually offered credit; the text of the solicitation; and complaints that may have been received about the solicitation for **25 months** after the date on which an offer of credit is made (**12 months** for business credit).

10. INFORMATION FOR MONITORING PURPOSES. The Credit Union must obtain information for monitoring purposes whenever an applicant requests credit for the purchase or refinancing of a 1-4 family dwelling occupied or to be occupied by the applicant as a principal residence, and where the extension of credit will be secured by the dwelling (regardless of whether the structure is attached to the property). The Credit Union will ask but not require applicants to supply the following information, disclosing that the information is

being requested by the federal government for monitoring compliance:

- A. Race or National Origin (American Indian; Alaskan Native; Asian or Pacific Islander; Black; White; Hispanic; Other (specify)).
- B. Sex.
- C. Marital Status (married, unmarried or separated).
- D. Age.

If the applicant chooses not to provide monitoring information, the Credit Union should note their decline on the form. The Credit Union must also note (after disclosure) the race or national origin and sex of the applicant on the basis of visual observation or surname.

11. FURNISHING CREDIT INFORMATION.

A. Designating Accounts.

- i. The Credit Union will designate existing accounts (upon written request) and new accounts to reflect the participation of both spouses where the applicant's spouse is contractually liable or is permitted to use the account (other than as a guarantor, surety, endorser or similar party); and
- ii. Any existing account to reflect such participation, within 90 days after receiving a written request, to do so from one of the spouses.

B. Routine Consumer Reports. When the Credit Union furnishes credit information to consumer reporting agencies, it will provide access to the information in the name of each spouse.

C. Reporting in Response to an Inquiry. When the Credit Union furnishes credit information in response to an inquiry concerning an account designated to reflect the participation of both spouses, it will furnish the information in the name of the spouse about whom the information is requested.

Policy 9120: Fair Debt Collection Practices Act

Revised Date: 01/17/2017

Model Policy Revised Date: 01/17/2017

Introduction:

The purpose of the Fair Debt Collection Practices Act (FDCPA) is to eliminate abusive debt collection practices by debt collectors; to ensure that debt collectors who refrain from abusive collection practices are not competitively disadvantaged; and to promote consistent state action to protect consumers against debt collection abuses.

Highlights:

1. **EXCLUSION FROM COVERAGE.** A credit union is **not** a debt collector subject to the FDCPA when it collects:
 - A. Debts due to another creditor only in isolated instances;
 - B. Debts, in the Credit Union's own name, owed to the Credit Union;
 - C. A debt that it originated and sells, even though it services the debt (i.e., mortgages and student loans);
 - D. A debt not in default when obtained;
 - E. A debt obtained as security for a commercial credit transaction involving the Credit Union;
 - F. A debt incidental to a bona fide fiduciary relationship or escrow arrangement (i.e., a debt held in the Credit Union's trust department); or
 - G. A debt for another person to whom it is related by common ownership or corporate control, so long as it does so only for those related persons. However, if the Credit Union regularly collects defaulted debts owed to a nonaffiliated person, the Credit Union will become a debt collector for those defaulted debts as well as for defaulted debts of affiliated entities, but not for its own debts.
2. **COVERAGE.** A Credit Union that regularly collects debts for other unrelated institutions, including collections under reciprocal service agreements, will be subject to the FDCPA. A Credit Union is also covered under the FDCPA when it uses a name other than its own for collection efforts.
3. **REQUIRED DISCLOSURES.** The following disclosures are required under the FDCPA:
 - A. **Obtaining Debtor Location Information.** A debt collector who communicates with any person other than the consumer for the purpose of obtaining location information must do the following:
 - i. Identify himself/herself (and his/her employer, if requested);
 - ii. State that he/she is confirming/correcting the consumer's location;
 - iii. Refrain from stating that a debt is owed;
 - iv. Refrain from communicating with this person more than once, unless the collector reasonably

believes that the information obtained was erroneous or incomplete (and that such person now has correct or complete information), or unless the person requests additional communication from the collector;

v. Refrain from communicating by postcard; and

vi. Refrain from using any language or a symbol on an envelope mailed to a third party indicating that the Credit Union is in the business of collecting debts or that the communication relates to the collection of a debt.

B. Communicating with Debtor. Without the prior consent of the consumer or court, a debt collector may not communicate with a consumer:

i. If the collector knows that the consumer has an attorney, unless the attorney fails to respond within a reasonable period of time, or consents to direct communication with the consumer;

ii. At any unusual or knowingly inconvenient time or place (the collector should assume that the proper times are from 8:00 a.m. to 9:00 p.m.);

iii. At the consumer's place of employment if the collector knows or has reason to know that the consumer's employer prohibits the practice.

4. VALIDATION OF DEBTS. Within five (5) days of the initial communication with a consumer in connection with the collection of any debt, a debt collector must send the consumer a written notice containing the following information (unless this information is contained in the first communication or the consumer has paid the debt):

A. The amount of the debt;

B. The name of the creditor to whom the debt is owed;

C. A statement that unless the consumer disputes the validity of the debt, or any portion thereof, within 30 days after receipt of the notice, the debt will be assumed to be valid by the debt collector;

D. A statement that if the consumer notifies the debt collector in writing within the 30-day period that the debt, or any portion thereof, is disputed, the debt collector will obtain verification of the debt or a copy of a judgment against the consumer, and a copy of such verification or judgment will be mailed to the consumer; and

E. A statement that, upon the consumer's written request within the 30-day period, the debt collector will provide the consumer with the name and address of the original creditor, if different from the current creditor.

F. Debt collectors must also clearly state both of the following in the initial communication with the debtor (but only the first disclosure in all subsequent communications):

i. The debt collector is attempting to collect a debt; and

ii. Any information obtained will be used for the purpose of collecting a debt.

5. FALSE OR MISLEADING REPRESENTATIONS. A debt collector may not use any false, deceptive, or

misleading representation or means in connection with the collection of a debt. The following conduct is prohibited:

- A. Making false representations of the character, amount or legal status of any debt;
- B. Falsely representing or implying that the collector is an attorney;
- C. Falsely representing or implying that nonpayment of any debt will result in the arrest or imprisonment of any person, or threatening actions (i.e., seizure, sale, garnishment) that cannot be legally taken;
- D. Falsely representing that the consumer has committed a crime;
- E. Communicating or threatening to communicate to any person credit information that is known, or should be known, to be false, including the failure to communicate when a debt is disputed;
- F. The use of any false representation or deceptive means to collect, or attempt to collect, any debt or to obtain information concerning a consumer;
- G. Failing to disclose in the first written and oral communication with a debtor that a debt collector is attempting to collect a debt and that any information obtained will be used for that purpose. In subsequent communications, the debt collector must state that the communication is from a debt collector;
- H. Falsely representing or implying that accounts have been turned over to innocent purchasers for value; and
- I. Using the name of a business, company or organization that differs from the true name of the debt collector's business, company or organization;

6. **IMPROPER ACTIONS.** A debt collector may not use unfair or unconscionable means to collect or attempt to collect any debt. The following actions violate the FDCPA:

- A. Collecting any amount that is not authorized by the credit agreement signed by the consumer.
- B. Accepting post-dated checks and threatening or instituting criminal prosecution.
- C. Depositing or threatening to deposit a post-dated check.
- D. Charges caused by collect telephone calls, telegrams, etc.
- E. Making threats or causing any non-judicial action to cause dispossession or disablement of property, if there is no present right to do so.
- F. Using any language other than the collector's address on any communication. Business name may be used if it does not indicate a collection business.

7. **HARASSMENT OR ABUSE.** A debt collector may not engage in any conduct that is designed to harass, oppress or abuse any person in connection with the collection of a debt. The following conduct is prohibited:

- A. Using or threatening the use of violence or other criminal means to harm the person, reputation or property of any person;

- B. Using obscene or profane language;
- C. Publishing a list of consumers who have allegedly refused to pay debts, except to a consumer reporting agency;
- D. Advertising for sale any debt to coerce payment of the debt;
- E. Causing a telephone to ring or engaging any person in telephone conversations repeatedly or continuously with intent to annoy, abuse or harass any person at the called number; and
- F. Placing telephone calls without meaningful disclosure of the caller's identity (except when obtaining information about the consumer's location).

8. **UNFAIR, DECEPTIVE AND/OR ABUSIVE ACTS OR PRACTICES (UDAAPs).** The Credit Union will refrain from committing UDAAPs when collecting consumer debts, including debts owed to the Credit Union. Depending on facts and circumstances, some of the below activities related to the collection of consumer debt could constitute UDAAPs and the Credit Union will avoid these activities.

- A. Collecting or assessing a debt and/or any additional amounts in connection with a debt (including interest, fees, and charges) not expressly authorized by the agreement creating the debt or permitted by law.
- B. Failing to post payments timely or properly or to credit a consumer's account with payments that the consumer submitted on time and then charging late fees to that consumer.
- C. Taking possession of property without the legal right to do so.
- D. Revealing the consumer's debt, without the consumer's consent, to the consumer's employer and/or co-workers.
- E. Falsely representing the character, amount, or legal status of the debt.
- F. Misrepresenting that a debt collection communication is from an attorney.
- G. Misrepresenting that a communication is from a government source or that the source of the communication is affiliated with the government.
- H. Misrepresenting whether information about a payment or nonpayment would be furnished to a credit reporting agency.
- I. Misrepresenting to consumers that their debts would be waived or forgiven if they accepted a settlement offer, when the company does not, in fact, forgive or waive the debt.
- J. Threatening any action that is not intended or the covered person or service provider does not have the authorization to pursue, including false threats of lawsuits, arrest, prosecution, or imprisonment for non-payment of a debt.

Policy 9130: Holder in Due Course Rule

Revised Date: 08/01/2012

Model Policy Revised Date: 08/01/2012

Introduction:

Pursuant to the Federal Trade Commission's (FTC) rule entitled "Preservation of Consumer Defenses," often referred to as the "holder in due course" rule, anyone who, in the ordinary course of business, lends purchase money or finances the sale of goods or services to consumers on a deferred payment basis does so subject to all claims and defenses that consumers might have against the seller of goods.

A Holder in Due Course is a holder of a negotiable instrument who accepts the instrument for value, in good faith, and without notice, takes free from personal defenses and claims. Unless an individual or entity has the rights to a Holder in Due Course they are subject to all valid claims to the instrument and the defenses of any party, including lack of consideration, nonperformance, non-delivery, and acquisition of the instrument by illegal means.

The rule applies to contracts (oral, written, formal or informal) between a creditor and a "seller" in which there is a "business relationship," defined under the rule as "any understanding, procedure, course of dealing, or arrangement, formal or informal, between a creditor and a seller, in connection with the sale of goods or services to consumers or the financing thereof." The term "seller" is defined under the rule as "a person who, in the ordinary course of business, sells or leases goods or services to consumers."

Highlights:

1. REQUIREMENTS.

A. **Holder.** The holder must be in lawful possession of a negotiable instrument (such as a note) that has been negotiated.

B. Due Course.

i. **Value.** The holder must purchase the instrument for value.

ii. **Good Faith.** The holder must purchase the instrument without knowledge (actual or constructive) of:

- a. Overdueness;
- b. Dishonor;
- c. Claim;
- d. Defense;
- e. Forgery;
- f. Irregularity; or
- g. Incompleteness.

2. **REAL DEFENSES.** Holders in Due Course are subject to 10 defenses.

- A. Forgery;
- B. Fraud in factum;
- C. Alteration;
- D. Adjudicated insanity;
- E. Infancy (except for necessities);
- F. Illegality;
- G. Duress;
- H. Discharge in bankruptcy;
- I. Suretyship; and
- J. Statute of limitations.

3. **FTC EXCEPTIONS.**

- A. **Consumer Goods.** Holder in Due Course does not apply when individuals purchase consumer goods or services on credit.
- B. **Shelter Rules.** In general, the shelter rules provide that anyone who takes after a Holder in Due Course acquires rights of a Holder in Due Course.

4. **PROHIBITIONS.** In connection with any sale or lease of goods or services to consumers, in or affecting commerce as “commerce” is defined in the Federal Trade Commission Act, it is an unfair or deceptive act or practice within the meaning of section 5 of that Act for a **seller**, directly or indirectly, to do the following:

- A. Take or receive a consumer credit contract which fails to contain the following provision in at least ten point, bold face, type:

NOTICE

ANY HOLDER OF THIS CONSUMER CREDIT CONTRACT IS SUBJECT TO ALL CLAIMS AND DEFENSES WHICH THE DEBTOR COULD ASSERT AGAINST THE SELLER OF GOODS OR SERVICES OBTAINED PURSUANT HERETO OR WITH THE PROCEEDS HEREOF. RECOVERY HEREUNDER BY THE DEBTOR SHALL NOT EXCEED AMOUNTS PAID BY THE DEBTOR HEREUNDER.

or;

- B. Accept, as full or partial payment for such sale or lease, the proceeds of any purchase money loan (as purchase money loan is defined herein), unless any consumer credit contract made in connection with such purchase money loan contains the following provision in at least ten point, bold face, type:

NOTICE

ANY HOLDER OF THIS CONSUMER CREDIT CONTRACT IS SUBJECT TO ALL CLAIMS AND DEFENSES WHICH THE DEBTOR COULD ASSERT AGAINST THE SELLER OF GOODS OR SERVICES OBTAINED WITH THE PROCEEDS HEREOF. RECOVERY HEREUNDER BY THE DEBTOR SHALL NOT EXCEED AMOUNTS PAID BY THE DEBTOR HEREUNDER.

NOTE: The FTC rule does **not** require credit unions to include the above language in its loan agreements; it merely requires sellers not to accept loan proceeds if this language is not contained in the loan agreement. However, court rulings have made it clear that unfair trade practice liability can be attributed to lenders when there is a “business relationship” with sellers under the theory that lenders are misleading consumers if the FTC language is missing.

Many State laws enforce assignee liability for most consumer contracts (i.e., the indirect lending relationship when a seller assigns an installment contract to the credit union), and require liability language in these contracts. The FTC rule impacts direct loans from the Credit Union in which there is a “business arrangement” between the seller and the Credit Union. Because these direct loan contracts may not contain the required FTC language, the Credit Union will consult with legal counsel regarding whether this language should be included in the event a seller neglects to request this.

Policy 9150: Unfair, Deceptive, or Abusive Acts or Practices

Revised Date: 12/31/2015

Model Policy Revised Date: 12/31/2015

General Policy Statement:

The Consumer Financial Protection Bureau (CFPB) has enforcement authority to prevent unfair, deceptive or abusive acts in connection with any transaction with a consumer for a consumer financial product or service, or the offering of a consumer financial product or service. Therefore, [CUName] (Credit Union) will consider the Unfair, Deceptive or Abusive Acts or Practices (UDAAP) in all dealings with consumers, including, but not limited to, the advertising, offering, lending, servicing and collecting of products and services.

Guidelines:

1. UNFAIR ACTS OR PRACTICES.

A. An act or practice is considered unfair when:

- i. It causes or is likely to cause substantial injury (can be in the form of fees, costs, or emotional impact) to consumers;
- ii. The injury is not reasonably avoidable by consumers (transactions without the consumers consent are not reasonably avoidable); and
- iii. The injury is not outweighed by countervailing benefits to consumers or to competition.

B. **Unfair Credit Contract Provisions.** It is an unfair act or practice for the Credit Union to enter into a consumer credit obligation that contains, or to enforce in a consumer credit obligation purchased by the Credit Union, any of the following provisions:

- i. A waiver of the right of notice and the opportunity to be heard in the event of a lawsuit or process thereon;
- ii. A waiver or exemption from attachment, execution or other process on real or personal property held, owned by, or due to the consumer, unless the executory waiver applies solely to property subject to a security interest in the loan.
- iii. An assignment of wages or other earnings, unless:
 1. The assignment by its terms is revocable at the will of the debtor;
 2. The assignment is a payroll deduction plan or a pre-authorized payment plan, beginning at the time of the transaction, in which the consumer authorizes a series of wage deductions as a method of making each payment; or
 3. The assignment can only be made on earnings the consumer has when the assignment is signed and for the period dated in the assignment. The wage assignment cannot be for future wages.

- iv. A security interest in household goods (other than a purchase money transaction).

2. DECEPTIVE ACTS OR PRACTICES

A. An act or practice is considered deceptive when:

- i. The act or practice misleads or is likely to mislead the consumer;
- ii. The consumer's interpretation is reasonable under the circumstances; and
- iii. The misleading act or practice is material (material information is information that is likely to impact a consumer's choice or conduct).

B. Unfair or Deceptive Practices Involving Cosigners. A cosigner on any credit obligation must be informed, in advance of signing the note, that they will be equally responsible for re-payment of the debt.

i. When a cosigner will be obligated on the debt of a member it is:

- 1. A deceptive act or practice for the Credit Union to misrepresent the nature or extent of cosigner liability to any person; and
- 2. An unfair act or practice for the Credit Union to obligate a cosigner unless the cosigner is informed prior to becoming obligated of the nature of the cosigner's liability.

ii. A clear and conspicuous cosigner disclosure statement shall be given in writing to the cosigner prior to becoming obligated. The disclosure statement shall be either a separate document or included in the documents evidencing the consumer credit obligation.

C. Unfair Late Charges. It is an unfair act or practice to levy or collect any delinquency charge on a payment, when the only delinquency is attributable to late fees or delinquency charges assessed on earlier installments, and the payment is otherwise a full payment for the applicable period and is paid on its due date or within an applicable grace period.

3. ABUSIVE ACTS OR PRACTICES

A. An act or practice is abusive when it:

- i. Materially interferes with the ability of a consumer to understand a term or condition of a consumer financial product or service; or
- ii. Takes unreasonable advantage of;
 - 1. A consumer's lack of understanding of the materials risks, costs, or conditions of the product or service;
 - 2. A consumer's inability to protect his or her interests in selecting or using a consumer financial product or service; or
 - 3. A consumer's reasonable reliance on a covered person to act in his or her interests.

4. ADDITIONAL UDAAP CONSIDERATIONS. The Credit Union understands the risks for providing financial products or services to members that may be considered unfair, deceptive or abusive. When the Credit Union is developing new products or services, internal controls, policies, procedures, disclosures, and training materials, UDAAP will be considered. The Credit Union will also consider these additional factors when assessing UDAAP compliance.

- A. **Complaints.** The Credit Union will continuously monitor to ensure unfair, deceptive, or abusive acts or practices are avoided. To assist with this process, the Credit Union will comply with their Complaint Policy (**See Policy 1540 or 1541**) regarding the central processing and identification of potential trends associated with consumer complaints.
- B. **Marketing.** The Credit Union will ensure that marketing materials are reviewed and language not deemed to be potentially unfair, deceptive or abusive. The Credit Union will only market products and services that are actually available.
- C. **Third Party Oversight.** The Credit Union will comply with (**See Policy 2185**) for due diligence reviews on third parties. As part of that process, the Credit Union will also consider UDAAP and interactions made with consumers on the Credit Union's behalf.

Policy 9200: Home Mortgage Disclosure Act - Regulation C

Revised Date: 12/20/2017

Model Policy Revised Date: 12/20/2017

Introduction:

The Home Mortgage Disclosure Act (HMDA), implemented by Regulation C sets out requirements for the Credit Union to collect, record, report and disclose information about mortgage lending activity. Data collected helps to determine whether the Credit Union is serving the housing needs of the community, to assist public officials in distributing investments to areas where it is needed and to assist in identifying potential discriminatory lending patterns and enforcing antidiscrimination statutes.

Highlights:

1. **COVERAGE.** This regulation only applies if the following criteria are met:

- A. The Credit Union's assets total more than \$44 million as of December 31, 2017;
- B. The Credit Union has a home or branch office in a Metropolitan Statistical Area (MSA);
- C. The Credit Union has, in the preceding calendar year, originated at least one home purchase loan (closed-end mortgage loan or an open-end line of credit that is for the purpose, in whole or in part, of purchasing a dwelling) or refinancing of a home purchase loan, secured by a first lien on a one-to-four family unit dwelling and meets one of the following conditions:
 - i. The Credit Union is federally insured or regulated;
 - ii. The home purchase loan is insured, guaranteed or supplemented by a federal agency; or
 - iii. The home purchase loan is intended for sale to the Federal National Mortgage Association (FNMA) or the Federal Home Loan Mortgage Corporation (FHLMC); **AND**
- D. The Credit Union meets at least one of the following criteria:
 - i. In each of the two preceding calendar years, originated at least 25 closed-end mortgage loans (including refinancings of home purchase loans) that are not otherwise excluded; or
 - ii. In each of the two preceding calendar years, originated at least 500 open-end lines of credit that are not otherwise excluded.

2. **EXEMPTION GUIDELINES.** If the Credit Union becomes exempt from HMDA reporting requirements (one of the above criteria is no longer met), no reporting is necessary in the next calendar year. If, however, the Credit Union loses its exemption by meeting the above criteria, data collection would begin the following year.

3. DEFINITIONS

- A. **Closed-end mortgage loan** – an extension of credit that is secured by a lien on a dwelling and that is not an open-end line of credit.

- B. **Dwelling** - a residential structure, whether or not attached to real property. The term includes, but is not limited to a detached home, an individual condominium or cooperative unit, a manufactured home or other factory-built home, or a multifamily residential structure or community.
- C. **Metropolitan Statistical Area (MSA)** - a metropolitan statistical area as defined by the U.S. Office of Management and Budget.
- D. **Metropolitan Division (MD)** - a metropolitan division of an MSA, as defined by the U.S. Office of Management and Budget.
- E. **Open-end line of credit** – an extension of credit that:
 - i. Is secured by a lien on a dwelling; and
 - ii. Is an open-end credit plan for which the Credit Union reasonably contemplates repeated transactions, the Credit Union may impose a finance charge from time-to-time on an outstanding unpaid balance, and the amount of credit that may be extended to the borrower during the term of the plan (up to any limit set by the Credit Union) is generally made available to the extent that any outstanding balance is repaid.
 - iii. A business purpose transaction that is exempt from Regulation Z, but otherwise meets the above requirements is an open-end line of credit under the HMDA rules if the extension of credit is secured by a lien on a dwelling and is not otherwise excluded.

4. **COVERED LOANS.** The Credit Union is required to collect data on most dwelling-secured loans including closed-end mortgage loans or open-end lines of credit that are not otherwise excluded. The required data includes:

- A. **Home Purchase Loans:** loans secured by and made for the purpose of purchasing a residential dwelling. Dwelling is not limited to the principal or other residence of the borrower and includes vacation or second homes and investment properties. Recreational vehicles, including boats, campers, travel trailers and park model recreational vehicles are not considered dwellings (regardless of whether they are used as residences).
- B. **Home Improvement Loans:** closed-end mortgage loan or an open-end line of credit that is for the purpose, in whole or in part, of repairing, rehabilitating, remodeling or improving a dwelling or the real property on which the dwelling is located. Home improvements include improvements both to a dwelling and to the real property on which the dwelling is located such as installation of a swimming pool, construction of a garage or landscaping.
- C. **Refinancing:** closed-end mortgage loan or an open-end line of credit in which a new, dwelling secured debt obligation satisfies and replaces an existing, dwelling-secured debt obligation by the same borrower.
- D. **Commercial or business loans.** Not all transactions that are primarily for business purpose are excluded. Therefore, the credit union must collect, record and report data for dwelling-secured, business purpose loans or refinancings if no other exclusion applies. If the loan is deemed to be primarily for business, commercial or organization purposes under Regulation Z, then the loan or line of credit is also deemed to be primarily for business or commercial purposes under HMDA.

5. **COVERED TRANSACTIONS.** The following transactions require the collection of loan data:

- A. Applications – an oral or written request for a covered loan that is made in accordance with procedures

the Credit Union uses for the type of credit requested. A preapproval request is an application if the request is for a home purchase loan, not secured by a multi-family dwelling, not for an open-end line of credit or for a reverse mortgage; and reviewed under a preapproval program;

B. Originations; and

C. Loan purchases

6. REPORTED INFORMATION. The following information must be reported:

A. The Credit Union's Legal Entity Identifier

B. A Universal Loan Identifier

C. The date the application was received

D. The type of loan or application (conventional, FHA insured, VA guaranteed, FSA/RHS guaranteed)

E. The purpose of the loan or application (purchase, home improvement, refinancing)

F. Preapproval (if the loan was initiated as a request for a preapproval under a preapproval program)

G. Construction Method (whether dwelling is site-built or a manufactured home)

H. Occupancy Type (principal residence, second residence, investment property)

I. Loan amount

J. The Credit Union's action taken on the application (application progress, loan origination, or purchased loan) and date of action taken

K. Property address (address of property securing the loan)

L. Property location (if the property is located in a MSA or Metropolitan Division where the Credit Union has a home or branch office, the location by State, County, Census Tract)

M. The ethnicity, race, and sex of the applicant or borrower, (and if information was collected by visual observation or surname)

N. Age

O. Income

P. The type of entity that purchased the loan

Q. Rate Spread between the annual percentage rate (APR) and the average prime rate offer for a comparable transaction

R. Whether the loan is subject to the Home Ownership and Equity Protection Act (HOEPA)

S. Lien status (secured by a first or subordinate lien)

- T. Credit Score (credit score(s) relied on and the name and version of the credit scoring model)
- U. Reason for Denial
- V. Total Loan Costs or Total Points and Fees (either total loan costs, or total points and fees charged)
- W. Origination Charges (total borrower paid origination charges)
- X. Discount Points (points paid to the Credit Union to reduce the interest rate)
- Y. Lender Credits
- Z. Interest Rate
- AA. Prepayment Penalty Term (term in months of any prepayment penalty)
- AB. Debt-to-Income Ratio
- AC. Combined Loan-to-Value Ratio
- AD. Loan Term
- AE. Introductory Rate Period (number of months until the first date the interest rate may change)
- AF. Non-Amortizing Features (balloon payment, interest-only payments, negative amortization, etc.)
- AG. Property Value
- AH. Manufactured Home Secured Property Type (whether loan is secured by a manufactured home and land or a manufactured home and not land)
- AI. Manufactured Home Land Property Interest (ownership or leasehold interest in the land where the manufactured home is located)
- AJ. Total Units (number of individual dwelling units related to the property)
- AK. Multifamily Affordable Units (number of units related to property that are income-restricted under federal, state, or local affordable housing programs)
- AL. Application Channel (submission of Application and Initially Payable to the Credit Union)
- AM. Mortgage Loan Originator NMLSR Identifier
- AN. Automated Underwriting System (name of the automated underwriting system used by the Credit Union to evaluate the application and the result generated by the system)
- AO. Reverse Mortgage
- AP. Open End Line of Credit

AQ. Business or Commercial Purpose

7. **EXCLUDED TRANSACTIONS.** The following transactions do **not** have to be reported:

- A. Closed-end mortgage loans or open end-lines of credit that are secured by a lien on unimproved land;
- B. Closed-end mortgage loans or open-end lines of credit that the Credit Union originated or purchased in a fiduciary capacity;
- C. Closed-end mortgage loans or open-end lines of credit for temporary financing (example: bridge loans);
- D. Purchase of solely the right to service rights closed-end mortgage loans or open-end lines of credit;
- E. Purchase of an interest in a pool of closed-end mortgage loans or open-end lines of credit, such as a real estate mortgage investment conduit (REMIC), mortgage-participation certificates, or mortgage-backed securities;
- F. Purchase of a closed-end mortgage loan or open-end line of credit as part of a merger or acquisition or as part of the acquisition of all of a branch office's assets and liabilities.
- G. A closed-end mortgage loan or an open-end line of credit, or an application for either, for which the total dollar amount is less than \$500.
- H. The purchase of a partial interest in a closed-end mortgage or an open-end line of credit;
- I. A closed-end mortgage loan or an open-end line of credit if the proceeds are used primarily for agricultural purposes or if the loan is secured by a Dwelling that is located on real property that is used primarily for agricultural purposes;
- J. A closed-end mortgage loan or open-end line of credit that is or will be made primarily for business or commercial purposes, unless it is a home improvement loan, a home purchase loan or a refinancing; and
- K. A closed-end mortgage loan or an open-end line of credit if the Credit Union originated fewer than 25 and 500, respectively in the preceding calendar years and is subsequently not a covered under the HMDA rules.

8. **REPORTING THE DATA COLLECTED.** Throughout the calendar year, the Credit Union must maintain a loan/application register (LAR) to record data about each application received for covered loans and each loan originated or purchased. If applicable, the Credit Union will also collect data regarding requests under a preapproval program (only if the preapproval is denied, not accepted by the applicant or results in the origination of a home purchase loan). The HMDA-LAR is the form used to report the collected data each calendar year.

- A. LARs must be updated within 30 days after the end of each calendar quarter in which final action is taken.

9. **TIMING.** The HMDA report must be made electronically to the CFPB by March 1 of the following calendar year.

10. **INFORMATION REQUIRED TO BE PROVIDED TO THE PUBLIC.** The Credit Union will make available a disclosure statement based on HMDA data submitted the preceding calendar year, no later than 3

business days after receiving notice from the FFIEC that the Credit Union’s disclosure statement is available.

- A. **Modified HMDA-LARs.** The Credit Union will make available to the public (following the calendar year for which the data is collected) upon request at its main office, and each branch office physically located in each MSA and each MD, written notice that clearly conveys that the Credit Union’s LAR, as modified by the CFPB to protect applicant and borrower privacy, may be obtained on the CFPB’s website. This notice will be made available to the public for a period of three years.
- B. **FFIEC Disclosure Statements.** No later than 3 business days after receiving notice from the FFIEC that the Credit Union’s disclosure statement is available, the Credit Union shall make available to the public upon request at its main office, and each branch office physically located in each MSA and each MD, a written notice that clearly conveys that the Credit Union’s disclosure statement may be obtained on the CFPB’s website. This notice will be available to the public for a period of five years.
- C. **WRITTEN NOTICE.** The Credit Union uses the following written notice:

“HOME MORTGAGE DISCLOSURE ACT NOTICE

The HMDA data about our residential mortgage lending are available online for review. The data show geographic distribution of loans and applications; ethnicity, race, sex, age, and income of applicants and borrowers; and information about loan approvals and denials. These data are available online at the Consumer Financial Protection Bureau’s Web site (www.consumerfinance.gov/hmda). HMDA data for many other financial institutions are also available at this Web site.”

- i. The Credit Union may impose a reasonable fee for any cost incurred in providing or reproducing the required HMDA data.
- ii. The Credit Union will make notices available during hours the office is normally open to the public for business.

- 11. **REQUIRED LOBBY NOTICE.** The Credit Union must place in the lobby of its main office and of each branch physically located in each MSA and each MD. The notice must clearly convey that the Credit Union’s HMDA data is available on the CFPB’s website. The Credit Union uses the following notice:

HOME MORTGAGE DISCLOSURE ACT NOTICE

“The HMDA data about our residential mortgage lending are available online for review. The data show geographic distribution of loans and applications; ethnicity, race, sex, age, and income of applicants and borrowers; and information about loan approvals and denials. HMDA data for many other financial institutions are also available online. For more information, visit the Consumer Financial Protection Bureau’s Web site (www.consumerfinance.gov/hmda).

Policy 9210: Real Estate Settlement Procedures Act - HUD Regulation X

Revised Date: 07/01/2015

Model Policy Revised Date: 07/01/2015

Introduction:

The Real Estate Settlement Procedures Act (RESPA) was established to protect consumers and their rights in the settlement process for residential real estate closings and the associated costs. The purpose of this law is to reduce the possibility of kickbacks or referred fees that unnecessarily increase the cost of closing and settlement services; to reduce the amounts required in escrow; and to modernize the record keeping of title information. Aside from the partial exemptions listed below, the RESPA applies to all federally related mortgage loans.

Closed-end consumer mortgage loans are required to utilize disclosures under the Truth in Lending Act, which replace the Good Faith Estimate and HUD-1 and HUD-1A disclosures. The disclosure requirements under RESPA for the Good Faith Estimate; HUD-1 and HUD-1A; the related one-day advanced inspection delivery requirements of the HUD-1 or HUD-1A; along with the required servicing disclosure statement, pertain only to reverse mortgages.

Highlights:

1. **COVERAGE.** RESPA applies to (“federally related mortgage”) loans where:
 - A. Loan proceeds are used in whole or part to purchase real estate;
 - B. Security interest created in 1-4 family dwellings, including mobile homes and condominium units.
 - C. Property located within the state and the lender is insured by a federally qualified plan or the loan is made in connection with a housing or urban development program.
 - D. Lender intends to sell the loan to Federal National Mortgage Association (FNMA), Government National Mortgage Association (GNMA), Federal Home Loan Mortgage Corporation (FHLMC) or to another financial institution who will in turn sell the mortgage to FHLMC.
2. **EXEMPTIONS.** Loans exempt from RESPA regulations are:
 - A. Loans for a “business purpose” as defined in Regulation Z.
 - B. Loans secured by vacant or unimproved land (unless within two years from the date of settlement of the loan, a structure or manufactured home will be constructed or placed on the real property using the proceeds from the loan).
 - C. Temporary financing (such as a “bridge loan;” “swing loan;” or construction loan where the loan is not used or converted to permanent financing by the Credit Union for a 1-4 family residential home, or used to finance the transfer or title to the first user.
 - D. Loan conversions (so long as a new note is not required, even if the Credit Union charges and additional fee for the conversion).
 - E. Secondary market transactions.

3. **PARTIAL EXEMPTIONS.** The following sections of RESPA only apply to **Reverse Mortgages**. [Federally related mortgage loans that are subject to the disclosure requirements in Regulation Z for the early disclosures, final disclosures and special information booklet are exempt from these sections].

- A. Special information booklet at the time of closing (1024.6) – Section 4;
- B. Good faith estimate (1024.7) – Section 4;
- C. Use of HUD-1 or HUD-1A settlement standards – Section 5;
- D. One-day advance inspection of HUD-1 or HUD-1A settlement statement; delivery; recordkeeping (1024.10) – Section 5; and
- E. Servicing disclosure statement (1024.33(a)) – Section 4.

4. **RESPA REQUIRED DISCLOSURES AT THE TIME OF LOAN APPLICATION.** The Credit Union must provide the following disclosures when members apply for a reverse mortgage or chattel-dwelling loan, not attached to real property:

A. **Special Information Booklet.** This booklet, required only for purchase transactions, contains consumer information regarding various real estate settlement services.

i. The Credit Union is **not** required to provide this booklet in the following cases:

- 1. The loan application is denied within three (3) business days following receipt of the application;
- 2. The Credit Union provides, for home equity lines of credit, the brochure entitled “When Your Home is on the Line: What You Should Know about Your Home Equity Lines of Credit”;
- 3. Refinancing transactions;
- 4. Closed-end loans where the Credit Union has a subordinate lien;
- 5. Reverse mortgage transactions; and
- 6. The purpose of the loan is **not** to purchase a 1-4 family residential property.

B. **Good Faith Estimate (GFE).** The GFE of settlement costs lists the charges the member is likely to pay at settlement. The Credit Union may **not** charge, as a condition of providing a GFE, any fee for an appraisal, inspection or other similar settlement service. The Credit Union may charge a fee limited to the cost of a credit report. Other fees may **not** be charged until the applicant has received the GFE.

i. **Application Information.** In order to issue a meaningful GFE, the Credit Union must request, at a minimum, the following information:

- 1. The borrower’s name, Social Security Number and gross monthly income (for purposes of obtaining a credit report);
- 2. The property address;

3. An estimate of the property value; and
 4. The amount of the mortgage loan sought.
- ii. **Supplemental Information.** The Credit Union may **not** require applicants to provide supplemental information to verify the information provided by the applicant on the application. This information may be requested after the GFE is provided, in order to complete final underwriting.
- iii. **Changed Circumstances.** If “changed circumstances” result in increased costs for any settlement services such that the charges at settlement would exceed the tolerances for those charges, the Credit Union may provide a revised GFE to the borrower. The term “changed circumstances” means:
1. An Act of God, war, disaster or other emergency;
 2. Information particular to the borrower or transaction that was relied on in providing the GFE that changes or is found to be inaccurate after the GFE has been provided. This may include information about the credit quality of the borrower, the amount of the loan, the estimated value of the property, or any other information that was used in providing the GFE;
 3. New information particular to the borrower or transaction that was **not** relied on in providing the GFE (except information contained in a credit report that changes or is found to be inaccurate after the GFE is provided); or
 4. Other circumstances that are particular to the borrower or transaction, including boundary disputes, the need for flood insurance, or environmental problems.
- iv. **Period During Which GFE Terms are Available to Borrowers.** The interest rate stated on the GFE is to be available until a date is set by the Credit Union for the loan (no time is specified under RESPA). After the date is specified on the GFE, the interest rate, some of the Credit Union charges, the per diem interest, and the monthly payment estimate for the loan could change until the interest rate is locked. The estimate for all other charges is to be available for ten (10) business days from when the GFE is provided, but could be available longer, if the Credit Union extends the availability period.
- v. **Tolerances.** If a tolerance is exceeded, the borrower must be reimbursed. The amount of fees the Credit Union may or may not exceed those listed on the GFE are as follows:
1. The sum of charges at settlement for the following services may not be greater than 10% above the sum amounts included on the GFE:
 - a. Credit union required settlement services, where the credit union selects the third-party settlement service provider;
 - b. Lender required services, title services and required title insurance, and owner’s title insurance with then borrower uses a settlement service provider identified by the credit union; and
 - c. Government recording charges.
 2. Absent “changed circumstances,” originators must adhere to the quoted price of its own services.

3. There is zero tolerance for the amount of transfer taxes (if there are changes in the tax rates or in the property's price after the GFE is provided, those changes would either constitute "changed circumstances," or new information that would be the basis for providing a revised GFE.

C. **Mortgage Servicing Statement.** The credit union will provide a servicing disclosure statement that states whether the servicing of the mortgage loan may be assigned, sold, or transferred to any other person at any time. The Credit Union will utilize the model form with Regulation X to comply with the content requirements.

D. **Timing of Disclosures.** If members do not get these documents at the time of application, the Credit Union must deliver them (by mail, unless the member agrees to receiving them by fax or other electronic means) within **3 business days** of receiving the loan application. However, if the Credit Union turns down the application within those 3 business days, the Credit Union is **not** required to provide these documents.

5. **RESPA REQUIRED DISCLOSURES AT SETTLEMENT.** The Credit Union must provide the following disclosures at settlement for a reverse mortgage or chattel-dwelling loan, not attached to real property:

A. **HUD-1 Settlement Statement (HUD-1).** The HUD-1 shows the actual settlement costs of the loan transaction. Separate forms may be prepared for the borrower and the seller. If the borrower and/or seller are not in attendance at the settlement, the HUD-1 should be mailed or delivered as soon as practicable after settlement. RESPA allows the borrower to request to see the HUD-1 one day before actual settlement.

- i. The HUD-1 was developed for RESPA covered transactions. HUD-1As are used for refinancing and subordinate lien transactions.

6. **RESPA REQUIRED DISCLOSURES BEFORE SETTLEMENT.** For any federally related mortgage transactions, the Credit Union must provide the Affiliated Business Arrangement (AfBA) disclosure whenever the Credit Union refers the member to a settlement service provider with whom the Credit Union has an ownership or other beneficial interest. The Credit Union must provide this disclosure to the member at or prior to the time of referral. The disclosure must describe the business arrangement that exists between the two parties and give the member an estimate of the settlement service provider's charges.

A. Except in cases where the Credit Union refers a member to an attorney, a credit reporting agency or real estate appraiser to represent the Credit Union's interest in the transaction, the Credit Union may **not** require the member to use the particular provider being referred.

B. In order to qualify under the RESPA affiliated business exemption, a settlement service provider may offer a combination of bona fide settlement services at a total price (net of the value of the associated discount, rebate or other economic incentive) lower than the sum of the market prices of the individual settlement services and will not be found to have required the use of the settlement service providers, so long as:

- i. The use of any such combination is optional to the purchaser; and
- ii. The lower price for the combination is not made up by higher costs elsewhere in the settlement process.

7. **RESPA REQUIRED DISCLOSURES AT SETTLEMENT.** For all federally related mortgage transactions, the Credit Union must provide the following disclosures at settlement

A. **Initial Escrow Statement.** This statement itemizes the estimated taxes, insurance premiums and other charges anticipated to be paid from the escrow account during the **first 12 months** of the loan. It lists the escrow payment amount and any required cushion. Although the statement is usually provided at settlement, the Credit Union has **45 days** from settlement to deliver it. This statement may be incorporated in the HUD-1 or HUD-1A (in the basic text or as an attachment).

i. The initial notice must contain the following information:

1. The amount of the monthly mortgage payments.
2. The portion of the monthly payment going into the escrow account.
3. Any discretionary payment made part of the mortgage payment.
4. An itemization of the types and amounts of charges that the Credit Union reasonably anticipates will be paid out of the escrow account over the following 12 months.
5. The anticipated disbursement dates for each of the charges.
6. The permitted cushion chosen by the servicer.
7. A trial running balance of the account.

8. **RESPA DISCLOSURES AFTER SETTLEMENT.** For all federally related mortgage transactions, the Credit Union must provide the following disclosures after settlement:

A. **Annual Escrow Statement.** When the Credit Union is the servicer of the loan, an Annual Escrow Statement, which summarizes all escrow account deposits and payments during the Credit Union's 12-month computation year, and a projection of activity in the account for the next year.

i. **Content.** Specifically, the following must be included in the annual statement:

1. The amount of the borrower's current monthly mortgage payment and the portion of the monthly payment going into the escrow account;
2. The amount of the past year's monthly mortgage payment and the portion of the monthly payment that went into the escrow account;
3. The total amount paid into the escrow account during the past computation year;
4. The total amount paid out of the escrow account during the same period for taxes, insurance premiums and other charges (as separately identified);
5. The balance in the escrow account at the end of the period;
6. An explanation of how any surplus is being handled by the servicer;
7. An explanation of how any shortage or deficiency is to be paid by the borrower; and

8. If applicable, the reason(s) why the estimated low monthly balance was not reached, as indicated by noting differences between the most recent account history and the last year's projection.

ii. **Timing.** The annual statement must be provided within **30 days** of the completion of the escrow account computation year, which may be delivered with other statements or materials, including the Substitute 1098. There is **no** requirement to provide this statement under the following circumstances:

- a. The borrower is more than 30 days overdue;
- b. The Credit Union has brought an action for foreclosure under the underlying mortgage loan;
or
- c. The borrower is in bankruptcy proceedings.
- d. If the borrower under one or more of the above situations becomes current, the Credit Union must provide a history of the account since the last statement, within 90 days of when the account became current.

B. Servicing Transfer Statement. This statement is required if the Credit Union, as loan servicer, transfers or assigns the servicing rights to a member's loan to another loan servicer.

i. **Timing.** Generally, the Credit Union must notify the member **15 days before** the effective date of the loan transfer. So long as the member makes a timely payment to the Credit Union (the old servicer) within 60 days of the loan transfer, the member cannot be penalized.

ii. **Content.** The Servicing Transfer Statement must include the following information:

1. The effective date of the transfer;
2. The name and address of the new servicer;
3. Toll-free telephone numbers (of the old and new servicer);
4. The date the new servicer will begin accepting payments;
5. Information concerning any effect the transfer will have on the terms or the continued availability of mortgage life, disability or other insurance, and any action the borrower must take to maintain coverage;
6. A statement that the transfer of servicing does not affect any other term or condition of the mortgage documents, other than terms directly related to the servicing of the loan; and
7. A statement of the borrower's rights in connection with complaint resolution.

iii. The following transfers are **not** considered an assignment, sale or transfer requiring a Servicing Transfer Statement:

1. Transfers between affiliates;

2. Transfers resulting from mergers or acquisitions of servicers or sub-servicers; and
3. Transfers between master servicers, where the sub-servicer remains the same.

9. CONSUMER PROTECTIONS AND PROHIBITED PRACTICES.

A. Prohibition Against Kickbacks, Fee-Splitting and Unearned Fees. Section 8 of RESPA prohibits anyone from giving or accepting a fee, kickback or “thing of value” in exchange for referrals of settlement service business involving a RESPA loan. RESPA also prohibits fee splitting and receiving unearned fees for services not actually performed.

- i. **“Thing of Value.”** This term is defined broadly and includes, without limitation, monies, things, discounts, salaries, commissions, fees, duplicate payment of a charge, stock, dividends, distributions of partnership profits, franchise royalties, credits representing monies that may be paid at a future date, the opportunity to participate in a money-making program, retained or increased earnings, increased equity in a parent or subsidiary entity, special bank deposits or accounts, special or unusual banking terms, services of all types at special or free rates, sales or rentals at special prices or rates, lease or rental payments based in whole or in part on the amount of business referred, trips and payment or another person’s expenses, or reduction in credit against an existing obligation.
- ii. **Permitted Payments.** The following types of fees, compensation and other payments are *permitted* under RESPA Section 8:
 1. A payment to an attorney for services actually rendered;
 2. A payment by a title company to its duly appointed agent for services actually performed in the issuance of a policy of title insurance;
 3. A payment by the Credit Union to its duly appointed agent or contractor for services actually performed in the origination, processing or funding of a loan;
 4. A payment to any person of a bona fide salary or compensation or other payment for goods or facilities actually furnished or for services actually performed;
 5. A payment pursuant to cooperative brokerage and referral arrangements or agreements between real estate agents and real estate brokers;
 6. Normal promotional and educational activities that are not conditioned on the referral of business and that do not involve the defraying of expenses that would otherwise be incurred by persons in a position to offer settlement services or business incident thereto;
 7. An employer’s payment to its own employees for generating business for that employer (which may include bonuses tied to performance, so long as the amount is not calculated as a multiple of the number or value of referrals of settlement service business).

B. Title Insurance. Section 9 of RESPA prohibits a seller from requiring the home buyer to use a particular title insurance company, either directly or indirectly, as a condition of sale.

C. Escrow Account Limits. Section 10 of RESPA sets limits on the amounts that the Credit Union (as the

servicer) may require a member to put into an escrow account for purposes of paying taxes, hazard insurance and other charges related to the property. RESPA does not require escrow accounts; however, certain government loan programs or lenders may require escrow accounts as a condition of the loan.

- i. **Escrow Fees.** Each month, the Credit Union may require a member to pay into the escrow account no more than 1/12 of the total of all disbursements payable during the year, plus an amount necessary to pay for any shortage in the account. Additionally, the Credit Union may require a cushion, not to exceed an amount equal to 1/6 of the total disbursements for the year.
- ii. **Escrow Surpluses.** The Credit Union must perform an escrow account analysis once during the year and notify members whether a surplus, shortage or deficiency exists. Any excess of \$50 or more must be returned to the member. If the escrow surplus is less than \$50, the Credit Union may refund the amount to the borrower or credit the amount against the next year's escrow payments.
- iii. **Escrow Shortages.** If a shortage of less than one month's escrow payment exists, the Credit Union may allow the shortage to exist and do nothing to change it; require the borrower to repay the shortage amount within 30 days; or require the borrower to repay the shortage in equal monthly payments over at least a 12-month period. If the shortage is greater than or equal to one month's escrow payment, the Credit Union may allow the shortage to exist and do nothing to change it, or require the borrower to repay the shortage in equal monthly payments over at least a 12-month period.
 1. The Credit Union must notify the borrower at least once during the escrow account computation year if there is a shortage. The notice may be a part of the Annual Escrow Account Statement or may be a separate document.
- iv. **Escrow Deficiencies.** If a deficiency of less than one month's escrow payment exists, the Credit Union may allow the deficiency to exist and do nothing to change it; require the borrower to repay the deficiency within 30 days; or require the borrower to repay the deficiency in 2 or more equal monthly payments. If the deficiency is greater than or equal to one month's escrow payments, the Credit Union may allow the deficiency to exist and do nothing to change it, or require the borrower to repay the deficiency in 2 or more equal monthly payments.
 1. The deficiency provisions apply if the borrower is current at the time of the escrow account analysis. A borrower is current if the Credit Union receives the borrower's payments within 30 days of the payment due date.
 2. If the Credit Union does not receive the borrower's payment within 30 days of the payment due date, the Credit Union may recover the deficiency pursuant to the terms of the mortgage loan documents.
 3. The Credit Union must notify the borrower at least once during the escrow account computation year if there is a deficiency. The notice may be part of the Annual Escrow Account Statement or may be a separate document.

Policy 9220: Home Ownership and Equity Protection Act

Revised Date: 12/20/2017

Model Policy Revised Date: 12/20/2017

Introduction:

The Home Ownership and Equity Protection Act of 1994 (HOEPA) was enacted as an amendment to the Truth in Lending Act (TILA) in response to evidence of abusive lending practices in the home-equity lending market and was amended by the Consumer Financial Protection Bureau (CFPB) with the Home Ownership and Equity Protection Act Rule. HOEPA imposes additional disclosure requirements and substantive limitations on loans bearing rates or fees above a certain percentage or amount and prohibits specific acts and practices. HOEPA also amended TILA to require additional disclosures for reverse mortgages. The requirements and limitations of HOEPA are in addition to and not in place of those contained in TILA or Regulation Z.

Highlights:

1. HIGH-COST MORTGAGE COVERAGE.

A. **COVERAGE.** HOEPA applies to a consumer credit transactions that is secured by a member's principal dwelling that meets any of the HOEPA coverage tests under the rule, including:

- i. Purchase-money mortgages;
- ii. Refinances;
- iii. Closed-end home equity loans; and
- iv. Open-end credit plans (i.e., HELOCs).
- v. If the transaction is a reverse mortgage, construction loan, mortgage loan originated and directly financed by a Housing Financing Agency, or a mortgage loan originated under the USDA Rural Development Direct Loan Program it is exempt from the HOEPA Rule and the Credit Union will use the underwriting policies, procedures and standards that apply to that type of transaction.

2. COVERAGE TESTS.

A. **APR Coverage Test.** [CUName] (Credit Union) will initially determine if the member's mortgage transaction is a high-cost mortgage based on the annual percentage rate (APR). A transaction is a high-cost mortgage if its APR (measured as of the date the interest rate for the transaction is set) exceeds the Average Prime Offer Rate (APOR) for a comparable transaction on that date by more than:

- i. 6.5 percentage points for first-lien transactions;
- ii. 8.5 percentage points for first-lien transactions that are for less than \$50,000 and secured by personal property; or
- iii. 8.5 percentage points for junior-lien transactions.

B. **Points and Fees Coverage Test.** The Credit Union will also determine if the member's mortgage

transaction is a high-cost mortgage based on the points and fees coverage test. A transaction is a high-cost mortgage if its points and fees exceed the following thresholds:

- i. 5% of the total loan amount for a loan amount greater than or equal to \$21,032; or
- ii. 8% of the total loan amount or \$1,052 (whichever is less) for a loan amount less than \$21,032.

3. **EXEMPTIONS.** If the transaction is a reverse mortgage, construction loan, mortgage loan originated and directly financed by a Housing Financing Agency, or a mortgage loan originated under the USDA Rural Development Direct Loan Program.
4. **REPAYMENT ABILITY.** The Credit Union will determine a member's ability to repay a high-cost mortgage prior to consummation or account opening.

A. **Closed-end Credit Transactions.** When the Credit Union originates closed-end high-cost mortgages, it will satisfy the ability to repay requirements as other closed-end mortgages under Truth in Lending and the CFPB's Ability-to-Repay and Qualified Mortgage Rule and guidance in the Ability to Repay Policy.

B. **Open-end High-cost Mortgages.** Repayment ability will still be determined using HOEPA's ability-to-repay rule and the Credit Union will consider:

- i. Current and reasonably expected income or assets (verified with W-2s, tax returns, payroll receipts, financial institution records, or other third-party documents that provide reasonably reliable evidence); and
- ii. Current obligations, including any mortgage-related obligations such as property taxes, required insurance premiums, community association fees, ground rent, and leasehold payments.

5. **FORM OF DISCLOSURES.** The Credit Union will give the member who is primarily liable, or to each member who has the right to rescind, a high-cost mortgage disclosure in addition to the disclosures otherwise required by TILA. A lender must provide disclosures with the following information in a conspicuous type size:

A. **Notice.** "You are not required to complete this Agreement merely because you have received these disclosures or have signed a loan application. If you obtain this loan, the lender will have a mortgage on your home. You could lose your home, along with any money you have put into it, if you do not meet your obligations under the loan."

B. **The APR.** For fixed rate loans, the APR and regular periodic payment. For variable rate loans, the APR, the regular periodic payment, a statement that the interest rate and periodic payment may increase, and the amount of the maximum periodic payment, based on the maximum interest rate allowed.

C. **The Regular Periodic Payment and Any Balloon Payment.**

D. **The Amount Borrowed.** For a mortgage refinancing, the total amount the consumer will borrow. The disclosure of the amount borrowed will be treated as accurate if it is not more than \$100 above or below the amount required to be disclosed.

E. **Default.** Information that explains the consequences of default.

6. TIMING OF DISCLOSURES

- A. **Closing.** The Credit Union will provide the high-cost mortgage loan disclosures not less than 3 business days prior to the loan closing.
- B. **Change in Terms.** A lender may not change the loan terms if the change makes the disclosures inaccurate, unless new disclosures are provided. If a consumer finances the purchase of credit insurance or other optional products and as a result the periodic payment differs from what was previously disclosed, re-disclosure is required.
- C. **Telephone.** A lender may provide new disclosures by telephone, if the change is initiated by the consumer and the lender provides new written disclosures at loan closing, and the lender and consumer certify in writing that the new disclosures were provided by telephone, not later than three (3) business days prior to the loan closing date.
- D. **Personal Financial Emergency.** A consumer may modify or waive the 3-day waiting period to meet a bona fide personal financial emergency. The consumer must provide a dated written statement describing the emergency, specifically modify or waive the waiting period, and include the signature of all the consumers entitled to the waiting period.

7. **TRANSACTION LIMITATIONS.** A high-cost mortgage loan agreement cannot include the following terms:

- A. **Risky Loan Features.** The Home Ownership and Equity Protection Act Rule restrict or ban certain risky loan features for high-cost mortgages. The Credit Union will follow the guidance of the HOEPA Rule for risky loan features as defined under the requirements of the rule and the Home Equity Protection Act.
- B. **Balloon Payments.** Balloon payments are generally banned for high-cost mortgages and allowed in only three circumstances:
 - i. The payment schedule is adjusted to accommodate the member's seasonal or irregular income;
 - ii. The loan is a short-term bridge loan (12 months or less) to finance a new home purchase for a member selling an existing home; or
 - iii. The Credit Union meets criteria for serving a rural or underserved area, and the loan meets specific criteria set forth in the Bureau's Ability-to-Repay/Qualified Mortgage Rule.
- C. **Prepayment Penalties.** The Credit Union will not charge prepayment penalties for mortgage loans that are covered transactions for HOEPA Rules.
- D. **Due-on-Demand Features.** The Credit Union will only require due-on-demand features for covered transactions under the HOEPA Rule if:
 - i. The member commits fraud or makes a material misrepresentation in connection with the loan or credit agreement;
 - ii. The member defaults on payment; and/or
 - iii. The member's action or inaction adversely affects the Credit Union's security interest for the loan.
- E. **Recommending Default.** The Credit Union will not recommend that a member default on a current mortgage obligation to be refinanced by a high-cost mortgage.

F. **Modification Fee.** The Credit Union will not charge a fee to modify, defer, renew, extend, or amend a high-cost mortgage.

G. **Late Fees.** The Credit Union will restrict late fees on high-cost mortgage loans to no more than 4% of the past due payment, and will not pyramid late fees.

H. **Payoff Statement Fees.** The Credit Union will not charge a payoff statement fee to members with high-cost mortgages.

I. **Points and Fees.** The Credit Union will not finance points and fees into high-cost mortgage loans.

J. **Negative Amortization.** The Credit Union will not offer negatively amortizing loans that are high-cost mortgages.

K. **Combined Payments.** The Credit Union will not offer a payment schedule that consolidates more than two periodic payments and pays them in advance from loan proceeds.

L. **Default Rates.** The Credit Union will not increase the interest rate on a high-cost mortgage loan in the event of default.

M. **Acceleration.** In the case of acceleration as a result of a member's default in payment, the Credit Union will not provide a refund of interest calculated in a manner less favorable to the member than the actuarial method.

8. **ASSIGNEE LIABILITY.** A purchaser or assignee of a high-cost mortgage loan is subject to all claims and defenses that the consumer could assert against the original lender, unless the purchaser or assignee demonstrates that a reasonable person could not determine based on the documentation that it was a high-cost mortgage covered by HOEPA.

9. **PROHIBITED ACTS AND PRACTICES.** A lender making a high-cost mortgage loan cannot:

A. **Home Improvement Contracts.** Pay a home improvement contractor from the proceeds of the loan other than by an instrument made payable to the consumer, jointly to the consumer and contractor, or at the consumer's election, through a third-party escrow agent.

B. **Notice to Assignee.** Sell or assign a high-cost mortgage loan without furnishing the following prominent notice to the purchaser or assignee: "Notice: This is a mortgage subject to special rules under the federal Truth in Lending Act. Purchasers or assignees of this mortgage could be liable for all claims and defenses with respect to the mortgage that the borrower could assert against the lender."

C. **Refinancing.** The Credit Union will not refinance a high-cost mortgage into another high-cost mortgage within one year after having extended credit, unless the refinancing is in the member's best interest.

10. **HOMEOWNERSHIP COUNSELING.**

A. **Homeownership Counseling List.** Applicants for high-cost mortgage loans will receive a written list of homeownership counseling organizations within three business days of application.

B. **Homeownership Counseling Certification.** Prior to making a high-cost mortgage loan the Credit Union will receive written certification that the member has received homeownership counseling on the

advisability of the mortgage from a HUD-approved counselor or a state housing finance authority, if permitted by HUD.

- i. The counseling will not be provided by a counselor affiliated with or employed by the Credit Union.

11. **PROHIBITED ACTS OR PRACTICES IN CONNECTION WITH “HIGHER-PRICED MORTGAGE LOANS.”** A “higher-priced mortgage loan” is a consumer credit transaction secured by the consumer’s dwelling with an APR that exceeds the average prime offer rate for a comparable transaction as of the date the interest rate is set by 1.5 or more percentage points for loans secured by a first lien dwelling, or by 3.5 or more percentage points for loans secured by a subordinate lien on a dwelling. The Financial Institutions Examination Council (FFIEC) publishes average prime offer rates in a table at least weekly as well as the methodology the FFIEC uses to derive these rates. A “higher-priced mortgage loan” does **not** include bridge loans, reverse mortgages, or home equity lines of credit.

A. **“Jumbo” Loans.** Loans that are **not** eligible for purchase by Freddie Mac because their original principal obligation is too large are widely referred to in the mortgage market as “jumbo” mortgages. Adjustments to this maximum amount are made by the Federal Housing Finance Agency (FHFA). The threshold for coverage of the escrow requirement in Section (11)(D) for jumbo loans is 2.5 percentage points in excess of the average prime rate offer for a comparable transaction, as of the date the transaction’s rate is set.

B. **Repayment Ability.** A lender may not extend credit based on the value of the consumer’s collateral without regard to the consumer’s repayment ability (as outlined above).

C. **Prepayment Penalties.** A loan may not include a prepayment penalty, unless it is otherwise permitted by law and under the terms of the loan:

- i. The penalty will not apply after the 2-year period following consummation;
- ii. The penalty will not apply if the source of the prepayment funds is a refinancing by the lender or an affiliate of the lender; and
- iii. The amount of the periodic payment of principal or interest, or both, may not change during the 4-year period following consummation.

D. **Escrows.** A lender may not extend a loan secured by a first lien on a principal dwelling unless an escrow account is established before consummation for payment of property taxes and premiums for mortgage-related insurance and flood insurance required by the lender.

- i. Escrow accounts need **not** be established for loans secured by shares in a cooperative; or for insurance related to loans secured by condominium units, where the condominium association has an obligation to the condominium unit owners to maintain a master policy insuring condominium units.
- ii. Lenders or servicers may permit a consumer to cancel the escrow account only in response to a consumer’s dated written request to cancel the escrow account that is received no earlier than five (5) years after consummation.

E. **Evasion.** In connection with credit secured by a consumer’s principal dwelling that does not meet the Regulation Z definition of open-end credit, a lender may **not** structure a home-secured loan as an open-end plan to evade the requirements of this section.

12. REVERSE MORTGAGE TRANSACTIONS

- A. **Definition.** A "reverse mortgage transaction" means a nonrecourse transaction in which a mortgage or deed of trust is created against the consumer's principal dwelling, securing one or more advances and with respect to which the payment of any principal, interest, and shared appreciation or equity is due only after the consumer transfers the dwelling, the consumer ceases to occupy the dwelling as a principal dwelling, or the consumer's death.
- B. **Disclosures.** In addition to any other disclosures required by law, a lender must, not less than three (3) business days prior to closing or the first transaction under an open-end credit plan, provide the consumer with the following disclosures in conspicuous type:
- i. A good faith estimate of the projected total cost of the reverse mortgage expressed as a table of total annual loan cost rates.
 - ii. A statement that the consumer is not obligated to complete the reverse mortgage transaction merely because the consumer has received the disclosure or has signed a reverse mortgage application.
 - iii. An itemization of loan terms, charges, the age of the youngest borrower and the appraised property value
 - iv. A statement of the annual interest rates for not less than three projected total cost appreciation rates and not less than three credit transaction periods; and
 - v. An explanation of the table of total annual loan cost rates.
- C. **Projected Total Cost.** The projected total cost of credit must reflect the following factors, as applicable:
- i. Any shared appreciation or equity that the lender will be entitled to receive;
 - ii. All costs and charges to the consumer;
 - iii. All payments to and for the benefit of the consumer;
 - iv. Any limitation on the liability of the consumer;
 - v. Each of the following assumed annual appreciation rates for the dwelling: 0%, 4%, and 8%; and
 - vi. Each of the following assumed loan periods: two years, the actuarial life expectancy of the consumer, the actuarial life expectancy multiplied by a factor of 1.4 and rounded to the nearest full year, and at the lender's option, the actuarial life expectancy multiplied by a factor of 0.5 and rounded to the nearest full year.

Policy 9300: Bank Bribery Act

Revised Date: 06/27/2015

Model Policy Revised Date: 06/27/2015

General Policy Statement:

Whoever corruptly gives, offers, or promises anything of value to any person, with intent to influence or reward an **individual** of a financial institution in connection with any business or transaction of such institution or as an **individual** 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 of such institution, shall be guilty of an offense.

Guidelines:

1. PROHIBITION.

A. [CUnion] (Credit Union) prohibits any Credit Union individual from:

- i. Soliciting for themselves or a third party (other than the Credit Union itself) anything of value in return for any business, service, or confidential information of the Credit Union; and
- ii. Accepting anything of value (other than bona fide salary or wages; fees; and other compensation or expenses paid or reimbursed in the usual course of business) from anyone in connection with the business of the Credit Union either before or after a transaction is discussed or consummated.

2. **COVERED CREDIT UNION INDIVIDUALS.** The following Credit Union individuals are required to adhere to this policy and the Bank Bribery Act:

- A. Employees
- B. Officers
- C. Directors
- D. Volunteers
- E. Agents
- F. Attorneys

3. EXCEPTIONS.

A. Under certain circumstances accepting something of value in the following situations would not be considered a violation of the Bank Bribery Act:

- i. The acceptance is based on a family or personal relationship that exists independent of any business of the Credit Union;
- ii. The benefit is available to the general public under the same conditions it is available to the Credit

Union official; or

iii. The benefit would be paid by the Credit Union as a reasonable business expense if it was not paid by the other person.

B. The item of value is of an acceptable amount, not to exceed \$[9300-1], and can be received or given in instances of business-related entertainment or gifts.

4. DISCLOSURE

A. Any Credit Union official that is offered or receives something of value beyond what is authorized must disclose this fact to a designated individual or management.

i. The disclosures must be documented in writing and reviewed to determine that the Bank Bribery Act exception was reasonable and does not call into question the Credit Union's integrity.

5. PENALTIES FOR VIOLATION OF BANK BRIBERY ACT.

A. If the value of the bribe (thing) offered exceeds \$1,000, then:

i. Employee could be charged with a felony.

ii. Imprisonment could be up to 30 years.

iii. A fine of \$1,000,000 or up to three times the value of the bribe or gratuity.

B. If the value of the bribe (thing) does not exceed \$1,000, then,

i. Employee could be charged with a misdemeanor.

ii. Imprisonment could be up to one year.

iii. Employee may be subject to a fine.

Policy 9400: Equal Employment Opportunity Act

Revised Date: 07/01/2004

Model Policy Revised Date: 07/01/2004

Introduction:

[CUNAME] (Credit Union) must provide equal opportunity employment to all employees and applicants for employment. In particular, no person shall be discriminated against because of race, religion, color, sex, age, veteran status, citizenship status, national origin, or disability. In selecting the most qualified individuals for hire, placement, and promotion, only job-related factors will be taken into consideration.

Highlights:

1. **SCOPE.** This policy applies to all terms, conditions, and privileges of employment including, but not limited to: hiring, training, placement and employee development, promotion, transfer, compensation, benefits, educational assistance, layoff and recall, social and recreation programs, employee facilities, termination, and retirement.

2. OBJECTIVES.

- A. The Credit Union will endeavor to achieve utilization of minorities, disabled persons and veterans, Vietnam-era veterans and women at all levels and in all segments of the work force, realizing that business necessity dictates that qualified persons must be placed in all positions in order for the Credit Union to be successful.
- B. The Credit Union will endeavor to implement all provisions of the Americans With Disabilities Act and to ensure a match between job criteria and an applicant's actual ability to do the job. Applicants and employees will be required to perform the "essential" functions of the job in question. Persons with disabilities will not be disqualified because of inability to perform nonessential or marginal job functions. Selection criteria will be job-related and consistent with business necessity and reasonable accommodations will be provided to assist persons with disabilities, unless such accommodation would impose undue hardship on the conduct of Credit Union business.

3. PROCEDURES.

- A. Any communication from an applicant for employment, an employee, a government agency, or an attorney concerning any equal employment opportunity matter is to be referred to management.
- B. While overall authority for implementing this policy is assigned to management, an effective equal employment opportunity program cannot be achieved without the support of supervisory personnel and employees at all levels. Employees who feel they are the victim of discrimination have a responsibility to report this fact to their supervisor or management.
- C. The President will appoint or designate an EEO officer or supervisor to oversee and ensure effective administration of equal employment opportunities throughout the Credit Union.

Policy 9420: Monetary Control Act - Regulation D

Revised Date: 12/20/2017

Model Policy Revised Date: 12/20/2017

Introduction:

The Monetary Control Act was adopted in 1910 in response to growing availability of transaction accounts at non-Federal Reserve member banks. All institutions offering transaction accounts must comply with Regulation D.

The Federal Reserve Board's (FRB) Regulation D became effective in 1980 and contains four primary provisions that affect depository institutions, including natural person credit unions, with more than \$16 million in net transaction accounts. First, credit unions may be required to maintain reserves. Second, credit unions may have to place limits on certain deposit accounts in order to avoid having to reserve against those accounts. Third, credit unions are required to impose certain penalties for early withdrawal from time deposit accounts in order to avoid having to reserve against the time deposit. Fourth, credit unions may be required to report account information to the FRB.

Highlights:

1. **TYPES OF DEPOSITS COVERED.** Regulation D controls how the Credit Union defines certain terms and conditions of deposit accounts, because the characteristics of the accounts determine whether the Credit Union must reserve against the accounts. The following accounts are subject to Regulation D reserve requirements:
 - A. **Transaction Accounts.** For purposes of Regulation D, "transaction accounts" are defined as those accounts that allow unlimited third party transfers and do not impose early withdrawal penalties. The following types of accounts are transaction accounts:
 - i. Demand deposits.
 - ii. Share draft/checking accounts.
 - iii. Automatic Transfer Service (ATS) accounts.
 - iv. Telephone electronic order or instruction accounts.
 - v. Negotiable Order of Withdrawal (NOW) accounts.
 - B. **Time Deposits.** "Time deposits" are defined as accounts where the member does not have the right to withdraw funds during the first six days from the date of the last deposit, unless the deposit is subject to an early withdrawal penalty. Any time deposit that authorizes the depositor to exceed the transfer/withdrawal limits will be classified as a transaction account subject to reserve requirements. Also, every share certificate for a natural person member must contain a specific statement that it is "not transferable" in order to be classified as a personal time deposit, which is not subject to reserve requirements. While Regulation D sets a minimum penalty for early withdrawal, the Credit Union may establish a higher penalty. However, there are some exceptions to the early withdrawal penalty, including:
 - i. Upon the death of the time deposit (share certificate) owner;
 - ii. When the owner is ruled by a court to be legally incompetent;

- iii. When the time deposit is maintained in an IRA, Keogh or 401(k) plan, and all of the funds are paid within 7 days of opening the account;
- iv. When the time deposit is maintained in an IRA, Keogh or 401(k) plan, and the member reaches 59 ½ or is disabled;
- v. When the owner of the time deposit is in danger of losing its share insurance due to the merger of two federally-insured credit unions; and
- vi. When a time deposit is withdrawn within 10 days after a specified maturity date, even if the certificate contract provides for automatic renewal at maturity.

C. Savings Accounts.

- i. For purposes of Regulation D, “savings accounts” are defined as those accounts where the member may, at any time, be required by the Credit Union to give written notice of an intention to withdraw funds, not less than seven days before the withdrawal is made. Regulation D imposes a six transfer/withdrawal limit on savings accounts, which includes the following types of transactions to another account at the Credit Union or to a third party during a calendar month or statement cycle:
 - a. Preauthorized or automatic withdrawals or transfers;
 - b. Telephone transfers or transfers initiated by a personal computer; or
 - c. Check, draft, debit card, or similar order made by the depositor and payable to third parties.
- ii. Transactions **not** included in the six transfer/withdrawal limit are as follows:
 - a. Credits to an account;
 - b. Transfers from a credit union account to the same credit union for purposes of repaying loans and associated expenses; and
 - c. Transfers or withdrawals the member makes in person, through an ATM, by mail, by messenger, or by telephone (which results in the mailing of a share draft/check to the member).
- iii. In order to ensure that no more than the permitted number of transfers/withdrawals are made from a share/savings account, the Credit Union must either prevent transfers/withdrawals that would be in excess of the transfer limitations, or adopt procedures to monitor those transfers and contact members who exceed the established limits on more than one occasion. For members who continue to violate the limits after they have been contacted by the Credit Union, the Credit Union must either close the account and place the funds in another account that the member is eligible to maintain, or take away the transfer and draft capabilities of the account.

D. Eurocurrency Liabilities. This category of deposits is subject to reserves, but only applies to those depository institutions that collect funds from foreign sources or that have foreign branches. The current reserving level is set at 0%.

2. RESERVE REQUIREMENTS.

- A. Financial institutions with up to \$16 million in net transactions (the reserve requirement exemption amount) are exempt from reserve requirements.
- B. Financial institutions with between \$16 million and \$122.3 million (the low reserve tranche) have a 3% reserve requirement.
- C. Financial institutions with over \$122.3 million must reserve 10% of the amount over \$122.3 million plus \$3,189,000.

3. REPORTING.

- A. **Exempt** – Total deposits below \$16 million.
- B. **Weekly** – Net transaction accounts over \$16 million or sum of total transaction accounts, saving deposits, and small time deposits greater than or equal to \$457.5 million, or net transaction accounts of \$16 million or less, but with total deposits of at least \$2.086 billion, using Form FR 2900 to local Federal Reserve.
- C. **Quarterly** – Net transaction accounts over \$16 million with total deposits below \$457.5 million, using Form FR 2900.
- D. **Annual** - Net transaction accounts at or below the exemption amount of \$16 million, with total deposits of at least \$16 million but less than \$2.086 billion, filing the Annual Report of the Total Deposits and Reserve Liabilities.

4. RESERVE MAINTENANCE/COMPUTATION PERIOD.

- A. Credit Union files a consolidated report for all branches.
- B. Overseas deposits are included on a case-by-case basis.
- C. Each report **must** be signed by a Credit Union official who certifies the accuracy.
- D. Reporting period is Tuesday through Monday. The average is computed by the Federal Reserve to required reserves.
- E. For transaction accounts, reserves must be maintained at the required level on a weekly basis.
- F. Quarterly Reports are logged. Quarterly reports maintain reserve balances beginning the fourth Thursday following the end of the computation period. The maintenance period ends on the fourth Wednesday of the close of the next computation period.

Policy 9500: Americans with Disabilities Act

Revised Date: 08/01/2011

Model Policy Revised Date: 08/01/2011

Introduction:

To ensure [CUNAME] (Credit Union) actively supports and adheres to the principles put forth by Title III of the Americans with Disabilities Act (ADA), which deals specifically with providing services to the public, no individual shall be discriminated against on the basis of disability in the full and equal employment of the goods, services, facilities, privileges, advantages, and accommodations provided by the Credit Union.

Highlights:

1. SUBCHAPTER I [TITLE I] – EMPLOYMENT

A. **Coverage.** The Credit Union will be covered under the ADA whenever more than 15 or more persons are employed for each working day in each of 20 or more calendar weeks in the same calendar year as, or in the calendar year prior to when, an alleged discrimination occurred.

i. The Credit Union is covered regardless of the work schedules of its employees. For example, workers that only work a couple of days a week will be conducted as employees for the entire week because they continue to have an employment relationship for each working day after hire and until employment terminates.

ii. The 20 weeks need not be consecutive.

iii. The Credit Union is not required to have the statutory number of employees before or at the time of an alleged discrimination, so long as the requirement is met by the end of the calendar year in which the alleged discrimination occurred.

B. Definitions.

i. **Auxiliary Aids and Services.** These include the following:

a. Qualified interpreters or other effective methods of making aurally delivered materials available to individuals with hearing impairments;

b. Qualified readers, taped texts or other effective methods of making visually delivered materials available to individuals with visual impairments;

c. Acquisition or modification of equipment or devices; and

d. Other similar services and actions.

ii. **Disability.** A physical or mental impairment that substantially limits one or more of the major life activities of an individual; a record of such impairment; or being regarded as having such an impairment.

1. Major life activities include, but are not limited to, caring for oneself, performing manual

tasks, seeing, hearing, eating, sleeping, walking, standing, lifting, bending, speaking, breathing, learning, reading, concentrating, thinking, communicating, and working.

2. A major life activity also includes the operation of a major bodily function, including but not limited to, functions of the immune system, normal cell growth, digestive, bowel, bladder, neurological, brain, respiratory, circulatory, endocrine, and reproductive functions.
3. An impairment that substantially limits one major life activity need not limit other major life activities in order to be considered a disability.
4. Impairments with an actual or expected duration of 6 months or less are NOT considered an impairment under the ADA.
5. An impairment that is episodic or in remission is a disability if it would substantially limit a major life activity if active.
6. The determination of whether an impairment substantially limits a major life activity must be made without regard to the ameliorative effects of mitigating measures, such as: medication, medical supplies, equipment or appliances, low-vision devices (not including eyeglasses or contact lenses), prosthetic limbs and devices, hearing aids and cochlear implant or other implantable hearing devices, mobility devices, or oxygen therapy equipment and supplies; the use of assistive technology; reasonable accommodations or auxiliary aids or services; or learned behavioral or adaptive neurological modifications.
7. An individual meets the requirement of being regarded as having an impairment if (s)he establishes that (s)he has been subjected to an action prohibited under the ADA because of an actual or perceived physical or mental impairment regardless of whether the impairment limits or is perceived to limit a major life activity.

iii. **Qualified Individual with a Disability.** An individual with a disability who, with or without reasonable accommodation, can perform the essential tasks of the employment position that such individual holds or desires. Consideration will be given to the Credit Union's judgment as to what job tasks are essential, and if the Credit Union has prepared a written description before advertising or interviewing applicants for the job, such description will be considered evidence of the essential job tasks.

iv. **Full and Equal Enjoyment.** Equal opportunity to receive the same goods and services in an integrated setting, unless doing so would pose a health or safety threat to others.

v. **Reasonable Accommodation.** An accommodation that can be adapted without undue hardship. This may include the following:

- a. Making existing facilities used by employees readily accessible to and usable by individuals with disabilities; and
- b. Job restructuring; part-time or modified work schedules; reassignment to a vacant position; acquisition or modification of equipment or devices; appropriate adjustment or modifications of examinations, training materials or policies; the provision of qualified readers or interpreters; and other similar accommodations for individuals with disabilities.

vi. **Undue Hardship.** Generally, an action requiring significant difficulty or expense, when considered

in light of the following factors:

- a. The nature and cost of the accommodation needed under this chapter;
- b. The overall financial resources of the facility or facilities involved in the provision of the reasonable accommodation; the number of persons employed at such facility; the effect of expenses and resources; or the impact otherwise of such accommodation upon the operation of the facility;
- c. The overall financial resources of the Credit Union; the overall size of the Credit Union with respect to the number of its employees; the number, type and location of its facilities; and
- d. The type of occupation(s) of the Credit Union, including the composition, structure and functions of the workforce; the geographic separateness, administrative or fiscal relationship of the facility or facilities in question to the Credit Union.

C. Disabilities.

- i. **The ADA considers the following as examples of disabilities:** visual impairment, hearing impairment, cerebral palsy, muscular dystrophy, multiple sclerosis, loss of limbs, cancer, heart disease, epilepsy, respiratory disease, emotional illness, mental illness, learning disabilities, HIV disease, and tuberculosis.
- ii. **The ADA excludes the following as disabilities:** homosexuality, bisexuality, transvestism, pedophilia, exhibitionism, voyeurism, gender identity disorders not resulting from physical impairments or other sexual behavior disorders, compulsive gambling, kleptomania, pyromania, and psychoactive substance use disorders resulting from current illegal drug use.

D. Discrimination. The Credit Union will not discriminate against a qualified individual on the basis of a disability with regard to the following:

- i. Job application procedures;
- ii. Hiring, advancement, transfer or discharge of employees;
- iii. Compensation, assignment or classification of employees;
- iv. Job advertisements;
- v. Recruitment;
- vi. Testing;
- vii. Use of Credit Union facilities;
- viii. Retirement plans;
- ix. Disability leave;
- x. Job training; and

xi. Other terms, conditions and privileges of employment.

E. **Discrimination Defined.** The term “discrimination” includes the following:

- i. Limiting, segregating or classifying a job applicant or employee in a way that adversely affects the opportunities or status of such applicant or employee because of his/her disability;
- ii. Participating in a contractual or other arrangement or relationship that has the effect of subjecting the Credit Union’s qualified applicant or employee with a disability to the discrimination prohibited by the ADA (such relationship includes a relationship with an employment or referral agency, labor union or organization providing fringe benefits to an employee of the Credit Union, or an organization providing training and apprenticeship programs);
- iii. Utilizing standards, criteria or methods of administration:
 - a. That have the effect of discrimination on the basis of disability; or
 - b. That perpetuate the discrimination of others who are subject to common administrative control;
- iv. Excluding or otherwise denying equal jobs or benefits to a qualified individual because of the known disability, against those whom the qualified individual is known to have a relationship or association;
- v. Not making reasonable accommodations to the known physical or mental limitations of an otherwise qualified individual with a disability who is an applicant or employee, unless the employer can show that the accommodation would impose an undue hardship on the operation of the Credit Union’s business.
- vi. Denying employment opportunities to a job applicant or employee who is an otherwise qualified individual with a disability, if such denial is based on the need of the Credit Union to make reasonable accommodation to the physical or mental impairments of the applicant or employee;
- vii. Using qualification standards, employment tests or other selection criteria that screens out, or tends to screen out, an individual with a disability, unless the standard, test or other selection criteria used by the Credit Union is shown to be job-related and is consistent with business necessity; and
- viii. Failing to select and administer tests concerning employment in the most effective way to ensure that, when such test is given to an applicant or employee with a disability, that the test results accurately reflect the skills, aptitude or other factor that the test seeks to measure.

F. **Medical Examinations and Inquiries.**

- i. The Credit Union may not conduct a medical examination or make inquiries of a job applicant as to whether such applicant is disabled, or as to the nature of the disability. However, the Credit Union may make pre-employment inquiries into the ability of an applicant to perform job-related tasks.
- ii. The Credit Union may require a medical examination *after* an offer of employment has been made to a job applicant and prior to the start of the employment duties. An offer of employment may be conditioned on the results of a medical examination if:

- a. All entering employees are subjected to such an examination, regardless of disability;
- b. Information obtained regarding the medical condition or history of the applicant is collected and maintained on separate forms, in separate medical files, and is treated as a confidential medical record, except that:
 1. Supervisors and managers may be informed about necessary restrictions on the work or duties of the employee, and necessary accommodations;
 2. First aid and safety personnel may be informed, when appropriate, if the disability might require emergency treatment;
 3. Government officials investigating compliance with Title I must be provided relevant information on request; and
 4. The results of such examination are used only in accordance with Title I.
- iii. Medical examinations or inquiries may not be made unless such an examination or inquiries into the nature and severity of a disability is shown to be job-related and consistent with business necessity.
- iv. The Credit Union may conduct voluntary medical examinations, including voluntary medical histories, that are part of an employee health program available to employees.
- v. Inquiries may be made into the ability of an employee to perform the job-related functions.

G. Defenses.

- i. **Undue Hardship.** It may be a defense that a reasonable accommodation poses an undue hardship. However, establishing an undue hardship would not automatically absolve the Credit Union from providing an accommodation. The Credit Union must do the following:
 - a. Establish another accommodation that does not cause such a hardship;
 - b. Consider whether funding for an accommodation is available from an outside source;
 - c. Determine if the cost of an accommodation can be offset by state or federal tax credits or deductions; or
 - d. Afford the applicant or employee with a disability the opportunity to provide the accommodation or pay for the part of the accommodation that causes the undue hardship.
- ii. **Job-Related and Consistent with Business Necessity.** It may be a defense to a charge of discrimination that an alleged application or qualification standard, test or other selection criteria that screens out, or tends to screen out, or otherwise deny a job benefit to an individual with a disability has been shown to be job-related and consistent with business necessity, and such performance cannot be accomplished by reasonable accommodation.
 - a. The term “qualification standards” may include a requirement that an individual will not pose a direct threat to the health and safety of other individuals in the workplace. “Direct threat” means a significant risk of substantial harm that cannot be eliminated or reduced by

reasonable accommodation.

- b. Direct threat determinations must be based on an individualized assessment of the individual's present ability to safely perform the essential functions of the job, considering a reasonable medical judgment relying on the most current medical knowledge and/or best available objective evidence.
- c. To determine whether an employee poses a direct threat, the following factors should be considered:
 - 1. The duration of the risk;
 - 2. The nature and severity of the potential harm;
 - 3. The likelihood that potential harm will occur; and
 - 4. The imminence of the potential harm.
- d. If an applicant or employee with a disability poses a direct threat to the health and safety of himself/herself or others, the Credit Union must consider whether the risk can be eliminated or reduced to an acceptable level with a reasonable accommodation.

H. Illegal Use of Drugs and Alcohol.

- i. For purposes of Title I, the term "qualified individual with a disability" does not include an applicant or employee who is currently engaging in the illegal use of drugs, when the Credit Union acts on the basis of such use.
- ii. An individual will be considered a qualified individual with a disability if he/she:
 - a. Has successfully completed a supervised drug rehabilitation program or has otherwise been rehabilitated successfully, and is no longer engaging in the illegal use of drugs;
 - b. Is participating in a supervised rehabilitation program and is no longer engaging in such use; or
 - c. Is falsely regarded as engaging in such use; except that it will not be a violation of Title I for the Credit Union to adopt or administer reasonable policies or procedures including, but not limited to, drug testing.
- iii. Tests to determine the illegal use of drugs are not considered to be a "medical examination," though nothing in the ADA is to be construed to encourage, prohibit or authorize the use of drug testing for the illegal use of drugs by job applicants or employees, or making employment decisions based on such test results.
- iv. The Credit Union may do the following:
 - a. Prohibit the illegal use of drugs and the use of alcohol at the workplace by all employees:
 - b. Require that employees not be under the influence of alcohol or engage in the illegal use of drugs at the workplace;

- c. Require that employees behave in conformance with the requirements established under the Drug-Free Workplace Act of 1988 (41 U.S.C. 701); and
- d. Hold an employee that engages in the illegal use of drugs or who is an alcoholic to the same qualification standards for employment or job performance and behavior as other employees, even if any unsatisfactory performance or behavior is related to the drug use or alcoholism of such employee.

I. **Posting Notices.** The Credit Union must post notices to all employees advising them of their rights under the ADA (and other anti-discrimination laws) and their right to be free from retaliation. The notices must be in an accessible format to applicants and employees, including those with visual or other disabilities that affect reading.

2. SUBCHAPTER III [TITLE III] – PUBLIC ACCOMMODATIONS AND SERVICES OPERATED BY PRIVATE ENTITIES

A. Definitions.

- i. **Public Accommodation.** (F)...a bank...or other service establishment.
- ii. **Readily Achievable.** Easily accomplishable and able to be carried out without much difficulty or expense. Factors to consider whether something is readily achievable include the following:
 - a. The nature and cost of the action needed under Title III;
- iii. **Undue Burden.** See (1)(B)(iv).

B. **General Rules.** No individual will face discrimination on the basis of a disability in the full and equal enjoyment of the goods, services, facilities, privileges, advantages or accommodations of the Credit Union.

i. Activities.

- a. It is discriminatory to subject an individual with a disability to direct, or through a contract, license or other arrangement, to a denial of an opportunity to participate in or benefit from goods, services, facilities, privileges, advantages or accommodations of the Credit Union.
- b. It is discriminatory to subject an individual with a disability to direct, or through a contract, license or other arrangement, an *unequal* benefit from goods, services, facilities, privileges, advantages or accommodations of the Credit Union.
- c. It is discriminatory to provide to an individual with a disability to direct, or through a contract, license or other arrangement, with a good, service, facility, privilege, advantage or accommodations that is different or separate from that provided to other individuals, *unless* such action is necessary to provide such different or separate accommodation or other opportunity that is as effective as that provided to others.

ii. **Integrated Settings.** Goods, services, facilities, privileges, advantages and accommodations must be provided to an individual with a disability in the most integrated setting appropriate to the individual's needs. Nevertheless, the Credit Union may not deny an individual with a disability an opportunity to participate in such programs or activities that are not separate or different.

- iii. **Association.** It is discriminatory to exclude or otherwise deny equal goods, services, facilities, privileges, advantages, accommodations or other opportunities to an individual or entity because of a known disability with whom the individual or entity is known to have a relationship or association.

C. Discrimination Defined. For purposes of Title III, discrimination includes the following:

- i. The imposition or application of eligibility criteria that screens out or tends to screen out an individual with a disability from fully and equally enjoying any good, services, facilities, privileges, advantages or accommodations, *unless* such criteria can be shown to be necessary for the provision of the goods, services, facilities, privileges, advantages or accommodations being offered.
- ii. A failure to make reasonable modifications in policies, practices or procedures when such modifications are necessary to provide such goods, services, facilities, privileges, advantages or accommodations to individuals with a disabilities, *unless* the Credit Union can show that making such modifications would fundamentally alter the nature of such goods, services, facilities, privileges, advantages or accommodations.
- iii. A failure to take necessary steps to ensure that no individual with a disability is excluded, denied services, segregated or otherwise treated differently than others because of the absence of auxiliary aids and services, *unless* the Credit Union can show that taking such steps would fundamentally alter the nature of such goods, services, facilities, privileges, advantages or accommodations being offered or would result in an undue burden.
- iv. A failure to remove architectural and communication barriers in existing facilities, where such removal is readily achievable.

D. Direct Threats.

- i. Under Title III, the Credit Union may prevent an individual from participating in or benefiting from the goods, services, facilities, privileges, advantages or accommodations of the Credit Union when that individual poses a direct threat to the health or safety of others.
- ii. "Direct threat" means a significant risk to the health or safety of others that cannot be eliminated by a modification of policies, practices or procedures, or by the provision of auxiliary aids or services.
- iii. In determining whether an individual poses a direct threat to the health and safety of others, the Credit Union must make an individualized assessment, based on reasonable judgment that relies on current medical knowledge or on the best available objective evidence to ascertain:
 - a. The nature, duration and severity of the risk;
 - b. The probability that the potential injury will actually occur; and
 - c. Whether reasonable modifications of policies, practices or procedures will mitigate the risk.

E. Illegal Use of Drugs. Under Title III, the Credit Union may discriminate against an individual based on that individual's current use of illegal drugs. However, the Credit Union may not discriminate against such individuals who:

- i. Has successfully completed a supervised drug rehabilitation program or has otherwise been rehabilitated successfully;
- ii. Is participating in a supervised rehabilitation program; or
- iii. Is erroneously regarded as engaging in such use.

F. Eligibility Criteria.

- i. The Credit Union may not impose or apply eligibility criteria that screens out or tends to screen out an individual with a disability or any class of individuals with disabilities from fully and equally enjoying any goods, services, facilities, privileges, advantages or accommodations, *unless* such criteria can be shown to be necessary for the provision of the goods, services, facilities, privileges, advantages or accommodations being offered.
- ii. Legitimate safety requirements may be imposed that are necessary for safe operation. Safety requirements must be based on actual risks and not on mere speculation, stereotypes or generalization about individuals with disabilities.
- iii. Surcharges may not be imposed on individuals with disabilities to cover the costs of any required measures.

G. Auxiliary Aids and Services.

- i. The Credit Union must provide appropriate auxiliary aids and services where necessary to ensure effective communication with those with disabilities.
- ii. If a provision of a given auxiliary aid or service would result in fundamental alteration in the nature of the goods, services, facilities, privileges, advantages or accommodations being offered, the Credit Union must provide an alternative auxiliary aid or service, if one exists, that would not result in an alteration or undue burden but that would ensure that, to the maximum extent possible, those with disabilities receive the goods, services, etc. offered by the Credit Union.
- iii. Examples of such aids and services include the following:
 - a. Qualified interpreters, note takers, computer-aided transcription services, written materials, telephone handset amplifiers, assistive listening devices and systems, telephones compatible with hearing aids, telecommunication devices for deaf persons (TDDs) [*for those making outgoing calls on a more than incidental basis*], videotext displays, or other effective methods of making aurally delivered materials available to those with hearing impairments;
 - b. Qualified readers, taped texts, audio recordings, Brailled materials, large print materials, or other effective methods of making visually delivered materials available to those with visual impairments;
 - c. Acquisition or modification of equipment or devices; and
 - d. Other similar services and actions.

H. Modifications in Policies, Practices or Procedures.

- i. The Credit Union must make reasonable modifications in policies, practices or procedures when the modifications are necessary to afford goods, services, facilities, privileges, advantages or accommodations to individuals with disabilities, *unless* the Credit Union can demonstrate that making modifications would fundamentally alter the nature of the goods, services, facilities, privileges, advantages or accommodations.
- ii. Generally, the Credit Union must modify policies, practices or procedures to permit the use of a service animal by an individual with a disability. However, the Credit Union is not required to supervise or care for a service animal.

I. Removal of Barriers.

- i. The Credit Union must remove architectural barriers in existing facilities, including communication barriers that are structural in nature, where such removal is readily achievable. Examples of barrier removal include the following:
 - a. Installing ramps;
 - b. Making curb cuts in sidewalks and entrances;
 - c. Repositioning shelves;
 - d. Rearranging tables, chairs, vending machines, display racks and other furniture;
 - e. Repositioning telephones;
 - f. Adding raised markers on elevator control buttons;
 - g. Installing flash alarm lights;
 - h. Widening doors;
 - i. Installing offset hinges to widen doorways;
 - j. Eliminating a turnstile or providing an alternative accessible path;
 - k. Installing accessible door hardware;
 - l. Installing grab bars in toilet stalls;
 - m. Rearranging toilet partitions to increase maneuvering space;
 - n. Installing lavatory pipes under sinks to prevent burns;
 - o. Installing a raised toilet seat;
 - p. Installing a full-length bathroom mirror;
 - q. Repositioning the paper towel dispenser in a bathroom;

- r. Creating designated accessible parking spaces;
 - s. Installing an accessible paper cup dispenser at an existing inaccessible water fountain; or
 - t. Removing high-pile, low-density carpeting.
- ii. **Priorities.** Public accommodations (i.e., the Credit Union) are urged to take measures to comply with the barrier removal requirements with the following order of priorities:
- a. First: providing access to the Credit Union from public sidewalks, parking or public transportation. For example, installing an entrance ramp, widening entrances and providing accessible parking spaces.
 - b. Second: providing access to the Credit Union where goods and services are made available to the public. For example, adjusting the layout of display racks, rearranging tables, providing Brailled and raised character signage, widening doors, providing visual alarms and installing ramps.
 - c. Third: providing access to restroom facilities. For example, removal of obstructing furniture or vending machines, widening of doors, installing of ramps, providing accessible signage, widening of toilet stalls and installation of grab bars.
 - d. Fourth: Any measures necessary to provide access to the goods, services, facilities, privileges, advantages or accommodations.

J. New Construction and Alterations in Public Accommodations and Commercial Facilities.

- i. Discrimination under this subsection includes the following:
 - a. A failure to design and construct facilities that are readily accessible to and usable by individuals with disabilities, *except* where the Credit Union can show that it is structurally impracticable to meet the requirements of this subsection.
 - b. A failure to make alterations in such a manner that, to the maximum extent feasible, the altered portions of the facility are readily accessible to and usable by the individuals with disabilities, including those who use wheelchairs. Any alterations that are made should, to the maximum extent possible, provide a path of travel to the altered area, the bathrooms, telephones and drinking fountains serving the altered area. Such paths should be readily accessible and usable by individuals with disabilities.
 - c. Normal maintenance, re-roofing, painting or wallpapering, asbestos removal, or changes to mechanical and electrical systems are not alterations unless they affect the usability of the building or facility.
- ii. **Structural Impracticability.** Full compliance will be considered structurally impracticable only in the rare circumstances when the unique circumstances of terrain prevent the incorporation of accessibility features.
 - a. If full compliance would be structurally impracticable, compliance is required to the extent that is not structurally impracticable. In that case, any portion of the facility that can be made

accessible must be made accessible.

- b. If providing accessibility to those with disabilities (i.e., those using wheelchairs) would be structurally impracticable, accessibility must be ensured to those with other types of disabilities (i.e., those who use crutches or who have sight, hearing or mental impairments).

iii. **Alterations.** An “alteration” is defined as “a change to a public place of accommodation or a commercial facility that affects or could affect the usability of the building or facility or any part thereof.”

- a. Any portion of a facility that can be made accessible must be made accessible. If providing accessibility to those with disabilities (i.e., those using wheelchairs) would not be feasible, accessibility must be ensured to those with other types of disabilities (i.e., those who use crutches or who have sight, hearing or mental impairments).

- b. Elevators are not required for facilities that are less than 3 stories or have less than 3,000 square feet per story unless the Attorney General determines that a particular category of facility requires the installation of elevators based on the usage of such facilities.

- c. Alterations that could affect the usability of or access to an area of a facility that contains a primary function should be made in a manner that does not affect the path of travel to the altered area and the restrooms, telephones and drinking fountains serving the altered area, *unless* the cost and scope of such alterations is disproportionate to the cost of the overall alteration.

1. A “primary function” is a major activity for which the facility is intended (for example: the member service area of the Credit Union lobby).

2. It will be deemed disproportionate when the cost exceeds 20% of the cost of the alteration to the primary function area. Nevertheless, the Credit Union must make it accessible as possible.

- d. In providing accessibility, priority should be given to those elements that will provide the greatest access, in the following order:

1. An accessible entrance:

2. An accessible route to the altered area:

3. At least one accessible restroom for each sex, or a single unisex restroom;

4. Accessible telephones;

5. Accessible drinking fountains; and

6. When possible, additional accessible elements such as parking, storage and alarms.

K. **ADA Requirements for ATMs.** The Credit Union will ensure that its ATMs comply with the ADA accessible design and accessibility standards by March 2012.

- i. **Clear Floor or Ground Space.** The minimum space is 30 inches by 48 inches in order to provide

wheelchair access (this does NOT apply to drive-up ATMs).

- ii. **Operable Parts.** Each operable part of the ATM will be differentiated by sound or touch without activation, unless a clear or correct key is provided. These parts will also be operable by one hand and will not require tight grasping, pinching or twisting of the wrist.
- iii. **Privacy.** The same degree of privacy will be provided to all individuals.
- iv. **Speech Output.** The Credit Union will ensure that its ATMs will be speech enabled.

- 1. The operating instructions and orientation, visible transaction prompts, user input verification, error messages, and all displayed information for full use will be accessible to and independently usable by individuals with vision impairments.
- 2. Speech will be delivered through a mechanism that is readily available to all users, including but not limited to, an industry standard connector or a telephone handset.
- 3. Speech will be capable of being repeated or interrupted.
- 4. Balance inquiry information, error messages, and all other information on the printed receipt will be provided audibly, except for the following information:
 - a. Machine location, date and time of transaction, member account number, and the machine identifier;
 - b. Information on printed receipts that duplicates information available on-screen; and
 - c. Printed copies of statements and checks.

5. Exceptions

- a. Audible tones will be permitted instead of speech for visible output that is not displayed for security purposes, including by not limited to, asterisks representing personal identification numbers;
- b. Advertisements and other similar information will not be required to be audible unless they convey information that can be used in the transaction being conducted; and
- c. Where speech synthesis cannot be supported, dynamic alphabetic output will not be required to be audible.

v. Input Controls.

- 1. At least one tactilely discernable input control will be provided for each function.
- 2. Where provided, key surfaces not on active areas of display screens, will be raised above surrounding surfaces.
- 3. Where membrane keys are the only method of input, each will be tactilely discernable from surrounding surfaces and adjacent keys.

4. Numeric keys will be arranged in a 12-key ascending or descending telephone keypad layout. The number “5” will be tactilely discernable from the other keys.
5. Function keys will contrast visually from background surfaces. Characters and symbols on key surfaces will contrast visually from other surfaces.

vi. Display Screen.

1. The display screen will be visible from a point located 40 inches above the center of the clear floor space in front of the machine.
2. Characters displayed on the screen will be in sans serif font.
3. Characters will contrast with their background with either light characters on a dark background or dark characters on a light background.

vii. Braille Instructions.

1. Braille dots will have a domed or rounded shape.
2. Braille dots will be positioned below the corresponding text.

3. SUBCHAPTER IV – MISCELLANEOUS PROVISIONS

A. RELATIONSHIP TO OTHER LAWS. Nothing in the ADA is to be construed to invalidate or limit the remedies, rights and procedures of any Federal, State or local law that provides greater or equal protection for the rights of individuals with disabilities.

B. INSURANCE. Nothing in Subchapters I through III of the ADA, or Title IV shall not be construed to prohibit or restrict:

- i. An insurer, hospital or medical service company, health maintenance organization, or any agent, or entity that administers benefit plans, or similar organizations from underwriting risks, classifying risks, or administering such risks that are based on or not inconsistent with State law; or
- ii. A person or organization covered under the ADA from establishing, sponsoring, observing or administering the terms of a bona fide benefit plan that are based on underwriting risks, classifying risks, or administering such risks that are based on or not inconsistent with State law; or
- iii. A person or organization covered by the ADA from establishing, sponsoring, observing or administering the terms of a bona fide benefit plan that is not subject to State laws that regulate insurance.

C. BENEFITS UNDER STATE WORKER’S COMPENSATION LAWS. Nothing in the ADA alters the standards for determining eligibility for benefits under State worker’s compensation laws or under State and Federal disability benefit programs.

D. CLAIMS OF NO DISABILITY. Nothing in the ADA provides a basis for a claim by an individual WITHOUT a disability that (s)he was subject to discrimination because of that individual’s lack of disability.

Policy 9600: Telephone Consumer Protection Act and Junk Fax Prevention Act

Revised Date: 12/31/2015

Model Policy Revised Date: 12/31/2015

General Policy Statement:

[CUName] (Credit Union) will ensure that all covered phone calls/texts and covered faxes comply with the requirements of the Telephone Consumer Protection Act (TCPA) and the Junk Fax Prevention Act (JFPA). The Board delegates to management the responsibility for developing procedures in accordance with this policy.

Definitions:

1. **AUTOMATIC TELEPHONE DIALING SYSTEM (AUTODIALER).** The TCPA's definition is any technology which has the capacity to store or produce telephone numbers to be called using a random or sequential number generator to dial such numbers. Even if the Credit Union's system does not currently have the capacity or capability at this time to make these calls, the system would still be considered an "autodialer" if it had the capacity to be upgraded in the future to make these calls.
2. **UNSOLICITED ADVERTISEMENT.** An "unsolicited advertisement" means "any material advertising the commercial availability or quality of any property, goods, or services, which is transmitted to any person without the person's prior express invitation or permission, in writing or otherwise."
3. **TELEMARKETING.** The initiation of a telephone call or message for the purpose of encouraging the purchase or rental of, investment in, property, goods, or services, which is transmitted to any person.

Guidelines:

1. **EXPRESS WRITTEN CONSENT.** Credit Unions wishing to make calls, send text messages and send facsimiles for telemarketing purposes should have express written consent. The consumer's express written consent complies with the following disclosure requirements.
 - A. The consent is in writing bearing the signature of the consumer providing consent (written consent includes an electronic or digital form of signature pursuant to the E-SIGN Act);
 - B. Specifies the telephone number/ fax number to which the consumer is consenting to be called/faxed;
 - C. Clearly authorizes the Credit Union to call the consumer using an automatic telephone dialing system or prerecorded message for telemarketing purposes; and
 - D. Is not a condition of purchasing goods or services
2. **PRERECORDED MESSAGES.** If the Credit Union leaves an artificial or prerecorded telephone message, the message begins by stating the identity of the credit union and the telephone number of the Credit Union, including a toll free number for the consumer to opt-out of future calls.
3. **OPT-OUT NOTICES.** Senders of facsimile advertisements must provide specified notice and contact information on the facsimile that allows recipients to "opt out" of any future facsimile transmissions from the senders. Any artificial or prerecorded message telemarketing calls that could be answer by the consumer, must provide an interactive opt-out mechanism that is announced at the outset of the message and is available for the

duration of the call.

A. **Clear and Conspicuous.** The opt-out notice must be “clear and conspicuous,” meaning that it is “apparent to a reasonable consumer.”

B. **Cost-Free Mechanism to Opt-Out.** The Credit Union will identify a “cost-free mechanism” for a recipient to transmit an opt-out request. Such mechanisms can include a website address, e-mail address, toll-free telephone number or toll-free facsimile machine number, but need only include one mechanism.

i. **Local Telephone Numbers.** Local telephone numbers may be provided, so long as the advertisements are sent to local members for whom a call to that number would not result in long distance or other separate charges.

ii. **Website.** If a website is used to receive opt-out requests, the Credit Union will ensure that the first page of the site describes the opt-out mechanism and procedures clearly and conspicuously.

iii. **Availability.** Whichever mechanism is used, the Credit Union will ensure that opt-out requests can be accepted 24 hours, 7 days a week.

C. **Responding to Opt-Out Requests.** The Credit Union will comply with opt-out requests as soon as possible. The Credit Union will also have procedures to avoid future calls/faxes being made to consumers who have opted out.

4. **TRANSACTIONAL COMMUNICATIONS.** Transactional communications are those whose purpose is to facilitate, complete, or confirm a commercial transaction that the member/recipient previously agreed to enter into with the Credit Union.

A. **Examples.** Examples of transactional communications include the following:

i. Receipts or invoices, which confirm the purchase of certain items by the facsimile recipient;

ii. Messages containing account balance information or other type of account statement which, for instance, notify the recipient of a change in terms or features regarding an account; and

iii. Communications sent to facilitate a loan transaction, such as property appraisals, summary of closing costs, disclosures (such as the Good Faith Estimate) and other similar documents.

5. **PROCEDURES.** The Credit Union will have procedures in place to comply with the requirements of the TCPA and JFPA. Procedures will be comprehensive to avoid multiple calls/text messages/faxes being made or sent to reassigned/wrong numbers or to consumers who have opted out.

Chapter 10000: Records Retention

Duly Approved by Credit Union

BOARD OF DIRECTORS

Approval Date:

- [Policy 10001: Table 1 - Corporate Records](#)
- [Policy 10002: Table 2 - Collection & Delinquency Records](#)
- [Policy 10003: Table 3 - Data Processing Records](#)
- [Policy 10004: Table 4 - Electronic Funds Transfer Records](#)
- [Policy 10005: Table 5 - General Accounting Records](#)
- [Policy 10006: Table 6 - Insurance & Bond Records](#)
- [Policy 10007: Table 7 - Lending Records](#)
- [Policy 10008: Table 8 - Negotiable Instruments Records](#)
- [Policy 10009: Table 9 - Personnel & Employment Records](#)
- [Policy 10010: Table 10 - Security Records](#)
- [Policy 10011: Table 11 - Member Account Records](#)
- [Policy 10012: Table 12 - Tax Records](#)
- [Policy 10100: Records Retention](#)

Policy 10001: Table 1 - Corporate Records

Revised Date: 01/17/2017

Model Policy Revised Date: 01/17/2017

RECORD	TERM	AUTHORITY
Bylaws (and amendments)	Permanent	12 CFR 749
Certificate of Organization	Permanent	12 CFR 749
Certificates and Licenses issued by government agencies	Permanent	12 CFR 749
Charter (and amendments)	Permanent	12 CFR 749
Correspondence - General	4 years	GAAP
Correspondence - Government	Permanent	12 CFR 749
Correspondence – NCUA	Permanent	12 CFR 749
Credit Union Policies	Permanent	12 CFR 749
Credit Union Profile Report	Permanent	12 CFR 749
Depository Statements	Permanent	12 CFR 749
Destroyed Records Log	Permanent	12 CFR 749
Documents regarding CU owned property	Permanent	12 CFR 749
Federal Credit Union Act (current edition)	Permanent	12 CFR 749
Government Manuals (current edition)	Permanent	12 CFR 749
Joint membership agreements	Permanent	12 CFR 749
Liquidation Documents	5 years after cancellation of charter	12 CFR 710.7
Liquidation documents demonstrating payment of creditors and equitable distribution of member shareholdings	5 years following date of cancellation of CU charter	12 CFR 710
Meeting Minutes (Annual Meeting, Board meetings, committee meetings, special membership meetings)	Permanent	12 CFR 749
Membership applications	Permanent	12 CFR 749
Merger documents	Permanent	NCUA Merger Manual
NCUA Form 4501 or Equivalent	Permanent	12 CFR 749
NCUA Form 5300 or 5310	Permanent	12 CFR 749
NCUA Rules and Regulations (current editions)	Permanent	GAAP
Off-site storage records used to identify and reconstruct vital records	Permanent Store every 3 months within 30 days of the end of the previous 3 month period	12 CFR 749
Record logs of destroyed, copied or imaged records	Permanent	12 CFR 749
Record preservation programs policy and procedures	Permanent	12 CFR 749
Records supporting examinations from CTR's	5 years	31 CFR Chapter X 1020.320(a)–(f).

Signature cards for all share and deposit accounts	Permanent	12 CFR 749
Special Credit Union Rules and Regulations	Permanent	12 CFR 749
Supervisory Committee Comprehensive Annual Audit Report and Attachments	Permanent	12 CFR 749
Supervisory Committee Records of Account Verification*	Permanent	12 CFR 749
Taxation Correspondence	6 years	26 CFR 16000.1 and 26 CFR 301.6501

* 12 CFR 715.8 indicates that “**The Supervisory Committee** must retain the records of each verification of members’ passbooks and accounts until it completes the next verification of member’s passbooks and accounts.

Policy 10002: Table 2 - Collection & Delinquency Records

Revised Date: 10/09/2017

Model Policy Revised Date: 10/09/2017

RECORD	TERM	AUTHORITY
Bankruptcy records	10 years	15 USC 1681
Charged off accounts	7 years	15 USC 1681
Closed Collection Files	Retention should be based on likelihood of Future Repayment	15 USC 1681
Delinquent Loan Report	7 years	GAAP
Delinquent Loan Statistics	2 audit cycles	GAAP
Judgments	10 years	State law driven – typically 10 years
Paid Collection files	7 years after debt paid	15 USC 1681

Policy 10003: Table 3 - Data Processing Records

Revised Date: 08/01/2012

Model Policy Revised Date: 08/01/2012

Model Policy Reviewed Date: 03/28/2014

RECORD	TERM	AUTHORITY
Change Logs	1 year after life of program	GAAP
Daily data back up retention	1 month	GAAP
Modifications	1 year after life of program	GAAP
Month End data back up retention	1 year	GAAP
Operators Instructions	1 year after life of program	GAAP
Program documentation	1 year after life of program	GAAP
Test Data and Results	1 year after life of program	GAAP
Year end data back up retention	7 years	GAAP

Policy 10004: Table 4 - Electronic Funds Transfer Records

Revised Date: 10/09/2017

Model Policy Revised Date: 10/09/2017

RECORD	TERM	AUTHORITY
ACH documents necessary to resolve questions re: handling of items and to resend items	6 years	ACH Rules OR §1.4.1
ACH Processed Register	6 years	ACH Rules OR §1.4.1
ACH Returns and Adjustments	6 years	ACH Rules OR §1.4.1
ATM Activity/Transaction Report	2 years	12 CFR 1005.13
ATM Card Agreements	2 years after account closed	12 CFR 1005.13
ATM Proprietary or Network Report	2 years	12 CFR 1005.13
Billing Dispute documentation of required actions	2 years after settlement of dispute	Reg Z 1026.25, Reg E 12 CFR 1005.13
Deposit Slips/credit tickets for each transaction or equivalent direct deposit or wire transfer over \$100	5 years	31 CFR Chapter X
EFT Reg E disclosure procedure compliance evidence	2 years	12 CFR 1005.13, Consumer Credit Protection Act
Wire copies or advices	5 years	31 CFR Chapter X
Wire transfer debit and credit entries	5 years	31 CFR Chapter X
Wire transfer log	5 years	31 CFR Chapter X

Policy 10005: Table 5 - General Accounting Records

Revised Date: 10/09/2017

Model Policy Revised Date: 10/09/2017

RECORD	TERM	AUTHORITY
Annual Financial Report	Permanent	12 CFR 749
Bank Books	6 years	GAAP
Bank Reconcilements	Permanent	12 CFR 749
Bank Statements (CU's accounts)	6 years	GAAP
Cash Rec'd Voucher / Bank deposit slips	5 years	31 CFR Chapter X
Certified Check Receipts	5 years	31 CFR Chapter X
CU Investment Records	Permanent	12 CFR 749
Depreciation Schedules	4 years after tax filing	26 CFR 301.6501
Dividend Register	6 years	GAAP
Earning Records (payroll)	3 years	FLSA, 29 CFR 516.5
Examination Reports	Permanent	12 CFR 749
Financial Statements	Permanent	12 CFR 749
Financial Statistical Reports	Permanent	GAAP
General Ledger	Permanent	12 CFR 749
Interest Refund payment records	6 years	GAAP
Internal Audit Records	Permanent	12 CFR 749
Invoices, bills and statements (paid)	6 years	GAAP
Journal (cash)	Permanent	12 CFR 749
Journal Vouchers	5 years	31 CFR Chapter X
Money Order Register	5 years	31 CFR Chapter X
Monthly proof tapes of share and loan ledgers	2 audit cycles	12 CFR 749
Share and Loan Ledger	Permanent	12 CFR 749
Statement of Financial Condition	Permanent	12 CFR 749
Statement of Income and Expense	Permanent	12 CFR 749
Statement of Members' Equity	Permanent	GAAP
Subsidiary Expense Ledgers	Permanent	12 CFR 749
Unclaimed Property Report	Permanent	GAAP (see state laws for specific rules on retention of specific types of unclaimed property and records thereof)

Policy 10006: Table 6 - Insurance & Bond Records

Revised Date: 12/20/2017

Model Policy Revised Date: 12/20/2017

RECORD	TERM	AUTHORITY
Beneficiary designation cards (insurance)	Permanent	GAAP
Fidelity Bond claims (paid)	Permanent	12 CFR 749
Fidelity Bonds and Endorsements	6 years after expiration	GAAP
Borrower insurance claims (paid)	6 years	GAAP
Credit Life/Disability Insurance Report	4 years	GAAP
Creditor Life/Disability Insurance claims paid	6 years	GAAP
Group Insurance Deduction Authorization	4 years after closed	GAAP
Insurance Coverage Reports	6 years	GAAP
Credit Union Insurance Policies	Permanent	12 CFR 749
Life savings/Loan protection Insurance claims paid	6 years	GAAP
Life savings/Loan protection Insurance Reports	4 years	GAAP
List of Credit Union Insurance Policies (with contact information and current as of most recent month-end)	Permanent	12 CFR 749
Surety bond (CU's)	Permanent	12 CFR 749

Policy 10007: Table 7 - Lending Records

Revised Date: 10/09/2017

Model Policy Revised Date: 10/09/2017

RECORD	TERM	AUTHORITY
Adverse Action Notice	25 months unless examination for violation exists then until final disposition of violation	ECOA, Reg B 12 CFR 1002.12
Appraisals on Real Estate	25 months after notice of action taken	ECOA, Reg B 12 CFR 1002.12
Approved Loan Application (including monitoring information, information used in evaluating application)	25 months after payoff *** 6 years recommended	ECOA, Reg B 12 CFR 1002.12
Billing Dispute	2 years following settlement of dispute	TILA, Reg Z 12 CFR 1026.25
Billing error notice	2 years	TILA, Reg Z 12 CFR 1026.25
Closing Disclosure (and all related documents)	5 years after consummation	TILA, Reg Z 12 CFR 1026.25(c)
Consumer Leasing Disclosures	2 years	Reg M 12 CFR 1013.8
Credit Reports	3 years following the date on which an offer of credit is made	U.S. Code 1681m(d)(3)
Denied Loan Applications (including monitoring information, information used in evaluating application)	25 months after application received	ECOA, Reg B 12 CFR 1002.12
Dept. of Motor Vehicles documents	4 years after loan payoff	Check Applicable State Law
Disclosures	2 years after loan payoff	TILA, Reg Z 12 CFR 1026.25
Equal Credit Opportunity Act documentation	25 months	12 CFR 1002.12(b)
Escrow Account Documents	5 years following when the servicer last serviced the escrow account	RESPA, Reg X 12 CFR 1024.17(1)
Escrow Cancellation Notice (Escrow Closing Notice)	2 years after disclosure is provided	TILA, Reg Z 12 CFR 1026.25(a)
Fair Credit Reporting Act (evidence of compliance, credit worthiness criteria, requirements for furnishing collateral as condition of loan)	Information obtained for use in making offers of credit or insurance not initiated by the member - 3 years	FCRA 15 USC 1681
Flood hazard determination forms and records supporting method of determining flood area	Until repayment	12 CFR 760
Flood Insurance Disclosures and Acknowledgement	Until repayment	12 CFR 760
Good faith estimate of settlement (RESPA)	3 years from Settlement date	RESPA, Reg X 12 CFR 1024.8(c)
HMDA Loan Application Register	3 years	12 USC 2801, 12 CFR 1003.5(a)
HMDA Mortgage Loan disclosure documents	5 years from report date	Reg C 12 CFR 1003.5(a)

HUD-1 and HUD-1A	5 years from settlement date	RESPA, Reg X 12 CFR 1024.15(d)
Individual loan ledger	Permanent	12 CFR 749
Intent to proceed	2 years after action is taken	TILA, Reg Z 12 CFR 1026.25(a)
Interest Refund payment record	6 years	GAAP
Loan Estimate	3 years after consummation	TILA, Reg Z 12 CFR 1026.25(c)
Consumer Loans	2 years after loan payoff	TILA, Reg Z 12 CFR 1026.25
Mortgage Loan Officer Compensation Agreements and Records	3 years	1026.25(c)(2)(1)(i-iii)
Mortgage Servicing Transfer Notice – Partial Payment Policy Disclosure	2 years after disclosure is provided	TILA, Reg Z 12 CFR 1026.25(a)
Open end request vouchers	2 years after loan payoff	TILA, Reg Z 12 CFR 1026.25
Real Estate Loan Documents	3 years after loan payoff	TILA, Reg Z 12 CFR 1026.25
Rejected, withdrawn or incomplete loan application	25 months from date CU notifies applicant of action on application or of incompleteness	ECOA, Reg B 12 CFR 1002.12
Report of loans drawn over credit limit	2 audit cycles	12 CFR 749
Report of new loans	2 audit cycles	12 CFR 749
RESPA member disclosures	1 year after mortgage discharge or sale to another servicer	12 CFR 1024.38(c)
RESPA Affiliated Business disclosure	5 years	RESPA, Reg X 12 CFR 1024.10(e)
Sample TILA disclosures for HELOC and ARM	2 years	TILA, Reg Z 12 CFR 1026.25
Statement of purpose for loans over \$10,000	5 years	31 CFR Chapter X
Student Loan audit report (required by 34 CFR 682.305 (C))	5 years after report issued	34 CFR 682
Student loan documentation for loans under Department of Education	5 years after loan repaid in full by borrower or the lender is reimbursed on a claim	34 CFR 682
TILA disclosure statements, change in terms notices for open end loans and evidence assuring borrower's right of rescission	5 years after consummation	TILA, Reg Z 12 CFR 1026.25
Transfer of Servicing Rights Disclosure	5 years following settlement	RESPA, Reg X 12 CFR 1024.21(e)
Written information regarding adverse action	25 months after action	ECOA, Reg B 12 CFR 1002.12
Written statement by applicant of alleged violation of ECOA	25 months after alleged violation or until final disposition of violation	ECOA, Reg B 12 CFR 1002.12

Policy 10008: Table 8 - Negotiable Instruments Records

Revised Date: 10/09/2017

Model Policy Revised Date: 10/09/2017

RECORD	TERM	AUTHORITY
Check register	5 years	31 CFR Chapter X
CU checks	7 years	GAAP, UCC 4-406
Member drafts cancelled	7 years	UCC 4-406
Member drafts paid	7 years	UCC 4-406
Monetary instrument purchase log (TR 90-06)	5 years	31 CFR Chapter X
Money orders or instruments drawn on CU	7 years	UCC 4-406
Stop payment orders	2 years from last renewal date	Uniform Commercial Code 4-111
Travelers checks application for amounts between \$3,000 and \$10,000	5 years	31 CFR Chapter X
Travelers checks applications for over \$10,000	5 years	31 CFR Chapter X
Travelers checks stop payment orders	7 years	UCC 4-406
Travelers checks voided	7 years	UCC 4-406
Voided CU checks	7 years	UCC 4-406
Voided Money orders	7 years	UCC 4-406

Policy 10009: Table 9 - Personnel & Employment Records

Revised Date: 12/20/2017

Model Policy Revised Date: 12/20/2017

RECORD	TERM	AUTHORITY
Application for employment	1 year from date of making record of hiring decision, whichever is later.	ADEA, GINA
	1 year from date record was created or action was taken, whichever is later.	ADA, Title VII
	3 years after termination of employment or one year after file closed for applicants not hired	FLSA, 29 CFR 516
	2 years from the date of the creation of the record or personnel action	Vietnam Era Veterans Readjustment Assistance Act (Federal Contractors)
Earning records and time records (payroll)	3 years	ADEA, Equal Pay Act, FMLA
	3 years from end of contract	Davis-Bacon, Service Contract, and Walsh-Healy Public Contract Acts
	4 years from date tax is due or paid, whichever is later	FICA, FUTA, and Internal Revenue Code (Federal Income Tax Withholding)
	3 years	FLSA, 29 CFR 516
Employee Benefits Plan documents	3 years	FMLA
	6 years from date upon which documents should have been filed ***Permanent retention recommended for records relating to benefits payable under plans	ERISA, 29 USC 1027
Employee Eligibility Form (I-9)	3 years from hire date or 1 year after termination whichever is later	Immigration Reform and Control Act
Employee Garnishments	2 years following full withholding or employee termination	GAAP ***also check state law
Employee information form (EEO-1)	3 years	Executive Order 11246
	5 years	GAAP
	At least for the current year	Title VII
Employee Withholding Certificate (W-4)	4 years after tax year *** 7 years after termination of employment recommended	IRS regs, 26. CFR 1.6001-1 and 26 CFR 301.6501
Injury reports	3 years from date polygraph is conducted	Employee Polygraph Protection Act
	5 years following settlement of injury unless hazardous substance involved, then 30 years	OSHA, 29 CFR 1904.6 and 1910.20

Mortgage Loan Officer Compensation Agreements and Records	3 years	1026.25(c)(2)(1)(i-iii)
Pension Plan documents (including IRA, 401K, Keogh and SEP)	1 year	ADEA
	6 years following last transaction	ERISA, 29 USC 1027
Personnel files	1 year	ADA
	3 years	ADEA, FMLA
	3 years from end of contract	Davis-Bacon, Service Contract, and Walsh-Healy Public Contract Acts
	6 years from date of termination of employment	FLSA, 29 CFR 516
	1 year from date record was created or action was taken, whichever is later	Title VII
Personnel policies (old and current)	Permanent	GAAP
Records of Additions to or Deductions from Wages Paid	2 years	29 CFR 516.6
Wage Rate Tables (credit union employees)	2 years	29 CFR 516.6

Policy 10010: Table 10 - Security Records

Revised Date: 10/09/2017

Model Policy Revised Date: 10/09/2017

RECORD	TERM	AUTHORITY
Record of robberies, burglaries and non-employee larcenies attempted or committed	Permanent	GAAP
Declaration of Forgery	6 years	GAAP
Suspicious Activity Reports and supporting documentation	5 years after report filed	31 CFR Chapter X
Currency Transaction Reports (Form 104)	5 years	31 CFR Chapter X
Blocked property, accounts and transferred funds report	5 years after unblocked	31 CFR Chapter X
OFAC Annual Comprehensive Report (Form TDF 90-22.50)	5 years	31 CFR Chapter X
Annual Report of Blocked Property	5 years	31 CFR Chapter X
Customer Identification program (including verification of beneficial owners for legal entities) records of discrepancies in identification information and resolution methods and results	5 years after record is made	31 CFR Chapter X
Legal entity beneficial owner identification records	5 years after the date the account is closed	31 CFR Chapter X (1010.230(i))
Exemption Master List (Bank Security Act Reporting)	5 years after most recent change is made	31 CFR Chapter X
Exemption Statement (Bank Security Act Reporting)	5 years after most recent change is made	31 CFR Chapter X
International Transportation Report (Form 4790)	5 years	31 CFR Chapter X

Policy 10011: Table 11 - Member Account Records

Revised Date: 03/28/2018

Model Policy Revised Date: 03/28/2018

(Including regular share, share draft, certificate, IRA, funds availability and payroll deduction authorization)

RECORD	TERM	AUTHORITY
Account Agreements	Permanent	12 CFR 749
Application for Membership	Permanent	12 CFR 749
Authorization for share to loan transfer	2 years	12 CFR 1005.13
Beneficiary Designation Cards	Permanent	12 CFR 749
Certificates of Deposit	5 years after maturity	31 CFR Chapter X
Closed Account Report	Permanent	GAAP
Customer Identification program documents	5 years after account closed or, for credit cards 5 years after account closed or dormant	31 CFR Chapter X
Daily Overdraft Reports	1 year following audit	GAAP
Deceased Member Documentation	Permanent	GAAP
Deposit slips (cash transactions over \$100)	5 years	31 CFR Chapter X
Dormant Account Report	Permanent	12 CFR 749
Expedited Funds Availability notices and disclosures including evidence of procedures reasonably ensuring receipt	2 years	Reg CC 12 CFR 229.13, 12 CFR 229.21
IRA documentation	7 years after account closed	Ascensus recommendation
Liens (federal or state tax, judicial)	7 years	FCRA, 15 USC 1681
Member change of address form	1 year recommended	GAAP
New Account Report	Permanent	GAAP
Notice of CU invocation of statutory exception to funds availability schedule for check holds	2 years or, if under investigation or per regulatory agency, after final disposition of matter	Reg CC 12 CFR 229.21(g)
Payroll deduction authorization CU member	4 years cancellation of authorization	GAAP
Periodic Statements of member accounts	Permanent	12 CFR 749
Power of Attorney	6 years after account closed	GAAP
Records to reconstruct a share draft account or trace a share draft or check over \$100	5 years	31 CFR Chapter X
Remote banking notices and disclosures including evidence of procedures reasonably ensuring receipt	2 years	12 CFR 1005.13
Savings Bonds	At least 30 days after the image cash letter of paid savings bonds is sent to the Federal Reserve Bank and payment is assured.	31 CFR 321.25
Signature Guarantees (Medallion)	6 years	Kenmark recommendation

Taxpayer Identification and Certification	Permanent	12 CFR 749, 26 CFR 1.6001-1, 26 CFR 301.6501
Taxpayer Identification numbers for all having an interest in a CD	5 years after account closed	31 CFR Chapter X
Truth in Lending compliance documentation	2 years after date disclosure is required to be made or action is required to be taken	Reg Z
Truth in Savings compliance documentation including advertising, disclosures, rate schedule, maturity notice and renewal certification agreement	2 years after date disclosures are to be made or action is required to be taken	NCUA Rules and Regulations part 707.9
Wire Transfer documents	5 years	31 CFR Chapter X

Policy 10012: Table 12 - Tax Records

Revised Date: 12/01/2004

Model Policy Revised Date: 12/01/2004

Model Policy Reviewed Date: 03/28/2014

RECORD	TERM	AUTHORITY
Correspondence	6 years after tax due	IRS regs 26 CFR 1.6001-1 and 26 CFR 301.6501
Dividend Reporting (1099-INT)	6 years following tax year	IRS regs 26 CFR 1.6001-1 and 26 CFR 301.6501
Employer's Annual Federal Unemployment Tax Return (Form 940)	6 years following tax year	26 USC 3301 et seq, 26 CFR 31.6001-1 & 4
Employer's Quarterly Contribution Report	6 years following tax year	IRS regs 26 CFR 1.6001-1 and 26 CFR 301.6501
Employer's Quarterly Federal Tax Return (Form 941)	6 years following tax year	26 USC 3301 et seq, 26 CFR 31.6001-1 & 4
Magnetic Media Reports (tax related)	6 years following tax year	IRS regs 26 CFR 1.6001-1 and 26 CFR 301.6501
Miscellaneous Income (Form 1099-MISC)	6 years following tax year	IRS regs 26 CFR 1.6001-1 and 26 CFR 301.6501
Mortgage Interest (Form 1098)	6 years following tax year	IRS regs 26 CFR 1.6001-1 and 26 CFR 301.6501
Reconciliation of Income Withheld from Wages (Form W-3)	6 years following tax year	IRS regs 26 CFR 1.6001-1 and 26 CFR 301.6501
Sales and Use Tax records	6 years following tax year	IRS regs 26 CFR 1.6001-1 and 26 CFR 301.6501
Social Security Tax records	6 years following tax year	IRS regs 26 CFR 1.6001-1 and 26 CFR 301.6501
Tax Bills	6 years following tax year	IRS regs 26 CFR 1.6001-1 and 26 CFR 301.6501
Tax Statements	6 years following tax year	IRS regs 26 CFR 1.6001-1 and 26 CFR 301.6501
Unemployment Tax Records	6 years following tax year	IRS regs 26 CFR 1.6001-1 and 26 CFR 301.6501
US Information Return (Form 1096)	6 years following tax year	IRS regs 26 CFR 1.6001-1 and 26 CFR 301.6501
US Information Return (form 1099 reporting income paid)	6 years following tax year	IRS regs 26 CFR 1.6001-1 and 26 CFR 301.6501
Wage and Tax Statement (Form W-2)	6 years following tax year	IRS regs 26 CFR 1.6001-1 and 26 CFR 301.6501
Wage Rate Tables (CU employees)	Retain current 2 years	FLSA

Policy 10100: Records Retention

Revised Date: 03/28/2015

Model Policy Revised Date: 03/28/2015

General Policy Statement:

[CUNAME]'s (Credit Union) record retention policy covers retention and disposition of the Credit Union paper and electronic records. Failure to properly maintain records may expose the Credit Union and its employees to regulatory and legal risks.

Guidelines:

1. **RECORD RETENTION.** The retention period for records is determined and authorized by the board of directors in compliance with the requirements of the statute of limitations established by the state of [10100-1] and all other laws, regulations and rules applicable to any records of the Credit Union. See Tables 1 through 12. The Credit Union shall:
 - A. **Designate Staff.** Designate staff responsible for handling the management, retention, and destruction of records (i.e., HR for employment records, IT for electronic records, etc.).
 - i. Provide ongoing training for all staff whose activities involve contact with Credit Union records that have specified retention times.
 - ii. Audit the record retention program at least once a year.
 - B. **Identify and Classification of Records.** Identify and classify all records subject to the policy. Records will be classified from inconsequential to vital.
 - C. **List Location(s).** Make a list of the location or description of where the records are stored and any related information such as addresses, keys, locks, combinations, passwords, or account numbers needed to access the location.
 - D. **Receive Board Approved Schedule.** Receive Board approved schedules for the retention and destruction of records. Under continuing authority from the board, the schedule should provide a means for systematic disposal of records.
 - E. **Create Instructions.** Create specific instructions for inventorying, retaining, retrieving, and destroying records. *{Note: A Sample Record Disposition Log is available in the CU PolicyPro Resources area under TOOLS > General}.*
 - F. **List Destroyed Records.** Prepare and maintain a permanent list of destroyed records.
 - G. **Destroy Records.** Destroy the designated records. Destruction will be carried out by at least two persons whose signatures, attesting to the fact that such records were actually destroyed, will be affixed to the list.
 - H. **Observe Minimum Retention Time.** A record pertaining to any member's account should not be destroyed until the account has been appropriately verified by the supervisory committee.
 - i. Individual Share and Loan Ledgers should not be destroyed.

- ii. Records, for a particular period, should not be destroyed until both a comprehensive annual audit by the supervisory committee and a supervisory examination by the National Credit Union Administration or applicable examining agency has been made for that period.
- iii. Records that support the Credit Union's position in actions before the courts, or other claims will be retained for the minimum period prescribed by the statute of limitations jurisdiction of the state(s) where the Credit Union does business.

I. Permanently Retain Specific Records. Records which are of an official nature significant to the continuing operations of the Credit Union should be retained permanently (see Tables 1 & 5). Such records are:

- i. Charter, bylaws, and amendments.
- ii. Certificates or licenses to operate under programs of various government agencies, such as a certificate to act as issuing agent for the sale of U. S. Savings Bonds (See Policy 10001, Table 1).
- iii. Key records, which reflect the operation of the credit union, and particularly records which reflect transactions with the members or former members, should be retained permanently (See Policy 10001, Table 1), unless, as stated below, such records have been microfilmed. Such records are:
 - a. Minutes of meetings of the membership, board of directors, credit committee, and supervisory committee.
 - b. One copy of each financial report, NCUA Form 5300 or 5310, or their equivalent, and the Credit Union Profile report, NCUA Form 4501, or its equivalent as submitted to NCUA at the end of each quarter.
 - c. One copy of each Supervisory Committee Comprehensive Annual Audit Report and attachments (See Policy 10001, Table 1).
 - d. Supervisory Committee record of account verification.
 - e. Applications for Membership and Joint Share Account Agreements.
 - f. Journal and Cash Record.
 - g. General Ledger.
 - h. Copies of the Periodic Statements of Members, or the Individual Share and Loan Ledger. (A complete record of the account needs to be kept permanently. See Policy 10011, Table 11)
 - i. Bank Reconcilements.
 - j. Listing of records destroyed.

J. Periodically Destroy Specific Records (see Section (3) below and Policies 10005 and 10007, Tables 5 & 7).

2. VITAL RECORDS PRESERVATION. All federally insured credit unions must maintain a written vital

records preservation program to identify, store, and reconstruct vital records in the event that the Credit Union's records are destroyed. (NCUA Rules and Regulations, Part 749) (See Policy 10001, Table 1). (*Credit unions with in-house data processing need to make a provision to safeguard the backup of electronic data on a continuous basis.*)

A. Storing Records. The records to be stored are as follows:

- i. A list of share and/or deposit and loan balances for each member's account, as of the close of the most recent business day, which:
 - a. Shows each balance individually identified by a name or number;
 - b. Lists multiple loans of one account separately; and
 - c. Contains information sufficient to enable the Credit Union to locate each member, such as address and telephone number.
- ii. A financial report, which lists all of the Credit Union's asset and liability accounts, as of the most recent month-end.
- iii. A listing of the Credit Union's corporate/banks, insurance policies, and investments, along with related content information, current as of the most recent month-end. This information may be marked "permanent" and be updated only when changes are made.
- iv. Emergency contact information for employees, officials, regulatory offices and vendors used to support vital records.
- v. Though not required, a photocopy of the credit union's charter, insurance certificate, and most recent amendment(s) to the field of membership.

B. Treasurer's Responsibility. The treasurer on the board of directors of the Credit Union is responsible for storing duplicate vital records. The responsibility may be delegated.

C. Maintain members' share and loan ledgers on a data processing system, sufficiently removed from the Credit Union.

D. Storage Schedule. Records must be stored every three months within thirty days after the end of the three-month period. The records should be from the most recent month-end. Previously stored records may be destroyed when the current records are stored.

- i. A vital records preservation center should be established at any location that is far enough from the Credit Union's office to avoid the simultaneous loss of both sets of records in the event of a disaster. Stored records may be in any format, which can be used to reconstruct the credit union's records. Acceptable formats include paper originals, photocopies, microfilm or fiche, magnetic tape, and optical disk.
- ii. A Record Preservation Log is to be maintained showing what records were stored, where the records were stored, when they were stored, and the person responsible for their storage (See Policy 10001, Table 1). {Note: A Sample Record Preservation Log is available in the TOOLS area of the CU PolicyPro Library}.

- iii. Records maintained by an off-site data processor are considered to be in compliance for the storage of those records.

3. **DESTRUCTION OF RECORDS.**

A. Records that may be destroyed include the following:

- i. Applications of paid off loans.
- ii. Paid notes.
- iii. Various consumer disclosure forms.
- iv. Cash Received Vouchers
- v. Journal Vouchers.
- vi. Canceled Checks.
- vii. Bank Statements.
- viii. Outdated manuals, canceled instructions, and nonpayment correspondence from the National Credit Union Administration and other governmental agencies.

B. Procedures for the destruction of records will include the following:

- i. Expiration dates for documents;
- ii. The designation of those responsible for handling the destruction of records;
- iii. A list of destroyed records;
- iv. When documents were destroyed; and
- v. Who destroyed them.

C. The Credit Union will maintain a Destroyed Records Log. The destruction of records will be carried out by at least two people. They will both sign the log to attest to the fact that the documents were, in fact, destroyed.

4. **PRESERVING RECORDS IN AN ALTERNATIVE FORM.**

A. **Format.** The Credit Union may preserve records in any format that can be used to reconstruct the Credit Union's records, including the listed permanent key records (such as paper, microfilm, microfiche, magnetic tape, digital image or any other electronic format), provided that the form does the following..

- i. Accurately reflects the information in the record;
- ii. Remains accessible to all persons entitled to access by statute, regulation or law; and
- iii. Is capable of retrieval and reproduction.

- B. **Evidence.** If the documents are to be admitted into evidence, original documents may be required.
- C. **Equipment.** Adequate equipment will be used to properly microfilm the documents. Any equipment used must be readily available for reading and making prints of the film.
- D. **Storage.** The storage of records required at audits and examinations will be delayed until the audits and examinations are completed.
- E. **Loan Documents.** All original loan documents should be retained until the loan is satisfied and the requirements for retention in Regulations Z, B, C, the Real Estate Settlement Procedures Act, Flood Disaster Protection Act and the Fair Credit Reporting Act, the Bank Secrecy Act, or any other applicable law or regulation are satisfied.
- F. **Destruction.** The Credit Union may wish to destroy the original records after those original records have been stored in an alternative format. This should only be done after obtaining competent legal advice that the Credit Union will be in compliance with applicable state and federal laws, if such original records are destroyed.

5. **ELECTRONIC RECORD RETENTION.** The term "electronic record" means any record that is created, received, maintained or stored on workstations or central servers. Examples include, but are not limited to, e-mail, word processing documents, e-faxes, blogs, text messages and databases. The staff designated by management pursuant to this policy will be responsible for ensuring compliance with this policy and the Federal Rules of Civil Procedure.

- A. **Destruction.** When member information is no longer required (but the computers will be used elsewhere), and when legal or regulatory requirements for its retention no longer apply, it must be destroyed according to approved methods as authorized by the Credit Union's Information Security policy (See Policy 4120). **Destruction will include rendering the information unreadable and include complete eradication of residual electronic information required by the FACT Act and other applicable laws and regulation to be destroyed. The Credit Union will ensure that all contracts between the Credit Union and service providers who have access to or store member information will include contractual requirements that the service provider dispose of member information in a manner consistent with the FACT Act and other applicable laws and regulations.** The Credit Union will ensure that vital records will not be destroyed.
- B. **Systems Removal and Disposal.** Computer Equipment with an internal disk drive(s) ("hard drive") being removed for relocation or disposal must have the disk drive(s) render any information unreadable. If the equipment is being relocated to another Credit Union user, the disk drive(s) may be erased using software specifically designed to render any data on the disk drive(s) unusable. If the equipment is being discarded, sold or given away, the disk drive(s) will be removed and physically destroyed prior to removal.
- C. **Disclosures Provided Electronically to Members.** The Electronic Signatures Global and National Commerce Act of 2000 ("E-Sign Act") authorizes the Credit Union to retain electronic copies of all disclosures required to be retained by federal or state laws and regulations (See Policy 10007, Table 7). If the Credit Union provides disclosures electronically to its members, the E-Sign Act states that an accurate electronic copy will be treated as an "original" disclosure or record, provided the electronic record is accessible by all persons legally entitled to access, for the period of time required by applicable federal or state law, "in a form that is capable of being accurately reproduced for later reference." This means the Credit Union must be able to either:

- i. Print or e-mail a copy of the electronically provided disclosures when requested by NCUA or state regulator, or
- ii. Give the regulator access to the Credit Union's computer system for purposes of printing or downloading the Credit Union's electronically-provided disclosures.

D. Litigation Holds. When litigation against the Credit Union or its employees is threatened or filed, the Credit Union will preserve all documents and records that pertain to the issues involved. Record retention schedules will be overridden that may have otherwise called for the transfer, disposal or destruction of the relevant documents until the hold has been cleared by the Credit Union's legal counsel.

- i. **Violations.** Violations of a litigation hold may subject employees to disciplinary action, up to and including dismissal, as well as personal liability for civil and/or criminal sanctions by the courts and law enforcement.

Chapter 11000: Fair Credit Reporting Act (FCRA)

Duly Approved by Credit Union

BOARD OF DIRECTORS

Approval Date:

- [Policy 11001: Fair Credit Reporting Act](#)
- [Policy 11002: Furnishing Information To Credit Reporting Agencies](#)
- [Policy 11003: Accuracy And Integrity Of Information Reported](#)
- [Policy 11004: Pre-Screened Offers Of Credit Or Insurance](#)
- [Policy 11005: FCRA Adverse Action Requirements](#)
- [Policy 11006: Receipt Of Notice Of Dispute Of Accuracy Information](#)
- [Policy 11009: Identity Theft Red Flag Guidelines](#)
- [Policy 11010: Risk Based Pricing](#)
- [Policy 11012: Disclosure Of Information To Victims Of Identity Theft](#)
- [Policy 11015: Obtaining and Using Medical Information](#)
- [Policy 11016: Affiliate Marketing Rules](#)

Policy 11001: Fair Credit Reporting Act

Revised Date: 10/05/2016

Model Policy Revised Date: 10/05/2016

Introduction:

On each occasion where [CUname] (Credit Union) uses information provided by a “consumer reporting agency” as that term is defined in the Fair Credit Reporting Act (FCRA) and its supporting regulations, the credit union will protect and conform with the rights of its members as follows:

Guidelines:

1. Definitions.

A. **Consumer Report.** A consumer report is any oral, written or other communication of any information by a consumer reporting agency (CRA) bearing on a consumer’s creditworthiness, credit standing, credit capacity, character, general reputation, personal characteristics or mode of living which is used or expected to be used or collected, in whole or in part, for the purpose of serving as a factor in establishing the consumer’s eligibility for:

- i. Credit or insurance to be used primarily for personal, family or household purposes;
- ii. Employment purposes; or
- iii. Any other permitted purpose (See (11)).

B. **Consumer Reporting Agency.** Any person who, for monetary fees, dues or on a cooperative non-profit basis, regularly engages, in whole or in part, in the practice of assembling or evaluating consumer credit information or other information on consumers for the purpose of furnishing consumer reports to third parties, and which uses any means or facility of interstate commerce for the purpose of preparing or furnishing consumer reports.

C. **Adverse Action.** This term has the same meaning as in the Equal Credit Opportunity Act and means:

- i. A denial or cancellation of, an increase in any charge for, or a reduction or other adverse or other unfavorable change in the terms of coverage or amount of, any insurance, existing or applied for, in connection with the underwriting of insurance;
- ii. A denial of employment or any other decision for employment purposes that adversely affects any current or prospective employee;
- iii. A denial or cancellation of, an increase in any charge for, or any other adverse or unfavorable change in the terms of, any license or benefit described in the FCRA; and
- iv. Any action or determination that is:
 1. Made in connection with an application that was made by, or a transaction that was initiated by, any consumer, or in connection with a review of an account under the FCRA; and

2. Adverse to the interests of the consumer.

D. Firm Offer of Credit or Insurance. Any offer of credit or insurance to a consumer that will be honored if the consumer is determined, based on information in a consumer report on the consumer, to meet the specific criteria used to select the consumer for the offer, except that the offer may be further conditioned on one or more of the following:

i. The consumer being determined, based on information in the consumer's application for the credit or insurance, to meet specific criteria bearing on creditworthiness or insurability, as applicable that are established:

1. Before selection of the consumer for the offer; and

2. For the purpose of determining whether to extend credit or insurance pursuant to the offer.

ii. Verification

1. That the consumer continues to meet the specific criteria used to select the consumer for the offer, by using information in a consumer report on the consumer, information in the consumer's application for the credit or insurance, or other information bearing on the creditworthiness or insurability of the consumer; or

2. Of the information in the consumer's application for the credit or insurance, to determine that the consumer meets the specific criteria bearing on creditworthiness or insurability.

iii. The consumer furnishing any collateral that is a requirement for the extension of the credit or insurance that was:

1. Established before selection of the consumer for the offer of credit or insurance; and

2. Disclosed to the consumer in the offer of credit or insurance.

2. Information Obtained from a CRA. When information obtained from a CRA has any bearing on an adverse decision impacting the member, the following information must be disclosed orally, or in writing or electronically:

A. The name, address, and telephone number of the CRA that provided the report;

B. A statement that the CRA did not make the adverse decision and is not able to explain why the decision was made;

C. A statement outlining the consumer's right to obtain a free disclosure of his/her file from the CRA if the consumer makes a request within 60 days; and

D. A statement outlining the consumer's right to dispute directly with the CRA regarding accuracy or completeness of any information provided by the CRA.

E. The following information in writing or electronically if the credit score was specifically used in your determination:

i. The numerical credit score used by the Credit Union in taking any adverse action based in whole or

in part on any information in a consumer report;

- ii. The range of possible scores under the model used;
- iii. All of the key factors that adversely affected the credit score of the consumer in the model used, the total number of which shall not exceed 4;
- iv. The date on which the credit score was created; and
- v. The name of the person or entity that provided the credit score or credit file upon which the credit score was created.

3. **Information Obtained from Other Outside Sources.** When information obtained from an outside source other than a CRA has any bearing on an adverse credit decision, the Credit Union must either disclose the nature of the information or the member's right to obtain the nature of the information, if a written request is filed within 60 days of the adverse action notice. The Credit Union *may*, but is not required to, disclose the source of the information.
4. **Protection of Medical Information.** The Credit Union will not obtain or use medical information pertaining to a consumer in connection with any determination of the consumer's eligibility, or continued eligibility (See **Policy 11015**).
5. **Notice to Home Loan Applicants.** The Credit Union will provide mortgage loan applicants with a "Notice to Home Loan Applicants" disclosure provided for within the FCRA, if a credit score is used in connection with the mortgage loan application.
 - A. The notice requirement applies to purchase money mortgages, refinanced loans, home equity loans, second mortgages, and the establishment of a home equity lines of credit, all secured by 1 to 4 units of residential real property.
 - B. The notice must be provided as soon as reasonably practicable.
 - C. The notice shall include the name, address, and telephone number of each CRA providing a credit score that was used.
6. **Incomplete or Inaccurate Information.** The Credit Union will not report information relating to a member to any CRA if the Credit Union knows, or has reasonable cause to believe, that the information is inaccurate. The Credit Union will comply with its policy regarding the handling of disputes of incomplete or inaccurate information contained in credit reports or consumer reports, as well as notifying members that negative information was furnished to a CRA (**See Policy 11002**).
7. **Identity Theft Information.** The Credit Union will not use or rely on information it knows or has reason to know may be inaccurate and will not take adverse action against a member when the Credit Union is on notice of identity theft involving the member.
8. **Privacy of Member Information.** The Credit Union will not permit access to members' information except to those with a need to know for purposes of their employment.
9. **Pre-Screened Offers of Credit.** The Credit Union will comply with its policy (**See Policy 11004**) regarding the notice and opt out provisions regarding pre-screened offers of credit and insurance which are based on information in a member's credit report.

10. **Credit Report Alerts.** The Credit Union will honor the rights of identity theft victims and active duty military personnel by complying with requirements of the FCRA for related alerts.

- A. Credit unions are not permitted to establish a new credit plan or extension of credit, other than under an open-end credit plan, in the name of the member, or issue an additional card on an existing credit plan, or grant any increase in credit limit on an existing account if there is an **initial fraud alert or active duty alert** on the consumer report, without the credit union utilizing procedures to form a reasonable belief that the credit union knows the identity of the person making the request.
- B. For **initial fraud or active duty alerts** with instructions for a telephone number to be used for identity verification purposes, the Credit Union, before authorizing any new credit plan or extension described above in (A) in the name of the member, shall contact the member using that telephone number or take reasonable steps to verify the member's identity and confirm that the application for a new credit plan is not the result of identity theft.
- C. Credit unions are not permitted to establish any new credit for a member or issue an additional card on an existing credit plan, if there is an **extended fraud alert** on the consumer report without the credit union contacting the consumer in person or using the contact method included on the credit report.

11. **Permissible Purposes for Obtaining and Using Credit Reports.** The Credit Union will obtain and use consumer reports only for permissible purposes which are as follows:

- A. In response to an order by a court of federal grand jury subpoena.
- B. As instructed by the member in writing.
- C. For extension of credit as a result of an application from a member, or the review or collection of a member's account,
- D. For employment purposes, including hiring and promotion decisions where the consumer has given written permission,
- E. For the underwriting of insurance as a result of an application from a member,
- F. Where there is legitimate business need in connection with the business transaction that is initiated by the member or consumer,
- G. To review a member's account to determine whether the member continues to meet the terms of the account,
- H. For use by a potential investor or servicer or current insurer, in a valuation or assessment of the creditor prepayment risks associated with an existing credit obligation,
- I. For the purpose of making prescreened, unsolicited offers of credit or insurance subject to the applicable obligations of the users of such prescreened information.

12. The Credit Union will certify to each consumer reporting agency from which it obtains information that it has a permissible purpose for obtaining the information and that the Credit Union will not use the information for any impermissible purpose.

13. **Providing Employment Adverse Action Notices.** Before taking any adverse action based in whole or in part on a consumer report, the Credit Union will provide the following to the consumer to whom the report relates (1) a copy of the report; and (2) a description in writing of the consumer's rights.

14. **Risk-Based Pricing Notices.** When the Credit Union uses information in a consumer report in connection with an application for or grant, extension, or provision of credit to a member on material terms that are materially less favorable than the most favorable terms available to a substantial portion of members from or through the Credit Union, the Credit Union will provide a risk-based pricing notice to the member in accordance with regulations issued by the Consumer Financial Protection Bureau (CFPB). (See **Policy 11010**).

Policy 11002: Furnishing Information To Credit Reporting Agencies

Revised Date: 12/30/2014

Model Policy Revised Date: 12/30/2014

Guidelines:

1. **Prohibition Against Reporting Inaccurate Information.** [CUnion] (Credit Union) will not report information relating to a member to any consumer reporting agency (CRA) if the Credit Union knows, or has reasonable cause to believe, that the information is inaccurate. "Reasonable cause to believe that the information is inaccurate" means having specific knowledge, rather than relying solely on allegations made by a member, that would cause a reasonable person to have substantial doubts about the accuracy of the information.
2. **Reporting Correct and Updated Information.** If at any time the Credit Union determines that the information provided is not complete or accurate, the Credit Union must promptly notify all CRAs that received the information of any corrections to that information or must provide any additional information. This is necessary to ensure the information provided is complete and accurate, and the Credit Union must not, thereafter, report any of the information that remains incomplete or inaccurate.
3. **Reporting on Disputed Information.** When the accuracy or completeness of any information reported to a CRA is disputed by the member, the Credit Union may not furnish the information to a CRA without notice that such information is disputed by the member.
4. **Reporting the Voluntary Closure of Accounts.** If the Credit Union regularly notifies the CRA of the voluntary closure of the account by the member, it shall do so using information regularly furnished for the period in which the account is closed.
5. **Reporting Dates of Delinquency.** If the Credit Union furnishes information to a CRA regarding a delinquent account being placed for collection, charged off to profit or loss, or subjected to any similar action, the Credit Union will provide the CRA, within 90 days after furnishing that information. The date of delinquency on the account shall be the month and year of the commencement of the delinquency that immediately preceded the delinquency action.
 - A. The Credit Union will establish and follow reasonable procedures to ensure that the dates reported for the date of delinquency precedes the date upon which the account was placed for collection, charged to profit or loss, or subjected to any similar actions.
6. **Prevention of Reporting on Blocked Information - Notice of Identity Theft.** The Credit Union shall have procedures in place to respond to any notification that it receives from a CRA relating to information resulting from identity theft, to prevent the Credit Union from refurnishing such blocked information.
 - A. If the member submits an identity theft report to the Credit Union, stating that the information they reported resulted from identity theft, the Credit Union may not furnish such information that relates to that member to any CRA, unless the Credit Union knows or is informed by the member that the information is correct.
7. **Reporting Negative Information.** If the Credit Union, in the ordinary course of its business, furnishes information to a CRA which contains negative information regarding credit extended to a customer, the Credit Union will provide notice in writing to the member that negative information was furnished to a CRA. The

Credit Union may submit additional negative information to a CRA with respect to the same transaction, extension of credit, account or member, without providing additional notice to the member.

- A. The notice will be provided either prior to reporting it to the CRA or, at least, no later than 30 days after the negative information was reported to the CRA.
- B. The notice must be clear and conspicuous, and, where it is provided to the member prior to the furnishing of negative information to the CRA, the notice may not be included in the initial disclosures required under the Fair Credit Reporting Act.
- C. The notice may be included on or with any notice of default, any billing statement, or any other materials provided to the member.

Policy 11003: Accuracy And Integrity Of Information Reported

Revised Date: 03/24/2016

Model Policy Revised Date: 03/24/2016

Introduction:

The Fair and Accurate Credit Transactions Act (FACT Act) amended the Fair Credit Reporting Act (FCRA) in 2003. The amendments were made to prevent identity theft, improve resolution of consumer disputes, improve the accuracy of consumer records, make improvements in the use of, and consumer access to, credit information and for other purposes. The Consumer Financial Protection Bureau (CFPB) has rulemaking authority for the FCRA and is implemented in Regulation V. Rulemaking authority for the disposal of consumer information, identity theft regulations, and rules on the duties of card issuers regarding change of address are left with the NCUA for federally chartered credit unions and the Federal Trade Commission (FTC) for state chartered credit unions. Collectively, those entities establish and maintain guidelines for use by credit unions that furnish information to credit reporting agencies (CRAs) addressing the accuracy and integrity of the information reported. Under the FCRA, financial institutions must investigate disputes about the accuracy of information in a credit report, based on a direct request from a consumer.

Guidelines:

1. **DEFINITIONS.** Under Regulation V, the following definitions apply:

- A. **Accuracy** - The information a furnisher provides to a CRA about an account or other relationship with a consumer that correctly:
 - i. Reflects the terms of and liability for the account or other relationship;
 - ii. Reflects the consumer's performance and other conduct with respect to the account or other relationship; and
 - iii. Identifies the appropriate consumer.
- B. **Direct Dispute** - A dispute submitted directly to a furnisher (i.e., credit union) by a consumer concerning the accuracy of any information contained in a consumer report and pertaining to an account or other relationship that the furnisher has or had with the consumer.
- C. **Furnisher** means an entity that furnishes information relating to consumers to one or more CRAs for inclusion in a consumer report. This includes furnishing deposit account information to specialty CRAs. The Credit Union is not a furnisher when it:
 - i. Provides information to a CRA solely to obtain a consumer report in accordance with the Fair Credit Reporting Act (FCRA);
 - ii. Is acting as a CRA as defined in the FCRA;
 - iii. Is a consumer to whom the furnished information pertains; or
 - iv. Is a neighbor, friend, or associate of the consumer, or another individual with whom the consumer is acquainted or who may have knowledge about the consumer, and who provides information

about the consumer's character, general reputation, personal characteristics, or mode of living in response to a specific request from a CRA.

D. **Identity Theft** has the same meaning as in the FTC's regulations, which define it as "a fraud committed or attempted using the identifying information of another person without authority."

E. **Integrity** means that information that a furnisher provides to a CRA about an account or other relationship with the consumer:

- i. Is substantiated by the furnisher's records at the time it is furnished;
- ii. Is furnished in a form and manner that is designed to minimize the likelihood that the information may be incorrectly reflected in a consumer report; and thus the information should:
 1. Include appropriate identifying information;
 2. Be furnished in a standardized and clearly understandable form and manner and with a date specifying the time period to which the information pertains; and
- iii. Includes the information in the furnisher's possession about the account or other relationship that the Regulator has:
 1. Determined that the absence of which would likely be materially misleading in evaluating a consumer's creditworthiness, credit standing, credit capacity, character, general reputation, personal characteristics, or mode of living; and
 2. Includes the credit limit, if applicable and in the furnisher's possession.

2. **DIRECT DISPUTES.**

A. **General Rule.** Except as otherwise provided in this section, the Credit Union will conduct a reasonable investigation of a direct dispute if it relates to the following:

- i. The member's liability for a credit account or other debt with the Credit Union, such as direct disputes relating to whether there is or has been identity theft or fraud against the member, whether there is individual or joint liability on an account, or whether the member is an authorized user of a credit account;
- ii. The terms of a credit account or other debt with the Credit Union, such as direct disputes relating to the type of account, principal balance, scheduled payment amount on an account, or the amount of the credit limit on an open-end account;
- iii. The member's performance or other conduct concerning an account or other relationship with the Credit Union, such as direct disputes relating to the current payment status, high balance, date a payment was made, the amount of a payment made, or the date an account was opened or closed; or
- iv. Any other information contained in a consumer report regarding an account or other relationship with the Credit Union that bears on the member's creditworthiness, credit standing, credit capacity, character, general reputation, personal characteristics, or mode of living.

B. Exceptions. The requirements of paragraph (A) of this section do not apply to the Credit Union if:

i. The direct dispute relates to:

1. The member's identifying information (other than a direct dispute relating to a member's liability for a credit account or other debt with the Credit Union, such as name(s), date of birth, Social Security number, telephone number(s), or address(es);
2. The identity of the member's past or present employers;
3. Inquiries or requests for a consumer report;
4. Information derived from public records, such as judgments, bankruptcies, liens, and other legal matters (unless provided by the Credit Union with an account or other relationship with the member);
5. Information related to fraud alerts or active duty alerts; or
6. Information provided to a CRA by another furnisher; or

ii. The Credit Union has a reasonable belief that the direct dispute is submitted by, is prepared on behalf of the member by, or is submitted on a form supplied to the member by, a credit repair organization, as defined in the Credit Repair Organization Act (CROA) (15 U.S.C. 1679a), or an entity that would be a credit repair organization, but for the CROA (15 U.S.C. 1679a(3)(B)(i)).

C. Direct Dispute Address. The Credit Union will investigate a direct dispute only if a member submits a dispute notice to the Credit Union at:

- i. The address of the Credit Union provided by the Credit Union and set forth on a consumer report relating to the member;
- ii. An address clearly and conspicuously specified by the Credit Union for submitting direct disputes that is provided to the member in writing or electronically (if the member has agreed to the electronic delivery of information from the Credit Union); or
- iii. Any business address of the Credit Union if the Credit Union has not so specified and provided an address for submitting direct disputes.

D. Direct Dispute Notice Contents. A dispute notice must include the following information:

- i. Sufficient information to identify the account or other relationship that is in dispute, such as an account number and the name, address, and telephone number of the member, if applicable;
- ii. The specific information that the member is disputing and an explanation of the basis for the dispute; and
- iii. All supporting documentation or other information reasonably required by the Credit Union to substantiate the basis of the dispute. This documentation may include, for example: a copy of the relevant portion of the consumer report that contains the allegedly inaccurate information; a police report; a fraud or identity theft affidavit; a court order; or account statements.

E. Duties of the Credit Union Upon Receipt of a Direct Dispute Notice. After receiving a proper dispute notice from a member, the Credit Union will do the following:

- i. Conduct a reasonable investigation with respect to the disputed information;
- ii. Review all relevant information provided by the member with the dispute notice;
- iii. Complete its investigation of the dispute and report the results of the investigation to the member before the expiration of the period under section 611(a)(1) of the FCRA within which a CRA would be required to complete its action if the member had elected to dispute the information under that section; and
- iv. If the investigation finds that the information reported was inaccurate, promptly notify each CRA to which the Credit Union provided inaccurate information of that determination, and provide to the CRA any correction to that information that is necessary to make the information provided by the Credit Union accurate.

F. Frivolous or irrelevant disputes. The Credit Union is not required to investigate a direct dispute if the Credit Union has reasonably determined that the dispute is frivolous or irrelevant. A dispute qualifies as frivolous or irrelevant if:

- i. The member did not provide sufficient information to investigate the disputed information;
- ii. The direct dispute is substantially the same as a dispute previously submitted by or on behalf of the member, either directly to the Credit Union or through a CRA, with respect to which the Credit Union has already satisfied the applicable requirements of the FCRA or this section; provided, however, that a direct dispute is not substantially the same as a dispute previously submitted if the dispute includes information that had not previously been provided to the Credit Union; or
- iii. The Credit Union is not required to investigate the direct dispute because one or more of the exceptions listed in paragraph (2)(B) applies.
- iv. **Notice of Determination.** Upon making a determination that a dispute is frivolous or irrelevant, the Credit Union will notify the member of the determination not later than five (5) business days after making the determination, by mail or, if authorized by the member for that purpose, by any other means available to the Credit Union.
- v. **Contents of notice of determination that a dispute is frivolous or irrelevant.** A notice of determination that a dispute is frivolous or irrelevant will include the reasons for such determination and identify any information required to investigate the disputed information, which notice may consist of a standardized form describing the general nature of such information.

3. ACCURACY AND INTEGRITY OF INFORMATION FURNISHED TO CRAs.

A. Accuracy. The Credit Union will ensure that information furnished to CRAs regarding accounts or other relationships with members:

- i. Is accurate:
- ii. Identifies the appropriate member;

- iii. Reflects the terms of and liability for those accounts or other relationships; and
- iv. Reflects the member's performance and other conduct with respect to the account or other relationship;

B. Integrity. The Credit Union will furnish information about accounts or other relationships with a member that has integrity, such that the furnished information:

- i. Is substantiated by the Credit Union's records at the time it is furnished;
- ii. Is furnished in a form and manner that is designed to minimize the likelihood that the information may be incorrectly reflected in a consumer report; thus, the furnished information will:
 - 1. Include appropriate identifying information about the member to whom it pertains; and
 - 2. Be furnished in a standardized and clearly understandable form and manner and with a date specifying the time period to which the information pertains; and
 - 3. Includes the credit limit, if applicable and in the Credit Union's possession;

C. Conducting Investigations. The Credit Union will conduct reasonable investigations of member disputes and take appropriate actions based on the outcome of such investigations.

D. Updating Information. The Credit Union will update the information it furnishes as necessary to reflect the current status of the member's account or other relationship, including, for example:

- i. Any transfer of an account (e.g., by sale or assignment for collection) to a third party; and
- ii. Any cure of the member's failure to abide by the terms of the account or other relationship.

4. ENSURING THE ACCURACY AND INTEGRITY OF INFORMATION. In order to ensure the accuracy and integrity of information, the Credit Union will do the following:

A. Identify practices or activities of the Credit Union that can compromise the accuracy or integrity of information furnished to CRAs, such as by:

- i. Reviewing its existing practices and activities, including the technological means and other methods it uses to furnish information to CRAs and the frequency and timing of its furnishing of information;
- ii. Reviewing its historical records relating to accuracy or integrity or to disputes; reviewing other information relating to the accuracy or integrity of information provided by the Credit Union to CRAs; and considering the types of errors, omissions, or other problems that may have affected the accuracy or integrity of information it has furnished about members to CRAs;
- iii. Considering any feedback received from CRAs, members, or other appropriate parties;
- iv. Obtaining feedback from the Credit Union's staff; and
- v. Considering the potential impact of the Credit Union's policies and procedures on members.

- B. Evaluate the effectiveness of existing policies and procedures of the Credit Union regarding the accuracy and integrity of information furnished to CRAs; consider whether new, additional, or different policies and procedures are necessary; and consider whether implementation of existing policies and procedures should be modified to enhance the accuracy and integrity of information about members furnished to CRAs.
- C. Evaluate the effectiveness of specific methods (including technological means) the Credit Union uses to provide information to CRAs; how those methods may affect the accuracy and integrity of the information it provides to CRAs; and whether new, additional, or different methods (including technological means) should be used to provide information to CRAs to enhance the accuracy and integrity of that information.
- D. Use standard data reporting formats and standard procedures for compiling and furnishing data, where feasible, such as the electronic transmission of information about members to CRAs.
- E. Maintain records for a reasonable period of time, not less than any applicable recordkeeping requirement, in order to substantiate the accuracy of any information about members it furnishes that is subject to a direct dispute.
- F. Establish and implement appropriate internal controls regarding the accuracy and integrity of information about members furnished to CRAs, such as by implementing standard procedures and verifying random samples of information provided to CRAs.
- G. Train staff that participates in activities related to the furnishing of information about members to CRAs to implement the policies and procedures.
- H. Provide for appropriate and effective oversight of relevant service providers whose activities may affect the accuracy or integrity of information about members furnished to CRAs to ensure compliance with the policies and procedures.
- I. Furnish information about members to CRAs following mergers, portfolio acquisitions or sales, or other acquisitions or transfers of accounts or other obligations in a manner that prevents re-aging of information, duplicative reporting, or other problems that may similarly affect the accuracy or integrity of the information furnished.
- J. Delete, update and correct information in the Credit Union's records, as appropriate, to avoid furnishing inaccurate information.
- K. Conduct reasonable investigations of disputes.
- L. Design technological and other means of communication with CRAs to prevent duplicative reporting of accounts, erroneous association of information with the wrong member(s), and other occurrences that may compromise the accuracy or integrity of information provided to CRAs.
- M. Provide CRAs with sufficient identifying information in the Credit Union's possession about each member about whom information is furnished to enable the CRA properly to identify the member.
- N. Conduct a periodic evaluation of its own practices, CRA practices of which the Credit Union is aware, investigations of disputed information, corrections of inaccurate information, means of communication, and other factors that may affect the accuracy or integrity of information furnished to CRAs.

O. Comply with applicable requirements under the Fair Credit Reporting Act and its implementing regulations.

P. Review the Credit Union's policies and procedures periodically and update them as necessary to ensure their continued effectiveness.

5. **IDENTITY THEFT-RELATED INFORMATION.** To prevent the refurnishing of blocked information, if the member presents the Credit Union with an identity theft report at the address specified by the Credit Union, stating that the information maintained by the Credit Union purports to relate to the member, resulted from identity theft, the Credit Union will not furnish such information to the CRA unless the Credit Union subsequently knows or is informed by the member that the information is correct.

Policy 11004: Pre-Screened Offers Of Credit Or Insurance

Revised Date: 12/30/2014

Model Policy Revised Date: 12/30/2014

Introduction:

On each occasion where [CUName] (Credit Union) uses a consumer report on any consumer for any credit or insurance transaction that is not initiated by that consumer, the Credit Union shall provide the consumer with the disclosure statements contained in the Fair Credit Reporting Act (FCRA) and implementing Regulation V. Within the solicitation, the Credit Union will provide both the short and long portion disclosures in the same language as the offer of credit or insurance.

Guidelines:

1. **Establishing and Retaining Criteria.** Before a pre-screened list is used, the Credit Union must establish the criteria that will be relied upon to make the offer and grant credit or insurance, and will maintain such criteria on file for 3 years from the date on which the offer of credit is made to each member.
2. **Firm Offer of Credit.** Pre-screened offers must contain a “firm offer of credit or insurance.” The FCRA definition of a “firm offer of credit or insurance” means any offer of credit or insurance to a consumer that will be honored if the consumer is determined, based on information in a consumer report for that consumer, to meet the specific criteria used to select the consumer for the offer, except that the offer may be further conditioned on one or more of the following:
 - A. The consumer being determined, based on information in the consumer’s application for the credit or insurance, to meet specific criteria bearing on credit worthiness or insurability, as applicable that are established before selection of the consumer for the offer and for the purpose of determining whether to extend credit or insurance pursuant to the offer.
 - B. Verification that the consumer continues to meet the specific criteria used to select the consumer for the offer, by using information in a CRA on the consumer, information in the consumer’s application for the credit or insurance, or other information bearing on the credit worthiness or insurability of the consumer or of the information in the consumer’s application for the credit or insurance, to determine that the consumer meets the specific criteria bearing on credit worthiness or insurability.
 - C. The consumer furnishing any collateral that is a requirement for the extension of credit or insurance that was established before the selection of the consumer for the offer of credit or insurance and disclosed to the consumer in the offer of credit or insurance.
3. **Required Notices with the Solicitation.** When sending a pre-screened offer for credit or insurance, the Credit Union will provide both of the following notices:
 - A. **Short Notice.** The Credit Union must provide a short notice with the solicitation that the member has a right to opt-out of receiving pre-screened solicitations, including a toll-free telephone number of the CRA that the consumer may call to opt out. This short notice may **not** contain any other information and must direct the member to the longer, more detailed notice, including the heading for the long notice and must be:
 - i. Prominent, clear and conspicuous, and “simple and easy to understand” (i.e., plain language to be

understood by ordinary consumers and using clear and concise sentences and paragraphs as identified within Regulation V);

ii. Form Requirements for the Short Notice. The short notice must also be:

1. In a type size larger than the principal text of the page; but in no event smaller than 12 point type, or if provided by electronic means, then reasonable steps shall be taken to ensure that the type size is larger than the type size of the principal text on the same page;
2. On the front side of the first page of the “principal promotion document” in the solicitation (i.e., the document designed to be seen first, like the cover letter) or if provided electronically, on the same page and in close proximity to the principal marketing message;
3. In a format distinct from other text., such as inside a border; and
4. In a type style that is distinct from the principal type style used on the same page, such as bolded, italicized, underlined, and/or in a color that contrasts with the color of the principal text on the page, if the solicitation is in more than one color.

B. Long Notice. The long notice must also be clear and conspicuous, and “simple and easy to understand,” and must provide the following information:

- i. Information contained in the member’s CRA was used in connection with the transaction;
- ii. The consumer received the offer because he/she satisfied the criteria for creditworthiness or insurability used to screen for the offer.
- iii. Credit or insurance may not be extended if, after the consumer responds, it is determined that the consumer does not meet the criteria used for screening or any applicable criteria related to creditworthiness or insurability, or the consumer does not provide required collateral.
- iv. The consumer has the right to prohibit the use of information in his/her file with a CRA from being used in connection with future pre-screened offers of credit or insurance;
- v. The consumer may exercise their right by contacting the notification system established by the CRA that provided the report, including the address and telephone number of the appropriate notification system for that CRA;

vi. Form Requirements for the Long Notice. The long notice must:

1. Appear in the solicitation;
2. Be in a type size no smaller than the principal text on the same page and no smaller than 8-point type. For electronic solicitations, the notice need only be in a type size no smaller than the principal text on the same page;
3. Begin with a heading in capital letters and underlined, identifying the notice as the “PRESCREEN & OPT-OUT NOTICE”;
4. Be in a type style that is distinct from the principal type style used on the same page, such as bolded, italicized, underlined and/or in a color that contrasts with the color of the principal

text on the page, if the solicitation is in more than one color; and

5. Be set apart from the other text on the page, such as by including a blank line above and below the statement, and by indenting both the left and right margins from other text on the page.

Policy 11005: FCRA Adverse Action Requirements

Revised Date: 12/30/2014

Model Policy Revised Date: 12/30/2014

Introduction:

As required under the Fair Credit Reporting Act (FCRA), on each occasion where [CUName] (Credit Union) denies or increases the cost of credit or generally takes any adverse action against a consumer, the Credit Union must make certain disclosures depending on the source of the information. Credit Unions may use model adverse action notices in Appendix C of Regulation B (Equal Credit Opportunity Act) to comply with the disclosure requirements of both the FCRA and Regulation B.

Guidelines:

1. **Information Obtained from a CRA.** When information obtained from a CRA has any bearing on a credit decision, the following information must be disclosed orally, in writing or electronically if permitted under applicable laws and regulations:
 - A. Written or electronic disclosure of a numerical credit score used by the credit union in taking adverse action in whole or in part on any information in a consumer report and the range of possible credit scores under the model used, all of the key factors that adversely affected the cred score of the consumer in the model used (not to exceed 4), the date on which the credit score was created, and the name of the person or entity that provided the credit score or credit file upon which the credit score was created.
 - B. The name, address, and telephone number of the CRA that provided the report (including a toll-free telephone number established by the CRA);
 - C. A statement that the CRA did not make the adverse decision and is not able to explain why the decision was made;
 - D. A statement outlining the consumer's right to obtain a free disclosure of his/her file from the CRA if the consumer makes a request within 60 days; and
 - E. A statement outlining the consumer's right to dispute directly with the CRA regarding accuracy or completeness of any information provided by the CRA.
2. **Information Obtained from Other Outside Sources.** When information obtained from an outside source other than a CRA has any bearing on an adverse credit decision, the Credit Union must either disclose the nature of the information or the member's right to obtain the nature of the information, if a written request is filed within 60 days of the adverse action notice. The Credit Union *may*, but is not required to, disclose the source of the information.
3. **Information from the Credit Union's Internal Records.** If the Credit Union relies on its own experience with a member to deny or increase the cost of credit, there are no disclosure requirements.
4. **Information Obtained from An Affiliate.** If the Credit Union bases an adverse action in whole or in part on information provided by an affiliate of the Credit Union, and includes information in addition to information solely related to the transactions or experiences between the member and the affiliate, the Credit Union must notify the member of the adverse action, including a statement that the member may obtain the information received by the Credit Union from its affiliate upon a written request from the member within sixty (60) days

after the notice of the adverse action is given.

- A. When a member submits such a written request within the required time frame, the Credit Union must respond within a reasonable time (5 days) by disclosing the nature of the information on which the denial of credit is based. There is no requirement to disclose the name and address of the party from whom the Credit Union obtained the information.

- B. If the member fails to submit a written request within the 60-day limit, the Credit Union has no obligation to provide the information.

Policy 11006: Receipt Of Notice Of Dispute Of Accuracy Information

Revised Date: 03/28/2015

Model Policy Revised Date: 03/28/2015

Introduction:

The Fair Credit Reporting Act (FCRA) imposes responsibilities on all persons who furnish information to consumer reporting agencies (CRAs). [CUName] (Credit Union) is required to investigate a dispute concerning the accuracy of information contained in a consumer report on the member, based on a direct request of a member.

Guidelines:

1. **Disputes from Members.** If a member notifies the Credit Union, at an address specified for such notices, the specific information that is being disputed, the basis for the dispute, and supporting documentation to substantiate the dispute, the Credit Union must:
 - A. Conduct an investigation with respect to the disputed information;
 - B. Review all relevant information provided by the member with the notice;
 - C. Complete the investigation of the dispute and report the results to the member before a 30 day period beginning on the date the Credit Union receives the notice of dispute from the member (or 45 days if the member provides information relevant to the investigation to the CRA); and
 - D. If the investigation finds that the information reported was inaccurate, the Credit Union will promptly notify each CRA to which information was furnished the in accurate information of that determination and provide to the CRA any correction to that information that is necessary to make the information provided by the Credit Union accurate.
2. **Frivolous or Irrelevant Dispute.** The Credit Union is not required to investigate a direct dispute if the Credit Union has reasonably determined that the dispute is frivolous or irrelevant. A dispute qualifies as frivolous or irrelevant if:
 - A. The member fails to provide sufficient information to investigate the disputed information; or
 - B. The submission by a member of a dispute that is substantially the same as a dispute previously submitted by or for the member, either directly to the Credit Union or through a CRA, that the Credit Union has already addressed and satisfied the applicable FCRA requirements outlined in Section 1.
3. **Credit Union Duty Not to Re-Disclose Inaccurate Information.** If a member notifies the Credit Union that he/she disputes the completeness or accuracy of any information reported by the Credit Union, the Credit Union may not subsequently report that information to a CRA without also providing notice of the dispute.
4. **Notice from CRA.** If a CRA notifies the Credit Union that a member disputes the completeness or accuracy of information provided, the Credit Union must follow the procedures outlined below:
 - A. Conduct an investigation and review all relevant information provided by the CRA, including information given to the CRA by the member;
 - B. Report the results to the CRA and, if the investigation determines that the information was, in fact,

inaccurate, report the results to all CRAs that compile and maintain files on a nationwide basis (i.e., TransUnion, Equifax and Experian) to which the Credit Union provided the information.

C. Complete the above within 30 days from the date the CRA receives the dispute (or 45 days if the member later provides relevant information to the CRA).

Policy 11009: Identity Theft Red Flag Guidelines

Revised Date: 12/30/2014

Model Policy Revised Date: 12/30/2014

Introduction:

Under the Fair Credit Reporting Act (FCRA), financial institutions (and creditors) that offer or maintain “covered accounts” (defined below) must develop and implement a written identity theft prevention program (the Program) that is appropriate to the size and complexity of the institution, as well as the nature and scope of its activities. The Program requires reasonable policies and procedures, staff training, oversight of service providers, and oversight by the Board of Directors.

The rules also require credit and debit card issuers to establish reasonable policies and procedures to assess the validity of a change of address when there is also a request for an additional or replacement card within a short period of time. Users of consumer reports who receive a notice of an address discrepancy from a credit bureau must have procedures in place in order to form a reasonable belief of the consumer’s identity.

General Policy Statement:

The purpose of this policy is to set forth the guidelines for management and staff to use in establishing and maintaining policies and procedures in order to comply with the FCRA’s guidelines on detecting, preventing and mitigating identity theft.

Guidelines:

1. DEFINITIONS

- A. **Account** – A continuing relationship established by a person with the credit union to obtain a product or service for personal, family, household or business purposes.
 - i. Although this definition includes business accounts, the risk-based nature of the final rules allows the Credit Union flexibility to determine which business accounts will be covered by its Program through a risk evaluation process.
 - ii. The obligations of the final rule apply not only to existing accounts, where a relationship already has been established, but also to account openings, when a relationship has not yet been established.
- B. **Covered Account** - (1) An account primarily for personal, family, or household purposes, that involves or is designed to permit multiple payments or transactions, or (2) any other account for which there is a reasonably foreseeable risk to members or the safety and soundness of the Credit Union from identity theft, including financial, operational, compliance, reputation or litigation risks.
- C. **Identity Theft** – A fraud committed or attempted using the identifying information of another person without authority. The Federal Trade Commission (FTC) defines the term “identifying information” to mean, “any name or number that may be used, alone or in conjunction with any other information, to identify a specific person, including any of the following:
 - i. Name, Social Security Number (SSN), date of birth, official State or government issued driver’s

license or identification number, alien registration number, government passport number, employer or taxpayer identification number;

- ii. Unique biometric data, such as fingerprint, voice print, retina or iris image, or other unique physical representation;
- iii. Unique electronic identification number, address or routing code; or
- iv. Telecommunication identifying information or access device.”

D. **Red Flag** – A pattern, practice or specific activity that indicates the possible existence of identity theft.

E. **Service Provider** – A person that provides a service directly to the Credit Union.

2. **PERIODIC IDENTIFICATION OF COVERED ACCOUNTS.** The Credit Union will periodically determine whether it offers or maintains any covered accounts. As part of this determination, the Credit Union will conduct a risk assessment to determine whether it offers or maintains covered accounts, taking the following into consideration:

- A. The methods it provides to open its accounts;
- B. The methods it provides to access its accounts; and
- C. Its previous experience with identity theft.
 - i. For example, the Credit Union will consider whether a reasonably foreseeable risk of identity theft may exist in connection with accounts it offers or maintains that may be opened or accessed remotely. Previous experiences with identity theft will be factored into the determination.

3. **DEVELOPMENT AND IMPLEMENTATION OF IDENTITY THEFT PREVENTION PROGRAM**

A. **Identification of Red Flags.** In determining which Red Flags may be relevant, the following factors will be considered:

- i. The types of covered accounts offered or maintained;
- ii. The methods provided to open these accounts;
- iii. The methods provided to access covered accounts; and
- iv. Previous experiences with identity theft.
- v. The relevant Red Flags will be incorporated from the following sources:
 - a. Previous experiences with identity theft;
 - b. Changes in the methods of identity theft that reflect changes in the risk; and
 - c. Applicable supervisory guidance.

B. Detection of and Response to Red Flags

i. **Detection.** The Credit Union will address the Red Flags in connection with the opening of covered accounts by obtaining and verifying information about the identity of a person opening a covered account (for example, by using the existing CIP rules set forth in the Bank Secrecy Act). The Credit Union will address the detection of Red Flags in connection with **existing** covered accounts by authenticating members, monitoring transactions, and verifying the validity of change of address requests.

ii. **Responding.** In order to respond appropriately, the Credit Union will:

1. Assess whether the Red Flag detected evidences a risk of identity theft, and will have a reasonable basis for concluding that a Red Flag does not evidence such a risk.
2. Not establish a new credit plan, issue additional cards on an existing credit account, or increase any credit limit in the name of the member until the Credit Union forms a reasonable belief" that it knows the identity of the person making the request.
3. For initial active duty alerts, if the member has specified a telephone number in the alert, the Credit Union will not extend any credit until it contacts the member using that number, or takes other reasonable steps to verify the person's identity and confirm that the application for credit is not the result of ID theft.
4. For extended alerts, the credit union will contact the member in person, at the telephone number indicated in the alert, or other reasonable contact method specified by the member before credit is granted, additional cards are issued and/or a credit limit is increased

C. **Updating the Program.** The Credit Union will periodically update its policies, procedures and risk assessment to reflect changes in identity theft risks to members and to the safety and soundness of the Credit Union.

4. ADMINISTRATION OF THE PROGRAM

A. **Involvement of the Board of Directors and Senior Management.** The Board or an appropriate committee of the Board must approve only the **initial** written Program. Thereafter, at the discretion of the Credit Union, the Board, committee or senior management may update the Program. Oversight will include the following:

- i. Assigning specific responsibility for the program's implementation;
- ii. Reviewing annual reports prepared by staff regarding compliance with the Red Flags rules. The report will address the following matters related to the Program:
 - a. The effectiveness of the policies and procedures that address the risk of identity theft in connection with the opening of covered accounts or existing covered accounts;
 - b. Service provider arrangements;
 - c. Significant incidents of identity theft and management's response to these incidents; and
 - d. Recommendations for material changes to the Program; and
- iii. Approving material changes to the Program, as necessary, to address changing identity theft risks.

B. Staff Training. The Credit Union will train relevant staff, as necessary, to effectively implement the Program.

C. Oversight. If a service provider is used in connection with covered accounts, the Credit Union will ensure that the activity of the service provider is conducted pursuant to reasonable policies and procedures that are designed to detect, prevent and mitigate the risk of identity theft.

D. Other Applicable Legal Requirements. The Credit Union will follow other applicable legal requirements, such as:

- i. The requirement to file a Suspicious Activity Report;
- ii. The requirements under the Fair Credit Reporting Act (FCRA) regarding the circumstances under which credit may be extended when fraud or an active duty alert is detected;
- iii. The requirements under the FCRA of furnishers of information to credit bureaus to correct or update inaccurate or incomplete information, and not to report information that the furnisher reasonably believes is inaccurate; and
- iv. The FCRA prohibitions against the sale, transfer and placement for collection of certain debts resulting from identity theft.

5. RED FLAGS. As part of its identity theft prevention program, the Credit Union will monitor activity for the detection of the following Red Flags. The Credit Union will periodically update this list as new experiences are encountered.

A. A fraud or active duty alert is included with the credit report.

B. A credit bureau provides a notice of a credit freeze in response to a request for a credit report.

C. A credit bureau provides a notice of an address discrepancy.

D. The credit report or use of the account that indicates a pattern of activity is inconsistent with the history or pattern of activity usually associated with the member, such as:

- i. A recent and significant increase in the volume of inquiries;
- ii. An unusual number of recently established credit relationships;
- iii. A material change in the use of credit, especially with respect to recently established credit relationships; or
- iv. An account that was closed for cause or identified for abuse of account privileges by a financial institutions or creditor.

E. Documents provided for identification appear to be forged or altered

F. The photograph, description of the consumer, or other information on the identification is inconsistent with the appearance of the consumer who is presenting the identification.

- G. Other information on the identification is not consistent with the information on the identification provided by the person when the account is opened or by the consumer presenting the identification.
- H. Other information provided is inconsistent with information on file with the Credit Union, such as a signature card or recent check.
- I. An application appears to be altered, or destroyed and reassembled.
- J. Personal information provided is inconsistent when compared to external information sources, such as:
 - i. The address does not match any address in the credit report; or
 - ii. The SSN has not been issued, or is listed on the Social Security Administration's Death Master File.
- K. Personal information is internally inconsistent, such as an SSN that is inconsistent with a consumer's date of birth.
- L. Personal information is provided that has also been provided on a fraudulent application.
- M. Personal information that is provided is of a type associated with fraudulent activity, such as a fictitious address (i.e., mail drop or a prison) and an invalid phone number (i.e., pager or answering service).
- N. The address, SSN, and phone numbers have been submitted by other consumers.
- O. The consumer fails to provide all required information on an application.
- P. Personal information is not consistent with information on file with the Credit Union.
- Q. *(For credit unions that use challenge questions)*, the consumer cannot provide authenticating information, other than what would be available from a wallet or credit report.
- R. There is a request for additional authorized users for the account or a request for new, additional, or replacement cards shortly after a request for a change of address.
- S. A new, revolving credit account is used in a manner associated with fraud, such as credit used for cash advances or for merchandise that is easily converted to cash, or the member fails to make payments.
- T. An account is used in a manner inconsistent with established patterns of activity, such as:
 - i. Nonpayment when there is no history of late or missed payments;
 - ii. A material increase in the use of available credit;
 - iii. A material change in purchasing or spending patterns;
 - iv. A material change in electronic fund transfer patterns in connection with a deposit account; or
 - v. A material change in telephone call patterns in connection with a cellular phone account.
- U. An account that has been inactive for a reasonably lengthy period of time is used (taking into

consideration the type of account, the expected pattern of usage and other relevant factors).

- V. Mail sent to the member is returned repeatedly as undeliverable even though transactions on the account continue to be conducted.
- W. The Credit Union is notified that the member is not receiving paper account statements.
- X. The Credit Union is notified of unauthorized charges or transactions in connection with the account.
- Y. The Credit Union has been notified that it has opened a fraudulent account for a person engaged in identity theft.

6. SPECIAL RULES FOR CARD ISSUERS.

- A. The Credit Union will not issue an additional or replacement credit or debit card if such a request is received within a short time period (which must be at least 30 days) after receiving notification of a change of address for that account, unless the Credit Union does the following:
 - i. Notifies the cardholder of the request either (1) at the cardholder's former address; or (2) by any other means of communication that the Credit Union and the cardholder have previously agree to use; and provides the cardholder with a reasonable means of promptly reporting incorrect address changes; and
 - ii. Otherwise assess the validity of the change of address in accordance with Credit Union's policies and procedures.
- B. Any written or electronic notice that is provided under these rules will be "clear and conspicuous," and provided separately from the regular correspondence that is sent to the member. "Clear and conspicuous" is defined as "reasonably understandable and designed to call attention to the nature and significance of the information." Verbal notices may also be provided, if outlined in the policies and procedures that the Credit Union has established under the Red Flag rules.
- C. These rules apply only to credit and debit cards, which includes payroll cards. They do not apply to gift cards or other prepaid card products.

7. RULES ON DUTIES OF USERS OF CREDIT REPORTS REGARDING ADDRESS DISCREPANCIES

- A. As a user of credit report information, the Credit Union will do the following:
 - i. Compare the information in the credit report provided by the credit bureau with the information that the Credit Union:
 - a. Obtains and uses to verify the member's identity in accordance with the CIP rules under the Patriot Act;
 - b. Maintains in its own records, such as applications, change of address notifications, other member account records, or retained CIP documentation; or
 - c. Obtains from third-party sources.
 - ii. Verify the information in the credit report provided by the credit bureau.

- B. The Credit Union will also use reasonable procedures for furnishing to the credit bureau, from which it received a notice of address discrepancy, when the Credit Union:
- i. Can form a reasonable belief that the report relates to the member about whom the report was requested;
 - ii. Establishes a continuing relationship with the member; and
 - iii. Regularly and in the ordinary course of business furnishes information to the credit bureau from which the notice of address discrepancy was obtained.
- C. The Credit Union may reasonably confirm that an address is accurate by any of the following methods:
- i. Verifying the address with the member;
 - ii. Reviewing its own records to verify the address of the member;
 - iii. Verifying the address through third party sources; or
 - iv. Using other reasonable means.
- D. The Credit Union will provide the member's address (that the Credit Union has reasonably confirmed is accurate) to the credit bureau as part of the information it regularly furnishes for the reporting period in which it establishes a relationship with the member.

8. DUTIES WHEN ID THEFT OCCURS

- A. The Credit Union will respond to notifications from credit reporting agencies that information they have furnished is the result of identity theft, and to prevent refurnishing the information in the future.
- B. The Credit Union will not furnish information that a member has identified as resulting from identity theft unless it subsequently knows or is informed by the member that the information is correct.
- C. If the Credit Union learns that it has furnished inaccurate information due to identity theft, it must notify each consumer reporting agency of the correct information and must thereafter report only complete and accurate information.
- D. If the Credit Union is notified that a debt has resulted from identity theft, it may not sell, transfer, or place the debt for collection, except in certain limited circumstances according to the guidance of the Fair Credit Reporting Act.

Policy 11010: Risk Based Pricing

Revised Date: 12/30/2014

Model Policy Revised Date: 12/30/2014

Introduction:

When [CUnion] (Credit Union) uses information in a consumer report in connection with an application for, or a grant, extension, or other provision of credit to a member on material terms primarily for personal, family, or household purposes, that is materially less favorable than the most favorable terms available to a substantial portion of members from or through the Credit Union, the Credit Union will provide a risk-based pricing notice to the member in accordance with Regulation V and the Fair Credit Report Act (FCRA).

Guidelines:

1. GENERAL REQUIREMENTS FOR RISK-BASED PRICING NOTICES.

- A. **In General.** Except as otherwise provided, the Credit Union must provide members with a risk-based pricing notice in the form and manner required if the Credit Union does the following:
- i. Uses a consumer report in connection with an application for, or a grant, extension, or other provision of, credit to that member that is primarily for personal, family, or household purposes; and
 - ii. Based in whole or in part on the consumer report, grants, extends, or otherwise provides credit to that member on material terms that are materially less favorable than the most favorable material terms available to a substantial proportion of members from or through the Credit Union.
- B. **Determining Which Members Must Receive a Notice.** The Credit Union will determine whether a risk based pricing notice is required by using the following method: *(The credit union should choose one method and remove the other two from their policy)*
- i. **Direct Comparison Method.** The Credit Union will directly compare the material terms offered to each member and the material terms offered to other members for a specific type of credit product. For purposes of this section, a “specific type of credit product” means one or more credit products with similar features that are designed for similar purposes (e.g., student loans, unsecured credit cards, secured credit cards, new automobile loans, used automobile loans, fixed-rate mortgage loans, and variable-rate mortgage loans).
 - ii. **Credit Score Proxy Method.**
 1. **In General.** The Credit Union will do the following:
 - a. Determine the credit score (hereafter referred to as the “cutoff score”) that represents the point at which approximately 40% of the members to whom it grants, extends, or provides credit have higher credit scores and approximately 60% of the members to whom it grants, extends, or provides credit have lower credit scores; and
 - b. Provide a risk-based pricing notice to each member to whom it grants, extends, or provides credit whose credit score is lower than the cutoff score.

2. **Alternative to the 40/60 Cutoff Score Determination.** In the case of credit that has been granted, extended, or provided on the most favorable material terms to more than 40% of members, the Credit Union may, at its option, set its cutoff score at a point at which the approximate percentage of members who historically have been granted, extended, or provided credit on material terms other than the most favorable terms will receive risk-based pricing notices.

3. **Determining the Cutoff Score.**

a. **Sampling Approach.** The Credit Union will calculate the cutoff score by considering the credit scores of all or a representative sample of the members to whom it has granted, extended, or provided credit for a specific type of credit product.

b. **Secondary Source Approach in Limited Circumstances.** When the Credit Union introduces new credit products, or starts to use risk-based pricing with respect to the credit products it currently offers, it may initially determine the cutoff score based on information derived from appropriate market research or relevant third-party sources for a specific type of credit product, such as research or data from companies that develop credit scores. When the Credit Union acquires a credit portfolio as a result of a merger or acquisition, it will determine the cutoff score based on information from the party which it acquired, with which it merged, or from which it acquired the portfolio.

c. **Recalculation of Cutoff Scores.** When the Credit Union uses the credit score proxy method, it will recalculate its cutoff score(s) no less than every two (2) years. The Credit Union will use market research, third-party data, or information from a party which it acquired, with which it merged, or from which it acquired the portfolio, and will calculate a cutoff score(s) based on the scores of its own members within one (1) year after using a cutoff score derived from market research, third-party data, or information from a party which it acquired, with which it merged, or from which it acquired the portfolio.

d. **Use of Two or More Credit Scores.** When the Credit Union uses two or more credit scores in setting the material terms of credit granted, extended, or provided to a member, it will determine the cutoff score using the same method the Credit Union uses to evaluate multiple scores when making credit decisions. These evaluation methods may include, but are not limited to, selecting the low, median, high, most recent, or average credit score of each member to whom it grants, extends, or provides credit. When using the median score or average score, the Credit Union will determine the cutoff score using a reasonable means.

4. **Credit Score Not Available.** For purposes of this section, when a credit score is **not** available, the Credit Union will assume that the member receives credit on material terms that are materially less favorable than the most favorable credit terms offered to a substantial proportion of members from or through the Credit Union and will provide a risk-based pricing notice to the member.

iii. **Tiered Pricing Method.**

1. **In General.** Relying on information based in whole or in part on a consumer report, the Credit Union will provide a risk-based pricing notice to each member who is **not** placed

within the top pricing tier or tiers, as described below.

2. **Four or Fewer Pricing Tiers.** When four or fewer pricing tiers are used, the Credit Union will provide a risk-based pricing notice to each member to whom it grants, extends, or provides credit who does **not** qualify for the top tier (that is, the lowest-priced tier).
3. **Five or More Pricing Tiers.** When five or more pricing tiers are used, the Credit Union will provide a risk-based pricing notice to each member to whom it grants, extends, or provides credit who does **not** qualify for the top **two** tiers (that is, the two lowest-priced tiers) and any other tier that, together with the top tiers, comprise no less than the top 30% but no more than the top 40% of the total number of tiers. Each member placed within the remaining tiers must receive a risk-based pricing notice.

C. Application to Credit Card Accounts.

- i. **In General.** For credit card accounts, in order to determine whom it must provide a risk based pricing notice, the Credit Union may use the method set forth in Section (1)(B) or by providing a risk-based pricing notice to a member when:
 1. A member applies for a credit card either in connection with an application program, such as a direct-mail offer or a take-one application, or in response to a solicitation, and more than a single possible purchase annual percentage rate (APR) may apply under the program or solicitation; and
 2. Based in whole or in part on a consumer report, the Credit Union provides a credit card to the member that has an APR that is greater than the lowest APR available in connection with the application or solicitation.
- ii. **No Requirement to Compare Different Offers.** The Credit Union will **not** provide a risk-based pricing notice to a member in the following circumstances:
 1. The member applies for a credit card for which the Credit Union provides for a single APR (excluding a temporary initial rate that is lower than the rate that will apply after the temporary rate expires and a penalty rate that will apply upon the occurrence of one or more specific events, such as a late payment or an extension of credit that exceeds the credit limit); or
 2. The Credit Union offers the member the lowest APR available under the credit card offer for which the member applied, even if a lower APR is available under a different credit card offer issued by the Credit Union.

D. Account Review. The Credit Union will provide a risk-based pricing notice to a member with an existing open-end credit plan when it increases a rate based, in whole or in part, on a review of a member's consumer report.

2. CONTENT, FORM, AND TIMING OF RISK-BASED PRICING NOTICES.

A. Content of the Notice.

- i. **In General.** The risk-based pricing notice will include the following:

1. A statement that a consumer report (or credit report) includes information about the member's credit history and the type of information included in that history;
2. A statement that the terms offered, such as the APR, have been set based on information from a consumer report;
3. A statement that the terms offered may be less favorable than the terms offered to members with better credit histories;
4. A statement that the member is encouraged to verify the accuracy of the information contained in the consumer report and has the right to dispute any inaccurate information in the report;
5. The identity of each consumer reporting agency (CRA) that furnished a member report used in the credit decision;
6. A statement that Federal law gives the member the right to obtain a copy of a consumer report from the CRA(s) identified in the notice without charge for 60 days after receipt of the notice;
7. A statement informing the member how to obtain a consumer report from the CRA(s) identified in the notice and providing contact information (including a toll-free telephone number, where applicable) specified by the CRA(s);
8. A statement directing members to the Consumer Financial Protection Bureau (CFPB) website to obtain more information about consumer reports.
9. The following additional information when a credit score is used to set the material terms of credit:
 - a. A statement that a credit score is a number that takes into account information in a consumer report, that the member's credit score was used to set the terms of credit offered, and that a credit score can change over time to reflect changes in the member's credit history.
 - b. The credit score used by the credit union in making the credit decision;
 - c. The range of possible credit scores under the model used to generate the credit score;
 - d. All of the key factors that adversely affected the credit score, which may not exceed 4 key factors, except that if one of the key factors is the number of enquiries made with respect to the consumer report, the number of key factors shall not exceed 5;
 - e. The date on which the credit score was created; and
 - f. The name of the CRA or other person that provided the credit score.

ii. **Account Review.** The risk-based pricing notice will include the following:

1. A statement that a consumer report (or credit report) includes information about the member's credit history and the type of information included in that credit history;

2. A statement that the Credit Union has conducted a review of the account using information from a consumer report;
3. A statement that as a result of the review, the APR on the account has been increased based on information from a consumer report;
4. A statement that the member is encouraged to verify the accuracy of the information contained in the consumer report and has the right to dispute any inaccurate information in the report;
5. The identity of each CRA that furnished a consumer report used in the account review;
6. A statement that Federal law gives the member the right to obtain a copy of a consumer report from the CRA(s) identified in the notice without charge for 60 days after receipt of the notice;
7. A statement informing the member how to obtain a consumer report from the CRA(s) identified in the notice and providing contact information (including a toll-free telephone number, where applicable) specified by the CRA(s);
8. A statement directing members to the CFPB website to obtain more information about consumer reports; and
9. The following additional information when a credit score is used when increasing the APR:
 - a. A statement that a credit score is a number that takes into account information in a consumer report, that the member's credit score was used to set the terms of credit offered, and that a credit score can change over time to reflect changes in the member's credit history.
 - b. The credit score used by the credit union in making the credit decision;
 - c. The range of possible credit scores under the model used to generate the credit score;
 - d. All of the key factors that adversely affected the credit score, which may not exceed 4 key factors, except that if one of the key factors is the number of enquiries made with respect to the consumer report, the number of key factors shall not exceed 5;
 - e. The date on which the credit score was created; and
 - f. The name of the CRA or other person that provided the credit score.

B. Form of the Notice. The risk-based pricing notice must be clear and conspicuous, and will be provided to members in oral, written, or electronic form. The Credit Union will provide its form in conformance with the Model Forms provided in the regulation.

C. Timing.

- i. **In General.** Except as provided in Section (2)(C)(iii), a risk-based pricing notice will be provided to members at the following times:

1. In the case of a grant, extension, or other provision of closed-end credit, before consummation of the transaction, but not earlier than the time the decision to approve an application for, or a grant, extension, or other provision of, credit, is communicated to the member;
2. In the case of credit granted, extended, or provided under an open-end credit plan, before the first transaction is made under the plan, but not earlier than the time the decision to approve an application for, or a grant, extension, or other provision of, credit is communicated to the member; or
3. In the case of a review of a credit extended, at the time the decision to increase the APR based on a consumer report is communicated to the member or if no notice of the increase in the APR is provided to the member prior to the effective date of the change in that APR (to the extent permitted by law), no later than 5 days after the effective date of the change in the APR.

ii. **Certain Automobile Lending Transactions.** When the Credit Union grants, extends, or provides credit to a member for the purpose of financing the purchase of an automobile from an auto dealer or other party that is **not** affiliated with the Credit Union, the requirement to provide a risk-based pricing notice is satisfied when the Credit Union does the following:

1. Provides a notice to the member within the required time periods; or
2. Arranges to have the auto dealer or other party provide the notice to the member on its behalf within the required time periods, and verifies that the auto dealer or other party provides such notice to the member within the applicable time periods.

iii. **Timing Requirements for Contemporaneous Purchase Credit.** When credit under an open-end credit plan is granted, extended, or provided to a member in person or by telephone for the purpose of financing the contemporaneous purchase of goods or services, any required risk-based pricing notice will be provided at the earlier of:

1. The time of the first mailing by the Credit Union to the member after the decision is made to approve the grant, extension, or other provision of open-end credit, such as in a mailing containing the account agreement or a credit card; or
2. Within 30 days after the decision to approve the grant, extension, or other provision of credit.

3. EXCEPTIONS.

A. Application for Specific Terms.

- i. **In General.** The Credit Union is **not** required to provide a risk-based pricing notice to the member if the member applies for specific material terms and is granted those terms (unless those terms were specified by the Credit Union using a consumer report *after* the member applied for or requested credit and *after* the Credit Union obtained the consumer report). For purposes of this section, “specific material terms” means a single material term, or set of material terms, such as an APR of 10%, and not a range of alternatives, such as an APR that may be 8, 10, or 12%, or between 8 and 12%.

B. Adverse Action Notice. The Credit Union is **not** required to provide a risk-based pricing notice to the member when the Credit Union provides an adverse action notice to the member under §615(a) of the Fair Credit Reporting Act (FCRA).

C. Prescreened Solicitations. The Credit Union is **not** required to provide a risk-based pricing notice to the member when the Credit Union does the following:

- i. Obtains a consumer report that is a prescreened list as described in §604(c)(2) of the FCRA; and
- ii. Uses the consumer report for the purpose of making a firm offer of credit to the member, even if the Credit Union makes other firm offers of credit to other members on more favorable material terms.

D. Loans Secured by Residential Real Property - Credit Score Disclosure.

i. In General. The Credit Union is **not** required to provide a risk-based pricing notice to a member in the following circumstances:

1. The member requests an extension of credit from the Credit Union that is or will be secured by one to four units of residential real property; and
2. The Credit Union provides to each member a notice that contains the following information:
 - a. A statement that a consumer report (or credit report) is a record of the member's credit history and includes information about whether the member pays his/her obligations on time and how much the member owes to creditors;
 - b. A statement that a credit score is a number that takes into account information in a consumer report and that a credit score can change over time to reflect changes in the member's credit history;
 - c. A statement that the member's credit score can affect whether the member can obtain credit and what the cost of that credit will be;
 - d. The information required to be disclosed to the member pursuant to §609(g) of the FCRA;
 - e. The distribution of credit scores among consumers who are scored under the same scoring model and scale that is used to generate the member's credit score, that is provided to the member, presented in the form of a bar graph containing a minimum of six bars that illustrates the percentage of consumers with credit scores within the range of scores reflected in each bar or by other clear and readily understandable graphical means, or a clear and readily understandable statement informing the member how his/her credit score compares to the scores of other consumers;
 - f. A statement that the member is encouraged to verify the accuracy of the information contained in the consumer report and has the right to dispute any inaccurate information in the report;
 - g. A statement that Federal law gives the member the right to obtain copies of his/her

consumer reports directly from the CRAs, including a free report from each of the nationwide CRAs once during any 12-month period;

- h. Contact information for the centralized source from which members may obtain their free annual consumer reports; and
- i. A statement directing members to the CFPB website to obtain more information about consumer reports.

ii. **Form of the Notice.** The notice described in Section (3)(D)(i) must be:

- 1. Clear and conspicuous;
- 2. Provided on or with the notice required by §609(g) of the FCRA;
- 3. Segregated from other information provided to the member, except for the notice required by §609(g) of the FCRA; and
- 4. Provided in writing and in a form that the member may keep.

iii. **Timing.** The notice must be provided to the member at the time the disclosure required by §609(g) of the FCRA is provided, but in any event at or before consummation in the case of closed-end credit or before the first transaction is made under an open-end credit plan.

iv. **Multiple Credit Scores.** When the Credit Union obtains two or more credit scores from CRAs and uses one of those credit scores in setting the material terms of credit granted, extended, or otherwise provided to a member (for example, by using the low, middle, high, or most recent score), the notice described in Section (3)(D)(i) will include that credit score and the other required information. When the Credit Union obtains two or more credit scores from CRAs and uses them to set the material terms of credit granted, extended, or otherwise provided to a member, for example, by computing the average of all the credit scores obtained, the notice will include one of those credit scores and the other required information.

E. Other Extensions of Credit - Credit Score Disclosure.

i. **In General.** The Credit Union is **not** required to provide a risk-based pricing notice to a member in the following circumstances:

- 1. The member requests an extension of credit other than credit that is or will be secured by one to four units of residential real property; and
- 2. The Credit Union provides a notice to each member that contains the following information:
 - a. A statement that a consumer report (or credit report) is a record of the member's credit history and includes information about whether the member pays his/her obligations on time and how much the member owes to creditors;
 - b. A statement that a credit score is a number that takes into account information in a consumer report and that a credit score can change over time to reflect changes in the member's credit history;

- c. A statement that the member's credit score can affect whether the member can obtain credit and what the cost of that credit will be;
- d. The current credit score of the member or the most recent credit score of the member that was previously calculated by the CRA for a purpose related to the extension of credit;
- e. The range of possible credit scores under the model used to generate the credit score;
- f. The distribution of credit scores among consumers who are scored under the same scoring model and scale that is used to generate the member's credit score that is provided to the member, presented in the form of a bar graph containing a minimum of six bars that illustrates the percentage of consumers with credit scores within the range of scores reflected in each bar, or by other clear and readily understandable graphical means, or a clear and readily understandable statement informing the member how his/her credit score compares to the scores of other consumers.
- g. The date on which the credit score was created;
- h. The name of the CRA or other person that provided the credit score;
- i. A statement that the member is encouraged to verify the accuracy of the information contained in the consumer report and has the right to dispute any inaccurate information in the report;
- j. A statement that Federal law gives the member the right to obtain copies of his or her consumer reports directly from the CRAs, including a free report from each of the nationwide CRAs once during any 12-month period;
- k. Contact information for the centralized source from which members may obtain their free annual consumer reports; and
- l. A statement directing members to the CFPB website to obtain more information about consumer reports.

ii. **Form of the Notice.** The notice must be:

- 1. Clear and conspicuous;
- 2. Segregated from other information provided to the member; and
- 3. Provided in writing and in a form that the member may keep.

iii. **Timing.** The notice will be provided to the member as soon as reasonably practicable after the credit score has been obtained, but in any event at or before consummation in the case of closed-end credit or before the first transaction is made under an open-end credit plan.

iv. **Multiple Credit Scores.** When the Credit Union obtains two or more credit scores from CRAs and uses one of those credit scores in setting the material terms of credit granted, extended, or otherwise provided to a member (for example, by using the low, middle, high, or most recent score), the notice described in Section (3)(E)(i) will include that credit score and the other required

information. When the Credit Union obtains two or more credit scores from CRAs and uses them to set the material terms of credit granted, extended, or otherwise provided to a member, for example, by computing the average of all the credit scores obtained, the notice will include one of those credit scores and the other required information. The notice may, at the Credit Union's option, include more than one credit score, along with the additional information specified in the notice for each credit score disclosed.

F. Credit Score Not Available. The Credit Union is **not** required to provide a risk-based pricing notice to a member when the Credit Union does the following:

- i. Regularly obtains credit scores from a CRA and provides credit score disclosures to members, but a credit score is **not** available from the CRA from which the Credit Union regularly obtains credit scores for a member to whom the Credit Union grants, extends, or provides credit;
- ii. Does **not** obtain a credit score from another CRA in connection with granting, extending, or providing credit to the member; and
- iii. Provides to the member a notice that contains the following information:
 1. A statement that a consumer report (or credit report) includes information about the member's credit history and the type of information included in that history;
 2. A statement that a credit score is a number that takes into account information in a consumer report and that a credit score can change over time in response to changes in the member's credit history;
 3. A statement that credit scores are important because members with higher credit scores generally obtain more favorable credit terms;
 4. A statement that not having a credit score can affect whether the member can obtain credit and what the cost of that credit will be;
 5. A statement that a credit score about the member was not available from a CRA, which must be identified by name, generally due to insufficient information regarding the member's credit history;
 6. A statement that the member is encouraged to verify the accuracy of the information contained in the consumer report and has the right to dispute any inaccurate information in the consumer report;
 7. A statement that Federal law gives the member the right to obtain copies of his or her consumer reports directly from the CRAs, including a free consumer report from each of the nationwide CRAs once during any 12-month period;
 8. The contact information for the centralized source from which members may obtain their free annual consumer reports; and
 9. A statement directing members to the CFPB website to obtain more information about consumer reports.

iv. **Form of the Notice.** The notice described in paragraph (F)(iii) of this section must be:

1. Clear and conspicuous;
 2. Segregated from other information provided to the member; and
 3. Provided in writing and in a form that the member may keep.
- v. **Timing.** The notice will be provided to the member as soon as reasonably practicable after the Credit Union has requested the credit score, but in any event not later than consummation of a transaction in the case of closed-end credit or when the first transaction is made under an open-end credit plan.

4. RULES OF CONSTRUCTION. The following rules of construction apply:

A. One Notice Per Credit Extension. A member is entitled to no more than one risk-based pricing notice, or one notice under Sections (3)(D), (E), or (F), for each grant, extension, or other provision of credit. Notwithstanding the foregoing, even if a member has previously received a risk-based pricing notice in connection with a grant, extension, or other provision of credit, another risk-based pricing notice is required under the account review provisions in Section (1)(D).

B. Assignment of Credit Agreement. The Credit Union will provide the risk-based pricing notice, even when the credit agreement is immediately assigned to a third party that is not the source of funding.

C. Multiple Members.

- i. **Risk-Based Pricing Notices.** In a transaction involving two or more members who are granted, extended, or otherwise provided credit, the Credit Union will provide a notice to each member. If the notice does not include credit scores and the members have the same address, the Credit Union will provide a single notice addressed to both members. If the members do **not** have the same address, the Credit Union will provide a notice to each member. Whether the members have the same address or not, the Credit Union must provide a separate notice to each member if a notice includes a credit score.
- ii. **Credit Score Disclosure Notices.** In a transaction involving two or more members who are granted, extended, or otherwise provided credit, the Credit Union will must provide a separate credit score disclosure notice to each member. Regardless of whether the members have the same address, the Credit Union will provide a separate notice to each member. Each separate notice will contain only the credit score(s) of the member to whom the notice is provided, and **not** the credit score(s) of the other member.
- iii. **Guarantors and Co-Signers.** The Credit Union is not required to provide a risk-based pricing notice to a guarantor, co-signer, surety or endorser. The Credit Union may be required, however, to provide a risk-based pricing notice to the member to whom it grants, extends, or otherwise provides credit, even if the Credit Union only uses the credit report or credit score of the guarantor, co-signer, surety or endorser. In these cases, however, the credit score of the guarantor, co-signer, surety or endorser may **not** be provided in the general risk-based pricing notice or account review notice.

Policy 11012: Disclosure Of Information To Victims Of Identity Theft

Revised Date: 12/30/2014

Model Policy Revised Date: 12/30/2014

Introduction:

The Fair Credit Reporting Act (FCRA) imposes requirements on credit unions that have been informed by a member that he/she has been a victim of identity theft. In these instances, the Credit Union will adhere to the guidelines herein.

Guidelines:

1. **Identity Theft Reports.** Reports to [CUName] (Credit Union) from members regarding an alleged identity theft must be:
 - A. Provided in writing;
 - B. Mailed to an address specified by the Credit Union if any; and
 - C. Include all relevant information about any transaction alleged to be the result of identity theft including, if known by the victim:
 - i. The date of application or transaction; and
 - ii. Any other identifying information such as an account or transaction number.
 - D. As proof of the claim, the Credit Union may also request the following:
 - i. A copy of the police report evidencing the member's claim;
 - ii. A properly completed copy of the Federal Trade Commission's standardized affidavit of identity theft; or
 - iii. An affidavit of fact that the Credit Union considers acceptable for that purpose.
2. **Proper Identification.** Before providing any information to a individual regarding a transaction that has occurred between the Credit Union and an alleged identity thief, the Credit Union will require the following as proof of identity:
 - A. Government issued identification;
 - B. Personal identifying information of the same type as was provided to the Credit Union by the unauthorized person; or
 - C. Personal identifying information that the Credit Union typically requests from new applicants or for new transactions, including the information described above.
3. **Providing Information Related to an Alleged Identity Theft.** Subject to the Credit Union's verification of the identity of the victim and the claim of identity theft, the Credit Union will provide a copy of the application and

business transaction records in the control of the Credit Union which evidences any such transaction alleged to be the result of identity theft within 30 days of the request.

- A. The Credit Union will provide such information to the victim, any federal, state, or local government law enforcement agency or officer specified by the victim in such a request, and/or any law enforcement agency investigating the identity theft and authorized by the victim to take receipt of the records.

4. Declining to Provide Information. The Credit Union may decline to provide information requested above if, in the exercise of good faith:

- A. The Credit Union determines that such disclosure is not required by applicable law.
- B. After reviewing the information provided, the Credit Union does not have a high degree of confidence that it knows the true identity of the individual requesting the information;
- C. The request for information is based on a misrepresentation of fact by the individual requesting the information which is relevant to the request; or
- D. The information requested is internet navigational data or similar information about a person's visit to a website or online service.

Policy 11015: Obtaining and Using Medical Information

Revised Date: 12/30/2014

Model Policy Revised Date: 12/30/2014

Introduction:

The Fair Credit and Reporting Act (FCRA), generally limits the ability of creditors to obtain or use a consumer's medical information in connection with credit eligibility determinations.

"Medical information" is defined under the FCRA as "information or data, whether oral or recorded, in any form or medium, created by or derived from a health care provider or the consumer, that relates to the past, present or future physical, mental or behavioral health or condition of an individual, the provision of health care to an individual, or the payment for the provision of health care to an individual." The term "medical information" does NOT include the age, gender, demographic information (including a consumer's residential or e-mail address), or any other information about a consumer that does not relate to the physical, mental or behavioral health or condition of a consumer, including the existence or value of any insurance policy.

The FCRA also restricts the sharing of medical information and other medically-related information with affiliates (i.e., credit union service organizations (CUSOs)), if it meets the Act's definition of "consumer report," which generally refers to credit or personal information used to establish eligibility for credit, employment, or a number of other purposes.

General Policy Statement:

The purpose of this policy is to set forth the guidelines for Management and staff to use in establishing and maintaining policies and procedures in order to comply with the FCRA's prohibition on obtaining and using medical information of its members in connection with credit decisions, along with understanding the exceptions to this prohibition.

Guidelines:

1. POLICY AND PROGRAM RESPONSIBILITY.

A. **Board Responsibility.** This policy and any recommended changes shall be approved by the Board of Directors ("Board"). The Board may delegate its oversight responsibility to a Board Committee.

B. **Management Responsibility.** Credit Union Management ("Management") will be responsible for the development, implementation, and maintenance of the procedures related to this policy, but may assign these responsibilities.

2. **SHARING MEDICAL INFORMATION WITH AFFILIATES.** The provisions remove the standard FCRA exceptions allowing the sharing of information with an affiliate related to transaction or experience information with a member, or the sharing of certain other information after providing members with an opt-out. This prohibition prevents the sharing of medical information, as well as other medically-related information, such as individualized lists or descriptions, or aggregate lists of identified consumers based on payment transactions for medical products and services. If the Credit Union receives medical information from an affiliate or consumer reporting agency may not disclose the information further, except as necessary to carry out the purposes for which the information was disclosed, or otherwise permitted by law.

A. Exceptions to this Prohibition. The following exceptions allow for the sharing of medical information with affiliates:

- i. In connection with the business of insurance or annuities;
- ii. For any purpose permitted without authorization under regulations promulgated by the Department of Health and Human Services pursuant to the Health Insurance Portability and Accountability Act (HIPAA). This generally applies to information necessary to ensure access to effective health care;
- iii. Pursuant to HIPAA provisions pertaining to authorizing, processing, clearing, settling, billing, transferring, reconciling or collecting payments;
- iv. As permitted by §502(e) of the Gramm-Leach-Bliley Act, which includes sharing of information with the consent of the member, sharing for fraud prevention purposes, or sharing to process a transaction authorized by the member;
- v. If the information is disclosed to an affiliate in connection with a credit eligibility determination, as permitted under these rules; or
- vi. As otherwise permitted by order of the appropriate government agency.

3. OBTAINING AND USING MEDICAL INFORMATION TO DETERMINE CREDIT ELIGIBILITY.

The FCRA generally limits the ability of the Credit Union to obtain or use a member's medical information in connection with credit eligibility determinations, which would affect decisions to approve or deny credit, as well as decisions to terminate an account or adjust a credit limit based upon medical information.

A. Exceptions to the Prohibition. Despite the general prohibition against obtaining and using medical information to determine credit eligibility, the Credit Union may obtain and use medical information in certain situations. In these situations, listed below, medical information can be used, provided it is not used later in making a determination of credit eligibility:

- i. Determining qualification for employment, insurance or other non-credit products or services;
- ii. Authorizing, processing or documenting a transaction;
- iii. Maintaining or servicing an account on behalf of a member in a manner that does not involve a determination of credit eligibility; and
- iv. When the medical information is received from a member in an unsolicited manner.

B. Requirements in Order to Use the Medical Information Received. In order for the Credit Union to use medical information for this purpose, the following three requirements must be met, and the Credit Union will ensure they are met before using such information to determine credit eligibility:

- i. The information is the type routinely used in making credit eligibility determinations, such as information relating to debts, expenses, income, benefits, assets, collateral, or the purpose of the loan, including the use of proceeds;
- ii. The Credit Union uses the information in a manner and to an extent no less favorable that it would use comparable information that is not medical information in a credit transaction. Medical expenses or income may be treated more favorably; and

iii. The Credit Union does not take the member's physical, mental or behavioral condition or history, type of treatment, or prognosis into account as part of any credit eligibility determination.

4. ADDITIONAL EXCEPTIONS TO ALLOW THE CREDIT UNION TO OBTAIN AND USE MEDICAL INFORMATION. The Credit Union may obtain and use medical information in the following circumstances:

- A. Determining whether the use of a power of attorney or legal representative that is triggered by a medical event is necessary and appropriate, or whether a person has the legal capacity to contract when (s)he seeks to exercise a power of attorney or act as a legal representative for another based on an asserted medical event;
- B. Complying with applicable local, state or Federal law requirements;
- C. Determining, at the member's request, whether (s)he qualifies for a special credit program or credit-assistance program. The program must be: (1) designed to meet the special needs of members with medical conditions; and (2) established and administered under a written plan identifying those that the program is designed to benefit and outlining the procedures and standards for extending credit or providing assistance under the program;
- D. Preventing and detecting fraud. This exception is to be used in limited situations, and if used, the Credit Union will be prepared to demonstrate specific reasons for the necessity of its use (blanket assertions about fraud prevention and detection will not suffice);
- E. Verifying the medical purpose of a loan and use of proceeds with regard to financing of medical products or services;
- F. Responding to a request from the member, or the member's legal representative, to use medical information in determining credit eligibility in order to accommodate the member's particular circumstances. This request may be made orally, electronically or in writing, and may be in response to a general inquiry on an application that invites the member to include any information that (s)he would like the Credit Union to consider in evaluating the application. Under this exception, the Credit Union may request additional information, but is under no obligation to comply with such a request;
- G. Determining whether a provision of a forbearance program that is triggered by a medical event applies to the member;
- H. Determining the eligibility of the member for a debt cancellation contract or debt suspension agreement if a medical event is relevant to coverage, as well as determining whether coverage provisions are triggered by a medical event; or
- I. Determining the eligibility of the member for a credit insurance product if a medical event is relevant to coverage, as well as determining whether coverage provisions are triggered by a medical event. However, the Credit Union may not use medical information to determine whether the member will be required to obtain a credit insurance product, debt cancellation contract, or debt suspension agreement. Additionally, when requesting information, the Credit Union will make clear that the request is voluntary and the information, or the refusal to provide the information, will not be used in connection with the credit decision.

Policy 11016: Affiliate Marketing Rules

Revised Date: 12/20/2017

Model Policy Revised Date: 12/20/2017

Introduction:

The Fair Credit Reporting Act (FCRA) provides consumers with the opportunity to “opt-out” before a company uses certain information provided by an affiliate to market its products or services to the consumer.

Unlike the Gramm-Leach-Bliley Act (GLBA) non-affiliate sharing opt-out, which applies indefinitely, the FCRA affiliate sharing opt-out is effective for at least five (5) years. Upon the expiration of the opt-out period, the member must be given a renewal notice and an opportunity for renewal before information received from an affiliate may be used to make solicitations to the member.

General Policy Statement:

The purpose of this policy is to set forth the guidelines for management and staff to use in establishing and maintaining policies and procedures in order to comply with the FCRA’s guidelines on affiliate marketing.

Guidelines:

1. DEFINITIONS

- A. **Affiliate** - An affiliate means any company that is related by common ownership or common corporate control with another company. An affiliate of a credit union includes a CUSO that is controlled by a credit union, and a credit union will presumably have control over a CUSO if the CUSO is 67% owned by that credit union.
- B. **Common Ownership or Common Corporate Control** – means a relationship between two companies under which:
- i. One company has, with respect to the other company:
 1. Ownership, control, or power to vote 25% or more of the outstanding shares of any class of voting security of a company, directly or indirectly, or acting through one or more persons;
 2. Control in any manner over the election of a majority of the directors, trustees, or general partners (or individuals exercising similar functions) of a company; or
 3. The power to exercise, directly or indirectly, a controlling influence over the management or policies of a company as determined by the applicable prudential regulator.
 - ii. Any other person has, with respect to both companies, a relationship described above in (B)(i).
- C. **Clear and conspicuous** - Reasonably understandable and designed to call attention to the nature and significance of the information presented. The clear and conspicuous requirement would be met through the use of the model forms provided in the final rule, or by using the following methods:
- i. Using clear and concise sentences, paragraphs and sections;

- ii. Using short explanatory sentences;
- iii. Using bulleted lists;
- iv. Using definite, concrete, everyday words;
- v. Using active voice;
- vi. Avoiding multiple negatives;
- vii. Avoiding legal and highly technical business terminology; and
- viii. Avoiding explanations that are imprecise and are readily subject to different interpretations.
- ix. **A notice or disclosure may be designed to call attention to the nature and significance of the information in it through the following methods:**
 - a. Using a plain-language heading;
 - b. Using a typeface and type size that are easy to read;
 - c. Using wide margins and ample line spacing; and
 - d. Using boldface or italics for key words.

D. Eligibility information – Any information the communication of which would be a consumer report under the FCRA (unless exclusions under the definition of “consumer report”) do not apply. Eligibility information would include a person’s own transaction or experience information, such as information about a consumer’s account history with that person. Eligibility information does **not** include aggregate or blind data that does not include personal identifiers (i.e., account numbers, names or addresses). The Credit Union is deemed to have received eligibility information when such information is placed into a common database and is accessible by the Credit Union.

E. Pre-existing business relationship – A relationship between a person, or a person’s licensed agent, and a consumer based on the following:

- i. A financial contract between the Credit Union and the consumer which is in force on the date on which a solicitation is sent to the consumer;
- ii. The purchase, rental or lease by the consumer of the person’s goods or services, or a financial transaction (including holding an active account or a policy in force, or having another continuing relationship) between the consumer and the Credit Union, during the 18-month period immediately preceding the date on which the consumer is sent a solicitation; or
- iii. An inquiry or application by the consumer regarding a product or service offered by the Credit Union that was made during the three-month period before the solicitation was sent to the consumer.

F. Solicitation – The marketing of a product or service initiated by a Credit Union to a particular consumer that is (1) based on eligibility information communicated to that Credit Union by its affiliate; and (2)

intended to encourage the consumer to purchase or obtain such product or service. Telemarketing solicitations, direct mail and e-mail would be considered a solicitation, if directed to a consumer based on eligibility information. Communications directed at the general public (i.e., billboards, general circulation magazines, and television would **not** be considered a solicitation, even if the message encourages consumers to purchase products and services from the advertiser).

2. AFFILIATE MARKETING OPT-OUT

A. **Initial Notice and Opt-Out Requirement.** The notice must be provided by an affiliate that has, or has previously had, a pre-existing relationship with the consumer or in a joint notice with one or more affiliates, so long as at least one of the affiliates in the joint notice has or has had a pre-existing relationship with the consumer. Under the final rule, the following three conditions must be satisfied before the Credit Union may use eligibility information about a consumer that it receives from an affiliate for marketing solicitations:

- i. It is clearly and conspicuously disclosed to the consumer in writing (or electronically if the consumer agrees) in a concise notice that eligibility information from an affiliate may be used for marketing solicitations;
- ii. The consumer is provided a reasonable opportunity and method to “opt-out,” or prohibit, the use of eligibility information to make solicitations for marketing purposes to the consumer; and
- iii. The consumer does not “opt-out.”

B. Making Solicitations

i. A solicitation is made for marketing purposes if the following conditions are met:

1. The Credit Union receives eligibility information from an affiliate;
2. The Credit Union uses that eligibility information to do one or more of the following:
 - a. Identify the consumer or type of consumer to receive a solicitation;
 - b. Establish criteria used to select the consumer to receive a solicitation; or
 - c. Decide which of the Credit Union’s products or services to market to the consumer or tailor the Credit Union’s solicitation to that consumer; and
 - d. As a result of the Credit Union’s use of the eligibility information, the consumer is provided a solicitation.

ii. Under the following circumstances, it will be determined that a solicitation has **not** been made if the Credit Union’s affiliate does the following:

1. Uses its own eligibility information that it obtained in connection with a pre-existing business relationship it has or has had with the consumer to market the Credit Union’s products or services to the consumer; or
2. Directs its service provider to use the affiliate’s own eligibility information that it obtained in connection with a pre-existing business relationship it has or has had with the consumer to

market the Credit Union's products or services, and the Credit Union does not communicate directly with the service provider regarding that use, so long as the following criteria are met:

- a. The affiliate must control access and use of its eligibility information;
- b. The affiliate must establish specific terms and conditions under which the service provider may access and use the eligibility information to market the Credit Union's products and services to the consumer;
- c. The affiliate requires the service provider to have reasonable policies and procedures to ensure the proper use of the eligibility information;
- d. The affiliate is identified on or with the marketing materials provided to the consumer; and
- e. The Credit Union does not directly use its affiliate's eligibility information.

3. EXCEPTIONS TO OPT-OUT REQUIREMENT

A. The requirement to provide the notice and opt-out will not apply in the following circumstances:

- i. The affiliate receiving the information has a pre-existing business relationship with the consumer (which may include CUSOs that provide mortgage or other financial services);
- ii. The information is used to communicate with a consumer for whose benefit the affiliate provides services on behalf of the individual's employer;
- iii. The information is used to perform services on behalf of an affiliate, although solicitations may not be sent if that affiliate is not permitted to send solicitations because the consumer elected to opt-out;
- iv. The information is used in response to a communication about products and services initiated by the consumer. Requests for information not related to products or services would not be sufficient (such as inquiries about locations);
- v. The information is used to make a solicitation that has been authorized or requested by the consumer. A pre-selected check box or boilerplate language in a disclosure will not be sufficient. The authorization terminates if it is revoked by the consumer; and
- vi. Compliance with these provisions would prevent the affiliate from complying with state insurance laws pertaining to unfair discrimination.

B. It is also not necessary for each affiliate that communicates the same eligibility information to provide an opt-out notice, as long as the notice provided by the affiliate that initially communicated the information is broad enough to cover the use of that information by each affiliate that receives and uses it to make solicitations.

4. SCOPE AND DURATION OF OPT-OUT. A consumer's opt-out prohibits any affiliate covered by the opt-out notice from using eligibility information received from another affiliate as described in the notice to make solicitations to the consumer.

A. Continuing Relationships. If a consumer establishes a continuing relationship with the Credit Union or its affiliate, an opt-out notice may apply to eligibility information in connection with (1) a continuing relationship(s) that the consumer establishes with the financial institution or its affiliates, including those established after the delivery of the notice (so long as the notice adequately describes the continuing relationships covered by the opt-out); or (2) any other transaction between the parties as described in the notice.

i. Examples of a continuing relationship with a Credit Union or its affiliate:

1. Opening a deposit or investment account;
2. Obtaining a loan for which the Credit Union or affiliate owns the servicing rights;
3. Purchasing an insurance product;
4. Holding an investment product, such as when the Credit Union or affiliate acts as a custodian for securities or for assets in an IRA;
5. Entering into an agreement with the Credit Union or affiliate whereby the Credit Union or affiliate agrees to arrange or broker a home mortgage loan for the consumer;
6. Entering into a lease of personal property with the Credit Union or affiliate; or
7. Obtaining financial, investment or economic advisory services from the Credit Union or affiliate for a fee.

ii. The notice may provide a menu of alternatives as to which types of information, affiliates, or methods of delivery may be subject to the opt-out, as long as one of the choices is to opt-out with respect to all types of eligibility information, affiliates, and methods of delivery. Financial institutions may, choose to provide broader opt-outs than permitted under the rule.

iii. A consumer must be given a new opt-out notice if, after all continuing relationships with a financial institution or affiliate are terminated, the consumer later establishes another continuing relationship with the institution or affiliate, and the consumer's eligibility information is used to make a solicitation. The new opt-out must apply, at a minimum, to eligibility information obtained in connection with the new continuing relationship. The consumer's decision not to opt-out does not override a prior opt-out election by the consumer that applies to eligibility information obtained in connection with a terminated relationship (regardless of whether the new opt-out notice applies to eligibility information obtained in connection with the terminated relationship).

B. Duration of Opt-Out. The exercise of an opt-out must be effective for at least five (5) years, beginning when the consumer's opt-out election is received and implemented, unless the consumer later revokes the opt-out in writing or, if the consumer agrees, electronically. An opt-out period of more than 5 years may be established, including an opt-out period that does not expire unless revoked by the consumer. A consumer may opt-out at any time.

5. CONTENTS OF OPT-OUT NOTICE

A. The opt-out notice must be clear, conspicuous, and concise and accurately disclose the following:

i. The name of the affiliate(s) providing the notice;

- ii. A list of the affiliates, or types of affiliates, whose use of eligibility information is covered by the notice;
- iii. A general description of the types of eligibility information that may be used to make solicitations;
- iv. That the consumer may elect to limit the use of eligibility information to make solicitations to the consumer;
- v. That the election will apply for a stated period of time specified in the notice (at least 5 years) and, if applicable, that the consumer will be permitted to renew the election upon expiration (unless the election is permanent until revoked by the consumer);
- vi. If the notice is provided to consumers who have previously opted-out, such as if the notice is provided annually, a statement that there is no need to act again until a renewal notice is received; and
- vii. A reasonable and simple method for the consumer to opt-out.

B. For two or more consumers obtaining a product or service, such as joint accountholders, a single opt-out notice may be sent, but the notice must indicate whether an opt-out by one will be considered an opt-out by all or whether each consumer may opt-out separately. However, requiring all joint accountholders to opt-out before honoring any opt-out request will not be permitted.

C. The affiliate sharing provisions may be combined with other notices required by law, such as the GLBA privacy notices. If combined with the privacy notices, the consumer should be allowed to exercise the opt-out in the same manner and be given the same amount of time as provided for any opt-out that is included in the privacy notice.

D. The final rule provides model forms that may be used to satisfy these affiliate marketing notice requirements.

6. REASONABLE OPPORTUNITY TO OPT OUT. After the notice is delivered, the consumer must be given a realistic period of time to decide whether to opt-out before solicitations are sent. The amount of time consumers have to respond to an opt-out will depend on how it is provided.

A. If the notice is mailed, consumers have thirty (30) days from the date the notice is mailed to opt out by any reasonable means.

B. If the notice is posted on the Internet, consumers have thirty (30) days from the date they acknowledge receipt to opt out by any reasonable means.

C. If the notice is sent by e-mail, consumers have thirty (30) days after the e-mail is sent to opt out by any reasonable means.

D. If posted on the Internet as part of an electronic transaction, consumers will be required to decide whether to opt out as part of completing the transaction.

E. If the written notice is provided at the time of an in-person transaction, consumers will be required to decide whether to opt out as part of completing the transaction.

F. If the notice is provided with a GLBA privacy notice, consumers may exercise opt-outs within a reasonable period of time and in the same manner as the opt-out under the privacy notice.

7. REASONABLE AND SIMPLE METHODS OF OPTING OUT

A. Reasonable and simple methods for exercising an opt-out right include the following:

- i. Designating a check-off box in a prominent location on the opt-out form;
- ii. Including a self-addressed envelope included with the reply form and opt-out notice;
- iii. Providing an electronic means to opt out, such as a form that can be electronically mailed or processed over the Internet (if the consumer agrees to the electronic delivery of information);
- iv. Providing a toll-free telephone number; or
- v. Allowing consumers to exercise all of their opt-out rights (under both the FCRA and privacy rules) by a single method.

B. *Unreasonable* methods would include the following:

- i. Requiring the consumer to call or write to an entity to obtain the opt-out form (rather than including it in the notice); and
- ii. Requiring consumers to opt out solely by paper mail or by visiting a different website without providing a link to that site.

8. DELIVERY OF OPT-OUT NOTICES

A. The opt-out notice must be provided in such a way that consumers can reasonably be expected to receive actual notice.

B. Examples of actual notice include the following:

- i. Hand delivery of the notice;
- ii. Mailing the notice to a consumer's last known mailing address;
- iii. Sending the notice by e-mail to a consumer that has agreed to receive electronic communication; or
- iv. Posting the notice on the Internet website, requiring the consumer to acknowledge receipt of the notice.

C. Examples where actual notice would be unreasonable include the following:

- i. Only posting the notice on a sign in a branch or office;
- ii. Generally publishing the notice in a newspaper;
- iii. Sending the notice by e-mail to those that have not agreed to electronic communication; or

iv. Posting the notice on an Internet website without requiring consumers to acknowledge receipt.

9. RENEWAL OF OPT-OUT

- A. Each opt-out renewal must be effective for at least five (5) years. After expiration, financial institutions may not make solicitations based on eligibility information it receives from an affiliate unless the consumer has been given a renewal notice and a reasonable chance to renew the opt-out (unless one of the exceptions listed herein applies).
- B. The clear, conspicuous and concise renewal notice must include the following information:
- i. The affiliate(s) providing the notice;
 - ii. A list of affiliates or types of affiliates whose use of eligibility information is covered by the notice, which may include companies that become affiliates after the notice is provided to the consumer;
 - iii. A general description of the types of eligibility information that may be used to make solicitations to the consumer;
 - iv. That the consumer previously opted-out;
 - v. That the consumer's election has expired or is about to expire;
 - vi. That the consumer may elect to renew the opt-out;
 - vii. If applicable, that the renewal will apply for the specified period of time stated in the notice, and that the consumer will be allowed to renew the opt-out once that period expires; and
 - viii. A reasonable and simple method to opt out.
- C. A renewal notice may be provided either a reasonable period of time before expiration of the opt-out period, or any time after, but before solicitations that would have been prohibited by the expired opt-out are made to the consumer.
- D. If the consumer does not renew the opt-out, all eligible information received from an affiliate may be used, including information received during the opt-out period, but which was not used at that time to send solicitations. However, if that consumer opts-out after a period of time after the initial opt-out lapses, no eligible information may be used, including information received during the time that the opt-out was not in effect.