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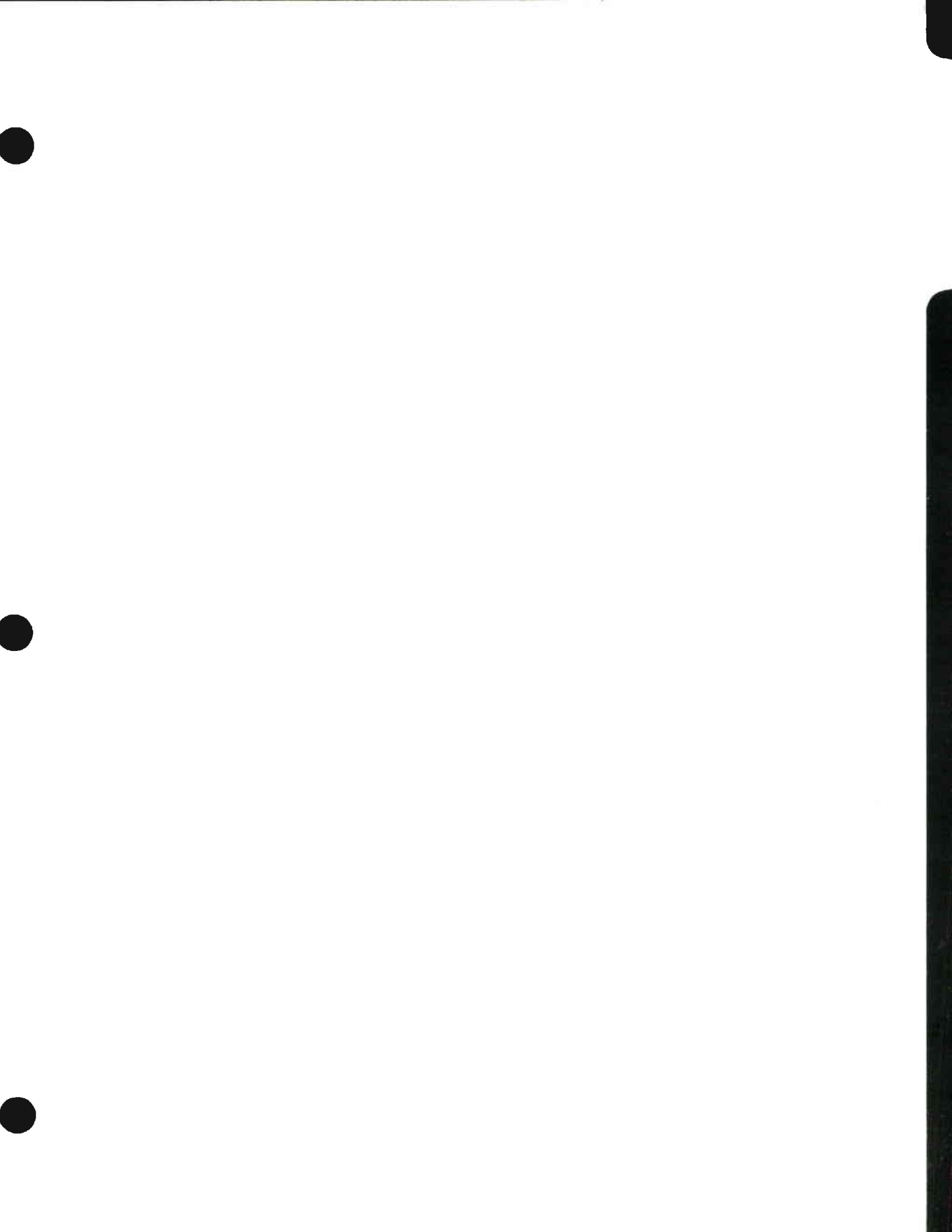
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FAA EMPLOYEES CREDIT UNION

Policy No: 1.01
Date: August 22, 1985
Revised: **January 28, 2014**

**SUBJECT: FIELD OF MEMBERSHIP-BYLAW IV AS AMENDED
OCTOBER 16, 2001**

POLICY: The following persons and organizations having a common bond of occupation or association shall be eligible for membership in this Credit Union.

- a. Individuals who reside, work, worship, or attend school in the Oklahoma Metropolitan Statistical Area which includes the counties of Canadian, Cleveland, **Grady, Lincoln**, Logan, McClain, Oklahoma and Pottawatomie counties.
- b. Individuals who now, or later become an employee or member of the groups having a common bond of occupation or association of select employee groups approved prior to October 16, 2001.
- c. Present or retired employees of the U. S. Department of Transportation employed, headquartered, or residing in the State of Oklahoma.
- d. Employees of incorporated or unincorporated business organizations or proprietorships working under contract with the U. S. Department of Transportation at the Mike Monroney Aeronautical Center of Oklahoma City, Oklahoma.
- e. Employees of the Credit Union.
- f. Family members of individuals eligible under paragraphs A, B, C, D, & E of this section, as well as organizations comprised for the most part, of individuals eligible for membership.



FAA CREDIT UNION

Policy No: 2.01
Date: August 1, 1988
Revised: **September 23, 2014**

SUBJECT: LOAN POLICIES - GENERAL

POLICY: FAA Credit Union extends credit to qualifying members. Qualifying members are those members who meet the Credit Union's underwriting standards, pursuant to the Credit Union's lending policies and procedures. 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 loan products. The Credit Union's loan products may be structured as closed-end or open-end credit transactions.

FAA Credit Union shall grant loans for prudent and provident purposes that comply with the laws and regulations of the United States and the State of Oklahoma. If a policy conflicts with a law or regulation, the law or regulation shall take precedence over Credit Union policy.

The Credit Union recognizes that no two loan applicants are the same. Members therefore qualify for Credit Union loan products at varying degrees based upon established underwriting guidelines

Loans are originated with the intent to either hold them to maturity or to hold them for sale. The Credit Union will properly account for each type of loan.

As a general rule, the Credit Union will originate consumer, and real estate and residential construction loans with the intent of holding them to maturity. The credit union may also originate real estate loans and sell into approved secondary markets.

FAIR LENDING COMMITMENT

The Credit Union is firmly committed to the principles of fair lending. FAACU views this commitment seriously and will not tolerate discrimination in policy or practice in any of its lending activities. FAACU will promote the availability of credit on equal terms to ALL

credit worthy applicants.

FAA Credit Union officials, agents or employees will not discriminate against an applicant on the basis of race, color, religion, national origin, sex, marital status, age, or any other prohibited reason as set forth by law, or of any person associated with said applicant (provided that the applicant has the capacity to enter into a binding contract); or the fact that all or any part of the applicant's income derives from any public assistance program; or the fact that the applicant has in good faith, exercised any right under the Consumer Protection Act or any similar state law with respect to any credit transaction. All credit union officials and employees, who discuss, receive or act on applications for credit, shall comply with the following:

- (A) Regulation Z, which implements the Truth-in-Lending Act (12 C.F.R. 226).
- (B) Regulation B, which implements the Equal Credit Opportunity Act (12 C.F.R. 202).
- (C) The Fair Credit Reporting Act (15 U.S.C. 1681).
- (D) The Fair Housing Act (42 U.S.C. 3601).
- (E) Regulation C, which implements the Home Mortgage Disclosure Act (12 C.F.R. 203).
- (F) Regulation Z, which implements the Home Ownership and Equity Protection Act (12 C.F.R. 226.32 through 226.34).
- (G) Article 9 of the Uniform Commercial Code.
- (H) The Servicemembers Civil Relief Act.
- (I) NCUA Parts 701, 706, 717, 722, and 760.

The Credit Union will accept and consider applications, according to law, from any member or potential member who wishes to submit a request for credit. All loan applications will be evaluated fairly.

No officer, agent or employee of this Credit Union will, in any manner, discourage a member or potential member from submitting an

application for credit. Likewise, 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.

None of the protected factors will 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 Credit Union.

Reasonable accommodations will be made to enable persons with disabilities to afford them opportunity to apply for credit.

The Credit Union will make every attempt to assist members in their borrowing needs, but will not extend credit to any member who has caused the Credit Union a loss, and who has not voluntarily repaid the loss (or who is not voluntarily repaying the loss), whether the loss was due to bankruptcy or otherwise.

FAACU employees will provide equal treatment for legally married same-sex couples. Regardless of a person's state of residency, a person who is lawfully married under the laws of any jurisdiction is deemed to be married nationwide. Note: for purposes of the federal consumer financial protection laws, a "spouse" does not include a person in a civil union, domestic partnership, or other relationship not considered by law as a marriage.

DELEGATION TO 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 established loan policies and procedures.

UNDERWRITING

Each underwriting guideline does not in and of itself constitute the sole decision for granting or denying credit. Rather, applicants qualify for loans based on their own merit and the level of risk that the loan request represents. In addition to the applicant's credit score, the Credit Union may consider the applicant's capacity, character, collateral, capital and history with the Credit Union.

Individuals having authority to make loan decisions shall rely on all underwriting guidelines available when considering a loan application. The person(s) making loan decisions shall strive for uniformity and consistency within the established guidelines and policies when rendering a loan decision. Loan granting is not a science, but a judgment call based on underwriting guidelines.

Underwriting guidelines are available in procedure manual form in the each respective department.

DEBT-TO-INCOME RATIO (DTI)

While considering all underwriting factors, it is the general policy of the Credit Union that the debt-to-income ratio for consumer loans may not exceed a maximum of 45%. This is the maximum DTI percentage allowable. The DTI may, however, be restricted to a lower percentage for a particular product per Credit Union policy. In such case, the lower amount shall be applied. In any case, the maximum shall not be exceeded without an exception. The President, VP of Lending, and Sr. VP of Financial Services are the only persons granted authority to provide an exception to this general rule.

COLLATERAL

The Credit Union will create, attach, and perfect security interest in collateral provided as security for the credit extended.

TRUTH-IN-LENDING

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 loan and how the application is obtained, pursuant to the Credit Union's Truth in Lending Disclosures policies for Closed-End and for Open-End Credit.

EDUCATION AND CROSS SELLING

Lending employees shall exercise every opportunity, in good faith, during a member contact to fairly and honestly educate members about the costs of credit and to obtain additional member business. It

is beneficial for members and for the Credit Union for the Credit Union to be the primary financial institution of its membership. Cross selling additional business is an important part of every credit union employee's job responsibility.

TRAINING

Fair lending training will be provided annually for the necessary employees.

MARKETING

The Credit Union will ensure that its marketing efforts do not specifically target or exclude certain persons based on prohibited class characteristics.

REPORTING

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.

REVIEW AND AUDIT

Credit approvals and denials will be reviewed periodically as part of the fair lending review/assessment and compliance reviews to detect and correct any prohibited discrimination.

Further, a formal outside review/assessment for fair lending will be conducted every other year by a third party to ensure the Credit Union's lending practices are free of any prohibited discrimination and in compliance with the Equal Credit Opportunity Act/Regulation B, the Fair Housing Act, and all other related laws or regulations which prohibits such discrimination. The quarterly compliance reviews currently conducted by an outside provider include a review of the Credit Union's compliance with these regulations. Any evidence of overt discrimination, disparate treatment, or disparate impact shall be reported to Management immediately. Management will in turn adopt programs to reverse and overcome the effects of discriminatory practices.

Additionally, the Credit Union's loan portfolio will be audited

annually by either the internal auditor or a third party to ensure lending is being done in compliance with the Credit Union's policies.

RECORD RETENTION

All related loan documentation, disclosures, applications, security instruments, etc. will be retained in accordance with the Credit Union's Record Retention Schedule.

FAA Credit Union

Policy No: 2.02
Date: November 24, 2003
Revised: April 23, 2013

SUBJECT: CHARGE-OFF LOANS

POLICY: Periodically members experience financial difficulties that prevent them from repaying a loan. As a result, the principal loan balance is deemed uncollectible from members. The Credit Union will reclassify the estimated net realizable value (NRV), if any, as foreclosed and repossessed assets. Any loan balance in excess of the net realizable value will then be processed as a "charge-off" and charged against the allowance for loan losses.

The following are examples of loans representing a high probability of loss to the Credit Union and should be charged off:

A non-performing loan more than six months past due without a payment of at least 75 percent of a regular monthly installment within the last 90 days. In cases of non-performing loans, transfers from shares and proceeds from the sale of collateral generally do not constitute payments.

A delinquent loan in the hands of an attorney or collections agency, unless there are extenuating circumstances to indicate the Credit Union will collect the loan.

A "skip" where the Credit Union has had no contact for 90 days.

An estimated loan loss, where the Credit Union has repossessed, but not yet sold, collateral on hand. The Credit Union may record the estimated net realizable value (if any) of the asset to the repossessed assets held for sale account. Any balance in excess of the estimated NRV will then be processed as a charge-off and charged against the allowance for loan losses.

An estimated loan loss, where the Credit Union has foreclosed on, but has not yet sold the property securing the real estate loan at the fair value of the property. The Credit Union may record the estimated net realizable value (if any) of the property to the Other Real Estate Owned (OREO) account. Any balance in excess of the estimated NRV will then be processed as a charge-off and charged against the allowance for loan losses.

FAA Credit Union

Policy No: 2.02, Pg 2
Date: November 24, 2003
Revised: April 23, 2013

SUBJECT: CHARGE-OFF LOANS

A loan in bankruptcy, within 60 days of receipt of notification of filing from the bankruptcy court, unless the Credit Union can clearly demonstrate and document that repayment is likely to occur. Loans with collateral may be written down to the value of the collateral, less cost to sell. However, in Chapters 11 and 13 bankruptcy proceedings, if the court lowers the amount that the borrower must pay, the Credit Union should immediately charge off that portion of the debt discharged by the court.

A fraudulent loan, no later than 90 days of discovery of when the loss is determined, whichever is shorter.

A loan of a deceased person when the loss is determined.

A loan deemed uncollectible where additional collection efforts are non-productive regardless of the number of months delinquent.

This above list is intended to provide guidance in determining loans to be charged off, and is not a complete list of loans types that will be considered for charge-off by the Credit Union.

Charge-offs will be done promptly and will conform to Generally Accepted Accounting Principles (GAAP) and as set forth herein. No employee shall have authority to charge-off a loan when the charge off may constitute a conflict of interest, such as loans to family members, significant others, persons of the same household or close friends.

Charged-off loans will be reported to the credit bureaus as appropriate.

No credit will be extended to any individual who has caused FAA Credit Union a loss and who has not voluntarily repaid the loss (or who is not voluntarily re-paying the loss), whether the loss was due to bankruptcy or otherwise. Credit Union services may be limited or withdrawn for members who cause the Credit Union a loss.

All charge-offs for the month will be reported to the Board at the next regularly scheduled board of directors meeting.

Charge-offs will be periodically reviewed to ensure management and staff adhere to this Policy.

FAA CREDIT UNION

Policy No: 2.03
Date: August 1, 1988
Revised: **November 26, 2013**

SUBJECT: DELINQUENT LOANS

Policy: All consumer loans are due on or before the contractual due date. Any payment not received on or before the contractual due date, places the loan in a delinquent status and are subject to the following conditions, **in addition to the remedies found in the loan agreement.**

Quick loan *limits* may be *removed* if a member is delinquent on any loan with FAA Credit Union whether he/she is the primary member or the Co-maker/Guarantor.

VISA loan *limits* may be *removed* if a member is delinquent on any loan with FAA Credit Union whether he/she is the primary member or the Co-maker /Guarantor. See policy 2.10 for delinquency on Share Secured VISA's.

No credit will be extended to any person who has caused FAA Credit Union a loss and who has not voluntarily repaid the loss (or who is not voluntarily repaying the loss), whether the loss was due to bankruptcy or otherwise.

Members who are on a prorated payment plan with Consumer Credit Counseling Service (CCCS) may be allowed to refinance or extend payments on existing loans. No new money will be advanced until the payment plan has been completed or without the approval of the **President/CEO, SVP of Financial Services, the AVP of Financial Services, or the VP of Lending.**

FAA CREDIT UNION

Policy No: 2.03.2
Date: January 21, 2003
Revised: **April 29, 2014**

SUBJECT: Allowance for Loan and Lease Loss Policy (ALLL Policy)

POLICY FAA CU shall maintain an Allowance for Loan and Lease Loss (ALLL) reserve account to provide for probable loan losses. The methodology used to calculate the ALLL shall be in accordance with Generally Accepted Accounting Principles (GAAP) and post 1993 NCUA supervisory guidelines, **Accounting Standards Codification (ASC) 450-20, Loss Contingencies - Allowance for Small Balance Homogeneous Pools of Loans**, when evaluating loans for potential loss, and **ASC 310-40- Troubled Debt Restructurings by Creditors**.

RESPONSIBILITIES

Credit Union management is responsible for establishing the ALLL and documenting the methodology used to determine the ALLL. The determination of the ALLL will be based on management's judgment regarding current credit quality of the loan portfolio and will consider all known relevant internal and external factors that affect loan collectibility. The amounts to be provided for the ALLL each period will be reviewed and approved by the Board of Directors.

The Credit Union's Internal Auditor will periodically perform an audit of charge-off loans on an as needed or risk based basis. The auditor will verify loan documentation, compliance with Credit Union's lending and charge-off policy, and proper reporting to the Board of Directors. The auditor will report findings directly to the Supervisory Committee.

METHODOLOGY

Management will segment the Credit Union's loan portfolio into 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. The loan portfolio will be segmented as follows: Automobile loans, Indirect loans, other secured, unsecured/LOC, credit cards, real estate, member business loans and participation loans.

The Credit Union will use a variety of documents to support the segmentation of the portfolio including trial balances by categories and loan types, management reports showing the loan mix, delinquency and non-accrual reports, and a summary presentation of the loan grading review.

Management will then apply an empirically derived loss ratio to each loan segment to determine an appropriate level of funding for that segment's Allowance for Loan Loss Account. The loss ratio will equal the past 12-month rolling average of loan losses. Management will maintain the supporting documentation for the technique used to develop the loss ratio. These loss ratios will be reviewed annually for appropriateness and refined as warranted. In addition to applying the loss ratios, on a semi-annual basis, management will consider the impact of current environmental factors and document which factors have been used in the analysis and how these factors may add to the loss measurements. Any deviation from the 12 month rolling average of loan losses will be noted on the monthly allowance for loan and lease loss calculation page appearing in the board packet.

An impaired loan analysis will also be completed monthly. A loan is impaired when it is probable, based on current information and events, that the Credit Union will be unable to collect all contractual principal and interest payments due to accordance with the terms of the loan agreement. Consumer loans 90 days and greater delinquent in the amount of \$15,000 and over will be evaluated individually for potential loss and reserved for. Real estate loans 90 days and greater delinquent in the amount of \$100,000 and more will be evaluated individually for potential loss and reserved for. All MBL and participation loans 90 days and greater delinquent will be evaluated individually for potential loss and reserved for.

MBL METHODOLOGY

Because of their size and complexity, member business loans and business loan participations will be monitored and evaluated on an individual basis by the President. These loan types may be classified as "substandard", "doubtful", or "loss", based upon the probability that the Credit Union will be unable to collect all interest and principal according to the contractual terms of the loan agreement.

The substandard classification indicates that the loan has a well defined weakness that jeopardizes the orderly liquidation of debt. A substandard loan is inadequately

protected by the current sound worth and paying capacity of the obligor or the collateral pledged, if any. Normal repayment from the borrower is in jeopardy, although no loss of principal is envisioned. There is a distinct possibility that a partial loss of interest and/or principal will occur if the deficiencies are not corrected. Loss potential, while existing in the aggregate amount of substandard assets, does not have to exist in the individual assets classified substandard. Management skills are questionable with readily identifiable voids.

A doubtful classification indicates borrowers have the weaknesses found in substandard borrowers with the added provision that the weaknesses make collection of debt in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Serious problems exist to the point where partial loss of principal is likely. The possibility of loss is extremely high, but because of certain important, reasonably specific pending factors that may work to strengthen the assets, the loan's classification as estimated losses is deferred until a more exact status may be determined. Pending factors include proposed merger, acquisition, or liquidation procedures; capital injections; perfecting liens on additional collateral; and refinancing plans. Reserves are generally established to provide for these uncertainties. Management has a demonstrated history of failing to live up to agreements unethical or dishonest business practices, bankruptcy, and/or conviction on criminal charges.

The loss classification indicates borrowers are incapable of repayment of unsecured debt. Loans to such borrowers are considered uncollectible and of such little value that continuance as active assets of the credit union is not warranted. This classification does not mean that the loans have absolutely no recovery or salvage value, but rather, it is not practical or desirable to defer writing off these basically worthless assets even though partial recovery may be effected in the future.

A pass loan is a strong credit with no existing or known potential weaknesses deserving management's close attention.

A watch credit is a loan that otherwise meets the definition of a standard or minimum acceptable quality loan, but which requires more than normal attention due to any of the following items: deterioration of borrower financial condition less severe than those warranting more adverse grading,

deterioration of repayment ability and/or collateral value, increased leverage, adverse effects from a downturn in the economy, local market or industry, adverse changes in local or regional employer, management changes (including illness, disability, and death), and adverse legal action. Payments are current per the terms of the agreement. If conditions persist or worsen, a more severe risk grade may be warranted.

A special mention credit is a loan that has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the credit or in the Credit Union's position at some future date. Special mention credits are not adversely classified and do not expose the Credit Union to sufficient risk to warrant adverse classification.

Periodic reviews are completed for the MBLs and reserved for as necessary.

Member business loans that are not classified may be grouped with other loan types that share similar characteristics in order to determine an appropriate loss ratio for the ALLL.

Management will 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 volume and terms of loans
- d. Effects of any changes in risk selection, underwriting standards, policies and practices
- e. Experience, ability, and depth of loan management and staff
- f. National and local economic trends and conditions
- g. Industry conditions
- h. Effects of changes in credit concentrations

OVERSIGHT

Management will consider all known relevant internal and external factors that affect loan collectibility during any given period. Management's judgment regarding the current 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 will review and approve the ALLL and provision for loan loss monthly with the understanding that the full and fair disclosure requirements in P702.402 of NCUA Rules and Regulations have been met before distributing dividends.
- b. The Board will periodically validate and review the methodology as needed.
- c. The Supervisory Committee will monitor the internal controls over, and the feasibility, of the ALLL determination process.
- d. Management will adjust the ALLL through current earnings in accordance with GAAP.
- e. The Board will review and approve the ALLL policy on an annual basis.

SUMMARY REPORTS

Management will prepare a summary document in accordance with GAAP supporting the amount of ALLL for the Board's monthly review and approval. Elements of the summary include; an estimate of each category and the total aggregate loss estimated using the Credit Union's methodology, the amount of the necessary ALLL adjustment, and detailed sub-schedules as warranted.

FAA CREDIT UNION

Policy No: 2.04
Date: August 1, 1988
Revised: **April 23, 2013**

SUBJECT: BANKRUPTCIES

POLICY: It is the intent of FAA Credit Union to comply with the Federal Bankruptcy Code in all of its practices and procedures.

Loans to members who are known to have previously filed bankruptcy within the past **12 months** require the approval of the President, Sr. VP of Financial Services, **AVP** of Financial Services or **VP of Lending**. The member will provide a copy of the discharge order if the date of the discharge is not clearly documented on the credit report. An explanation detailing the reason for the bankruptcy must be noted in the file. **A reasonable amount of credit must either have been maintained during the bankruptcy or new credit, traditional or non-traditional, established and the member must be in good standing with the Credit Union.**

No credit will be extended to any person who has caused FAA Credit Union a loss and who has not voluntarily repaid the loss (or repaying the loss), whether the loss was due to bankruptcy or otherwise. **Any member who through the process of bankruptcy chooses not to reaffirm with the Credit Union but exercises their right to retain the collateral will not be extended any additional credit or services until they become a member in good standing, meet product requirements and underwriting standards.**

FAA CREDIT UNION

Policy No: 2.05
Date: September 19, 2000
Revised: April 23, 2013

SUBJECT: Credit Based Pricing Policy

POLICY: PURPOSE OF CREDIT BASED PRICING

FAA Credit Union recognizes the importance of managed risk and has established a risk-based pricing program, which will reward the members based on the degree of individual credit risk.

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. FAACU believes more members can be served with a credit-based, interest rate, tiered approach, allowing some members to rebuild their credit history at substantially lower rates than they would receive at competing financial institutions.

TYPES OF LOANS

The types of loans covered under the Risk-Based Pricing Policy will be any collateral loans or personal loan, and excludes open-end lines of credit, CD Secured, Share Secured and Real Estate loans.

LOAN AUTHORITY AND NON-DISCRIMINATION PLEDGE

Generally, the Financial Service Representatives, Underwriters and Indirect Lending Buyer/Dealer Reps may originate loans for the Credit Union, and the President/CEO, Sr. Vice President of **Financial Services**, the A.V.P. of **Financial Services**, and the V.P. of Lending may approve exceptions to loans. All Credit Union staff with any type of lending authority will use prudent judgment in granting loans. It is the policy and the practice of FAACU to operate in a non-discriminatory manner. The credit scoring model will be used to determine what grade the member will be assigned if the loan is approved. The Credit Bureau's score is empirically driven and is accepted throughout the industry as a non-discriminatory tool used in assessing a creditor's risk.

CREDIT SCORING

When determining which grade to assign, the Credit Union will adhere to the following:

- A. In the event there are two or more borrowers, the credit grade will be based on an average of all borrowers' score.
- B. In the event there is no credit report or score, the Credit Union will assign the rates and limits set by grade C. This includes first time borrowers with no previous credit history.
- C. 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.
- D. In the event there is a co-signor, the credit grade will be based on the primary borrower or based on an average of the primary borrower and the co-signor's scores, at the Credit Union's discretion, so long as it conforms with the Credit Union's Fair Lending Policy.

GRADES

The Credit Union will use a six level grading system assigned as A+, A, B, C, D, and E with Grade A+ representing the highest scoring and E the lowest. Depending on the type of loan requested, the credit grades may determine loan approval, loan amount, loan term, and/or the interest rate to be charged. It is imperative that the Credit Union maintain flexibility when setting rates in order to quickly respond to market fluctuations. Thus, the risk-based lending program may be adjusted or discontinued at any time.

The grades and corresponding rates will be reviewed regularly by **the Asset Liability Management Committee (ALM)** and Senior Management, and adjusted, in accordance with, among other things, the Asset Liability Management strategy. The grades and/or rates will be adjusted to reflect the requisite degree of risk and as conditions and volatility in the market require.

GRADE ADJUSTMENTS

The Credit Union may provide a judgmental evaluation of each loan. The President, Sr. V.P. of **Financial Services**, V.P. of Lending or A.V.P. of **Financial Services** may adjust the grade based on a judgmental analysis, but will ensure any adjustments made will conform with the Credit Union's Fair Lending Policy. 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.

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 the Credit Union's best offer rate.

MONITORING AND TRACKING

The Credit Union will monitor and track the risk-based lending program for compliance and effectiveness as follows:

- A. 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 update the risk-based pricing programs to ensure that the Credit Union is effectively serving members while upholding the quality of the loan portfolio.

- C. The V.P. of Lending will monitor, analyze, track and report on an ongoing basis the performance of both the credit-scoring and pricing models to ensure accuracy and compliance of 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.

FAA CREDIT UNION

Policy No: 2.06

Date: August 1, 1988

Revised: **July 22, 2014**

SUBJECT: CONSUMER LOANS – SECURED AND UNSECURED

POLICY: LOAN TERMS

The Board of Directors shall periodically review the types of loans offered and the corresponding loan terms.

INTEREST RATES

Interest rates on loans will be set by the Interest Rate Committee (President, SVP of Financial Services, VP of Finance and VP of Lending). Rates will be determined by the risk associated with the loan type, the loan term, the credit history of the member, competitive factors, and the asset/liability management goals of the Credit Union. The Interest Rate Committee may change any individual rate or a group of rates for specific promotions at their discretion.

Late Fees

A late fee will be assessed on a consumer loan when a payment is not made in full within ten (10) days after the scheduled due date. The late fee will equal five percent (5%) of the amount due, or five dollars (\$5) whichever is greater. VISA late fees are a flat rate and are assessed (10) days after the scheduled due date.

FAA CREDIT UNION

Policy No: 2.06.1

Date: November 21, 1995

Revised: **September 24, 2013**

SUBJECT: LOAN TERMS – NEW OR USED AUTOMOBILES

Policy: New or Used automobiles may be financed as follows:

Amount The total amount financed may exceed the sticker price or National Automobile Dealers Association (NADA) retail value of the vehicle for qualified members, as determined by the Credit Union's underwriting guidelines.

Loan to Value Maximum:

The maximum loan to value (LTV) of any auto loan will not exceed 125% of the MSRP for cars, 1/2 ton pickups, and small SUV's, or NADA retail value for similar used vehicles. The maximum loan value for trucks larger than 1/2 ton and large SUV's is limited to 85% of the MSRP for new and 85% of NADA retail for used trucks over 1/2 ton, and large SUV's. Exceptions can be made on a case-by-case basis by the President/CEO, Sr. Vice President of Financial Services, Vice President of Lending, or AVP of Financial Services.

Rate: Rate is based on member's credit history as specified in Credit Based Policy #2.05.

Term: 12 to 84 months

FAA CREDIT UNION

Policy No: 2.06.2
Date July 18, 2006
Revised: **December 17, 2013**

SUBJECT: **INDIRECT LENDING**

Policy: FAACU will work to create a quality portfolio of Indirect new and used automobile loans through the establishment of relationships with automobile dealers. The credit union will control all aspects of the loan underwriting and decision process, rate setting process, dealer selection and contract agreements with dealers.

Qualifications and Loan Underwriting Requirements:

The primary borrower on all applications must qualify for membership and must join the credit union before the loan may be funded. The borrower may join the credit union while financing the vehicle and make their initial deposit through the dealership. No collateral other than vehicles for consumer use will be acceptable. No vehicles with salvage titles will be acceptable. The process of underwriting, approving and funding loans made in the Indirect program will follow the same standards as established in the general loan policies and procedures of the credit union, unless otherwise stated herein.

Amount: The total amount financed may, at the credit union's discretion, exceed the sticker price or National Auto Dealers Association (NADA) retail value of the vehicle for qualified members, as determined by the credit union's underwriting guidelines.

Rate: Rate is based on member's credit history as specified in Credit Based Pricing Policy #2.05.

Term: Loan terms may be from 12 to 84 months.

Program Limits:

The total Indirect lending portfolio balance will not exceed 25% of total credit union assets **or 340% of net worth** without the Board of Director's review and approval.

Loan to Value Maximum:

The maximum loan to value (LTV) of any indirect contract will not exceed 125% of the MSRP for new cars, ½ ton pickups, and small SUV'S, or NADA retail value for similar used vehicles. The maximum loan value for trucks larger than ½ ton and large SUV's is limited to 85% of the MSRP for new and 85% of NADA retail for used trucks over ½ ton, and large SUV's. Exceptions can be made on a case by case basis by the President/CEO, Sr. Vice President of Financial Services, or Vice President of Lending. Any other indirect

lending done on motorcycles, ATV's, boats, personal watercraft, and RV's will be limited to 80% of the NADA retail values for either new or used vehicles.

Exceptions: Any exception must be approved by the President/CEO, Senior Vice President of Financial Services or Vice President of Lending. Exceptions will be reported monthly to the Board of Directors. Exceptions to the LTV limit may be made to members or potential members. The exception report must include:

- Member or potential member
- Loan amount
- LTV amount
- Officer approving the exception
- Collateral description

Any LTV exceptions that become past due will be reported on the delinquent loan report.

Portfolio Distribution Limits Per Tier Group:

The Indirect portfolio can have up to six tier groupings of loans based on industry recognized credit scores. FAACU has six tier groups ranked A+, A , B, C, D, and E, with E being the lowest. The following portfolio percentage limits apply in regards to the six tier groups.

- A+ or A Not to exceed 100% of the portfolio
- B Not to exceed 40% of the portfolio
- C Not to exceed 20% of the portfolio
- D Not to exceed 5% of the portfolio
- E Not to exceed 3% of the portfolio

Loans exceeding the portfolio limit in any given reporting period will be monitored and restricted until they meet established portfolio limits.

Reports Provided to Board of Directors Monthly:

- Amount and number of funded member loans
- Amount and number of funded new member loans
- Total Amount and number of funded loans
- Total loan to value of loans made

- Average FICO score
- Percentage and number of loans made by each tier group distribution and yield of each tier.
- Delinquent loans
- Loan repossessions
- Charged off loans, charge off history by tier, and charge off history by year.

Monthly Reports:

The portfolio concentration distribution among dealers by amount and number of loans exceeding 10% of the portfolio.

Quality Control:

FAACU shall implement procedures to mitigate risk. Strong quality control (QC) provisions shall be undertaken before funding each indirect loan. Procedures include, but are not limited to:

1. Ensuring that all required documents are provided and that the documents contain the information provided in the electronic submission.
2. Ensuring that all signatures match and that there is not a variance such that it may appear fraudulent. Packages will be promptly returned to the dealer if fraud is detected on the purchase contract or application including forged signatures, false identities, and altered verification forms.
3. Ensuring that all applicants meet FAACU membership requirements.
4. The QC function shall have, as a general procedure, the provision to randomly contact members before funding and determine if the automobile and all of the stated additional equipment is included in the automobile that was purchased. If the stated accessories or collateral is not verified by the purchaser, the loan shall not be funded until the situation is rectified.
5. Verification of lien perfection shall be in each individual file. If the lien entry exceeds 25 days the contract will be returned to the dealer and the dealer must have the loan re-contracted.

Documentation Standards:

Documentation for each indirect loan is checked against a control sheet as outlined in the Indirect Lending Audit Sheet (ILAS). See Attachment 1 to this policy. Each ILAS is reviewed by the indirect funder. Any item that is waived, such as proof of income or personal references, must be approved by the original approving officer and the President/CEO, Senior Vice President of Financial Services, Vice President of Lending or Manager of Indirect Lending prior to funding the loan.

Dealership Requirements/Dealer Compensation Process:

The program will be limited to dealerships that provide qualifying information to the credit union or its screening agent as engaged by the credit union. All dealerships that wish to participate must adhere to the Equal Credit Opportunity Act and Regulation B, 12 CFR Chapter X Part 1002 of the Consumer Financial Protection Bureau Regulations (formerly Regulation B of the Federal Reserve Board). Whether FAACU chooses to do business with a particular dealership will be decided through site visits and the type, quality and volume of loans presented and approved. FAACU may contact state and local agencies to determine the dealers documented complaints etc. Agencies may include, but are not limited to the Attorney General, Secretary of State, Banking Commissioner, Better Business Bureaus and Chamber of Commerce. Any dealership that is suspected of violating these fair lending practices will be subject to ineligibility within the program. FAACU may, at its sole discretion, remove any dealer from its approved dealer list.

The VP of Lending or the credit union's third party provider, as described below, will make recommendations, as to which dealers to do business with, to the senior management team.

Dealers participating in the credit union indirect network are paid from 1% to 1.5% of the contract depending on existing market conditions. Dealers will be paid upon presentation of invoice after funding and upon authorization by the Accounting Supervisor or Controller.

Except in instances of fraud or misrepresentation, all loans will be purchased as non-recourse, in that the dealer maintains no responsibility for losses on the loan after the loan has been purchased by FAACU.

Third Party Relationship:

FAACU recognizes the value of utilizing a third party indirect specialist who provide such functions as: NCUA reporting requirements, internal control reporting systems, dealer selection recommendations, dealer contact and establishment of dealer relationships and adherence to contractual requirements. FAACU will employ a third party provider as necessary to ensure the quality of the overall indirect lending program.

FAA CREDIT UNION

Policy No: 2.06.3

Date: April 16, 1996

Revised: **March 25, 2014**

SUBJECT: LOAN TERMS – NEW OR USED RECREATIONAL VEHICLES

Policy: New or used Recreational Vehicles (RV's) including **motor homes**, travel trailers, 5th wheels, campers and tent trailers may be financed as follows:

Amount: The total amount financed may not exceed **90%** of the sticker price or purchase price, whichever is less, **up to \$50,000** for qualified members as determined by the Credit **Union's** underwriting guidelines.

Rate: Rate is based on member's credit history as specified in Credit Based Policy #2.05.

Terms: Maximum: 78 months

Exceptions: **Loans exceeding \$50,000 must get a second approval from the AVP of Financial Services, VP of Lending, SVP of Financial Services or President.**

FAA CREDIT UNION

Policy No: 2.06.5

Date: April 16, 1996

Revised: **March 25, 2014**

SUBJECT: LOAN TERMS – OTHER SECURED

Policy: New or Used Boats, Motorcycles, Personal Watercraft, ATV's, Snowmobiles, and Farm Equipment

Amount: The total amount financed may not exceed **100%** of the sticker price or purchase price, whichever is less, **up to \$50,000** for qualified members as determined by the Credit Union's underwriting guidelines.

Rate: Rate is based on member's credit history as specified in Credit Based Policy #2.05.

Term: Maximum: 60 months

Exceptions: **Loans exceeding \$50,000 must get a second approval from the AVP of Financial Services, VP of Lending, SVP of Financial Services or President.**

Suspending Program – June 2012

FAA CREDIT UNION

Policy: No. 2.06.6
Date: December 19, 2000
Revised: August 16, 2005

Subject: LOAN TERMS – BALLOON LOAN – LEASE ALTERNATIVE

Policy: **FAA Credit Union** shall make **automobile** loans with a balloon feature for the purpose of offering a car-leasing alternative to members.

Amount Financed: The total amount financed may exceed the sticker price of the vehicle for qualified members, as determined by the Credit Union's underwriting guidelines.

Rate: The rate will be determined by adding 1% to the Credit Based Rate as determined by policy 2.05.

Terms: Minimum term 12 months
Maximum term 72 months

At Loan Maturity: If the member decides to keep the vehicle at maturity, the loan will be re-written and will be re-priced according to the members current credit history & contract agreement.

Suspending Program June 2012

FAA Credit Union

Policy: 2.06.7

Date: August 21, 2001
Revised: August 16, 2005

SUBJECT: Student Loans

Policy: **FAA Credit Union shall offer** student loans under the Federal Family Education Loan Program (FFELP). A third party vendor will originate, service, and administer the program.

Loans will be subject to **the third party** lending policies, all applicable rules, regulations and directives issued by the Department of Education as described in the Higher Education Act of 1965, and rules and regulations established by the vendor/program administrator.

The following types of student loans will be offered:

- Subsidized Federal Stafford
- Unsubsidized Federal Stafford
- Federal Parent Loans for Undergraduate Students (PLUS)
- Consolidation Loans

Amount:

Loan limits are determined by the FFELP

Rate:

Interest rates **and any discounts** are determined by the FFELP

Term:

Loan terms are determined by the FFELP

FAA Credit Union

Policy: 2.06.8
Date: October 17, 2002
Revised: **October 29, 2013**

SUBJECT: Share Secured and Share Certificate Loans

Policy: FAA Credit Union shall make loans secured by an FAACU Share Account or an FAACU Share Certificate.

Amount: May borrow up to 100% of the balance of an FAACU Share Account or Share Certificate Account.

Rate: The rate for an FAACU Share Account loan is 3.00% above the Share Account rate.

The rate for an FAACU Share Certificate loan is 2% above the Share Certificate rate.

Rates are subject to change at any time at the discretion of the Credit Union.

Terms: Maximum term for Share Account loans is 12 months with a 48-month amortization.
Maximum term for Share Certificate loans is the stated maturity date on the certificate.

If a single payment plan is established, the amount of shares or share certificate to secure the loan must be adequate to pay off the interest plus principal due at the loan's maturity.

Holds: **For share secured loans, members may withdraw funds from pledged accounts up to the balance of the loan.**

FAA CREDIT UNION

Policy No: 2.07
Date: November 16, 1999
Revised: **October 29, 2013**

SUBJECT: CREDIT UNION EMPLOYEE PERSONAL COMPUTER (PC) LOANS

Policy: The Credit Union shall make personal computer (PC) loans available to employees. **The Credit Union reserves the right to discontinue this loan at any time. All rates are subject to change at the discretion of the Credit Union.**

Requirements of the program include:

Employees must have been employed for at least one year

Any employee on probation does not qualify for this loan

Employees may have no more than one computer loan with zero interest at any given time.

Payroll deduction is mandatory

Uniform Commercial Code (UCC) lien will be placed on the collateral

The loan will revert to the current computer loan rate should employment terminate with FAA CU

Terms:	Maximum Amount	\$2,500
	Maximum Term	36 months
	Interest rate	0%

FAA CREDIT UNION

Policy No: 2.08
Date: August 1, 1988
Revised: August 16, 2005
Reviewed: October 29, 2013

SUBJECT: UNSECURED LOANS

Policy: Unsecured loans may be granted to members who meet the Credit Union's standards of credit worthiness. A member's credit worthiness will be determined by careful analysis of the member's credit history.

The rate is based on member's credit history as specified in Credit Based Policy #2.05. All rates are subject to change at the discretion of the Credit Union.

Maximum amount of all unsecured credit (VISA, QUICK LOAN, and/or UNSECURED PERSONAL LOAN) cannot exceed \$20,000 per member, excluding seasonal/loan promotions. The maximum line of credit for a Quickloan may not exceed \$10,000 per member. The maximum line of credit for a VISA may not exceed \$20,000 per member.

Credit limits may be increased, removed, or lowered at the Credit Union's discretion.

FAA CREDIT UNION

Policy No: 2.09

Date: August 1, 1988

Revised: **October 29, 2013**

SUBJECT: QUICK LOAN (LINE OF CREDIT)

POLICY: The Quick Loan is an open-end self-replenishing line of credit which can be used as overdraft protection on a member's account. Credit limits are based on individuals' credit worthiness **in accordance with the Credit Union's Risk Based Policy**. Refer to Policy #2.08 regarding unsecured limits and guidelines.

Amount: Quickloan limits may not exceed \$10,000

Rate: 12% **and is subject to change at any time at the discretion of the Credit Union.**

Compliance The Credit Union will comply with all provisions of the Truth-in-Lending Act and its implementing regulation, Regulation Z, as it pertains to open-end (not home-secured credit) lending, including but not limited to:

Providing all proper initial disclosures and subsequent disclosures/notices in a timely manner and in the method prescribed;

All disclosures will include all information required by the regulation;

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. The Credit Union cannot verify credit information as a condition of granting a consumer's credit request for the particular advance under the plan. The Credit Union will verify a borrower's continued creditworthiness on an "occasional," ad hoc basis in accordance with the Credit

Union's internal procedures.

The Credit Union will document the reasons an occasional verification is performed in order to ensure it is not done in connection with an advance request.

FAA CREDIT UNION

Policy No: 2.09.1
Date: February 18, 2003
Revised: **October 29, 2013**

SUBJECT: UNSECURED PERSONAL LOANS

POLICY: The Credit Union shall grant unsecured personal loans with rates and terms as specified below.

Amount: Refer to policy #2.08 regarding unsecured limits and guidelines.

Rate: Rate is based on member's credit history as specified in Credit Based Policy #2.05. **All rates are subject to change at the discretion of the Credit Union.**

Term: 12 – 60 Months

FAA CREDIT UNION

Policy No: 2.10

Date: August 1, 1988

Revised: **November 26, 2013**

SUBJECT: SHARE SECURED VISA CLASSIC

POLICY: The FAA Credit Union shall offer a Share Secured VISA line of credit to members who meet the Credit Union's underwriting standards for credit worthiness and member's credit history as specified in credit based policy #2.05.

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.

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.

Terms

- A. Rate: **Based on the current rate set by the Rate Committee**
- B. Grace Period: **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.**
- C. Limit: 100% of pledged Share Account Balance
- D. Annual Fee: None
- E. Maximum limit: \$ 20,000
- F. Minimum limit: \$ 300

G. Late Payment Fee: The late payment fee is \$ 20.00. 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).

Co-Signors

Co-Signors may be accepted. 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.

Disclosures

- A. The Credit Union will comply with all regulatory requirements including, without limitation, the Truth-in-Lending Act and the Equal Credit Opportunity Act.**
- B. The Credit Union will disclose the rates and terms of its credit card program in accordance with Regulation Z**
- C. Members will receive notice whenever there is a significant change in account terms when and as required by Regulation Z.**
- D. Periodic Statement: 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. 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.**
- E. Billing Rights: Cardholders will be advised of their billing rights.**
- F. Internet Posting of Credit Card Agreements: The Credit Union will make quarterly submissions of its credit card agreement(s) and related documentation to the Consumer Financial Protection Bureau, as required, by or before the deadline date, unless an exception applies.**

- G. 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.

Prompt Crediting of Payments and Credit Balances

- A. 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.
- B. **Specific Requirements for Payments.** The Credit Union will specify reasonable requirements for payments that enable most members to make conforming payments.
- C. **Credit Balances.** When a credit balance in excess of \$1 is created on a credit account, the Credit Union will do the following:
 - 1. Credit the amount of the credit balance to the member's account;
 - 2. Refund any part of the remaining credit balance within 7 business days from receipt of a written request from the member.
- D. 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.

Limitations on Fees

- A. **Limitation 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.

- B. **Limitations During First Year Prior to or After Account Opening.** Except as provided herein, 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. This fee limitation does not apply to late payment fees, over-the-limit fees, and returned-payment fees; or fees that the member is not required to pay with respect to the account.

- C. **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.

Account Termination Limitations

- A. 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.

- 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.

Liability for Unauthorized Use

Regulation E - The Credit Union will comply with the provisions of Regulation E and cardholders will be provided a written notice of the limitation of liability for unauthorized use as required by Regulation E.

Offsets Prohibited

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. However, the cardholder may authorize an offset in writing. Examples of such authorization include the following:

- A. A separate signature or initials on the agreement indicating that a security interest is being given;

- B. Placement of the security agreement on a separate page or otherwise separating the security interest provisions from other terms of the agreement; or**
- C. Referencing a specific amount of deposited funds or to a specific deposit account number.**

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.

FAA CREDIT UNION

Policy No: 2.10.1
Date: May 26, 1992
Revised: **November 26, 2013**

SUBJECT: VISA CLASSIC

POLICY: The FAA Credit Union shall offer a VISA CLASSIC line of credit to members who meet the Credit Union's underwriting standards for credit worthiness. Refer to Policy #2.08 regarding unsecured limits and guidelines.

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.

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.

Terms

- A. Rate: Rate is based on member's credit history as specified in Credit Based Policy #2.05 and as set by the Rate Committee.
- B. Grace Period: **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.**
- C. Annual Fee: None
- D. Maximum Limit: \$20,000.00
- E. Minimum limit: \$ 300.00

- F. **Late Payment Fee** The late payment fee is \$ 20.00. 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).

Co-Signors

Co-Signors may be accepted. 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.

Disclosures

- A. The Credit Union will comply with all regulatory requirements including, without limitation, the Truth-in-Lending Act and the Equal Credit Opportunity Act.
- B. The Credit Union will disclose the rates and terms of its credit card program in accordance with Regulation Z
- C. Members will receive notice whenever there is a significant change in account terms when and as required by Regulation Z.
- D. **Periodic Statement:** 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. 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.
- E. **Billing Rights:** Cardholders will be advised of their billing rights.
- F. **Internet Posting of Credit Card Agreements:** The Credit Union will make quarterly submissions of its credit card agreement(s) and related documentation to the Consumer Financial Protection Bureau, as required, by or before the deadline date, unless an exception applies.
- G. 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.

Prompt Crediting of Payments and Credit Balances

- A. 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.
- B. **Specific Requirements for Payments.** The Credit Union will specify reasonable requirements for payments that enable most members to make conforming payments.
- C. **Credit Balances.** When a credit balance in excess of \$1 is created on a credit account, the Credit Union will do the following:
 - 1. Credit the amount of the credit balance to the member's account;
 - 2. Refund any part of the remaining credit balance within 7 business days from receipt of a written request from the member.
- D. 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.

Limitations on Fees

- A. **Limitation 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.
- B. **Limitations During First Year Prior to or After Account Opening.** Except as provided herein, 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. This fee limitation does not apply to late payment fees, over-the-limit fees, and returned-payment fees; or fees that the member is not required to pay with respect to the account.

- C. **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.

Account Termination Limitations

- A. 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.
- 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.

Liability for Unauthorized Use

Regulation E - The Credit Union will comply with the provisions of Regulation E and cardholders will be provided a written notice of the limitation of liability for unauthorized use as required by Regulation E.

Offsets Prohibited

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. However, the cardholder may authorize an offset in writing. Examples of such authorization include the following:

- A. A separate signature or initials on the agreement indicating that a security interest is being given;
- B. Placement of the security agreement on a separate page or otherwise separating the security interest provisions from other terms of the

agreement;

or

- C. Referencing a specific amount of deposited funds or to a specific deposit account number.

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.

FAA CREDIT UNION

Policy No: 2.10.2

Date: July 21, 1998

Revised: **November 26, 2013**

SUBJECT: VISA PLATINUM

POLICY: The FAA Credit Union shall offer a VISA PLATINUM line of credit to members who meet the Credit Union's underwriting standards of credit worthiness. Refer to Policy #2.08 regarding unsecured limits and guidelines.

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.

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.

Terms

- A. **Rate:** Rate is based on member's credit history as specified in Credit Based Policy #2.05 and is **based on the current rate set by the Rate Committee**
- B. **Grace Period:** **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.**
- C. **Annual Fee:** None
- D. **Maximum limit:** \$ 20,000
- E. **Minimum limit:** \$ 500

- F. **Late Payment Fee:** The late payment fee is \$ 20.00. 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).

Co-Signors

Co-Signors may be accepted. 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.

Disclosures

- A. The Credit Union will comply with all regulatory requirements including, without limitation, the Truth-in-Lending Act and the Equal Credit Opportunity Act.
- B. The Credit Union will disclose the rates and terms of its credit card program in accordance with Regulation Z.
- C. Members will receive notice whenever there is a significant change in account terms when and as required by Regulation Z.
- D. **Periodic Statement:** 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. 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.
- E. **Billing Rights:** Cardholders will be advised of their billing rights.
- F. **Internet Posting of Credit Card Agreements:** The Credit Union will make quarterly submissions of its credit card agreement(s) and related documentation to the Consumer Financial Protection Bureau, as required, by or before the deadline date, unless an exception applies.
- G. 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.

Prompt Crediting of Payments and Credit Balances

- A. 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.**
- B. Specific Requirements for Payments.** The Credit Union will specify reasonable requirements for payments that enable most members to make conforming payments.
- C. Credit Balances.** When a credit balance in excess of \$1 is created on a credit account, the Credit Union will do the following:
 - 1. Credit the amount of the credit balance to the member's account;**
 - 2. Refund any part of the remaining credit balance within 7 business days from receipt of a written request from the member.**
- D. 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.**

Limitations on Fees

- A. Limitation 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.
- B. Limitations During First Year Prior to or After Account Opening.** Except as provided herein, 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. This fee limitation does not apply to late payment fees, over-the-limit fees, and returned-payment fees; or fees that the member is not required to pay with respect to the account.

- C. **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.

Account Termination Limitations

- A. 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.
- 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.

Liability for Unauthorized Use

Regulation E - The Credit Union will comply with the provisions of Regulation E and cardholders will be provided a written notice of the limitation of liability for unauthorized use as required by Regulation E.

Offsets Prohibited

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. However, the cardholder may authorize an offset in writing. Examples of such authorization include the following:

- A. A separate signature or initials on the agreement indicating that a security interest is being given;
- B. Placement of the security agreement on a separate page or otherwise separating the security interest provisions from other terms of the agreement; or

- C. Referencing a specific amount of deposited funds or to a specific deposit account number.

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.

Deleting Policy-June 2012

FAA CREDIT UNION

Policy No: 2.10.3

Date: July 20, 1999

Revised: August 16, 2005

SUBJECT: STUDENT VISA

POLICY: The **FAA Credit Union** shall offer a **STUDENT VISA** line of credit to members who are enrolled as full time **college/advanced technical school** students and meet the Credit Union's underwriting standards for credit worthiness. Refer to Policy #2.08 regarding unsecured limits and guidelines.

Terms:

Rate:	Rate is based on member's credit history as specified in Credit Based Policy #2.05
Grace Period :	25 Days
Maximum Limit:	\$500
Minimum Limit	\$300
Late Payment Fee:	\$ 20.00
Over Limit Fee:	\$ 15.00

DELETED POLICY

FAA CREDIT UNION

Policy No: 2.10.4

Date: August 16, 2005

Revised: **November 26, 2013**

SUBJECT: VISA Gold

POLICY: The FAA Credit Union shall offer a VISA Gold line of credit to members who meet the Credit Union's underwriting standards of credit worthiness. Refer to Policy #2.08 regarding unsecured limits and guidelines.

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.

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.

Terms

- A. Rate: Rate is based on member's credit history as specified in Credit Based Policy #2.05 and is **based on the current rate set by the Rate Committee**
- B. Grace Period: **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.**
- C. Annual Fee: None
- D. Maximum limit: \$ 20,000
- E. Minimum limit: \$ 500

F. Late Payment Fee: The late payment fee is \$ 20.00. 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).

Co-Signors

Co-Signors may be accepted. 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.

Disclosures

- A.** The Credit Union will comply with all regulatory requirements including, without limitation, the Truth-in-Lending Act and the Equal Credit Opportunity Act.
- B.** The Credit Union will disclose the rates and terms of its credit card program in accordance with Regulation Z
- C.** Members will receive notice whenever there is a significant change in account terms when and as required by Regulation Z.
- D. Periodic Statement:** 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. 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.
- E. Billing Rights:** Cardholders will be advised of their billing rights.
- F. Internet Posting of Credit Card Agreements:** The Credit Union will make quarterly submissions of its credit card agreement(s) and related documentation to the Consumer Financial Protection Bureau, as required, by or before the deadline date, unless an exception applies.
- G.** 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.

Prompt Crediting of Payments and Credit Balances

- A. 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.**
- B. Specific Requirements for Payments.** The Credit Union will specify reasonable requirements for payments that enable most members to make conforming payments.
- C. Credit Balances.** When a credit balance in excess of \$1 is created on a credit account, the Credit Union will do the following:
 - 1. Credit the amount of the credit balance to the member's account;**
 - 2. Refund any part of the remaining credit balance within 7 business days from receipt of a written request from the member.**
- D. 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.**

Limitations on Fees

- A. Limitation 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.
- B. Limitations During First Year Prior to or After Account Opening.** Except as provided herein, 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. This fee limitation does not apply to late payment fees, over-the-limit fees, and returned-payment fees; or fees that the member is not required to pay with respect to the account.

- C. **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.

Account Termination Limitations

- A. 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.
- 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.

Liability for Unauthorized Use

Regulation E - The Credit Union will comply with the provisions of Regulation E and cardholders will be provided a written notice of the limitation of liability for unauthorized use as required by Regulation E.

Offsets Prohibited

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. However, the cardholder may authorize an offset in writing. Examples of such authorization include the following:

- A. A separate signature or initials on the agreement indicating that a security interest is being given;
- B. Placement of the security agreement on a separate page or otherwise separating the security interest provisions from other terms of the agreement; or

- C. Referencing a specific amount of deposited funds or to a specific deposit account number.

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.

FAA CREDIT UNION

Policy No: 2.14

Date: February 17, 1987

Revised: **January 28, 2014**

SUBJECT: FIRST MORTGAGE REAL ESTATE LOANS

POLICY: FAA Credit Union will provide competitively priced First and Second Mortgage Real Estate Loans to credit worthy members of FAA Credit Union. All mortgage loans shall be issued in compliance with Regulation B (Equal Credit Opportunity Act), Regulation C (Home Mortgage Disclosure Act), Regulation X (Real Estate Settlement Procedures Act), Regulation Z (Truth in Lending Act), and any other applicable Regulations set forth by NCUA, the State of Oklahoma, or Federal agencies which regulate the issuance of mortgage loans.

FAA Credit Union officials or employees will not discriminate against any applicant on the basis of race, color, religion, national origin, sex, marital status, age, the fact that the applicant has in good faith exercised any right under the Consumer Credit Protection Act or applicable state law with respect to any credit transaction; or the fact that all or any part of the applicant's income derives from any public assistance program. All credit union officials and employees, who discuss, receive or act on applications for credit, shall read and comply with Regulation B.

Loans originated under this program may be retained and serviced by the Credit Union or sold to the Secondary Market and serviced by FAACU to meet Private Mortgage Insurance (PMI) requirements. All of the loans will be underwritten within existing Secondary Market guidelines. First Mortgage Real Estate underwriting will encompass all current debt ratios, loan to value, credit score, and reserve requirements to enable a first mortgage lien to be placed on the collateral. These requirements will be kept up to date in the current underwriting manual and readily available to all Financial Service Representatives who make Real Estate loans.

Lending Staff

Appropriate Real Estate personnel will be licensed according to current NMLS (National Mortgage Licensing System) and will provide the necessary information in order to become registered. No employee will

originate mortgage loans without first being registered. Refer to the Credit Union's SAFE Act Policy for additional guidance.

Lending Area

Loans held within the Credit Union's portfolio will only be originated for properties located in the state of Oklahoma. Out of state members will be referred to a third party investor. Loans originated in Oklahoma may also be sold in the secondary market depending on product and/or market conditions.

Property Types

FAA Credit Union will issue mortgage loans secured by the following Property Types:

1. Principal Residence – is a one to four family property that is the member's primary residence, including homes being constructed.
2. Second/Vacation Home –
 - a. **It must be located a reasonable distance away from the borrower's principal residence;**
 - b. **It must be occupied by the borrower for some portion of the year;**
 - c. **It is restricted to one-unit dwellings;**
 - d. **It must be suitable for year-round occupancy;**
 - e. **The borrower must have exclusive control over the property;**
 - f. **It must not be a rental property or a timeshare arrangement; and**
 - g. **It cannot be subject to any agreements that give a management firm control over the occupancy of the property.**
3. Unimproved/Vacant Land- is a parcel of vacant property up to 20 acres, to include residential building lots. It is the intent of FAA Credit Union to provide financing for vacant property to be used for the construction of the member's primary residence within or by the end of the financing period.
4. Investment Properties-is the purchasing/owning real property for the purpose of ownership, management, rental and/or sale for profit. While the secondary market will allow a borrower to own multiple properties, FAA Credit Union, due to the increased risk of this type of property will limit its members to two investment properties to be financed through the credit union at any given time.

5. Condominium – is a single family property that is the member’s primary residence. The member pays a fee or homeowners dues to an association for the upkeep and care of common areas.
6. Planned Unit Development (PUD) – is a parcel of land that contains property and common elements thereon owned and maintained by a Homeowner’s Association for the benefit and use of the individual PUD Units.

Quality Control Measures

The Credit Union will take all necessary steps for monitoring and quality control to mitigate credit risk, collateral risk, and interest rate risk within the Real Estate loan portfolio to insure all files are compliant with current guidelines. All verifications of deposit, employment, mortgage, rental history, and credit reports will be reviewed in Underwriting for completeness, and accuracy. All files will go through a final documentation review after closing to make sure all documents were received to perfect a first mortgage lien.

Additionally, 10% of all loans originated in the Secondary Market and 10% of all portfolio loans each month, will go through an additional review by a third party to insure compliance with appropriate guidelines. This will include a desk review of the appraisal; and as part of this monthly review, 10% of the selected files included will be reappraised through a field review conducted by an approved appraiser selected at random by the third party. All verifications will be audited, and verified with the original source, and a new credit report will be ordered and compared to the original in file. All closing documents, Real Estate Settlement Procedures Act (RESPA) and Truth-In-Lending documents will be reviewed to insure compliance and accuracy.

Percentage of Total Assets in Portfolio

A maximum of twenty-five percent of the credit union’s total assets may be held in the mortgage portfolio. When the designated allocation has been reached, the Board of Directors will determine if revisions need to be made to the percentage of funds allocated.

Multiple Mortgages

A member is limited to a maximum of three real estate loans at any one time held in the Credit Union’s portfolio and maximum funding of no

more than \$1,000,000 for all real estate loans to one member. Loans sold in the secondary market will be excluded from a member's aggregate debt.

Loan Approval

Mortgage personnel approval limits will be set on an individual basis according to their level of expertise and experience. Employees will execute a loan approval acknowledgement letter that will be held in their personnel file and will be reviewed on an as-needed basis. The following will be the maximum approval limits:

R.E. Underwriter: \$300,000
R.E. Manager: \$417,000
V.P of Lending: \$750,000
President/CEO: \$1,000,000

Qualified Mortgages and the Ability to Repay

The 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 Credit Union will make a reasonable good faith determination, before or when a covered transaction is consummated, that the member has a reasonable ability to repay the loan. For all other mortgage loans, the Credit Union will continue to rely on its standard, prudent underwriting guidelines.

Approval to Underwrite Qualified and Non-Qualified Mortgages

The Credit Union may underwrite and approve qualified and non-qualified mortgages.

Tracking and Approval of Non-Qualified Mortgages

All non-qualified mortgages will be coded and tracked within the Credit Union's system so that a monthly report of all non-qualified mortgages held by the Credit Union can be generated. Each month, the VP of Lending will review the list and characteristics of all non-qualified mortgages. Any noticeable trends and elevated risk exposure will be addressed and reported to the President and Board as needed. All non-qualified mortgage loans must be approved by the Real Estate Manager, VP of Lending, or the President.

Covered Transactions

A Covered Transaction is defined as a closed end consumer credit transaction that is secured by a dwelling, other than:

- 1. A mortgage loan on a timeshare;**
- 2. A reverse mortgage;**
- 3. A temporary bridge loan with a term of 12 months or less;**
- 4. A construction loan with a term of 12 months or less;**
- 5. An extension of credit made through a program administered by a Housing Finance Agency;**
- 6. An extension of credit made through a program authorized by sections 101 and 109 of the Emergency Economic Stabilization Act of 2008; or**
- 7. A modification of an existing covered loan transaction, as long as the modification is not refinance.**

Ability to Repay Standard

- 1. 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.**
- 2. A reasonable, good-faith ability to repay evaluation must include the following eight ability to repay underwriting factors:**
 - 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. Monthly mortgage payment of the loan under consideration;**
 - d. Monthly payment on other simultaneous loans secured by the same property;**
 - e. Monthly payments for mortgage related obligations that could include (but is not limited to) property taxes, insurance, and homeowners association fees;**
 - f. Debts, alimony, and/or child support obligations;**
 - g. 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; AND**
 - h. The member's credit history.**

Verification of Information

The Credit Union will verify the information it relies on to evaluate a member's ability to repay a covered transaction.

Qualified Mortgage 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.

Safe Harbor 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:

- 1. Regular periodic payments that are substantially equal (no two monthly payments should vary by more than 1 percent);**
- 2. 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;**
- 3. Loan term cannot exceed 30 years;**
- 4. Loan does not negatively amortize or contain interest-only payments;**
- 5. Loan does not include a balloon payment;**
- 6. The member's total monthly debt-to-income ratio is no more than 43%; and**
- 7. Points and fees for the transaction cannot exceed the Ability to Repay points and fees caps:**
 - a. 3% of the total loan amount for a loan greater than or equal to \$100,000;**
 - b. \$3,000 for a loan greater than or equal to \$60,000 but less than \$100,000;**
 - c. 5% of the total loan amount for a loan greater than or equal to \$20,000 but less than \$60,000;**
 - d. \$1,000 for a loan greater than or equal to \$12,500 but less than \$20,000; or**
 - e. 8% of the total loan amount for a loan less than \$12,500.**

Temporary Categories of Qualified Mortgages

- 1. 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.

- 2. Loans falling under the Temporary Qualified Mortgage 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.**
- 3. The temporary provision for loans eligible for purchase by Fannie Mae or Freddie Mac expires:**
 - a. On the date that the GSEs exit federal conservatorship or receivership; or**
 - b. On January 10, 2021, whichever occurs first.**
- 4. The temporary provision for loans eligible for insurance or guarantee by federal agencies expires:**
 - a. On the date that the relevant agency's own Qualified Mortgage rules take effect; or**
 - b. On January 10, 2021, whichever occurs first.**

List of Homeownership Counseling Organizations

The Credit Union will give applicants for all federally-related mortgages a written list of homeownership counseling organizations within three business days of receiving the application. Applicants for reverse mortgages and loans for time-shares are excluded from this requirement.

The list of homeownership counseling organizations distributed to each loan applicant under this section shall be obtained no earlier than 30 days prior to the time when the list is provided to the loan applicant from either:

- 1. The website maintained by the Consumer Financial Protection Bureau for lenders to use in complying with the requirements; or**
- 2. Data made available by the Consumer Financial Protection Bureau or HUD for lenders to use in complying with the requirement, provided that the data is used in accordance with instructions provided with the data.**

The list of homeownership counseling organizations may be combined and provided with other mortgage loan disclosures required pursuant to Regulation Z, unless specifically prohibited otherwise.

The list of homeownership counseling organizations may be provided in electronic form, subject to compliance with the consumer consent and other applicable provisions of the Electronic Signatures in Global and National Commerce Act (E-Sign Act), 15 U.S.C. 7001 *et seq.*

The Credit Union is not required to provide the list of homeownership counseling organizations before the end of the three-business-day period if the lender denies the application or the loan applicant withdraws the application. If there is more than one loan applicant, the required list of homeownership counseling organizations may be provided to any loan applicant with primary liability on the mortgage loan obligation.

Subordination

The Credit Union may agree to subordinate its lien position. All subordination requests must be approved by the VP of Lending or the President/CEO.

Exceptions to Policy

Exceptions must be approved by President or Vice President of Lending. Exceptions will be reported monthly to the Board of Directors.

Record Retention

The Credit Union must retain records that evidence compliance with the ability-to-repay provisions for a minimum of 3 years.

FAA CREDIT UNION

Policy No: 2.14.1
Date: January 22, 2013
Revised: January 28, 2014

Subject: APPRAISALS FOR REAL ESTATE RELATED TRANSACTIONS

POLICY:

While borrowers' ability to repay their real estate loans according to reasonable terms remains the primary consideration in the lending decision, FAA Credit Union ("FAACU") also must consider the value of the underlying real estate collateral in accordance with the Agencies' (Federal Reserve Board of Governors and NCUA) appraisal regulations including NCUA Part 722 (Appraisals), pursuant to title XI of the Financial Institutions Reform Recovery and Enforcement Act of 1989 (FIRREA) **and Regulation Z**. The intent of this policy and the appraisal and evaluation program is to ensure that FAACU does the following:

1. Provide for the independence of the persons ordering, performing, and reviewing appraisals or evaluations.
2. Evaluate and monitor the ongoing performance of appraisers and persons who perform evaluations.
3. Ensure that appraisals comply with the Agencies' appraisal regulations and are consistent with supervisory guidance.
4. Ensure that appraisals contain sufficient information to support the credit decision.
5. Maintain criteria for the content and appropriate use of evaluations consistent with safe and sound practices.
6. Provide for the receipt and review of the appraisal or evaluation report in a timely manner to facilitate the credit decision.
7. Assess whether an existing appraisal or evaluation may be used to support a subsequent transaction.
- 8. Establish criteria for monitoring collateral values**
9. Utilize internal controls that promote compliance with these program standards, including those related to monitoring third party arrangements.
10. Obtain appraisals or evaluations for transactions that are not otherwise covered by the appraisal requirements of the Agencies' appraisal regulations as needed.

A. Independence

The collateral valuation program is an integral component of the credit underwriting process and, therefore, should be isolated from influence by the institution's loan production staff. The credit union will establish reporting lines independent of loan production for staff who administers the institution's collateral valuation program, including the ordering, reviewing, and acceptance of appraisals and evaluations. Appraisers must 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 also apply to persons who perform evaluations.

FAACU 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, FAACU

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. However, FAACU may request the appraiser or person who performs an evaluation to:

- Consider additional information about the subject property or about comparable properties.
- Provide additional supporting information about the basis for a valuation.
- Correct factual errors in an appraisal.

FAACU employees will avoid all inappropriate actions that would compromise the independence of the collateral valuation function, including but not limited to:

- 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.
- Specifying a minimum value requirement for the property that is needed to approve the loan or as a condition of ordering the valuation.
- Conditioning a person's compensation on loan consummation.
- Failing to compensate a person because a property is not valued at a certain amount.
- Implying that current and future retention of a person's services depends on the amount at which the appraiser or person performing an evaluation values a property.
- Excluding a person from consideration for future engagement because a property's reported market value does not meet a specified threshold.
- **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.**
- **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.**
- **Mischaracterizing, or suborning any mischaracterization of, the appraised value of the property securing the extension of credit.**
- **Seeking to influence an appraiser or otherwise to encourage a targeted value in order to facilitate the making or pricing of the transaction.**

B. 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.

C. 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.

D. 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.

E. Selection Process

When selecting an appraiser, the employee(s) designated with the task of choosing an appraiser will ensure that:

- The person selected possesses the requisite education, expertise, and experience to competently complete the assignment.
- The work performed by appraisers and persons providing evaluation services is periodically reviewed by the institution.
- The person selected is capable of rendering an unbiased opinion.
- The person selected is independent and has no direct, indirect, or prospective interest, financial or otherwise, in the property or the transaction.
- 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.

FAACU will maintain an approved "Appraiser List" which will be used for residential transactions. This list will be approved by the board of directors on an annual basis to monitor the appraiser's performance and credentials.

F. Customary and Reasonable Compensation

The Credit Union will ensure that its 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.

The Credit Union will not engage in any anticompetitive acts in violation of state or federal law that affect the compensation to fee appraisers.

G. Compliance with Agencies' minimum appraisal standards

FAACU will require that the appraisal complies with NCUA Rules and Regulation Part 722.4 which state the minimum appraisal standards. The standards require that an appraisal must:

- Conform to generally accepted appraisal standards as evidence by the USPAP (Uniform Standards of Professional Appraisal Practice) promulgated by the Appraisal Standards Board of the Appraisal Foundation;
- Be written and contain sufficient information and analysis to support the institution's decision to engage in transaction;
- 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;

- Be based upon the definition of market value set forth in the NCUA Part 722.2(f);
- Be performed by state certified or licensed appraisers in accordance with requirements set forth in NCUA Part 722.

H. Content of Appraisal

While an appraiser must comply with USPAP and establish the scope of work in an appraisal assignment, it is FAACU's responsibility for obtaining an appraisal that contains sufficient information and analysis to support the decision to engage in the transaction. The appraisal report should contain sufficient detail to allow the institution to understand the scope of work performed. Sufficient information should include 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.~~

I. Obtaining an Evaluation

The Credit Union may obtain an appropriate evaluation of real property in lieu of an appraisal for transactions that qualify for certain exemptions under NCUA Part 723. These exemptions include a transaction that:

- 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
- There is no advancement of new monies other than funds necessary to cover reasonable closing costs.

J. Content of Evaluation

- An evaluation must be consistent with safe and sound practices and should support FAACU's decision to engage in the transaction. FAACU should be able to demonstrate that an evaluation provides a reliable estimate of the collateral's market value as of the stated effective date prior to the decision to enter into a transaction. The evaluation at a minimum, should:
 - Identify the location of the property.
 - Provide a description of the property and its current and projected use.
 - Provide 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, with any limiting conditions.
 - Describe the method(s) the institution used to confirm the property's actual physical condition and the extent to which an inspection was performed.
 - Describe the analysis that was performed and the supporting information that was used in valuing the property.
 - Describe the supplemental information that was considered when using an analytical method or technological tool.
 - Indicate all source(s) of information used in the analysis, as applicable, to value the property, including: External data sources (such as market sales databases, public tax, and land records);
 - Property-specific data (such as previous sales, tax assessment data, and comparable sales information)

- Evidence of a property inspection;
- Photos of the property;
- Description of the neighborhood; or
- Local market conditions.
- Include information on the preparer when an evaluation is performed by a person, such as the name and contact information, and signature of the preparer (electronic or other legally permissible signature is acceptable).

K. High Priced Loan Appraisal Requirements

Additional appraisal requirements exist for high priced mortgage loans (HPML) secured by a consumer's principal dwelling. The Credit Union, generally, will not make HPML loans with interest rates above certain thresholds:

- **The loan is a first-lien mortgage with an annual percentage rate (APR) that exceeds the Average Prime Offer Rate (APOR) published by the Consumer Financial Protection Bureau at the time the APR is set by 1.5 percentage points or more;**
- **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**
- **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.**

The Credit Union is not required to meet the HPML Appraisal Rule requirements if the loan falls into the following classifications:

- **Qualified mortgages;**
- **Reverse mortgages;**
- **Bridge loans (for 12 months or less);**
- **Loans for initial construction of a dwelling;**
- **Loans secured by new manufactured homes; and**
- **Loans secured by boats, trailers, and mobile homes.**

The Credit Union will comply with all additional appraisal requirements associated with HMPLs including:

- **Using 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;**
- **Have the appraiser physically visit the property and view the interior and produce a written appraisal report;**
- **Provide a disclosure within three business days of the application the consumer's rights with regard to appraisals;**
- **Give consumers free copies of the appraisal reports performed in connection with the loan at least three days before consummation of the transaction; and**
- **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.**

- More than a 10% price increase over the last sale price if the seller acquired the property in the past 90 days; or
 - More than a 20% price increase over the last sale price if the seller acquired the property in the past 91 to 180 days.
 - The Credit Union will cover the cost of the additional appraisal and not pass the additional appraisal cost on to the member.
- The Credit Union is not required to provide an additional appraisal for property acquired from:
 - A local, state, or federal government agency;
 - 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;
 - 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;
 - 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;
 - An employer or relocation agency in connection with an employee relocation; and
 - A service member who received a deployment or permanent change of station order after purchasing the property.
 - The Credit Union is also not required to provide an additional appraisal for property:
 - 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
 - Located in rural county.

The Credit Union will provide an appraisal disclosure to members on HPMLs:

- Promptly after a member applies for a higher-priced first-lien or subordinate-lien mortgage loan, and at the latest with the Loan Estimate;
- 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."

L. Reviewing Appraisals and Evaluations

As part of the credit approval process and prior to a final credit decision, FAACU will review appraisals and evaluations to ensure that they comply with the Agencies' appraisal regulations and are consistent with supervisory guidance and the credit union's own internal policies. This

review also will ensure that an appraisal or evaluation contains sufficient information and analysis to support the decision to engage in the transaction. **The individual performing the review will be insulated from any influence by loan production staff.**

Through the review process, FAACU will be able to assess the reasonableness of the appraisal or evaluation, including whether the valuation methods, assumptions, and data sources are appropriate and well-supported. FAACU will use the review findings to monitor and evaluate the competency and ongoing performance of appraisers and persons who perform evaluations.

The review will 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. 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.

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.

Reviewers will 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.**

M. Resolving 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:

- **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.**
- **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.**
- **Replacing evaluations prior to the credit decision that do not provide credible results or lack sufficient information to support the final credit decision**

N. Existing Appraisals

The Agency allows FAACU to use an existing appraisal that was prepared by an appraiser engaged directly by another financial institution if:

- The appraiser has no direct or indirect interest, financial or otherwise, in the property or transaction; and
- FAACU determines that the appraisal conforms to the requirement of the regulation and is otherwise acceptable.

Documentation in the credit file should provide facts and analysis to support the FAACU's conclusion that the existing appraisal may be used in the subsequent transaction. A new appraisal is necessary if the originally reported market value has changed due to factor such as:

- Passage of time.
- Volatility of the local market.
- Changes in terms and availability of financing.
- Natural disasters.
- Limited or over supply of competing properties.
- Improvements to the subject property or competing properties.
- Lack of maintenance of the subject or competing properties.
- Changes in underlying economic and market assumptions, such as capitalization rates and lease terms.
- Changes in zoning, building materials, or technology.
- Environmental contamination.

O. Documenting 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.

P. Program Compliance

Deficiencies in FAACU appraisal and evaluation program that result in violations of the Agencies' appraisal regulations or contraventions of the Agencies' supervisory guidance reflect negatively on management. FAACU will adhere to an effective appraisal and evaluation program. The compliance program will:

- Maintain a system of adequate controls, verification, and testing to ensure that appraisal and evaluations provide credible market values.
- Insulate the person's responsible for ascertaining the compliance of the FAACU appraisal and evaluation function from any influence by loan production staff.
- Ensure that FAACU practices result in the selection of appraisers and person who perform evaluations with appropriate qualifications and demonstrated competency for the assignment.
- Establish procedures to test the quality of the appraisal and evaluation review process.
- Use, as appropriate, the results of FAACU review process and other relevant information as a basis for considering a person for a future appraisal or evaluation assignment.
- Report appraisal and evaluation deficiencies to appropriate internal parties and, if applicable, to external authorities in a timely manner.

FAACU 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.

It is the intent of FAACU to comply with all applicable state and federal laws, regulations, and guidance with regards to every part of determining the value of real estate collateral. Furthermore, appraisals will conform to generally accepted appraisal standards as evidenced by the USPAP promulgated by the Appraisal Standards Board of the Appraisal Foundation unless principles of safe and sound banking require compliance with stricter standards.

Q. Monitoring Collateral Values

FAACU will monitor collateral risk on an individual credit basis. FAACU will consider the need for obtaining 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.**

FAACU will establish criteria for when to obtain a new appraisal or evaluation. The criteria, among other considerations, should address deterioration in the credit since origination or changes in market condition. Changes in market conditions include:

- Current and projected vacancy.
- Absorption rates.
- Lease terms.
- Rental rates.
- Sales prices, including concessions and overruns
- Delays in constructions cost.
- Fluctuation in discounts or direct capitalization rates.

FAACU should be able to demonstrate that it is has sufficient, reliable and timely information on market trends to understand the risk associated with its lending activity. Loan modifications and loan workouts require current information on the value of real estate collateral. A loan workout can take many forms including a modification that adversely affects the institution's real estate collateral protection after the modification, a renewal or extension of loan terms, the advancement of new monies, or a restructuring with or without concessions. These types of loan workouts are new real-estate related financial transactions, and as such require new appraisals and/or evaluations as part of the underwriting process.

R. Transactions Not Covered by Appraisal Requirements

Under NCUA Part 722, certain real-estate transactions do not require the services of an appraiser to protect federal financial and public policy interest or to satisfy principles of safe and sound lending. NCUA Part 722 generally sets those transactions qualifying for the appraisal threshold at \$250,000 or less, for existing extensions of credit, or the business loan exemptions. The V.P. of Lending in conjunction with the President/CEO may, however, through internal policies and procedures set a more stringent appraisal requirement for FAACU staff to follow.

S. Loans Sold and Loans Sold and Serviced to Fannie Mae and/or Freddie Mac or Federal

Home Loan Bank

For loans sold to Fannie Mae and/or Freddie Mac, and/or for Fannie Mae and/or Freddie Mac loans serviced by the Credit Union, the Credit Union will, at a minimum, comply with the appraisal requirements of the Home Valuation Code of Conduct (HVCC) or other related requirements for secondary market loans.

T. Providing Written Valuations and 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.

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.

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.

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."

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.

The Credit Union cannot charge a fee for the copy of the appraisal.

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.

FAA CREDIT UNION

Policy No: 2.14.2

Date: September 22, 1992

Revised: **April 29, 2014**

SUBJECT: FAA PREFERRED FIRST MORTGAGE PROGRAM

Fixed Rate Program

Maximum Amount: Same as secondary market conventional loan limit

Maximum Term: 20 years

Fixed Rate: Rates will be based on current economic conditions, and secondary market pricing.

Points: Subject to change based on senior management review of current market conditions

LTV: All loans over 80% LTV require PMI (Private Mortgage Insurance). Maximum LTV determined by current PMI coverage guidelines.

1/5 ARM (Adjustable Rate Mortgage)

Maximum Amount: Same as secondary market

Term: 10-30 years

Rate: Start rate will be based on current market trends.

Index: The weekly average yield on **U.S.** Treasury Securities adjusted to a constant maturity of one (1) year

Margin: 2.875%

Caps: 1% Annual 5% Lifetime

Points: None

LTV: All loans over 80% LTV require PMI (Private Mortgage Insurance). Maximum LTV determined by current PMI coverage guidelines.

Conversion Feature: None

5/1 Two-Step – Fixed Rate with Conversion to Adjustable Rate Mortgage (ARM)

Maximum Amount: Same as secondary market conventional loan limit.

Maximum Term: 30 years

Rate: Start rate will be based on current market trends. Mortgage will convert to an adjustable rate after 60 months, and adjust thereafter every twelve months based on the index, margin, and caps specified below.

Index: The weekly average yield on **U.S.** Treasury Securities adjusted to a constant maturity of one (1) year.

Margin: 2.875%.

Caps: 1% Annual, 5% Lifetime

LTV: All loans over 80% LTV require PMI (Private Mortgage Insurance). Maximum LTV determined by current PMI coverage guidelines.

7/1 Fixed Rate with Conversion to Adjustable Rate Mortgage (ARM)

Maximum Amount: Same as secondary market conventional loan limit.

Maximum Term: 30 years

Rate: Start rate will be based on current market trends. Mortgage will convert to an adjustable rate after 84 months, and adjust thereafter every twelve months based on the index, margin, and caps specified below.

Index: The weekly average yield on U.S. Treasury Securities adjusted to a constant maturity of one (1) year.

Margin: 2.875%

Caps: 1% Annual, 5% Lifetime

LTV: All loans over 80% LTV require PMI (Private Mortgage Insurance). Maximum LTV determined by current PMI coverage guidelines.

15 Year Balloon with 30 Year amortization

Loan Feature Limits: No negative amortization or interest only payments.

Maximum Amount: Same as secondary market conventional loan limit.

Maximum Term: 15 Years with 30 year amortization

Fixed Rate: Rates will be based on current economic conditions and Secondary Market pricing.

Payment Underwriting: Amortization schedule no more than 30 years.

Points: Subject to change based on management review of current market conditions. No more than 3%.

LTV: Maximum 97% purchase price. 95% Cash-out refinance. All loans over 80% LTV require PMI (Private Mortgage Insurance).

Expiration: Balloon loans will only be allowed while the credit union qualifies for the Small Creditor Qualified Mortgage Balloon Loan Exemption. To qualify for this exemption the credit union must have less than \$2B in assets and originate 500 or fewer first lien closed-end mortgage loans in the previous year. This exemption expires on January 10, 2016, or when the credit union no longer qualifies, whichever is sooner. At year end, staff will review the number of first lien closed-end mortgage loans being originated by the credit union and ensure the credit union still qualifies for the exemption before originating anymore balloon loans. Credit union staff must adhere to the credit union's standard underwriting criteria and verify the member's ability to repay.

Regulations:

Any construction loan, exceeding 12 months, and secured by a dwelling must comply with the ability to repay rule issued by the Consumer Financial Protection Bureau. Refer to Policy #2.14 for additional information on Ability to Repay and Qualified Mortgage requirements.

The Credit Union will give applicants for all federally-related mortgages a written list of homeownership counseling organizations within three business days of receiving the application. Applicants for reverse mortgages and loans for time-shares are excluded from this requirement. Refer to Policy #2.14 for additional information.

Record Retention:

The Credit Union must retain records that evidence compliance with the ability-to-repay provisions for a minimum of 3 years.

FAA CREDIT UNION

Policy No: 2.14.4

Date: August 16, 1994

Revised: March 28, 2012

Reviewed: May 28, 2013

SUBJECT: VA FIRST MORTGAGE REAL ESTATE LOANS

POLICY: FAA Credit Union shall offer first mortgage loans guaranteed by the Veteran's Administration through a secondary market investor.

Terms and Limits: Programs offered through secondary market investor.

Rates: Interest rates will be set by the investor to which the loan is sold.

FAA CREDIT UNION

Policy No: 2.14.5

Date: May 16, 1995
Revised: March 28, 2012
Reviewed: May 28, 2013

SUBJECT: FHA FIRST MORTGAGE REAL ESTATE LOANS

POLICY FAA Credit Union shall offer first mortgage loans insured by the Federal Housing Administration (FHA) through a secondary market investor.

Terms and Limits: Programs offered through secondary market investor.

Rates Interest rates will be set by the investor to which the loan is sold.

FAA CREDIT UNION

Policy No: 2.14.6

Date: June 16, 1998

Revised: May 28, 2013

SUBJECT: Secondary Market Loans

Policy: FAA Credit Union (FAA CU) **may** sell first mortgage loans into the Secondary Market. Loan limits, rates, terms, procedures and documentation requirements will be established by **investor** and conform to their guidelines.

Loans will be approved by the secondary market prior to the loan closing, and immediately delivered for purchase after the loan is funded. FAA CU will retain the servicing on loans sold to secondary market.

Loan Limits: Maximum loan limits will be determined by secondary market.

Terms: **Terms of loans will be set through the investor.**

Rates: Interest rates are determined by secondary market. **FAA Credit Union will set rates as to provide competitive pricing to our membership and to insure profitability to the credit union.**

Fees: Fees may be assessed as required which are normal Real Estate Settlement & Procedures Act (RESPA) transactions and set by outside vendors ad market. **Reasonable and customary fees will be charged to the member by the credit union for services provided. Any fees/points charged will be within all Federal and State Regulation standards.**

SUSPENDING PROGRAM AS OF APRIL 1, 2012

FAA CREDIT UNION

Policy No: 2.14.7
Date: June 16, 1998
Revised: March 28, 2012

SUBJECT: HOME EQUITY LINE OF CREDIT (HELOC)

Policy: FAA Credit Union shall make Home Equity Line of Credit (HELOC) loans under the following guidelines:

Home Equity Line of Credit Loans are made for the purpose of having a credit line available. This line of credit can be used at the member's discretion. These loans are made on owner occupied single family residential properties located in the state of Oklahoma.

The credit line or total loan to value is determined by figuring a percentage of the value or appraised value less any first mortgage balance. For example, \$100,000 value X 80% = \$80,000 less \$50,000 first mortgage balance = \$30,000 possible line of credit. The maximum credit lines available under this program are as follows:

Loan Limits: \$5,000 - \$100,000 Up to **80%** of appraised value less any first mortgage balance.

80% of appraised value less any first mortgage balance.

Higher loan amounts approved by underwriter subject to PMI guidelines.

Term: The minimum loan amount is \$5,000. The minimum initial draw is \$5,000. The "draw period" of the loan is five years. The draw period is the time during which loan advances may be obtained by the member. During the draw period, the required monthly payment is 1.5% of the outstanding loan balance. After five years, the draw period may be renewed or extended at the option of the Credit Union.

When the draw period ends, the "repayment period" begins. During the repayment period, the member may not request further loan advances and the required monthly payment is 2% of the outstanding balance until the loan is paid in full.

FAA CREDIT UNION

Policy No: 2.14.7 pg 2

Date: June 16, 1998
Revised: March 28, 2012

Subject: Home Equity Line of Credit (HELOC)

Policy: The HELOC is an adjustable rate loan. The rate is based on an index plus a margin. The index is The Weekly Average of the One-Year T-Bill With a Constant Maturity of One Year. The rate is subject to change each calendar quarter on the first day of the billing cycle.

Interest rates on loans with LTV's of 80% and below will be calculated by adding the Index + Margin of 3.5% rounded up to the next .125%.

~~Interest rates on loans with LTV's above 81% will be calculated by adding the Index + Margin of 4.5% rounded up to the next .125%.~~

The maximum rate is 18%. The minimum rate is 5% on loans with an 80% LTV, and 6% on loans with a 90% LTV.

Fees: Fees may be assessed as required which are normal RESPA transactions and set by outside vendors and market. Fees associated with the HELOC VISA card are:

Over the Limit Fee	\$15.00
Return Check Fee	\$15.00
Card Replacement Fee	\$10.00

When the monthly payment is 15 or more days past due, a late charge equal to 5% of the required monthly payment will be assessed.

Other: HELOC loans are not assumable

HELOC's can be accessed through the HELOC VISA card, ~~VISA checks~~, or transaction voucher completed by a credit union employee

Member must qualify for HELOC payment based on the fully drawn loan amount.

FAA CREDIT UNION

Policy No: 2.15
Date: November 24, 1992
Revised: **January 28, 2014**

SUBJECT: SECOND MORTGAGE REAL ESTATE LOANS

Policy: FAA Credit Union shall may make second mortgage real estate loans, to qualifying borrowers, on owner occupied, primary residences located in the State of Oklahoma in accordance with the following guidelines:

Maximum Loan Amount

\$100,000 Approved by Real Estate Underwriter or Real Estate **Manager**. Higher loan amount approved by President, SVP of Financial Services or the VP of Lending.

Maximum Loan to Cumulative Loan to Value (CLTV)

Up to 90% of appraised value, less first mortgage balance.

Up to 97% of appraised value, refer to policy 2.14.1 less first mortgage balance as long as Private Mortgage Insurance (PMI) can be obtained.

Maximum term 20 years

Rates

Rates, may be fixed or variable, and will be based on current economic condition and secondary market pricing.

Maximum for First and Second Mortgages

Members carrying a first and second mortgage with the credit union are limited to a combined loan to value ratio of 97%. When the credit union is financing both the first and second mortgage, the credit union will obtain private mortgage insurance (PMI) on behalf of the member to reduce the credit union's exposure to 80% loan to value ratio. Such insurance will be paid for by the member except in the case of a special real estate promotion.

Regulatory Requirements

Credit union staff will adhere to all statutory and regulatory requirements governing mortgage lending including, but not limited to the Homeowner's Protection Act of 1998, governing obtaining PMI, the issuance of notices for PMI, and any requirements for terminating PMI, providing homeownership counseling lists; the Fair Housing Act, the Real Estate Settlement

Procedures Act, the Home Mortgage Disclosure Act (HMDA), and the Truth-in-Lending Act, as applicable.

Qualified Mortgages and the Ability to Repay

The 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 Credit Union will make a reasonable good faith determination, before or when a covered transaction is consummated, that the member has a reasonable ability to repay the loan. For all other mortgage loans, the Credit Union will continue to rely on its standard, prudent underwriting guidelines.

Approval to Underwrite Qualified and Non-Qualified Mortgages

The Credit Union may underwrite and approve qualified and non-qualified mortgages.

Tracking and Approval of Non-Qualified Mortgages

All non-qualified mortgages will be coded and tracked within the Credit Union's system so that a monthly report of all non-qualified mortgages held by the Credit Union can be generated. Each month, the VP of Lending will review the list and characteristics of all non-qualified mortgages. Any noticeable trends and elevated risk exposure will be addressed and reported to the President and Board as needed. All non-qualified mortgage loans must be approved by the Real Estate Manager, VP of Lending, or the President.

Covered Transactions

A Covered Transaction is defined as a closed end consumer credit transaction that is secured by a dwelling, other than:

1. A mortgage loan on a timeshare;
2. A reverse mortgage;
3. A temporary bridge loan with a term of 12 months or less;
4. A construction loan with a term of 12 months or less;
5. An extension of credit made through a program administered by a Housing Finance Agency;
6. An extension of credit made through a program authorized by sections 101 and 109 of the Emergency Economic Stabilization Act of 2008; or
7. A modification of an existing covered loan transaction, as long as the modification is not refinance.

Ability to Repay Standard

1. 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.
2. A reasonable, good-faith ability to repay evaluation must include the following eight ability to repay underwriting factors:
 - 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. Monthly mortgage payment of the loan under consideration;
 - d. Monthly payment on other simultaneous loans secured by the same property;
 - e. Monthly payments for mortgage related obligations that could include (but is not limited to) property taxes, insurance, and homeowners association fees;
 - f. Debts, alimony, and/or child support obligations;
 - g. 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; AND
 - h. The member's credit history.

Verification of Information

The Credit Union will verify the information it relies on to evaluate a member's ability to repay a covered transaction.

Qualified Mortgage 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.

Safe Harbor 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:

1. Regular periodic payments that are substantially equal (no two monthly payments should vary by more than 1 percent);
2. 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;
3. Loan term cannot exceed 30 years;

4. Loan does not negatively amortize or contain interest-only payments;
5. Loan does not include a balloon payment;
6. The member's total monthly debt-to-income ratio is no more than 43%; and
7. Points and fees for the transaction cannot exceed the Ability to Repay points and fees caps:
 - a. 3% of the total loan amount for a loan greater than or equal to \$100,000;
 - b. \$3,000 for a loan greater than or equal to \$60,000 but less than \$100,000;
 - c. 5% of the total loan amount for a loan greater than or equal to \$20,000 but less than \$60,000;
 - d. \$1,000 for a loan greater than or equal to \$12,500 but less than \$20,000; or
 - e. 8% of the total loan amount for a loan less than \$12,500.

Temporary Categories of Qualified Mortgages

1. 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.
2. Loans falling under the Temporary Qualified Mortgage 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.
3. The temporary provision for loans eligible for purchase by Fannie Mae or Freddie Mac expires:
 - a. On the date that the GSEs exit federal conservatorship or receivership; or
 - b. On January 10, 2021, whichever occurs first.
4. The temporary provision for loans eligible for insurance or guarantee by federal agencies expires:
 - a. On the date that the relevant agency's own Qualified Mortgage rules take effect; or

b. On January 10, 2021, whichever occurs first.

List of Homeownership Counseling Organizations

The Credit Union will give applicants for all federally-related mortgages a written list of homeownership counseling organizations within three business days of receiving the application. Applicants for reverse mortgages and loans for time-shares are excluded from this requirement.

The list of homeownership counseling organizations distributed to each loan applicant under this section shall be obtained no earlier than 30 days prior to the time when the list is provided to the loan applicant from either:

1. The website maintained by the Consumer Financial Protection Bureau for lenders to use in complying with the requirements; or
2. Data made available by the Consumer Financial Protection Bureau or HUD for lenders to use in complying with the requirement, provided that the data is used in accordance with instructions provided with the data.

The list of homeownership counseling organizations may be combined and provided with other mortgage loan disclosures required pursuant to Regulation Z, unless specifically prohibited otherwise.

The list of homeownership counseling organizations may be provided in electronic form, subject to compliance with the consumer consent and other applicable provisions of the Electronic Signatures in Global and National Commerce Act (E-Sign Act), 15 U.S.C. 7001 *et seq.*

The Credit Union is not required to provide the list of homeownership counseling organizations before the end of the three-business-day period if the lender denies the application or the loan applicant withdraws the application. If there is more than one loan applicant, the required list of homeownership counseling organizations may be provided to any loan applicant with primary liability on the mortgage loan obligation.

Record Retention

The Credit Union must retain records that evidence compliance with the ability-to-repay provisions for a minimum of 3 years.

FAA CREDIT UNION

Policy No.: 2.16

Date: September 25, 2012

Last Revised: August 26, 2014

SUBJECT: **WORK OUT LOANS AND TROUBLED DEBT RESTRUCTURING**

POLICY STATEMENT

The policy of the Credit Union is to encourage members to repay loans according to the original terms. However, there may be circumstances that arise where it is not possible for the member to pay the loan in accordance with the original terms. Periodically members experience unforeseen financial difficulties. FAA Credit Union will assist members in solving their financial difficulties, and make arrangements to bring the loan current within a reasonable time frame. If this is not possible, members who are experiencing financial difficulties may be granted work out loans. These modifications will be done on existing loans at terms that may differ from the normal loan policy. The Credit Union will work with members faced with a financial hardship who exhibit the willingness and the capacity to repay the obligations.

A “*workout loan*” means a loan to a borrower in financial difficulty that has been formally restructured so as to be reasonably assured of repayment (of principal and interest) and of performance according to its restructured terms. A loan workout and/or troubled debt restructuring (TDR) may include: re-agings, extensions, deferrals, renewals, lower APRs, or rewrites. Loan workouts do not include loans made at market rates and terms such as refinances, borrower retention actions, or new loans.

Loan workouts can be used to help members overcome temporary financial difficulties such as loss of job or sudden change in employment or income, medical emergency, catastrophic illness, a change in family circumstances like loss of a family member, or an unexpected extreme financial expense. Loan workout arrangements should consider and balance the best interests of both the member and the Credit Union. Since loan workouts can mask the true performance and past due status of the loan portfolio, Credit Union management must adhere to the written loan workout policy and standards and set stringent controls for use of loan workouts to ensure the policy is consistently applied; and, to further ensure the workouts are in line with the Credit Union’s broader risk mitigation strategies.

Additional procedures for collections, workout loans, repossessed collateral and foreclosed properties can be found in the Collections Procedures Manual located in the Collections Department.

A. CIRCUMSTANCES LEADING TO FINANCIAL DIFFICULTIES

1. Lay off;
2. Loss of job;
3. Other sudden change in employment or income;
4. Medical emergency;
5. Catastrophic illness;
6. Death or a change in family circumstances like loss of a family member; or
7. An unexpected extreme financial expense.

B. GENERAL TERMS AND DOCUMENTATION

1. Once a member has been identified as having financial difficulties credit union employees will discuss options with the member. The communication with the member shall be documented in the member's file.
2. The member must complete an updated loan application, submit a hardship letter, along with proof of income.
3. Members must exhibit a renewed willingness to repay the modified obligation. The member's level of renewed willingness to repay the obligation shall be a factor in determining whether or not the Credit Union should enter into a loan workout.
4. Members must meet adequate cash flow to meet the modified obligation to the credit union and must provide proof of income. The member's ability to repay the modified obligation shall be documented in the member's file.
5. The member's agreement to pay the loan in full must be documented and kept in the member's file.
6. Approval of the loan modification will be documented and included with the loan file.
7. No loan workouts or rewriting of any loan or term shall be done on any loan if it is determined that the member cannot repay their loans with the credit union. All workout loan decisions shall be based upon the member's renewed willingness and ability to repay the loan.
8. Documentation must show:
 - a. A Credit Union employee communicated with the borrower;
 - b. The borrower agreed to pay the loan in full under any new terms; and
 - c. The borrower has the ability to repay the loan under any new terms.
9. Before any loan will be restructured, the member may first work with a designated Credit Union Financial Counseling/Consulting firm to assist with their budget preparation, financial counseling, etc.

C. APPROVAL

1. All workout loans must be approved by either the President, the Sr. V.P. of Financial Services, the V.P. of Lending, or the A.V.P. of Financial Services.

D. REPORTING

1. The Board of Directors will receive a quarterly report on all new workout loans as well as a quarterly performance report. Reporting to the Board may be more frequent if necessary.
2. The Board of Directors will receive a monthly report on all modified real estate loans to be able to assess the success of the collection process, timely recognition of losses and to confirm the modifications are the least costly strategy. The reports shall track:
 - a. Number and volume of each type of modified loan;
 - b. Delinquency and charge-offs;
 - c. First payment defaults;
 - d. Principal reductions;
 - e. High Loan to Value (LTV) ratios, particularly in areas with continued market declines, and total loss exposure in relation to net worth;
 - f. High Debt to Income (DTI) ratios;
 - g. Credit quality; and
 - h. Number of times a loan has been modified.
3. Any decision to re-age, extend, defer, renew, or rewrite a loan, or revise any contractual terms, must be supported by management information systems.
4. Workout loan and/or loan modifications will be reported to the accounting department. The accounting department will determine whether the loan will be deemed a Troubled Debt Restructuring (TDR) in accordance with Accounting Standards Codification (ASC) 310-40, *Troubled Debt Restructurings by Creditors* and report them on the 5300 Call Report.
5. The determination that a loan workout or modification is a TDR shall be consistent with the definitions provided herein and as further defined by ASC 310-40.
6. The past due status of all loans shall be calculated consistent with loan contract terms, including amendments made to the loan terms through the restructuring.

E. RESTRUCTURING LIMITS, ADDITIONAL DOCUMENTATION AND VALIDATION

1. No loan will be restructured more than one time in a year or twice in a five (5) year period. The Credit Union's skip-a-pay program does not count toward these limits.
2. Exceptions to this policy may only be approved by either the President, the Sr. V.P. of Financial Services, the V.P. of Lending, or the A.V.P. of Financial Services.

3. If an exception is approved, additional documentation shall be provided from the member providing explicit evidence of the member's renewed willingness and ability to repay the loan. The documentation must also provide evidence that the restructuring of the loan improves collectability of the loan.
 - a. The Credit Union will perform validation of completed multiple restructurings that substantiate the claim that multiple restructurings improve collectability.
4. Risk profiles are set in the ALM Policy. If loan workouts exceed 5% of all aggregate loan portfolio, enhanced reporting shall be made to the Board by Credit Union management. This enhanced reporting shall:
 - a. Enable the Board to evaluate the effectiveness of the Credit Union's loan workout program;
 - b. Enable the Board to assess the impact and/or implications to the organization's financial condition; and
 - c. Make any compensating adjustments to the overall business strategy.

F. PROHIBITION ON MULTIPLE RESTRUCTURINGS THAT DO NOT IMPROVE COLLECTABILITY

1. Restructurings shall not be used as a way to push losses into future reporting periods without improving the loan's collectability.

G. PROHIBITION ON FEES

1. The credit union shall not authorize any additional advances to finance unpaid interest or Credit Union fees.
2. The prohibition set forth above, does not include making advances to cover third-party fees, such as force-placed insurance or property taxes, however, the Credit Union will not finance any related commissions it may receive from the third party.

H. MANAGEMENT INFORMATION SYSTEMS

1. Shall track the principal reductions and charge-off history of loans in workout programs by type of program.
2. Any decision to re-age, extend, defer, renew, or rewrite a loan, like any other revision to contractual terms, needs to be supported by the Credit Union's management information systems by being able to identify and document any loan that is re-aged, extended,

deferred, renewed, or rewritten, including the frequency and extent such action has been taken.

I. AUDIT AND INTERNAL CONTROL

1. The internal audit department, Supervisory Committee or the outside auditor hired by the Credit Union will, no less than annually, review these loan workouts to ensure:
 - a. The loan workouts are appropriately structured;
 - b. The parameters set forth in this policy are being followed.

J. WORKOUT LOAN PROCEDURES:

1. All workout loan proposals must be approved by either the President, Sr. V.P. of Financial Services, the V.P. of Lending, or the A.V.P. of Financial Services.
2. Modifications for real estate and consumer loans will be processed by the collection department, whereas MBL and Participation loan modifications will generally be identified by the V.P. of Lending. A modification form will be completed and forwarded to the accounting department. The accounting department will then determine whether the loan is a TDR.
3. A workout loan can be the refinance of one or more existing Credit Union loans into a new loan, typically coded in the Credit Union's system for tracking. If one loan is being refinanced into the workout loan, the term of the loan will be extended out enough to create an affordable payment at the interest rate on the existing loan. If more than one loan is being considered for workout, the payment will need to be calculated at a blended rate of the loans being refinanced, still taking the loan out enough to create an affordable monthly payment. Generally, the blended rate should be equal to or higher than the weighted average rate otherwise it could be considered a concession and the TDR provisions herein will need to be followed. Caution should be used when attempting to take a loan term out too many months – the loan should be kept within loan term limits if possible for the type of loan being refinanced (secured or unsecured).
4. A workout loan evaluation will consist of the following:
 - a. Financial Counseling - Request the member to contact the designated Credit Union Financial Counseling/Consulting firm and create an accurate budget, showing all the monthly income and obligations. The budget will be reviewed to determine if the member has the ability to pay on the proposed workout loan.
 - b. The member should complete an updated loan application.

- c. In order to verify income and the ability to repay the debt, the member's current pay stub, pay stubs for the past three months, and income tax returns for the last two years, or other related information to verify income, will be required.
- d. Hardship Letter – request the member to write a letter to explain the nature of the hardship they are experiencing, so the Credit Union can determine if the hardship is such that they will still be able to make the proposed payments on the workout/modified loans.
- e. If the loan involves collateral, an NADA value should be obtained. The Credit Union employee may also request a visual inspection of the collateral to ensure it is in good shape. Insurance will also be required on the collateral until such loan is paid in full.
- f. After the paperwork is submitted and the workout request is approved by Management, the Credit Union will need to request the originating Financial Services Representative (FSR) (or the branch manager of the branch the originating FSR formerly worked) to complete the new loan by pulling the credit report and loading it on the system. If a workout loan is approved for an indirect loan, the request will need to be referred to a branch manager for completion.
- g. If the workout loan request is a result of receipt of a debt consolidation plan from a credit counseling agency, the member will be contacted to see if they are interested in converting the line of credit to a workout loan, so the loan can be set at the proposed payment amount, and there will not be a risk of the account continuing to fall into delinquency status and accrue late fees if the proposed payment is not enough to cover the minimum payment amount.
- h. After the workout loan is funded, the collections manager will need to notify accounting of the workout loan information. Accounting will determine whether the loan will be deemed a "TDR" ("Troubled Debt Restructuring"). The collections manager will work with the accounting department and timely supply them with any information required.

5. Limitations and additional loan workout requirements:

- a. Mortgages:
 - i. Modification of a mortgage loan may include: interest rate reduction, extended amortization period, principal forbearance or reduction, etc. If a concession is granted such as an interest rate or principal reduction, the TDR provisions must be followed.
 - ii. Must be secured by member's primary residence.
 - iii. The target debt ratio for housing should not exceed 40%.

- iv. A new credit report will be required on all borrowers and verify all monthly installment debt, revolving debt and secondary mortgage debt.
- v. Target HTI ratio 40% and the target DTI ratio 50%.
- vi. If deemed necessary, a collateral valuation will be determined through an updated Appraisal. This appraisal fee will not be passed to the member or rolled into the loan. This appraisal fee will be incurred and paid by the Credit Union.
- vii. An updated title search will be conducted to confirm the Credit Union's lien position and to verify that no one other than the member has title to the property. A Title Policy Modification will be ordered and charged to the member.
- viii. The Credit Union will not subordinate its lien position to a new lender, unless a principal reduction or other significant financial benefit is received by the Credit Union.
- ix. Need to verify the gross monthly income for all borrowers who have signed the mortgage note (e.g. last year's tax returns, recent pay stubs, etc.)
- x. The estimated cost to the Credit Union, as measured by a NPV test, of any approved modification must be less than the estimated cost of foreclosure or other foreclosure prevention alternative (e.g. short sale, deed in lieu of foreclosures, etc.) unless extenuating circumstances exist, and the NPV analysis shall documented in the loan file.
- xi. Loan terms shall not exceed 240 months.
- xii. No cash advances or release of new money to the borrower will occur, except for settlement of delinquent real estate taxes, insurance, or other amounts that are consistent with this policy and that protect the Credit Union's collateral position.
- xiii. Rates will be established to allow repayment of the loan principal within the member's capacity to repay the current obligation.
- xiv. In determining whether or not the member can repay the loan, consideration will be given to both, principal and interest obligations according to the new terms of repayment, plus a reasonable estimate for real estate taxes and insurance, whether or not escrowed.
- xv. A thorough analysis of various options shall be considered for arriving at an affordable and sustainable mortgage payment.
- xvi. The modification must result in a sustainable mortgage payment that reduces the likelihood of re-default.
- xvii. Some loan modification involving a reduction or forgiveness of principal may result in additional tax liabilities for the borrower. That should be considered when assessing the borrower's ability to meet future

obligations. The Credit Union will consult its independent accountant regarding applicable IRS reporting requirements. The Credit Union will also encourage the borrower to consult with a tax advisor regarding the tax implications of principal forgiveness before the modification is complete.

- xviii. Modified mortgage loans will not exceed 5% of the mortgage loan portfolio.
- xix. All modifications completed on a FNMA home loan shall be consistent with guidelines established by FNMA.

b. Personal Loans:

- i. A personal loan workout will be evaluated if a member is experiencing financial difficulties.
- ii. Loan terms shall not exceed 72 months on unsecured or non-real estate secured loans.
- iii. Rates will be established to allow repayment of the loan principal within the member's capacity to repay the current obligation.
- iv. Modified personal loans will not exceed 5% of personal loan portfolio.

c. Business Loans:

- i. Loan terms shall not exceed 6 months.
- ii. All commercial real estate loan workouts shall be in compliance with NCUA Letter to Credit Unions, Letter No.: 10-CU-07, dated June 2010.
- iii. Updated and comprehensive financial information on the borrower, real estate project, and any guarantor;
- iv. Current valuations of the collateral supporting the loan and the workout plan;
- v. Request an updated title commitment with a endorsement of the current title policy.
- vi. Analysis and determination of appropriate loan structure (e.g., term and amortization schedule), curtailment, covenants, or re-margining requirements;
- vii. Have the appropriate legal documentation drafted for any changes to loan terms.
- viii. Perform an analysis of the borrower's global debt service that reflects a realistic projection of the borrower's and guarantor's expenses;
- ix. The Credit Union will monitor the ongoing performance of the borrower and guarantor under the terms of the workout;
- x. Accurately identify the level of risk in the workout loan arrangement;
- xi. The borrower must exhibit a willingness to repay the loan and have the capacity to repay the loan under reasonable terms and the cash flow potential of the underlying collateral or business. An analysis will be done using the following factors:

1. The character, overall financial condition, resources, and payment record of the borrower;
 2. The nature and degree for protection provided by the cash flow from business operations or the collateral on a global basis that considers the borrower's total debt obligations;
 3. Market conditions that may influence repayment prospects and the cash flow potential of the business operations or underlying collateral; and
 4. The prospects for repayment support from any financially responsible guarantors.
- xii. The presence of a guarantee from a financially responsible guarantor may improve the prospects for repayment of the debt obligation. The attributes of a financially responsible guarantor include:
1. The guarantor has both the financial capacity and willingness to provide support for the credit through ongoing payments, curtailments or re-margining;
 2. The guarantee is adequate to provide support for repayment of the indebtedness, in whole or in part, during the remaining loan term; a
 3. The guarantee is written and legally enforceable.
- xiii. The Credit Union will require sufficient information on the guarantor's global 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.
- xiv. The Credit Union will also assess 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. The Credit Union will appropriately weigh whether or not the performance under previous guarantees was voluntary or the result of legal or other actions by a lender to enforce the guarantees.
- xv. The guarantor must also demonstrate a willingness to fulfill all current and previous obligations, as well as have sufficient economic incentive and have a significant investment in the project.
- xvi. The Credit Union must have a current collateral valuation (i.e., an appraisal or evaluation). Further, the Credit Union shall obtain additional collateral valuations as part of the ongoing credit file review, as market conditions change, and/or when or if the borrower's financial condition deteriorates. The current collateral valuation should take into consideration whether there has been material deterioration in the following:
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;
 5. Loss of a significant lease or a take-out commitment; or
 6. Increases in pre-sales fallout.
- xvii. The documentation on the collateral's market value should demonstrate a full understanding of the property's current "as is" condition and any other relevant risk factors affecting value. The valuation should contain:
1. An "as is" market value;
 2. A prospective "as complete" market value; and
 3. A prospective "as stabilized" market value.
- xviii. The Credit Union will generally use the market value conclusion (and not the fair value) that corresponds to the workout plan and the loan commitment.
- xix. For any indebtedness secured by other business assets such as furniture, fixtures, equipment, inventory, and accounts receivable, the Credit Union will quantify the value of those assets, determine the acceptability of the collateral, perfect a security interest against those assets and conduct ongoing monitoring of the value of the collateral the and security protection for the Credit Union.
- xx. Modified business loans will not exceed 10% of the MBL portfolio.

K. Troubled Debt Restructuring (TDR)

If a workout loan is restructured in such a way that the Credit Union grants the debtor a concession as defined in Accounting Standards Codification (ASC) 310-40 *Troubled Debt Restructurings by Creditors*, the workout loan will be considered a troubled debt restructuring and additional tracking and reporting are required in accordance with the provisions provided herein.

TDR loans shall be defined in accordance with Accounting Standards Codification (ASC) 310-40, *Troubled Debt Restructurings by Creditors*. Generally, a modification of a loan's terms constitutes a TDR if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider.

1. Generally, a concession has been granted if any of the following apply:
 - a. If a debtor does not otherwise have access to funds at a market rate for debt with similar risk characteristics as the restructured debt, the restructuring would be considered to be at a below-market rate; or

- b. A temporary or permanent increase in the contractual interest rate as a result of a restructuring does not preclude the restructuring from being considered a concession because the new contractual interest rate on the restructured debt could still be below the market interest rate for new debt with similar risk characteristics.
2. The following factors, when considered together, may indicate that a restructuring results in a delay in payment that is insignificant, and thus, it is not a concession:
 - a. The amount of the restructured payments subject to the delay is insignificant relative to the unpaid principal or collateral value of the debt and will result in an insignificant shortfall in the contractual amount due; or
 - b. The delay in timing of the restructured payment period is insignificant relative to any one of the following:
 - i. The frequency of payments due under the debt;
 - ii. The debt's original contractual maturity; or
 - iii. The debt's original expected duration.
3. In evaluating whether a receivable is a TDR, the Credit Union must determine whether the debtor is experiencing financial difficulties. Although not an exhaustive list, in making this determination, the Credit Union shall consider the following indicators:
 - a. Although the debtor may not currently be in default, it may be determined that the debtor is experiencing financial difficulties if it is probable that the debtor would be in default on any of its debt in the foreseeable future without a modification.
 - b. The debtor is currently in default on any of his/her/its debt.
 - c. The debtor has declared bankruptcy or is in the process of declaring bankruptcy.
 - d. There is substantial doubt as to whether the debtor will continue to be a going concern.
 - e. On the basis of estimates and projections that only encompass the debtor's current capabilities, the Credit Union forecasts that the debtor's entity-specific cash flows will be insufficient to service any of its debt (both interest and principal) in accordance with the contractual terms of the existing agreement for the foreseeable future.
 - f. Without the modification, the debtor cannot obtain funds from sources other than the Credit Union at an effective interest rate equal to the current market interest rate for similar debt for a non-troubled debtor.
4. Not all modifications of loan terms automatically result in a TDR. For example, if the modified terms are consistent with the market conditions the restructured loan is not

categorized as a TDR. And, if the debtor can obtain funds from sources other than the credit union at market interest rates at or near those for non-troubled debt it is not a TDR. However, if a concession (e.g. below market interest rate, forgiving principal or previously accrued interest) is granted based on the borrower's financial difficulty, the TDR designation is appropriate.

5. A TDR may include, but is not limited any of the following:
 - a. Transfer from the debtor to the creditor of receivables from third parties, real estate, or other assets to fully or partially satisfy a debt (including a transfer resulting from foreclosure or repossession).
 - b. Issuance or other granting of an equity interest to the creditor by the debtor to fully or partially satisfy a debt unless the equity interest is granted pursuant to existing terms for converting the debt into an equity interest.
 - c. Modification of terms of a debt, such as by:
 - i. Reducing (absolute or contingent) the stated interest rate for the remaining original life of the debt;
 - ii. Extending the maturity date at a stated interest rate lower than the current market rate for new debt with similar risk;
 - iii. Reducing (absolute or contingent) the face amount or maturity amount of the debt as stated in the instrument or other agreement; or
 - iv. Reducing (absolute or contingent) accrued interest.
6. If a modification meets the definition of a TDR, as defined by ASC 310-40, *Troubled Debt Restructurings by Creditors*, the specific accounting set forth therein will be followed.
7. The past due status of a loan will be calculated consistent with the loan contract terms, including any amendments made to loan terms through a formal restructure.
8. The Credit Union will report delinquency on the Call Report consistent with the provision above.
9. All modification and/or loan workouts shall be consistent with the Credit Union's Loan Workout Policy. Modifications for Real Estate and Consumer Loans are processed by the Collection Department, whereas MBL and Participation loan modifications would be identified by the V.P. of Lending. The respective department will complete a modification form and forward it to the Accounting Department. The Accounting Department will then determine if the loan will be deemed a TDR. The respective

departments will work with the Accounting Department and timely supply them with any information required.

10. NON-ACCRUAL STATUS

- a. The credit union will not accrue interest on any loan upon which principal or interest has been in default for a period of ninety (90) days or more, unless the loan is both “well secured” and “in the process of collection”.
 - i. For purposes of applying the “well secured” and “in process of collection” test for nonaccrual status listed above, the date on which a loan reaches nonaccrual status is determined by its contractual terms.
- b. For the purposes of this policy, “well secured” means the loan is collateralized by: (1) a perfected security interest in, or pledges of, real or personal property, including securities with an estimable value, less cost to sell, sufficient to recover the recorded investment in the loan, as well as a reasonable return on that amount, or (2) by the guarantee of a financially responsible party.
- c. For the purposes of this policy, “in the process of collection” means collection of the loan is proceeding in due course either: (1) Through legal action, including judgment enforcement procedures, or (2) in appropriate circumstances, through collection efforts not involving legal action which are reasonably expected to result in repayment of the debt or in its restoration to current status in the near future, i.e., generally within the next 90 days.
- d. The Credit Union will place loans in non-accrual status if maintained on a Cash (or Cost Recovery) basis because of deterioration in the financial condition of the borrower, or for which payment in full of principal or interest is not expected.
- e. While a loan is in nonaccrual status, some or all of the cash interest payments received may be treated as interest income on a cash basis as long as the remaining recorded investment in the loan (i.e., after charge-off of identified losses, in any) is deemed to be fully collectable.
- f. The reversal of previously accrued, but uncollected, interest applicable to any loan placed in nonaccrual status must be handled in accordance ACS 310-40.
- g. Where assets are collectable over an extended period of time and, because of the terms of the transactions or other conditions, there is no reasonable basis for estimating the degree of collectability – where such circumstances exist, and as long as they exist – consistent with ACS 310-40 the Cost Recovery method of accounting must be used.

11. RESTORATION TO ACCRUAL STATUS FOR ALL LOANS EXCEPT MBLs

- a. For all loans, except Member Business Loans, a non-accrual loan may be returned to accrual status when:
 - i. Its past due status is less than ninety (90) days, 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 both "well secured" and "in the process of collection"; or
 - 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.
- b. In restoring a loan to accrual status, if any interest payments received while the loan was in non-accrual status were applied to reduce the recorded investment in the loan the application of these payments to the loan's recorded investment must not be reversed (and interest income must not be credited).
- c. Likewise, accrued but uncollected interest reversed or charged off at the point the loan was placed on non-accrual status cannot be restored to accrual; it can only be recognized as income if collected in cash or cash equivalents from the member.

12. MEMBER BUSINESS LOANS (MBLs)

- a. A formally restructured member business loan workout need not be maintained in nonaccrual status, provided the restructuring and any charge-off taken on the loan are supported by a current, well documented credit evaluation of the borrower's financial condition and prospects for repayment under the revised terms. Otherwise, the restructured loan must remain in nonaccrual. Member Business Loans may be restored to accrual status when:
 - i. The Credit Union documents a current credit evaluation of the borrower's financial condition and prospects for repayment under the revised terms.
 - a) The evaluation must include consideration of the borrower's sustained historical repayment performance for a reasonable period to the date on which the loan is returned to accrual status.
 - b) A sustained period of repayment performance would be a minimum of six (6) consecutive timely payments under the restructured loan's terms of principal and interest in cash or cash equivalents.

- b. In returning the member business workout loan to accrual status, sustained historical repayment performance for a reasonable time prior to the restructuring may be taken into account.
- c. All MBL restructurings must improve the collectability of the loan in accordance with a reasonable repayment schedule.
- d. After a formal restructure of a member business loan, if the restructured loan has been returned to accrual status, the loan otherwise remains subject to the nonaccrual standards of this policy.
- e. If any interest payments received while the member business 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 must not be reversed (and interest income must not be credited).
- f. Likewise, accrued but uncollected interest reversed or charged-off at the point the member business workout loan was placed on nonaccrual status cannot be restored to accrual; it can only be recognized as income if collected in cash or cash equivalents from the member.

13. CHARGE OFF POLICY

- a. The Credit Union has a written Loan Charge-Off Policy in place that shall continue to be in effect and consistently applied.
- b. This policy in no way relieves the Credit Union from promptly charging off all identified losses.

14. PAST DUE STATUS

- a. The past due status of all loans will be calculated consisted with the loan contract terms, including any amendments made through a formal restructuring.
- b. The Credit Union will report delinquency on the Call Report consistent with the statement above.

15. REPORTING

Management will report to the Board regarding the status of all TDRs monthly.

FAA CREDIT UNION

Policy No: 2.18

Date: September 22, 1992

Revised: **September 24, 2013**

SUBJECT: LOANS TO EMPLOYEES

POLICY: The Management and Staff of the Credit Union are in positions of trust, and therefore are expected to adhere to higher standards of financial responsibility. Loans to staff are permissible, but to eliminate bias, the loans must adhere to all laws and regulations, and conform to proper reporting standards, and the following conditions must be met when an employee borrows in excess of his/her deposits at the Credit Union.

1. The conditions of the loan must meet the requirements of the law. The conditions of the loan must also meet the requirements of the Credit Union's bylaws and official lending policies as established by the Board of Directors.
2. The terms of the loan are not more favorable than the terms of the loans to other members, with the exception of Employee PC loans as stated in Policy #2.07.
3. **Loan requests may be approved by a Branch Manager or someone of higher lending authority and must have a secondary review of the loan completed by the Vice President of Lending, Sr. Vice President of Financial Services, or the President/CEO within thirty (30) days of the loan closing. The person reviewing the loan cannot be the same individual who approved the loan.**
4. Any advances made under an existing line of credit may be processed without the approval of credit union management, as referenced in paragraph 3, provided the advance does not exceed the maximum approved line of credit limit.

FAA CREDIT UNION

Policy No: 2.18.1

Date: September 22, 1992

Revised: July 23, 2013

Reviewed: **July 23, 2013**

SUBJECT: OFFICIAL FAMILY LOANS

Policy: The following guidelines apply for the submission of Official Family Loans:

1. The Credit Union may make loans and extend lines of credit to the Credit Union's Officers and Directors and the members of the Credit Union's Supervisory Committee; provided that the terms of such loans and lines of credit shall not be more favorable than the credit terms generally available for other members of the credit union.
2. Any loan to a Director or a member of the Supervisory Committee which, when aggregated with the unpaid amount of all other outstanding loans from the credit union exceed the maximum amount allowable under applicable laws and regulations (\$60,000) and the amount of shares pledged by such Director or such Committee member shall be subject to approval by the Board of Directors. All other loan requests may be approved by an FSR (Financial Service Representative).
3. The applicant for any such loan request shall not be present at the time the loan application is presented to the Board of Directors for consideration and presentation.
4. All loans exceeding the aggregate limit and any exceptions must be reported monthly to the Board of Directors at the following month's board meeting.

Repossessed collateral may be sold to official family members or their immediate family **so long as any such sale is conducted in a commercially reasonable manner in accordance with Article 9 of the Uniform Commercial Code.**

FAA CREDIT UNION

Policy No: 2.19

Date: September 22, 1992

Revised: **June 25, 2013**

SUBJECT: LOAN APPROVAL LIMITS & POLICY EXCEPTIONS

POLICY: Financial Service Representative, (FSR's) may be appointed by the **Vice President of Lending, Sr. VP or AVP of Financial Services**, to approve loans. Such loans must conform to the policies and procedures approved by the Credit Union Board of Directors. The following limits are established in conjunction with the delegated power to approve loans:

Loan Approval Limits

Unsecured Consumer Lending

1. **FSR's with lending authority may approve unsecured credit not to exceed \$20,000 with FAA Credit Union with Branch Manager or higher approval.** The total aggregate amount of unsecured credit (i.e. VISA, Quickloan, and Signature), to any member may not exceed \$20,000. See related policies (2.08, 2.09, & 2.10) regarding maximum limits per each category of unsecured lending.

Secured Consumer Lending

1. Any secured consumer loan, not exceeding **\$60,000**, may be approved by FSR's if all other loan conditions are met **and with Branch Manager or higher approval.**
2. A Branch Manager may approve any secured consumer loan not exceeding **60,000.**
3. **All secured Consumer loans, excluding Share Secured, in excess of \$60,000, must be approved by the either the VP of Lending, Sr. VP or AVP of Financial Services; or in their absence, the President/CEO, if all other loan approval conditions are met.**

Real Estate Lending

1. The Real Estate Loan Administrator, Real Estate Loan **Underwriter**, or **the Sr. VP of Financial Services** may approve any real estate loan, not exceeding **conventional secondary market limit guidelines**, if all other loan conditions are met.
2. All real estate loans in excess of **conventional secondary market limit guidelines** must be approved/**declined** by the VP of Lending, or the President/CEO if all other loan approval conditions are met.

Loan Exceptions

1. Exceptions to loan policies for loans **up to the conventional secondary market limit guidelines** must be approved by the VP of Lending, Sr. VP of Financial Services or the President/CEO.
2. Loan exceptions **exceeding the conventional secondary market limit guidelines** must be approved/denied by the President/CEO and the VP of Lending.
3. Any exception will be fully documented in the members' loan file. The terms and conditions of all exceptions exceeding conventional **secondary market** limits will be reported to the Board of Directors at the first monthly meeting following approval of the exception.

Separation of Duties

Senior management will develop and ensure proper procedures and controls are in place to adequately mitigate associated risks with lending, including but not limited to separation of duties, secondary reviews, periodic reporting, etc., as appropriate.

FAA CREDIT UNION

Policy No. 2.20
Date: February 18, 2003
Revised: **August 27, 2013**

SUBJECT: LOAN COMMITTEE

POLICY: When a loan decision is appealed by a Credit Union member, the loan request will be reviewed by the Loan Committee consisting of the President, **Sr. VP of Financial Services**, Vice President of Lending, Assistant Vice President of **Financial Services** and Underwriters. At least three Loan Committee Members will review the loan and a majority opinion will decide the merit of the Credit Union Members appeal. The Committee Members may discuss the appeal in a meeting or by phone. The reasons for approval or disapproval of the appealed loan must be documented and presented to the Board no later than the next regular scheduled Board meeting.

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FAA CREDIT UNION

Policy No: 2.21
Date: May 16, 1995
Revised: **November 26, 2013**

SUBJECT: CONSUMER LOAN PAYMENT EXTENSIONS

POLICY: Periodically, members experience unforeseen financial problems of a temporary nature that prevents them from making timely loan payments. FAACU may grant loan extensions for these members on a case by case basis **for non-real estate or dwelling secured closed-end consumer loans.**

All requests for an extension agreement must be submitted to an underwriter for approval. The **payment solutions** department is not authorized to approve extensions, whether the extension is a change of due-date or a skip payment. **A fee may be charged for the extension.**

No more than two monthly payment extensions, or four bi-weekly payment extensions may be granted, within a 12 month period, without the approval of the Vice President of Lending, **AVP of Financial Services, Senior Vice President of Financial Services,** or the **President/CEO.**

When a request for an extension is received, the member must state the reason for the extension. The FSR must make the determination that regular payments will resume as agreed upon. If not, the FSR should consider a work-out loan as described in Policy 2.16.

All forms must be completed and signed by the original maker (s) of the note before the extension is entered into the loan data system. The due date field, extension number field, and final payment field must also be updated to complete the extension procedure.

Skipping more than two payments over the life of the loan may affect the member's GAP Policy, if any, and the Credit Union will ensure that such disclosure is made to the member.

FAA CREDIT UNION

Policy No: 2.23
Date: November 18, 1997
Revised: July 24, 2012
Reviewed: **August 27, 2013**

SUBJECT: COLLATERAL PROTECTION INSURANCE

POLICY: All vehicles, such as autos, boats, motorcycles, recreational vehicles, airplanes, and other vehicles that are pledged as security toward a loan with the Credit Union must carry casualty insurance naming the Credit Union as loss payee on the insurance policy. It is the responsibility of the member to maintain this insurance in force during the life of the loan with no more than a \$1,000.00 deductible in comprehensive and collision coverage. It is also the member's responsibility to provide proper notification to the FAA Credit Union according to the terms of the "Agreement to Provide Insurance."

Insurance Monitoring System

The Credit Union has a monitoring system, which assures that members have adequate insurance coverage according to the "Agreement to Provide Insurance." When insurance coverage is not provided, the Credit Union will send timely notices informing the member of their responsibility and the procedure the member must take to satisfy the necessary requirement.

Failure to Provide Insurance

When insurance is not provided according to the "Agreement to Provide Insurance," the Credit Union will purchase an insurance policy to protect the Credit Union's interest in the collateral. This Collateral Protection Insurance (CPI) will be amortized for no more than a twelve-month period. The loan payment will be rewritten and the loan will be recalculated based upon the new balance. If the member fails to sign the new loan agreement, the loan may become due and payable upon demand.

In the event the member obtains proper insurance coverage after CPI is added to the loan, the unearned premium will be removed from the balance of the loan. However, the re-calculated loan payment may remain in effect until the loan is paid off.

SUSPENDING PROGRAM**FAA CREDIT UNION**

Policy No: 2.24

Date: June 17, 2003

Revised: April 24, 2012

SUBJECT: Member Business Loan Policy

POLICY: FAA Credit Union will make member business loans in compliance with all federal and state lending rules and regulations.

Definition of a Member Business Loan

A member business loan is any loan, line of credit, or letter of credit whose proceeds are used for the following business purpose:

- Commercial
- Corporate
- Other business investment property or venture

Loan Types

The Credit Union will typically grant the following types of business loans, but not limited to:

- Commercial Real Estate loans
- Business Equipment
- Vehicles for business purposes
- Inventory loans – borrowing base loans
- Accounts Receivable – borrowing base loans
- Other loan types that meet NCUA and State of Oklahoma guidelines and regulations

Line of Credit/Unsecured Loans

The Credit Union may make unsecured member business loans subject to the following requirements:

- The aggregate of all unsecured loans to one borrower may not exceed \$100,000.
- The Credit Union is designated as “well-capitalized” under NCUA guidelines.
- The aggregate of all unsecured member business loans made by the Credit Union may not exceed 5% of net worth.

- A line of credit may be established for members with working capital needs and adequate repayment ability.
- Lines of credit are extended for no more than one year. Interest must be paid quarterly and any renewals require a 10% annual principal reduction.

Construction and Development Lending

Construction and Development business loans are subject to the following additional requirements:

1. The aggregate of all construction and development loans must not exceed 15% of the Credit Union's net worth
2. Borrowers must have a 25% equity interest in the project being financed. The value of the property is determined by the market value of the project at the time the loan is made.
3. If the borrower is a homebuilder that has a contract or takeout letter with a prospective homeowner, the homebuilder must then meet the standard requirements of 80% loan-to-value.
4. The funds will not be released until on-site, written inspections by qualified personnel, fulfillment of the pre-approved draw schedule, and other conditions set forth in the loan documentation are satisfied/completed.

Prohibited Loans and Lending Activities

1. Loans to new enterprises if repayment is solely dependent upon the profitability of the operation of the venture. A new enterprise is considered any business less than 2 years old.
2. Any loan involving an individual with poor financial conditions or credit history.
3. Loans to individuals/business unable or unwilling to furnish requested financial information.
4. Loans made to a poor credit risk on the basis of an endorser (cosigner and/or guarantor).
5. Loans for venture capital.

6. Second homes.
7. No interest reserve loans on new or existing loans.
8. No second lien loans, unless FAACU holds the first mortgage.
9. No floor plan loans for automobiles, motorcycles or other collateralized vehicles.
10. Member business loans will not be granted to the CEO, Executive Vice President, Vice Presidents, Chief Financial Officer, Branch Managers, Board members, Supervisory Committee members, or other volunteers. Business loans will not be granted to any associated members or immediate family members of those individuals listed.
11. No aircraft loans.

Loans not considered member business loans

A loan is not a member business loan if any of the following exceptions apply:

- The loan is fully secured by a one-to-four family dwelling that is the member's primary residence.
- The loan is fully secured by shares in the credit union or deposits in another financial institution.
- The loan meets the member business loan definition but, when added to all other such loans of the borrower or associated member, the aggregate is less than \$50,000. (An "associated member" is any member with a shared ownership, investment, or other pecuniary interest in a business or commercial endeavor with the borrower.)
- The loan's repayment is fully insured or guaranteed by a government agency, or a government agency has issued a full advance purchase commitment.

Personnel Qualifications

Member business loan officers must have at least two years direct experience with the type of lending being done.

Lending Authority – MBL Loan Committee

Business loans will be reviewed by the MBL loan committee, consisting of the CEO/President, Executive Vice President, Vice President of Lending, and Business Loan Officer(s).

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MBL loans must be approved by three of the four committee members mentioned above and one of those members must include the CEO/President. All business loans will be reported to the Board of Directors the month following the loan's disbursement. Minutes will be kept of all committee meetings. In addition to approving loans, the committee will provide detailed documentation on renewals, extensions, appraisals, TDR decisions, annual reviews and other pertinent information.

Business Loan Limits/Member Loan Limits

FAA CU's maximum aggregate limit for business loans is the lesser of 1.75 times the credit union's net worth or 12.25% of the credit union's total assets.

The aggregate amount of outstanding member business loans to any one member or group of associated members shall not exceed 12.5% of the credit union's net worth.

The aggregate of the net member business loan balances for all construction and development loans must not exceed 12.5% of net worth. The borrower must have a minimum of 25% equity interest in the construction or development project being financed.

Maximum LTV Limits

The loan-to-value ratios will vary depending on the loan structure, collateral, purpose and financial strength of the borrower and / or guarantor. The following are typically the maximum's however they may be adjusted for particular loan structures:

Real Estate

- Real estate – 80% of appraised value or purchase price, whichever is less.
- Construction or development project – 75% of appraised value or purchase price, whichever is less.

Titled vehicles

- Consistent with the Consumer Loan Policy
- All other commercial vehicles – 80% of purchase price or NADA, whichever is less.

Other

- Inventory – 40%
- Accounts Receivables – 50%
- Equipment
 - New equipment purchased – 70% of appraised value or purchase price, whichever is less.
 - Used equipment purchased – 65% of the appraised value or purchase price, whichever is less.
 - Existing equipment (net) – 65% of appraised value or purchase price, whichever is less.

Miscellaneous

- Furniture and fixtures – 5%
- Leasehold improvements – 0%

Maximum Portfolio Concentration

In order to diversify the MBL portfolio and minimize the risk to the credit union, the following are the maximum limits per loan category in relation to net worth:

- Commercial Real Estate loans – 80%
- Business Equipment – 50%
- Vehicles for business purposes – 75%
- Inventory loans – 25%
- Accounts Receivable – 25%
- Apartments – 10%
- Other loan types that meet NCUA and State of Oklahoma guidelines and regulations – 10%
- Line of Credit – 5%

Amortization / Maturity of Business Loans

The amortization will vary depending on the loan structure, collateral, purpose and financial strength of the borrower and/or guarantor. The following maturity schedules apply for particular loan structures:

- A. Line of Credit (LOC) –All LOC loans mature at least once per fiscal year.

B. Real Estate – The maturities for loans secured by real estate may be amortized for a maximum of 25 years. The length of the amortization will be determined by the condition of the real estate, payment history, loan-to-value, loan amount and remaining economic life.

C. Equipment & Other – The maturities for loans secured by equipment may be amortized for a maximum 84 months, or the useful life of the equipment, whichever is less.

Interest Rates, Terms and Interest Collection

The rates and terms of a member business loan will be consistent with the loan purpose, collateral offered, creditworthiness of the borrower, sound lending practices (underwriting), and the asset/liability goals and objectives of the Credit Union.

Interest rates on most Member Business Loans typically will be a floating rate, tied to the Wall Street Journal prime rate. ALM considerations will be evaluated and considered when setting the pricing for a Member Business Loan.

The preferred payment method on any MBL loan is monthly principal and interest payment.

However, if any loan is set up for interest only payments, interest must be paid quarterly during the term of the loan.

Any renewed loans or extended loans must require a 10% minimum principal reduction at maturity with interest being paid up to date.

Any loans extended or renewed after one year generally require monthly principal and interest repayment upon renewal.

Trade Area

Business Lending shall be limited to members of the Credit Union for businesses or property located within the state of Oklahoma.

Loan Servicing, Collections and Monitoring of Delinquencies

Business loans will be audited on a periodic basis by the Internal Auditor or a qualified third party.

If the loan has matured or becomes 30 days past due, personal contact with the borrower will be made by a

Business Loan Officer or Vice President of Lending. An evaluation and a memo will be completed by the lending officer on the status of the borrower and collateral, and a plan of action will be determined to limit future payment defaults. If the loan becomes 45 days past due, action to

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protect the credit union's interest will begin immediately. In the event of payment default, the CEO/President, Executive Vice President, and Vice President of Lending will be notified immediately.

The Credit Union will utilize NCUA regulation 723.14 to classify and reserve for business loan losses defined as "Substandard, Doubtful, or Loss".

Classification Amount Required

- Substandard - 10% of write down/reserve
- Doubtful - 50% write down/reserve
- Loss - 100% of write down/reserve

Upon review of any of these classifications, a lesser or greater amount of reserve may be required (for example, credit union payment history, loan appraisal, financial condition, etc).

All Business Loans will be reviewed to assign a "Risk Assessment Grade" as defined by the OCC (Office of Comptroller and Currency) and monitored on a regular basis by the MBL Committee.

Personal Guarantees

The nature of member business lending is such that a loan to any company should be guaranteed by all owners. Company and personal finances are often intertwined and cannot be assumed to be "arms length" as in public companies. Personal guarantee and liability will be obtained on all owners of all businesses.

Appraisals

The FAACU will conform to the generally accepted appraisal standards as evidenced by the Uniform Standards of Professional Appraisal Practice (USPAP), unless principles of safe and sound banking require stricter compliance standards. USPAP identifies the minimum set of standards that apply in appraisals, appraisal reviews, and appraisal consulting assignments. These standards are promulgated

by the Appraisal Standards Board of the Appraisal Foundation Board.

Appraisals must accompany any MBL loan request involving real estate, whether it is commercial, construction, or development loans.

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Selection Criteria for Appraisers

Appraisers will be chosen based on the following criteria:

Appraisers must be independent of the loan production and collection processes, and have no direct, indirect, or prospective interest, financial or otherwise, in the property or the transaction or evaluation.

The appraiser selected to perform an appraisal must hold the appropriate state license certification, appropriate education credentials, and must submit samples of their work to the MBL lending committee.

The MBL committee establishes an approved appraiser list for selecting appraisers. The MBL committee will maintain, review and evaluate the list of approved appraisers at least annually, and will have appropriate procedures for the development and administration of the list.

Appraisers are expected to be selected for individual assignments based on their competency to perform the appraisal, including knowledge of the property type and specific property market.

Appraisal Reviews

Prudent portfolio monitoring practices include criteria for determining when to obtain a new appraisal. A new appraisal or evaluation is necessary if the originally reported market value has change due to factors such as:

- Passage of time (at least every 36 months), unless significant principal reduction has occurred.
- Volatility of the local market
- Changes in terms and availability of financing
- Natural disasters
- Limited or over supply of competing properties
- Improvements to the subject property or competing properties

- Lack of maintenance of the subject or competing properties
- Changes in underlying economic and market assumptions, such as capitalization rates and lease terms.
- Changes in zoning, building materials, or technology.
- Environmental contamination.

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Persons who review appraisals and evaluations should 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.

Property Evaluations:

Renewals, refinancing, and other subsequent transactions may be supported by property evaluations rather than appraisals under the following circumstances:

1. There has been no obvious and material change in market conditions or physical aspects of the property that threatens the adequacy of the institution's real estate collateral protection after the transaction, even the advancement of new monies; or
2. There is no advancement of monies, other than funds necessary to cover reasonable closing costs.
3. The property has a transaction value equal to or less than an appraisal threshold of \$100,000.
Conversely, when new monies are advanced (other than funds necessary to cover reasonable closing costs) and there has been an obvious and material change in market conditions or the physical aspects of the property that threaten the adequacy of the institution's real estate collateral protection, an appraisal must be obtained..

The FAACU will 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.

General Requirements

A borrower's ability to repay will be analyzed and documented. Financial statements, tax returns, and other documentation will be collected on a periodic basis to ensure the borrower's continued ability to repay the loan.

Sufficient documentation supporting each request for credit will include the following:

- Balance Sheet
- Cash Flow Analysis
- Income Statement
- Tax Data
- Analysis of Financial Statement
- Comparison with industry average or similar analysis (local market analysis)

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Calculation of credit exposure-Great care must be exercised in extending multiple loans to different members, all of which are substantially dependent on the same source for repayment or which share a common interest, direct or indirect, through family relationships or ownership interests ("single obligor"). To determine a portfolio limitation or the level of lending authority required to approve a new credit transaction, all loans and commitments to the "single obligor" must be aggregated. The calculation would include the debts of all related companies, as well as, all related guarantors.

Underwriting / Documentation

General Guidelines Note: All Member Business Loans must be for business purposes. Appropriate underwriting and due diligence will be performed to assess the risks in the request. Since the nature of lending to small businesses is often dependent on the performance of one or a few principals, emphasis is also placed on examining the principal's personal obligations. The following represent elements specific to member business lending: Credit Exposure, Collateral, Guarantees, Financial Statement Requirements, Cash Flow/Debt Service, Leverage and Loan Terms and Conditions.

Financial Statement Requirements: Typically, FAACU should receive three years of financial statements and/or three years of signed Federal Income Tax Returns for loan approval. The policy applies to each borrower and guarantor. In addition, credit reports, Dun and Bradstreet business reports and other third party data may be obtained as prudent in evaluating the borrower and guarantor(s).

The cornerstone of every credit decision is the quality of information contained in the financial statements, which need to be tested, understood, and whenever possible verified. Financial statements should not be accepted at face value. A member's income/cash flow level should be

confirmed, documented and tested.

Cash flow: A cash flow analysis should be performed on all member business loan applications in order to determine if there is sufficient income available to support all existing debts plus any proposed debts. The cash flow analysis at times may include a debt coverage ratio. The minimum debt coverage ratio of the business will normally be 1.20:1 times the amount of the periodic credit obligation. If the guarantors or the collateral provide significant additional protection, this coverage ratio as an exception may be less.

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Once the cash flow analysis has been performed, there should be a clear identification of the secondary and possibly tertiary sources of repayment. The member should exhibit at least two viable and verifiable sources of repayment to service the proposed loan.

Leverage: The degree of leverage for a company is largely a function of the type of business. Small businesses are often highly leveraged. No specific leverage ratio is set in Member Business Lending.

Notwithstanding the above, all Member Business Lending borrowers should demonstrate a positive, tangible net worth as defined by Generally Accepted Accounting Principles (GAAP) at the time of the application and should continue to demonstrate a positive, tangible net worth throughout the term of the relationship.

Loan Terms and Conditions: In addition to the above stated requirements and guidelines, the various loan products must be underwritten in conformity with commercially reasonable underwriting guidelines as to acceptable purpose, structure, term, pricing and covenants.

Collateral

In general, the nature of small business lending dictates that all loans should be collateralized.

Acceptable collateral may be one or a combination of the following: residential real estate, commercial real estate, investment property, business assets (generally in the form of a blanket UCC on all accounts receivable, inventory, machinery/equipment and furniture/fixtures), share accounts, certificates of deposit or titled vehicles. Loan requests above \$100,000 typically require real estate collateral. Appropriate collateral valuation, ownership verification and lien perfection

will be accomplished, commensurate with commercially reasonable standards.

Account Maintenance and Review

Business Loans shall be monitored and reviewed on an ongoing basis to an extent commensurate with the ongoing risk to the Credit Union. Business Loans with balances over \$100,000 will typically be reviewed on at least an annual basis. Reviews will analyze a number of important aspects of the loan to include; Credit Quality, Borrower Performance, Adherence to any loan agreement covenants, and the appropriate identification of the loan's classification and grade. The following quality controls will typically be utilized.

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- A. Updated financial information and analysis
- B. Real Estate Taxes – evidence of annual payment
- C. Insurance Coverage – evidence of continual coverage
- D. Collateral valuations and marketability as appropriate
- E. Confirm perfection of collateral
- F. Comment sheet update and File Exceptions noted – After the analysis is completed, loans with exceptions will be worked to correct the file.

Title Evidence and Insurance Requirements

A Lender's Title Commitment will be ordered and received before any loan proceeds are disbursed. Procedures will be in place to ascertain that a title policy/search is received after mortgages have been recorded.

Used non-titled equipment that is currently owned or to be purchased and used as collateral will have a UCC (Uniform Commercial Code) search with the Secretary of State to determine if prior liens exist before loan proceeds are disbursed.

Titled collateral will be processed to record the credit union as the first lien holder.

Physical damage insurance is required on all secured collateral, with the FAACU recorded as the loss payee.

FAA CREDIT UNION

Policy No. 2.25

Date: June 17, 2003

Revised: **November 26, 2013**

SUBJECT: LOAN PARTICIPATIONS

POLICY: FAA Credit Union may purchase or sell (participate) loans with eligible institutions in accordance with the Asset/Liability goals and objectives of the Credit Union. Participation loans must comply with the policies, guidelines, and underwriting standards of FAA Credit Union, all NCUA lending regulations **and all federal and state regulations.**

Trade Area

Business Lending shall be limited to members of the Credit Union for businesses or property located within the state of Oklahoma.

Participation loans will be limited to organizations whose collateral are located within the State of Oklahoma.

Participation Loan Limits

FAA CU shall not obtain an interest in a participation loan if the sum of the borrower's indebtedness exceeds 10% (percent) of the originating Credit Union's unimpaired capital and surplus.

Participation Authority

The President/CEO, the **Sr. Vice President of Financial Services** or Vice-President of Lending is authorized to sign a Loan Participation Agreement on behalf of FAA CU. A written master participation agreement will identify all the terms and conditions of the participation loan. An original or copy of the agreement, along with a schedule of the loan(s) covered, will be retained by FAA CU.

Participation loans will be reported to the Board of Directors the month following the participation disbursement.

Standards for Originating Lender as Participation Seller

The Credit Union can only originate loans that are made to its members.

FAA CU must retain the stated amount of principal as defined by NCUA Regulation 701.22 (currently 10%) of the face amount of each loan.

Originals or copies of the loan documents must be retained.

FAA CU's underwriting standards will be utilized on participant loans, unless a written agreement is made prior to loan disbursement. Any variance from standard underwriting will be addressed in the Credit Union's loan policies or participation agreement.

Loans will normally be sold "without recourse".

The Credit Union will employ the same due diligence as when it is the purchaser. The Credit Union will document its risk assessment and due diligence.

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.

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.

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.

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.

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.

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.

Standards for FAA Credit Union as Participation Purchaser

FAA CU may fund a percentage of another credit union's loan, as defined by NCUA Regulation 701.22 (currently 90%) of the face amount.

FAA CU may participate in loans that it is empowered to grant.

FAA CU may participate in the types of loans that are made to its own members or members of another participating Credit Union.

Originals or copies of the written loan participation agreement will be retained along with a schedule of the loans covered by the agreement.

The Board authorizes the disbursement of participation proceeds to an originating credit union with the approval of the President/CEO, **Senior Vice President of Financial Services**, Vice President of Finance, or Vice President of Lending

Due Diligence

The originating credit union shall comply with all applicable lending regulations. The management of FAACU will complete a thorough analysis of the management staff, financial aspects, and the underwriting abilities of each credit union with which it participates. The analysis will be performed with due diligence in accordance with the standards established by FAACU. The following information may be requested from the participating or originating credit union in order to review the past 36-months financial performance:

1. Annual Report
2. NCUA 5300 Call Reports, or bank call reports (five year snapshots and current year)
3. Current month and quarter-end financial statements
4. CPA Audits
5. Loan policies, delinquency and collection procedures
6. Resumes on all senior staff members involved with lending
7. References from prior or existing loan participants
8. FAA CU shall have the option to perform an on-site contact with the credit union selling or purchasing the loan to document the following:

- A. The loan underwriting policies are compliant with FAACU underwriting standards.
 - B. The loan underwriting practices confirm that the credit union can segregate participation loans on their system.
 - C. Collections policies and procedures are appropriate and effective.
9. Operational procedures are adequate to properly service loans
10. Financial analysis to determine trends in capital, earnings, delinquency, loan growth, and loan losses

Risk Assessments 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.

Risk Assessment

The Credit Union's initial risk assessment will address the following issues:

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.

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.

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.

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.

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.

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 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).

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.

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.

On Going Due Diligence

The Credit Union will perform ongoing due diligence of its sellers as follows:

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:

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.

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.

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.

Significant Staffing Changes. The Credit Union will determine whether the seller has maintained sufficient experience in all types of loans being underwritten and serviced.

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.

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.

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:

1. Representation and warranties that set out the promises on which the parties contract;
2. 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);
3. 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

4. How and when information will be shared and what actions require the mutual approval of both parties. Specifically, the contract should address the following:
 - A. Credit documents and information that the seller is required to share with the Credit Union;
 - B. Status reports on payments and interest accrual;
 - C. Exit strategies;
 - D. Procedures for modifying loan terms;
 - E. 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.
 - i. Type and percentage of the interest being sold;
 - ii. Evidence of the sale;
 - iii. Timing of the transaction closing;
 - iv. Method and timing of funding;
 - v. Originating lender's liability;
 - vi. Originating lender's servicing obligations;
 - vii. Originating lender's breach or default;
 - viii. Control of changes to the original loan terms; and Borrower's default.

Underwriting

Underwriting procedures may vary for each type of loan participation. FAA CU's review may include, but is not limited to the following:

1. Review of the loan application
2. Evaluation of the credit report for each borrower - all derogatory information must be explained

3. **Examine proof of income and determination of ability to repay**
4. **Verify collateral value – utilize certified appraiser's report as applicable**
5. **Verify the terms of the loan comply with the originating credit union's policies and guidelines**
6. **Verify payment amounts with originating credit union's documents**
7. **Full disclosure of all associated borrowing relationships in order to meet regulatory requirements for loans to one borrower and to limit concentration risk**
8. **Verify all conditions of approval have been satisfied before the loan was funded**
9. **Appraisal reviews that evidence appraisal assumptions were valid and relevant to the collateral property**
10. **Identification of borrower's equity sources for construction and development loans**
11. **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**
12. **Certify that Member Business Loans adhere to NCUA's rules and regulations**

In addition, the loans under review must comply with all underwriting policies as stated in FAACU Policy #2.24.

Risk Measurement, Monitoring and Control – Credit Union as Participant/Purchaser

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.

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.

Monitoring MBLs. The Credit Union will monitor its MBLs for annual financial statement review.

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.

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.

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.

1. The loan participation agreement must:
 - A. Be properly executed;
 - B. 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;
 - C. Be retained in the federally insured credit union's office (original or copies); and
 - D. Include the following additional provisions:
 - i. 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;

- ii. 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;
- iii. The location and custodian for original loan documents;
- iv. An explanation of the conditions for financial and other performance information about a loan so the loan can be monitored;
- v. 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
- vi. Circumstances and conditions under which participants may replace the servicer

FAA CREDIT UNION

Policy No: 2.26
Date: March 26, 2008
Revised: **November 26, 2013**

SUBJECT: Soldier and Sailors Relief Act now called the Servicemembers Civil Relief Act (SCRA)

POLICY:

It is the policy of FAA Credit Union to comply with all United States laws, regulations, and orders regarding the protection of individuals (and their dependents) in the United States armed forces. This includes members of the U.S. Marines, Air Force, Army, Navy, Coast Guard, and National Guard, and reserve members if they are called to active duty.

Under the provisions of the Servicemembers' Civil Relief Act ("SCRA") (50 USC App. 501), members of the United States armed forces may qualify for all or any of the following:

- Reduced interest rates on loans and credit cards
- Delay of all civil court actions, such as bankruptcy and foreclosure
- The ability for the service member or his/her dependants to terminate an automobile lease.

The purpose of the Act is to prevent loss of residence, automobile, or similar personal property when the debtor is on active duty and living on a military pay scale. FAA Credit Union will not terminate any consumer contracts (unless required to do so by law or legally enforceable order) or repossess any property due to nonpayment during the period of the debtor's active military service.

INTEREST RATE REDUCTIONS:

The Credit Union will apply a maximum rate of six percent (6%) on all loans made to the servicemember, or the servicemember and the servicemember's spouse jointly, prior to the start of the individual's active service. Interest above the 6% cap is to be forgiven (not deferred). This interest rate limitation will apply during the individual's term of active service, unless otherwise directed by a court. The Credit Union's Sr. V.P. of Financial Services, **A.V.P. of Financial Services**, V.P. of Lending, or higher level will approve rate reduction requests. The Credit Union will maintain a system to determine when or if the rate should be returned to the contract rate in compliance with the SCRA and notify the member of the rate change.

The interest rate cap does not apply to federal guaranteed student loans. The service member must contact the Department of Education for a deferment or suspension of payments.

To prove eligibility for the interest rate limitation, the servicemember must provide the Credit Union written notice and a copy of the military orders calling the servicemember to full-time active duty status and any orders further extending military service, not later than 180 days after the date of the servicemembers termination or release from military service.

The Housing and Economic Recovery Act of 2008 extended the SCRA's 6% interest rate cap for one year beyond the period of military service if the debt is a mortgage, trust deed, or other security in the nature of a mortgage. The Credit Union will comply with provisions of the Housing and Economic Recovery Act of 2008.

The term "interest" includes service charges, renewal fees, or any other charges (except bona fide insurance) with respect to an obligation or liability. In addition, the SCRA requires credit unions to reduce the amount of any periodic payment due from a servicemember "by the amount of the interest forgiven...that is allocable to the period for which the payment is made."

The contract rate on the outstanding balance prior to active duty may be reinstated as soon as the servicemember is no longer on active duty; except for mortgages, where the 6% interest rate cap must be extended for one year beyond the period of military service. FAA Credit Union should be able to determine when the member will be discharged by reviewing the servicemember's military orders.

MORTGAGE FORECLOSURES:

The SCRA requires a creditor to obtain a court order approving the sale, foreclosure, or seizure of real estate if it occurs during the servicemember's military service, or within 90 days after military service ends. In addition, the court may adjust the debt or stay (postpone) any legal action to enforce a debt against real estate that is filed during, or within 90 days after the servicemember's military service. The debt must be incurred prior to military service and the property must still be owned by the servicemember or a dependent when foreclosure relief is sought under the Act. **In order to initiate a foreclosure under The Housing and Economic Recovery Act of 2008 (HERA), the Credit Union must wait twelve (12) months after a service member returns from active duty service.**

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).

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.

STAY OF 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.

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.

PERMANENT CHANGE OF STATION ORDERS (PCS ORDERS):

Interagency Guidance on Mortgage Servicing Practices Concerning Military Homeowners with Permanent Change of Station Orders (PCS) was issued in June 2012. For military homeowners, PCS orders to move to a new duty station present unique challenges. Although PCS orders are non-negotiable and operate under short, strict timelines, homeowners with PCS orders remain obligated to honor their financial obligations, including their mortgages. If their homes have declined in value, they may be unable to sell the home and obtain sufficient funds to pay off the mortgage debt and may continue to be obligated to make monthly payments after relocating to the new duty station.

When acting as a mortgage servicer, the Credit Union will comply with the Interagency Guidance as follows.

- We will provide homeowners who notify us of their PCS orders with accurate, clear, and readily understandable information about available assistance options the homeowner may qualify for, based on the information known to the mortgage servicer – for example, the Making Home Affordable Program and programs offered by or through Fannie Mae, Freddie Mac, the Federal Housing Administration, the Department of Veterans Affairs, etc.
- We will not ask homeowners with PCS orders to waive their legal rights under the Servicemembers Civil Relief Act (SCRA) or any other law as a prerequisite to either providing information to the homeowner about available options or evaluating the homeowner's eligibility for assistance.
- Homeowners with PCS orders who are current on their loans and able to make the monthly payment will not be advised by any employee to intentionally skip making payments in order to create the appearance that they are having financial difficulties in order to obtain assistance for which they would not otherwise qualify.
- We will provide a reasonable means for homeowners with PCS orders to obtain information on the status of their request for assistance.
- We will timely communicate any decision we make, as a servicer, regarding requests for assistance from homeowners with PCS orders; and, we will include an explanation of the reason for the denial, as required, so that the homeowner has an opportunity to address any deficiencies, if applicable.

TRAINING:

Applicable employees will be adequately trained about the options available for homeowners with PCS orders and what is required to stay compliant with this Policy.

MONITORING:

The Credit Union's Compliance Officer along with the V.P. of Lending of the Credit Union will be responsible for monitoring the Credit Union's compliance with this policy.

FAA CREDIT UNION

Policy No.: 2.27

Date: September 25, 2012

Last Revised: **August 27, 2013**

SUBJECT: TROUBLED DEBT RESTRUCTURINGS (TDR)

POLICY: TDR loans shall be defined in accordance with **Accounting Standards Codification (ASC) 310-40, *Troubled Debt Restructurings by Creditors***. **Generally**, a modification of a loan's terms constitutes a TDR if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider.

A. Generally, a concession has been granted if any of the following apply:

1. If a debtor does not otherwise have access to funds at a market rate for debt with similar risk characteristics as the restructured debt, the restructuring would be considered to be at a below-market rate; or
2. A temporary or permanent increase in the contractual interest rate as a result of a restructuring does not preclude the restructuring from being considered a concession because the new contractual interest rate on the restructured debt could still be below the market interest rate for new debt with similar risk characteristics.

B. The following factors, when considered together, may indicate that a restructuring results in a delay in payment that is insignificant, and thus, it is not a concession:

1. The amount of the restructured payments subject to the delay is insignificant relative to the unpaid principal or collateral value of the debt and will result in an insignificant shortfall in the contractual amount due; or
2. The delay in timing of the restructured payment period is insignificant relative to any one of the following:
 - a. The frequency of payments due under the debt;
 - b. The debt's original contractual maturity; or
 - c. The debt's original expected duration.

C. In evaluating whether a receivable is a TDR, the Credit Union must determine whether the debtor is experiencing financial difficulties. Although not an exhaustive list, in making this determination, the Credit Union shall consider the following indicators:

1. Although the debtor may not currently be in default, it may be determined that the debtor is experiencing financial difficulties if it is probable that the debtor would be in default on any of its debt in the foreseeable future without a modification.
2. The debtor is currently in default on any of his/her/its debt.
3. The debtor has declared bankruptcy or is in the process of declaring bankruptcy.
4. There is substantial doubt as to whether the debtor will continue to be a going concern.
5. On the basis of estimates and projections that only encompass the debtor's current capabilities, the Credit Union forecasts that the debtor's entity-specific cash flows will be insufficient to service any of its debt (both interest and principal) in accordance with the contractual terms of the existing agreement for the foreseeable future.
6. Without the modification, the debtor cannot obtain funds from sources other than the Credit Union at an effective interest rate equal to the current market interest rate for similar debt for a non-troubled debtor.

D. Not all modifications of loan terms automatically result in a TDR. For example, if the modified terms are consistent with the market conditions the restructured loan is not categorized as a TDR. And, if the debtor can obtain funds from sources other than the credit union at market interest rates at or near those for non-troubled debt it is not a TDR. However, if a concession (e.g. below market interest rate, forgiving principal or previously accrued interest) is granted based on the borrower's financial difficulty, the TDR designation is appropriate.

E. A TDR may include, but is not limited any of the following:

1. Transfer from the debtor to the creditor of receivables from third parties, real estate, or other assets to fully or partially satisfy a debt (including a transfer resulting from foreclosure or repossession).
2. Issuance or other granting of an equity interest to the creditor by the debtor to fully or partially satisfy a debt unless the equity interest is granted pursuant to existing terms for converting the debt into an equity interest.
3. Modification of terms of a debt, such as by:
 - a. Reducing (absolute or contingent) the stated interest rate for the remaining original life of the debt;
 - b. Extending the maturity date at a stated interest rate lower than the current market rate for new debt with similar risk;
 - c. Reducing (absolute or contingent) the face amount or maturity amount of the debt as stated in the instrument or other agreement; or

d. Reducing (absolute or contingent) accrued interest.

F. If a modification meets the definition of a TDR, as defined by **ASC 310-40, *Troubled Debt Restructurings by Creditors***, the specific accounting set forth therein will be followed.

G. The past due status of a loan will be calculated consistent with the loan contract terms, including any amendments made to loan terms through a formal restructure.

H. The Credit Union will report delinquency on the Call Report consistent with the provision above.

I. All modification and/or loan workouts shall be consistent with the Credit Union's Loan Workout Policy. Modifications for Real Estate and Consumer Loans are processed by the Collection Department, whereas MBL and Participation loan modifications would be identified by the V.P. of Lending. The respective department will complete a modification form and forward it to the Accounting Department. The Accounting Department will then determine if the loan will be deemed a TDR. The respective departments will work with the Accounting Department and timely supply them with any information required.

J. NON-ACCRUAL STATUS

1. The credit union will not accrue interest on any loan upon which principal or interest has been in default for a period of ninety (90) days or more, unless the loan is both "well secured" and "in the process of collection".

a. For purposes of applying the "well secured" and "in process of collection" test for nonaccrual status listed above, the date on which a loan reaches nonaccrual status is determined by its contractual terms.

2. For the purposes of this policy, "well secured" means the loan is collateralized by: (1) a perfected security interest in, or pledges of, real or personal property, including securities with an estimable value, less cost to sell, sufficient to recover the recorded investment in the loan, as well as a reasonable return on that amount, or (2) by the guarantee of a financially responsible party.

3. For the purposes of this policy, "in the process of collection" means collection of the loan is proceeding in due course either: (1) Through legal action, including judgment enforcement procedures, or (2) in appropriate circumstances, through collection efforts not involving legal action which are reasonably expected to result in

repayment of the debt or in its restoration to current status in the near future, i.e., generally within the next 90 days.

4. The Credit Union will place loans in non-accrual status if maintained on a Cash (or Cost Recovery) basis because of deterioration in the financial condition of the borrower, or for which payment in full of principal or interest is not expected.
5. While a loan is in nonaccrual status, some or all of the cash interest payments received may be treated as interest income on a cash basis as long as the remaining recorded investment in the loan (i.e., after charge-off of identified losses, in any) is deemed to be fully collectable.
6. The reversal of previously accrued, but uncollected, interest applicable to any loan placed in nonaccrual status must be handled in accordance ACS 310-40.
7. Where assets are collectable over an extended period of time and, because of the terms of the transactions or other conditions, there is no reasonable basis for estimating the degree of collectability – where such circumstances exist, and as long as they exist – consistent with ACS 310-40 the Cost Recovery method of accounting must be used.

K. RESTORATION TO ACCRUAL STATUS FOR ALL LOANS EXCEPT MBLs

1. For all loans, except Member Business Loans, a non-accrual loan may be returned to accrual status when:
 - a. Its past due status is less than ninety (90) days, 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;
 - b. When it otherwise becomes both “well secured” and “in the process of collection”; or
 - c. The asset is a purchased impaired loan and it meets the criteria under GAAP for accrual of income under the interest method specified therein.
2. In restoring a loan to accrual status, if any interest payments received while the loan was in non-accrual status were applied to reduce the recorded investment in the loan the application of these payments to the loan’s recorded investment must not be reversed (and interest income must not be credited).
3. Likewise, accrued but uncollected interest reversed or charged off at the point the loan was placed on non-accrual status cannot be restored to accrual; it can only be recognized as income if collected in cash or cash equivalents from the member.

L. MEMBER BUSINESS LOANS (MBLs)

1. A formally restructured member business loan workout need not be maintained in nonaccrual status, provided the restructuring and any charge-off taken on the loan are supported by a current, well documented credit evaluation of the borrower's financial condition and prospects for repayment under the revised terms. Otherwise, the restructured loan must remain in nonaccrual. Member Business Loans may be restored to accrual status when:
 - a. The Credit Union documents a current credit evaluation of the borrower's financial condition and prospects for repayment under the revised terms.
 - i. The evaluation must include consideration of the borrower's sustained historical repayment performance for a reasonable period to the date on which the loan is returned to accrual status.
 - ii. A sustained period of repayment performance would be a minimum of six (6) consecutive timely payments under the restructured loan's terms of principal and interest in cash or cash equivalents.
2. In returning the member business workout loan to accrual status, sustained historical repayment performance for a reasonable time prior to the restructuring may be taken into account.
3. All MBL restructurings must improve the collectability of the loan in accordance with a reasonable repayment schedule.
4. After a formal restructure of a member business loan, if the restructured loan has been returned to accrual status, the loan otherwise remains subject to the nonaccrual standards of this policy.
5. If any interest payments received while the member business 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 must not be reversed (and interest income must not be credited).
6. Likewise, accrued but uncollected interest reversed or charged-off at the point the member business workout loan was placed on nonaccrual status cannot be restored to accrual; it can only be recognized as income if collected in cash or cash equivalents from the member.

M. CHARGE OFF POLICY

1. The Credit Union has a written Loan Charge-Off Policy in place that shall continue to be in effect and consistently applied.

2. This policy in no way relieves the Credit Union from promptly charging off all identified losses.

N. PAST DUE STATUS

1. The past due status of all loans will be calculated consisted with the loan contract terms, including any amendments made through a formal restructuring.
2. The Credit Union will report delinquency on the Call Report consistent with the statement above.

O. REPORTING

Management will report to the Board regarding the status of all TDRs on a monthly basis.

FAA CREDIT UNION

Policy No: 2.28
Date: June 26, 2012
Revised: November 26, 2013

SUBJECT: S. A. F. E. Act Policy (SECURE AND FAIR ENFORCEMENT ACT)

POLICY:

It is the policy of FAA CREDIT UNION to comply with the interagency rules implementing the Secure and Fair Enforcement for Mortgage Licensing Act of 2008 (S.A.F.E. Act, 12 CFR 1007).

All consumer purpose loans secured by a mortgage, deed of trust or other equivalent consensual security interest on a dwelling are subject to this act. This includes junior liens, home equity lines of credit and construction loans as well as purchase loans, and refinances. Modifications and refinancing can be covered depending upon the actual transaction however; if the individual undertakes activities of a mortgage loan originator, then the modification or refinancing will be covered by the S.A.F.E. Act. FAA Credit Union will comply with all portions of the Secure and Fair Enforcement (S.A.F.E.) act.

Commercial Loans are not subject to the S.A.F.E. Act.

Below is an outline of some of the requirements. Other requirements are addressed in the Procedures Manual.

The V.P. of Human Resources is appointed as the S.A.F.E. Act Officer and will manage the Credit Union's compliance with the S.A.F.E. Act. The S.A.F.E. Act Officer will work with other responsible areas of the Credit Union to ensure that all assigned roles are carried out as required by the S.A.F.E. Act and that all employees who must be registered as Mortgage Loan Originators (MLOs) are properly registered and such registrations renewed properly while that individual is an employee of FAA Credit Union.

Mortgage Loan Originator (MLO) means an individual who takes a residential mortgage loan application, and offers or negotiates terms of a residential mortgage loan.

The S.A.F.E. Act Officer is authorized to designate employees of the Credit Union, who may not act as MLOs, to assist with data entry of Credit Union and MLO information to the Registry and monitor for changes.

The MLOs must maintain current registration and renew the registration annually between November 1 and December 31 with the NMLS (Nationwide Mortgage Licensing System) to include:

- Name and other names used.
- Home address and contact information.
- Principal business location address and business contact information.
- Social security number
- Gender

- Date and place of birth
- Financial services related employment history for the 10 years prior to the date of registration or renewal.
- 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.
- Revocation or suspension of the employee's authorization to act as an attorney, accountant, or state or federal contractor.
- Consumer-initiated financial services-related arbitration or civil action against the employee that required action, including settlements, or which resulted in a judgment.

Update Registrations

MLOs must update their NMLS registration within 30 days of any of the following:

- **A name change;**
- **Cease to be an employee of the credit union; or**
- **The information within registry becomes inaccurate, incomplete or out-of-date.**

Employee Authorization and Attestation

Although the Credit Union may facilitate the transmission of this information to the Registry **by an employee who is not an MLO**, the employee must:

- Authorize the Registry and the Credit Union 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;
- Attest to the correctness of all information required submitted on behalf of the employee by the Credit Union; and
- Authorize the Registry to make available to the public information as required by the law.

The MLO may not have:

Criminal convictions involving dishonesty, breach of trust, or money laundering against the employee.

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 those dismissed without a settlement agreement.

Actions or orders by a State or Federal Regulator that:

Found the employee to have made false statements or omissions.

Been dishonest, unfair or unethical.

Found to have been involved in the violation of a financial services related regulation or statute.

Being the cause of a financial services related business having its authorization to do business suspended, revoked or restricted.

The S.A.F.E. Act OFFICER and any other Credit Union staff assigned roles regarding submitting information to the Registry on behalf of Credit Union employees, and the Credit Union, may not act as MLOs.

All employees who are defined as Mortgage Loan Originators (MLOs) must be registered with the system designed by the federal regulators.

Newly hired MLOs cannot act as an MLO on a loan application until properly registered.

Employees who are considered for an MLO position will have a criminal background check prior to becoming an MLO. If it is found that they have a criminal background or other actions that would prevent them from acting as an MLO, they may not act as an MLO.

Employees who do not comply with Credit Union policies and procedures designed to comply with the S.A.F.E Act requirements will be disciplined up to and including termination of employment.

FAA Credit Union will be required to provide the following information to the NMLS:

Name, main office address and business contact information.

Internal revenue Service Employer Tax Identification Number (EIN).

Research Statistics Supervision and Discount (RSSD) number as issued by the Board of Governors of the Federal Reserve System.

Identification of its primary Federal regulator.

Name and contact information of the individual with authority to act as the credit union's primary point of contact for the registry.

Name and contact information of the individual with the authority to enter the information required above. This individual may not be a MLO.

Attestation

Our contact person and/or their delegate(s) must comply with Registry protocols to verify their identity and must attest that:

- They have the authority to enter data on our behalf;

- The information provided to the Registry is correct;
- We will keep the information required; and
- We will file accurate supplementary information on a timely basis.

Unique Identifier

Once registered, employees will receive a unique identifier that they will keep as long as they perform mortgage loan originator activities and are registered and/or licensed. We will make the unique identifiers of all of our mortgage loan originators available to consumers upon request.

These identifiers will be kept with other records that show compliance with this rule.

Our registered loan originators must provide his or her unique identifier to a member/consumer:

- Upon request;
- Before acting as a MLO; and.
- Through their initial written communication with a consumer, if any, whether on paper or electronically; **and**
- **On each Regulation Z covered loan document.**

The credit union will provide the credit union's name and unique identifier and the MLO's name and unique identifier on loan documents that include:

- **The credit application;**
- **The note or loan contract; and**
- **The security instrument.**

MLO Training

- The S.A.F.E. Act Officer will ensure training is provided to all annually.
- Training will be required for all newly hired MLOs as part of orientation.
- Training will also be conducted when any changes are made to the law or when audits or reviews identify issues that need to be addressed.

Procedures and Monitoring

The S.A.F.E. Act Officer in conjunction with the Sr. V.P. of Financial Services and the V.P. of Lending is directed to implement procedures to ensure that we update information provided to the Registry within 30 days of the date it is no longer accurate, and renew MLO registration during the annual renewal period. An MLO who completed his or her original registration after July 1 need not renew the registration during the annual renewal period of that year.

We will assist our MLOs in updating and renewing their information as long as they are employed with us. All MLOs must:

- Renew the registration during the annual renewal period.
- Confirm that the information originally sent remains accurate and complete.
- Update the registration within 30 days of any of the following events:
 - A name change,
 - The MLO no longer works for us, or
 - The information required becomes inaccurate, incomplete, or out-of-date.

Requirements for Employees Who Have Previously Been or Currently Are Licensed as an MLO

If we hire a person who is already registered or licensed, has obtained a unique identifier from the Registry, and has maintained this registration or license, then the registration requirements of the S.A.F.E. Act are met if:

- We update the employment information with the Registry.
- We send new fingerprints of the employee to the Registry for a background check, unless the employee has fingerprints on file with the Registry that are less than three (3) years old.

Reviewing Employee Criminal History Background Reports Received from the Registry and Taking Appropriate Action

Management is directed to review all criminal history background reports on employees received from the FBI through the Registry and take appropriate action, including termination of that employee, consistent with federal and state law and internal Human Resource Policies.

Compliance

The Credit Union will develop procedures to ensure the following is done in order to comply with this policy:

- **Establishing a process for identifying which Credit Union employees are required to be registered mortgage loan originators;**
- **Informing all mortgage loan originators of the registration requirements and how to comply with such requirements and procedures;**
- **Complying with the unique identifier requirements;**
- **Confirming the adequacy and accuracy of employee registrations, including updates and renewals, by comparisons with its own records;**
- **Tracking and monitoring for compliance with registration and renewal requirements and procedures;**

- **Providing for independent testing for compliance at least annually by Credit Union personnel or by an outside party;**
- **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;**
- **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**
- **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 SAFE Act, including appropriate licensing and/or registration of individuals acting as mortgage loan originators.**
- **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.**

Annual Independent Testing

An annual audit of the requirements of the Act will be conducted by the Credit Union's internal auditor or independent third party. The results of the audit will be presented to the Board of Directors with management responses for any violations or exceptions.

FAA Credit Union

Policy No: 2.29
Date: January 2012
Revised: **July 22, 2014**

SUBJECT: Truth in Lending Act and Regulation Z

Purpose:

The Truth in Lending Act (TILA) and Regulation Z requires lenders to disclose the credit terms of a transaction prior to loan consummation in order to promote the informed use of credit by the member. TILA governs open-end and close-end credit as well as advertising and record retention.

Policy:

It is the policy of FAA Credit Union to comply with the Truth In Lending Act (15 USC 1601, et al.) and its implementing regulation, Regulation Z (12 CFR Chapter X Part 1026, et al.).

FAA Credit Union will make all necessary disclosures clearly and conspicuously in writing, in a form the member can keep, at or before loan consummation or within any specific time frames set forth in Regulation Z. The disclosures will contain all the information required by Regulation Z and may be provided electronically in accordance with the Electronic Signatures in Global and National Commerce Act (E-SIGN). Additionally,

- All loan interest rates will be disclosed as an annual percentage rate (APR).
- Loan documentation and disclosures will be provided prior to the consummation of the loan as required by Regulation Z, unless otherwise required, or unless it is a RESPA related residential mortgage transaction and estimated disclosures will be given no later than three business days after receipt of a written application.
- Each member will be given the right to rescind the mortgage transaction prior to any disbursement of loan proceeds on any non-purchase mortgage transaction that involves their principal dwelling which may include mobile homes, trailers, houseboats, etc.
- New disclosures will be provided if a disclosure becomes inaccurate because of an event that occurs after the initial disclosures are delivered.
- Subsequent disclosures will be provided when a loan is refinanced and notices will be provided as required for adjustable rate loans.
- Change in terms notices will also be provided when and as required.

- Periodic statements will be provided for open-end loans. FAA Credit Union will 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.
 - A. 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, such as when a bankruptcy petition has been filed.
 - B. The Credit Union will 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.
 - C. The statements will contain the Statement of Billing Rights and the address for Notice of Billing Errors.
- Escrow accounts are required for all “higher priced” first lien mortgages secured by a borrower’s principal dwelling. Such escrow accounts will be maintained for a minimum of five years, regardless of the loan to value, or until said mortgage is satisfied.
- **Escrow accounts are also required for any mortgage loan where the loan to value is greater than 80%, unless an exception is approved by the President, VP of Lending, or Sr. VP of Financial Services.**
- The Credit Union will ensure that the TILA for a variable rate consumer credit obligation secured by a dwelling will contain a lifetime maximum interest rate and all disclosures will be provided as required by Regulation Z and within the specified timeframes prescribed therein.
- TILA also regulates certain credit card practices, and provides a means for fair and timely resolution of credit billing disputes. It is the intent of FAA Credit Union to comply with those provisions as well.
- For all Quick Loans, credit card accounts, or any other accounts that generally fall under the Multi-Featured Open End Lending regulations, the Credit Union will:
 - A. Follow its established risk based pricing policy for underwriting these lines of credit.
 - B. These lines of credit do not expire, but are intended to be perpetual. The Credit Union will not perform underwriting when an advance is requested on these accounts. The underwriting will be completed at account opening in accordance with the Credit Union's general lending policies and procedures. These accounts, however, will be subject to periodic reviews.
 - C. Periodic reviews will, generally, be completed on these accounts when the balance is in excess of \$5,000.00 and when:

- The member requests/makes application for any other loan product or credit from the credit union, excluding advances under current lines of credit;
- When the account becomes ninety (90) days past due;
- When the member requests an increase in the credit line; and
- When a joint accountholder deceases.

D. Periodic reviews will require verification of income, credit history, verification of employment, and debt-to-income analysis.

E. If, after a periodic review, the credit limit is rescinded, reduced, or should any other adverse action be taken on the account, the Credit Union will provide the member with the appropriate notices which may include a FACT Act notice and/or an adverse action notice.

The Truth in Lending Act (TILA) and Regulation Z apply to credit offered or extended to a consumer primarily for personal, family or household purposes. The following types of credit are exempt from Regulation Z:

- Nonconsumer credit (for example, credit extended to other than a natural person or extended primarily for a business, commercial or agricultural purpose)
- Credit where the amount financed is more than applicable threshold amount as adjusted each year, although credit secured by real property is subject to the regulation even if the loan is under the applicable threshold amount.

Advertising:

FAA Credit Union will not engage in any advertising that is deceptive or misleading. All advertisements setting forth specific credit terms will be in compliance with Regulation Z and will contain any additional disclosures as deemed necessary.

Record Retention:

FAA Credit Union will retain copies of the Truth in Lending Act disclosures and records for a period of at least two years from the date the disclosures were required to be made or the action was taken.

FAA Credit Union

Policy No: 2.30
Date: January 22, 2013
Revised: January 28, 2014

SUBJECT: Foreclosure Policy

POLICY:

The Foreclosure Policy is designed to limit the risks associated with past due real estate property and ensure compliance with applicable laws, regulations, and accounting practices. The Credit Union will abide by the National Credit Union Administration (NCUA) Rules & Regulations, Parts 701.21 & 706.4; NCUA Letters to Credit Unions 08-CU-25 and 11-CU-01, **the Consumer Financial Protection Bureau (CFPB) Mortgage Servicing Regulations, all applicable state and federal law, as well as the rules established by any secondary market purchaser of the mortgage loan, as applicable.**

Authorization

The Board of Directors authorizes the Senior Management Team (President, Sr. VP of Financial Services, **VP of Human Resources**, VP of Lending and **Manager of Payment Solutions Department**) to oversee foreclosures. The Credit Union is to work constructively with residential mortgage borrowers who may be unable to meet their contractual payment obligations. Prudent workout arrangements may be in the long term interest of both the Credit Union and its members. However, when foreclosures are unavoidable, the Credit Union is to proceed as follows.

Foreclosure Proceedings

- Real Estate loans considered for foreclosure action must be reviewed and approved for foreclosure action by the Senior Management Team prior to implementation of foreclosure proceedings.
- Real estate loans referred to Senior Management Team for foreclosure consideration will include copies of the documented collection history, copy of a new credit report, and any notes, facts and details pertinent to the member's financial condition that initiated the foreclosure procedures to be implemented.
- Loans sold in the secondary market are to be processed as directed by FNMA, Freddie Mac, the Federal Home Loan Bank, or other appropriate oversight entity. (Note: All secondary market loans are underwritten and audited to secondary market requirements.)

- Loans should be at least **120** days past due. **The CFPB prohibits servicers from making the first foreclosure notice or filing under state law for any judicial or non-judicial foreclosure process during the first 120 days of the consumer's delinquency.**
- All other collection efforts, including modification, short sale, and deed in lieu, must be exhausted. Simultaneously pursuing foreclosure and modification or other alternatives to foreclosure is prohibited.
- All foreclosures are to be referred to an attorney(s) for processing. However, the Credit Union is to maintain oversight of the foreclosure process to ensure that all requirements are met and that proceedings move forward in a timely manner.
- All of the information supporting foreclosure affidavits must be verified for accuracy. Those attesting to the affidavits must have sufficiently and personally reviewed the documentation before signing the documents.
- **If a member has submitted a complete loss mitigation application before the Credit Union begins the foreclosure process, the Credit Union may not move for foreclosure judgment or order of sale, or conduct a foreclosure sale, if a consumer is performing pursuant to the terms of a loss mitigation agreement.**
- **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 CFPB servicing rule.**
- **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 by the CFPB servicing rule.**
- All applicable regulations and state laws should be considered and addressed. In addition to the above mentioned NCUA Rules and Regulations, the following laws and regulations may merit consideration:

Equal Credit Opportunity Act, Fair Housing Act, Servicemembers Civil Relief

Act, Bankruptcy code, Bankruptcy Rules, Office of the Comptroller of Currency Bulletins, and Federal Financial Institutions Examination Council guidelines and all applicable federal, state and local laws, ordinances, rules, regulations, Credit Union policies, court mandates and procedures, settlements and regulatory orders.

Disposition of Assets

- When a real estate loan is foreclosed and the property is repurchased by the Credit Union, it is reclassified as “Other Real Estate Owned” or “OREO”, with the existing loan balance being transferred to the Other Real Estate Owned General Ledger Account.
- OREO properties must be appraised to establish the “fair market value” of the collateral. If the appraised fair market value is equal to the existing loan balance, no adjustment is made to the valuation of the asset.
- If the appraised value is less than the existing loan balance, the difference must be “written down” or charged to the allowance for loan loss account to bring the loan to the fair market value. This “Write-Down” is performed by debiting allowance for loan loss and crediting the Other Real Estate Owned General Ledger account.
- When OREO properties are sold, and the selling price differs from the recorded fair market value, the difference must be recorded as a “Gain (Loss) on Disposition of Assets”.
- The appraisal must be performed at the point of foreclosure by the Credit Union. The “write-down” must be submitted to the **Senior Management Team** for approval before expensing the “write-down”. The “write-down” will then be reported to the Board of Directors at their next regularly scheduled board meeting.
- OREO properties should be re-evaluated on an annual basis to determine if a further write-down is necessary in order to reflect the current fair market value.
- **Refer to the Credit Union's Workout Loans and Troubled Debt Restructuring Policy for additional information.**

Governance

- This policy must be reviewed by management and submitted annually to the Board of Directors for review and approval.

FAA Credit Union

Policy No. 2.31
Date: February 26, 2013
Revised: **November 26, 2013**

SUBJECT: SKIP-A-PAYMENT PROGRAM

SKIP-A-PAYMENT PROGRAM

FAA Credit Union encourages members to make all loan payments on time. There are times when a member may need or desire to skip a payment on a loan. FAACU has a Skip-a-Payment program that can be utilized on qualified loans at the discretion of the member. The purpose of this Policy is to set forth clear criteria for the Skip-a-Payment Program, and to provide clear guidance to staff when administering the Skip-a-Payment Program.

The Credit Union offers a skip-a-payment program on qualified loans to qualified members. The parameters of the program are as follows:

1. The Skip-a-Payment program is generally offered on most closed-end consumer loans in good standing like signature loans, automobile loans, etc. The program shall not be offered on loans that are secured by real estate or a dwelling, secured by a time deposit, has a balloon payment, or on open-end loans like credit cards or Quickloans. Likewise, the program will not be offered on loans which are not in good standing, in bankruptcy, delinquent, or which have been restructured.
2. Qualified members may skip-a-payment on any of their qualified loans up to two (2) times in any 12 month period, but the member may not skip two consecutive month's payments. **Skipping more than two payments over the life of the loan may affect the member's GAP Policy and the Credit Union will ensure that such disclosure is made to the member.**
3. The member must be current on all FAACU loans to utilize the program. The loans cannot be more than twenty nine (29) days delinquent in the past six (6) months.
4. Loans must have a six (6) month payment history to qualify for the program.
5. An application fee not to exceed \$40.00 will be charged for processing the request and assessed at the time of approval.
6. Systems must be in place to ensure that members who utilize this program will:
 - a. Not be reported as delinquent;
 - b. Not be charged a late fee; and

- c. Automatic debits from savings and checking or by payroll deduction will not occur for the payment that is skipped.
7. Members will be required to submit the Loan Payment Extension Agreement ("Agreement"). The Agreement will include a notice that explains the program, any fees associated therewith and how those fees will be paid, and informs the member of the effect the skip payment will have on increasing the total finance charges and extending the loan term; and, acknowledging the borrowers' desire to skip a particular loan payment and indicating the borrower(s) understanding and agreement to the skip payment terms and conditions, modification of the original loan and agreement to resume the regular payment following the month of the skipped payment. The Agreement must be signed by all borrowers on the loan including joint borrowers, co-signors, and guarantors; and must be returned to the Credit Union.
8. The member's request and the Agreement may be processed online using the Credit Union's Skip-a-Payment tool in FSP to ensure all proper parameters are in place.
9. The Loan Payment Extension Agreement shall be retained in the member's relevant loan file.
10. Online skip-a-payment requests for eligible closed-end consumer loans may be approved and processed by a Financial Service Representative (FSR) utilizing the internal Skip-a-Payment tool. Any manual skip-a-payments requires approval by a Branch Manager or someone with a higher level of authority, and an adjustment will need to be written up to be processed and reflecting the authorized signer's approval and sent to the adjustment department for processing.
11. Any exceptions to this Policy must be approved by either a Branch Manager or someone with a higher level of authority.
12. Any and all advertising of the Credit Union's Skip-a-Payment program shall be in compliance with any relevant state and federal laws, regulations, and guidance.

Policy No: 2.32
Date: May 28, 2013
Revised: May 28, 2013

SUBJECT: ANTI-PREDATORY LENDING POLICY

Policy: Predatory lending generally occurs when borrowers use the equity in their homes for debt consolidation and other consumer credit purposes. Credit unions have a proud history of service to their members and provide products that meet members' needs and are in the members' best financial interests. As a member-owned, democratically controlled financial cooperative, FAA Credit Union ("FAACU") wants to help protect its members from abuses of predatory lending in the financial marketplace by offering products that are fairly priced, with reasonable terms and conditions. FAACU condemns the practice of predatory lending and has adopted mortgage lending standards and ethical guidelines that emphasize the credit unions' concern for its members and their financial well being.

PURPOSE

The purpose of FAACU's Anti-Predatory Lending Policy is to support fair and equitable home ownership opportunities to its members and to discourage predatory lending practices, which are inconsistent with such opportunities.

PROHIBITED ACTIVITY

The following residential mortgage lending practices violate FAACU's Anti-Predatory Lending Policy, are not acceptable, and will not be tolerated:

- A. Charging very high interest rates and fees such that the interest rates are significantly above market rates and which are not justified by the degree of risk involved in providing the credit.
- B. The credit union will not underwrite high cost, high risk or similar home mortgage loans as defined by federal and state law or any related agency rule or regulation, nor will those types of loans be sold by FAACU to the secondary market.
- C. Steering borrowers toward higher interest rate and/or fees even when the borrower could qualify under a less costly financing alternative.

- D. Approving mortgages solely based on property value.
- E. Lending without borrower's ability to repay the mortgage.
- F. Loan flipping (refinancing a mortgage without economic benefits).
- G. Equity stripping (charging excessive fees and points).
- H. Charging prepayment penalties.
- I. Charging higher interest rates after the mortgage goes into default.
- J. Excessive balloon payments that require refinancing at a rate that is more than the rate on the existing note.
- K. Requirements for frequent refinancing of the loan resulting in additional costs to the borrower and significant erosion of the borrower's equity.
- L. Excessive points and fees in excess of regulatory thresholds, excluding *bona fide* discount points or other reasonable and allowable fees.
- M. Financing directly or indirectly, prepaid single-premium credit life, credit disability, credit unemployment, or other similar insurance sold in connection with the mortgage loan.
- N. Obtaining waivers from the requirement to maintain escrow accounts for the payment of taxes, insurance premiums, etc. for borrowers with "blemished" credit records.
- O. Mandatory arbitration provisions with respect to dispute resolution in the loan documents.
- P. Provisions or clauses in the loan documents that bar the borrower from bringing a claim in court pursuant to any provision of the law for damages or relief in connection with the transaction.

Q. Misleading or false advertising.

R. Any attempt to structure a resident mortgage loan in such a way and with the intent to circumvent this Policy.

Predatory lending does not encompass legitimate products such as reverse mortgages or risk-based lending recognized by fair lending and fair credit statutes that allow financial institutions to price loan products by taking into consideration the risk to the institution in making a loan.

MEMBER CREDIT FILES

FAACU will provide a full file credit status report on all mortgages to each of the designated credit repositories on a monthly basis. This will include mortgages recently originated, current, delinquent, liquidated through workout options, foreclosures and charge offs.

MEMBER COMMITMENT AND EDUCATION

- A. FAACU is committed to ensuring that home equity loan products meet the member's borrowing needs and ability to repay, consistent with the credit union's loan policies and legal requirements.
- B. FAACU is committed to educating members regarding the dangers and abuses of predatory lending by offering counseling and other useful information about the lending process.
- C. FAACU lending staff will inform borrowers about all applicable lending products the credit union offers.
- D. FAACU will assist borrowers in understanding applicable loan disclosures, rates, fees and terms, including any rights of rescission.

PERIODIC REVIEWS

- A. FAACU will periodically review its loan origination processes to ensure that ineligible mortgages (mortgage loans in violation of this policy), are not being underwritten or delivered to the secondary market.

- B. FAACU will maintain approved anti-predatory lending screening procedures as part of its pre and post auditing procedures, and as required.

- C. This Policy will be reviewed regularly and updated as needed. Additionally, should any predatory lending violations ever be noted during any quality control auditing processes, the President/CEO and V.P. of Lending will be notified immediately, this Policy will be reviewed, and additional procedures will be implemented to mitigate any future violations.

FAA Credit Union

Policy No. 2.33
Date: January 28, 2014
Revised: January 28, 2014

SUBJECT: SMALL MORTGAGE SERVICER POLICY

POLICY:

FAA 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 Consumer Financial Protection Bureau issued rules in January 2013 to implement these Dodd-Frank Act amendments to RESPA and TILA.

The Mortgage Servicing Rule applies to Regulation X amendments 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 amendments 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 will comply with the requirements of the Mortgage Servicing Rule components that apply to its 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.

2. 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.

3. 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 specifies 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.

4. 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.

5. 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 consumer is more than 120 days delinquent.
- B. **Effect of Loss Mitigation Application.** If a member has submitted a complete loss mitigation application before the Credit Union begins the foreclosure process, the Credit Union may not move for foreclosure judgment or order of sale, or conduct a foreclosure sale, if a consumer 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 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.

- 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.

6. 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 maintain required 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 charged the member for renewing 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 borrower, 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 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 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 MS-3 of Regulation Z. The information that the Credit Union will include on the Force Placed Insurance Notification 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. The property address without current hazard insurance coverage;
5. A request that the member provide hazard insurance information for the property;
6. A statement that the hazard insurance has expired (is expiring) and the Credit Union does not have evidence of further insurance;
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; **and**
12. If applicable, a statement advising the member to review additional information provided in the same transmittal.

ii. **Second Notice**

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. The property address without current hazard insurance coverage;
6. A request that the member provide hazard insurance information for the property;
7. A statement that the hazard insurance has expired (is expiring) and the Credit Union does not have evidence of further insurance;
8. A statement that hazard insurance is required and the Credit Union will purchase such insurance at the member's expense;
9. A statement requesting the member provide the Credit Union with insurance information;
10. A description of the requested insurance information, and how the member may provide the information;
11. 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;
12. The Credit Union's telephone number;
13. If applicable, a statement advising the member to review additional information provided in the same transmittal;
14. 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**
15. 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. **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. The property address without current hazard insurance coverage;
5. A request that the member provide hazard insurance information for the property;
6. 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;
7. 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;
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;
12. If applicable, a statement advising the member to review additional information provided in the same transmittal; **and**
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).

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 consumer with an escrow account whose mortgage loan obligation is more than 30 days overdue, if the cost of the force-placed insurance to the consumer is less than the amount the small servicer would need to disburse from the consumer's escrow account to pay the consumer'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 consumer's insurance provider nor insurance agent provides confirmation of the information the consumer submitted; or
 - ii. The terms and conditions of the consumer's hazard insurance policy do not comply with the requirements of the consumer's loan contract.

7. 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.

8. 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.

FAA CREDIT UNION

Policy No: 2.34
Date: February 25, 2014
Revised: February 25, 2014

SUBJECT: PAYMENT SOLUTIONS DEPARTMENT POLICY

General Policy Statement:

The purpose of this policy is to set general guidelines pertaining to collection efforts, collateral repossession, referring accounts to attorneys or collection agencies, and charging off loans to the Allowance for Loan Loss general ledger account.

The Board of Directors believes that all legal means should be employed in loan collection efforts to ensure protection of Credit Union assets. Collection efforts should be professionally and ethically conducted in an empathetic manner. Losses will be appropriately recognized in order to accurately state Credit Union assets.

PAYMENT SOLUTIONS PROCESS

General Policy Statement:

The tools of the Payment Solutions Department should be applied in a logical, progressive sequence: reminder notices, telephone call, letter, follow-up action, work-out plans, repossession, and litigation.

Guidelines:

1. **REMINDER NOTICES.** Reminder notices should be sent, either manually or by computer after the payment due date in accordance with departmental procedures.
2. **TELEPHONE CALLS.** The Credit Union policy is to contact the borrower when it first becomes necessary. The timing of the call is determined by the Payment Solution Consultant's reasonable business judgment. As a general rule, loans with greater risk exposure, narrower margins, and/or troubled payment history warrant a quicker response. The circumstances surrounding other loans may justify delaying contact. An effective call involves two basic steps:
 - A. State reason for the call and ask fact finding questions, to evaluate borrower's situation.
 - B. Present proposal and obtain specific commitment from the member.

3. **LETTERS.** Letters are designed to reach those members who cannot be contacted by telephone, at the Payment Solution Consultant's discretion a handwritten "rapid letter" will be mailed requesting the member contact the Credit Union. In addition, Payment Solutions Department will send the following letters when applicable:
 - A. **First Notice.** The Credit Union will send a Late Payment Notice to the member when his/her loan is past due.
 - B. **Second Notice.** The Credit Union will send a second Late Payment Notice to the member when his/her loan is past due.
 - C. **Third Notice.** The Credit Union will send a third Late Payment Notice to the member when his/her loan is past due.
 - D. **Notice to Co-Signor.** The Credit Union will send a Late Payment Notice to the co-signor when the loan is past due.
 - E. **Final Notice.** The Credit Union will send a final notice by regular and certified mail. This letter will give the member 10 days to respond. After the time expires follow up actions will be taken.
 - F. **Attorney Letter.** When appropriate the Credit Union's attorney or other legal counsel already working for the Credit Union on an account will send a letter demanding payment before the account is assigned to a collection agency.
4. **FOLLOW UP ACTION.** Effective follow-up requires constant attention; the Payment Solutions Department will closely monitor accounts to verify that payments are made as promised.
5. **WORK-OUT PLANS.** Occasionally it is in the best interest of the Credit Union to work out special arrangements with troubled borrowers, including re-payment plans, extensions, modifications, and refinancing. Work-outs shall be in compliance with the Credit Union's Workout Loans and Troubled Debt Restructuring Policy.
6. **REPOSSESSION, FORECLOSURE OR ABANDONMENT.** The Payment Solutions Department will give members reasonable opportunities to cure deficiencies before recommending repossession. The Payment Solutions Department has two choices when payment solutions efforts fail: taking and selling collateral or abandoning the collateral and suing the debtor for a monetary judgment. Sometimes the Payment Solutions Department can do both. For example, in the case of a loan secured by an automobile, they can repossess the automobile, sell it at a public sale, and then sue for the deficiency.
 - A. **Repossession.** Voluntary surrenders may be handled by the Payment Solutions staff with management's approval. Involuntary repossessions require approval by the Payment Solutions Department Manager and must be executed by reputable agencies that 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.
2. The account is in default according to the promissory note, or the collateral is in jeopardy.
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.** All repossessed vehicles not sold at auction will be sold at First Rate Autos. All vehicles will be priced according to Credit Union policy and all sales will be conducted in a commercially reasonable manner. Since First Rate Autos is open to the public, insiders may purchase vehicles at the regular price at the First Rate Autos lot.

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 Legal Counsel appointed by the Credit Union 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 Payment Solutions Department 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.

7. **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 payment solutions 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 attorney appointed by the Credit Union for legal advice as needed.

8. **LEGAL ACTION.** In general, legal action against a member will only occur after all other avenues of payment solutions have been explored, and the potential for counterclaims has been examined. All legal actions will be authorized by the Payment Solutions Department Manager after consultation with the V.P. overseeing the Payment Solutions Department. When legal action is taken, the Credit Union will do the following:

- A. After receiving a judgment, the Payment Solutions 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 Payment Solutions Department Manager 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 V.P. over the Payment Solutions Department.
- D. All information regarding legal action and the reasons for its use will be duly noted on the FSP System notes.

PAYMENT SOLUTIONS STAFF MEMBERS AND RESPONSIBILITIES

General Policy Statement:

The Payment Solutions Department staff consists of a manager and consultants. Department responsibilities include being professional in collection efforts.

Guidelines:

1. **MANAGER.** The payment solutions manager oversees and is responsible for all Payment Solutions department operations. The payment solutions manager is also responsible for working delinquent accounts over 60 days, and handling the accounts referred to outside collection agencies, as well as bankrupt accounts.
2. **CONSULTANTS.** The Consultants 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 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.
3. **PAYMENT SOLUTIONS CONSULTANT'S RESPONSIBILITIES.** The primary responsibility is to collect from members who are not making timely payments.
 - A. **Objectives.** A consultant 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 Payment Solutions Department 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 consultant 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. Consultants are generally responsible for the payment solutions of many individual loans. They are responsible for documenting their 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 the Payment Solutions Department.

- i. Under no circumstances should consultants use foul, abusive, or questionable language, either on the telephone or in person. Consultants must never represent themselves as employees of any branch or agency of the federal, State, county, or city government.
- ii. Consultants must never discuss the debt with anyone other than the debtor. Unless authorization has been obtained from debtor to discuss account information with another individual or as required by law.
- iii. The Credit Union expressly forbids the practice of harassing members with repeated telephone calls. Consultants will never call debtors on Sundays or holidays or during the week after 9:00 p.m. or before 8:00 a.m. All employees and vendors acting on behalf of the FAA Credit Union are required to follow all applicable laws and regulations set forth

by the Federal and State governments, NCUA, FAA Credit Union, and any other regulatory entity.



FAA EMPLOYEES CREDIT UNION

Policy No: 3.00
Date: September 21, 1993

SUBJECT: SHARE ACCOUNTS

POLICY: One five dollar share is required to open an account with FAA Employees Credit Union. This share must remain on deposit in order to receive any other Credit Union service.

Electronic transfer of funds from this account are limited as stipulated in Federal Reserve Regulation D.

The Board of Directors may, at their discretion, pay dividends on share accounts. This dividend rate paid may vary from time to time, therefore, this is a variable rate account.

FAA EMPLOYEES CREDIT UNION

Policy No: 3.01
Date: August 1, 1988
Revised: August 17, 1999

SUBJECT: SHARE DRAFT ACCOUNTS

POLICY: Various types of Share Draft accounts are available to all Credit Union members who qualify.

The member is required to sign an agreement when establishing any share draft account(s). The agreement authorizes the Credit Union to pay items presented that exceed collected balances.

The Board of Directors may, at their discretion, pay dividends on Share Draft Accounts. The dividend rate paid may vary from time to time; therefore this is a variable rate account.

Fees may be assessed, as authorized by the Board of Directors for the various types of Share Draft Accounts offered.



FAA EMPLOYEES CREDIT UNION

Policy No: 3.02
Date: August 1, 1988
Revised Date: September 21, 1993

SUBJECT: MONEY MARKET ACCOUNTS

POLICY: Money Market Deposit Accounts will be available to all FAA Employees Credit Union members who qualify. An initial minimum deposit and minimum balance will be required on this account.

Certain limitations apply to the money market account as stipulated by Federal Reserve Regulations.

The Board of Directors may, at their discretion, pay dividends on money market accounts. The dividend rate paid may vary from time to time, therefore, this is a variable rate account.

FAA CREDIT UNION

Policy No: 3.03
Date: August 1, 1988
Revised: June 26, 2012

SUBJECT: SHARE CERTIFICATES

POLICY: A share certificate is a form of savings evidenced by a certificate. A specified rate of return will be paid if the funds remain on deposit for a pre-established period of time. It is non-negotiable and non-transferable. In the event of withdrawal before maturity a substantial penalty will be imposed. If the certificate has been held less than 90 days, all dividends paid to date will be forfeited. If the certificate has been held longer than 90 days the penalty will be 90 days loss of dividend calculated on the present balance at the present interest rate.

The minimum amount required to purchase a share certificate is **\$100.00**. Rates will be set by management based on current market rates.

FAA CREDIT UNION

Policy No: 3.04
Date: August 1, 1988
Revised: May 27, 2014

SUBJECT: INDIVIDUAL RETIREMENT ACCOUNTS (IRA'S)

POLICY: FAA Credit Union offers **Traditional IRAs, Roth IRAs, SEP IRAs, and Educational IRAs.**

A Traditional IRA is primarily an individual savings plan. Contributions **are made up to a specified limit 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.

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

The SEP (Simplified Employee Pension) 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 deductibility of taxes to the member's tax advisor.

In 1998, the IRS introduced the Education IRA, which was renamed the Coverdell Education Savings Account (CESA) in 2001. 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.

Withdrawal from an IRA account **may be** subject to the Internal Revenue Service withholding requirements. The Credit Union will, **as required by the IRS**, forward this withholding information to the IRS.

Minimum balances, terms and rates shall be approved by the Board of Directors, in compliance with IRS and other promulgated regulations.

Record Retention

The Credit Union will retain all documents relating to a member's IRA for 10 years after all funds from the account have been distributed and the account has been closed.

FAA CREDIT UNION

Policy No: 3.05
Date: August 1, 1988
Revised: **May 27, 2014**

SUBJECT: Check Cashing

Policy: FAA Credit Union will cash personal, payroll, business, two-party, per diem, government or insurance checks, or any other negotiable item for members in good standing, **except third-party checks, international checks, or where fraud may be suspected.**

Certain checks will be cashed for students who have DOT IDs and an authorized FAACU check cashing card. Per diem, government, and travel advances will not be subject to any dollar limit. Personal checks will be subject to a limit of \$100.00 per day. No two-party **or third-party** checks will be cashed.

Contractors located at Mike Monroney Aeronautical Center, **who are not members**, may be approved for a check cashing card to cash payroll checks and personal checks. Personal checks will be subject to a limit of **\$100.00** per day. No two-party **or third-party** checks will be cashed.

A fee will be assessed those not in the credit union's fields of membership.

Any exception to this Policy must be approved by Senior Management with a title of Vice President or higher.

FAA CREDIT UNION

Policy No: 3.06
Date: January 18, 1994
Reviewed: **May 27, 2014**

SUBJECT: FEE POLICY

POLICY: Fees may be charged for certain products & services that are commensurate with the cost of the related service, **unless prohibited by law**. The intent is to optimize deposit and loan rates available to members.

Fees assessed the Credit Union from agencies doing business with the Credit Union will be passed on to the membership (ATM, VISA, state agencies, check printing, money orders, wire transfers, etc.), **unless prohibited by law**.

Fees will also be charged as defined in account agreements (NSF return items, excessive withdrawals).

Fees for other business services such as verification requests, bill paying requests, etc, may be charged.

The fee structure will be reviewed by the Board of Directors annually or sooner if needed.

FAA CREDIT UNION

Policy No: 3.07
Date: March 15, 1994
Revised: **February 25, 2014**

SUBJECT: FUNDS AVAILABILITY

POLICY: The primary purpose of Regulation CC, which implements the Expedited Funds Availability Act, is to set limits on how long financial institutions may delay or "hold" funds deposited in transaction accounts before making the funds available to the member.

The general policy of FAA CREDIT UNION ("FAACU") is to make funds deposited into a member's transaction (checking) account available the day of deposit. In some cases, the Credit Union may delay ability to withdraw funds beyond the business day of deposit. Then, \$200.00 will be available on the day of deposit, **unless an exception hold applies**, the balance of the funds will be available in accordance with Regulation CC ("Reg. CC"), but generally by the second business day after the day of deposit. Reg. CC defines a business day as Monday through Friday with the exception of any federal holiday.

LONGER DELAYS ("HOLDS") MAY APPLY

On a case-by-case basis, funds deposited by check may be delayed for a longer period under the following circumstances:

1. Question as to collectability. The Credit Union believes a check deposited will not be paid.
2. Checks totaling more than \$5,000 are deposited on any one day.
3. A check has been re-deposited that has been returned unpaid.
4. The account has been overdrawn repeatedly in the last six months.
5. There is an emergency, such as failure of communications or computer equipment.

Funds subject to these longer holds will generally be available on the seventh business day after the day of deposit.

NOTICE OF HOLD

If deposited funds are subject to longer holds for any of the reasons provided above, the Credit Union will notify the member, at the time of the deposit, of the hold and when the funds will be available. If a decision to hold funds, however, is made after the member leaves the Credit Union, a notice will be mailed to the member no later than the next business day after the deposit was made. Funds will generally be available no later than the second business day after the day of deposit unless a longer delay ("hold") applies or it is a new account.

CHECK HOLD POLICY FOR NEW ACCOUNTS

Reg. CC defines a new account as anyone who has not had a transaction account with the Credit Union for at least 60 days.

The following special rules apply during the first 30 days the account is open.

1. The first \$5,000 from a deposit of U S Treasury checks will be available on the business day of the deposit. The excess over \$5,000 will be available on the ninth business day after the day of deposit.
2. Funds from deposits of cash and the first \$5,000 of a day's total deposits of cashier's checks, certified checks, traveler's checks, and state & local government checks will be available on the business day of deposit if the deposits meet certain conditions.
 - A. Checks must be payable to the member making the deposit.
 - B. The excess over \$5,000 will be available on the ninth business day after the day of deposit.
 - C. If the deposit is not made in person to one of our employees, the first \$5,000 will not be available until the second business day after the day of deposit.
3. Funds from all other check deposits will be available no later than the ninth business day after the day of deposit.

ATM'S

Deposits made at ATM's will be available for withdrawal on the business day the Credit Union receives credit for the deposit.

Deposits at nonproprietary ATMs. The Credit Union shall make funds deposited in an account at a nonproprietary ATM by cash or check available for withdrawal not later than the fifth business day following the banking day on which the funds are deposited, **unless a longer exception hold applies.**

RETURNED ITEMS

Returned items are handled through the Credit Union's payable through bank. The procedure for that bank is to return each item twice for payment.

FOREIGN CHECKS

Checks drawn on financial institutions located outside of the United States will be processed differently than checks drawn on institutions within the United States. Generally, the availability of funds on deposits from foreign instruments will be delayed for the length of time it is required to receive credit from the foreign institution.

SUBSTITUTE CHECKS

The Check Clearing for the 21st Century Act ("Check 21") enables financial institutions to send checks to each other electronically, and enables the Credit Union to receive a paper copy of the electronic check (called a "substitute check"). Substitute checks are the legal equivalent of a paper check for all purposes. The Credit Union is not required to create substitute checks, but must accept them.

FUNDS AVAILABILITY DISCLOSURE

1. The Credit Union will provide a funds availability disclosure to all members by providing clear and concise verbiage in a form that the member may keep.
2. All required disclosures and notices will conform to the samples provided in Regulation CC. These disclosures and notices include:

- A. The initial funds availability disclosure
- B. Lobby/Hold notices
- D. Subsequent disclosures
- E. Changes in policy notices

LOBBY/HOLD NOTICES

A notice of the Credit Union's funds availability policy will be posted at each branch location. Notices will be in a conspicuous location in branch lobbies.

CHANGE-IN-POLICY NOTICE

If the Credit Union ever changes its funds availability schedule it will notify all members of the change at least 30-days before implementation. If the change results in faster availability of funds, the Credit Union will notify all members no later than 30 days *after* the change.

COMPLIANCE AND TRAINING

The Senior Vice President of Financial Services shall be responsible for maintaining and monitoring the Credit Union's compliance with Reg. CC. These responsibilities include but are not limited to:

- A. Approval of all disclosure statements.
- B. Training of appropriate personnel.
- C. Communicating and recommending policy updates and procedures relating to Reg. CC.
- D. Ensure compliance procedures are followed that are consistent with the Funds Availability Act.

The Supervisory Committee/Internal Auditor is responsible for testing adherence to Reg. CC policies and procedures annually.

All pertinent employees, i.e. tellers, member service personnel, etc. will have Reg. CC related training at least annually and more frequently if critical changes to the regulation occur in the interim. Reg. CC compliance training will also be included in new employee orientation training for teller and member service positions.

RECORD RETENTION

Records evidencing compliance with Regulation CC will be retained for two years as required.

THE FUNDS AVAILABILITY POLICY OF FAA CREDIT UNION IS SUBJECT TO CHANGE IN ACCORDANCE WITH FEDERAL REGULATION CC.

FAA CREDIT UNION

Policy No: 3.08
Date: December 17, 2002
Revised: January 22, 2013
Reviewed: May 28, 2013

SUBJECT: OVERDRAFT POLICY

Policy: FAA Credit Union ("FAACU"), at its discretion, may advance money to cover a member's overdraft without a credit application from the member. It is not the intention of FAACU to encourage members to write overdrafts against their accounts. Therefore, under this program, the Credit Union will charge a fee to provide for the payment of a transaction that would otherwise be returned due to non-sufficient funds (NSF). The criteria to pay a member's overdrafts will be established by management, but generally, will be consistent with this Policy, as follows:

GUIDELINES:

1. **TYPES OF TRANSACTIONS SUBJECT TO OVERDRAFT PROTECTION.** Generally, it is the policy of FAACU to only offer Overdraft Privilege for share drafts. The Credit Union may, however, at its discretion, and subject to any limitations set forth herein, offer overdraft protection for the following types of transactions which could result in an overdrawn account and the assessment of a fee:
 - A. Share drafts;
 - B. ACH transactions;
 - C. ATM transactions;
 - D. One-time debit card transactions;
 - E. In-person withdrawals;
 - F. Transfers made by electronic means.

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. The credit union will not charge

overdraft fees for any ATM and one-time debit card transactions unless the member has opted-in.

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:
- A. The account must have been open for at least 90 days;
 - B. Account must have 5 or fewer NSF's in the last 12 months;
 - C. Account must have a current positive balance prior to the overdraft; and
 - D. Member loans must be current, if applicable.

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. Accounts will be provided the same terms and conditions whether a member opts-in or not.

4. **JOINT ACCOUNTS.** Co-signers and/or joint owners on an account will be held jointly liable to the Credit Union for overdrafts and unpaid fees, regardless of who initiated or benefited from the overdraft transaction. FAACU may enforce its right to collect payment for overdrafts and overdraft fees against the account of any co-signer and/or joint owner.

5. **DOLLAR LIMITS.**

- A. The total dollar amount of all overdrafts the Credit Union will honor on personal accounts shall not exceed \$200,000, including fees at any given time.
- B. The total dollar amount for all overdrafts the Credit Union will honor on member business accounts shall not exceed \$500,000, including fees at any given time.
- C. The total dollar amount of overdrafts the Credit Union will honor per member at any given time is not to exceed \$100,000, including fees, unless approved by the President/CEO or Sr. V.P. of Financial Services.

6. REPAYMENT.

A. Consumer Accounts. A member has ten (10) business days from the day the advance was made, not to exceed forty five (45) calendar days, to either deposit the funds or obtain an approved overdraft loan set forth in Section (6)(c) from the Credit Union to cover each overdraft.

B. Business Accounts. The member has three (3) business days from the day the advance was made, not to exceed forty five (45) calendar days, to either deposit the funds or obtain an approved loan as set forth in Section (6)(c) from the Credit Union to cover the overdrafts.

C. 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.

7. **FEES.** Applicable fees will be assessed for each overdraft subject to the limitations set forth herein, particularly the right to opt-in for ATM and one-time debit transactions prior to the assessment of a fee. A list of current fees and applicable interest rate(s) will be furnished when the account is opened and in accordance with the Truth-In-Savings Act.

8. 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.

9. **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.
10. **NO PREFERENTIAL TREATMENT.** Credit Union staff and board members will not be granted preferential treatment through waived or reduced fees.
11. **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 sixty (60) 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.
12. **AUTHORITY FOR OVERDRAFT APPROVALS.** To pay an overdraft on an account requires approval from any one of the following:
 - A. President/CEO;
 - B. Sr. V.P. of Financial Services; or
 - C. Assistant V.P. of Financial Services.

FAA CREDIT UNION

Policy No: 3.09
Date: October 18, 1994
Revised: **May 27, 2014**

SUBJECT: INSUFFICIENT FUNDS

Policy: **Generally, a fee is assessed when any item(s) is presented for payment and funds are not available to pay that item(s).**

Items are posted as they are presented or as provided by departmental procedure. Checks and Electronic Funds Transfer (EFT) presentments determined to be insufficient will be returned. Access card transactions (e.g. ATM, VISA, Check) cannot be returned and will be posted, taking the account into the negative. **Any fee assessed on ATM and one time debit transactions will be in accordance with Policy 3.08 and Regulation E.** Other requests or exceptions approved by management or supervisory level employees may be posted taking the account into the negative.

Fees

1. Fees are assessed, as authorized by the Board of Directors **and in accordance with Regulation E** for insufficient /negative balance items.
2. Refunding of fees may occur under the following circumstances:
 - A. Credit Union error caused the insufficient situation
 - B. Other requests or exceptions approved by management

Closing of Accounts

Accounts may be closed if one or more of the circumstances listed below occurs.

1. Excessive insufficient funds (NSF) items and/or excessive overdrafts due to abusive use of any access card
2. A negative account balance for 30 days or more
3. Check Kiting

In most cases, a warning letter will be issued, followed by a closure letter, notifying the member of the closed account action. The account will be closed within ten business days after the final letter is mailed. The access cards will be blocked immediately.

Multiple accounts will be reviewed individually for purposes of determining abuse.

Reopening of accounts upon full restitution of a negative balance situation is at the discretion of Credit Union management.

Reporting of Closed Accounts

Closed accounts due to excessive NSF check writing, overdrawing by an access card, return check, negative balance, or check kiting will be reported to check reporting agencies.

FAA CREDIT UNION

Policy No: 3.10
Date: November 15, 1994
Revised: **February 25, 2014**

SUBJECT: TRUTH IN SAVINGS

POLICY: The Truth In Savings Policy of FAA Credit Union will be in accordance with the policy set forth by The National Credit Union Administration (NCUA) Regulations, Part 707, for credit unions which implement the Truth In Savings Act (TISA or TIS).

ACCOUNT EARNINGS

Balance Computation Method

The Credit Union will use a daily balance method to compute dividends on the following accounts:

1. Savings
2. Share Draft
3. Money Market
4. Share Certificate
5. IRA

The account disclosure will specify the method used for each account.

Account Earnings on Closed Accounts

Accrued but unaccredited dividends will be paid to the member at the time the account is closed.

Dividend Accrual

Dividends will begin accruing on the business day the items are received at the Credit Union, regardless of the type of item, i.e. cash, check, wire, money order, etc. In the event an item is returned to the Credit Union unpaid, the dividend may be forfeited.

The Credit Union shall calculate dividends by use of a daily rate of at least 1/365 of the dividend rate. In a leap year, a daily rate of 1/366 will be used.

RATE INFORMATION

Annual Percentage Yield (APY)

The annual percentage yield (APY) is an annualized rate that reflects the relationship between the amount of dividends earned on an account and the frequency of compounding for a 365 day period.

APY Formula

The Credit Union will use the formula set forth in Appendix A, Part I, of the NCUA TIS Regulation to calculate APY for purposes of rate inquiries, advertising disclosures and providing maturity and renewal notices. The formula used for calculating APY for the purpose of periodic statements is in Appendix A, Part II of the same regulation.

APY Calculation

For the purposes of the Credit Union's TIS Account Disclosures (except periodic statements), the APY calculation will be based on:

- a. An assumed term of 365 days for accounts without a stated maturity
- b. The actual days during the term for share certificate accounts

The above APY calculations have been programmed into the computer system to ensure accurate reporting.

Dividend Rate

The dividend rate means the prospective rate to be paid on an account which does not reflect compounding. The Credit Union's dividend rate may be changed at the discretion of the Board of Directors, therefore is considered a variable rate on accounts without a specific maturity.

Responding to Rate Inquiries

The Credit Union will provide members and potential members with rate information upon any request.

ACCOUNT DISCLOSURES

Written TISA disclosures will be furnished to members or potential members upon:

- a. The opening of an account
- b. When a request for written information is directed to a Credit Union employee.

Account Opening Documents

Potential members interested in opening an account will be given the Account Opening Documents, which includes the Account Agreement, Funds Availability Policy Disclosure, TIS Account Disclosure, and Fee Schedule. A rate schedule will be given on a separate document. These will be given prior to opening the account.

Potential members not present when opening accounts will be sent Account Opening Documents no later than 20 calendar days after the account is opened.

If a member or potential member who is not present at the credit union uses electronic means, for example, an internet Web site, to open an account or request a service covered by TIS, the disclosures must be provided before the account is opened or the service is provided.

Account Disclosures Upon Request

Members and potential members will be furnished TIS Account Disclosures, Rate and Fee Schedules upon request. When the request is by phone or mail, the documents will be mailed no later than 20 calendar days from date of request, or may be sent electronically if the member or potential member agrees.

Method of Delivery of Account Disclosures

Account disclosures may be provided in-person, mailed, as specified above, or provided in electronic form subject to the provisions of the Electronic Signatures in Global and National Commerce Act (“E-Sign Act”).

Account Disclosures for Multiple Members

If an account is held by more than one member, disclosures may be made to any one of the members.

Format of Disclosures

The TIS Account Disclosure information will be printed in a format that is clear and conspicuous, and in a form the member can keep.

Content of Disclosures

The Disclosures will provide to members the following information for each account, as applicable:

- a. Rate information
- b. Compounding & crediting method
- c. Minimum balance requirements
- d. Fees and charges
- e. Transaction limitations
- f. Nature of dividends
- g. Accrual of dividends
- h. Dividend period
- i. Bonus information
- j. Features of term share certificates
- k. National Credit Union Share Insurance Fund information

MATURITY AND RENEWAL NOTICES FOR TIME ACCOUNTS

Renewal Notices

For term share accounts with a maturity longer than one month, renewal notices and current TIS disclosures will be mailed or delivered to account holders at least 30 days before maturity. The renewal notice will contain:

- a. The date the existing account matures
- b. A statement that rates have not yet been determined
- c. The maturity date of the renewed account
- d. The date when the dividend rate and APY will be determined
- e. The Credit Union's phone number to call for dividend, rate, and APY information

CHANGE IN TERMS

The Credit Union will provide advance notice to members when there is a change in terms that adversely impacts the member. No change in terms will be disclosed to accounts with variable rate adjustments, for any changes in share draft printing fees, or short-term term share accounts with a maturity of less than one month.

Contents of Change in Terms Notice

The notice will describe the changed term and state the effective date of the change. The notice will be mailed at least 30 calendar days before the effective date of the change.

PERIODIC STATEMENTS

The Credit Union will comply with the regulation as it pertains to periodic statements. The periodic statement will state the following for each affected account:

- a. Member names
- b. Account number
- c. Annual percentage yield earned
- d. Amount of dividends earned
- e. Fees
- f. Transaction account activity by date for each account type
- g. Length of statement period
- h. If applicable, the total overdraft and returned item fees required to be disclosed for the statement period and the year-to-date

DISCLOSURE OF ACCOUNT BALANCES

If the Credit Union discloses balance information to a member through an automated system, such as an ATM or phone recording

service, the balance may not include additional amounts that 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 NCUA Part 226, 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.

ADVERTISING

The advertising of credit union share products will not contain any misleading or inaccurate information. FAACU will comply with all applicable regulations when advertising products and services. To ensure FAACU's compliance with TISA prior to publication or broadcasting, all commercial advertising messages must be approved by either, the President, the Sr. Vice President of Financial Services, or the appropriate Vice President.

TRAINING

The Credit Union will provide ongoing training to ensure compliance with the TIS regulation.

RECORD RETENTION

A master file will be maintained in the Operations department of the following:

- a. Copy of the TISA regulations
- b. Copy of Credit Union TIS policy
- c. Copy of Credit Union procedures
- d. TIS training materials & dates of training
- e. Copy of disclosures
- f. Copy of any changes in terms
- g. Computer changes or updates
- h. Copies of all printed advertisements for the required record retention period
- i. Members opening accounts will acknowledge they have

received an account disclosure by signing the account card.

The Operations Department is responsible for filing, storing, and maintaining the appropriate records. Records showing full compliance with TISA will be retained for a minimum of two years.

CONTROLS

The Internal Auditor will monitor compliance and report to the Board of Directors annually on the effectiveness of the Truth-in-Savings compliance efforts.

REVIEW

The Board of Directors will annually review this Policy and make any adjustments as necessary to strengthen it and to maintain compliance with all applicable laws, rules and regulations.

FAA CREDIT UNION

Policy No: 3.11
Date: October 19, 1999
Revised: September 24, 2013
Reviewed: **September 23, 2014**

SUBJECT: ACH MANAGEMENT POLICY

Purpose and Content

The purpose of this document is to set forth written policy adopted by FAA Credit Union (FAACU or Credit Union) regarding the management of activities and procedures of the Automated Clearing House (ACH) service operation. This is a living document, subject to revision in conjunction with the current *NACHA Operating Rules and Guidelines (ACH Rules)*.

All employees of FAACU must comply with the terms of this policy.

Scope

The Board of Directors of FAACU defines the scope of this policy to address all areas of ACH activity, including receipt of ACH Entries (RDFI) and/or the origination of ACH Entries (ODFI). It will be the policy of FAACU to comply with all ACH rules, regulations and other related requirements. This policy specifically defines the Credit Union's intentions regarding the requirements under the *NACHA Operating Rules, 31 C.F.R. Part 210, Federal Regulation E and Uniform Commercial Code Article 4A*, which permits alternative handling based upon individual Credit Union policies and procedures.

This policy applies to the following:

- Credit Union employees
- Any organization or individual with a contractual relationship with FAACU
- Information in all forms, including oral, written, image and electronic
- Physical and logical (non-physical) security of all forms of data
- All modes of information processing, including, but not limited to, manual methods, hardware and software networks, other devices and information disposal techniques
- Information used by FAACU which originates outside, including, but not limited to, vendors, contractors, customers, regulators, other enterprises and the public domain
- Credit Union's information resources used by, shared by or in the custody of others

Strategies

The Board of Directors of FAACU realizes that with proper training and adoption of policies and procedures established throughout the organization, risk associated with the receipt and the origination of ACH Entries can be managed.

- ACH Origination services may be limited to the processing of ACH Entries where the Credit Union is also acting in the capacity of an Originator, as defined by the *ACH Rules*.
- ACH Origination services provided by Credit Union consist of reasonable business risk.
- To mitigate potential risk, the Credit Union shall maintain an adequate method of tracking the potential for operational losses, related to both received and originated transactions.

The receipt of ACH transactions, as well as the ACH origination portfolio, will be administered to conform to the directives of this policy and will conform to all applicable federal, state and local laws and regulations, including the *ACH Rules*.

To mitigate risk to the Credit Union in providing ACH services, Credit Union employees shall be guided by the basic standards outlined in this policy and by related operating procedures developed from this policy.

Risk Management

Systems and Controls

The systems and controls needed for an effective ACH Risk Management Program include written policies and procedures, strong internal controls and a risk-based audit program. The depth and breadth of a Credit Union's ACH policies and procedures will depend on the scope and complexity of those ACH activities.

Oversight Responsibilities

It is the responsibility of the Board of Directors and Senior Management to ensure ACH activities do not expose the Credit Union to excessive risk.

- Sr. VP of Information Technology is responsible for establishing and maintaining effective risk management systems and controls and regularly reporting to the Board of Directors on the results of the Credit Union's ACH Risk Management Program

Enforcement of Policy

The Board of Directors has the authority to approve this policy and annually reviews the same thereafter.

- The Sr. VP of Information Technology, as well as all Senior Management, is responsible for ensuring the directives are implemented and administrated in compliance with the approved policy
- Changes to this policy require approval by the Board of Directors
- The President/CEO, Sr. VP of Information Technology and the Sr. VP of Financial Services are responsible for enforcement of this policy and may authorize changes in operating procedures, standards, guidelines and technologies, provided it is consistent with this policy

ACH Programs and Objectives

On-going Internal ACH Education and Training

FAACU will implement the following procedures:

- Assign specific responsibilities for ACH receipt and ACH returns functions to designated personnel
- Review Regional Payment Association (RPA) membership directory listing at least annually to ensure that ACH contact information is up-to-date and to notify the RPA of any changes
- Verify the receipt of the current *ACH Rules* and review *Rule* revisions for the current year
- Provide for regular training of ACH personnel responsible for ACH receipt and ACH returns activities
- Maintain a complete reference library of primary regulation sources (i.e. *ACH Rules, 31 C.F.R. Part 210, Federal Regulation E, and Uniform Commercial Code Article 4A*)

Board of Directors Reporting

Management will report to the Board of Directors, in a format comparable to other credit-related risk reporting, the ongoing liabilities related to ACH activities.

- The ultimate responsibility for the assets of the Credit Union is the responsibility of the Board of Directors
- The Board shall take such action, as it determines necessary, to provide for the responsible management of these liabilities
- Senior Management shall consult with General Counsel for questions involving the interpretation or application of the risks as it relates to ACH services

Data and Frequency of Reporting

ACH data will be collected and compiled by the ACH Department as directed by the Sr. VP of Information Technology. Reports will consist of the following:

- Transaction Volumes – include incoming and outgoing activity
- Potential / Actual Rules Violations or Fines
- Results of ACH audits with management responses and corrective actions to be taken
- Results of ACH Risk Assessments with management responses and corrective actions to be taken

To oversee Management's execution of the ACH Risk Management Program effectively, the reports shall be submitted no less than quarterly to determine whether ACH activities remain within Board-established risk parameters.

Compliance Risk

The Credit Union's compliance risk management will incorporate applicable policies, procedures and processes for ACH activities, including those conducted through third-parties. ACH reviews will be comprehensive and include testing for compliance with all regulatory requirements.

Execution of the ACH Risk Management Program will include compliance with the following rules, regulations and laws to determine whether ACH activities remain within legal and Board-established parameters:

- *NACHA Operating Rules and Guidelines - ACH Rules*
- Bank Secrecy Act / Ant-Money Laundering (BSA/AML)
- Office of Foreign Assets Control (OFAC)
- Code of Federal Regulations – CFR Part 210 (*The Green Book*)
- Federal Reserve Bank Operating Circular 4 on ACH items
- Regulation E – Electronic Funds Transfer Act
- Regulation D – Reserve Requirements of Depository Institutions
- Regulation CC – Availability of Funds and Collection of Checks
- Regulation GG- Unlawful Internet Gambling
- Uniform Commercial Code Article 4A (UCC 4A)
- Appropriate state laws

- Related policies of the Credit Union

Audit Policy

Audit Objective and Scope

FAACU will conduct an annual ACH audit in accordance with the minimum ACH audit requirements of the current *ACH Rules*. The scope, outline, and scheduling for the ACH audit shall comply with the Credit Union's formal Audit Policy.

Audit Review

- Audit may be performed by a third-party auditor or internally, reporting to the Sr. VP of Information Technology.
- The audit shall be conducted annually by December 31. Completed audit results will be reported to the President/CEO, the Sr. VP of Financial Services and approved by the Board of Directors.
- Exceptions will be noted along with corrective action already taken or recommended action for correction.

ACH Risk Assessment

FAACU will conduct a Risk Assessment of both its RDFI and ODFI functions. A Risk Assessment will be conducted annually, or prior to the implementation of any new ACH products or services, including the implementation of new software or hardware used to support ACH products or services. A summary of the ACH Risk Assessment will be reported to the President/CEO and the Board of Directors.

Third-Party Service Provider

General

FAACU acknowledges that the role of a Third-Party Service Provider merits special attention as its exposure to risk may actually increase with the ACH products and services provided.

The Credit Union remains legally responsible, but does not have direct control over the functions performed by the Third-Party.

Third-Party Service Providers are data processing services bureaus, corporate credit unions or other organizations that provide ACH processing services for the financial institution.

Monitoring

The Credit Union requires procedures to monitor Third-Party Service Provider's operations. These procedures will include identifying and validating the Third-Party and the type of business

it conducts. The Vendor Management Policy is to be utilized to ensure a comprehensive strategy and review.

RDFI Operational Risk

Receipt of Consumer ACH Transactions

Acceptance of Entries

FAACU will accept all debit and credit ACH transactions and prenotification as required under the *ACH Rules*, with the following exceptions, as allowed by the *ACH Rules*:

XCK Entries

- Destroy Check Entries, bearing Standard Entry Class Code XCK, will be accepted when the entries include the serial number of the destroyed check to allow reporting to the account holder.
- FAACU reserves the right to refuse XCK entries if the Originating Depository Financial Institution cannot produce a check copy, if requested by the account holder, or, if other difficulties occur in obtaining entry information. FAACU will effect refusal by returning an XCK entry within 60 days of the settlement date, using Return Reason Code R33 – Return of XCK Entry.

Non-Transaction Account Entries

- ACH debit transactions may not be posted for accounts where debit activity is limited to six entries under Federal Regulation D and such ACH entry represents the “seventh” debit entry.

Regulation E Disclosures

Section 205.7 of *Federal Regulation E* requires that consumers who receive electronic payments to their accounts be provided with an “initial disclosure”. The Credit Union will comply by delivering the required disclosure at such time that a consumer opens a new account.

Section 205.9 of *Federal Regulation E* requires that “periodic disclosures”, which contain documentation of transaction activity, be provided on a monthly basis. *Federal Regulation E* allows the disclosure to be provided at least quarterly for certain savings accounts, when such accounts:

1. Do not receive debit transactions in the reporting period, and
2. The consumer may receive documentation showing the amount and date of all credit transfers.

FAACU will provide the “periodic disclosure”, which it will define as the account statement, as required.

Regulation E Error Resolution Disclosures

The “Error Resolution” disclosure outlined in Section 205.8(b) of the *Federal Regulation E* will be made a permanent disclosure on the account statement. As permitted under *Federal Regulation E* the permanent disclosure will replace and eliminate the requirements for an “annual disclosure”.

Receipt of Corporate ACH Transactions

Uniform Commercial Code Article 4A (UCC 4A) Disclosures

In regard to the receipt of “wholesale credit” entries, (defined as incoming corporate ACH credit transfers containing Standard Entry Class Codes “CCD” “CTX” “CIE” and “IAT” entries), FAACU shall provide disclosure as required by Uniform Commercial Code Article 4A to all account holders.

Provisional Payment Disclosure

Credit given by FAACU is provisional until final settlement for such entry is received through a Federal Reserve Bank. If final settlement is not received, FAACU is entitled to a refund of the amount credited to the customer’s account in connection with such entry.

Notification of Corporate Payment Transaction

FAACU will notify account holders of ACH “wholesale” credit and debit transactions (corporate payments) through the periodic account statement, unless special arrangements are negotiated between the account holder and the Credit Union and detailed by formal written agreement.

The Credit Union understands its obligation to provide all payment information, including addenda information, to account holders.

Payment-related remittance information contained in addenda records of CCD, CIE, CTX or IAT entries to non-consumer accounts will be provided to account holders upon request or as required by regulation.

Determination of Choice of Law

In regard to the “Choice of Law” disclosure, FAACU will disclose Oklahoma as the default choice of law to both Originators and Receivers of ACH transaction where such disclosure is required for origination and receipt of “wholesale credit” ACH transactions.

Receipt of Government ACH Transactions

Record Retention for Government Payment Enrollment

FAACU will maintain SF1199-A enrollment forms for at least six months or as prescribed in the Credit Union's record retention schedule, after receipt of the first successful Direct Deposit of Receiver's federal government benefit payment.

Notice of the Closing of Accounts Receiving Government Payments

In the event FAACU decides to close an account (i.e. due to undesirable activities), and such account holder receives government benefit payments, the Credit Union will notify the account holder of its intent to close the account at least 30 days in advance, as required by federal code. The 30-day advance notice may be eliminated when the Credit Union has reason to suspect fraudulent activity on the part of the account holder. Such exceptions will be documented.

Receipt of International ACH Transactions (IAT)

FAACU will adhere to the rules of International ACH Transaction (IAT) in accordance with OFAC compliance obligations and the *ACH Rules*.

It is the responsibility of the ACH/Wire Department to understand the OFAC requirements and processing guidelines for inbound IAT entries by:

- Reviewing all incoming IAT entries for OFAC compliance
- Posting clean transactions normally
- Communicating any "suspect" IAT entries to the Credit Union's Compliance Officer so an investigation of any "suspect" IAT entries can occur; and, for following the OFAC compliance policy

Processing ACH Entries with Invalid Account Numbers

FAACU will take action on all rejected prenotification and dollar value entries containing an invalid account number on a timely basis. FAACU may send Notifications of Change (NOC) for either of these types of entries.

Return of Credit Entries

When appropriate, FAACU will honor requests by the Receiver to return any credit entry (using Return Code R23 – Credit Entry Refused by Receiver) when the Credit Union receives a written request from the Receiver.

FAACU will return all credit entries that are unable to post to Receiver's account within the appropriate time frame.

ODFI Request for Return

FAACU will honor requests by ODFI's to return entries (using Return Code, R06 – Returned per ODFI Request) when such entries are identified as erroneous and meet all of the following conditions:

- The return of the entry will not cause an overdraft condition for the Receiver's account
- The ODFI has positively identified itself and provided an indemnification letter documenting its request for the return (by fax or other written method)
- The request is received within a reasonable length of time as to not place undue financial difficulty upon the account holder as it may relate to the unexpected loss of funds availability
- The return does not interfere either with actions anticipated or in process by the Credit Union.

Permissible Return Entries – Late Return of Unauthorized Non-Consumer Debit Entries

FAACU will require a written notification from the Receiver after the time for the CCD or CTX return has expired. The written notification will state that the CCD or CTX debit entry to the Receiver's account was, in whole or in part, not authorized by the Receiver.

Dishonored Returns and Contested Dishonored Returns

FAACU will investigate all dishonored returns and act accordingly. Appropriate actions will entail research of the entry detail, the return reason codes and settlement date information to make the correction.

Stop Payment on ACH Consumer Entries

FAACU's customer service personnel shall use procedures that clearly indicate the difference between requests for "Stop Payment" of ACH entries and requests for the return of unauthorized payments.

FAACU will honor stop payment orders that are provided either verbally or in writing at least three banking days before the scheduled settlement date of the entry. The Credit Union may honor a stop payment order received within three banking days.

FAACU will require written confirmation of a verbal stop order within fourteen days of a verbal stop payment request.

For recurring ACH entries relating to a specific authorization involving a specific Originator, FAACU may require the consumer to confirm in writing that the authorization has been revoked with the Originating Company.

A stop payment order to a consumer account will remain in effect until revocation by consumer, in accordance with Regulation E.

Stop payment orders to non-consumer accounts will remain in effect for a period of six months unless it is renewed in writing.

Written Statement of Unauthorized Debit

FAACU will obtain a Written Statement of Unauthorized Debit, in accordance with the *ACH Rules*, from the customer prior to returning an entry that the customer claims is improper, unauthorized or for which the authorization has been revoked.

In the case of unauthorized debit entries, the Credit Union will provide prompt recredit to the consumer, when the consumer has notified the Financial Institution in accordance with procedures disclosed in the "Error Resolution Notice".

ODFI Functions and Considerations

ACH Origination Products Definitions & Disclosure

Financial Institution will provide origination services for the following debit and credit ACH applications.

- PPD
- TEL
- CCD
- CTX
- WEB

Authorization Forms

The Credit Union will obtain an authorization form that complies with the requirements of the ACH Rules and provide a copy to the appropriate party. This authorization form will be maintained for a period of two years following the settlement date of the last transmitted entry. Authorization forms will be required to be stored in a secure environment at all times. Upon written request from a properly identified RDFI, the authorization form will be provided within the required 10 banking days' timeframe.

Information Technology / Security Considerations

Data Security

The Credit Union will ensure that sound, risk-based data security controls exist across all ACH-related systems, applications and processes. Control policies and practices address data in transit or storage.

ACH operations personnel will accept data only from properly authenticated sources and provide a secure communication channel for all critical or confidential data. Management will identify critical or confidential data used in ACH operations and ensure that proper storage and disposal practices are used.

Key practices will include purging data from online applications, encrypting data and destroying trace data from any media.

Business Continuity Planning

The Credit Union will ensure that business units maintain up-to-date assessments due to increased corporate-wide and member reliance on the availability of ACH services. Business continuity test plans will be consistent with the criticality and complexity of the supporting operations, network services and telecommunications and may require coordinated testing with other units, including service providers.





FAA CREDIT UNION

Policy No: 5.01

Date: July 19, 1983

Revised: September 20, 2005

Reviewed: March 25, 2014

SUBJECT: BUDGET CONTROL

POLICY: Management shall prepare a budget of projected expenses for approval by the Board of Directors annually.

The approved budget of expenses will serve as guidelines for the Credit Union's operations throughout the calendar year and be the measure against which actual expenses will be compared. Expenses which become significantly out-of-line with the budget will be reviewed by Senior Management and any budget adjustments will be approved by the Board of Directors.

Acceptance of the budget by the Board of Directors implies approval of the expenses contained therein and delegates authority to Management to approve expenses in the course of daily operations, unless a capital expenditure exceeds the authorized amount as described in Policy 5.14.

Management may use projection techniques and devices at its discretion that will most reasonably project general operating expenses and dividend expenses. Capital expenses will be projected on a per item basis and/or expected needs basis.

Authority is delegated to Management, to devise and institute procedures for controlling the Credit Union's expenses and to monitor and report the progress of actual expenses against the budgeted expenses to the Board quarterly.

FAA CREDIT UNION

Policy No: 5.02

Date: July 19, 1983

Revised: September 20, 2005

Reviewed: **March 25, 2014**

SUBJECT: ACCOUNTING BASIS

POLICY: The accounting basis for expenses must provide timely recording of all expense items with additional consideration for tax advantages where appropriate, use of discounts and avoidance of penalties.

Routine expenses will be recorded on a cash basis. These expenses will be recorded in the month they are incurred or in which the bills are presented.

Expense items which have known or useful lives will be recorded on a prepaid or deferred basis.

Expense items which are of a significant amount and are due at future dates known or estimated will be recorded on an accrual basis.

FAA CREDIT UNION

Policy No: 5.03

Date: July 25, 1983

Revised: **May 27, 2014**

SUBJECT: TRAVEL AND REIMBURSEMENT FOR EDUCATIONAL MEETINGS

Training of Credit Union volunteers and employees through educational programs, schools, conventions, conferences, and seminars is encouraged. The Credit Union considers the designated expenses incurred to be reimbursable expenses and does not represent any form of compensation. Therefore, 1099's will not be issued to volunteers as a result of attending training programs.

Costs of travel, lodging, conference costs and other incidental costs associated with these training opportunities will be reimbursed as set forth below.

Participation by individuals of the Board, Supervisory Committee, or Credit Union President, to conferences requiring travel is at the discretion of the Board of Directors or the respective chairperson of the committees.

Travel reimbursement applies to the CU official and can be extended to the spouse traveling with the official. The same per diem allowances apply to the spouse traveling with the CU official. Reimbursement includes spousal programs sponsored by the training organization. 1099's will be issued for spousal travel reimbursements in accordance with IRS regulations.

A per diem allowance, **which includes gratuity**, will be allocated for meals while attending training as follows:

\$23.00 Breakfast
30.00 Lunch
60.00 Dinner

Hotel costs will be a direct reimbursement based on the cost of the room plus applicable taxes, based on single or double occupancy.

Travel by air will be reimbursed at coach fares of regularly scheduled commercial carriers. Travel by automobile will be reimbursed at the GSA rate. Should privately owned vehicles be used when air travel is available, the cost for such auto travel will not be reimbursed in excess of such coach fares.

Any expense(s) that exceed the above mentioned expenses must be supported by a receipt(s).

Miscellaneous Expense

Miscellaneous expenses will be allocated per conference for both volunteers and employees, and be reimbursable for the following incidentals:

Tips for meals, porters, transportation drivers, and baggage handlers as well as fares for shuttles, taxis, parking fees, or other means of transportation and **baggage fees**.

Reasonable long distance calls for handling business or family matters, unless the traveler is issued a Long Distance Calling Card for personal use.

Business entertainment is also an allowable expense included in this category. When reporting this expense, include the business purpose and the people entertained.

When a miscellaneous expense advance exceeds \$75 a miscellaneous expense report form must be returned to the President within fourteen days after a conference. Any receipts obtained for miscellaneous items should accompany the expense report. Unused miscellaneous money must be attached also.

FAA CREDIT UNION

Policy: 5.04

Date: February 21, 1995

Revised: **April 29, 2014**

SUBJECT: INFORMATION SYSTEMS

- POLICY:
1. All computer hardware, software, information, and other related work products are the sole property of the Credit Union. Protection of Credit Union property from damage, loss, misuse, inappropriate disclosure, or fraudulent alteration is the responsibility of management and personnel of the Credit Union.
 2. The Credit Union prohibits computer piracy, the illegal copying of software applications or computer programs, and using them in violation of copyright laws or licensing agreements. This includes using copied software for business use, and copying software programs owned by the Credit Union for personal use. Any person knowingly violating copyright laws or licensing agreements is subject to disciplinary actions, up to and including employee termination, and/or criminal prosecution.
 3. Computer hardware and software shall be restricted to business purposes. Personal use of company hardware or software is not allowed. All software, including prepackaged or shareware programs must be approved and checked for viruses and defects by **the SVP of Information Technology** before being used. This also pertains to information removed from the premises for work purposes at home.
 4. The **SVP of Information Technology** is responsible for the accuracy, authorization, and completeness of computer processing.
 5. Computer room physical access is restricted to authorized users designated by the **SVP of Information Technology**.

6. Each user will use computer information only for official Credit Union business.
7. Each user is responsible for activity logged against his/her user I.D.
8. Each user will keep the password for his/her user I. D. strictly confidential. If, for an isolated and supervised use of an application, that password must be shared with someone else, the user will immediately change the password after such use.
9. Any individual who has knowledge of or suspects a breach of security or abuse of computer systems must promptly inform the **SVP of Information Technology**, **SVP of Financial Services**, or the President of the Credit Union. Such situations would include, but are not limited to, theft, vandalism, or unauthorized use of computer systems.

FAA CREDIT UNION

Policy: 5.05

Date: September 16, 1997

Revised: **November 26, 2013**

SUBJECT: USE OF COMPANY ISSUED CREDIT CARDS

POLICY: Credit cards for company use are issued to certain staff to be used in the normal course of conducting Credit Union business. When using a company issued credit card, there are certain responsibilities that must be followed.

Issuance

Credit cards for company use are issued to the President, other officers, and staff as directed by the President. Card holders shall surrender their card(s) upon request, resignation or termination for any reason. **Any individual being issued a company credit card is required to read and sign the Use of Company Issued Credit Cards Agreement and Agreement for Wage Deductions Associated with Improper Use of Company Credit Card prior to the issuance of the card.**

Authorized Charges

A credit card issued by the Credit Union may be used in the normal course of business for the following purposes:

Charges for meals and/or business related activities incurred in the course of providing meals for employees or other Credit Union personnel while involved in Credit Union business. The charge tickets must list the names of employees or associates involved in the activity, and the nature of the business conducted.

Charges incurred while traveling on Credit Union business that may not have been allocated in the normal per diem allowance. Receipts must accompany the charge or purchase and must be approved by the appropriate officer or supervisor.

Charges for office supplies and/or equipment, when not available through the normal supply channel. Store receipts, in addition to credit card receipts, must accompany the purchase. In addition, a description of the purchased products business purpose must be attached.

Other expenses that may occur in the normal course of business. Receipts must accompany the charge or purchase and must be approved by the appropriate officer or supervisor.

Approval Process

Charges involving other staff or associates, i.e. meals, must include the names of all involved and the business purpose.

All charges incurred must be submitted to the Accounting Department within seven days after the charge is made.

Unauthorized or Personal Charges

The card is only to be used for Credit Union purchases or activities. Personal charges are not allowed. **Unauthorized and/or personal charges are the responsibility and debt of the individual and not the Credit Union.** Should a personal or unauthorized charge be made, the user must notify the President or Sr. Vice President of Financial Services of the charge upon discovery. The user must pay the amount of the charge in full the next business day, or when the charge is discovered. The user must also pay any accrued expense associated with the personal or **unauthorized** charge if not paid the next business day.

Abuses of the card, such as using it for personal or **unauthorized** charges or exceeding the pre-approval limits, may lead to revoking a card, probation, or even termination.

Review Process

Statements will be reviewed by the user each month and forwarded to their immediate supervisor for review. The statement must then be reviewed and initialed by the Sr. VP of Financial Services or the President, depending on whom the user reports to. The statement of the President must be reviewed and approved by the Treasurer of the Board.

FAA CREDIT UNION

Policy No: 5.06
Date: January 18, 2000
Revised: August 16, 2005

SUBJECT: REMOTE DELIVERY SYSTEMS

Policy: The Credit Union provides remote delivery systems access through electronic means (TARA/flightline) for its members. As such, these alternate delivery systems require additional safeguards to protect the integrity of individual member accounts and the networking capabilities of the remote system.

Account Agreement

The terms of the account agreement must be signed, or electronically accepted, by members before being allowed to use the remote delivery access system. The agreement addresses the rights and responsibilities of the member when accessing their accounts through electronic means.

Data Security

The credit union host (internal) system issues a random password(s) for new accounts. The password is assigned by the system and then must be changed by the member for uses other than account inquiries. Invalid password attempts will lock out access to a member's account for a 24-hour period. Requests for passwords to an existing account are issued in the same manner as a replacement password.

System Security Features

The remote delivery access system is protected by a "firewall." A firewall does not allow traffic to pass directly between the remote systems and the host system. Separate connections are established through the firewall to filter the request for information. Once the requirements are met, the host transmits the information through the firewall to the remote. The firewall used is ICSA Firewall certified. ICSA is a testing lab specializing in the filtering, testing, and monitoring of firewalls. The firewall has also received the Firewall Checkmark certification. This certification requires that the product be regularly tested to insure ongoing certification.

Revised

FAA CREDIT UNION

Policy No: 5.06, page 2
Date: January 18, 2000
Revised: August 16, 2005

SUBJECT: REMOTE DELIVERY SYSTEMS

Policy: Report Monitoring

The Information Technology Vice President is responsible for reviewing daily logs that record error/alarm conditions. The firewall vendor also reviews alarms when necessary and action is taken if needed. Monthly reports are created by our firewall vendor and provided to the Information Technology Vice President.

5.06

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FAA CREDIT UNION

Policy No: 5.07
Date: September 19, 2000
Revised: January 22, 2013
Reviewed: **January 28, 2014**

SUBJECT: PRIVACY POLICY

POLICY: The FAA Credit Union (FAACU) is committed to making available financial products and services that will enable members to meet their financial needs and reach their financial goals. Protecting personal information and using it in a manner consistent with member's expectations is a high priority for everyone associated with FAACU. It is the intent of the Credit Union and any of its affiliates to abide by NCUA Part 716 and all applicable laws and regulations governing the privacy of nonpublic personal information.

FAACU has a responsibility to safeguard a member's personal financial information. We do not disclose any non-public personal information about our members and former members to anyone, except as permitted by law.

To insure that members can rely upon the quality of products and services made available, FAACU stands behind the following privacy policy:

- A. FAACU will collect only the personal information that is necessary to conduct business. That means just what is necessary to provide competitive financial products and services—no more.
- B. FAACU will maintain strong security controls to ensure that member's personal information in our files and computers is protected. Where appropriate, FAACU will use security-coding techniques to protect against unauthorized access to personal records, ensure accuracy and integrity of communications and transactions, and protect member confidentiality.
- C. Members will have access to their information. FAACU members will have the opportunity to review personal information and make necessary changes to ensure that their records are complete and accurate. Further, the Credit Union will exercise reasonable caution in gathering and maintenance of information to ensure its

accuracy. When inaccurate information is discovered, it will be corrected as promptly as possible.

D. The Credit Union will not disclose personal nonpublic information to non-affiliated third parties without first providing the member a clear and conspicuous notice that accurately reflects the Credit Union's privacy policies and practices, and providing the member a reasonable opportunity to opt out of such disclosure, and the member 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 member requests or authorizes, or in connection with any of the following:

1. Servicing or processing a financial product or service that a member requests or authorizes.
2. Maintaining or servicing the member'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.
3. A proposed or actual securitization, secondary market sale (including sales of servicing rights) or similar transactions related to a transaction of the member.
4. With the written consent or direction of the member, provided the member has not revoked the consent or direction.
5. To protect the confidentiality or security of the Credit Union's records pertaining to the member, 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 member; or, to persons acting in a fiduciary or representative capacity on behalf of the member.

6. 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.
 7. 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, accountants, and auditors.
 8. To a credit reporting agency in accordance with FCRA.
 9. 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 members of such business or unit.
 10. 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.
 11. 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.
- E. 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. All contracts entered into after July 1, 2006 must be in compliance with the provisions of NCUA §716.13 (§716.18(c)).

F. 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. To ensure compliance with NCUA Part 716, the Credit Union will provide the required notices in conformance with the model privacy notice contained in Appendix A to Part 716.

1. 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 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.

a. When two or more members 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 members jointly.

2. The Credit Union will provide a notice of the Credit Union's privacy policy to all members at least annually (once during any 12 consecutive months). The Credit Union need not provide an annual notice to members who no longer have a relationship with the Credit Union.

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

a. The categories of nonpublic personal information that the Credit Union collects;

- b. The categories of nonpublic personal information that the Credit Union discloses;
 - c. The categories of affiliates and nonaffiliated third parties to whom the Credit Union discloses nonpublic personal information (other than such disclosures allowed by law);
 - d. 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);
 - e. 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;
 - f. If applicable, an explanation of the member's right to opt out of the disclosure of nonpublic personal information to nonaffiliated third parties, including the methods by which the member may exercise that right at that time;
 - g. 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);
 - h. The Credit Union's policies and practices with respect to protecting the confidentiality and security of nonpublic personal information.
4. 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 member can retain its content, and will retain the same page orientation, content, format and order as provided in the model notice

contained in Appendix A to Part 716.

G. 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 under Part 716, 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.

1. As required by law, the opt out notice will state the following information:

- a. That the Credit Union discloses or reserves the right to disclose nonpublic personal information about the member to a nonaffiliated third party (including the categories of information and the categories of nonaffiliated third parties to whom it is disclosed);
- b. That the member has a right to opt out of that disclosure; and
- c. A reasonable means by which the member may exercise that opt out right. Examples:
 - i. Designating check-off boxes in a prominent position on the relevant forms with the opt out notice;
 - ii. Including a reply form together with the opt out notice;
 - iii. 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 web site, if the member agrees to the electronic delivery of information; or
 - iv. Providing a toll-free telephone number that

members may call to opt out.

- d. How the Credit Union will treat an opt out direction by a joint member/consumer.
2. 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 member agrees, electronically.
 3. Under the following scenarios, an opt out notice need not be provided to members when nonpublic personal information is disclosed to nonaffiliated third parties:
 - a. 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;
 - b. Disclosure that is necessary to effect, administer or enforce a transaction that a member requests or authorizes;
 - c. Disclosure with the consent of the member (provided it has not been revoked);
 - d. Disclosure in order to protect the confidentiality or security of the Credit Union's records pertaining to the member, service, product or transaction;
 - i. To protect against or prevent actual or potential fraud, unauthorized transactions, claims or other liability;
 - ii. For required institutional risk control or for resolving member disputes or inquiries;
 - iii. Disclosure to persons acting in a fiduciary or representative capacity on behalf of a member;

- e. 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;
 - f. 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;
 - g. Disclosure to a consumer reporting agency in accordance with the Fair Credit Reporting Act;
 - h. 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 members of such business or unit; or
 - i. To comply with federal, state or local laws, rules and other applicable legal requirements.
4. When two or more members 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.
5. A member's direction to opt out is effective until the member revokes it in writing or, if the member agrees, electronically.
- a. 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.

H. The Credit Union may reasonably expect that a member 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:

1. Hand-delivery to the member, or mailing a printed copy of the notice to the member's last known address;
 2. For a member who conducts transactions electronically, posting the notice on the electronic site and requiring the member to acknowledge receipt of the notice as a necessary step to obtaining a particular financial product or service; or
 3. For an isolated transaction with a member (such as an ATM transaction), posting the notice on the ATM screen and requiring the member to acknowledge receipt of the notice as a necessary step to obtaining a particular financial product or service.
- I. The Credit Union will provide a revised privacy notice (and a new opt out notice, if and when applicable) in the following circumstances:
1. The Credit Union discloses a new category of nonpublic personal information to any nonaffiliated third party;
 2. The Credit Union discloses nonpublic personal information to a new category of non-affiliated third party; or
 3. 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.
- J. 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.
1. 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.

2. 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.
3. 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.
4. 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.

K. PRIVACY OF ELECTRONIC TRANSACTIONS.

1. 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.
2. 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:
 - a. The member is leaving the Credit Union's web site;
 - b. The member is linking to an alternate web site not operated by the Credit Union;
 - c. The Credit Union is not responsible for the content of the alternate web site;

- d. The Credit Union does not represent either the third party or the member if the two enter into a transaction; and
- e. Privacy and security policies may differ from those practiced by the Credit Union.

3. 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.

- a. The Credit Union will not distribute to third parties, other than its affiliate, personally identifiable information without prior parental consent.
- b. The Credit Union will not post or otherwise distribute personally identifiable information without prior parental consent.
- c. 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.
- d. 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.

L. ADMINISTRATION AND AMENDMENTS.

- 1. Protecting member privacy is an ongoing process and the Credit Union will continue to evaluate and review the measures taken to safeguard member information.

2. 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.
3. 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.
4. If nonpublic personal information is shared with vendors for business purposes, all contracts and agreements between the vendors and the Credit Union will include a guarantee that the vendor will safeguard such information.
5. 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.
6. The Credit Union reserves the right to amend this privacy policy in any respect with disclosure to members as required by law.

FAA Credit Union

Policy No. 5.08
Date: February 19, 2007
Revised: January 22, 2013
Reviewed: January 28, 2014

SUBJECT: **Electronic Commerce and Guidelines**

Policy: Electronic Commerce ("e-commerce") Services are an electronic means of providing financial information and services to the members of FAA Credit Union. E-Commerce is defined as the ability of its members to perform transactions, view account information, and to access general credit union information, along with credit union approved vendor sites.

E-Commerce Services

FAA Credit union maintains the following e-commerce services:

- Credit Union Website
- Home banking via internet website
- Loan Application
- Share Draft check ordering
- Loan Payments
- Share Account transfers
- Bill payment

The information regarding the data integrity aspects of each of these services are explained in detail in the E-Commerce Procedures Manual.

Organizational Responsibility

The Board of Directors and Management are responsible for ensuring proper risk management steps are taken when evaluating and monitoring e-commerce services. These policies will be reviewed and adjusted as necessary on an annual basis.

Management will keep up to date with all of the best practices regarding security and communications related to its e-commerce products. The credit union will practice a risk based management approach when providing e-commerce services. The Senior Vice President of IT (Information Technologies) and the Senior Vice President of Financial Services will assess the risk management steps. These annual assessments will be documented and reported to the Board of Directors.

The objective is to assure that long and short term e-commerce resources and strategies are formulated and approved, sufficient to support the credit union's overall business strategies. The Senior Vice President of Financial Services and the Senior Vice President of Information Technology will ensure the risk management process is maintained and documented through the:

- Performance of risk assessments
- Performance of due diligence
- Evaluation of contracts
- Oversight Program

The steps of each of these processes are explained in detail in the E-Commerce Procedures Manual.

The Senior Vice President of Financial Services and the Senior Vice President of Information Technology will also respond to problems escalated beyond primary responsibilities, document periodic reviews of e-commerce activities, and provide monthly updates to the board regarding e-commerce statistics and issues.

Risk Management Process

These above listed processes will be completed and documented for the following occurrences:

- Before new services are purchased
- When a security violation has occurred
- When there are changes in personnel that have direct access to e-commerce systems
- When negative vendor issues arise
- Annually on all existing e-commerce services

Problem Resolution and Escalation Process

Primary responsibility for problem resolution will be assigned accordingly under each e-commerce service identified. If a problem cannot be resolved by the responsible party, then the problem resolution will be escalated to the Senior Vice President of Information Technology.

Compliance Guidelines

FAA Credit Union intends to fully comply with regulations as they apply to services provided via the internet. 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. These regulations include, but are not limited to:

- NCUA Regulatory Alert 98-RA-4 (Guidance on Electronic Financial Services)
- NCUA Letter to Credit Union Number 00-CU-11 (Risk Management of Outsourced Technology Service)
- Truth-In-Savings (NCUA Rules and Regulations, Part 707)
- Account transaction limits (Regulation D)
- Expedited Funds Availability Act (Regulation CC)
- Electronic Funds Transfer Act (Regulation E)
- Truth-In-Lending (Regulation Z)
- Equal Credit Opportunity Act (Regulation B)
- NCUA Privacy Rule (NCUA Rules and Regulations, Parts 716 and 741)

- Children's Online Privacy Protection Act (COPPA)
- Customer Identification Program requirements (USA Patriot Act, Section 326)
- FFIEC Statement on Cloud Computing
- NCUA Letter to Credit Union Number 11-CU-09 (Online Member Authentication Guidance)
- FFIEC Supplement to Authentication in an Internet Banking Environment

Warning Banners

The Credit Union will use warning banners on Web services when confidential member information is being accessed. An authentication process requiring a login and password will be required for these types of services.

Disaster Recovery

The Credit Union has procedures in place to protect member information systems in the event of natural disasters, intentional destruction, or technical failure. FAA Credit Union maintains a separate business continuity plan for credit union operations. E-commerce services have been addressed in that plan. A business continuity statement for each e-commerce service are detailed in the e-commerce procedures manual.

FAA CREDIT UNION

Policy No: 5.09

Date: December 20, 1994

Revised: June 24, 2014

Reviewed: June 24, 2014

SUBJECT: BANK SECRECY ACT / ANTI-MONEY LAUNDERING PROGRAM

POLICY: FAA Credit Union will comply with the requirements of the Bank Secrecy Act (BSA), the Department of Treasury's regulations, and the National Credit Union Administration's (NCUA) regulations regarding establishment and maintenance of a compliance program to combat money laundering, terrorist financing, tax evasion and other financial crimes. In addition, compliance will be maintained with member identification standards set forth in the USA PATRIOT Act. The compliance program will include at a minimum:

1. A system of internal controls to ensure ongoing compliance. These controls will consist of, but not limited to, the following:
 - A. Performance of a periodic risk analysis of the Credit Union's products, services, transaction activity, geographic transaction history, and member relationships.
 - B. Written operating procedures that address adherence to all components of BSA, USA PATRIOT Act, the Currency and Foreign Transactions Reporting Act, OFAC rules, NCUA regulation and all related laws and regulations including:
 1. Cash Transaction Reporting (CTR) and CTR exemptions.
 2. Suspicious Activity Reporting (SAR).
 3. The Credit Union shall maintain copies of CTR's and SAR's for a period of five (5) years. All supporting documents and transaction records relating to BSA regulation compliance will be maintained for five (5) years.
 4. Information sharing between Law Enforcement and Financial Institutions in accordance with sections 314(a) and 314(b) of the USA PATRIOT Act.
 - C. Daily and periodic monitoring of transaction activity to assist in the detection of improper cash transaction and suspicious activity; and to ensure proper and timely reporting of CTR and SAR activity. Multiple cash purchases of monetary instruments during a single business day or contemporaneous purchases of the same or different types of monetary instruments for amounts totaling \$3,000 or more will be treated as a single purchase.

- D. A method to inform the Board of Directors, senior management, and the internal auditor of Suspicious Activity Reports filed.
2. Periodic independent testing of BSA/AML (Bank Secrecy Act/Anti-Money Laundering) compliance program will be completed by the Credit Union's internal Auditor or an independent third party. The results of testing must be reported annually to the Board of Directors and the test records maintained at least five years. The audit will be performed at least every 12-18 months or at shorter intervals if needed.
 3. Training for all new employees and subsequent refresher training for all employees on an as needed basis. Training should be tailored and conducted to address specific risks by operational and functional area.
 4. Designation of the Sr. Vice President of Financial Services as the BSA/AML/OFAC and Customer Identification Policy (CIP) compliance officer. This individual is responsible for the coordination and monitoring of day-to-day compliance and shall inform the Board of Directors regarding changes to any applicable BSA regulation or needed policy change.
 5. The Credit Union will enact procedures to monitor and identify unusual activity.
 - A. 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. For high risk members, the Credit Union will obtain the following information at account opening and throughout the relationship:
 1. Purpose of the account.
 2. Source of wealth and funds.
 3. Beneficial owners, if any.
 4. Member's (or beneficial owner's) occupation type of business.
 5. Financial statements.
 6. Residence (if a business, where it is incorporated).
 7. Proximity of residence, place of employment or business to the credit union.
 8. Whether international transactions are expected to be routine.
 9. Explanations for changes in account activity.
 - C. **For Money Service Businesses (MSBs), this includes any person doing business, regardless of whether on a regular basis, in one or more of the following: money orders, travelers checks, money transmission, check cashing and currency dealing or exchange which may include virtual currency. 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). When opening the account the Credit**

Union will determine the following, and will subsequently monitor for the following:

- 1. The products and services provided in order to determine if entity is an MSB;**
- 2. Whether it has registered with FinCEN as is required. If not, the account will not be opened.**
- 3. Whether it is licensed to do business in the state. If not, the account will not be opened.**
- 4. Where the entity is located;**
- 5. The anticipated account activity; and**
- 6. The purpose of the account.**
- 7. The Credit Union will review FinCEN's website to determine whether an MSB required to register has, in fact, registered or renewed its registration.**

D. The Credit Union will monitor activity through a electronic system designed to capture such information. The Credit Union will ensure, as part of the monitoring process, that it maintains current information about its members.

6. Reporting

A. Currency Transaction Reports (CTR). The Credit Union will complete and electronically file a CTR, IRS Form 104 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 (or paper) filed CTR will be retained for five years.

1. 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.

2. 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 Internal Revenue Service (IRS) (FinCEN Form 110) within 30 days after the first transaction in currency that the Credit Union wishes to exempt.

a. 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.

- b. 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.
3. Exemptions – Phase II. For members who qualify as either “non-listed businesses” or “payroll customers,” the Credit Union will file FinCEN Form 110 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.
 4. 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.
 5. 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. Purchasing or selling motor vehicles of any kind, vessels, aircraft, farm equipment or mobile homes;
 - b. Practicing law, accounting or medicine;
 - c. Auctioning or pawning of goods;

- d. Chartering or operation of ships, buses or aircraft;
- e. Engaging in gaming (other than licensed pari-mutuel betting at race tracks);
- f. Engaging in investment advisory services or investment banking services;
- g. Engaging in real estate brokerage, title insurance activities or real estate closings;
- h. Engaging in trade union activities; or
- i. Engaging in any other activity that may, from time to time, be specified by FinCEN.

6. 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 using NCUA Form 2362, 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.

Should the suspicious activity require immediate attention, the Credit Union will telephone 866-556-3974 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. 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 notify FinCEN 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.

1. Sharing SARs and SAR Information. SARs are confidential. Therefore, the Credit Union will only disclose the SAR filing with the appropriate law enforcement agency, regulator, and the board, or its designated committee as outlined in this policy.
2. The Credit Union may also share a SAR or SAR information with its affiliates (defined in the Credit Union's Privacy policy). 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.

3. 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 the FinCEN of the request.

C. 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 from 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 drivers' 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.

- D. 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.240.17f-1.

- E. 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.
- F. International Transportation of Currency and/or Monetary Instrument Report. The Credit Union will file a Currency or Monetary Instrument Report (CMIR) Customs Form 105 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.
- G. Foreign Financial Report. The Credit Union will file a Foreign Bank and Financial Accounts Report (FBAR) Form (Treasury Form TD F 90-22.1) with the IRS on or before June 30 of each year for all Credit Union financial account relationships outside the United States that exceed \$10,000 during the previous calendar year. The Credit Union will retain FBAR forms for five years.

7. Recordkeeping

- A. Checks, Drafts, Cashier's Checks, Money Orders, Certificates of Deposit 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.
- 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.

- C. 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):
 - 1. 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.
- D. Travel Rule Requirement (Wire Transfers). When submitting a transmittal order, 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).
- E. 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).

8. Information Sharing

- A. 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.
- B. 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.

1. 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.
2. 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:
 - a. Current accounts;
 - b. Accounts maintained/ closed during the preceding twelve (12) months; and
 - c. 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.

- C. 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 will place an "X," on the 314(a) form, 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 e-mail to patriot@fincen.treas.gov, directly on FinCEN's Web site, (www.fincen.gov) or by calling 1-866-556-3974.
- D. Use and Confidentiality of Information. The Credit Union will not use FinCEN information in 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.
- E. 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.
- F. Voluntary Information Sharing – Section 314(b). The Credit Union may share information with other financial institutions or association 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.

1. 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.
2. 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.

G. 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.

1. 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.
2. Questions. Any and all questions related to an NSL are to be directed to the local FBI field office ONLY.

H. 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.

I. 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. Marijuana-related Businesses. The Credit Union does not service marijuana-related businesses or accounts.

FAA Credit Union

Policy No. 5.09.1

Date: March 18, 2003

Revision: June 24, 2014

Reviewed: June 24, 2014

SUBJECT: OFAC REGULATIONS

FAA Credit Union shall comply with the Office of Foreign Assets Control (OFAC) regulations. The Sr. Vice President of Financial Services shall be responsible for overseeing compliance with the OFAC regulations and any blocked funds.

The Credit Union shall:

1. Train appropriate staff on the requirements of OFAC.
2. Maintain current OFAC listings of prohibited countries, organizations and individuals.
3. Compare new accounts, and the parties of all transactions **including co-signors, guarantors, collateral owners, other parties to each transaction, joint account holders, beneficiaries, and others who have an interest in the property such as personal representatives and those granted power of attorney;** and, of those entities identified as high risk, with the most current OFAC listings.
4. Compare established accounts with updated OFAC listings on a monthly basis or within the reasonable technical capability of the Credit Union.
5. Block the transaction and/or block the account and its underlying assets, and prohibit transactions on accounts that match the OFAC listing of Specially Designated Nationals or Blocked Persons (SDN) or other OFAC regulations.
6. **Reject any transaction and/or restrict account access for any person or entity with a positive match on OFAC's Foreign Sanctions Evaders List and block the transaction and/or block the account if the person or entity also appears on OFAC's SDN list.**
7. **On reasonable assurance that a transaction should be rejected, the Credit Union will reject it.**
8. **Blocked or rejected transactions will be immediately reported to the Compliance Officer.**
9. **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 nature.**

10. **The Credit Union will not release blocked funds to any individual or third party unless the appropriate license is obtained by OFAC.**
11. Perform an OFAC risk assessment annually, or more frequently if warranted.
12. Review International ACH transactions (IAT) including all parties to the transaction and foreign correspondent banks with the most current OFAC. **Notify the Gateway Operator, when Credit Union is the Receiving Party (RDFI), if there is an OFAC match and funds are frozen and will not be released to the foreign party.**
13. Report all blockings to OFAC within 10 days of occurrence and file the necessary reports, and retain all reports for at least five years.
14. **File a comprehensive report annually on all blocked property held by the Credit Union as of June 30 of the current year with OFAC by September 30.**
15. All supporting documents and transaction records relating to OFAC regulation compliance will be maintained for five (5) years.

The Sr. Vice President of Financial Services shall make recommendations from time to time as to policy changes and the use of technological solutions to facilitate OFAC compliance.

An annual audit shall be performed to test the established system to assure OFAC compliance. Results of the testing shall be reported to the Board of Directors and maintained for at least five years.

FAA Credit Union

Policy No. 5.09.2
Date: September 16, 2003
Revised: September 25, 2012
Reviewed: June 24, 2014

SUBJECT: USA PATRIOT ACT

It is the policy of the FAA Credit Union to comply with the USA Patriot Act. The Credit Union shall at a minimum:

1. Provide adequate notice to potential Members of compliance with the USA Patriot Act prior to the account opening.
2. Verify the identity of any person who seeks to open an account.
3. Maintain records of any information used to verify a person's identity.
4. Determine if a person appears on any listing of known or suspected terrorists.

For compliance purposes, an account will be defined as an ongoing relationship such as deposit, transaction, asset, credit, loan and safe deposit box customers. A "customer", hereby referred to, as "member" will be defined as an individual, business, corporation, partnership, trust and signatory if applicable.

Adequate Notice:

The Credit Union shall:

1. Provide notice of compliance with the USA Patriot Act prior to account opening via lobby signs or posters, website, account application statements or any other form of written or oral notice.
2. Provide notice of information required to open account.

Verification of Identity:

The Credit Union shall, at a minimum, prior to account opening or adding a signatory, collect the following information:

1. Name
2. Date of Birth (Individuals only)
3. Physical address and mailing address (if different)
4. Identification Number

- a. U.S. Person: a social security number, or a taxpayer identification number (TIN).
- b. Non-U.S. Person: a TIN, passport number and country, alien ID number, or number and country of issuance of any other government-issued photo identification evidencing nationality or residence.
- c. Non-individual: employer identification number (EIN).

Limited Exception:

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 member 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 30 days, the account will be closed.

The identifying information provided by a member will be verified using Documentary and Non-documentary sources.

Documentary sources shall include:

1. Individuals: Unexpired government issued photo identification such as Driver's licenses and passport that evidences residence or nationality.
2. Businesses: Documents showing existence of entity such as Articles of Incorporation, business license, partnership or trust agreement, etc.
 - a. All non-individual accounts must have the identity of all authorized agents of the entity identified and valid social security numbers must be provided to the Credit Union prior to opening the account.

Non-Documentary sources shall include, but not limited to:

1. Contacting the member.
2. Verifying the information provided through: Credit bureaus, online verification services, public databases, financial references or by obtaining a financial statement.

Non-Documentary sources may be used in the event that:

1. The individual cannot provide the required documentary source of identification.
2. The Credit Union is unfamiliar with the documents provided.
3. The account is opened without obtaining documents.
4. The account is not opened face-to-face.
5. The type of account increases the risk that the Credit Union will not be able to verify the identity using documentary sources.

Limited Exceptions:

In certain cases, depending upon the type of account requested, limited transactions may be permitted while the member's identity is being verified. The amount of risk associated with a particular account will determine whether these limited transactions will be permitted.

Certain members, such as the elderly or minors, may not have an acceptable identification document. This will be handled on a case-by-case basis and non-documentary verification may be utilized in these situations depending upon the risk of the type of account requested.

An account will not be opened if the Credit Union cannot form a reasonable belief to the true identity of the individual.

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 30 days, 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 the President or the Sr. V.P. of Financial Services, based on the non-documentary verification obtained.

Existing Members:

The Credit Union may 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.

Record Retention:

The Credit Union shall:

1. Document all information provided and relied upon to verify identity. If a document is relied upon, describe the document, any identification number contained in the document, the place of issuance and, if any, the date of the issuance and expiration date.
2. Maintain record of non-documentary procedures used.
3. Maintain record of resolution of discrepancies about conflicting or inaccurate information between identifying and verifying information.
4. Retain records for five years after the account is closed.

Government Lists:

At the time an account is opened the Credit Union will determine whether the person appears on any list of known or suspected terrorists or terrorist organization circulated by a government agency. Possible matches will be forwarded to the Sr. Vice President of Financial Services, designated as the BSA, OFAC and CIP Officer to determine the course of action. If the Credit Union has knowledge, suspects, or has reason to suspect that the individual, entity or organization is involved in terrorist activity or money laundering, a Suspicious Activity Report (SAR) will be filed with the Internal Revenue Service.

FAA CREDIT UNION

Policy No: 5.10
Date: December 13, 1983
Revised: **November 27, 2012**

SUBJECT: CHECK SIGNING LIMITS OF AUTHORIZATION

POLICY: The President shall recommend for Board approval, check signing authority for employees to insure adequate servicing of member's needs, and protection of member's funds.

No employee shall sign a Credit Union check drawn on his/her account, or a Family Members' account made payable to himself/herself, **or on a Family Members' account.**

For the purposes of this Policy, "Family Member" includes:

- 1. Individuals related by blood or marriage;**
- 2. Individuals related by and through legal authority such as adoption or common law marriage;**
- 3. Individuals in a dating relationship;**
- 4. Significant others; and**
- 5. Any individuals residing together in the same dwelling.**

Check signing authority limits are listed in Schedule A.

FAA CREDIT UNION

Policy No: 5.10 Schedule A

Date: December 13, 1983

Revised: **May 27, 2014**

SUBJECT: CHECK SIGNING AUTHORITY AND LIMITS

COUNTER/TELLER CHECKS Dual Signatures Required for anything over \$100k	
Teller	Up to \$10,000
Teller Supervisor Financial Service Representative (FSR) Sr. Accountant	Up to \$50,000
Real Estate Servicing Supervisor Controller Assistant Vice President of Financial Services Branch Liaison Branch Manager	Up to \$350,000
President Sr. Vice President of Financial Services Vice President of Lending Vice President of Finance	Up to \$500,000

LOAN DISBURSEMENT CHECKS Dual Signatures Required for anything over \$100k	
Financial Service Representative (FSR) Loan Operations Clerks Senior Accountant	Up to \$50,000
Controller Real Estate Administrator Real Estate Servicing Supervisor Assistant Vice President of Financial Services Branch Liaison Branch Manager Financial Service Representative (FSR) Supervisor	Up to \$350,000
President Sr. Vice President of Financial Services Vice President of Finance Vice President of Lending	Up to \$500,000

GENERAL LEDGER CHECKS Dual Signatures Required for anything over \$100k	
Senior Accountant	Up to \$50,000
Financial Service Representative (FSR) (loan funding transactions only) (loan draft transactions only)	Up to \$50,000
Branch Manager Real Estate Servicing Supervisor (loan transactions only)	Up to \$200,000
Sr. Vice President of Financial Services Controller Assistant Vice President of Financial Services	Up to \$350,000
President Sr. Vice President of Financial Services Vice President of Finance Vice President of Lending (Loan funding only)	Up to \$500,000

* As noted above, there must be dual signatures of the authorized individuals on all checks in excess of \$100k.

** Checks exceeding \$500,000 require the signature of two of the following: the President, the Sr. Vice President of Financial Services, or the Vice President of Finance.

FAA EMPLOYEES CREDIT UNION

Policy No: 5.11
Date: January 1 1985
Revised: July 28, 2009

SUBJECT: GROUP ACCIDENT INSURANCE

POLICY: The **FAA Credit Union** shall provide coverage for members of the Official Family and the staff. The coverage shall be as follows:

Senior Management	\$100,000.00
Volunteers	50,000.00
Staff	50,000.00

FAA CREDIT UNION

Policy No.: 5.12

Date: July 18, 1990

Revised: **March 25, 2014**

SUBJECT: BUSINESS CONTINUITY/DISASTER RECOVERY/PANDEMIC PREPAREDNESS

The Board of Directors recognizes the need for a comprehensive business resumption and emergency preparedness plan for the credit union. The Board of Directors authorizes the President to develop the credit union's BCDR plan, oversee annual testing and report the findings to the Board. FAA Credit Union's BCDR plan also addresses the credit union's plans for a pandemic event. A copy of the plan is available for the Board's review.

BUSINESS CONTINUITY AND DISASTER RECOVERY PLAN (BCDR)

The credit union's President and/or management team, as directed by the President, will prepare and maintain a Business Continuity/Disaster Recover/Pandemic Preparedness Plan ("BCDR Plan"). The BCDR Plan will include at least the following:

1. A clear definition of the scope of the plan.
2. The types of potential disasters, along with the appropriate plans and responses to address those identified.
3. A list of the Disaster Management Team(s).
4. Disaster response procedures designed to minimize risk to life and property.
5. Guidelines on post-disaster situation assessment.
6. Guidelines on issuing a Disaster Declaration including emergency operating policies which become effective when the Disaster Declaration is issued.
7. Information on communications, employees, and staffing plans to facilitate a quick, effective disaster response.
8. Third party vendor contact information.
- 9. Contingent liquidity funding sources and plan.**
10. Procedures explaining how to recover the computer and technology related systems of the Credit Union.
11. Procedures explaining how to recover the key credit union facilities.
12. Procedures explaining how to recover the key business functions of the Credit Union.
13. Public relations information to facilitate clear communication with members, the media, and the community.
14. Procedures for publishing/reporting to members and the public regarding the loss or suspension of services
15. Vital information related to insurance coverage and emergency funding.

NOTIFICATION TO REGULATORS

The credit union will notify the appropriate regulatory authorities including the NCUA regional director within five (5) days of a catastrophic act at any of its locations which involve:

1. Any disaster that damages the credit union's facilities;
2. Any event that interrupts *vital member services* for more than two (2) consecutive business days:
 - a. Vital member services shall include any informational account inquiries, share withdrawals and deposits and loan payments and disbursements.
 - b. Share deposits and loan balances shall reflect account information as of the last business day.

VITAL RECORDS PRESERVATION

The credit union recognizes the importance of preserving vital records and member information. The credit union utilizes an off-site processor to maintain and assist in the preservation and recovery of vital records which includes the ability to duplicate vital records as necessary.

TRAINING

Credit union employees and volunteers will receive training on the credit union's BCDR Plan consistent with their job functions.

TESTING

The credit union's BCDR Plan will be tested annually or in shorter intervals if deemed necessary. The results of the testing will be documented and any necessary revisions will be made to the BCDR Plan based upon the testing results.

REVIEW

The board will at least annually review and approve the BCDR Plan.

DISASTER DECLARATION AUTHORITY

The following individuals, in order of availability, are authorized to issue a Disaster Declaration:

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

It is the policy of FAA CU to maintain regular business hours without interruption whenever possible unless circumstances prohibit normal operations. The safety of the employees and members must be considered when determining the levels of disaster as defined in the BCDR.

The BCDR is a working plan that provides continuous updating of employee information, data processing information, vendor support, and other necessary changes. Members of the FAA

CU staff have been designated in leadership response roles for various department/branch plans and trained on implementing the credit union's BCDR in response to any type of interruption of the credit union's normal business operations.

LOCATION OF PLAN DOCUMENTS

This BCDR Plan is the credit union's formal Business Continuity Plan. Permanent written updated copies and an electronic format* of this report are located at:

FAA CU MMAC
5710 S. W. 63RD
OKC, OK 73169

FAA CU Northwest
8230 N W Expressway
OKC, OK 73162

FAA CU Western
10201 S Western
OKC, OK 73139

FAA CU Mustang
361 E Hwy 152
Mustang, OK 73064

FAA CU Capitol Hill
3805 S Western
OKC, OK 73107

FAA CU Edmond
2800 N. Kelly Ave. Ste 100
Edmond, Ok 73003

FAA CU Norman
1212 W Lindsey
Norman, OK 73069

*The electronic format is available via the credit union's intranet which can be accessed **from any computer or tablet with internet access and key personnel have a written copy of the BCDR at their residences.**

EMERGENCY PREPAREDNESS DETERMINATIONS

The Board of Directors acknowledges the unique relationship with our sponsor. Since one of our offices is on government property, the FAA CU must comply with policies as directed by the administration of the Mike Monroney Aeronautical Center (Center).

To assure FAA CU's compliance to government policies and to assure the safety of credit union employees, we will adhere to all emergency procedures as directed by the Mike Monroney Aeronautical Center, state or national health agencies. These procedures may include fire drills, bomb drills, tornado alerts, adverse winter weather conditions, etc. The credit union is a part of the Emergency Notification System (ENS) at the Center, and therefore follows the directions of the ENS.

FAA CU BUSINESS CONTINUITY AND DISASTER RECOVERY GOALS

8-24 Hours:

The credit union has determined that these functions are essential to FAA CU's overall operations and they should, if a disaster occurs, be operational within 8-24 hours:

- Administration (including the Board of Directors)
- Security
- Telecommunications & Information systems
- Public Relations

24-48 Hours:

The credit union has determined the critical tasks performed by these functions are essential to FAA CU's operations and they should, if a disaster occurs, be operational within 24-48 hours:

- Office and Platform Operations
- Audit
- Human Resources
- Legal Counsel (Outside source)
- Marketing
- Accounting or Finance
- Courier and other transportation services
- Facilities Management
- Office Support

48-72 Hours:

The credit union has determined the critical tasks performed by these functions are essential to FAA CU's continuing operations and they should, if a disaster occurs, be operational within 48-72 hours:

- Information Security
- Other Information Systems
- ATM network
- Wire transfers
- Loan services
- Purchasing, delivery, and receiving
- Insurance

All other functions that are essential to FAA CU's continuing operations will be reinstated as time and resources permits.

PANDEMIC

In the event of a Pandemic, FAA CU will respond and provide services via the many self service channels (online banking, ATM, debit & credit cards, lines of credit and automated phone services) with communication to members via E Services, recorded messages, web site, twitter, facebook, blog and messaging signs. Personal service will only be allowed at those locations as permitted by State and National Health and Regulatory Authorities. The primary focus of the credit union will be on guarding the safety and health of all personnel and its members. It is noted that the FAA CU Office located on the Mike Monroney Aeronautical Center will operate only as permitted/directed by the Officials at the Center. The Western,

Northwest and Mustang FAA CU offices have been stocked with emergency medical, food and water supplies. These emergency supplies and equipment will be audited, inventoried and replaced as a part of the annual review of FAA CU's BCDR Plan. In the event of a pandemic, the credit union will focus on operating three locations (Western, Northwest and Mustang) by providing limited services via delivery channels that do not require direct physical contact with the member. It's estimated that a pandemic will reduce the staff to only 40% of norm. FAA CU's BCDR Plan has established a Pandemic Response Team (CEO, Sr. VP of Information Technology, Sr. VP of Financial Services, VP of Human Resources, VP of Lending, Internal Auditor, CFO, VP of Marketing, Member Care Supervisor, Collections Supervisor, Training Specialist, Branch Managers, Facilities Coordinator, and other key personnel) which has identified team members and their responsibilities and duties.

FAA CREDIT UNION

Policy No: 5.13
Date: October 16, 1990
Revised: July 27, 2010
Reviewed: **August 27, 2013**

SUBJECT: DORMANT ACCOUNTS

POLICY: A dormant account is an account with no activity for 12 consecutive months.

Dormant accounts will be assessed a monthly service charge, not to exceed \$25.00 annually, until the account balance is brought to \$0.00. THIS IS A NON-REFUNDABLE SERVICE CHARGE.

Dormant accounts may be escheated to the Oklahoma State Treasurer in accordance with the Uniform Unclaimed Property Act.

If an account has been escheated to the Oklahoma State Treasurer, it is the member's responsibility to reclaim the property from the Oklahoma State Treasurer's Office. No interest will be paid on these funds from the time the funds were sent to the Treasurer's Office to the date the member makes claim for their account.

Members whose accounts become dormant and are service charged out will not lose membership eligibility. If they reapply for membership in the future, pay current membership share, and their previous account was not misused, nor caused the Credit Union a loss, we will re-open their account.

FAA CREDIT UNION

Policy No: 5.14
Date: March 23, 1993
Revised: January 25, 2011

SUBJECT: CAPITAL EXPENDITURES AND DEPRECIATION OF FIXED ASSETS

POLICY: Authorization to purchase equipment and supplies for the Credit Union is granted to the President. Any capital expenditure of **\$25,000** or more shall be approved by the Board of Directors.

Fixed Assets

1. Purpose

To establish guidelines for recording, reporting and controlling fixed assets that have been purchased, replaced or sold.

2. Objectives

- A. Establish capitalization criteria
- B. Establish depreciation/amortization method and useful lives
- C. Establish proper accounting for dispositions
- D. Establish appropriate inventory controls
- E. Ensure adequate insurance coverage

3. Capitalization Criteria

Fixed assets are recorded at their historical cost and are capitalized when the total purchase price is \$1,000 or more and has a useful life greater than one year. Purchases between \$200-\$999 will be set up as a fixed asset and fully depreciated in the first month of service. Purchases under \$200 will not be set up as a fixed asset and will be charged to the appropriate expense category.

Depreciation/Amortization Method, Useful Lives and Salvage Values

Depreciation and amortization expense is to be calculated using the straight-line method beginning with the first month the asset is placed in service. **Salvage value, if any, shall be deducted from the asset's original cost to arrive at the depreciable value. The adjusted value (original cost minus salvage value) becomes the depreciable base.**



FAA CREDIT UNION

Policy No: 5.14 Pg 2
Date: March 23, 1993
Revised: August 16, 2005

SUBJECT: CAPITAL EXPENDITURES AND DEPRECIATION OF FIXED ASSETS

The maximum useful lives used for the depreciation/amortization of the various classes of fixed assets are as follows:

- A. Land-non-depreciable
- B. Buildings-estimated useful live, not to exceed 40 years
- C. Furniture & Equipment-estimated useful life, not to exceed 10 years
- D. Computer Hardware and Software-estimated useful life, not to exceed 3 years (excludes main processing system)
- E. Leasehold Improvements-the lesser of the estimated useful life or the remaining lease term
- F. Automobiles-estimated useful life, not to exceed 5 years

5. Dispositions

- A. Sales—when a fixed asset is sold, the cost and related accumulated depreciation will be removed from the applicable accounts. The difference between the net book value and the proceeds, net of selling expenses, on the sale is recognized as a gain or loss.
- B. Involuntary Conversions
Assets may be lost or destroyed through fire, casualty, condemnation or any other involuntary event. The resulting gains or losses are measured by the difference between the proceeds, if any and the net book value of the asset.
- C. Retirements
When an asset has been fully depreciated, the asset and related accumulated depreciation will remain in the accounts until the asset is retired from service.
When an asset is retired, the cost and accumulated depreciation accounts will be relieved.

FAA CREDIT UNION

Policy No: 5.14 Pg 3
Date: March 23, 1993
Revised: August 16, 2005

SUBJECT: CAPITAL EXPENDITURES AND DEPRECIATION OF FIXED ASSETS

D. Abandonment

Abandonment is essentially a disposal without receiving any consideration. The credit union shall endeavor to dispose of abandoned property at a price sufficient to reimburse the credit union for its investment and costs of acquisition. The accounting for abandonment is the same as for a sale. The cost and related accumulated depreciation are removed from the accounts, however since there is no consideration, a loss is realized if the asset has not been fully depreciated.

E. Donated

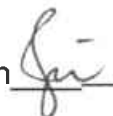
Assets donated to a charitable organization are accounted for by removing the cost and related accumulated depreciation from the accounts. Any remaining net book value is charged to expense.

Permanent impairment and obsolescence

Occasionally, it is found that an asset purchased for a particular purpose can no longer be used due to poor condition, improved technology, unforeseen reduction in demand, or other reasons. When an asset becomes impaired or obsolete and has no remaining usefulness, the net book value will be written off.

6. Inventory Control

A complete physical inventory of fixed assets for each separate credit union location will be taken not less than every three years. This may be undertaken in segments throughout the three-year time frame.



FAA CREDIT UNION

Policy: No: 5.15
Date: October 19, 1993
Revised: August 27, 2013

SUBJECT: OFFICIAL FAMILY ELECTION PROCEDURES
POLICY:

Nominations

The Chairman of the Board appoints a Nominating Committee chairperson. This committee shall be comprised of the committee chairperson, at least one other Board member, and one member of the Supervisory Committee, **who will oversee the nominating and election process.**

Duties

At least 90 days prior to the annual meeting, the Nominating Committee will meet to select a slate of candidates for the Board of Directors and Supervisory Committee. It is the duty of the Nominating Committee to select at least one member for each vacancy on the Board and Supervisory committee and to report the slate of candidates to the Board of Directors to stand for election **and to oversee the election process.** It is also the duty of the committee to determine that each nominee is eligible and agreeable to serve if elected.

Self-Nominations

A member not selected by the Nominating committee may self nominate provided the self-nominee has acquired the names, addresses and signatures of at least **1% of the membership of the credit union, as of September 30th of the current year.** **The petition of the self nominee must be submitted to any member of the Nominating Committee, the President, or the President's Administrative Assistant by December 1st at 5:00PM or the first business day thereafter.** The Supervisory Committee or its designee will ascertain that the petition information is valid **by December 31st or the last business day of the year,** before that candidate is placed on the ballot. Any candidate or their agent(s) who is seeking signatures for a petition or campaigning for an office may not position their self(s) closer than 1000 feet from any credit union office.

Qualifications

The Nominating Committee or their designee will determine that all candidates are a member in good standing with FAA Credit Union. A qualified member, for the purpose of nomination, is defined as any member of the Credit Union who is in good standing and is of legal age.

A brief statement of qualifications and biographical data will be completed by each nominee on the approved form. A list of basic responsibilities will be provided to each candidate. A Notice of Intent to Serve and a Terms of Agreement will be signed by each candidate.

Voting

If voting should be necessary, it will be conducted in a manner as approved by the Board of Directors with the assistance of a third party administrator (contractor) proficient in conducting elections through electronic means.

Balloting will be made available by electronic means to all members of record age 16 or older approximately four to six weeks prior to the annual meeting. Members who join the credit union within 10 days of the annual meeting will not be eligible to vote. **Ballots will be returned through electronic means to the Contractor for tabulation.**

Balloting deadlines will be as follows: Any ballot received by the Contractor up to **5:00P.M. ten (10)** days prior to the annual meeting shall be counted.

Ballot Counting/Reporting

Ballot counting will be conducted by the Contractor and the results will be reported to the Chairperson of the Nominating Committee **no later than 4:00P.M.** two days prior to the annual meeting. The results of the election will be reported to the Board of Directors, the Supervisory Committee, CEO, and the candidates prior to the annual meeting. The election results will be announced at the annual meeting.

Destruction of Ballots

The ballots will be retained by the Contractor and will be destroyed upon written notification from the credit union after a proper resolution is passed by the Board of Directors at their next regularly scheduled meeting following the annual meeting.

Disputes of any nature shall be investigated and resolved by the Nominating Committee.

FAA CREDIT UNION

Policy No: 5.17
Date: November 17, 1998
Revised: February 25, 2014

SUBJECT: INTERNAL AUDITING

POLICY: It is the policy of the FAA Credit Union to maintain an internal auditing function to examine and evaluate the activities of the Credit Union. The primary purpose of the internal auditing function is to assist the Supervisory Committee in the performance of their duties. The internal auditing function reports functionally to the Supervisory Committee and administratively to the President of the Credit Union. The Supervisory Committee will actively participate in the annual performance review of the Internal Auditor, providing observations and input. The Chairperson of the Supervisory Committee will share with the President of the Credit Union in the Internal Auditor's annual performance appraisal discussion. Additional Internal Audit staff members report to the Internal Auditor.

INTERNAL AUDIT CHARTER

Mission and Scope of Work

The mission and primary purpose of Internal Audit is to assist the Supervisory Committee in the performance of their duties and to partner with management to provide independent, objective assurance and consulting services designed to add value and improve the credit union's operations, ultimately impacting the members.

Internal Audit helps the credit union accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of internal control, risk management, and the governance process. It is the implementing arm of the Credit Union's Supervisory Committee. It helps the Committee carry out its fiduciary responsibilities for accounting policies, reporting practices of the Credit Union and conducting sufficient audits.

The scope of Internal Audit is to determine whether the Credit Union's network of internal control, risk management, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:

- Risks are appropriately identified and managed.
- Interaction with the various governance groups occurs as needed.
- Significant financial, managerial and operating information is accurate, reliable and timely.

- Employees' actions are in compliance with policies, standards, procedures and applicable laws and regulations.
- Resources are acquired economically, used efficiently and adequately protected.
- Programs, plans and objectives are achieved.
- Significant legislative or regulatory issues impacting the Credit Union are recognized and addressed appropriately.

Opportunities for improving management control, profitability, and the Credit Union's image may be identified during internal audits. These areas will be communicated to the appropriate level of management.

Accountability

The Internal Auditor, in the discharge of his/her duties, will be accountable to the Supervisory Committee to:

- Report significant issues related to the processes for controlling the activities of the Credit Union and its affiliates, including potential improvements to those processes, and provide information concerning such issues through resolution.
- Periodically provide information on the status and results of the annual Internal Audit Plan and the sufficiency of department resources.
- Coordinate with external auditors and regulatory examiners.

Independence

To permit the rendering of impartial and unbiased judgment essential to the proper conduct of internal audits, Internal Audit personnel will be independent of the activities they audit. This independence is based primarily upon organizational status and objectivity. All Internal Audit personnel should have an impartial, unbiased attitude and avoid even the appearance of a conflict of interest.

Internal Audit has no direct responsibility for the operations and functions within audited areas. Therefore, the Internal Audit review and appraisal process does not in any way relieve other persons in the organization of the responsibilities assigned to them. While Internal Audit may take an active role in the formulation of policy or development of new systems, it will be in an advisory capacity, with final decisions and implementation being the responsibility of Credit Union management.

Responsibility

The Internal Auditor and the staff of the department have the responsibility to:

- Develop a flexible annual Internal Audit Plan using an appropriate risk-based methodology, including any risks or control concerns identified by the Supervisory Committee and management, and submit that Plan to the Supervisory Committee for review and approval as well as provide periodic updates.
- Implement the annual Internal Audit Plan, as approved, including any special tasks or projects requested by management and the Supervisory Committee. Provide periodic updates to the Supervisory Committee and the Board of Directors on the status of the Department's progress towards completing the annual Internal Audit Plan.
- Maintain a staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this Charter. It is recognized that specific outside expertise may be needed for adequate review of specialized areas (for example, information technology). With approval of the Supervisory Committee, the Board of Directors, and senior management, Internal Audit may supplement its personnel with resources from outside professional service firms in such cases.
- Perform advisory/consulting services, beyond internal auditing assurance services, to assist management in meeting its objectives. Examples may include facilitation, process design, and training.
- As may be necessary, evaluate and assess significant new or changing services, processes, operations and control procedures coincident with their development, implementation and/or expansion.
- Issue periodic reports to the Supervisory Committee and appropriate management summarizing results of internal audit activities. Internal audit reports may include management's response and corrective action taken or to be taken in regard to the specific findings and recommendations.
- Findings, related recommendations, and management's responses from all audits, reviews, assessments, or examinations, whether conducted by Internal Audit or by external independent auditors or examiners, will be tracked and monitored to completion or resolution. This will include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented. Periodic reports of outstanding corrective actions will be provided to the Supervisory Committee and the Board of Directors.
- Provide copies of periodic activity reports to senior management and otherwise ensure that senior management (President of the Credit Union) is informed of the Internal Audit Department's activities.
- As may be necessary from time to time, undertake special investigations and independent reviews including investigation of

significant violations of the Credit Union's Code of Ethical Conduct (CODE) and Declaration or significant cases of conflict of interest, misconduct or fraudulent activities, notifying management and the Supervisory Committee of the results.

- Consider the scope of work of the external auditors and regulators, as appropriate, for the purpose of providing optimal audit coverage to the organization at a reasonable overall cost. Provide the Supervisory Committee with input during its annual evaluation of the effectiveness of the external auditor and, when auditor rotation is appropriate, assist Supervisory Committee with identifying potential independent audit firms, developing and obtaining Requests for Proposal, and review/evaluation of audit proposals received.
- Coordinate with other control and monitoring functions (such as risk management, compliance, security, and legal).
- Keep the Supervisory Committee informed of emerging trends and best practices in internal auditing related to the credit union industry as well as significant credit union accounting, compliance, and regulatory matters.
- Review the Internal Audit Policy and Charter annually with the Supervisory Committee.

Authority

Internal Audit has full authority vested with the Supervisory Committee and the Board of Directors to perform examinations, internal audits and investigations of all financial records, operations and affairs of the Credit Union. The Internal Auditor and staff of the department are authorized to:

- Have full and unrestricted access to all Credit Union functions, records, physical property and personnel considered necessary to fulfill the audit.
- Have full and free access to the Supervisory Committee.
- Take directly to the Chairperson of the Supervisory Committee matters that are of significant magnitude or concern to require immediate attention.
- Allocate audit resources, set frequencies, select subjects, determine scopes of work and apply the techniques required to accomplish audit objectives.
- Obtain the necessary support of personnel in units of the organization where they perform audits, as well as other specialized services from within or outside the organization.

The Internal Auditor and staff of the department are not authorized to:

- Perform any operational duties for the Credit Union or its affiliates.
- Initiate or approve accounting transactions external to the Internal Audit Department.
- Direct the activities of any Credit Union employee not employed by the Internal Audit Department, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist Internal Audit.

Standards of Internal Audit Practice

Internal Audit Department standards will be consistent with the International Standards for Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. All staff members are expected to abide by the Code of Ethics of the Institute of Internal Auditors.

FAA CREDIT UNION

Policy No: 5.18
Date: July 16, 2002
Revised: March 24, 2009

SUBJECT: STANDING COMMITTEES

Policy: Certain standing committees of the Board of Directors are established to assist in complying with bylaws and regulatory requirements. The Chair of the Board shall annually appoint Board members to serve as the Chairperson of the standing committees. Members of the standing committees must be members of the official family or employees of the credit union. The Chairpersons shall then appoint members of their committees as defined below, or as defined in related policies or bylaws.

The Chair of the Board shall have the prerogative to call for and establish ad hoc committees as necessary. Committee vacancies during the year shall be filled at the discretion of the committee chair. The Chairman of the Board will fill any committee chair vacancy.

Reports of any standing committee shall be made to the Board of Directors either verbally or in writing at the next regularly scheduled Board meeting.

The following standing committees of the Board of Directors are as follows:

ALM Committee
Defined in Policy #8.1, page 2.

Nominating Committee
Defined in Policy #5.15, page 1.



FAA CREDIT UNION

Policy No: 5.18 Pg 2
Date: July 16, 2002
Revised: March 24, 2009

SUBJECT: STANDING COMMITTEES

Policy and Bylaws Committee

The committee shall be comprised of the Committee chairperson, at least one other Board member, and one member from the Supervisory Committee.

President's Performance Evaluation Committee

This committee shall be comprised of the Committee chairperson, and at least one other Board member.

Planning Committee

This committee shall be comprised of the Committee chairperson and at least one other Board member.



FAA CREDIT UNION

Policy No: 5.19
Date: July 15, 2003
Revised: June 26, 2012
Reviewed: June 24, 2014

SUBJECT: CEO SUCCESSION PLAN

Policy: Plan Statement: The following plan will prepare FAA CU for an orderly transition to name a CEO in the event of a permanent or temporary vacancy of the CEO.

Permanent Vacancy

In the event the President/CEO leaves his/her position either voluntarily or involuntarily; the following steps will be implemented:

The Chairman of the Board will notify the Board of Directors and Chairman of the Supervisory Committee of the situation. The Chairman of the Board will call a meeting of the Board as soon as possible after receiving notification of the vacancy.

The Chairman of the Board will inform the staff of the situation along with a written letter to employees notifying them of the vacancy of the President/CEO. The letter will also name the Sr. Vice President of Financial Services as the Interim successor and outline his/her duties and responsibilities. If for any reason the Sr. Vice President of Financial Services is unable to assume the duties of the President/CEO, the Board shall meet and appoint one of the Senior Vice Presidents or Vice Presidents to serve as the Interim CEO.

The Board Chairman will instruct the Interim CEO to notify the appropriate agencies of the change, including but not limited to, the Oklahoma State Banking Department, National Credit Union Administration Regional Director, CUMIS Insurance Group (Bond), Attorneys, Security Companies, Depository Banks, Credit Union Corporate, Credit Union Association of Oklahoma, and the current external auditing firm.

Within 7 days of the announcement, the Chairman of the Board will appoint a Search Committee to initiate a recruitment and selection process.

FAA CREDIT UNION

Policy No: 5.19 Pg 2
Date: July 15, 2003
Revised: June 26, 2012
Reviewed: **June 24, 2014**

SUBJECT: CEO SUCCESSION PLAN

Search Committee

The Search Committee shall perform the following actions:

The Board of Directors will determine if the Search Committee will act on the full responsibilities of the search process, or if an outside firm will be used for the bulk of the process. The remaining processes will be handled by the Search Committee and/or external firm as determined by the Board of Directors.

At their discretion, the Board of Directors, in coordination with the Supervisory Committee may conduct an audit of the Credit Union prior to the new President/CEO being hired.

Temporary Vacancy

In the event the CEO is unable to serve in his/her normal capacity for a period of more than 30 calendar days; the following steps will be implemented:

The Chairman of the Board will notify the Board of Directors and Chairman of the Supervisory Committee of the situation. The Chairman of the Board will call a meeting of the Board as soon as possible after receiving notification of the vacancy.

The Board of Directors will appoint the Sr. VP of Financial Services as the Interim CEO to serve for a specific period of time. If for any reason the Sr. VP of Financial Services is unable to assume the duties of the President/CEO, the Board shall meet and appoint one of the Senior Vice Presidents or Vice Presidents to serve as the Interim CEO.

The Chairman of the Board will execute and deliver a letter to the Interim CEO outlining the Interim's level of authority, expectations, and salary terms.

The Chairman of the Board will inform the employees of the situation along with a written and/or email memorandum to the staff explaining the situation.

FAA CREDIT UNION

Policy No: 5.19 Pg 3
Date: June 17, 2003
Revised: June 26, 2012
Reviewed: June 24, 2014

SUBJECT: CEO SUCCESSION PLAN

The Chairman of the Board will instruct the Interim CEO to notify the appropriate agencies, including but not limited to, the Oklahoma State Banking Department, National Credit Union Administration Regional Director, CUMIS Insurance Group (Bond), Security Companies, Attorneys, Depository Banks, Credit Union Corporate, Credit Union Association of Oklahoma, and the current external auditing firm.

The Board of Directors will periodically monitor and review the situation to determine the length of time the Credit Union can continue to function without a permanent CEO.

The Board of Directors reserves the right to deviate from the procedures in this policy if the Board, at a regular or special meeting, determines a different course of action is in the best interest of the Credit Union.

The Succession Plan Policy shall be reviewed annually by the Board of Directors.

FAA CREDIT UNION

Policy No: 5.20
Date: May 18, 2004
Revised: November 26, 2013
Reviewed: **May 27, 2014**

SUBJECT: ASSOCIATE DIRECTOR PROGRAM

Policy: The purpose of the Associate Director Program is to attract, train, and educate potential directors who have the necessary talents to serve on the FAACU Board of Directors. This program will afford potential directors the opportunity to experience the duties and responsibilities of a director prior to election or appointment.

Eligibility and Length of Term

Individuals who are members in good standing of FAA Credit Union for at least two consecutive years will be eligible to serve as Associate Director unless waived by the Board of Directors.

Associate Directors will be appointed by the Board of Directors for a one-year term. At the next regularly scheduled Board meeting following the annual meeting, the Board will review the appointments of the Associate Directors and take the appropriate actions to either renew the appointments of the Associate Directors then serving, or remove any of the appointments and fill any resulting vacancy.

Duties and Responsibilities

Associate Directors will attend and participate in *regular* Board of Directors meetings, provide input and support, but will not cast a vote on any motion or question. At the discretion of the Board, they may attend additional unscheduled meetings.

Associate Directors will be expected to complete designated educational courses, and attend designated educational meetings, training sessions, chapter meetings, and planning meetings.

Associate Directors will be expected to become familiar with FAA Credit Union's bylaws, policies, mission statement, long-range goals, and appropriate rules and regulations.

Selection Process

The Associate Director Nominating Committee as defined in Policy No. 5.18 will present candidates to the Board as needed. The Associate Director Program will not have more than **two** appointees

serving at any time.

Committee Interview

1. How long have you been a member of FAA Credit Union?
2. Are you an employee or official family member of any other financial institution?
3. What volunteer positions (credit union or other) have you previously held?
4. What do you feel you can bring to and do for the credit union if you become an Associate Director?
5. Can you commit 6-12 hours per month to serve as an Associate Director?
6. Are there any limits/restrictions on what hours you can attend credit union functions?
7. Are you willing to enroll and complete appropriate courses for credit union volunteers?
8. Do you affirm that all your financial obligations are and will be handled in a professional manner?
9. Will you be able to attend planning meetings and conferences that require 2 to 4 days away from home?
10. Have you ever been convicted of any type of crime other than traffic violations?
11. How long of a commitment can you make if appointed?
12. Due to the sensitive nature of the position; may we have your permission to obtain a credit report?

Your Signature _____

Chairman

Secretary

Vice Chairman

Treasurer

FAA CREDIT UNION

Policy No: 5.20
Date Reviewed: **May 27, 2014**

SUBJECT: ASSOCIATE DIRECTORS ANNUAL PLEDGE

ASSOCIATE DIRECTORS PLEDGE

I fully understand that to serve the members of the FAA Credit Union is an honor, and do hereby agree, that I will conform to and abide by the following standards to maintain my fitness to serve:

1. Make myself available to attend regular monthly Board meetings and the credit union Annual Meeting unless prevented by circumstances beyond my control.
2. Make an earnest effort to attend committee meetings that I am invited to, in addition to the annual planning conference, and any other meetings as designated by the Chairman of the Board or the President.
3. Maintain the confidentiality of credit union information, operations, and member information.
4. Strive to continually learn more about the credit union movement, organization, operations, services, and my individual responsibilities as an Associate Director by availing myself of appropriate educational opportunities.
5. Ensure that I have no conflicts of interest, actual or perceived, but if one should arise, I will immediately disclose it to the Chairman of the Board.
6. Give all assistance possible to other volunteers, appointed officers, and employees of the credit union in the discharge of their duties.
7. I will conduct myself in a professional manner that will reflect favorable on the credit union.
8. Maintain financial obligations in a responsible, professional manner consistent with the responsibilities of the Board.

Signature _____

Date _____

FAA CREDIT UNION

Policy No: 5.21

Date: May 18, 2004

Revised: February 26, 2013

Reviewed: **February 25, 2014**

SUBJECT: BOARD OF DIRECTORS DUTIES AND ANNUAL PLEDGE

Policy: To provide governance for the credit union in accordance with the Bylaws and in the following manner: To set policy; plan the credit union's strategic direction; ensure the safety and soundness of the credit union; ensure the mission of the credit union, as defined in the mission statement, is carried out; maintain open communications with the members and staff, educate members on the credit union services; select the CEO and thereafter direct and review the CEO's progress in achieving goals and objectives; and report to the members as required by law.

Specific Duties

1. Work with the CEO, management, staff, other Board members and the Supervisory Committee to develop goals and objectives for the credit union.
2. Ensure the credit union adheres to pertinent laws, regulations, and sound business practices. Establish boundaries within which the CEO may operate and establish operational policies.
3. Ensure the credit union maintains sound financial conditions and that the credit union's assets are protected against unauthorized borrowing and investing, by defining specific boundaries for the operation of the credit union. Provide for bonding and other security factors including internal control procedures. Approve interest rates, dividends, and refunds. Ensure the approved Asset Liability Management (ALM) Policy is managed accordingly.
4. Establish policies which will be derived from the credit union's operational procedures for all credit union programs and activities.
5. Ensure new products and services are developed as needed.
6. Approve the credit union's financial plan and long term goals.
7. Engage the CEO; define the scope of his/her duties, review

progress in attaining the prescribed goals and objectives, and setting the CEO's contract and salary/benefits.

8. Attend Board meetings, exercise independent judgment, and report to the members as required by law.
9. Carry out Board duties in good faith, in a manner reasonably believed to be in the best interests of the membership of the credit union as a whole, and with the care, including reasonable inquiry, as an ordinarily prudent person in a like position would use under similar circumstances.
10. Administering the affairs of the credit union fairly and impartially and without discrimination in favor of or against any particular member.
11. At the time of election or appointment, or within a reasonable time thereafter, not to exceed six months, have at least a working familiarity with basic finance and account 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.

FAA CREDIT UNION

Policy No: 5.21 Pg 3-4

Date: May 18, 2004

Revised: February 26, 2013

Reviewed: **February 25, 2014**

**SUBJECT: BOARD OF DIRECTORS DUTIES AND ANNUAL PLEDGE
continued**

BOARD OF DIRECTORS PLEDGE

I fully understand that to serve the members of the FAA Credit Union is an honor, and do hereby agree, that I will conform to and abide by the following standards to maintain my fitness to serve:

1. Make myself available to attend all regular and special meetings of the Board and my assigned committees, unless prevented by circumstances beyond my control.
2. Attend the credit union planning conference, unless prevented by circumstances beyond my control.
3. Strive to continually learn more about the credit union movement, organization operations, services, and my individual responsibilities as a Board member by availing myself of appropriate educational opportunities and by attending all required continuing education including annual financial literacy training within the prescribed periods and Bank Secrecy Act training.
4. Maintain the confidentiality of the credit union operations and information relating to its members.
5. Ensure that I have no conflicts of interest, actual or perceived, but if one should arise I will immediately disclose it to the Board and refrain from voting on issues related to the conflict.
6. Participate to the best of my ability in the determination of policy and other matters coming before the Board, give full attention to credit union operations, issues and concerns, and vote, or officially abstain on all issues submitted or proposed for Board action.
7. Give all assistance possible to my fellow Board members, appointed officers, and employees of the credit union in the discharge of their duties.

- 8. I will conduct myself in a professional manner that will reflect favorably on the credit union.
- 9. Conduct the affairs of the credit union in a reasonable, prudent, and non-discriminatory manner.
- 10. Remain current on all personal credit obligations with the credit union.

Signature _____

Date _____

FAA CREDIT UNION

Policy No: 5.22
Date: November 15, 2005
Revised: **July 23, 2013**

Subject: COMPLIANCE POLICY

POLICY

The Board of Directors of FAA Credit Union (FAACU) is committed to serving its members on a fair and nondiscriminatory basis. FAA Credit Union is a State-chartered Credit Union **formed under the laws of the State of Oklahoma. As a state-chartered credit union, FAACU is regulated by the Oklahoma Banking Department. FAACU is subject to Oklahoma state law. FAACU is also subject to various federal laws, rules and regulations from agencies such as the National Credit Union Association (NCUA), the Federal Trade Commission (FTC), the Consumer Financial Protection Bureau (CFPB), etc. The Credit Union is committed to understanding and complying with the laws and regulations that govern its operation.**

It is necessary for the Credit Union to be in compliance with all applicable laws, **rules and regulations**, at all times. **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 President/CEO and Sr. VP of Financial Services. The Sr. VP of Financial Services is hereby appointed as the Compliance Officer of the Credit Union.** Further, the Board of Directors has established a Compliance Committee to supervise the Credit Union's compliance activities.

COMPLIANCE COMMITTEE & RESPONSIBILITIES

The Compliance Committee is responsible for **the Credit Union's overall compliance with state and federal statutes, rules and regulations.** Specifically, the Compliance Committee is responsible for:

- (1) Maintaining current copies of applicable compliance statutes, regulations, and interpretations;
- (2) Maintaining proficient knowledge of applicable compliance statutes, regulations, and interpretations;
- (3) Formulating and updating credit union policies and procedures to maintain credit union compliance with applicable compliance statutes, regulations, and interpretations;
- (4) Coordinating the training of credit union personnel on credit union compliance policies and procedures;

- (5) Monitoring **and timely responding** to consumer complaints;
- (6) Maintaining an ongoing review program of credit union compliance;
- (7) Building a culture of compliance within the Credit Union.

The Compliance Committee has the authority to implement all policies and procedures necessary to maintain compliance **with all relevant state and federal laws, rules and regulations**. The chairperson of the committee has the ability to change the compliance committee members or reassign areas of responsibility. The chairperson of the Compliance Committee is the Internal Auditor.

The members of the Compliance Committee are:

Internal Auditor, Sr. **VP of Financial Services**, VP of Lending, **VP of Human Resources**, **VP of Finance**, **VP of Marketing**, Sr. VP of Information Technologies, **General Counsel**, and AVP of **Financial Services**.

Members of the Compliance Committee are responsible for overseeing compliance in their respective functional areas. This responsibility includes:

- (1) Knowledge of the laws and regulations affecting their area **and the overall responsibilities of the credit union in relation to its products and services**;
- (2) **Monthly reviews** and assisting in the drafting of policies and procedures to implement those laws and regulations;
- (3) Seeing that those policies and procedures are followed;
- (4) **Performing and/or ensuring that risk assessments are being performed for their respective areas**;
- (5) **Cooperating with all exams, internal and external audits and ensuring that any reasonable recommendations or findings are promptly remediated**;
- (6) **Immediate reporting of any critical issues of non-compliance to the President/CEO.**

In addition to the Compliance Committee, effective compliance requires the contribution of each employee. All employees are responsible to learn, understand and comply with the laws and regulations that affect their area of responsibility.

The Credit Union will schedule and execute activities designed to build a culture of compliance within the Credit Union. Authorized activities may include internal staff training, attendance at compliance schools and seminars, conferences, webinars, subscription to compliance update services, etc.

FAA CREDIT UNION

Policy No. 5.23
Date: May 22, 2007
Revised: August 26, 2014

SUBJECT: INFORMATION SECURITY GUIDELINES (748-749)

Policy: FAA Credit Union, a full financial services provider for its members, offers a full range of financial services, which requires storing a vast quantity of confidential member information in its physical and electronic files that must be carefully protected. Physical files, reports, receipts and computer information systems are an integral part of credit union operations and the protection and safeguarding of the information that these records contain is the responsibility of all employees. Access to these physical files reports, receipts and computer information systems (including email and internet banking) requires that employees utilize the system in an effective, ethical and lawful manner adhering to all credit union policies and procedures.

The Credit Union will conduct a Security Risk Assessment annually that identifies possible threats, vulnerability and inherent risk. This assessment encompasses physical security, internal security of computer systems and the individual branches. Each threat or risk is identified and a risk rating is determined. The risk rating defines a recommended action which includes: Accept the risk, Monitor and manage the risk, or Eliminate the risk. The risk assessment will be adjusted in light of any relevant changes in technology; changes in internal and external threats; changes in the member base adopting electronic banking; **transactional capability; transaction volume**; 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.

FAA CU staff will regularly review procedures and test key controls and systems related to the physical security and access to the information processing equipment, systems and information records. Test results will be reviewed by IT Senior Vice President and the Credit Union Management Team (President, Senior VP of Financial Services, VP of Marketing, VP of Lending, VP of Finance, and VP of Human Resources & AVP of Financial Services) with the results and frequency of testing documented and reported to the Board of Directors.

Information regarding the safe guard measures for safe access and use of Credit Union computers, equipment and software are detailed in the Information Systems Policy. This document also details proper and acceptable business use of these systems and sets forth guidelines for personal use of the system and authorization for such use.

Access Safe Guards

- User-Level Passwords
- System Level passwords

Layered Security

- **Segregating public and private networks, deploying overlapping controls for access and asset protection.**

Computers and Computer Equipment

- CU computers, files and software are the property of FAACU
- Employees should use equipment, access files, use passwords or retrieve stored information only as authorized.
- Use of CU equipment and software for personal business is strictly forbidden.

Computer Viruses

- Easier to prevent than to cure.
- Install & maintain appropriate virus protection software on all computers.
- Obtain updates to virus definitions.
- Respond to all virus attacks and document each incident.

Change Management

- IT department will manage changes to the CU IT systems.
- As updates/patches become available the IT department will evaluate the need for the update/patch and decide which systems need each update/patch.
- Required updates/patches will be logged in the IT Help desk software and installed on test systems.
- Once tested, updates/patches will be applied to all affected systems.

Employee Guidelines to Reduce Risk

- Never knowingly open a file containing a computer virus.
- Never load a diskette/CD/USB Thumb Drive of unknown origin on CU computers.
- Notify the IT Department of becoming aware of a computer virus.

- Destroy all information records (paper, diskettes, magnetic tapes, etc.) via a bonded shredding company.

Copyright & License Agreements

- FAACU and its employees will comply with the Federal Copyright Act.
- FAACU and its employees will NOT copy/reproduce software and will purchase licenses as required to use various computer software for business purposes.
- FAACU will maintain records of all software licenses owned.
- FAACU employees will NOT install software unless authorized by the IT Department.
- FAACU employees will NOT copy software unless authorized by the IT Department.
- FAACU employees will NOT download software unless authorized by the IT Department.

E-mail and Internet Access

FAACU provides and maintains an email system and Internet access to conduct the credit union's business and to assist employees in performance of their duties. While access to email and the Internet can provide increased efficiency and simplify the sharing of information among employees of the credit union, both are also replete with risks and inappropriate material. In order to ensure that risks are mitigated and material complies with other credit union policies, employees must adhere to the guidelines of this policy. The credit union respects the individual privacy of its employees. However, since the email and Internet access systems are credit union property, employees should NOT have the expectation of privacy with respect to communications conducted on these systems.

- Email and Internet activity is monitored and logged.
- Email communications should be related to credit union business.
- Member information should NEVER be emailed to a recipient outside the credit union network (unless authorized by CU management), if authorized it must be encrypted.
- Internet usage is intended for job-related activities.
- File downloads from emails or the Internet must be for business purposes and MUST be AUTHORIZED.
- All email activity must be professional and not in violation of any federal or state law or regulation and the credit union prohibits use of the system in any manner that could be considered improper, offensive, insulting or embarrassing

Member Information Housed on the Core Data Processing System

- Account inquiry and member information screens should not be left on display at unattended terminals.
- All printed-paper records/member information should be disposed of via a locked container for shredding.

Mail - Incoming, Outgoing and Interoffice Mail

- Outgoing US Postal Mail must be placed in outgoing bin and mailed each business day.
- Outgoing interoffice mail must be placed in interoffice mail bins for proper distribution daily or secured at the end of each business day in appropriate locations.
- Incoming US Postal Mail and interoffice mail must be processed and distributed to various recipients promptly each day. Mail from members at individual workstations must be secured at the end of each day.

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 courier must be enclosed in an opaque envelope and sealed.

Paperwork and Files

Paperwork and files such as account, loan or service applications; report; receipts and vouchers; copies of member correspondence; credit union policies, procedures and financial information; and return mail are to be accessed only by those having a business purpose for accessing the information; must be kept under strict control while in use; returned to secure files/storage locations when not in use; disposed of via locked shredding containers. Reproduction of member information is permitted only as necessary to perform required work.

This would include but not be limited to paper, microfiche, CDs, Magnetic tape, security VCR tapes and system backup tapes. A bonded shredding service company destroys the member data under surveillance and a data destruction certificate is provided.

Visitor Control

Access to locations containing member information is restricted to persons with a "need-to-know" access to member information. 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.

Destruction

When member information is no longer required, and when legal or regulatory requirements for its retention no longer apply, it must be destroyed in accordance with the Credit Union's Record Retention Policy. Vital records will not be destroyed. **Destruction will include rendering the information unreadable and include complete eradication of residual electronic information required by the Fair and Accurate Credit Transactions Act (FACTA) and other applicable laws and regulations.**

Protection of Confidential Information

Credit Union confidential information as identified and relating to members in 12 C.F.R. 716.3(m) and all credit union business or financial information as termed in 12 C.F.R. 716(q) must be protected. All credit union employees/vendors must conform to FAA CU's Information Security Guidelines Policy when working with systems containing confidential information or when working with vendors who will have access to such information.

- Files containing such information may not be sent outside the Credit Union without management's approval.
- Such files/information being sent email or via CD, diskette or magnetic tape must be encrypted and password protected. The software for encrypting must be managed in the IT Department.
- Any breaches or potential breaches of this confidential information must be immediately reported to the IT Senior Vice President, Sr. VP of Financial Services or President/CEO.
- Questions/inquiries regarding confidential information or the security of this information should be directed to a manager.
- 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. And will require service providers, by contract, who have access to or store member information to dispose of

member information in a manner consistent with FACTA and other applicable laws and regulations.

Member Information Classification and Confidentiality

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 immediate Supervisor consistent with Credit Union member privacy policy, and otherwise on a “need-to-know” basis. Credit Union employees have access and “need-to-know” authorization for member information.

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:

- 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;
- Multifactor authentication to include: layered security to segregate public and private networks including controls to access and member protection; and other controls necessary to protect the privacy and integrity of Credit Union and member information.

Unless designated as public information, member information will be classified and treated as nonpublic. 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 employee policy handbook. Employees shall verify the existence of a signed confidentiality agreement or regulatory exception prior to any disclosure of private member information to non-employees.

Removal of Information

Member information may not be removed from Credit Union premises unless there has been prior approval from the immediate Supervisor. This policy includes member information stored on portable computer hard disks, floppy disks, hard-copy, paper memos, and the like. An exception is made for authorized off-site back-ups.

Incident Response Program for Compromise of Information Security

FAA Credit Union will follow specific procedures when information protected under the Gramm-Leach-Bliley Act appear to have been compromised, accessed without authorization, and/or misused in a manner that will result in substantial harm to members. All employees, and service providers, must report suspected incidents to management who will investigate the incident according to the following NCUA definition of Sensitive Information test as follows:

- Did the information include the member's name and address or telephone number AND Social Security number, driver's license number, account number, credit/debit card number, Personal Identification Number (PIN), or password?
- Did the information include anything that would enable someone to log on to or access the member's account through Online Banking, Telephone Banking, Call Center or at a Branch.
- Did the information include anything that could facilitate identity theft?

If the answer to any of the above questions is yes, the incident will be reported to the Credit Union Management Team who will do the following:

- Assess the scope of the incident to determine if additional members were affected.
- Determine if any system, policies, or procedures caused the incident and take corrective action when applicable
- Determine if member notification and/or freezing/closing affected accounts is necessary and communicate this decision to the manager involved.
- Determine if any of the following need to be notified and notify accordingly:
 - Credit Bureaus
 - Government Agencies (SAR)
 - Local law Enforcement
 - NCUA/OK State Banking Department

The following is required for member notification:

- A description of the incident including what information was involved and whether the information has been or is likely to be misused.
- A copy of the Credit Union's Safeguarding of Member Information Policy along with an explanation of any additional steps being taken to protect the member from harm through the use of their information.

- The Credit Union's telephone number for future contact
- A reminder that the member should remain vigilant in monitoring their credit report, account statements, etc.
- Instructions on how to obtain a free credit report
- An offer to reassign a member number and/or reissue plastic cards where applicable.

If members elect to have their account number and/or plastic cards re-issued, this will be conducted according to the credit union's procedures for reassigning account number/plastic cards.

FAA CU will report to its Board of Directors at least annually. This report will describe the overall status of the information security program and the credit union's compliance with NCUA 748 and 749. The report will address issues such as:

- Risk assessment
- Risk management and control decisions
- Results of independent testing
- Security breaches or violations and management's responses
- Recommendations for changes in the information security program

FAA CREDIT UNION

Policy No: 5.24
Date: September 23, 2008
Revised: **June 24, 2014**
Reviewed: **June 24, 2014**
Subject: **COMPLIANCE POLICY**

POLICY: **Identity Theft Red Flag Policy**

This policy establishes FAA Credit Union's Identity Theft Prevention Program. The program is designed to detect, prevent, and mitigate identity theft in connection with the offering and maintaining of "covered accounts".

SCOPE

This policy applies to all accounts the Credit Union has determined to be "covered accounts", which are subject to the Fair and Accurate Credit Transactions (FACT) Act's guidelines on detecting, preventing and mitigating identity theft.

1. A "covered account" is defined as either:
 - a. Any account that the Credit Union offers or maintains, primarily for personal, family, or household purposes, that involves or is designed to permit multiple payments or transactions, such as a credit card account, mortgage loan, automobile loan, checking account, or share account; or
 - b. Any other account that the Credit Union offers or maintains for which there is a reasonably foreseeable risk to members or to the safety and soundness of the Credit Union from identity theft, including financial, operational, compliance, reputation, or litigation risks.
2. Identity theft is defined as 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:
 - a. 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;

- b. Unique biometric data, such as a fingerprint, voice print, retina or iris image, or other unique physical representation;
- c. Unique electronic identification number, address or routing code; or
- d. Telecommunication identifying information or access device.

PROCEDURES

1. Risk Assessment. The Credit Union will periodically (at least annually) conduct a risk assessment to determine which accounts are covered accounts. The risk assessment will evaluate the risk of identity theft associated with every type of account we offer or maintain for members, and will consider:
 - a. The methods by which we open accounts;
 - b. The methods by which members can access their accounts; and
 - c. Our previous experience with identity theft.
2. Red Flags. A “red flag” is a pattern, practice, or specific activity that indicates the possible existence of identity theft. In order to detect, prevent, and mitigate identity theft, the Credit Union will have procedures to:
 - a. Identify relevant Red Flags for the covered accounts that the Credit Union offers or maintains, and incorporate those Red Flags into its Identity Theft Prevention Program;
 - b. 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;
 - c. Responding. The Credit Union will assess whether the Red Flag detected is evidence of a risk of identity theft, and have a reasonable basis for concluding that a Red Flag does not evidence such a risk; and thus, respond appropriately to any Red Flags that are detected to prevent and mitigate identity theft; and
 - d. Update the program (including the Red Flags determined to be relevant) periodically, to reflect changes in risks to members and to the safety and soundness of the Credit Union from identity theft.
3. Program Administration. The Credit Union designates the Senior VP of Financial Services as the Identity Theft Program Administrator responsible for the oversight, development, implementation and administration of the program. The status of the

program, significant incidents of identity theft and the management's response to those incidents, and recommendations for material changes to the policy and program, will be reported to the board at least annually.

4. Staff Training. The Credit Union will provide training for Credit Union staff, as part of its privacy and member information security training, on a periodic basis. The training will include:
 - a. Understanding the red flags the Credit Union has identified as relevant to its Identity Theft Prevention Program;
 - b. The Credit Union's internal policies and procedures for detecting and responding to red flags;
 - c. The Credit Union's procedures for assisting members who have been victimized by identity theft or who may be at risk of identity theft.
5. Oversight of Service Providers. The Program Administrator is responsible for oversight of Credit Union service providers to ensure that they adequately safeguard member information and promptly report any security incident in which member information may have been compromised. The Program Administrator 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.
6. Other Applicable Legal Requirements. The Credit Union will follow other applicable legal requirements, such as:
 - a. The requirement to file a Suspicious Activity Report.
 - b. 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;
 - c. 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
 - d. The FCRA prohibitions against the sale, transfer and placement for collection of certain debts resulting for identity theft.
7. Updating the Program. On an annual basis, the Program Administrator will update the Program (including the Red Flags determined to be relevant), to reflect changes in risks to members or to the Credit Union's safety and soundness from identity theft, based on factors such as:

- a. Any experiences with actual or attempted identity theft against members during the previous year;
- b. Changes in methods of identity theft;
- c. Changes in methods to detect, prevent, and mitigate identity theft;
- d. Changes in the types of accounts that the Credit Union offers or maintains; and
- e. Changes in the Credit Union's business arrangements, including mergers, acquisitions, alliances, joint ventures, and service provider arrangements.

8. Card Issuance.

- 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 agreed 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 appropriate under the circumstances.
- 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.

9. Address Discrepancies When Using Credit Reports.

- 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.

10. 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.**

- 11. Educating Members. The Program Administrator will devise a plan to educate our members about ID theft by using material available from federal regulators, the FTC or private vendors as appropriate.
- 12. Internal Audit. The internal controls and procedures established by the Program Administrator will be tested at least annually by internal or external (third party) auditors. Reports of these audits should be reported to the Program Administrator, the President, and the Board with recommendations for corrective action.

FAA CREDIT UNION

Policy No: 5.25

Date: March 26, 2013

SUBJECT: Supervisory Committee Duties and Annual Pledge

POLICY: The Supervisory Committee has the responsibility to make sure that all necessary auditing functions as required by Federal and State laws are performed on behalf of the Board of Directors and the membership of the credit union.

Their primary function is to ensure management's financial reporting objectives have been met and that management practices and procedures safeguard the assets of the credit union. The Supervisory Committee also has the responsibility for determining whether the management of the credit union has:

- established and maintained effective internal controls to achieve the credit union's financial reporting objectives
- promptly prepared accounting records and financial reports to accurately reflect operations and results
- properly administered the relevant plans, policies, and control procedures established by the Board of Directors
- established policies and control procedures that safeguard against error, carelessness, conflict of interest, self-dealing, and fraud.

The Supervisory Committee may employ an outside auditor to perform the audits of the Credit Union. This outside auditor may be an auditor approved by the State Credit Union Board, a Licensed Public Accountant and/or a Certified Public Accountant. In addition to the external auditor, the Supervisory Committee employs an internal auditor to ensure an effective system of internal control and risk management is implemented by Credit Union management that will achieve the reporting, financial and operational objectives of the credit union.

FAA CREDIT UNION

Policy No: 5.25 Pg 2

Date: **March 26, 2013**

SUBJECT: Supervisory Committee Duties and Annual Pledge continued

POLICY: I fully understand that to serve the members of the FAA Credit Union is an honor, and do hereby agree, that I will conform to and abide by the following standards to maintain my fitness to serve:

1. Make myself available to attend all regular and special meetings of the Supervisory Committee and my assigned committees, unless prevented by circumstances beyond my control.
2. Attend the credit union planning conference, unless prevented by circumstances beyond my control.
3. Strive to continually learn more about the credit union movement, organization operations, services, and my individual responsibilities as a Supervisory Committee member by availing myself of appropriate educational opportunities **and by attending all required continuing education including annual financial literacy training within the prescribed period and Bank Secrecy Act training.**
4. Maintain the confidentiality of the credit union operations and information relating to its members.
5. Ensure that I have no conflicts of interest, actual or perceived, but if one should arise I will immediately disclose it to the Supervisory Committee.
6. Give all assistance possible to my fellow Supervisory Committee members, appointed officers, and employees of the credit union in the discharge of their duties.
7. I will conduct myself in a professional manner that will reflect favorably on the credit union.
8. Remain current on all personal credit obligations with the credit union.
9. **Conduct the affairs of the credit union in a reasonable, prudent, and non-discriminatory manner.**

Signature _____

Date _____

FAA CREDIT UNION

Policy No: 5.26
Date: April 26, 2011
Revised: **December 17, 2013**
SUBJECT: Vendor Management Policy
POLICY:

SCOPE OF POLICY, RISK ASSESSMENT, RESPONSIBILITIES AND ADMINISTRATION

It is the policy of the Credit Union to ensure the internal controls of a vendor, maintenance and upkeep of a third-party provider's systems (if applicable), and financial condition of a third-party vendor is carefully evaluated prior to the allowance of such support services to begin, and as an on-going condition of continuing support of such products or services.

The Board of Directors has the ultimate responsibility to ensure the Credit Union implements and maintains an effective Vendor Management Program. The Board of Directors has charged the Credit Union's Management Team (President, SVP of Financial Services, SVP of Information Technology, VP of Finance, VP of Marketing, VP of Lending, VP of Human Resources, and AVP of Financial Services) with the responsibility to determine the necessary course of action to ensure this directive is managed in an effective and consistent manner for the entire organization. This policy is to be reviewed annually.

CRITICAL VENDOR DETERMINATION

The Credit Union Management Team will identify all critical vendors at the time the service or function is being outsourced. The Management Team will annually perform and review a risk assessment according to the guidelines as outlined in NCUA letter 07-CU-13, and make any adjustments to the determination of status as critical vendors based on the risk assessment.

When assessing the vendor, various categories of risk shall be considered including: 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; criticality of the service/product; adequacy of insurance; exit strategy; and whether the potential benefit of the arrangement outweighs the potential risks or costs.

Critical vendors should have a formal confidentiality agreement. Such agreement binds these parties to the same standards and level of data confidentiality and controls as those instituted by the Credit Union, thereby prohibiting the vendor and its agents from using or disclosing the Credit Union's information, except:

1. As necessary to or consistent with providing the contracted services; and
2. To protect against unauthorized use (e.g., disclosure of information to Credit Union competitors).

All contracts with vendors deemed critical will be reviewed by General Counsel prior to consummation.

Each critical vendor or third party that provides such support services shall also be asked to provide proof of bonding or insurance.

Reviews for all products or services support by third-party vendors shall be completed at least annually.

SERVICE PROVIDER DUE DILIGENCE STANDARDS

General

The Credit Union Management Team recognizes the need to incorporate a complete and extensive due diligence process before a contract is awarded and as a condition of continuing support for any of the Credit Union's critical vendors. Ultimately, the depth of due diligence will vary depending on the scope and importance of the outsourced services in addition to the risk to the Credit Union from these services. The following items will be obtained from all critical vendors:

1. Background Checks
2. Review and Understand Business Model
3. **SSAE 16** Report
4. Financial Statements (Cash Flow)
5. Financial and Operational Control Review
6. Contract Provisions and Legal Review
7. Account Considerations
8. Business Resumption Contingency Plans.

Members of management will review each of these items for their respective areas. All considerations found during the review will be formally responded to by the appropriate personnel.

THE BIDDING AND PROPOSAL PROCESS

General

Each purchase or service order is dependent upon an individual situation, and the selection of an appropriate vendor should be selected on the basis of quality, service and price in addition to due diligence directives of this Policy. Price should not be the driving force in this

decision making process. Some degree of loyalty to a vendor tends to generate a better response when a need of the Credit Union becomes a priority. Bids awarded to the lowest price may result in costs of a different nature, such as inadequate quality or service issues.

As a general rule, all binding contractual third-party vendor relationships deemed critical are to go through a bidding process. Any exception to this requirement to obtain a bid must be approved by the President or SVP of Financial Services. Selection for vendors deemed non-critical should be based upon prior vendor performance in the areas of price, service quality, response, or other relationship with the Credit Union.

Reviews for all products or services supported by third-party vendors shall be completed upon commencement of contract and upon renewal of contract.

VENDOR RELATIONSHIPS WITH IMMEDIATE FAMILY MEMBERS

General

It is the policy of the board of directors not to enter into any critical relationships with immediate family members of the board of directors, volunteers, management and staff of the Credit Union.

Fees and other payments to critical or non-critical vendors should:

1. Directly relate to, and be based solely upon, the fair market value of the goods and services received;
2. Compensate the provider only for goods and services that meet legitimate needs of the Credit Union; and
3. Be made only to service providers who have the necessary expertise to provide the services.

In some instances, it may be appropriate and proper for the Credit Union to engage in non critical vendor relationships with immediate family members of the board of directors, volunteers, management or staff. Vendor relationships with immediate family members must be made on substantially the same terms as those afforded unrelated parties to avoid even the appearance of preferential treatment. Fees and payments to insiders must be appropriate based on the type, level, quality, and value of goods and services the Credit Union is receiving in addition to due diligence directives of this policy.

Because of a potential conflict of interest presented by such transactions the Credit Union must be assured that the transaction is at arms-length and reflects a fair market price. If the Credit Union contracts with immediate family members of the board of directors, volunteers, management or staff, a full disclosure is required to the board of directors. If excessive fees and other payments are paid to insiders, the Board of Directors is responsible for taking corrective action, including restitution.

ADMINISTRATION - CENTRALIZED RECORDKEEPING

Once a vendor has been selected and approved, contract negotiations may commence. Depending on the rating assigned to the vendor, the contract will be drafted. If the vendor requires a "standard contract," such will be reviewed to ensure that it addresses the needs and requirements for the Credit Union.

At a minimum, contracts must be reviewed to ensure that relevant provisions have been considered. In particular, provisions for privacy, security, and notification of any security breach involving member information must be addressed. Depending on the financial significance, criticality of service, and complexity of contract, it may also be submitted to General Counsel for review. All contracts with critical vendors should be submitted to and reviewed by General Counsel prior to consummation.

Once contracts have been reviewed for requirements and legal concerns, they may be submitted for appropriate signature. Contracts, maintenance agreements, service agreements, purchase contracts with third party vendors, etc. must be approved by an officer with title of Vice President or higher. All original contracts will be maintained and centrally filed.

The Management Team will maintain a list of all vendors, along with the scope of services provided by each, the rationale for outsourcing the services provided, and the risk assigned to the vendor.

To ensure consistency in policy implementation, including documentation, risk management, and oversight, certain aspects of the Credit Union's outsourcing and vendor management program are centralized. An inventory of all vendor relations will be maintained that, at a minimum, records the vendor name, service provided, and risk rating.

AUDIT

An audit by the internal auditor or an outside third-party will be performed at least annually, or as conditions warrant, to examine and evaluate the adequacy and effectiveness of this Policy, as well as compliance. Audit findings will be submitted to the President and SVP of Financial Services for review.

FAA Credit Union

Policy: 5.27
Date: December 20, 2011
Revised: April 29, 2014

SUBJECT: FIREWALL POLICY

POLICY:

FAA Credit Union has connected their private wide area network to the Internet to enable users to have convenient access to Internet services. To protect the Credit Union's confidential information and the integrity of its computer system, a firewall safeguard has been installed. A firewall can be used to control access between outside computer users and the Credit Union's network.

The Credit Union has established policies that protect the institution's information and data processing resources from potential intrusion. The goals of these policies are to prevent unauthorized use of the Credit Union's resources. To supplement these policies, management has implemented layers of perimeter security including but not limited to a firewall.

The firewall is the primary tool used by the IT department to grant or deny access to the Credit Union's private network. It also establishes VPN (Virtual Private Network) connections for authorized users.

Basic principles in this matter are as follows:

- Employees must not circumvent the firewall to connect to resources outside of the Credit Union when working with Credit Union equipment or Credit Union information. All connections to networks outside of the Credit Union will pass through the Credit Union's firewall.
- The firewall shall be configured to deny all services not expressly permitted and will be regularly audited and monitored to detect intrusions or misuse.
- All users who require access to Internet services must do so by using company-approved software and Internet gateways.
- The firewall must be backed up monthly or before new releases are installed so that in event of system failure, data and configuration files can be recovered. Back up files shall be stored securely so that it is only accessible to authorized personnel.
- The firewall shall be located in a controlled environment.
- Appropriate firewall documentation will be maintained at all times. Such information shall include but not be limited to the network diagram with IP addresses and all configuration parameters such as packet filter rules, VPN configurations, etc. Such documentation shall be updated any time the firewall configuration is changed.
- The firewall must provide sufficient detailed audit documentation for later reviews.

- The IT department must approve all connections from the Credit Union's network to external networks. Connections will be allowed only with external networks that have been reviewed and found to have acceptable security controls, such as firewalls, and procedures.
- To ensure the integrity of the firewall is maintained, periodic testing must be performed. **CSI, Inc.**, a third party managed security firm, will monitor for unauthorized access attempts. **CSI, Inc.** will perform periodic evaluations of the firewall integrity.

ADMINISTRATION

CSI, Inc., a third party managed security firm, is assigned the task of firewall administration and will work with the Credit Union's IT Department so the firewall is configured correctly and administered properly. Any rule changes will be requested by the Credit Union's IT Department for **CSI, Inc.** to implement. **CSI, Inc.** will notify the Credit Union when the changes have been implemented.

Access to the firewall management interface shall be limited to **CSI, Inc.** and the Credit Union's IT Department.

CSI, Inc. will evaluate each new release of the firewall software to determine if an upgrade is necessary and appropriate. All security patches recommended by the vendor will be implemented in a timely fashion. After any upgrade, the firewall will be tested by **CSI, Inc.** to verify proper operation.

The IT Senior Vice President and Executive Management will review this policy annually. If a change is to be made, the IT Senior Vice President will ensure the change is implemented, the policy modified and submitted to Executive Management and the Board of Directors for approval.

FAA CREDIT UNION

Policy No: 5.28 (page 1 of 2)

Date: February 28, 2012

SUBJECT: CONCENTRATION RISK POLICY

POLICY:

A risk concentration is any single exposure or group of exposures with the potential to produce losses large enough (relative to net worth, total assets or overall risk level) to jeopardize FAA Credit Union's financial health or ability to maintain its core operation.

It is the responsibility of credit union management (President and CFO) to identify the risk, quantify the risk and set appropriate concentration limits.

The following concentration limits are based on net worth or assets and provide the maximum concentration limits allowed under policy. Management will provide quarterly updates to the Board of Directors, in comparison of set limits to actual balances. Management will take decisive corrective action for any area that approaches upper established concentration limits.

Combined with Policy #17.0

FAA CREDIT UNION

Policy No: 5.28 (page 2 of 2)

Date: February 28, 2012

SUBJECT: CONCENTRATION POLICY

	Policy Limits		
	% Assets	% Net Worth	% of Loans or Other
LIQUIDITY RISK			
Loans to Assets	85%		
CREDIT RISK			
Indirect Lending	25%	341%	
A+ or A (limits are % of loans)			100%
B			40%
C			20%
D			2.50%
E			1.50%
Business Loans	25%		
Unsecured			5%
Const and Dev - aggregate			15%
Single Borrower Risk			13%
Commercial Real Estate			80%
Business Equipment			50%
Vehicles			75%
Inventory			25%
Account receivables			25%
Appts			10%
Other loan types			10%
LOCs			5%
Real Estate	25%	341%	
INTEREST RATE RISK			
Investments			
Mortgage Backed Securities			65%

FAA CREDIT UNION

Policy No: 5.29

Date: October 23, 2012
Revised: **October 29, 2013**

SUBJECT: Wire Transfer Policy

POLICY: The purpose of the Wire Transfer Policy is to minimize the Credit Union's risk of loss exposure. The risk of loss cannot ever be entirely avoided. However, the intent of this Policy is to set forth guidance, authority, and compliance so that the balance between excellent member service and security of funds can be upheld.

A. Procedures

Approval of this Policy subjects all wire transfers to the Credit Union's Wire Transfer Procedures, which provides guidance to staff performing wire transfer transactions. Wires are generally associated with more risk, given certain variables. The following are variables that must be considered during a wire transfer in order to establish the appropriate procedure to mitigate the risk of loss.

1. Channel

- a. One of the most critical factors in assessing the risk of a wire transfer is the channel in which it originates. Members that originate wires in-person are subject to in-branch identification process and/or procedures, and therefore are generally less-risky than other channels. Members that originate wires by phone or fax are subject to call-back procedures and, in certain instances, required to come into a branch location in order to complete the wire transfer transaction.
- b. Wire transfer requests made by mail are not permitted.

2. Dollar Amount

- a. Another critical factor in assessing the risk of a wire transfer is the dollar amount of the transaction. While it may seem obvious, a \$100 transaction is generally associated with less risk than a \$100,000 transaction. Therefore, thresholds are established in the Credit Union's Wire Transfer Procedures to address the risk of large-dollar wire transactions.

3. Outgoing vs. Incoming

- a. Whether or not a wire transfer is incoming or outgoing dramatically impacts the risk of the transaction. Generally, incoming wire transfers carry limited liability as long as the payment order is carried out according to the instructions provided in the payment order. Consequently, wire transfers that are outgoing are generally the entire responsibility and liability of the sending institution. Therefore, the Credit Union's procedures for handling outgoing wires are subject to greater scrutiny due to the liability associated with these types of transactions.

4. Funds/Wire Transfer Agreement

- a. FAACU requires that all wire transfer activity requires a Funds/Wire Transfer Agreement, unless an exception has been approved by the Sr. V.P. of Financial Services or the V.P. of Human Resources and Financial Services. This Agreement establishes a pre-defined security procedure that the member accepts as commercially reasonable. Entering into this Agreement limits the liability of the Credit Union, and is therefore associated with less risk than a transaction outside of the agreement.

B. Rejecting Transactions

The Credit Union reserves the right to reject any payment order issued to it by the member for any reason.

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:

- **The transaction is a restricted transaction (i.e., associated with unlawful Internet gambling);**
- **The Credit Union reasonably believes the transaction to be a restricted transaction; or**
- **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.**

A notice of rejection of a payment order may be given to the member by Credit Union staff by fax, electronic transmission, or telephone call to the

member. If fax, telephone or electronic 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.

C. Authorized Staff

Only select FAACU Staff, authorized by the Sr. V.P. of Financial Services and the Sr. V.P. of IT, or the President and V.P. of Finance, will be trained and certified on how to execute wire transfer transactions. Specific responsibilities will be carried out by some staff, while other responsibilities will be carried out by others. This will ensure separation of duties and dual control. **All terminated employees' access rights to funds transfer software and hardware will be removed promptly.**

D. Compliance

1. Entity Screening

- a. All unidentified parties involved in the wire transfer transaction will be subject to entity screening, including but not limited to, OFAC and FINCEN. Entity screening generally includes the receiving financial institution, if not Fedwire eligible, and the beneficiary of the funds. For international wires, the receiving country's name must also be screened.
- b. Any matches identified in the screening process must be reported to the BSA Officer for further action. The designated BSA Officer is the Sr. V.P. of Financial Services.

2. Disclosures

- a. Notification concerning the member's liability and fees associated with wire transfer transactions is explained in the Membership and Account Agreement at account opening. Further disclosure is provided if/when the Funds/Wire Transfer Agreement is established.

3. International Wire Transfers

- a. Due to new overly burdensome regulatory requirements and costs, effective January 1, 2013, FAACU will, generally, no longer provide international wire transfer services, unless an exception is approved. If, however, these services are fully restored in the

future, at the discretion of the President, Senior Management is directed to track all ACH and wire transfers originating from FAACU (in the U.S.) and being sent internationally. If the total number of international ACH and wire transfers originating from the Credit Union, in an amount of \$15.00 or more, exceeds 100 in any calendar year, FAACU will, within six (6) months, comply with the provisions of 12 CFR Chapter X Part 1005 Subpart B: Requirements for Remittance Transfers.

- b. Exceptions may be approved by the President, the Sr. V.P. of Financial Services, the Sr. V.P. of IT, or the V.P. of Human Resources and Financial Services.

4. Record Retention

- a. All wire transfer supporting documentation must be maintained in accordance with the Credit Union's record retention guidelines, but no less than five (5) years.

5. Suspicious Activity

- a. **Personnel will promptly notify management whenever suspicious activity occurs, including transactions that are blocked or rejected.**

E. Roles and Responsibilities

1. Board of Directors

- a. The Board of Directors is responsible for approving this policy and subsequent changes.

2. Management

- a. Establishing Wire Transfer Procedures that balance the ability of the Credit Union to serve its membership with the ability to mitigate itself from loss exposure.
- b. Approving exceptions to the Wire Transfer Procedures.
- c. Authorizing staff to perform wire transfers.
- d. Ensuring that authorized staff are trained to perform wire transfer transactions.
- e. Periodically test internal controls.
- f. Regularly review reports involving wire transfer activity and promptly report significant matters to the board.

- g. Reviewing this policy on an annual basis, and recommending changes to the Board of Directors for approval.

3. Staff

- a. Authorized FAACU staff is responsible for carrying out all wire transfer activity according to the Wire Transfer Procedures. Failure or avoidance to follow these Procedures will lead to disciplinary action, up to and including termination.

F. Audit

An audit will be conducted annually of the wire transfer operation by either the internal auditor or an outside third party.

FAA CREDIT UNION

Policy No: 5.30

Date: October 23, 2012

Revised: October 23, 2012

Reviewed: **October 29, 2013**

SUBJECT: Security Policy

POLICY: It is the responsibility of the board of directors of FAA Credit Union (FAACU) to protect the assets of the Credit Union and to provide a safe environment for employees and the membership. It is the intent of the Credit Union to comply with NCUA Part 748 (12 CFR 748) and any and all other applicable laws and regulations. This security policy is designed and adopted to protect the physical security of Credit Union premises and personnel, and it is the cornerstone of the board's commitment to reduce risks by requiring strict adherence to the requirements of policies and procedures relating to security.

Neither the contents of this policy nor any phase of the Credit Union's operations should be discussed with anyone outside the Credit Union premises. Copies assigned to credit union personnel are not to be removed from the premises and must not be made available to unauthorized persons.

A. General Objectives

The general objectives of this Security Policy are to develop and enforce adequate security measures throughout the Credit Union, to delegate authority for the administration of the security policy, to train employees in procedures to be taken in case of robbery, theft, or suspicious activity and to establish an audit function to oversee compliance.

B. Policy Goals

1. Ensure that adequate security devices are installed throughout the Credit Union.
2. Schedule periodic inspections, tests, and maintenance of security devices.
3. Require periodic training of staff in emergency procedures.
4. Require scheduled annual reviews of insurance coverage for all areas to ensure that coverage is sufficient for any contingency.

C. Delegation

The board of directors of FAACU delegates authority to the President and the Sr. V.P. of Financial Services to establish procedures that will ensure that the Credit

Union adopts sufficient security measures to protect its assets, to make periodic inspections of the Credit Union's premises and administrative offices, and to establish a training program to train employees in emergency procedures.

D. Responsibilities

1. The responsibilities of senior management include ensuring that sufficient personnel are available to meet the security needs of the Credit Union, to assist in administering the Security Policy, and to ensure that employees are properly screened and are reliable and trustworthy.
2. Senior management will maintain records of all robberies, burglaries, and larcenies and will file appropriate reports with regulatory authorities and insurance carriers.

E. Risk Assessment

The Sr. V.P. of Financial Services, or a third party service provider identified and hired by the Sr. V.P. of Financial Services, in conjunction with the branch managers, is responsible for conducting an annual risk assessment of each branch location, its exposure to crime, and the security devices in place to protect against robberies and other suspect activities.

F. Security Devices

The Facilities Coordinator, Facilities Administrator, and/or a third party are responsible for the installation of security devices. The Facilities Coordinator, Facilities Administrator, and/or the Branch Manager are responsible for the maintenance and operation of appropriate security devices to discourage robberies, burglaries, and larcenies. All senior management officers are instructed to assist the police and the Federal Bureau of Investigation (FBI) in identifying and apprehending persons who commit such acts.

G. Administration of the Security Program

1. The Facilities Coordinator, Facilities Administrator, and/or the Branch Manager will make certain that all protective devices (alarm systems, camera equipment, and time locking mechanisms) are inspected, tested, and serviced regularly.
2. The security program requires that each branch's currency and each teller's currency be kept at a reasonable minimum. The Credit Union establishes procedures for the safe removal of excess currency.
3. The security program ensures that the currency at each teller's station and vault includes properly recorded bait money. The teller supervisor maintains an inventory list of all bait money to provide to law enforcement in the instance of a robbery.

4. The Security Officer will be the Sr. Vice President of Financial Services.
5. The Security Officer will ensure that training and periodic retraining of tellers and other personnel on hold-up procedures and the proper use of protective devices is provided. The Security Officer is to impress upon personnel the need for safety consciousness and how to avoid actions that might incite violence.
6. This Security Policy requires that the vault be opened as late as practical before business hours, and locked as soon as practical after business hours.
7. An employee at each location will be designated to ensure that security devices are functioning properly at all times.

H. Branch Security

Specific measures will be taken at each branch to provide physical security for the Credit Union's premises and personnel consistent with this Policy.

I. Branch Security Devices

1. Each Branch Manager is responsible for the inspection, testing, and servicing of all security devices installed at branch locations. Each Branch Manager will maintain operating procedures for the alarm system and the video camera systems at their assigned location.
2. Access codes will be assigned to employees who are responsible for opening or closing an office. The codes will be confidential, known only to the employee, but will be identifiable by the officer in charge at each branch location.
3. Keys to each branch location will be issued only on an as-needed basis. If keys are misplaced or stolen, locks are to be changed immediately.

J. Cash Limits

1. Under normal circumstances, this policy permits no more than \$6,000 to be kept in the operating drawer at any one time. Tellers should be carefully instructed in the vault's use.
2. It is the teller supervisor's responsibility to randomly check the teller cash drawers for adherence to established cash levels.
3. The only exceptions to these policy limits are the automated teller machines (ATMs), cash dispensers (CDM), and main cash vault.
4. The maximum branch cash limits for each branch are set according to lobby traffic and historical need. Excess cash will be shipped to the Federal Reserve as needed.

K. Opening and Closing of Premises

1. Personnel who are responsible for opening and closing Credit Union premises will be trained to inspect and investigate the premises before opening and

closing to ascertain its condition, and to determine that proper security devices are in order and that the premises are safe before allowing other personnel to enter.

2. At closing, responsible personnel must conduct a careful inspection of certain areas where valuables are handled (e.g., the teller area, vault, and safe deposit areas). This inspection will ensure that no valuables are left out and that storage is secure. The premises will be checked to ensure that all personnel have left; all vaults, windows, and doors are locked; and the alarms are turned on. Employees are instructed to leave in multiples.

L. Lighting

It is the responsibility of the Branch Manager to determine that the lighting system will illuminate the lobby of the Credit Union office and the areas around the vault during the hours of darkness. Areas outside the business office where unauthorized entry into the Credit Union office might be attempted must also be illuminated during dark hours.

Sufficient light will be maintained at all ATMs to ensure the after-hours safety of our members.

M. Cameras

It is the policy of the Credit Union to use cameras in each branch to monitor activity. The cameras are used in conjunction with recording equipment, which will record 24 hours per day. Multiple cameras are utilized at each branch location, with specific attention focused on points of entry and member areas (lobbies, drive thru and ATMs.). A designated employee will check the digital recording equipment recording equipment and make any adjustments or changes as necessary. Procedures are in place for viewing/testing recorded images monthly, including quality of picture.

N. Maintenance and Service

All alarm and video equipment are under contract for routine maintenance and repairs.

O. Safe Deposit Boxes

Member's identity must be verified before they are given access to the safe deposit area. When closed, the safety deposit box vault is armed with an alarm.

P. Other Branch Security

1. At each branch alarm triggering devices are located strategically as needed for that branch.
2. All alarm security is monitored. In the event of activation, local authorities are notified.

Q. Cellular Phones

With the increasing capabilities of cellular phones to take pictures, make movies and connect remotely to phones, computers and other devices, any member can be asked to turn off their cellular phone by a manager if suspicious activity is suspected or observed. Any employee may be prohibited from bringing a cellular phone to work if suspicious activity is observed or usage practice negatively impacts their work performance. Abuse of cellular phone privileges is cause for disciplinary action up to and including termination.

R. Training

1. Training on security issues will occur during initial employment orientation and will be updated annually. Initial orientation will incorporate the Credit Union's security policy, to the extent required by the employee's assignment. Transfers within the Credit Union will require an update on certain procedures specific to the new position and location.
2. Instructions concerning employee responsibilities will be in accordance with the Bank Secrecy Act. At no time should an employee transact business for themselves or their family members (i.e., enter a transaction on their account or cash their personal check).
3. Tellers will be trained and updated at least annually on procedures concerning robbery, theft, suspicious persons, and the like. Each cash drawer will always contain bait money and be limited in total amount of cash. Procedures for proper cash collection and window transfers will be in force at all times.

S. Audit

Audits will be performed regularly of all department procedures to assure compliance and consistency with this Policy. Audits will include tests for proper controls and may extend to test and emergency drills.

T. Review

The Security Officer is responsible for reviewing and making necessary updates to this policy, and for obtaining the approval of the policy from the board of directors on an annual basis.

FAA CREDIT UNION

Policy No.: 5.31

Date: December 18, 2012

Last Revised: **December 17, 2013**

SUBJECT: NONDEPOSIT INVESTMENT SALES POLICY

1. **POLICY** - It is the policy of the Board of Directors of FAA Credit Union (FAACU) that activities with respect to the marketing, promotion, and sale of non-deposit investment products shall be conducted consistent with applicable statutes, rules, regulations, and regulatory guidelines. The primary purpose of this Policy statement is to:
 - A. Ensure members of all credit union related retail non-deposit investment products are fully apprised as to the nature of the products offered;
 - B. Develop and implement policy and procedures designed to enable the Credit Union to supervise the activities of a third party Service provider; and
 - C. Ensure the operation of any such program is done in a manner consistent with safe and sound practices.

2. **COMPLIANCE AND CONTROL PROCEDURES** - Credit Union senior management shall prepare and implement procedures designed to enable the Credit Union to supervise the activities of each broker-dealer representative and insurance agent and to ensure that their activities are consistent with applicable state and federal laws including securities and insurance laws, rules, regulations, interagency statements and guidance, as well as this Policy. The Board designates the President and the SVP of Financial Services to closely supervise the operation of the Credit Union's nondeposit investment program to assure compliance with this Policy and such procedures. The President and SVP of Financial Services shall also designate specific Credit Union personnel to supervise each activity covered by this Policy and procedures established pursuant to this Policy, as appropriate.

3. **SELECTION OF SERVICE PROVIDER** - Prior to entering into any agreement and annually during the term of the Credit Union's relationship with a third party investment service provider (referred to herein as "Service Provider"), the President with the assistance of the SVP of Financial Services shall conduct a due diligence review of the Service Provider with whom the Credit Union is considering entering into an arrangement with. Such due diligence shall take into **consideration** the following:
 - A. The financial strength and stability of the Service Provider;

- B. A verification that the Service Provider is properly registered and or licensed for the sale of retail investment products;
 - C. References from other financial institutions that have arrangements with the Service Provider;
 - D. The appropriateness of the Service Provider and products offered;
 - E. A background check with National Association of Securities Dealers (“NASD”) on the principles of the Service Provider;
 - F. Historical reports of sales on similar premises; and
 - G. Sample forms utilized with members and reports to be provided to the Credit Union.
4. **AGREEMENTS WITH SERVICE PROVIDER** - the President shall ensure that agreements with the Service Provider will outline the duties and responsibilities of each party. Any such agreement will specifically cover:
- A. The types of products offered;
 - B. Fee arrangements between the Credit Union and the Service Provider;
 - C. The applicable laws and regulatory requirements that both parties are subject to, the fact that compliance will be verified by the Credit Union and by regulatory examination, and cover examiner access to appropriate records;
 - D. Provisions for Credit Union oversight;
 - E. Confidentiality of member information;
 - F. Policy for handling member complaints;
 - G. Allow the Credit Union and appropriate regulatory agencies to periodically review the books and records of the Service Provider for the purpose of:
 - i. Monitoring the performance of the Service Provider and any representative thereof; and

- ii. Verifying that the Service Provider and any representative of the Service Provider are complying with the agreement.
 - H. Maintenance of appropriate insurance by the Service Provider in amounts acceptable to the Credit Union;
 - I. Requirements that all advertising and marketing programs comply with applicable laws, regulations, and guidelines;
 - J. Allow the Credit Union the authority to disapprove of any representative chosen by the Service Provider to perform under the agreement; and
 - K. Allow the Credit Union to notify the Service Provider of dissatisfaction with any representative and, within a reasonable time, the Service Provider will remove the representative from the Credit Union.
 - L. Ensure the service provider indemnifies the Credit Union for any claim or loss associated with the sale of non-deposit investment products by the service provider.**
5. **SELECTION CRITERIA FOR NON-DEPOSIT INVESTMENT PRODUCTS** - In selecting products to be sold at the Credit Union, the President shall rely upon the discretion, expertise and methodology utilized by the Service Provider. The President will, not less than annually, review the product selection criteria and methodology used by the Service Provider to ensure the continued understanding of, and agreement with, the product selection process.
6. **SUITABILITY** - The Board of Director's recognizes the importance of ensuring that non-deposit investment products recommended to a member be suitable for that particular member on the basis of information disclosed by the member. The representative of the Service Provider has an obligation to provide members with products best suited to their needs. As such, the representative of the Service Provider should have reasonable grounds for recommending that a certain investment product is suitable for a particular member. Also, the representative of the Service Provider must believe that the member is reasonably capable of evaluating, and financially able to bear, the risks associated with an investment product.
- A. Reasonable Inquiry into Member's Needs – the Service Provider, through its contract, has assured the Credit Union that its representative will make a reasonable inquiry into the member's financial condition, tax status, investment objectives, and other information, such as age, and retirement or financial plans, which may be useful or reasonable in making an investment recommendation.

B. Information to be Obtained – To comply with NASD Rules, it is necessary for the representative of the Service Provider to make a reasonable effort to obtain the following information concerning the member:

- iii. Name and address
- iv. Age and birth date
- v. Tax identification number
- vi. Whether the member is registered or associated with another NASD member
- vii. Occupation of member and address of employer
- viii. Investment objectives
- ix. Financial and tax status
- x. Educational background
- xi. Retirement and financial plans of member
- xii. Such other information used or considered to be reasonable by the Service Provider or its representative in making recommendations to the member.
- xiii. If the member is a corporation, partnership, or other legal entity, the names of any persons authorized to transact business on behalf of the entity.

7. **PHYSICAL SETTING** - The Board of Directors recognizes that there is the potential for member confusion regarding the availability of deposit insurance for uninsured investment products. Therefore, the Credit Union will take the following steps to separate the retail deposit-taking functions from the retail non-deposit taking functions.

- A. Not allow areas used for retail deposit taking activities to be used for investment advice or the sales of retail non-deposit investment products; and
- B. Areas designated for the sale of nondeposit investment products shall be clearly identified as such.

8. **DISCLOSURES AND NOTIFICATIONS** - All selling, marketing, and advertising efforts regarding non-deposit investment products will be complete and accurate with regard to the nature of the risks inherent in the products offered, and created in a manner that is not misleading with regard to deposit insurance. Disclosures and notification will be given to the member on a timely basis by the Service Provider.

- A. The Service Provider will not sell or market products with a name or symbol similar or identical to the name of the Credit Union.

- B. Credit Union stationary and cards will not be utilized in connection with non-deposit investment product sales.
- C. The Credit Union will not allow information regarding a member's investment products to be combined with that member's periodic retail deposit statement.
- D. Disclosures will be provided to members in the course of all selling, marketing, and advertising activities regarding non-deposit investment products by the Service Provider.
- E. The disclosures will feature conspicuously on all account agreements, and fee schedules and state that the products offered:
 - i. Are not FDIC or NCUA insured;
 - ii. Are not deposits or other obligations of the Credit Union or guaranteed by the Credit Union; and
 - iii. Involve investment risks, including possible loss of principal amount invested.

9. **ACTIVITIES OF CREDIT UNION EMPLOYEES** – Nonregistered or unlicensed personnel employed by the Credit Union are prohibited from selling investment products and making investment recommendations. Such employees may, however, be helpful in informing members of the availability of investment alternatives by directing interested members to qualified personnel for specific information. In no event, may tellers or other unregistered or unlicensed personnel make any investment recommendations (general or specific) or accept orders for products, even if solicited. Further, consistent with the goal of avoiding any member confusion, Credit Union employees who are engaged in deposit-taking activities or are located in routine deposit-taking areas of the Credit Union may not:

- A. Sell or make any attempt to sell any non-deposit investment product;
- B. Make general or specific recommendations regarding non-deposit investment products;
- C. Qualify members as eligible to purchase such products, even if solicited.

10. **EMPLOYEE TRANSACTIONS** - Credit Union employees will have access to the Service Provider for personal investments. Employee accounts are subject to the following guidelines:

- A. Employee accounts will be subject to the same pricing and procedures used for member accounts.
- B. Employees will not have access to any short-selling, margin trading, options or futures services provided by the Service Provider.
- C. Only an authorized representative of the Service Provider will be designated to handle the sale of services to employees.

11. **COMPENSATION AND INCENTIVES** – The President in consultation with the V.P. of Human Resources and the SVP of Financial Services is allowed to establish an incentive program, for Credit Union personnel to receive incentives for referrals for investment products. The following rules, however, will be followed regarding any such compensation and incentive programs if established for Credit Union employees:

- A. Credit Union employees, including tellers, may receive a one-time nominal fee of a fixed dollar amount for each referral of non-deposit investment products.
- B. Incentives will be based on the referral alone, not the success of the sale.
- C. Incentive compensation programs will not be structured in such a way as to result in unsuitable recommendations or sales being made to members.
- D. Gifts, gratuities, or anything of value received by a Credit Union employee or an affiliated or unaffiliated entity in connection with Credit Union-related retail non-deposit investment sales is prohibited.
- E. Compliance and audit personnel may not participate in any referral or incentive compensation plan.

12. **MEMBER INFORMATION** - The use of confidential, nonpublic member information is prohibited without written approval of the member involved.

- A. Neither the Service Provider nor its representative shall have access to reports containing account numbers and balances, or have direct access to system emulation. Emulation allows access to all applications the Credit Union has with its data processor. Direct information will not be available to the Service Provider or its representative through the Credit Union's computer system.

B. The Credit Union or its employees may provide the Service Provider or its representative with a contact name, address, and telephone number.

13. **BLANKET BOND COVERAGE** - The Credit Union shall notify its blanket bond carrier of any proposed arrangements to sell non-deposit investment products to Credit Union members and shall obtain written confirmation from the carrier that the Credit Union's coverage will not be impaired by the sales activity.

14. **EXTENSIONS OF CREDIT BY THE CREDIT UNION** - The Credit Union will not be obligated to extend credit to any member to fund the purchase of any non-deposit investment product. Any credit that is extended shall be consistent with safe and sound lending practices and the Credit Union's loan policy and procedures.

15. **MEMBER COMPLAINTS** - All member complaints will be handled within a reasonable time frame according to the following procedures:

A. **Written Record** – A written record shall be made of all written member complaints related to the sale of non-deposit investment products or the Service Provider. Copies of all complaints will be kept and maintained.

B. **Resolution** – All written member complaints directed to the Credit Union shall be forwarded to the Service Provider and the Compliance Officer for review and resolution.

C. **Reporting** – The Compliance Officer shall prepare reports regarding all written complaints, including their resolution, and deliver those reports at the next Board of Directors meeting.

D. **Review** – The Compliance Officer will review the complaint resolution procedures of the Service Provider and periodically consider the volume and nature of complaints to the Service Provider and advise the President and the Board of Directors of the results.

16. **RECORDKEEPING** - Books, accounts, records and correspondence shall be maintained relating to the nondeposit investment product sales program in accordance with the requirements of applicable state and federal laws, rules, regulations, and policy statements.

17. **POLICY REVIEW**. This Policy shall be reviewed at least annually, with recommendations to the board of Directors for any needed revisions, by the President and SVP of Financial Service who are responsible for the nondeposit investment sales program.

18. **AUDIT** - Periodically but not less than annually, internal auditor or outside third party auditor shall prepare a written monitoring report, summarizing the auditor's findings related to the performance of the Service Provider and compliance with this Policy and such report will be presented to the President and Board of Directors. The report shall include a discussion of any concerns about the operation and management of the Service Provider. In addition, the auditor shall identify any potential conflicts of interest and recommend the appropriate steps to address such conflicts.

The auditor should include the following as part of the review:

- A. Disclosure and advertising;
- B. Physical separation of non-deposit investment product sales activities;
- C. Compliance;
- D. Sales practices and suitability;
- E. Product selection and development;
- F. Use of confidential member information;
- G. Servicer compliance with the agreement;
- H. Personal training and background checks; and
- I. Operations.

Policy No: 5.32
Date: May 28, 2013
Revised: May 28, 2013

SUBJECT: RECORD RETENTION POLICY

Policy: FAA Credit Union (FAACU) will retain any credit union record and/or document for the required time as specified by the retention schedule; rules and regulations required by NCUA; and any other state or federal laws or regulations. FAACU may keep items longer if deemed necessary, but shall not destroy anything prior to the recommended destruction date listed within the retention schedule.

The legal requirements for maintaining records are generally found in statutes and regulations. However, these requirements do not address all records created by the credit union. For these records, FAACU will exercise good business judgment when making retention decisions. Records should be maintained regardless of legal requirements if they are of benefit to ongoing operations.

All documentation that may require future reference will be stored on microfilm, compact disc, on the credit union's server, or by other electronic means, for the required time periods specified in the record retention schedule. This allows the credit union to utilize more storage space and destroy paper products that may become distorted.

The **Sr. VP of Information Technology** is directed to draft and maintain a schedule for the destruction of records in accordance with all federal and state laws and regulations, to oversee and manage the program in accordance with this Policy and those laws and regulations, and to appoint a record retention administrator.

Goals and Objectives

The main objective of the record retention policy is to strike a balance between the competing demands of space, resource allocation, and the desire to retain all records that may be necessary to conduct business successfully. Efficiency requires that all records that are no longer useful be discarded, just as both efficiency and safety require that useful records be preserved and kept readily available.

The specific goals of the Record Retention and Preservation Policy are:

- To provide all necessary documentation for future reference.
- To provide the necessary documentation to reconstruct all credit union records in the event of a disaster or any other event that disrupts the operations of the credit union.
- To establish methods and procedures for storing, managing, and discarding credit union records.
- To require backup and data storage that will result in minimal loss of live data and processing time in the event of a work stoppage.

Vital Records Preservation Program

FAACU will maintain a vital records preservation program in order to identify, store, and reconstruct vital records in the event that the credit union's records are destroyed.

1. The vital records to be stored, at a minimum, are as follows:
 - A. 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:
 - i. Shows each balance individually identified by a name or number;
 - ii. Lists multiple loans of one account separately; and
 - iii. Contains information sufficient to enable the Credit Union to locate each member, such as address and telephone number.
 - B. A financial report, which lists all of the credit union's asset and liability accounts, as of the most recent month-end.
 - C. 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.
 - D. Emergency contact information for employees, officials, regulatory offices and vendors used to support vital records.
 - E. Members' share and loan ledgers on a data processing system, sufficiently removed from the credit union.

- F. FAACU, generally, stores these records daily by backing up electronic data to an off-site location.
- G. Previously stored vital records may be destroyed when the current records are stored.
- H. A records preservation center will be located off-site and far enough from FAACU's office to avoid the simultaneous loss of both sets of records in the event of a disaster.
- I. Stored records may be in any format, which can be used to reconstruct the credit union's records. Acceptable formats include, but are not limited to, paper originals, photocopies, microfilm or fiche, magnetic tape, electronic record, and optical disk.

Preserving Records In An Alternative Form

FAACU may preserve records in any format that can be used to reconstruct the credit union's records, including permanent key and vital records, provided that the form:

- Accurately reflects the information in the record;
- Remains accessible to all persons entitled to access by statute, regulation or law; and
- Is capable of retrieval and reproduction.

The original records may be destroyed after those original records have been stored in an alternative format, unless otherwise prohibited by law or regulation, specified in the record retention schedule, on litigation hold, or instructed otherwise by management.

Off-Site Storage

Records deemed permanent or vital may be stored at the credit union's designated off-site location. Records stored for specific periods of time, as stated in the retention schedule, may also be stored at this location until the destruction date has elapsed. Access to this site will be monitored. Record of all person(s) authorized for visitation will be documented in the *Sign In Log*. All records added to this site will be documented in the *Stored Record Log*.

Electronic Record Retention, Removal and Destruction

The term "electronic record" means any record that is created, received, maintained or stored on workstations, copiers, central servers, etc. Examples include, but are not limited to, e-mail, word processing documents, e-faxes, blogs, text messages and databases.

When FAACU and/or member information is stored on an electronic device and that device will be used elsewhere, the information contained therein must be removed from that device by one of the approved methods described herein and either retained elsewhere or destroyed in accordance with this Policy. Destruction will include rendering the information unreadable and include complete eradication of residual electronic information as required by relevant laws and regulations.

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 FAACU 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.

Litigation Holds

When litigation against FAACU or its employees is threatened or filed, FAACU 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 litigation hold has been cleared by the SVP of IT, the SVP of Financial Services, or the President/CEO.

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.

Contracts

FAACU 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 all applicable laws and regulations.

Backup Files

FAACU's internal network and data from the server will be backed up daily to FAACU's backup site.

Record Disposal

The destruction of any record of the credit union, regardless of how inconsequential it may seem or how old it may become, is a matter requiring careful consideration. Before a decision is reached to

destroy any record, its potential future value and the risk involved by its destruction should be thoroughly evaluated.

All records to be destroyed will be documented in the *Destroyed Record Log*. Generally, a third party company will handle disposal of all records ready for destruction.

FAA CREDIT UNION

Policy No: 5.33
Date: May 28, 2013
Revised: **May 27, 2014**

SUBJECT: UNLAWFUL INTERNET GAMBLING POLICY

Policy: The Unlawful Internet Gambling Enforcement Act (UIGEA) prohibits businesses from knowingly accepting payments in connection with unlawful internet gambling, including payments made through credit cards, electronic funds transfers and checks.

The act generally defines unlawful internet gambling as placing, receiving, or otherwise knowingly transmitting a bet or wager by any means which involves the use, at least in part, of the Internet where such bet or wager is unlawful under any applicable federal law, state law, or tribal lands in which the bet or wager is initiated, received, or otherwise made.

Credit Union Obligations

FAA Credit Union (FAACU) is required to establish and implement policies and procedures to identify and block, these prohibited transactions.

Under UIGEA, FAACU is not required to monitor or determine whether its members participate in games of chance (gamble). However, FAACU must ensure that unlawful transactions are identified and/or blocked. If a transaction is identified and/or blocked, the compliance officer will be notified and a Suspicious Activity Report will be filed on all parties identified. If necessary the account in question will be closed. FAACU is provided safe harbor when it identifies and blocks transactions based on information identifying it as a restricted transaction. Because transactions are transmitted using standard entry codes, specific codes are used to identify restricted transactions.

FAACU will notify all of its business members that these transactions are prohibited from being processed through

their account or relationship.

Transactions

FAACU will have policies and procedures in place that are reasonably designed to identify and block restricted transactions made through any of the following payment systems:

Automated Clearing House (ACH)

The Federal Reserve does not include the codes associated with illegal internet gambling. If FAACU receives knowledge of a restricted transaction, it will refuse to complete the transaction. Additional documentation may be requested to ensure it is not a restricted transaction. If FAACU is unable to verify the validity of the transaction, it will be refused. FAACU will not originate ACH entries which use the entry codes associated with illegal internet gambling.

FAACU will ensure that its designated payment system has written policies and procedures that are reasonably designed to identify and block restricted transactions; or otherwise prevent or prohibit the acceptance of the products or services of the designated payment system or participant in connection with restricted transactions. FAACU will obtain a written statement from its designated payment system that such policies and procedures exist. FAACU may rely on this written statement, unless otherwise notified by the relevant regulator.

Debit Card Systems

FAACU will rely on the policies and procedures of the debit card vendor to block prohibited transactions. FAACU requires documentation from our debit card vendor to ensure that their policies and procedures comply with the UIGEA regulations. FAACU may rely on this written statement, unless otherwise notified by the relevant regulator.

Wire Transfers

If FAACU receives information indicating that a wire transaction involves a prohibited transaction, it will refuse to complete the transaction. Additional documentation may be requested to ensure it is not a restricted transaction. If FAACU is unable to verify the validity of the transaction, it will be refused. FAACU will ensure that its designated payment system has written policies and procedures that are

reasonably designed to identify and block restricted transactions; or otherwise prevent or prohibit the acceptance of the products or services of the designated payment system or participant in connection with restricted transactions. FAACU will obtain a written statement from its designated payment system that such policies and procedures exist. FAACU may rely on this written statement, unless otherwise notified by the relevant regulator.

Check Collection Systems

If FAACU receives knowledge that checks transacted on an account are the result of illegal internet gambling, we may refuse to complete the transaction. Additional documentation may be requested to ensure it is not a restricted transaction. If FAACU is unable to verify the validity of the transaction, it will be refused (if possible) and/or the account closed.

Credit Card Transactions

FAACU 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.

FAACU will ensure all credit card account agreements contain a provision that restricted transactions (i.e., unlawful Internet transactions) are prohibited from being processed through the credit card account. FAACU will verify that 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, and will reasonably rely upon that statement or notice, unless otherwise notified by the relevant regulator.

Commercial Accounts Risk-Based Due Diligence

Risk-based due diligence of commercial members, including trust accounts, will be completed at account opening to determine the risk that a member presents of engaging in restricted transactions. If FAACU cannot determine that the member presents a minimal risk of restricted transactions, further documentation and analysis will be conducted. Potential members that present more than a minimal risk of presenting restricted transactions will not be denied account access. If FAACU receives knowledge that a commercial

member is processing restricted transactions, the account will be closed and a Suspicious Activity Report will be filed.

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:

1. The transaction is a restricted transaction (i.e., associated with unlawful Internet gambling);
2. The Credit Union reasonably believes the transaction to be a restricted transaction; or
3. 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.

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.

FAA CREDIT UNION

Policy No: 5.34

Date: July 23, 2013

Revised: July 23, 2013

Reviewed: July 22, 2014

SUBJECT: Credit Reporting and Consumer Dispute Policy

Purpose

It is the policy of FAA Credit Union (FAACU) to ensure the accuracy and integrity of information it provides to consumer reporting agencies. This information must:

- Correctly reflect the term and liability for the account or other relationship;
- Correctly reflect the consumer's performance with respect to the account or other relationship;
- Correctly identify the appropriate consumer;
- Be substantiated by the credit union's records at that time;
- Be furnished in a form and manner designed to minimize the likelihood that it may be incorrectly reflected in a consumer report; and
- Include information in the credit union's possession about the account or other relationship that, if omitted from the credit report, would present a misleading picture of the consumer's creditworthiness.

Credit Reporting

In accordance with this policy, FAACU will:

- Use standard data reporting formats and standard procedures for compiling and furnishing data to consumer reporting agencies;
- Maintain records for a reasonable period of time (not less than any applicable recordkeeping requirement and as defined in any record retention policies and/or procedures) to substantiate the accuracy of any information furnished that is subject to a direct dispute;
- Establish and implement appropriate controls regarding the accuracy and integrity of consumer information, including standard procedures and verifying random samples of information provided to credit reporting agencies;
- Train staff that participates in activities related to furnishing information to consumer reporting agencies to implement policies and procedures;

- Provide for appropriate and effective oversight of relevant service providers whose activities may affect the accuracy or integrity of information furnished to consumer reporting agencies;
- Furnish information to consumer reporting agencies following mergers or other acquisitions in a manner that prevents re-aging of information, duplicative reporting, or other problems affecting the accuracy or integrity of the information furnished;
- Delete, update, and correct information in the credit union's records, as appropriate, to avoid furnishing inaccurate information;
- Conduct reasonable investigations of disputes;
- Design technological and other means of communication (as appropriate) with reporting agencies to prevent duplicative reporting of accounts, erroneous association of information with the wrong consumer(s), and other occurrences that may compromise the accuracy and integrity of information reported to reporting agencies; and
- Provide sufficient identifying information to enable the reporting agency to properly identify the consumer.

Consumer Disputes

FAACU will reinvestigate disputes about the accuracy of information contained in a credit report based on a consumer's direct request. Consumers may submit a dispute directly to FAACU when the issue in dispute relates to information FAACU furnished to the consumer reporting agency as it relates to:

- Credit accounts or debts with the credit union (including accounts/debts resulting from identity theft);
- The terms of a credit account or other debt with the credit union (principal balance, scheduled payment amount, etc.);
- The consumer's performance or other conduct concerning an account or other relationship with the credit union; or
- Any other information contained in a consumer report regarding an account or other relationship with the furnisher that bears on the consumer's creditworthiness, credit standing, credit capacity, character, general reputation, personal characteristics, or mode of living.

FAACU will conduct a reasonable investigation and report the results to the consumer within 30 days of FAACU's receipt of the dispute notice. If the investigation finds the information in the report was inaccurate, the credit union will promptly correct the error and provide accurate information to the credit bureau.

FAACU does not have to investigate anything having to do with:

- The consumer's identifying information (Social Security number, date of birth, address, etc.);
- Identity of past employers;
- Inquiries or requests for consumer reports;
- Information derived from public records (judgments or bankruptcies);
- Fraud or active duty alerts
- Information other furnishers provide;
- Direct disputes credit repair organizations submit;
- Frivolous or irrelevant disputes, such as those containing insufficient information to conduct an investigation or substantially similar disputes that were previously submitted to the credit union or a consumer reporting agency by or on behalf of the consumer.

Upon making a determination that a dispute is frivolous or irrelevant, the credit union will notify the consumer by mail (or other means if the consumer authorizes for that purpose) not later than five business days after making the determination. The consumer notice will explain why the credit union determined the dispute was frivolous.

Disputes from Consumer Reporting Agency

If FAACU is notified by a reporting agency that a consumer disputes the completeness or accuracy of information provided by FAACU, we will do the following:

- Conduct an investigation and review all relevant information provided by the reporting agency, including information given to the reporting agency by the member;
- Report the results to the reporting agency that referred the dispute, and, if the investigation establishes that the information was, in fact, incomplete or inaccurate, report the results to all reporting agencies which compile and maintain files on a nationwide basis and which FAACU reports information to;
- FAACU will complete the steps above within thirty (30) days from the date the reporting agency receives the dispute or forty five (45) days, if the member later provides relevant additional information to the reporting agency.
- If the investigation uncovers any inaccurate or incomplete information, FAACU will promptly modify or delete the information, or block its reporting.

Report Voluntary Closing of Credit Accounts

If a member voluntarily closes a credit account, FAACU will report this fact to the reporting agencies it furnishes this type of information to at the same time

when FAACU provides the information to reporting agencies during the time period in which the account was closed.

Reporting Dates of Delinquencies

If FAACU reports information concerning a delinquent account placed for collection, charged to profit or loss, or subject to any similar action, it will, within ninety (90) days after reporting the information, provide the reporting agency with the month and the year of the commencement of the delinquency that immediately preceded the action, so that the reporting agency will know how long to keep the information in the member's file.

Notifying Member When reporting Negative Information

FAACU shall notify members in writing if it may furnish or has furnished negative information to a nationwide reporting agency. The notice shall be provided either prior to, or no later than thirty (30) days after, furnishing the negative information, and may be combined with any notice of default, any billing statement, or another material provided to the member as long as the notice is "clear and conspicuous". However, the notice shall never be combined with Truth in Lending disclosures. The notice to the member shall be in substantial conformity with the prescribed model disclosures accompanying the regulation.

FAA CREDIT UNION

Policy No: 5.35

Date: **November 26, 2013**

SUBJECT: Associate Director Nominating Committee

Policy: The purpose of the Associate Director Nominating Committee is to fill Associate Director Positions as needed.

Committee

The Chairman of the Board will appoint an Associate Director Nominating Committee chairperson annually following the annual meeting. The Chairperson shall then select two other members of the Board of Directors to serve on the committee as needed.

Duties

The Committee shall be charged with seeking potential nominees for Associate Director(s) to be submitted to the Board of Directors as necessary.

The committee will attempt to seek qualified candidates as described in Policy 5.20, and is charged with making sure the candidates have the qualifications, a willingness to serve, is aware of the duties and term, time, and educational commitments as well as the required pledge commitment if that candidates are chosen as described in Policy 5.20.

The committee will submit a resume/biographical information to the Chairman of the Board once the candidates are agreed upon by the majority of the Committee to be considered as Associate Director(s).

FAA CREDIT UNION

Policy No: 5.36
Date: **December 17, 2013**
Last Revised: **December 17, 2013**

SUBJECT: Annual Meeting Committee

Policy: The purpose of the Annual Meeting Committee is to plan and direct the annual meeting of the credit union.

Committee

The Chairman of the Board will appoint an Annual Meeting chairperson annually following the annual meeting. The Chairperson shall then select one other member of the Board of Directors to serve on the committee as needed as well as a member of the Supervisory Committee.

Duties

The Committee shall be charged with determining the location and venue of the event each year. Other duties include food selection, agenda, program and member giveaways.

FAA Credit Union

Policy No. 5.37
Date: June 24, 2014
Reviewed: June 24, 2014

SUBJECT: WEBSITE AND SOCIAL MEDIA POLICY

General Policy Statement:

The Credit Union maintains a web site that is hosted by a third party vendor. Online banking is available to members via the web site. The online banking is hosted by a different vendor. The Credit Union also uses various social media sites for marketing. The Marketing Department is responsible for development and content of the website and the various social media sites. The Information Technology (IT) Department manages all aspects of the account access through online and mobile banking. Using the World Wide Web (web) and mobile applications is strongly encouraged in that it provides the Credit Union with tools to convey information quickly and efficiently on a broad range of topics relating to its products, services, activities, objectives, policies and disclosures.

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 web site, social networking or affinity web site, 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.

Guidelines:

1. POLICY AND PROGRAM RESPONSIBILITY

- A. The Marketing Department is to maintain and monitor the Credit Union's web site, mobile application, and social media sites.
- B. The IT Department is to maintain the online banking which is available to members via the Credit Union's web site and mobile application.
- C. Management has established long-term strategic and short-term tactical plans for its E-commerce activities, with Board approval. The Marketing Department provides Credit Union Management and the Board with regular reports on its web site and social media site transactions and interactions.
- D. 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.

- E. Management and the Marketing Department shall work together to provide the necessary resources to adequately support web site and social media operations to include equipping staff with the appropriate tools and staff training.
 - F. All vendors will be selected and managed in accordance with the Credit Union's Vendor Management Policy No. 5.26.
 - G. The Marketing Department will develop and post guidelines for any public use of the Credit Union's web site and social media sites, which among other things shall provide, the Credit Union supports an environment free of harassment and discrimination and specifically reserves the right to delete any posts or information that might be deemed offensive, spam, illegal activity, private or confidential information, involves minors, contains photographs, etc.
2. **COPYRIGHTED MATERIAL.** Copyrighted material will be used only when allowed by prevailing copyright laws and should be approved by Management prior to use.
3. **EXTERNAL LINKS.** When external links to non- Credit Union web sites are included, the Credit Union is responsible for ensuring that a disclaimer is made that the Credit Union does not endorse the product at the destination, nor does the Credit Union exercise any responsibility over the content at the destination. The disclaimer shall be displayed when linking to external sites.
4. **MINORS ONLINE.** The Credit Union shall not collect any information online on minors and will at all times be compliant with the Children's Online Privacy and Protection Act.
5. **MEMBER RESOLUTIONS.** FAACU values its members and its reputation with its members. When appropriate the Marketing Department will attempt to resolve member complaints posted on the web site or through any of the social media sites in a timely and appropriate manner. The Marketing Department will follow the Member Resolution Internal Guidance when working to resolve member complaints.
6. **COMPLIANCE AND LEGAL**
- A. The Credit Union will ensure that its web site, social media sites, and mobile applications comply with all applicable laws and regulations.
 - B. The Credit Union will maintain a web site privacy disclosure that is available to all members who visit the Credit Union web site. The Credit Union will monitor and enforce compliance with its web site privacy disclosures.
 - C. The Credit Union will monitor its web site, social media sites and mobile applications on a regular basis to ensure all disclosures are accurate and up-to-date.

7. AUDIT AND CONSULTING SERVICES

- A. The Credit Union's web site, social media sites and mobile application activities will be subject to periodic independent audits and quality reviews, at least every other year, and more frequently when appropriate. Credit Union management will timely correct the issues of concern uncovered by the independent audit and/or quality review.
- B. Credit Union management regularly requires performance testing of its web site to identify and prevent potential vulnerabilities. The IT Department is responsible for ensuring the testing occurs and will take all steps necessary to reduce any risk of any security threat to the Credit Union's computer systems, private data, and information.

8. MEMBER SERVICE AND SUPPORT

- A. 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 web site transactions are conducted, such as:
 - i. The Credit Union's web site is secure and member account information is kept confidential.
 - ii. Whether the web site 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.

When members will be notified of credit decisions.

- i. How members can request more information or inquire into a refusal of credit.
- ii. Methods of accepted bill payment.

- iii. When payment will be posted to the member's account (for after hours transactions).
- iv. How members can stop payment.
- v. The sources of information (i.e. interest rates).
- vi. Inform members of maintenance or other technical issues that may affect access to E-commerce or web site activities through online messages.
- vii. Where members can go to resolve errors, pose questions, or register complaints.

Inform members of their right to receive paper copies of member account information and procedure to obtain paper copies.

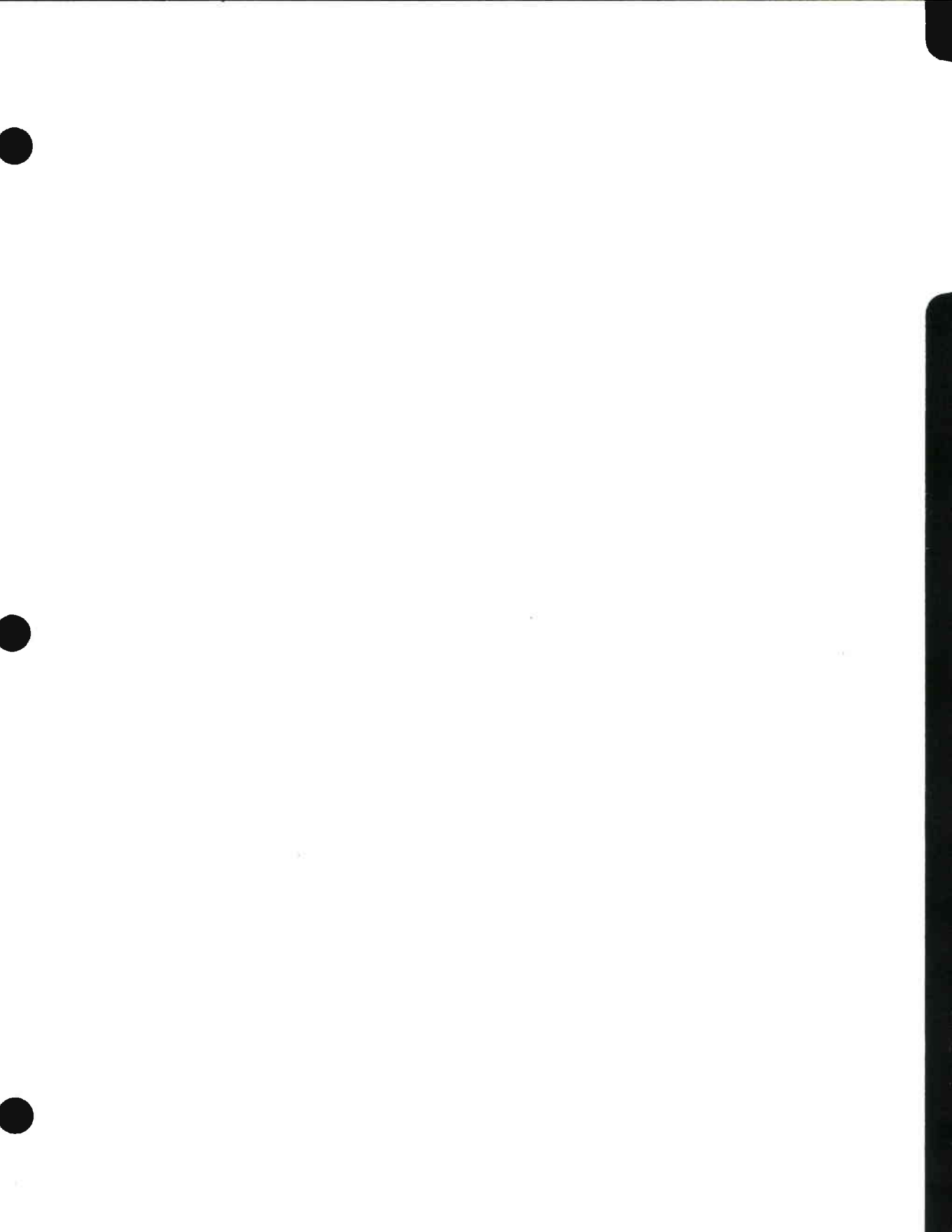
9. SECURITY INFRASTRUCTURE AND CONTROLS

- 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 protected servers 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.

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 IT Department monitors the activity and will take all measures necessary to timely resolve any security threats to the Credit Union's computer systems and private data.

10. **PERFORMANCE MONITORING.** The Credit Union has established and implemented performance standards and monitoring procedures for its web site activities. These standards and procedures are designed to ensure that the Credit Union's E-commerce and web site 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.



FAA EMPLOYEES CREDIT UNION

Policy No: 6.01

Date: February 1, 1999

Revised: **July 22, 2014**

SUBJECT: GENERAL INFORMATION FOR EMPLOYEES

POLICY Employment Guidelines

The employment guidelines for the FAA Credit Union are located in the Employee Handbook on the company intranet. (CI). These guidelines are updated on a periodic basis as warranted. They will be located on the CI and employees will be notified of any updates as they occur. You may request a paper copy from Human Resources or print a copy from the CI as needed.

Any changes to the section titled "Annual Leave (Vacation, Sick days and Personal Days)" must be approved by the Board of Directors at a regularly scheduled meeting prior to implementation.

FAA CREDIT UNION

Policy No: 6.02
Date: December 16, 2003
Revised: June 21, 2005
Reviewed: May 28, 2013

SUBJECT: 401K Plan

The FAA Credit Union (FAACU) sponsors a 401K Plan (The Plan) for the benefit of its employees. The Plan is intended to provide eligible employees with the long-term accumulation of retirement savings. This is accomplished through a combination of employee and employer contributions to individual participant accounts and the earnings thereon.

The Plan is a qualified employee benefit plan which complies with all applicable federal laws and regulations, including the Internal Revenue Code of 1986, as amended, and the Employee Retirement Income Security Act of 1974 (ERISA), as amended, and with ERISA Section 404c.

The Plan's participants and beneficiaries are expected to have different investment objectives, time horizons and risk tolerances. To meet these varying investment needs, participants and beneficiaries will be able to exercise control over assets in their individual account. Each individual may choose from among a broad range of investment alternatives to construct a diversified portfolio that reasonably spans their risk/return spectrum. Participants and beneficiaries will exercise independent control over the assets in their account and alone bear the risk of investment results from the options and asset mixes they select.

Roles and Responsibilities

The FAACU President, and the Vice President of Human Resources serve as the Internal Plan Administrators and are responsible for:

Selecting the External Plan Administrator (record keeper), the Plan Trustee, and annually monitoring the policies, objectives, and legal requirements associated with the plan.

The External Plan Administrator, also known as the third party administrator, is responsible for:

Maintaining and updating individual account balances, withdrawals and distributions, in addition to providing education materials, tax filings, and all educational and/or regulatory updates associated with the plan.

The Plan Trustee is responsible for:

Managing and investing the plan assets in accordance with the Plan Trust agreement, evaluating the Plan's Investment performance and recommending changes as necessary, and selecting a company or individual to offer unbiased investment advice based on sound asset allocation theory and in-depth fund analysis.

Investment Objectives and Monitoring

The Plan's investment objective will be to:

Maximize return within reasonable and prudent levels of risk. Provide returns comparable to returns for similar investment options.

Provide exposure to a wide range of investment opportunities in various asset classes.

The monitoring of the Plan investments will be a regular **ongoing** process, performed not less than annually. If overall satisfaction with the investment option is acceptable, no further action is required. If areas of dissatisfaction exist, the plan trustee must take steps to remedy the deficiency over a reasonable period.

Provide Participant Education and Communication

The Plan documents will communicate to participant or beneficiary that they control their own investments; permit investment changes at least quarterly; and, provide effective educational materials allowing each participant or beneficiary to make informed decisions with regard to investment alternatives available under the Plan.

FAA EMPLOYEES CREDIT UNION

Policy No: 6.06
Date: August 1, 1988
Revised: July 22, 2014

SUBJECT: ACCRUAL AND USE OF LEAVE

POLICY Employees must have been employed on a full-time basis for ninety (90) days before being entitled to leave accrual.

Leave will accrue during each bi-weekly period while an employee is in full-time status, except during the first 90 days of employment. Any absence during the first 90 days will be considered leave without pay. Leave will not accrue during any unpaid leave status.

Leave shall accrue according to the following schedule:

Length of Service	Accrual Rate
90 days - 2 yrs	6 hours/pay period
2 yrs – 5 yrs	7 hours/pay period
5 yrs – 10 yrs	8 hours/pay period
10 yrs or more	10 hours/pay period
All/Birthday	8 hours

A change in the rate of leave accrual will be effective at the beginning of the first pay period following the pay period in which an employee completes the required years of service.

FAA EMPLOYEES CREDIT UNION

Policy No: 6.06 Pg 2
Date: August 1, 1988
Revised: July 22, 2014

SUBJECT: ACCRUAL AND USE OF LEAVE

POLICY Accrued leave is used for: vacation, necessary personal business leave, personal or family illness leave, bereavement leave, and leave taken for any religious holiday not listed among the Credit Union's designated holidays. Because accrued leave is an earned benefit, it may not be taken in advance by any employee.

After completing one full year of service, all employees are required to use a minimum of forty (40) consecutive hours, in this instance 5 consecutive business days, of accrued leave per year.

Accrued leave may be carried over from year-to-year up to a maximum of 720 hours. The Credit Union will buy back accrued leave from employees having in excess of 720 hours, at the employee's current rate of pay.

The Credit Union will buy 100% of leave upon termination of employment, with the exception of any employee who has been terminated or dismissed for fraud or dishonesty, including, but not limited to, embezzlement or misapplication of Credit Union funds or property.

The Credit Union will buy back accrued leave hours from employees who voluntarily want to cash-out during the year.

If accrued leave falls to zero, any absence from work will be UNPAID with no exceptions.

FAA CREDIT UNION

Policy No: 6.07

Date: March 25, 2014

Revised: March 25, 2014

SUBJECT: WHISTLEBLOWING PROTECTION POLICY

General Policy Statement:

The Credit Union requires directors, management, 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, management, 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, management, volunteers, employees, members and third party service providers.
2. **REPORTING RESPONSIBILITY.** Each director, manager, 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 (federal, state or local);
 - C. Unethical behavior;
 - D. Dangerous or unsafe practices;
 - E. Questionable financial practices;

- F. Falsifying documents or records;
- G. Theft;
- H. Discrimination;
- I. Harassment;
- J. Embezzlement;
- K. Manipulation of loan accounts, plastic card accounts, share or share draft accounts, and related documents and computer records;
- L. Unauthorized member account transactions;
- M. Fictitious loans;
- N. Unauthorized or unapproved expenses, or unauthorized or unapproved salary advances or overtime reimbursements;
- O. Participating in or aiding in any form of electronic or automated system fraud, including telephone abuse, electronic funds transfers, ACH, wire transfers, audio response systems, and/or home banking;
- P. Altering or inappropriate use of any computer software, computer programs, and/or data processing information related to Credit Union or member accounts;
- Q. Check/share draft kiting;
- R. Forgeries and new account fraud;
- S. Intentionally failing to secure or altering proper collateral interests per loan security agreements;
- T. Unauthorized disclosure of confidential Credit Union and/or member information; and
- U. Intentional violation of Credit Union rules, internal controls, regulations, policies or procedures.

This list is an example and does not include all possible reportable wrong-doing.

3. **FILING A REPORT**

If an employee, director, manager, or volunteer has knowledge of, or a concern about illegal, dishonest or fraudulent activity, the individual is to promptly contact any one or more of the following as is appropriate under the circumstances: the Credit Union's V.P. of Human Resources, Senior Vice President of Financial Services, the Credit Union's President/CEO, internal Auditor, the Credit Union's General Counsel, or the Supervisory Committee.

4. **ACTING IN GOOD FAITH.** Directors, management, 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 disciplinary action, up to and including dismissal from the volunteer position or termination of employment.
5. **CONFIDENTIALITY.** Reports of concerns and the identities of those making the report will be kept as confidential as possible, by all parties, consistent with the need to conduct an investigation of the allegations.
6. **NO RETALIATION.** Directors, management, 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.

The Credit Union will not retaliate against a whistleblower. This includes, but is not limited to, protection from retaliation in the form of an adverse employment action such as termination, compensation decreases, or poor work assignments and threats of physical harm. Any whistleblower who believes he/she is being retaliated against must immediately contact the V.P. of Human Resources, the Credit Union's President/CEO, the Credit Union's General Counsel, or the Supervisory Committee. The right of a whistleblower for protection against retaliation does not include immunity for any personal wrongdoing.

7. **MANAGEMENT REPORTING.** Management will notify the Supervisory Committee of any prohibited activity reported in accordance with this Policy at least monthly. The Supervisory Committee and Board will be notified of such activity immediately if the activity warrants immediate reporting. If a report involves 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 otherwise not involved in such reported activity.
8. **APPLICABLE LAWS.** The Credit Union, its representatives and employees will comply with all applicable laws and cooperate with government officials.



FAA CREDIT UNION

Policy No.: 7.00

Date: August 1, 1988

Revised: April 29, 2014

SUBJECT: INVESTMENT POLICY

NO. POLICY / TOPIC

- I. GENERAL POLICY STATEMENT
- II. GOAL
- III. BOARD RESPONSIBILITY AND DELGATION OF AUTHORITY
- IV. RESPONSIBILITIES
- V. DUTIES
- VI. REPORTING REQUIREMENTS
- VII. DOCUMENTATION
- VIII. PORTFOLIO MANAGEMENT PHILOSOPHY
- IX. OPERATING POLICY
- X. PORTFOLIO EXPOSURE AND EQUITY VOLATILITY LIMITS
- XI. PERMISSIBLE INVESTMENTS
- XII. UNACCEPTABLE INVESTMENTS
- XIII. DIVERSIFICATION AND LIMITATIONS
- XIV. RESTRICTED TRANSACTIONS
- XV. ASSESSMENT FOR POSSIBLE OTHER-THAN-TEMPORARY IMPAIRMENT (OTTI)
- XVI. FAIR VALUE PRICING OF INVESTMENT SECURITIES
- XVII. SELECTION OF SECURITIES DEALERS
- XVIII. SAFEKEEPING, PAYMENT AND DELIVERY
- XIX. CONFLICT OF INTEREST
- XX. PRE-PURCHASE ANALYSIS
- XXI. CREDIT RISK MONITORING
- XXII. PROVISION FOR EXCEPTIONS
- XXIII. POLICY REVIEW
- XXIV. AUDIT

FAA CREDIT UNION

Policy No.: 7.00

Date: August 1, 1988

Revised: April 29, 2014

SUBJECT: INVESTMENT POLICY

I. GENERAL POLICY STATEMENT

The Investment Policy is to provide a framework for prudent investment strategies in order to strengthen the safety and soundness of the Credit Union. All Credit Union investments will be made in accordance with the "Federal Credit Union Act," Section 703 of "NCUA Rules and Regulations for Federal Credit Unions", and the "Oklahoma Laws and Regulations for Credit Unions".

II. GOAL

- A. To insure that investment of funds is accomplished in a safe and secure manner, particularly with respect to limiting the exposure of the Credit Union to unnecessary risk;
- B. To promote diversification in the Credit Union's portfolio and authorize management to seek a competitive return on investment assets;
- C. To set standards for measuring, monitoring, and controlling the credit, liquidity, and interest rate risks that are inherent to an investment portfolio.
- D. The investment securities portfolio of the Credit Union shall be managed to:
 - 1. Assist in meeting the liquidity and pledging needs of the institution;
 - 2. Assist in managing interest rate risk;
 - 3. Provide earnings for the long term, while monitoring safety of principal.
- E. Portfolio strategies will be utilized to assist the Credit Union through means established in this Policy and the Investment Portfolio Strategy in the attainment of a level of interest rate sensitivity consistent with the goals of the Asset/Liability Management Policy.

III. BOARD RESPONSIBILITY AND DELGATION OF AUTHORITY

- A. The Board of Directors is responsible for the formulation and implementation of investment policies. In accordance with regulatory authority, the Board delegates decision-making authority with respect to specific investments to the President or Vice President of Finance for implementing investment policies and executing day-to-day investment decisions. However, all investment decisions shall be consistent with this policy.

- B. The Asset Liability Committee ("ALCO") shall be responsible for managing the Credit Union's portfolio, developing and implementing investment strategies and making recommendations to the Board of Directors for prudent investment policies and procedures.
- C. Further, ALCO, with the concurrence of the Board of Directors, can approve staff members to execute investment transactions on behalf of the Credit Union, subject to the investment policies contained herein.
- D. For the purposes of this Policy, the Vice President of Finance may generally be referred to as the "Senior Investment Officer."

IV. RESPONSIBILITIES

- A. ALCO is responsible for managing the portfolio, developing and implementing investment strategies, and recommending to the Board of Directors uniform investment policies and procedures which, while striving to maximize portfolio performance, will keep the management of the portfolio in compliance with those policies and within the bounds of good practice and satisfy the liquidity and legal requirements of the Credit Union.
- B. Composition of ALCO is set out in the Credit Union's ALM Policy.
- C. Operating management of the Credit Union portfolio is the responsibility of the Vice President of Finance.

V. DUTIES

ALCO shall receive and review data on the current economic conditions and outlook for interest rates.

- A. Review monthly and/or quarterly reports with regard to:
 - 1. Portfolio cashflow and liquidity (Quarterly)
 - 2. Market value of portfolio (Total, Held-to-Maturity (HTM), Available-For-Sale (AFS)) (Monthly)
 - 3. Effective duration and average life of portfolio (Quarterly)
- B. Based on the aforementioned information, review quarterly Investment Portfolio Strategies providing the following analysis:
 - 1. Current portfolio composition
 - 2. General strategy
 - 3. Portfolio duration/market value risk limits
 - 4. Desired portfolio composition
 - 5. Specific strategies according to portfolio sector

The strategy shall consider the present and projected interest rate environment, yield curve analysis, investment product alternatives, along with the Credit Union's asset concentrations, tax, liquidity, and interest rate sensitivity positions. Performance against the prior quarter's strategy shall be reviewed, and the strategy for the next quarter shall be reviewed by ALCO.

VI. REPORTING REQUIREMENTS

- A. The following reports for HTM and AFS will be reviewed quarterly with the Board of Directors:
1. All bond purchases
 2. All bond sales and net profits (losses)
 3. Transfers between SFAS 115 categories
 4. Portfolio mix
 5. Portfolio yield
 6. Duration and market value risk
 7. Market appreciation or depreciation of bond portfolio
 8. Investment Portfolio Strategy
 9. An explanation of any known exceptions to this policy as well as an action plan and timetable to bring the Credit Union into compliance with such policy limits.
 10. Both marketable and non-marketable issues with embedded options, maturities in excess of three years, inverse floaters, dual index floaters, levered/delivered floaters shall be listed on a report that is provided to the Board on a quarterly basis. The total fair (market) value for the marketable issues will be compared to the Credit Union's capital (reserves, undivided earnings, unrealized gains/losses on AFS securities and current period net income). If the value of these securities exceeds capital, a projected change in value of all securities given an immediate and sustained parallel shift of +/- 300 bp shall be calculated. This amount will be compared to capital in both percentage and dollar terms.
- B. The ALCO will review annually, **or as necessary**:
1. Objectives against results
 2. Desired portfolio segmentation and mix
 3. Credit risk and possible impairment based upon current accounting principles
- C. At least monthly, a report will be prepared listing all investments in the portfolio. For each investment the following information will be included:
1. Amount
 2. Issuer
 3. Coupon
 4. Maturity Date
 5. Call date (if applicable)
 6. Book Value
 7. For marketable securities, the report shall also include the change in market value over the past month, the current market value and unrealized gains and losses.
 8. Embedded options, if any (call options, put options, caps, and floors)

VII. DOCUMENTATION

The Credit Union will exercise the same degree of care in bond portfolio transactions as it does in documenting loans or any of the other assets of the Credit Union. The retention of all supporting documentation will include the following:

- A. Description of each security purchased
- B. Designation of portfolio segmentation (AFS vs. HTM) at purchase
- C. Name of Dealer
- D. Trade date, settlement date
- E. Issuer
- F. Coupon
- G. Price
- H. Yield
- I. Duration, average life, maturity
- J. Par value
- K. Cusip number
- L. If applicable:
 - 1. Description of collateral
 - 2. CPR/PSA assumptions and analysis
 - 3. Bloomberg GRADE/ Federal Financial Institutions Examination Council (FFIEC) Stress Test

The Credit Union shall maintain documentation for each investment purchased until the first regulatory exam and independent audit after the investment matures, is called or sold.

VIII. PORTFOLIO MANAGEMENT PHILOSOPHY

- A. As stated in the Goals (Section II) of the Policy, the Investment Portfolio will be managed to maximize income within certain parameters and limits. It is the philosophy of the Credit Union to use effective duration, rate shock analysis, as well as total return to analyze and manage the Investment Portfolio and to determine the effect of interest rate movements on the yield and value of the Credit Union's portfolio. It is expected that as credit or market value risk increases, the yield should also increase.
- B. The primary goal of the Investment Portfolio management will be to assist in meeting the institution's liquidity needs. To manage inherent risks of certain securities, as well as the asset/liability position of the Credit Union, most investments will be placed in AFS.
- C. On a quarterly basis, an Investment Portfolio Strategy addressing balance sheet positions, asset concentrations, liquidity risk, market volatility, relative value and economic rate of return will be developed and presented.
- D. The investment portfolio shall be appraised on a quarterly basis by an independent source, or more often as necessary. In assessing the market value sensitivity of the investment portfolio, the Credit Union will apply effective duration analysis. Effective duration and convexity will be used to measure potential price volatility/optionality and help determine appreciation/depreciation in the portfolio under different interest rate scenarios. In applying duration, all embedded options (caps, floors, indexes, reset frequencies, prepayments, etc.) will be considered when analyzing any floating rate instruments to more accurately measure market value sensitivity. For example, if the portfolio has a duration of 3, its value will decline roughly 3 percent if interest rates increase one percentage point. Additionally, the appreciation/depreciation will be related as a percentage of net worth. The Credit Union recognizes that for large changes in rates the actual change in market value may differ from

duration measures. For purposes of this policy, the term "duration" shall mean "effective duration."

IX. OPERATING POLICY

A. Portfolio Segmentation

The investment portfolio will be managed in accordance with current regulatory and GAAP requirements. The portfolio will be segmented based upon the Credit Union's intent and ability to hold a security to maturity. Only securities in which the Credit Union intends and believes to have the ability to hold to maturity will be placed in the Held-to-Maturity (HTM) account. All other securities will be placed in the Available for Sale (AFS) account. We anticipate that the majority of our securities will be placed in the AFS account. The Credit Union will not have a Trading account at this time. Transfers among segments will be rare. The Senior Investment Officer shall clearly and thoroughly document the reason for the transfer of any security from one category to another. The ALM Committee shall approve all such transfers.

1. The relative amounts of HTM and AFS securities will be determined by Credit Union liquidity, respective market values, individual security "risk/return" profiles, and other factors such as the Credit Union's tax position.
2. Items may only be sold/transferred out of HTM for permissible reasons stated in SFAS 115:
 - a. Less than 3 months to maturity or effective call date.
 - b. Less than 15% of purchase face remaining on MBS/CMO.
 - c. Deterioration of an issues creditworthiness.
 - d. Change in the tax laws (not tax rates).
 - e. Major regulatory change (i.e., change in risk weight).
 - f. Business combination or disposition resulting in an unacceptable asset/liability position or excessive credit risk.

B. Portfolio Accounting

1. Securities in the HTM account will be accounted for at amortized cost, as per SFAS 115.
2. Securities in the AFS account will be accounted for at fair value with the net gain/loss (adjusted for tax) reflected in the Credit Union's net worth.
3. Any transfers between accounts will be accounted for at fair value.

C. Transaction Procedures

1. The purchase, sale or exchange of portfolio securities shall be made by the President and Senior Investment Officer, subject to a \$4 million per transaction limit, as authorized by the ALCO, from dealers that are approved by the Board of Directors, as per Exhibit 1.

2. Orders for the purchase and/or sale of Federal Funds shall be made by the Senior Investment Officer or his/her staff subject to policy determined by the ALCO.
3. Acquisition of large Certificates of Deposit over \$100,000 will be coordinated by the Senior Investment Officer and his/her staff with regard to amount, maturity and rates.

D. Impairment of Securities

Irrespective of the classification, accounting and reporting treatment as AFS or HTM securities, if any decline in the market value of a security is deemed to be anything other than temporary (i.e. its value permanently impaired), then the security's carrying value shall be written down to fair value and the amount of the write down reflected in earnings.

E. Determination of Fair Values

The determination of fair value prices of AFS securities shall be based primarily on market value quotes obtained from a third party in an effort to provide a reliable, consistent and verifiable methodology. In instances where quoted market prices are not readily available (for example, small issues of revenue bonds) a reasonable estimate of fair market value may be used utilizing techniques such as discounted cashflow analysis, "grid" or matrix pricing or option-adjusted spread models. Such valuations may be provided by a third party, such as an investment portfolio service, correspondent Credit Union or other source. The Credit Union, internally or by third party, shall inquire and document that the valuation methodologies employed by the third party are adequate and consistent with SFAS 115.

X. PORTFOLIO EXPOSURE AND EQUITY VOLATILITY LIMITS

A. Investment Portfolio Exposure Limits

The weighted average effective duration of the total Investment Portfolio shall not exceed 4.0. The market price volatility exposure limits of the overall portfolio shall not exceed the following limits.

INVESTMENT PORTFOLIO EXPOSURE LIMITS
(Total Portfolio)

Change in Interest Rate (in Basis Points)	Policy Limits Projected Portfolio (Depreciation After Tax as % Equity)
+100BP	20%
+200BP	30%
+300BP	40%

B. Equity Volatility-AFS Portfolio

The regulatory authorities exclude the AFS mark-to-market adjustment from regulatory net worth. However, since the AFS portfolio will be utilized to manage interest rate risk and liquidity needs of the Credit Union, it is important that the market value exposure be monitored in the event the securities need to be liquidated.

XI. PERMISSIBLE INVESTMENTS

The Credit Union may purchase securities deemed permissible as follows:

- A. U.S. Treasury Securities;
- B. U.S. Government Agency Securities; including:
 - 1. Government National Mortgage Association (GNMA), including CMO's and MBS's (ARM's and Fixed Rate), and Direct Obligations;
 - 2. Federal National Mortgage Association (FNMA), including CMO's and MBS's (ARM's and Fixed Rate), and Direct Obligations;
 - 3. Federal Home Loan Mortgage Corporation (FHLMC), including CMO's and MBS's (ARM's and Fixed Rate), and Direct Obligations;
 - 4. Federal Home Loan Bank (FHLB)
 - 5. Student Loan Marketing Association (SLMA);
 - 6. Small Business Administration (SBA) U.S. Government Guaranteed Portion;
 - 7. Federal Farm Credit Bank (FFCB);
- C. Corporate Bonds and Obligations;
- D. Mutual Funds;
- E. Municipal Securities (In-State only for non-rated, may be out-of-state if rated);
- F. Money Market Instruments, including Fed Funds Sold, Certificate of Deposit and Repurchase Agreements.

Both fixed rate and adjustable rate securities may be purchased depending upon the interest rate environment and interest rate sensitivity position of the Credit Union. All adjustable rate securities purchased by the Credit Union shall meet the requirements of this policy and shall be evaluated carefully, particularly those with imbedded prepayment options. Additionally, floating rate securities shall be evaluated in terms of (1) the appropriateness of the index, (particularly non-money market indices,) (2) repricing frequency, (3) lifetime cap of the security, (4) periodic caps of the securities, and (5) potential market price volatility

attributable to these factors (parallel and non-parallel interest rate changes where appropriate.)

XII. UNACCEPTABLE INVESTMENTS

The Credit Union shall not purchase certain securities deemed unacceptable for the Credit Union's Portfolio, including IO's, PO's, interest rate futures, options or swap contracts, common or preferred equity securities (this does not include investments in Federal Reserve stock, FHLB stock or other investments necessary to conduct operations), short sales, stripped mortgage-backed securities, residual CMO tranches, mortgage servicing rights of other financial institutions, commercial mortgage related securities, small business related securities, zero coupon instruments with maturities in excess of ten years, unless permissible, and any security whose interest rate is tied to a foreign currency exchange rate. No derivatives other than those security types addressed specifically in this policy shall be purchased.

XIII. DIVERSIFICATION AND LIMITATIONS

Securities purchased shall be limited to investments that comply with Federal and State regulations and that meet Board approval. Investments not listed below (i.e. bonds issued by a new federal agency) may be purchased only if the issuer meets the Credit Union's general investment criteria and is in the best interest of the Credit Union. Any security which meets appropriate pledging requirements may be utilized to meet pledging needs. Any exceptions to these limitations must be approved by the board.

A. Direct Obligations of the U.S. Treasury.

1. There is no limitation on the amount of U.S. Government Securities in the total investment portfolio.
2. There is no maximum lot size for purchases of U.S. Treasury Securities and it is desirable to purchase in minimums of \$500,000.
3. Treasuries will primarily be held in AFS for liquidity purposes.

B. Notes and bonds of federal agency and agency-sponsored securities.

1. Securities issued by any individual Federal agency may not exceed 75% of the investment portfolio.
2. The maximum holding of any single issue shall be \$5,000,000 and it is desirable to purchase in minimums of \$1,000,000.
3. The weighted average effective duration of the agency portfolio should generally not exceed 4.0.
4. Non-callable agencies will generally be placed in AFS.

C. Structured Notes and Callable Agency Securities

Any Agency Securities which are considered "structured notes" shall be analyzed and documented carefully prior to purchase. Structured Notes include:

1. Step-up bonds
2. De-leverage floaters
3. Inverse floaters
4. Dual indexed floaters
5. Range bonds and
6. Index amortizing notes

The performance characteristics of these securities (including yield, market price, liquidity, volatility, cashflows and duration) shall be evaluated and documented prior to purchase in a 300 basis point parallel rising and falling interest rate environment as well as non-parallel yield curve shifts, when appropriate. Any key assumptions used in the analyses shall be clearly understood and documented. While callable agency securities are not considered "structured notes", they will also be analyzed similarly prior to purchase.

No more than \$3,000,000 of any individual agency structured note issue shall be purchased. In the aggregate, structured agency notes (excluding callable securities) shall constitute no more than 25% of the investment portfolio or 10% of total Credit Union assets.

D. Municipal Bonds – Overview

1. Municipal securities will be purchased when appropriate to the strategy of the Credit Union.
2. Appropriate credit evaluation must be performed prior to purchasing non-rated or low rated municipal bonds. (Requirements are discussed later).
3. The municipal bond portfolio shall not exceed 10% of the total investment portfolio.
4. The weighted average effective duration for the total municipal portfolio shall not exceed 8.0. The duration and price volatility of individual municipal bonds in a rising/falling interest rate environment will be considered at purchase and will be evaluated quarterly for the overall municipal portfolio.
5. Credit files must be maintained for all municipal bonds and relevant financial information including official statements, offering circulars or prospectuses. On an annual basis efforts should be made to obtain the most recent financial statements of the issuer.
6. A legal opinion by a recognized bond attorney shall be obtained when deemed prudent.
7. Municipal bonds should have a rating of **A** or better by Moody's, Standard & Poors or Fitch, be of investment grade and/or have a minimal amount of credit risk as defined by the NCUA.
8. At the time of purchase of any in-state non-rated bonds, an assessment of the creditworthiness of the issue shall be performed. All non-rated bonds shall be of investment grade and/or have a minimal amount of credit risk as defined by the NCUA.

Non-rated municipal bonds shall be reviewed at least annually to determine if there has been any sign of credit deterioration or weakening in the financial condition of an issuer. This includes documenting whether there has been monetary or technical default of an issue or any public information that would cause concern regarding an issuer's ability to perform on our debt or any other of its obligations.

9. In the event that the rating of a municipal issue falls below investment grade (due to downgrade of the issuer or a bond insurer) updated financial information on the issuer will be obtained and presented to the ALCO. The Committee will either direct that the bond be sold or approve holding the bond.
10. Any bond escrowed by U.S. Treasuries or Federal Agencies are acceptable for the Credit Union's Portfolio.
11. An assessment of the potential impact of any call provisions shall be considered.
12. Municipal bonds will be placed in AFS when at all possible.

E. General Obligation Bonds

For general obligation bonds the following factors shall be considered in evaluating the merits of each bond. For non rated bonds or bonds rated below investment grade the following factors should be evaluated at the time of purchase:

1. Ratio of debt burden to assessed valuation
2. Debt burden per capita along with population and employment trends
3. Historical trends of debt and debt paying ability
4. Large employers, large tax payers and industry concentrations in the issuer's geographic area
5. Assessed valuation, including basis for assessment
6. Tax collection record
7. Recent trends in tax rates
8. Economic climate of the issuer, county and state

GO bonds should have a debt to assessed valuation ratio of **less** than 15% and a per capita debt of less than \$3500. Exceptions to these ratios should be addressed at the time of purchase.

F. Corporate Bonds

1. Corporate bond holdings may not exceed 25% of the total investment portfolio.
2. Corporate bond purchases of a single issuer shall not exceed 10% of the portfolio.

3. The weighted average effective duration of the corporate portfolio shall not exceed 4.0.
4. Corporate bonds in the investment portfolio must have at least a rating of BBB/BAA by Moody's and/or Standard and Poor's, be of investment grade and/or have a minimal amount of credit risk as defined by the NCUA. Any corporate bond owned by the Credit Union that has been downgraded below investment grade shall be reviewed quarterly and addressed in the quarterly investment strategy.
5. Credit files must be maintained and updated as necessary on all corporate bonds.

H. Other Equity Investments

The Credit Union may purchase non-marketable investments in government sponsored enterprises or private entities to support relationships necessary to the ongoing operation of the Credit Union. Examples include stock of a Federal Reserve Credit Union, Federal Home Loan Bank. Such investments should be evaluated for liquidity risk, credit risk and interest rate risk. Any individual investments shall not exceed 10% of the Credit Union's equity net worth in the case of a U.S. Government agency or agency quality investment, or the Credit Union's legal lending limit in the case of any other investment that is not a marketable security or in an entity that is private or closely held. ALCO will review all such investments at least annually and present to the Board a recommendation for holding such investments.

I. Mortgage Backed Securities

1. Only mortgage-backed securities (MBS) issued by or collateralized by Federal agencies (i.e. FNMA, FHLMC, GNMA) shall be purchased for the investment portfolio.
2. Mortgage-backed securities may not exceed 100% of the total investment portfolio.
3. The weighted effective average duration of the mortgage portfolio shall not exceed 4.0.
4. A determination of the diversification of the underlying mortgages will be done prior to purchase. The following criteria shall be reviewed:
 - a. Coupon
 - b. Issuer
 - c. Yield
 - d. Maturity, average life and duration
 - e. Geographic characteristics, if available
 - f. Number and average balance outstanding, if available
5. A pre-purchase analysis will be completed and documented in the file for each individual pool, including a rate shock analysis which utilizes a wide spectrum of prepayment assumptions reflecting price, yield and cashflow / average life volatility in changing interest rates.
6. A periodic check of each mortgage-backed pool will be completed as to the actual performance versus projected performance, at a minimum on an annual basis.

7. Most fixed-rate MBS will be placed in AFS to manage their prepayment risk.
8. Floating rate mortgage-backed pools may be purchased as deemed necessary by asset/liability analysis.
9. When analyzing floating rate mortgage-backed securities all embedded options (i.e. Index, Cap, Floor, Margin, Reset Frequency, Periodic Cap, etc.) will be taken into consideration. It is understood that embedded options can significantly reduce the effective duration (vs. cashflow duration) of floating rate mortgages.
10. Most floating-rate MBS will be placed in AFS to assist in managing the Credit Union's asset/liability position.

J. Collateralized Mortgage Obligations (CMO)

1. Only CMO's issued by or collateralized by Federal agencies shall be purchased for the investment portfolio.
2. CMO's may not exceed 40% of the total investment portfolio.
3. The weighted average effective duration of the CMO portfolio may not exceed 4.0.
4. First Pay and PAC CMO's are preferable; however, other tranche types may be purchased with prudent evaluation of yield and average life stability with respect to interest rate changes and prepayment variance.
5. A determination of the diversification of the underlying mortgages will be done prior to purchase. The following criteria shall be reviewed:
 - a. Coupon
 - b. Issuer
 - c. Yield
 - d. Maturity, average life and duration
 - e. Geographic characteristics
 - f. Number and average balances outstanding
6. A prepayment analysis will be completed and documented in the file for each CMO prior to purchase. Each CMO must meet the following criteria:
 - a. Purchased Fixed Rate CMO's will have an average life of 10 years or less in the base case.
 - b. Purchased Fixed Rate CMO's will not extend in average life by more than 4 years if rates rise 300 b.p.
 - c. Purchased Fixed Rate CMO's will not contract in average life by more than 6 years if rates fall 300 b.p.
 - d. The price volatility of purchased CMO's will not exceed 17% for a +/- 300 b.p. move in rates.

7. Compliance within these criteria will be assessed and documented on all CMO's, at a minimum, on an annual basis. All CMO's which fail one or more of these three stress tests at the time of purchase will be held in the AFS account.
8. A periodic (at least annual) check of each CMO will be completed as to the actual performance versus projected performance.
9. Floating rate CMO's may be purchased as deemed necessary by asset/liability analysis.
10. When analyzing floating rate CMO's all embedded options (i.e. Index, Cap, Floor, Margin, Reset Frequency, Periodic Cap, etc.) will be taken into consideration. It is understood that embedded options can significantly reduce the effective duration (vs. cashflow duration) of floating rate CMO's.
11. A review of the price/yield and cashflow sensitivity analysis of each CMO prior to purchase. The analysis will be based upon the prospectus when available, otherwise third party documentation, such as The Bloomberg, will be utilized. A prospectus will be obtained when available.
12. Most floating-rate CMO tranches will be placed in AFS to manage the Credit Union's asset/liability position.

K. Money Market Instruments

1. The average duration of the money market portfolio will be determined in concert with the overall asset/liability position of the Credit Union.
2. The money market portfolio shall not exceed 5% of total assets
3. All money market instruments with 3-month maturity will be placed in HTM. Longer money market instruments may be placed in AFS.

L. Federal Funds Sold

1. The total Fed Funds sold position of the Credit Union should not exceed 15% of total assets.

M. Certificates of Deposit

1. CD purchases shall be limited to FDIC insured financial institutions in amounts below the FDIC insured limits.
2. CD's will be purchased with a maturity of less than 5 years.

O. Repurchase Agreements:

For reverse repurchase transactions the securities involved must be legal investments and within the constraints of this policy, they must be valued daily and a margin must be maintained which is reflective of the risk involved and in accordance with the industry practices. Reverse repurchase transactions may not exceed the borrowing limit imposed by Section 107 (9) of the Federal Credit Union Act (generally 50% of shares, reserves and

undivided earnings) and investments purchased with borrowed funds must mature concurrently or subsequent to the maturity of the transactions. The Senior Investment Officer may enter into repurchase or reverse repurchase agreements under the following guidelines:

1. All securities purchased under agreement to resell or repurchase must be done direct or as agent, only with institutions that appear on our approved repurchase agreement list. See Exhibit 3.
2. All transactions must be in accordance with the terms specified in the standard Bond Market Association (BMA) Master Repurchase Agreement. Specific terms of each agreement must be detailed on each transaction confirmation, and approved by the Senior Investment Officer.
3. All such agreements will be done at the market for the collateral.

XIV. RESTRICTED TRANSACTIONS

The following transactions are prohibited in the investment portfolio.

- A. Gains Trading
- B. When-Issued Securities Trading
- C. Pair-Offs
- D. Corporate Settlement of U.S. Government and Federal Agency Securities Purchases
- E. Repositioning Repurchase Agreements
- F. Short Sales
- G. Delegation of Discretionary Investment Authority

The Senior Investment Officer in conjunction with the President retains discretion over the Credit Union's portfolio. There will be no delegation of authority to any individual who is not an employee of the Credit Union. Any delegated portion of the investment portfolio in which the portfolio manager does not review and authorize transactions will be reported as held for sale.

- H. Covered Calls
- I. Adjusted Trading

XV. ASSESSMENT FOR POSSIBLE OTHER-THAN-TEMPORARY IMPAIREMENT (OTTI)

On a quarterly basis the Credit Union will review its portfolio holdings to see if any securities with unrealized losses could be considered to be permanently impaired or "other than temporarily impaired" as defined by accounting and regulatory literature. The Credit Union will focus on securities with unrealized losses in excess of 15% of book value and

that have been in a loss position for more than twelve consecutive months. It is the Credit Union's position, that just because a bond has been in an unrealized loss for 12 months does not automatically mean its impaired.

XVI. FAIR VALUE PRICING OF INVESTMENT SECURITIES

- A. It shall be our policy that all outside service providers or vendors which we use to determine fair value pricing for investment securities shall utilize reputable third party pricing sources that comply with the requirements of FAS 157, are consistently determined at each pricing date, and are independent of our approved broker-dealers.

XVII. SELECTION OF SECURITIES DEALERS

- A. The Credit Union shall know the securities firms and the personnel with whom they deal. The Board of Directors and the Vice President of Finance will annually review and approve a list of securities firms with whom the Credit Union is authorized to do business (Exhibit 1). The dealer selection process includes an investigation of the following:
 - 1. Net worth strength and review of broker-dealer financial statement
 - 2. Dealer reputation
 - 3. Formal enforcement actions against the dealer
 - 4. Background, experience and expertise of the sales representative

XVIII. SAFEKEEPING, PAYMENT AND DELIVERY

- A. All securities transactions shall be settled "delivery-versus-payment". All Credit Union securities shall be safekept by a third-party safekeeping agent approved by the Board of Directors. The agent may not commingle Credit Union securities with its own, nor may it sell, pledge, transfer, or in any way alter or use the securities without the Credit Unions written consent. No securities shall be safekept by the Credit Union itself. Under no circumstances may a selling broker/dealer, safekeep securities for the Credit Union.
- B. All agreements presented for execution to the Credit Union by either a broker/dealer or safekeeping agent will be reviewed for compliance with the above restrictions prior to submission for approval to the Board of Directors.
- C. The safekeeping agent will provide a monthly report of holding and activity. This report will be reconciled on a monthly basis to the Credit Union's records.
- D. The Board of Directors must approve each safekeeping agent, and the agent must be subject to supervision by the SEC or a depository institution regulator.
- E. Annually, the Supervisory Committee or the Credit Union's external auditing firm will, as part of its audit, confirm all securities held in safekeeping with the safekeeping institution.
- F. At least annually, the reasonableness of the monthly market price quotations received from a broker-dealer or safekeeper will be assessed in accordance with Generally Accepted Auditing Standards by either the Supervisory Committee or the Credit Union's external auditor.

G. The Credit Union will use any institution listed in Exhibit 2 for safekeeping of securities.

XIX. CONFLICT OF INTEREST

- A. Any officer or director who is directly involved in the purchase or sale of securities on behalf of the Credit Union shall report any personal securities transactions with approved dealers listed in Exhibit 1 to ALCO and Board of Directors immediately. Additionally, any such individual shall report to ALCO and the Board of Directors any gift, gratuity or expense reimbursement or anything of value received from a securities dealer within thirty (30) days of the receipt of such gift.
- B. It shall be the policy of the Credit Union that no member of the Board of Directors, the Supervisory Committee, or any employee of the Credit Union with investment authority, or their direct family members, may maintain an account with a broker-dealer utilized by the Credit Union. Furthermore, sales representatives who are immediate family members of directors, senior management employees or employees with investment decision authority, may not be utilized by the Credit Union.
- C. No Board member, officer or employee of the credit union may receive anything of value in connection with investment transactions. This prohibition does not include compensation for employees.
- D. It is the policy of the Credit Union to award business solely on the basis of merit and open competition. Therefore, the activities of ALCO members and employees must be in the best interest of the Credit Union, and personnel may have no relationships that might impair their independence of judgment.

XX. PRE-PURCHASE ANALYSIS

- A. Certain investments that the Credit Union is permitted to purchase will be subject to a risk assessment prior to acquisition. Permitted investments will meet the NCUA's security creditworthiness standards of "investment grade" or "minimal amount of credit risk". The purpose of the pre-purchase risk analysis is to fully demonstrate an understanding of the exposures and to show that prudence was exercised. The extent of pre-purchase risk analysis and documentation related will depend upon the type of investment purchases.
- B. Relatively simple or standardized instruments, such as Treasury securities, require no analysis. When considering the purchase of complex investments, the Credit Union will perform analysis that captures all embedded risk, such as calls, caps, and floors. Investment types that must be analyzed prior to purchase include, but are not limited to, floating rate investments, callable investments and mortgage securities. Pre-purchase analysis will document the instrument's various characteristics (as applicable), including:
 - 1. Coupon and call structure
 - 2. Credit quality
 - 3. Modified duration and/or price sensitive under different interest rate scenarios
 - 4. Value of the embedded option(s)
 - 5. Cash flow variability

- C. The documentation file, of the pre-purchase analysis, will include one or more of the following, or additional analytical information as appropriate:
1. Security/collateral description
 2. Prospectus
 3. Comparative price quotes
 4. Deal summary
 5. Yield analysis
 6. Call schedule
 7. Total return analysis (TRA)
 8. Credit rating/analysis
 9. Floater scenario pricing analytics
 10. WAL/price sensitivity stress testing
 11. Principal repayment table/window
 12. Option-adjusted spread (OAS) analysis
 13. Bloomberg Graduated Risk Assessment Debenture Evaluation (GRADE) screen
- D. Prior to entering into a securities transaction, at least two quotes will be obtained. At least one quote will be from a broker/dealer, and the other may be from either another broker/dealer or from an independent industry recognized information provider (e.g., Bloomberg, a newspaper, a safe keeper). The "ALLQ" screen-printed from Bloomberg is also acceptable documentation of an indicative price. Only one quote is necessary if the issue is purchased while in syndicate and priced at par. If the Credit Union does not execute the transaction with the broker/dealer with the best quote, a justification should be provided. Acceptable reasons for this include compensation for services or initially presenting the trade idea, among others.
- E. Should the incremental effect to any investment position have a significant effect on the IRR profile of the entire portfolio, the credit union will also measure the impact on the aggregate price sensitivity of the portfolio prior to making the purchase.

XXI. CREDIT RISK MONITORING

- A. Credit risk refers to the risk that an issuer will fail to perform on an obligation to the Credit Union. Obligations of the U.S. Government or its agencies, enterprises or corporations and obligations fully insured by the NCUSIF or FDIC (including accrued interest) possess very low credit risk and are exempt from pre-purchase credit analysis requirements. The Credit Union is subject to credit risk in overnight accounts, federal funds sold and non-security investments with financial institutions when balances exceed \$250,000 per depository.
- B. Financial institution transactions may be conducted with Catalyst Corporate Credit Union or any other approved corporate credit union as determined by management, only as long as it operates in compliance with NCUA Rules and Regulations and as long as it is examined by the NCUA. At least annually, management will review the financial statements of any applicable corporate credit union to evaluate the safety and soundness of the institution. FAA Credit Union will also review the corporate's operating level under NCUA Rules and Regulations Part 704 and the projected change in net economic value given interest rate shifts of plus and minus 100, 200, and 300 basis points. The credit union will maintain documentation of the review.

XXII. PROVISION FOR EXCEPTIONS

- A. Generally, no exception to this policy may be made without the express approval of the Board of Directors, unless said situation constitutes a prudent investment for rapidly changing conditions. In such a situation, when it may be prudent to make investment moves which would differ from current operating policy and when it would be impossible for the entire Board to convene, the President and Senior Investment Officer may act for the entire committee. This policy is intended to be flexible to deal with rapidly changing conditions in the money and bond markets; therefore, the policies and procedures enumerated in this statement of policy can be amended by a vote of ALCO. Any amendments to this policy will be recommended for approval by the Board of Directors at its next Board Meeting.

- B. If any investment ceases to meet the provisions of the policy or regulations, the Board of Directors shall be so informed at its regularly scheduled meeting. The Board will also be presented with an analysis that discusses the merits of both holding and liquidating the investment. This analysis will consider:
 - 1. The amount of the investment relative to the Credit Union's capital.
 - 2. Remaining time to maturity.
 - 3. Potential effect of liquidating the investment on capital.
 - 4. The possibility that the investment will again meet policy/regulatory requirements and the anticipated time frame for this to occur.
 - 5. The potential costs and/or benefits that could occur if the investment were liquidated or held.
 - 6. Any steps that should be taken to monitor the investment on an ongoing basis.
 - 7. If the investment is inconsistent with regulations, the NCUA Regional Director will be notified within five (5) days of the Board's notification. A copy of the above analysis will be included with the notification.

XXIII. POLICY REVIEW

The investment policies of the Credit Union shall be reviewed at least annually by the Board of Directors, and any changes, additions or deletions will be approved by the Board.

XXIV. AUDIT

On a regular basis, the Internal Auditor, or a third party, not directly under the control of ALCO will prepare a report comparing the credit union's operating position with the limits and guidelines contained in this policy. ALCO and the Board of Directors will receive copies of this report.

EXHIBIT 1

APPROVED DEALERS IN SECURITIES

FAA Credit Union of Oklahoma may buy (sell) securities from (to) the following approved dealers. All purchases and sales will be delivery vs. payment.

<u>NAME OF DEALER</u>	<u>LOCATION</u>
1. The Baker Group	Oklahoma City, OK
2. Bank of Oklahoma	Tulsa, OK
3. RAYMOND JAMES Morgan Keegan	Memphis, TN
4. Catalyst Corporate Federal Credit Union	Plano, Texas
5. Federal Home Loan Bank	
6. Any federally insured institution which may Include a bank or credit union	
7. Any other dealers specifically approved By the Board	

The limit for unsettled trades with any of the above dealers is \$10,000,000.

EXHIBIT 2

APPROVED SAFEKEEPING AGENTS

FAA Credit Union of Oklahoma may Safekeep securities with the following institutions. This list shall be reviewed and approved annually by ALCO and Board of Directors.

NAME OF INSTITUTION

1. Catalyst Corporate Federal Credit Union
2. Federal Reserve Bank
3. Alaska USA Trust Company

EXHIBIT 3

REPURCHASE AND REVERSE REPURCHASE AGREEMENTS

FAA Credit Union of Oklahoma may enter into Repurchase Agreement and Reverse Repurchase Agreements with the following institutions:

NAME OF INSTITUTION

LOCATION

1. Catalyst Corporate Federal Credit Union

Plano, Texas

EXHIBIT 4
INVESTMENT POLICY
QUALITY RATINGS

The following ratings will serve as a guide in assessing the credit quality of municipal obligations and corporate securities:

<u>Standard & Poor's</u>	<u>Moody's</u>	<u>Descriptions</u>
<u>Credit Union Quality Investments:</u>		
AAA	Aaa	Highest grade obligations
AA	Aa	High grade obligations
A	A-1, A	Upper medium grade, favorable attributes
BBB	Baa-1, Baa	Medium grade on the borderline between definitely sound obligations and those containing predominately speculative elements. Generally, the lowest quality bonds that may qualify for Credit Union investment
<u>Speculative & Defaulted Issues:</u>		
BB	Ba+, Ba	Lower medium grade with only minor investment characteristics
B	B-1, B	Low grade, generally undesirable characteristics
D	Caa, Ca, C	Lowest rated class, often defaulted, extremely poor prospects
<u>Provisional or Conditional Rating:</u>		
Rating - P	Con (Rating)	Debt service requirements are largely dependent on reliable estimates as to future events
Investment Grade Security		A security which the credit union determines the issuer has adequate capacity to meet the financial commitments under the security for the projected life of the asset or exposure even under adverse economic conditions. An issuer has an adequate capacity to meet financial commitments if the risk of default by the obligor is low, and the full and timely repayment of principal and interest on the security is expected.

Minimal Amount of Credit Risk

A security which the issuer has a very strong capacity to meet the security's financial commitments for the projected life of the asset or exposure, even under adverse economic conditions. An issuer has a very strong capacity to meet all financial commitments if the risk of default by the obligor is very low, and the full and timely repayment of principal and interest on the security is expected.



FAA CREDIT UNION

Policy No.: 8.1

Date: January 18, 1994

Revised: February 25, 2014

Reviewed: September 23, 2014

SUBJECT: ASSET/LIABILITY MANAGEMENT POLICY

NO. POLICY / TOPIC

- I. GENERAL POLICY STATEMENT
- II. GOAL
- III. BOARD RESPONSIBILITIES
- IV. MANAGEMENT RESPONSIBILITIES
- V. ALM ORGANIZATION AND RESPONSIBILITY
- VI. ALM DUTIES: QUARTERLY MEETING
- VII. REPORTING
- VIII. PRICING
- IX. LIQUIDITY
- X. PRIMARY FUNDING
- XI. CONTINGENCY FUNDING
- XII. BORROWED AND WHOLESALE FUNDS
- XIII. INTEREST RATE RISK
- XIV. SIMULATION
- XV. INTEREST RATE RISK LIMITS
- XVI. CAPITAL ADEQUACY
- XVII. ASSET ALLOCATION / STRATEGIES
- XVIII. DIVIDENDS
- XIX. CONCENTRATION RISK POLICY
- XX. PROVISIONS FOR EXCEPTIONS
- XXI. EDUCATION AND TRAINING
- XXII. INTERNAL CONTROLS

FAA CREDIT UNION

Policy No.: 8.1

Date: January 18, 1994

Revised: February 25, 2014

Reviewed: September 23, 2014

SUBJECT: ASSET/LIABILITY MANAGEMENT POLICY

I. GENERAL POLICY STATEMENT

- A. 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 (IRR). The general policy sets forth key Asset/Liability Management (ALM) objectives and pricing guidelines.

II. GOAL

- A. The assets and liabilities of FAA Credit Union shall be managed in order to maximize service to members, to enhance net revenue and increase net worth, and to protect the institution from any disastrous financial consequences arising from changes in interest rate risk. These objectives shall be pursued within the framework of written loan and investment policies. The Board of Directors believes that accepting some level of interest rate risk is necessary in order to achieve realistic earnings goals. The responsibility of managing the asset/liability management procedures will be directed by the Asset/Liability Management Committee (ALM).

III. BOARD RESPONSIBILITIES

- A. The Board of Directors is ultimately responsible for the Asset/Liability management and risks undertaken by the Credit Union, including interest rate risk, liquidity risk, etc. As a result, the Board will ensure the Credit Union's risk tolerances are established and communicated in such a manner that all levels of management clearly understand the Credit Union's approach to managing the risks within the established parameters. The Board is also responsible for the following:
1. The Board will oversee the establishment, approval, implementation, and annual review of management strategies, policies and limits for interest rate and liquidity risk;
 2. The Board will have an understanding of the nature of the Credit Union's risks and periodically review information necessary to maintain this understanding;
 3. The Board will establish executive-level lines of authority and responsibility for managing the Credit Union's risks;
 4. The Board will enforce management's duties to identify, measure, monitor and control the risks;

5. The Board will have an understanding; and will periodically review the Credit Union's contingency funding plans for handling potential adverse liquidity events;
6. The Board will annually assess whether the Credit Union's IRR profile sufficiently identifies, measures, monitors, and controls the Credit Union's IRR exposure; and
7. The Board will, in accordance with regulatory guidelines, ensure the strategic plans, business, plans, and operating budget support the capital targets established in this policy.

IV. MANAGEMENT RESPONSIBILITIES

- A. Management will ensure the Board-approved strategies, policies and procedures for managing risks, including liquidity and interest rate risk, are appropriately executed within the lines of authority and responsibly delegated for managing and controlling the risks. The managements' responsibilities may include:
1. Overseeing the development of appropriate risk measurement and reporting systems, liquidity needs, liquid buffers (e.g. cash, unencumbered market securities and market instruments), contingent funding plans (CFPs), concentration limits, etc.;
 2. Maintaining 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;
 3. Working within Board-approved tolerances;
 4. Regularly reporting the Credit Union's risk profiles to the Board, as well as communicating any important impact or changes to those profiles including changes to any underlying assumptions, etc.;
 5. Determining and establishing the structure, responsibilities and internal controls for managing risks and overseeing the Credit Union's position including separation between risk taker and IRR measurement staff;
 6. Considering the costs, benefits and risks in the strategic planning and budgeting processes. Management will evaluate significant business activities for all risk exposure and profitability;
 7. Develop and support competent staff with technical expertise commensurate with an IRR program;
 8. Assign ALM 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);
 9. Reviewing pertinent policies on an annual basis to determine whether the policies are still commensurate with the size, complexity and risk profile of the Credit Union;
 10. The management will, in accordance with regulatory guidelines, ensure that the strategic plans, business plans, and operating budgets support the capital targets established in this policy;
 11. Management will assess the potential liquidity needs of the credit union. This assessment will focus on those expected needs from changes in loan demand and share account balances. The assessment will include a plan for meeting those potential expected needs.
 12. This assessment will be formally reviewed and accepted by the Board of Directors.

13. The President/CEO and the CFO shall have the responsibility to set and maintain appropriate concentration limits, as approved by the Board.
14. The Board of Directors may delegate to ALM its authority to set loan interest rates on a limited basis that are economically appropriate for the Credit Union.
15. To react to changing economic condition, the Board may and does delegate its authority to set dividend rates to the President and CFO. Specifically, the Board has set a range of dividend rates and delegates to the President and CFO the authority to adjust rates within those limits. The President and CFO have authority for establishing both, loan and dividend rates, up to 1.00% of the existing loan and dividend rates. Any dividend rate adjustments will be reported to the Board at the next scheduled meeting. The Board must approve all rate changes at their next regularly scheduled meeting and does retain its authority to change the rate set by the President and CFO or withdraw the delegation.

V. ALM ORGANIZATION AND RESPONSIBILITY

- A. ALM, generally, and in accordance with this policy and established procedures, will:
 1. Review and monitor the Credit Union's competitive position
 2. Monitor key ratios and statistics
 3. Review and monitor the Credit Union's liquidity position
 4. Review and monitor interest rate risk
- B. ALM will be chaired by a Board member appointed by the Board Chairperson. ALM shall consist of the following positions: The President, Chief Financial Officer, Vice President of Lending and Sr. Vice President of Financial Services, two Board members selected by the ALM Chairperson, and a representative of the Supervisory committee. The Committee shall meet at least quarterly or more frequently when necessary to discuss asset/liability management issues. Three members of ALM will constitute a quorum so long as one of the members present is a Board member and one is a member of management.
- C. The Board of Directors delegates responsibility for funds management to ALM. ALM is responsible for recommending to the Board of Directors prudent asset/liability management policies and procedures that enable the Credit Union to achieve its goals while operating in full compliance with all state and federal laws, rules, and regulations.
 1. The Board of Directors will review reports and procedures to ensure adherence with this policy statement. As necessary, the Board will modify or grant exceptions to the policy for recommended action that are in the best interest of the institution.
 2. Minutes of each ALM meeting will be maintained for reference by ALM and the Board of Directors.
 3. ALM shall actively monitor the Credit Union's interest rate risk and liquidity profiles.
 4. ALM shall ensure the risk measurement system adequately identifies and quantifies risk exposure.

5. ALM shall regularly report 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 more frequent when the need arises).
 - a. These reports will provide the Board and management with an understanding of the Credit Union's risk exposure, compliance with risk limits.
6. At each regularly scheduled meeting, the ALM shall have available the information necessary to adequately perform its ALM function. A general list of data that might be reviewed by ALM at each meeting is provided below. The list is for guidance purposes and is not deemed all-inclusive or restrictive:
 - a. Projected financial statements and income simulation reports
 - b. Data on the loan and deposit rates of the credit union and competing financial institutions
 - c. Key financial ratios of the Credit Union
 - d. Gap reports
 - e. Most recent financial statements of the Credit Union
 - f. Analysis of core deposits
 - g. Projected interest margin variance analysis
 - h. Compliance report that compares each policy limit parameter to the actual level and identifies exception (quarterly)
 - i. All borrowing activity, including cost of funds and term (monthly)
 - j. Report reviewing the major critical assumptions inherent to the asset/liability process, including those related to the income simulation and NEV models, and the impact of those assumptions on measured risk (no less frequently than annually)
 - k. Liquidity sources and uses (monthly)
 - l. Liquidity plan (annually)
 - m. A 17/4 analysis to factor in the effect rising rates have on fixed and variable rate real estate loans
 - n. Vault Cash
 - o. ALM meeting minutes.

VI. ALM DUTIES: QUARTERLY MEETING

- A. At its quarterly meeting the ALM may review the following, and any other relevant information:
 1. Local and national economic forecasts
 2. Interest rate forecasts and spreads including a consensus interest rate forecast for the Credit Union
 3. Internal cost of funds (recent pricing)
 4. Mismatches in the balance sheet
 5. Year-to-date operating results
 6. Anticipated funding needs

7. Anticipated loan demands
8. Liquidity position
9. Net Interest Margin/Interest Rate Risk Measures
10. Simulation
11. Capital (Net Worth) Positions
12. An explanation of any known exceptions to this policy as well as an action plan and timetable to bring the Credit Union into compliance with such policy limits.

VII. REPORTING

A. ALM and/or Management may provide the following to the Board of Directors on at least a quarterly basis:

1. Interest spread statement and/or GAP Report, or similar report
2. Net interest change analysis attributable to dollar volumes, earning, paying and market rates as well as time (simulation) compared to policy limits.
3. Investment portfolio and loan activity report
4. A summary approximating investment portfolio values
5. Duration analysis to approximate investment portfolio values for different rate scenarios
6. Projected flow of funds analysis
7. Asset yields and liability costs
8. Analysis of economic and competitive conditions
9. Loan to deposit reports
10. Recommended Asset/Liability Management plan including a quarterly strategy for the management of interest rate risk and liquidity risk
11. An explanation of any known exceptions to this policy as well as an action plan and timetable to bring the Credit Union into compliance with such policy limits.

VIII. PRICING

A. Management 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 may be based on the Credit Union's:

1. Reasonable return;
2. Overhead costs;
3. Credit risk;
4. Default risk;
5. Marginal cost of funds; and
6. Fair return to its members.

IX. LIQUIDITY

- A. Liquidity is measured by the Credit Union's ability to accommodate outflows of deposits and other liabilities at reasonable cost, along with the ability to fund loan demand and acquisitions of other assets. 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. 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.
- B. To meet funding needs, the Credit Union may follow one or more strategies to raise liquidity, including disposing of short-term liquid assets, decreasing holdings of less liquid assets, or increasing funding by raising additional shares or incurring borrowings.
- C. Liquidity needs will be met by manipulating 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, ALM will primarily rely on liquid assets to fund increases in loan demand. ALM 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.
- D. In assessing the Credit Union's liquidity position, consideration may be given to: (1) present and future earnings capacity (2) historical funding requirements (3) current liquidity position and borrowing lines available, (4) anticipated future funding needs both near and long term, and (5) alternative sources of funds.
- E. It is the Credit Union's policy that the primary sources of liquidity will be from the maintenance of assets having short maturities and cash flows in such a manner that a safe and prudent level of liquidity is maintained. This is not to preclude occasionally borrowing for short term needs nor does this preclude borrowing from wholesale or non-core sources to achieve capital utilization and leverage objectives.
- F. The Credit Union will maintain borrowing lines for short funding needs from a variety of sources including corporate credit unions and the Federal Home Loan Bank. These credit lines may be secured or unsecured and will be tested periodically to confirm availability.
- G. 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:
1. Recent trends show substantial reduction in large accounts;
 2. A substantial portion of the loan portfolio consists of large static loans with little likelihood of reduction;
 3. Large unused lines of credit or commitments to lend are expected to be used immediately;

4. Concentration of credits have been extended to an industry with present or anticipated financial problems; and
5. Strong relationships exist between member share and draft accounts and principal employers in the trade area who have financial problems.

H. **The Credit Union has established a target liquidity rate of 5%. The liquidity ratio is calculated by: (Cash & Due +ST Investments-Pledged + Funds Sold)/Total Assets. Short Term (ST)=all investments that mature or pay down within one year time frame.** This ratio is subject to change depending on the following:

1. Present and anticipated asset quality;
2. Present and future earnings capacity;
3. Historical funding requirements;
4. Current liquidity position;
5. Sources of funds;
6. Anticipated future funding needs; and
7. Options for reducing funding needs or attracting additional funds.

I. ALM will monitor and review liquidity trends based on the indicators below. These indicators will be periodically reviewed. These assessments will include vulnerabilities to events, activities and strategies that can significantly strain the capability to generate internal cash.

1. 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).
2. Short-Term Borrowings to Total Funding. This ratio looks at the total short-term borrowing as a percentage of total funding.
3. 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.
4. 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.

J. Management will maintain an understanding of the potential demand on required and available collateral during periods of both market-wide and Credit Union-specific stress.

K. To support the Credit Union's ability to meet its liquidity obligations, management will analyze and monitor historical funding requirements, the current liquidity position and anticipated future funding needs. On a daily basis, the current cash position will be monitored by the Chief Financial Officer. This monitoring allows for observations to be made regarding trends in settlement activity occurring on a daily basis and to prepare for any funding needs.

- L. The Credit Union will monitor daily 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 daily liquidity strategy that allows the Credit Union to do the following:
1. Monitor and measure expected daily gross liquidity inflows and outflows;
 2. Manage and mobilize collateral when necessary to obtain daily credit;
 3. Identify and mobilize collateral when necessary to obtain daily credit;
 4. Settle other less critical obligations as soon as possible; and
 5. Control credit to consumers when necessary.
- M. The Credit Unions' contingency funding plan will be regularly tested and updated, no less than annually, to ensure that it is operationally sound. Specifically, these tests will ensure the following:
1. Roles and responsibilities are up-to-date and appropriate;
 2. Legal and operational documents are up-to-date;
 3. Cash and collateral can be moved where and when needed; and
 4. Contingent liquidity lines can be drawn when needed.

X. PRIMARY FUNDING

- A. The primary source of funding for the Credit Union will be core deposits generated from customers within our trade area. It will be our goal to maintain a favorable mix of core deposits attempting to build a deposit base comprised of transactional and limited transaction accounts as opposed to relying on more expensive time deposits. This will be accomplished by implementing effective marketing, pricing and product strategies allowing us to compete effectively in our marketplace.
- B. While it is our preference to avoid deposit concentrations with large customers, we will attempt to prudently accommodate our customers. When deposit concentration does occur, the Asset/Liability Committee will monitor the impact on the Credit Union's liquidity needs and on our financial strategies.
- C. Although repurchase agreements are generally considered a component of purchased funds as opposed to core funding, such agreements will be utilized to facilitate interest paying accounts for large corporate or personal customers. These accounts will be monitored for implications on our liquidity management.

XI. CONTINGENCY FUNDING

- A. The Credit Union has several sources of funding available to meet its liquidity needs. These sources are:
1. Primary funding source for liquidity is deposit growth. If this is not the most appropriate action, the following sources shall be considered:
 2. Catalyst Corporate FCU and/or Advantage Lines of Credit and/or Performance Lines of Credit;
 3. Federal Home Loan Bank of Topeka borrowing line;
 4. Available for Sale portion of investment portfolio;

5. Sale of Real Estate loans; and
 6. Federal Reserve Discount Window.
- B. The Credit Union will develop strategies for providing emergency funding if a short term or a long term liquidity problem or crises develops. Short term problems resulting from systems or hardware failures, fires, or power outages will be addressed in the Credit Union's disaster recovery plan and policy.
- C. Certain events could trigger a liquidity crisis. Management will monitor potential liquidity stress events that could trigger the need for contingency funding, which may include:
1. Changes in agency credit ratings;
 2. PCA capital categories and CAMEL ratings downgrades;
 3. Widening of credit default spreads;
 4. Operating losses;
 5. The Credit Union's inability to fund asset growth;
 6. The Credit Union's inability to renew or replace maturing funding liabilities;
 7. Members unexpectedly exercising options to withdraw deposits or exercise off-balance-sheet commitments;
 8. Changes in market value and price volatility of various asset types;
 9. Changes in economic conditions, market perception, or dislocations in the financial markets; and/or
 10. Disturbances in payment and settlement systems due to operation or local disasters.
- D. In the event of a possible or real liquidity crisis, where all short term liquidity sources were utilized and longer term funding was necessary to meet the needs of the credit union, a crisis team consisting of senior management and ALM will be activated. ALM is responsible for communicating with the board of directors within five business days and at the next scheduled meeting, and keeping them apprised of the situation. ALM will be responsible for reviewing any remaining funding sources and tactics and implementing a plan of action. Once liquidity has been re-established, stabilized and trending in a cash flow positive direction, the crisis team may be disassembled.
- E. Exhibit "1" attached hereto provides a list of Possible Stress Events which shall be regularly monitored by management. Exhibit "2" attached hereto provides details of contingent liquidity sources that are available and can be employed by the credit union under these adverse circumstances.
- F. The contingency funding plan and contingent liquidity sources will be reviewed and adjusted as needed, but no less than annually. Testing of the contingent funding sources will be done no less than annually. A test of the Federal Discount Window will be conducted by the CFO no later than December 1, 2014.

XII. BORROWED AND WHOLESALE FUNDS

- A. The Credit Union may utilize alternative and wholesale funding sources to support asset growth and leverage objectives. Secured borrowing relationships have been established with Catalyst Corporate,

Federal Reserve Discount Window, the FHLB of Topeka and might include repurchase agreements. The Credit Union's primary borrowing source is Catalyst Corporate Federal Credit Union.

- B. Regulations provide that Credit Unions may not borrow an aggregate amount in excess of 50% of shares and deposits, undivided earnings and net income ("share capital") from any source. Under this policy, total borrowing will be limited to a maximum of 25 percent of share capital. Borrowings include funds obtained under reverse repurchase agreements and collateralized borrowing transactions.
- C. If borrowing exceeds 25% of share capital, management will determine and implement a plan to restore borrowings to policy guidelines by assessing available liquidity resources. Should a liquidity plan be necessary, the ALM and the Board of Directors will be notified at least five days prior to the meeting. Subsequently, any adopted plan will be reported to the Board of Directors within five business days after said meeting, at their next scheduled meeting, and on a regular basis until borrowing is back within policy guidelines.
- D. The CFO or President is authorized to borrow against the LOC in accordance with borrowing resolutions. Higher amounts require the approval of Board of Directors. However, the CFO or President may exceed the authorized limit in situations where the borrowing is necessary to cover emergency liquidity needs. All borrowings made by the Credit Union will be presented to the Board of Directors for review at the next regular scheduled meeting and should be documented as to purpose and terms, including rate and collateral requirements.

III. INTEREST RATE RISK

- A. Interest rate risk (IRR) results from the possibility that market interest rates may change. The Board of Directors acknowledges that the 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.
- B. The Credit Union has identified four sources of interest rate risk: (a) Re-pricing Risk; (b) Reinvestment Risk; (c) Basis Risk; and (d) Yield Curve Risk.
 - 1. Re-pricing Risk results from the timing differences that exist in the pricing of assets and liabilities. The Credit Union's policy of seeking the highest asset yields and the lowest cost of funding tends to create large re-pricing imbalances.
 - 2. 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.
 - 3. 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.

4. 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.
- C. The Credit Union will review price volatility of the investment portfolio using duration analysis and specifically look at the estimated depreciation in market value if interest rates rise 300 b.p. in comparison to the Credit Union's net worth. In addition, the Credit Union will compare long term assets to short term volatile liabilities.
 - D. The Credit Union will measure the potential effect of interest rate risk on capital by using net economic value (NEV) analysis. The NEV technique applies present value analysis to loans, investments, and share liabilities to estimate long-term earnings capacity embedded in the current book of business. The model used by the Credit Union projects cash flows and estimates discount rates to calculate an "economic value" for each balance sheet financial transaction. NEV is determined by computing the difference between the economic value of assets and the economic value of liabilities. By comparing the base NEV to the NEV calculated under various rate shifts, the ALM Committee gains insight into the embedded risk to long-term interest earnings given alternative rate scenarios.
 - E. The percentage change in net income and the change in the Credit Union's NEV or NEV ratio (NEV divided by the economic value of assets) will be limited as follows:
 1. In the year one and two forecast periods, the percentage decline in net interest income under adverse 100, 200, and 300 basis point changes in interest rates may not exceed 30 percent of the base case scenario for that period. Stress testing will be performed on a periodic basis. An example of such testing would be 400bps rate shocks, non-parallel yield curve shifts and/or immediate 400pb rate changes.
 2. The minimum acceptable NEV ratio under an adverse 300 basis point move in interest rates is 7 percent.
 3. The percentage decline in NEV under an adverse 300 basis point move in interest rates may not exceed 35 percent of the base case calculation.
 - F. 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.

- G. 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 primary model results.

XIV. SIMULATION

- A. The focus of simulation is to measure risk to net income by projecting the future composition of the Credit Union and applying different interest rate scenarios. Simulation modeling will be incorporated to run "what if" analyses to determine the effect of different strategies on the Credit Union's risk profile and profitability.
- B. In using simulation, the Credit Union will consider the varying interest rate spreads (Basis Risk) between deposits, CD rates, loans, investments, etc. The impact of prepayment rates on loans and mortgage securities, interest rate caps and floors, and other options will also be taken into account. Further, management will assess the assumptions underlying the simulations including anticipated management reaction to a rise or decline in interest rates or changes in the yield curve.
- C. While simulation can adequately assess short term (1-2 years) interest rate risk, the Credit Union will not rely on this analysis to capture and isolate the risks associated with longer term repricing imbalances. Subjective analysis of the balance sheet and duration analysis of the investment portfolio will be utilized to evaluate long term fixed-rate positions.

XV. INTEREST RATE RISK LIMITS

<u>1 Year Change in Market Rates</u>	<u>Net Interest Change As a Percent of Net Interest Income</u>
+300 basis points	>-30%
+200 basis points	>-30%
+100 basis points	>-30%
+50 basis points	>-30%
-0-	>-30%
-50 basis points	>-30%
-100 basis points	>-30%
-200 basis points	>-30%
-300 basis points	>-30%

XVI. CAPITAL ADEQUACY

- A. The 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. It is the goal of the Credit Union to maintain capital reserves at a level that promotes member confidence, long-term stability, as well as the financial and business flexibility of the institution.
- B. It is the objective of the Credit Union to be considered "well capitalized" under NCUA regulations. The Credit Union will monitor and ensure that the Credit Union's capital levels based on Risk-Based Capital guidelines will be maintained.
- C. Regulation requires the Credit Union to set aside capital to absorb possible loan losses. The allowance for loan and lease losses (ALLL) represents a valuation of the probable and estimated losses for all categories of loans. Management will make appropriate adjustments to the ALLL prior to the distribution of dividends to members. The Credit Union operates under credit risk control policies that provide guidelines for the establishment and maintenance of properly funded reserves for loan losses.

XVII. ASSET ALLOCATION / STRATEGIES

- A. Interest rate risk will be managed through (1) investments (2) loan pricing, and (3) deposit pricing. Asset/Liability policies and strategies will be formulated upon the examination of how interest rate risk affects overall business risk, i.e., capital risk, and liquidity risk, credit risk, interest rate risk. After review of the current situation, and, in the event the IRR exposure exceeds or approaches any of the limits set forth herein, the ALM will devise various strategies to minimize risk while maximizing earnings and net worth. The following methods for managing the asset/liability mix may be reviewed:
 - 1. Buying and selling assets
 - 2. Changing liability structure and mix
 - 3. Balance sheet alteration, growth, structure, and maturity
- B. The proper strategy will depend on the current level of risk, the time frame, and the current interest rate environment.

XVIII. DIVIDENDS

- A. Actual dividend payout, as a percentage of net income, will be determined by the capital position relative to loans, deposits, total assets, and projected growth trends and shall be economically appropriate for the Credit Union.

XIX. CONCENTRATION RISK POLICY

- A. A risk concentration is any single exposure or group of exposures with the potential to produce losses large enough (relative to net worth, total assets or overall risk level) to jeopardize the Credit Union's financial health or ability to maintain its core operation. The Credit Union has established maximum

concentration limits and those concentration limits are set forth in Exhibit "3" attached hereto. The Credit Union has also established a plan of action and limits which trigger the plan of action to ensure concentration limits are regularly monitored and not exceeded. *See* Exhibit "4" attached hereto.

XX. PROVISIONS FOR EXCEPTIONS

- A. In those situations where it seems prudent to act contrary to this policy, and when it is impossible for the entire ALM Committee to convene, two members of the ALM, one of whom should be a member of the Board of Directors, may act for the entire Committee. This policy is intended to be flexible to deal with rapidly changing conditions; any variations from policy shall be reported at the next Board of Directors' meeting with recommendations for approval and amendment.

XXI. EDUCATION AND TRAINING

- A. The Board and management as well as all relevant staff will be provided periodically with additional education and training pertinent to their position in order to fully understand and implement the provisions of this policy.

XXII. INTERNAL CONTROLS

- A. Management has established sufficient internal controls to determine the adequacy of the Credit Union's liquidity risk management processes and interest rate risk management processes.
- B. The Credit Union's internal control structure is designed to ensure the integrity of all elements of the Credit Union's risk management processes. These internal controls will promote effective and efficient operations, reliable financial and regulatory reporting, and compliance with relevant laws, regulations and institution policies.
- C. Whenever possible, the Credit Union will ensure a separation between those taking interest rate risks and those measuring the interest rate risks.

XXIII. AUDIT

- A. On a regular basis, the Internal Auditor, or a third party, not directly under the control of ALM will prepare a report comparing the Credit Union's operating position with the limits and guidelines contained in this Policy.

EXHIBIT "1"

POSSIBLE STRESS EVENTS

Stress Events	Assess Level of Severity	Assessment of Funding Needs	Identify Potential Actions and Funding Sources
Excessive Deposit Withdrawals	Once event is detected, monitor as needed; monthly, weekly, daily or even throughout the day.	Determine expected length of event. Compare to cash flows.	Credit Union should alleviate situation of cash run off if possible. Evaluate possible funding sources; access LOC's at corporate and FHLB, raise deposit rates if feasible. Sell investments, implement daily cash withdrawal limits and access Federal Discount Window if necessary.
Rapid Loan Growth	Determine expected duration and reason for rapid growth as ratio of Loan/Share approaches limit.	Monitor ratio of Loan to Share as it approaches limits and employ strategies to slow or cease lending activity.	Raise lending rates to slow or deter member borrowing. If activity still persists, fund lending by accessing LOC's at the corporate and FHLB. If more funding is required, grow deposits if feasible. Sell investments and if necessary, stop lending. Access Federal Discount Window if necessary.
Failing Economy- Members draw on unused LOC's	Potentially longer term event.	Closely monitor unused portion.	Access LOC's at the Corporate and FHLB. Sell investments, discontinue offering new LOC's to members, raise lending rates to curb lending.
Disturbances in payment and settlement systems due to operation or local disasters.	Determine length of event and when situation can be rectified.	Monitor member cash activity needed to replace normal payment and settlement systems.	Access LOC's at the Corporate and FHLB. Sell investments, implement daily cash withdrawal limits and access Federal Discount Window if necessary.

EXHIBIT "2"
CONTINGENT LIQUIDITY SOURCES

Funding Source	Amount Dependent On	Currently Available	Time to Access	Length of Use	Authorized Credit Union Personnel
Advantage Line of Credit (LOC) at Corporate	Contractual Agreement	See department plan	Current Business Day	Varies	Natalia Valenzuela, Glen Fields, Nancy Rooker, Linda McMurtry, Elias Avila, Joe Jimboy , Diane Roberts
Performance Line of Credit (LOC) at Corporate	Contractual Agreement	See department plan	Current Business Day	Varies	Natalia Valenzuela, Glen Fields, Nancy Rooker, Linda McMurtry, Elias Avila, Joe Jimboy , Diane Roberts
FHLB Advances	Creditworthiness and Collateral Pledged	See department plan	Current Business Day subject to cutoff time of 4:00 P.M.	Short-long	Steve Rasmussen, Glen Fields, Natalia Valenzuela
Sell AFS Investments	Unencumbered AFS Invests	See department plan	1+ business days	Permanent	Steve Rasmussen, Natalia Valenzuela
Sell Loans	Marketability of Loans	See department plan	5+ business days	Permanent	Steve Rasmussen, Glen Fields, Natalia Valenzuela
Federal Discount Window	Creditworthiness and Collateral Pledged	See department plan	Current Business Day subject to cutoff time	One day	Steve Rasmussen, Glen Fields, Natalia Valenzuela

EXHIBIT "3"

CONCENTRATION POLICY LIMITS

	% Assets	% Net Worth	% of Loans or Other
LIQUIDITY RISK			
Loans to Assets	85%		
CREDIT RISK			
Indirect Lending	25%	341%	
A+ or A (limits are % of loans)			100%
B			40%
C			20%
D			5%
E			3%
Business Loans	12.25%		
Unsecured		5%	
Const and Dev – aggregate		15%	
Single Borrower Risk		13%	
Commercial Real Estate		80%	
Business Equipment		50%	
Vehicles		75%	
Inventory		25%	
Account Receivables		25%	
Apartments		10%	
Other Loan Types		10%	
LOC's		5%	
Real Estate	25%	341%	
> 15 Year Term (limit is % of curr mix of Ins)			10%
Qualified Mortgages (limits are % of loans)			100%
Non-Qualified Mortgages (limits are % of loans)			75%
Troubled Debt Restructuring (TDR) Loan Limits			
Consumer Loans			5%
Real Estate Loans			5%
Member Business Loans			10%

INTEREST RATE RISK

Investments

Mortgage Backed Securities

100%

EXHIBIT "4"

**CONCENTRATION RISK LIMITS
TRIGGERS AND PLAN OF ACTION**

	Trigger Points	Plan of Action
LIQUIDITY RISK		
Loans to Assets	82.00%	Monitor Monthly and/or Weekly
	83.00%	Determine which loan category is growing and continue to monitor closely
	84.00%	Adjust rates, sell, borrow to fund activity
CREDIT RISK		
Indirect Lending		
B	35.00%	Monitor Monthly and/or Weekly
	>37.00%	Adjust rates, lower LTV to keep port at or below limit
C	16.00%	Monitory Monthly and/or Weekly
	>18.00%	Adjust rates, lower LTV to keep port at or below limit
D	3.00%	Monitor Monthly and/or Weekly
	>4.00%	Adjust rates, lower LTV to keep port at or below limit
E	1.50%	Monitor Monthly and/or Weekly
	>2.00%	Adjust rates, lower LTV to keep port at or below limit
Real Estate	23.00%	Monitor Monthly and/or Weekly
	>24.00%	Sell, adjust rates, borrow to fund activity
RE >15 Year Term	8.50%	Monitor Monthly and/or Weekly
	>9.00%	Sell, adjust rates, borrow to fund activity
Non-Qualified Mortgages	50.00%	Monitor Monthly and/or Weekly
	>60.00%	Review and adjust underwriting standards
	>75.00%	Cease making Non-Qualified Mortgage Loans
Troubled Debt Restructuring (TDR) Loan Limits		
Consumer Loans	3.00%	Monitor Monthly and/or Weekly
	5.00%	Cease making TDR Loans
Real Estate Loans	3.00%	Monitor Monthly and/or Weekly
	5.00%	Cease making TDR Loans

Member Business Loans

8.00%
10.00%

Monitor Monthly and/or Weekly
Cease making TDR Loans