



**WALLINGFORD MUNICIPAL FEDERAL CREDIT UNION
LOAN POLICY
APPROVED MARCH 18, 2010**

GENERAL LENDING POLICY

It shall be the general lending policy of the Wallingford Municipal Federal Credit Union (WMFCU) to prudently provide funds in the form of loans to members who qualify according to the guidelines set forth below. All loans are subject to approval.

1. It is the policy of the WMFCU to comply with federal and state laws and regulations applicable to the Fair Credit Reporting Act such as providing adverse notices to members for whom a loan was denied based on adverse information obtained from a consumer reporting agency.
2. It is the policy of WMFCU to comply with federal and state laws and regulations prohibiting discrimination when accepting a loan application, analyzing an application or establishing terms of a loan. No member in good standing of the credit union will be denied any loan due to discrimination on the basis of race, color, religion, national origin, ancestry, sex, handicap, family or marital status, age (provided that the applicant has the capacity to enter into a binding contract), mentally challenged, learning disability, blindness, the fact that all or part of the applicant's income derives from any public assistance program, sexual orientation, or the fact that the applicant has, in good faith, exercised his/her right under the Consumer Protection Act or any other consumer protection regulation or similar state law.
3. No Loan Officer of the credit union will, in any manner, discourage a member from submitting an application for a loan. The WMFCU will accept and consider an application from any member who wishes to submit a request for a loan.
4. The WMFCU is not obligated to accept a loan application from a non-member who is not in the credit union's field of membership.
5. All loan underwriting standards shall be made available to any member upon request.



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6. Loan applicants shall be required to have U.S. Citizenship, permanent resident visa status, or other permanent immigrant visa status.
7. Loans shall be available only to individual members and not to associations, organizations or businesses.
8. Whenever possible, and considering the best interests of the member and the credit union, the WMFCU shall attempt to make a counter offer to all loan applicants who are denied the amount of the loan they are seeking.
9. It shall be the policy of the WMFCU to accept co-signers on loans when warranted.
10. The WMFCU recognizes that certain members represent more risks than others; therefore, the credit union will not grant any loan when the probability of repayment seems very doubtful. The amount of debt that the loan applicant currently owes is also considered to determine if he or she has already reached or exceeded the debt capacity as stated in the Loan Policy. Such data as frequency of overdraft on share draft checking, frequency of loan applications, previous loan decisions, and record of previous loan payments will also be examined.

Any person who caused a financial loss to the WMFCU shall not be approved for any type of loan or as a co-signer on any type of loan.

ELIGIBILITY OF BORROWER

A loan applicant must be a member of the WMFCU with one full share on deposit to be eligible for a loan. A member must be of legal age to enter into a binding contract, and meet the debt service ability requirements. The WMFCU's debt serviceability policy is a debt to income ratio of a maximum debt allowable of 40-45%, using gross income. A current pay stub or other proof of income is required. The credit union will exclude overtime income from consideration of all loan applications because it is inconsistent data.

If an applicant does not declare any rent or mortgage expense, a \$500 estimated rent expense will be used in calculating the debt to income ratio. 100% of joint obligations on the applicant's credit report will be considered in calculating the debt to income ratio.



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Rental Income

The verification of rental income will be determined on a case by case basis. It is important to understand the borrower's experience in the role of a landlord and the relationship between reliance on rental income as it relates to total debt. The underwriting will consist of the examination of the borrower's Schedule E's from the current Federal Income Tax return, which will offer a historical perspective of the property's income and expenses. The Loan Officer(s)/underwriter(s) may request a two year review of cash flow. Depending on the circumstances, the underwriter may review existing leases, but in no instance will more than 75% of rental be used in the debt service calculation.

Self-Employed Members

Verifying income for this classification of members must be considered on a case-by-case basis. The Loan Officer(s)/underwriter(s) will gather sufficient income verification to make a valid determination on the borrower's ability to debt service the existing debt load as well as the proposed loan amount. Verification will include a two year review of the borrower's 1040 Federal Tax Returns. If insufficient cash flow information is not identified, addition documentation may be required such as Corporate or Partnership/Sole Proprietor return(s). Based on the nature of reportable business income, the Loan Officer(s)/underwriter(s) will take into consideration:

- The use and make-up of depreciation expense
- Net worth position of both the borrower(s) and the business
- Outstanding loan obligations that are the responsibility of the business
- Overall credit history of the borrower(s)

Continuous Employment

Stability of employment is a key factor in the underwriting process. The Loan Officer(s)/underwriter(s) will take the applicant's employment history into consideration in determining his/her employment stability on a case-by-case basis. In considering unsecured loans, especially to non-home owners and/or non-professionals, it is recommended that applicants have two years at their present employment and residence.

Lending Outside of Connecticut

Due to the problems and costs associated with the enforcement of notes and security agreements in other states, decisions regarding lending outside of Connecticut is restricted to the Senior Loan Officer. Any exception will be made on a case-by-case basis.

Members leaving the field of membership and moving out of state, but still retaining their account(s), may continue to take out loans with the WMFCU. The member is encouraged to be present at the credit union office to sign the loan note; however, the



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member may choose to have the paperwork sent to them for execution. Paperwork sent to a member for execution must be returned to the credit union fully executed and properly witnessed by a Notary Public or Clerk of the Court. The WMFCU will issue the check after all paperwork is returned and properly executed.

CO-SIGNER LOANS

Members may have a co-signer to share the responsibility of repaying their loan. Members may need a co-signer if they have no credit history or lack the required employment history.

Co-signers must satisfy the WMFCU criteria, including debt to income ratio guidelines, and must agree to assume responsibility for the entire loan balance. The credit union will provide all co-signers with proper notice explaining rights and responsibilities as required by the Fair Credit Reporting Act.

UNSECURED LOAN LIMITS

Limits on unsecured loans shall be as follows as defined by the Fair Isaac Corp (FICO) scoring system:

Tiers 1 and 2 Credit Score: (minimum of 680)	\$15,000
Tier 3 Credit Score: (minimum of 640)	\$12,000
Tier 4 Credit Score: (minimum of 600)	\$10,000

Unsecured debt includes any combination of personal loans.

The Senior Loan Officer will review and approve/decline all unsecured debt consolidation loans that retire other financial institutions' unsecured debt. Debt consolidation loans will be paid directly to creditors. During this review, the member's net worth position and other underwriting factors will be taken into consideration. The credit union will strive to further secure these requests with added security and/or a co-signer(s) with the required second source of repayment.

PERSONAL LOANS

Personal loans shall be granted as closed-ended unsecured loans.



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A minimum loan amount is \$500 and a maximum loan amount is \$15,000; terms vary up to a maximum of 48 months.

When a loan is disbursed for purposes of debt consolidation, the WMFCU will require that the checks be payable to the creditor(s).

All loans disbursed for tuition purposes will be payable to the education facility and the member unless proof of prepayment has been presented.

Members must have a credit score of 600 or better in order to be considered for a personal loan. Scores under 600 will be considered on a case-by-case basis.

AUTOMOBILE LOANS

Maximum New Automobile Loan: \$40,000

Maximum Used Automobile Loan: \$30,000

Maximum Term: 72 Months

New

For members with a FICO score of 680 or above (Tiers 1 and 2) and are home owners, the WMFCU will finance 100% of the price reasonably determined by the purchase agreement and/or the NADA* book value, including sales tax, registration and/or conveyance fees. A \$500 deductible is required for insurance coverage.

Used

For members with a FICO score of 680 or above (Tiers 1 and 2) and are home owners, the WMFCU will finance 100% of the retail value as determined by the NADA book value, plus or minus options. The credit union will finance automobiles listed in the NADA book for the last seven (7) years only. A \$500 deductible is required for insurance coverage.

* Value is determined by taking the lesser of the purchase agreement or NADA value.

The WMFCU will provide 80% financing on both new and used autos for members who do not meet the homeownership and/or a 680 FICO score requirement. The Senior Loan Officer has discretion in pricing decisions in this area.

The WMFCU considers the title of ownership to a registered automobile vehicle as security for the loan. Members requesting an automobile loan shall have their agent or insurance company submit an endorsement listing the Wallingford Municipal Federal Credit Union as loss payee and lien holder of the title. Comprehensive and collision



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insurance coverage is required listing the WMFCU as loss payee. Proof of insurance must be presented at the time of closing.

SHARE /CERTIFICATE OF DEPOSIT SECURED LOANS:

Collateral will be as regulated by the Directors, the bylaws and statutes which govern this aspect of credit union service.

Maximum Loan Amount: Limited to account balance. The release of shares as collateral will be based on a declining loan balance.

Term: 48 months or less.

A declining hold shall be placed on a member's share or certificate that is pledged as security for a loan. The security agreement will list the share account number and original amount held as security.

Available savings in the WMFCU may secure loans, with the exception of Christmas Club and Individual Retirement Accounts.

Loans secured by credit union savings shall be granted at 3.00% above the share rate.

Loans secured by credit union term certificates shall be granted at 3.00% above the face rate of the certificate. The term of the certificate must be equal to the term of loan.

Savings in other financial institutions may not be accepted as collateral on WMFCU loans.

MATURITIES

The terms of repayment of a loan are to be related to the form and nature of the loan. A definite repayment program and an understanding with the member is established and disclosed for each type of loan.

Type of Loan	Term Limit (Maximum)
Personal: unsecured	48 months
New Vehicle: secured	72 months
*Used Vehicle: secured	72 months Max for a 5 year old vehicle
Share Secured	48 months

** For used vehicles that are 6 or 7 years old, the maximum term is 48months.*



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Loan requests with longer terms for the above loan types will be considered by the Senior Loan Officer on a case-by-case basis, but in no instance will the term exceed the 12 year maturity limit placed on such loans by NCUA.

A schedule of current maturity limitations and conditions for all types and categories of loans will be made available to the membership and distributed to all lending personnel.

AGGREGATE LOAN LIMIT

The maximum aggregate loan amount shall not be more than 10% of unimpaired capital and surplus threshold limit imposed by NCUA regulations. All loans that will bring a member's aggregate balance over \$100,000 must be reviewed by the Senior Loan Officer. In the event of the unavailability of the Senior Loan Officer, the Board of Directors will make such decisions. All loan requests that exceed the \$100,000 aggregate must be ratified by a majority vote of the board.

REWRITE OF LOANS

No rewrite of a loan shall be considered until three (3) monthly payments are received against the loan being rewritten.

RISK FACTORS ANALYSIS

The following factors must be reviewed, entered onto a spreadsheet, and made part of the loan underwriting file for each loan application:

1. Debt to income ratio cannot exceed 40%. The following exceptions will apply: Tier 1 and Tier 2 FICO rated scores may go up to 45%, and Tier 3 FICO rated scores may go up to 43%. These increases are at the discretion of the Senior Loan Officer.
2. Unsecured balances, excluding student loans, may not exceed 20% of a member's gross annual income. If multiple revolving credit cards and unsecured balances are close to the required limits, the Loan Officer must use careful judgment as to whether this is a factor in determining denials.

RISK-BASED PRICING PROGRAM

The WMFCU has established a Risk-Based Pricing Program that includes a credit scoring and pricing model which will reward its most credit worthy members with a preferred loan commitment while attempting to assist those members who may have weaker credit.



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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 Pricing may be offered on selective lending products. The Risk-Based Pricing Program will be monitored at least annually and may be modified at any time.

The WMFCU understands there are basically three types of risk to consider when granting loans:

Liquidity Risk

A liquidity risk occurs when the WMFCU simply runs out of available funds to loan to its members. Therefore, it is important to have a good asset liability management program to ensure that the credit union maintains available funds for loans to its members.

Interest Rate Risk

The WMFCU will protect itself against interest rate risk by:

- Having an adequate percentage of re-priceable loan products in its portfolio
- Using a tiered system on interest rates on signature loans
- Using a tiered system for interest rates on collateral loans

By using a tiered approach and multiple pricing by loan type, the credit union can maintain its margins as rates go up or down.

Default Risk

All types of loans shall require a credit bureau report prior to consideration. Scoring models only indicate what rate to charge if the loan is approved. The scoring model will be a tool that will assist the Credit Committee and the Loan Officer(s) in the decision process. The credit bureau employed by the WMFCU uses the Empirica model scoring system developed by Fair Isaac Corp (FICO). FICO has tested thousands of files using over 50 characteristics in determining a member's score and has been found to be non-discriminatory.

When determining the rate to charge if two or more scores are offered, the WMFCU will adhere to following:

In the event the two signers are joint borrowers, the credit score will be based on the lowest score.

In the event there is no credit report to score, the credit union will assign a Tier 4 score for all applications.



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In the event that the debt to income ratio is over 45%, additional review by the Senior Loan Officer will be required.

LOAN PORTFOLIO COMPOSITION

Effective as of the date of this Loan Policy, the WMFCU will work toward managing the loan portfolio to ascertain the following credit score percentages:

Total Loans:	Tier 4 Credit Score (minimum of 600)	15%
	Tier 5 Credit Score (minimum of 550)	10%
	Tier 6 Credit Score (below 550)	5%

Loan applicants who have a score in any of the above grades, may be denied a loan until such time that the loan portfolio for personal loans has achieved the required limits.

RATES AND PAYMENT AMOUNT

Each loan application is considered on an individual basis. Members will be instructed that the rate and payment amount being provided is the lowest rate and the payment amount available to the best credit score. The quotation of personal loan rates are for informational purposes only and are subject to change. The actual rate and payment amount they receive will reflect their individual circumstances and may be higher than the rate and payment amount discussed initially. Without a loan application, an approximate payment can be given using the scale rate of Tier 1. Lending rates distributed and posted by the credit union also reflect the Tier 1 rate.

Loan payments that are ten days past due will be charged a late fee; this fee will be delineated in the fee schedule.

In conformance with the Credit Disclosure Act (Truth in Lending), the WMFCU shall calculate interest on the unpaid balance for all loans on the number of days the principal was used, incorporating the Julian calendar, as approved for credit unions using data processing service.

Example: $P \times R \times T = I$ $\$1,000 \times 12\% \times 31/365 = \10.19

PAYROLL DEDUCTIONS

Members may elect to make loan payments by payroll deductions in accordance with the procedures in effect between their Payroll Department and the WMFCU. Upon receipt, the credit union will deposit their funds to the member's designated account, with the



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exception of a Christmas Account and an IRA. It is the member's responsibility to see that there are sufficient funds in their designated account to meet the loan payment. If there are not enough funds in their designated account on the loan payment date, the loan will be delinquent and subject to late charges. The WMFCU is not responsible for delays in processing a deduction request made by the member to the payroll department.

LOAN PROTECTION INSURANCE

The WMFCU will provide loan protection insurance up to an aggregate limit of \$20,000 per member for all members meeting the eligibility requirements of the group policy.

Disability insurance is also offered to all members. This is a member paid insurance that will be incorporated into the loan payment.

SPECIAL CIRCUMSTANCES

Loans to management, staff, members of the Board of Directors and committees are to receive special attention and must be recommended by the Senior Loan Office for a majority vote needed for board approval. This procedure shall also apply to any family member who resides in the home of management, staff, board and committee members of the WMFCU. Loan underwriting and pricing will not differ from other loans granted to the general membership.

When a loan application for management, staff, a board member, or committee member is presented to the Board of Directors, the applicant shall not be present for discussion.

Loans to family members of an employee or an employee's spouse cannot be reviewed, approved or dispersed by the employee.

PROCESS OF APPROVAL AND OR DENIALS

The Board of Directors authorizes the Loan Officers of the WMFCU to grant loans to members provided that such loans are based on the provisions as delineated in the WMFCU Loan Policy. Upon receipt of a loan application, the Accounting Clerk I will enter the loan application into the WMFCU loan module computer system to ensure that all information is correct and all income verification has been submitted. For vehicle purchases, a purchase agreement will be required. The application will then be reviewed by the Accounting Clerk II for a decision. Whether the loan is approved or denied, the Loan Officer and Senior Loan Officer will also sign-off on the request. If a loan is denied, it will be sent to the Credit Committee for final review. An applicant is entitled to written notification of any adverse action with 30 days from the date of the application.



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The Senior Loan Officer will insert file notes to all exceptions of policy and will advise the Board of Directors of actions taken.

APPEALS OF DENIED LOANS

Members who have a loan application refused by the Credit Committee may request a personal interview to discuss the application. The member must request the interview in writing, outlining any additional information he/she wishes to present to the committee. A member may also explain in writing any derogatory comment on his/her credit report.

The Credit Committee will evaluate the letter to determine if a meeting with the member would be advantageous to the member.