

## CONNECTIONS CREDIT UNION LOAN POLICY

The Board of Directors has approved the following loan policies for Connections Credit Union.

### GENERAL POLICIES

The following general policies apply to all loan applications submitted:

*The Credit Union has separate/additional policies for Indirect Lending and Mortgage Lending.*

Connections Credit Union does not discriminate against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age (applicant must be 18 to legally enter into a binding contract), or income derived from public assistance, or any other basis prohibited by law.

The Credit Union will, at all times, comply with the provisions of the Equal Credit Opportunity Act (ECOA), Federal Truth in Lending Regulations applicable to Credit Union loans.

A matrix using the Fair Isaac scoring will be used to set interest rates, maximum LTVs and unsecured credit limits. Unsecured loans now consist of: VISA Credit Cards, Signature loans, and Draft Protection. The Board of Directors will review the risk-based lending matrix annually. The review will also include an analysis of each level in the matrix, showing the percentage of loans granted at each level. The Board of Directors will approve the rates and conditions; a rate sheet will be provided to all lending staff as approved by the Board of Directors.

- Mortgage rates are set by different methods and are not included in the matrix.

\$250,000.00 is the aggregate limit for loans in each household, excluding real estate secured loans. The Board of Directors must approve increases to the aggregate. Married members may have separate accounts, but the total aggregate is the combined balances of all accounts in their names.

Refer to **Addendum A** for a list of approved officers and limits. The Executive Management has the authority to change and update approved officers and limits as needed. The changes will be reported to the Board at the next scheduled meeting.

All loans will require a full application to be completed, signed and dated in the file. No loan shall be disbursed without proper lending authority.

Fees may be paid by the borrower as outlined in the fee schedule set by the Board of Directors.

Debt Protection coverage, GAP and MRC will be made available through the Credit Union at the member's expense on eligible loans and borrowers. Any back-end coverage is optional and cannot be required as a condition of the loan approval.

Collateral and/or co-signers (guarantors) may not be released without signed authorization from the Credit Manager, CLO or CEO.

The following are specifically **not acceptable as collateral** for loans at Connections Credit Union household goods and appliances, guns, jewelry, tools, non-motorized boats.

The Credit Union will record their security interest with the proper authority on all collateral used on loans within required time limits.

### **LOANS TO OFFICIALS:**

Loans to officials will follow guidelines used in the National Credit Union Act and Regulations of the State of Idaho. A loan or aggregate of loans to a Director, member of the Supervisory Committee, or the President/CEO, which exceeds \$20,000.00, less pledged shares, must be approved by the Board of Directors. Loan documents will be stored in a restricted access location to protect the privacy of the employee and keep information, such as income, confidential.

### **LOANS TO EMPLOYEES:**

All employee loans will be reviewed and approved by the Credit Manager, CLO or CEO prior to disbursal. Care must be taken to ensure the same restrictions, policies, and guidelines applied to the other members are used in processing and approving employee loans. Loan documents will be stored in a restricted access location to protect the privacy of the employee and keep information, such as income, confidential.

### **QUALIFICATIONS:**

Loans will be granted to members of this Credit Union who meet qualifications based upon a member's creditworthiness. Among the factors to be considered in evaluating credit worthiness are:

- Employment History
- Stability of Income
- Debt to Income Ratio
- Stability of Residence (time at current address or live with parents/other)
- Credit History
- Prior Bankruptcy
- Prior Loss Suffered by Connections Must be Satisfied in Full
- Adequacy of Collateral

### **BANKRUPTCY:**

Loan requests by members joining Connections following a bankruptcy or members who did not owe the Credit Union at the time of bankruptcy will be considered based on a more conservative approval with additional considerations. Approval required through Loan Review process, as referenced on Addendum A. Those members filing for bankruptcy but reaffirming the debt with the Credit Union, causing no loss, will be considered on an individual basis.

No credit will be advanced to members with Chapter 13 (wage earner) Bankruptcy in progress and extreme caution will be required following such a plan.

Members who have had a recent bankruptcy within the last 3 years, will have 2% added to their rate.

Exceptions for this time frame may be evaluated by the Credit Manager, CLO, or CEO.

Members following reduced payment plans such as Consumer Credit Counseling must have their application reviewed under the Loan Review process and have approval of the plan Administrator before the loan is granted.

## **CREDIT REPORTS:**

Loan personnel may obtain credit bureau reports and credit checks under the following circumstances:

- New Member Loan
- Debt Consolidation Loan
- Outdated Credit Report
- Delinquency

A new credit report will be pulled once a previous report is more than 30 days old. Pre-approvals may be granted to borrowers in the top two buckets (700 FICO+) and be good for up to 60 days when no new credit pulls are required. Exceptions for this time frame may be evaluated by the Credit Manager, CLO, or CEO.

## **COLLATERAL SECURED LOANS:**

Secured Loans must be covered by collateral to qualify for the applicable secured rate. The Maximum Loan to Value (LTV) will be based on the members' FICO score as outlined in the risk-based pricing structure by collateral type approved by the Board of Directors.

A photo and/or physical inspection may be required for private party sales or loans secured with a clear title.

The maximum LTV will be inclusive of sales tax, title fees, and doc fees. Back-end cancelable products such as GAP or Warranties will be considered in addition to the approved LTV maximums.

The valuation will be determined using the Invoice or JD Power Clean Retail Value (high). The JD Power Clean Retail Value (high) will be used for new vehicle purchases whenever available or when an Invoice Value cannot be obtained. If no Invoice or JD Power Clean Retail Value is available, the prior model year JD Power Clean Retail Value plus 10% may be used. All JD Power values must be done by the credit union using VIN whenever available.

For RVs, Toys and Street Bikes,  $\frac{1}{2}$  of the add-ons can be used in the value determination from JD Power IF they are not already included in the value for the model type. For RVS, Toys and Street Bikes ten years to nineteen years old, the JD Power Clean Trade-in/Wholesale Value (low) will be used.

Collateral twenty years and older must use lowest JD Power value regardless of risk-based score.

If a JD Power value cannot be determined, an appraisal from a registered dealership may be used in its place for value determination; the appraisal cannot, however, be from the same dealership from which the

collateral is being purchased.

Any value other than JD Power or Invoice must be approved by the Credit Manager, Senior LO, CLO, or CEO and be documented in the loan packet.

Exceptions to LTV maximums must be approved by the Credit Manager, Senior LO, CLO or CEO.

Credit Manager, CLO, or CEO can implement more restrictive LTVs as deemed necessary as current conditions warrant and reflect on current risk-based pricing rate sheets for collateral type\*.

#### **AUTO LTVs:**

Member with FICO >700 120%* LTV Maximum
Members 660-699 115%* LTV Maximum
Members 625-659 110%* LTV Maximum
Members <625 80%* LTV Maximum

\*Auto loans over \$50,000 will be limited to 115% MAX LTV

\*Auto loans over \$75,000 will be limited to 110% MAX LTV

\*Auto loans over \$90,000 will be limited to 100% MAX LTV

#### **RV & TOY LTVs:**

Member with FICO >700 100%* LTV maximum
Members 660-699 95%* LTV maximum
Members 625-659 90%* LTV maximum
Members <625 80%* LTV maximum

\*RV & Toy loans over \$50,000 will be limited to 95% LTV MAX

\*RV & Toy loans over \$75,000 will be limited to 90% LTV MAX

\*RV & Toy loans over \$90,000 will be limited to 85% LTV MAX

#### **DEBT RATIO:**

The Debt Ratio limit for all consumer loans will be 40% of gross monthly income, or 55% of net monthly income. The Debt Ratio maximum for members with no mortgage or rent payment (rent, mortgage not a part of salary), will be 30% Gross or 35% Net, unless the member owns his or her own home. Rent or mortgage payments calculated in the debt ratio must be at least \$600.00, unless reflected as lower on the credit report or validated with other proof and accepted by the Credit Manager, CLO, or CEO. Exceptions to the gross debt ratio limits are as follows:

- The accepted debt ratio to increase to 45% of monthly gross income for members in the top two credit score categories, and with monthly income over \$6,000.
- If the monthly income exceeds \$8,000, the accepted ratio is up to 50%, but must be approved by the Credit Manager, CLO or CEO.
- The accepted debt ratio decreases to 35% for members with monthly gross income less than \$1,000.

With approval from the Credit Manager, CLO or CEO, this reduction can be waived.

- Lenders may “half” an individual borrowers housing expense (Mortgage/Rent) in the Debt Ratio, if proof of income from spouse or significant other is obtained for the loan file.

## **EXTENSION AGREEMENTS:**

Extension Agreements may not be used for the purpose of removing a loan from the delinquency report. Purposes for the need for extensions will be reviewed on an individual basis and can be approved by any employee in the Resolutions Department, with a maximum of three per the term of the loan, excluding the annual skip-a-pay, when the loan type is eligible. Exceptions to these limits must be approved by the Resolutions Department, CLO, or CEO.

**Skip-a-pays:** Members may elect to skip one payment a year, on eligible loan types. There must be six monthly payments paid on the loan to be eligible for skip-a-pay. Exceptions to this time frame may be approved by the Resolutions Department, Credit Manager, Senior LO, CLO or CEO. Please reference skip-a-pay guidelines for further restrictions. Loan types not eligible include HELOCs, VISA's, Mortgages, Helping Hands, Christmas Cash, CD Secured loans, revolving loans (Overdrafts), Workout or Negative Recovery.

## **LATE FEES:**

**A late fee** will be charged to any member whose loan is delinquent for more than 20 days. Loans delinquent more than 20 days will be charged 5% of the scheduled payment due, or \$15.00, whichever is greater. The Resolutions Department, Credit Manager, Senior LO, CLO or CEO may reduce or refund late fees under special circumstances.

## **VERIFICATION OF INCOME:**

In order to borrow, members must be employed or have a source of income which is verifiable, can be expected to continue, and is sufficient in amount to ensure repayment. This does not apply to share secured loans or certificate secured loans. See the Verification of Income Section for more details and waivers.

Acceptable income is income that can be verified including wages, disability, SSI, and Social Security. The credit union must have a reasonable belief that the source of income will extend through the term of the loan requested. *For example, if a death benefit is the source of income the Lender must verify that the benefit will continue through the term of the loan.*

Acceptable income verifications include the most recent paystub and/or previous year W2, if the member is still employed by the same employer. If a member is self-employed, they must provide the last two to three years of taxes for both the business and personal (preference will remain three years but may be reduced to two years with approval from Credit Manager, CLO or CEO). When the debt ratio is calculated, overtime, bonus, and commissions are not allowed unless they are consistent and can be verified through the member's annual income, such as a W-2 or YTD.

### **Waivers and Exceptions to Obtaining Proof of Income/Verification:**

- Proof of income may be waived for members who have FICOs over 700 and have been with a recognizable, established, local employer for a minimum of one year.
- Proof of income may be waived for members who have FICOS's lower than 700 that have been with a recognizable, established, local employer for a minimum of three years with the review and approval of the Credit Manager, CLO, or CEO.

### **LOAN POOLS**

A grading system has been established based on FICO score. At least 50% of all loans must have a grade of "A" or "A+". A maximum of 10% of all loans can have a grade of "D".

GRADE	FICO RANGE	MAXIMUM LTV*
A+	> 739	120%
A	700-739	120%
B	660-699	115%
C	625-659	110%
D	< 625	80%

\*Refer to LTV Section for reduced LTV's based on higher dollar amounts and loan types

### **LOAN REVIEW:**

A loan must go to review for the following reasons:

- FICO score is below and/or Loan Limit over the limits of the Lender processing the loan
- Bankruptcy\*
- FICO Average Below 625 *regardless of full lending authority*
- Member in Repayment Plans Such as Consumer Credit Counseling
- Open Resolutions/Charge-offs\*\*

\*Loan requests with a bankruptcy older than three years, no new derogatory reporting since the bankruptcy, and no loss suffered by Connections will not require Loan Review.

\*\*This does NOT apply to open collections that have been paid off in full and members can provide proof, or collections that will be paid off in full at the time of the loan or with loan proceeds. If a payment plan has been established and documented in the loan file a Loan Review is sufficient. If the collection or charge-off is going to remain open and unpaid either the Credit Manager, Senior LO, CLO, or CEO will be required to sign off on the approval.

Loans requiring Loan Review will need the Lender processing the loan to get one additional approval signature by a Lender with full policy limits. See Addendum A.

### **RISK BASED RATE BUMPS:**

Lenders within their approval authority can adjust a member's risk score by up to 15 points with the following parameters:

- Members must have been with the Credit Union for a minimum of three years with a good standing membership.
- Unsecured Loans would require a “second set of eyes” under the Loan Review Process as outlined in Policy.
- Real-Estate Loans are not included in this allowance.
- Borrowers who have had a recent bankruptcy (3 years and less) may not be bumped.
- Borrowers who are considered a Thin File (less than 18 months credit history on at least three trade lines reported) may not be bumped.

If the Credit Union opts not to use a FICO at all, errors on a Credit Report must be documented and the worksheet would require approval and sign off by the Credit Manager, Senior LO, CLO or CEO.

### **BLENDED RATE LOANS:**

The percentage of the loan up to JD Power book value and per the members' LTV qualifications as per the risk-based pricing matrix on the collateral type rate sheet would be charged the prevailing collateral rate. The amount over book would be charged at the members' qualified signature rate for the term of the loan. If the term of the loan is longer than 36 months, the 36-month signature rate will be used. The two rates are then blended into one rate and one loan. The amount over the members' qualified LTV would be considered part of the signature limit. Future signature advances would also be affected by this use of the initial signature amount. A reevaluation of the JD Power value would be needed to release any of the signature limit for other uses. The rate will remain consistent until the payoff occurs. The signature portion of the loan should not exceed 20% of the loan or \$5,000.00 maximum. The loan should be coded as Blended Rate so the signature portion can be tracked. It is a requirement that the calculations be included in the loan file.

### **DUAL COLLATERAL LOANS:**

On rare occasions, and with the approval of the Credit Manager, Senior LO, CLO or CEO, Dual Collateral loans may be approved. If the collateral is from two different loan types with different rates and terms, a blended rate will be used to determine the rate. The maximum term will be the lesser of the two terms.

If a piece of collateral is requested to be released, a new loan will need to be underwritten using the remaining collateral and following the established policies. All collateral will require full insurance coverage. A picture or collateral inspection will be required for collateral owned by the member.

### **COLLATERAL LOANS – RATE MATCHES:**

The Board of Directors sets all loan rates. The risk-based lending matrix will be used to determine final rates for each risk category. Lenders with full lending authority will have the approval to match competitors' rates on an individual basis up to 50 basis points. The CLO or CEO can approve higher matches. The Lender will note the reduction in the loan file. Documentation should be included in the loan file when available.

## **TERM:**

The Board of Directors sets loan terms specific to loan type and dollar amounts as well as risk-based tiers to be published on the approved rate sheets. The current loan terms are as follows:

### **AUTOS, TOYS, RVS:**

New – 15 years old:

Terms of 84-120 months minimum loan amount of \$20,000 only available for RVs (*Not available for all risk tiers and model years, see rate sheet*)

Terms of 84 months minimum loan amount of \$20,000 (*Not available in all risk tiers and model years, nor Toys, see rate sheet*)

Terms of 72 months minimum loan amount of \$10,000 (*Not available in all risk tiers and model years, see rate sheet*)

Amounts under \$5,000 will have a maximum term of 36 months.

**Extending Terms:** Loans may be extended up to six months for members purchasing a credit union or Partner Dealership GAP Policy, Vehicle Service Contract, or adding debt protection. The term of the extension will be at the discretion of the Lender, based on the cost of the add-ons, not to exceed six months. Terms of 84 months and higher may not be extended six months for Back-end Product Sales or DP adds.

Longer terms up to 144 months may be available for Recreational Vehicles. The term will be based on the age of the collateral, and the value. Terms of more than 120 months must be approved by the CLO or CEO. Rate adjustments may apply to longer terms.

## **UNSECURED LOANS:**

\$20,000.00 is the maximum dollar amount of the matrix-based unsecured limits. Members will qualify based on the risk-based pricing model on the unsecured rate sheet. Limits may be used in any combination or all in one loan. The maximum limit is aggregate per household.

## **OVERDRAFT PROTECTION:**

The current loan procedures and policies will be followed in granting an overdraft protection line of credit. Limits will range from \$200 to \$2,500. Higher limits must be approved by the CLO or CEO.

## **HELPING HANDS LOANS:**

There are times when members of the Credit Union make a loan request but do not qualify within normal policy guidelines. On occasion and on a case-by-case basis we may grant a small loan to help members out of a tight spot. The following will be requirements for a Helping Hands loan:

- The loan will be unsecured.
- The Credit Union will allocate no more than \$25,000.00 at a time to be outstanding. From time to time as needed for emergency response to members, the CEO can authorize a 20% increase in the allocated amount to be reported at the next Board Meeting.
- Only a lender with full lending authority can approve these loan types on their own. Lenders with limited approval authority will need one lender with full approval authority as an

approval signature.

- Members must have an established membership with the CU for a minimum of six months.
- Loan amounts are limited to \$500 but could be as low as \$100.
- Loan Terms are limited to 12 months.
- All interest rates will be fixed at 18%.
- Members may not have more than one of these loans open at the same time.
- Only one per household at a time
- Members may not have more than two of these loans within a 12-month period and the waiting period between payoff and new loan should be six months.
- No extensions or skip-a-pays allowed on these loans.
- No Prior loss to the Credit Union.
- If the member has a current ODP loan, the Resolutions Department needs to review the Helping Hands application prior to approval, and their approval needs to be noted on the worksheet.
- Members who are granted a waiver of income on these loans must sign an Ability to Repay Statement.
- Exceptions to any of the above items may only be made by Credit Manager, Senior LO, CLO, or CEO with valid reasoning and comments on the worksheet.

## **CREDIT CARD LOANS:**

Connections will offer qualified members, a credit card with a maximum limit of up to \$20,000.00. The approved limit will be based on the FICO score, using the same risk-based matrix used for other unsecured consumer loans. Total approved unsecured limits will be aggregated, up to the allowed amount. Loan types included in the aggregate are fixed term signature, overdraft protection, blended rate loans, and credit cards.

The current Board approved Addendum A with approved limits will be followed in approving members for a credit card.

### **Visa Pricing:**

Variable Rate based on Prime Rate Plus Margin and using the Risk Based Matrix:

Top 2 buckets FICO >700	Prime Rate + 5.00%
FICO 700-600	Prime Rate + 7.5%
FICO <600	Prime Rate + 10.00%
Ceiling Rate 18.00%	No Floor Rate

Rate Adjustments: Twice a year, April 1<sup>st</sup> and October 1<sup>st</sup>, based on published Prime Rate in the Wall Street Journal on the 20<sup>th</sup> day of the month prior to the adjustment month.

Rate Adjustment Cap: No more than 2% increase on each adjustment.

No Annual Fee, 25-day grace period on purchases, no cash advance fee, no over limit fee, cash advance rate is the same as the purchase rate but there is no grace period and interest starts day one.

September 2004, 4/07, 8/08, 4/10, 9/10, 1/11, 2/12, 6/12, 12/12, 8/13, 9/13, 6/14, 10/15, 4/16, 8/16, 10/16, 2/17, 5/17, 10/17, 4/18, 6/18, 3/19, 6/19, 5/20, 9/20, 9/21, 1/22, 11/22, 9/24, 10/24, 12/25

Payment amount is 2% of the balance with a minimum of \$25 or statement balance, whichever is less. Payments are due on the 15<sup>th</sup> of the month.

When a Credit Card application has not been approved (either rejected or a change in terms offered or cancelled), the Credit Union will comply with the requirements of the **ECOA** for rejected applications.

## **CO-SIGNERS:**

### Requirements:

Co-signers are responsible for making the payments on a loan in the event the borrower(s) are unable or unwilling to pay. Co-Signers are added to strengthen the loan and should be well qualified. Debt Ratios should be factored separately and not combined for the applicant(s) and co-signer(s).

### Rates on loans with Co-signer:

Unless approved by the CLO or CEO, the rates will be based on the average score of the loan applicant(s) and co-maker.

Post closing errors will be acknowledged by a signature on the worksheet by the Credit Manager, Senior LO, CLO or CEO.

## **CERTIFICATE SECURED LOANS:**

The secured rate will be 2% higher than the annual percentage yield (APY) of the certificate.

As the loan is paid down, withdrawals from the certificate will be allowed down to the balance of the loan, subject to applicable certificate withdrawal fees, rules and restrictions.

## **CREDIT BUILDER LOANS:**

A Credit Builder Loan may be offered for the purpose of establishing credit for borrowers with little or no credit history. The proceeds for the loan must be disbursed into the members' savings account and immediately secured as collateral. The secured balance may either decrease as the principal balance of the loan decreases or be released in full upon the payoff of the loan. The rate for these loans shall be 4%. Neither verification of income nor a credit report shall be required for this loan type.

## **VARIANCE FROM POLICY**

This section allows flexibility in exceptional circumstances while maintaining the integrity and risk management standards of Connections Credit Union.

Connections Credit Union may consider variances when standard guidelines do not apply due to unique situations. A variance with compensating factors can be granted when mitigating circumstances or positive attributes offset the increased risk. This approach supports responsible lending and member-focused decisions.

Debt Ratio Variances: Variances up to five percentage points above established debt ratio limits may be

approved if the member demonstrates strong creditworthiness, stable income, long-term membership, or additional income sources. Authorization by the Credit Manager, CLO, or CEO is required, with signatures on the worksheet and credit application.

**Loan-to-Value (LTV) Variances:** Exceptions to LTV ratios up to five percentage points may be considered with board-approved caps, provided compensating factors are present. Authorization by the Credit Manager, CLO, or CEO is required, with signatures on the worksheet and credit application.

**Board Approval:** Variance requests exceeding the established thresholds must be formally presented to the BOD at the next scheduled meeting for approval.