

## **Advantage One Federal Credit Union Loan Participation Policy**

Advantage One Federal Credit Union will participate with other credit unions granting loans to their members by funding a percentage not to exceed 90% of the total loan.

1. It shall be a condition of each loan participation that the originating credit union complies with all NCUA lending regulations.
2. Advantage One Federal shall not obtain an interest in a participation loan if the sum of that interest and any (other) indebtedness owing to Advantage One Federal by the borrower exceeds 10 percent of Advantage One Federal Credit Union's unimpaired capital and surplus.
3. Loan Participation's will not be made for more than 25% recourse. Amounts invested at 25% recourse will be limited to no more than \$1.1 million at any one institution.
4. A written master participation agreement shall be properly executed, acted upon by the Advantage One Federal Credit Union board of directors, the ALCO or the CEO and retained in Advantage One Federal Credit Union's office. The master agreement shall include provisions for identifying, either through a document, which is incorporated by reference into the master agreement, or directly in the master agreement, the participation loan or loans prior to their sale.
5. Advantage One Federal Credit Union may sell to or purchase from any participant the servicing of any loan in which it owns a participation interest.
6. Each new loan participation offering will be presented to Advantage One Federal Credit Union's Board members for consideration. The CEO and the Loan Manger must both initially approve of the loan participation offering. The CEO and/or Loan Manger must then receive prior approval from at least 5 members of the Board of Directors. Two of the 5 directors must be members or alternate members of the ALCO committee. At the next scheduled Advantage One Federal Credit Union's Board of Directors meeting, the participation must be documented in the board minutes and the name of the directors who approved the loan participation must recorded.
7. The maximum participation loan amount granted to each individual borrower shall not exceed 1% of total share capital on deposit for Advantage One Federal Credit Union. The originating lender must retain ownership of 10% or more of any participation loan.
8. The participation agreements shall include a) requirements for monthly reporting by the selling credit union; b) collection policy items such as: timing

for repossession, legal procedures, charge off standards policies regarding refinance and extension agreements.

9. Loan participations made with 100% recourse can be made with institutions allowing up to 50% debt-to-income in their loan policy. Loan participations made with 25% recourse must closely match Advantage One Federal Credit Union's loan policy guidelines. In 25% recourse participations, any loan policy differences that are less stringent than those of Advantage One Federal Credit Union must be disclosed by the Loan Manager or CEO of AOFCU. Any policy statements that would allow for loans to be granted at the selling credit union and not AOFCU will be reported and must be approved by 5 of the 7 members of the board of directors. These material differences in policy if approved must be documented and disclosed in the minutes of the board of directors meeting immediately following their discovery.
10. Unless otherwise approved by a majority of board members at a board of directors meeting, the purchase of participation loans shall be limited to consumer and real estate loans with a stated term of no more than five years.
11. An attorney shall review and assist in the review and/or completion of all loan participation master agreements.

#### **PERFORMANCE OF DUE DILIGENCE:**

The performance of due diligence is designed to ascertain the safety and soundness of the selling credit union. When the selling credit union offers Advantage One Federal Credit Union full recourse for the participation loans due diligence procedures will help determine if the credit union has the resources to guarantee the participation loans. When the Advantage One Federal Credit Union does not have full recourse due diligence will help determine if the selling credit union's underwriting and collection standards are acceptable to Advantage One Federal Credit Union's management team and board of directors.

- I. A review of the past twenty-four months financial performance will be Performed. This review shall include some of the following: the Annual Report, NCUA 5300s, current month and quarter-end financial statements, regulatory examinations and CPA audits, review of third party IDC rankings. Loans with 25% recourse will entail a greater number of the above sources to be reviewed.
2. A review of loan policies and delinquency and collection procedures will be performed.
3. Advantage One FCU will perform a random selection of loans from the credit union's offered loan participation portfolio. When purchasing loans with full recourse no less than 5% of the loans will be reviewed by a Advantage One FCU

loan officer/loan manager. When purchasing loans with 25% recourse no less than 10% of the loans will be reviewed.

4. That the form and substance of the monthly and other periodic reports will be accurate and provide reliable information for Advantage One FCU.
5. Verify the selling credit union's collection policy procedures are appropriate for the types of loans being sold as deemed by the Advantage One FCU Loan & Collection Manger.
6. Verify that the selling credit union's operational procedures are adequate to properly service and report the loans. Documentation and samples of existing reporting and historical loan participations by that institution will be helpful in this determination.

Review of Sample Loans to Include:

- 1) Review loan application
- 2) Evaluate credit report for each borrower - all derogatory information must be explained.
- 3) Examine proof of income and ability to repay
- 4) Verify accuracy of payment to Advantage One FCU
- 5) Verify that terms of the loan are within credit union policy limitations
- 6) Verify debt ratio calculations
- 7) Verify collateral value