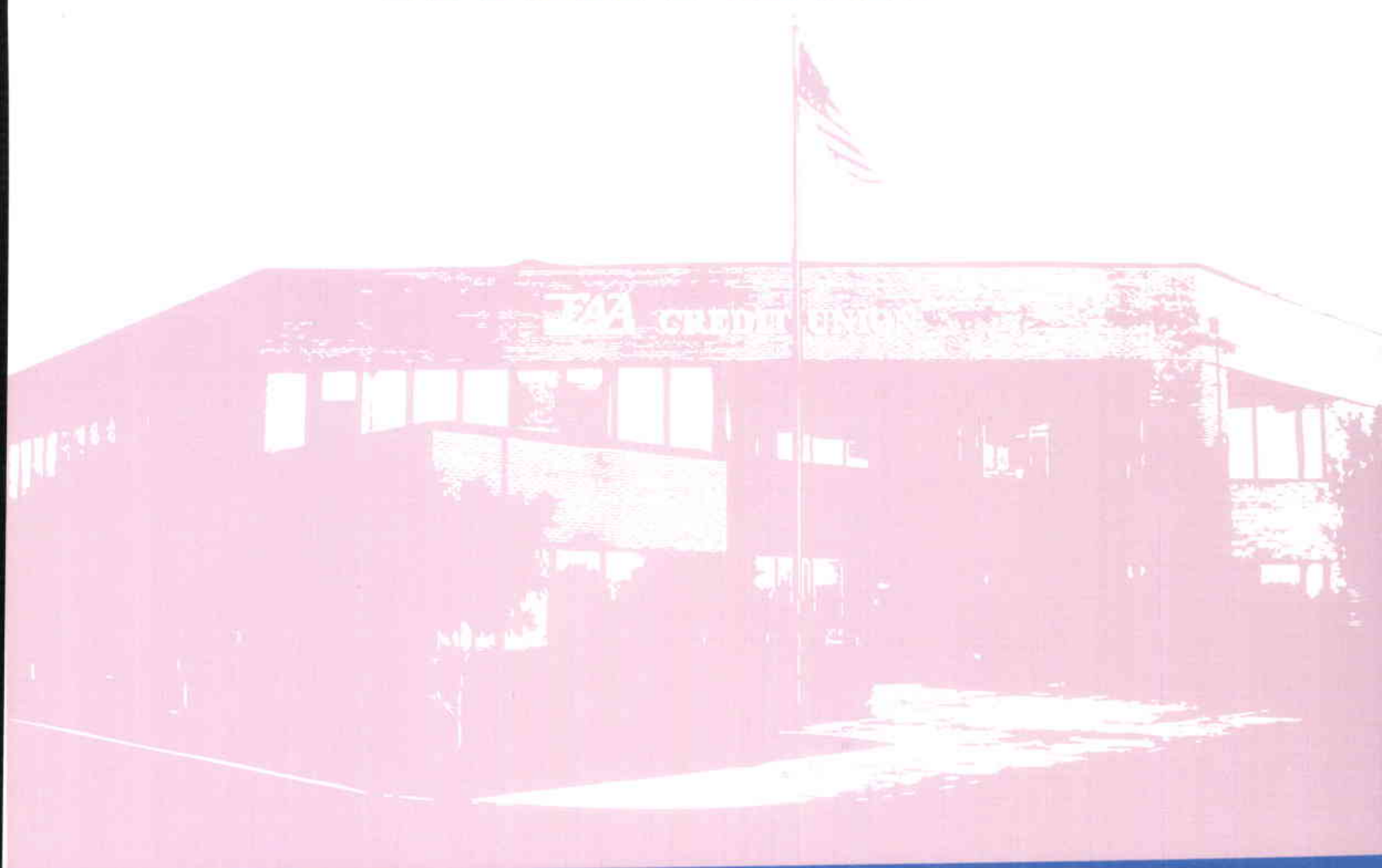


# ***FAA* Credit Union** **Policy** **Manual**



**find your worth.**

## Policy Review Schedule

<b>Policy #</b>	<b>Subject</b>	<b>Scheduled Review</b>	<b>Date Reviewed</b>
5.08	Electronic Commerce & Guidelines	January	January 24, 2012
2.14.1	Appraisals for Real Estate Related Transaction	January	January 24, 2012
2.30	Foreclosure Policy	January	January 24, 2012
2.29	Truth in Lending Act & Reg Z	January	January 24, 2012
5.21	Board of Directors Duties and Annual Pledge	February	February 28, 2012
5.26	Vendor Management Policy	February	February 28, 2012
5.28	Concentration Risk Policy	February	February 28, 2012
5.23	Information Security Guidelines (748-749)	February	February 28, 2012
7.11	Broker/Dealers	April	April 24, 2012
2.24	Member Business Loans	April	April 24, 2012
2.02	Charge-Offs	May	May 22, 2012
6.02	401 K Plan	May	May 22, 2012
5.12	Business Resumption Plan/Preparedness	June	July 24, 2012
5.19	CEO Succession Plan	June	June 26, 2012
2.28	Safe Act	June	June 26, 2012
7.00	Investment Policy	July	August 28, 2012
8.1	Asset/Liability Management	July	September 25, 2012
5.09.2	USA Patriot Act	September	September 25, 2012
3.10	Truth In Savings	September	September 25, 2012
5.07	Privacy Policy	September	September 25, 2012
5.09	Bank Secrecy Act	September	September 25, 2012
5.24	Identity Theft Red Flag	December	

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## FAA EMPLOYEES CREDIT UNION

Policy No: 1.01  
Date: August 22, 1985  
Revised: June 18, 2002

**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 Oklahoma, Cleveland, Canadian, Logan, Pottawatomie, and McClain.
- 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: August 16, 2005

**SUBJECT: LOAN POLICIES - GENERAL**

**POLICY:** **FAA Credit Union** shall grant loans that comply with 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.

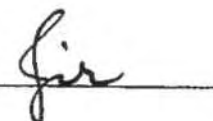
The Credit Union will not deny a loan or discriminate against a loan applicant because of race, religion, national origin, sex, marital status, age, or any other prohibited reason as set forth by law, or of any person associated with said applicant (provided that the applicant has the capacity to enter 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.

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.

No officer or staff member of this Credit Union will, in any manner, discourage a member or potential member from submitting an application for credit.

The Credit Union will observe prudent lending practices and grant loans to members for provident and productive purposes.

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.



**FAA EMPLOYEES CREDIT UNION**

Policy No: 2.01 Pg 2

Date: August 1, 1988  
Revised: January 21, 2003

**SUBJECT: LOAN POLICIES – GENERAL**

**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.

**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 varying degrees of all underwriting guidelines used in a loan decision.

**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 guidelines and policies established herein 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 Consumer Loan Department.

## FAA Credit Union

Policy No: 2.02  
Date: November 24, 2003  
Revised: May 22, 2012

**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.**

Policy No: 2.02, Pg 2  
Date: November 24, 2003  
Revised: May 22, 2012

**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.

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.

**FAA CREDIT UNION**

Policy No: 2.03.2  
Date: January 21, 2003  
Revised: August 24, 2010

**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, *Federal Accounting Standard (FAS) 5 – Allowance for Small Balance Homogeneous Pools of Loans*, when evaluating loans for potential loss, and *FAS 114 – Individual Evaluation for Impaired Loans*.

**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.**



**FAA CREDIT UNION**

Policy No: 2.03.2 Pg 2  
Date: January 21, 2003  
Revised: August 24, 2010

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

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 other than 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. 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.**

Because of their size and complexity, member business loans and business loan participations will be monitored and evaluated on an individual basis by the Business Lending Department. 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.



**FAA CREDIT UNION**

Policy No: 2.03.2 Pg 3  
Date: January 21, 2003  
Revised: August 24, 2010

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

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.



**FAA CREDIT UNION**

Policy No: 2.03.2 Pg 4  
Date: January 21, 2003  
Revised: August 24, 2010

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

**The loss classification indicates borrowers are incapable of repayment of unsecured debt. Loans to such borrowers are considered un-collectible 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.**

The loss **ratio** applied for classified member business loans will be determined by using one of the following methods:

calculate the present value of expected future principal and interest cash flows discounted at the loan's effective interest rate

determine the loan's observable market price

determine the fair value of collateral if applicable.

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.





**FAA CREDIT UNION**

Policy No: 2.03.2 Pg 5  
Date: January 21, 2003  
Revised: August 24, 2010

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

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.



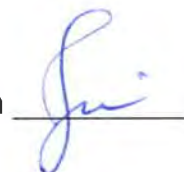
**FAA CREDIT UNION**

Policy No: 2.03.2 Pg 6  
Date: January 21, 2003  
Revised: August 24, 2010

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

**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: March 27, 2012

**SUBJECT: BANKRUPTCIES**

**POLICY:** Loans to members who are known to have previously filed bankruptcy within the past 3 years require the approval of **the President, Sr. VP of Financial Services or VP of financial Services** prior to disbursement of funds. 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.

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.

**FAA CREDIT UNION**

Policy No: 2.05  
Date: September 19, 2000  
Revised: May 27, 2008

**SUBJECT: Credit Based Pricing Policy**

**POLICY: PURPOSE OF CREDIT BASED PRICING**

The credit union recognizes the importance of managed risk. FAA CU 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.

FAA CU has adopted Credit Based Pricing to become the lender of choice for all members by offering the best possible rate based upon each individuals credit history.

**LOAN TYPES**

Credit Based Pricing will be used for all loan types except line of credit, CD Secured, Share Secured and Real Estate loans.

The credit union Financial Service Representatives, Underwriters and Indirect Lending Buyer/Dealer Reps will use prudent judgment in granting loans. A scoring model will be used to determine what interest rate the member will be charged if the loan is approved.

It is the policy and the practice of FAA CU to operate in a non-discriminatory manner. 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.

**RATES**

**The FAACU market rate will be determined based on the 2 year treasury curve and current market conditions. The market rate will be utilized in a matrix chart to determine the interest rates offered to members as defined in the Loan Procedures Manual. The matrix will be presented to the BOD periodically for approval.**

2.05

Pg 1

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**FAA EMPLOYEES CREDIT UNION**

Policy No: 2.06

Date: August 1, 1988

Revised: February 18, 2003

**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 Board of Directors. 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 Board 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, **excluding VISA loans**, 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.

**Discount Rate**

A .25% discount of the contract rate will be available on **unsecured personal loans** and secured loans, **excluding VISA, C.D. or Share Secured loans** when the member elects to have the loan payments **made automatically from an FAAECU account or payroll**. The **discount may be discontinued if automatic payments are disrupted or cancelled**.

**FAA CREDIT UNION**

Policy No: 2.06.1

Date: November 21, 1995

Revised: August 16, 2005

**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.

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

Term: 12 to 84 months

*fi*

## FAA CREDIT UNION

Policy No: 2.06.2  
Date July 18, 2006  
Revised: August 28, 2012

**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.

### **Loan Underwriting Requirements:**

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.

### **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 Policy #2.05.

### **Term:**

12 to 84 months

### **Limits:**

The total Indirect Lending portfolio balance will not exceed 25% of total credit union assets 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 Operations, 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 Operations 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. FAA 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 2.5% of the portfolio
- E Not to exceed 1.5% 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.

### 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 in 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 Operations, 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)**. Any dealership that is suspected of violating these fair lending practices will be subject to ineligibility within the program.

The VP of Lending or our 3<sup>rd</sup> party provider described below will make recommendations as to which dealers to do business with and recommend 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:

The 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. The 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: April 26, 2011

**SUBJECT: LOAN TERMS – NEW OR USED RECREATIONAL**

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

Amount: **The total amount financed may not exceed 60% of the sticker price or purchase price, whichever is less, for qualified members as determined by the Credit Union underwriting guidelines.**

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

Terms: **Maximum: 78 months**



**FAA CREDIT UNION**

Policy No: 2.06.5

Date: April 16, 1996

Revised: April 26, 2011

**SUBJECT: LOAN TERMS – OTHER SECURED**

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

Amount: **The total amount financed may not exceed 80% of the sticker price or purchase price, whichever is less, 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**



# 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: August 16, 2005

**SUBJECT: Share Secured and Share Certificate Loans**

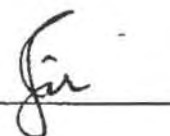
**Policy:** FAA Credit Union shall make loans secured by an FAACU Share Account or an FAACU Share Certificate.

**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 2.50% above the Share Account rate.  
The rate for an FAACU Share Certificate loan is 2% above the Share Certificate rate.

**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.



**FAA CREDIT UNION**

Policy No: 2.07  
Date: November 16, 1999  
Revised: August 16, 2005

**SUBJECT: CREDIT UNION EMPLOYEE PERSONAL COMPUTER (PC) LOANS**

Policy: The Credit Union shall make personal computer (PC) loans available to employees.

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

**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.

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.

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**FAA CREDIT UNION**

**Policy No:** 2.09

**Date:** August 1, 1988

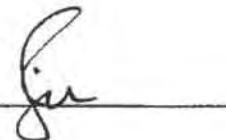
**Revised:** August 16, 2005

**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 and the loan may be reviewed anytime at the Credit Union's discretion. Refer to Policy #2.08 regarding unsecured limits and guidelines.

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

**Rate:** 12%



**FAA CREDIT UNION**

Policy No: 2.09.1  
Date: February 18, 2003  
Revised: June 26, 2012

**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.

**Term:** 12 – 60 Months

**FAA CREDIT UNION**

Policy No: 2.10

Date: August 1, 1988

Revised: June 26, 2012

**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.

Terms :

Rate:	5.99%
Grace Period:	25 days
Limit:	100% of pledged Share Account Balance
Annual Fee:	None
Maximum limit:	\$ 20,000
Minimum limit:	\$ 300
Late Payment Fee:	\$ 20.00

**FAA CREDIT UNION**

Policy No: 2.10.1  
Date: May 26, 1992  
Revised: June 26, 2012

**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.

**Terms :**

Rate:	Rate is based on member's credit history as specified in Credit Based Policy #2.05
Grace Period:	25 days
Annual Fee:	None
Maximum Limit:	\$ 20,000
Minimum limit:	\$ 300
Late Payment Fee	\$ 20.00

**FAA CREDIT UNION**

Policy No: 2.10.2

Date: July 21, 1998

Revised: June 26, 2012

**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.

**Terms:**

Rate:	Rate is based on member's credit history as specified in Credit Based Policy #2.05.
Grace Period:	25 Days
Annual Fee:	None
Maximum Limit:	\$20,000
Minimum Limit:	\$ 500.00
Late Payment Fee:	\$ 20.00

2.10.2

P.1

06/12

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## 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

**FAA CREDIT UNION**

Policy No: 2.10.4

Date: August 16, 2005

Revised: June 26, 2012

**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.

**Terms:**

Rate:	Rate is based on member's credit history as specified in Credit Based Policy #2.05.
Grace Period:	25 Days
Annual Fee:	None
Maximum Limit:	\$20,000
Minimum Limit:	\$ 500.00
Late Payment Fee:	\$ 20.00

2.10.2

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**FAA CREDIT UNION**

Policy No: 2.14

Date: February 17, 1987

Revised: March 27, 2012

**SUBJECT: FIRST MORTGAGE REAL ESTATE LOANS**

**POLICY:** FAA Credit Union shall make First Mortgage Real Estate Loans. 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**

Financial Service Representatives (FSR's) who make Real Estate loans will **be licensed according to current NMLS (National Mortgage Loan Servicing) guidelines** and attend real estate training to ensure they understand all terms, programs, and guidelines for real estate lending. The Real Estate Loan Administrator will ensure FSRs originate compliant lending files and obtain all necessary documentation.

**Lending Area**

The Credit Union will make real estate loans to all eligible members who qualify. 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**

1. Owner Occupied Single Family Residence
2. Second/Vacation Home
3. Unimproved Land
4. Investment Properties (all sold on Secondary Market)



**Programs Offered**

1. Fixed and Adjustable Rate Mortgage (ARM) Purchases
2. Limited Cash-out and Cash-out Refinances
3. Land Loans (limited loan to value)

**Maximum Terms**

Fixed Rate First Mortgage – 20 Years  
Adjustable Rate First Mortgage - 30 Years  
Land Loan – 5 Year Fixed or 5 Year Balloon/10 Year Amortized  
Secondary Market Loans- vary by offering

**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** each **month**, will go through an additional review by a third party to insure compliance with Secondary Market 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.

**Third Party Review Summary**

10% review of all originated files for previous **month**  
Desk review of appraisal, 10% subject to field review appraisal  
All verifications audited  
New credit report ordered  
Closing documents reviewed to insure compliance and accuracy

### Private Mortgage Insurance

PMI will be required on all loans exceeding 80% loan to value (LTV), except for Real Estate Owned (REO) portfolio loans, workout loans or modification loans.

### 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 \$750,000 for all loans to one member.

### Exceptions to Policy

Real Estate loans will be underwritten according to Secondary Market guidelines to insure marketability. **Exceptions must be approved by President.** Exceptions will be reported monthly to the Board of Directors.

## **FAA CREDIT UNION**

**Policy No:** 2.14.1

**Date:** January 24, 2012

**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. The intent of this policy and the appraisal and evaluation program is to ensure that FAACU does the following:

- A. Provide for the independence of the persons ordering, performing, and reviewing appraisals or evaluations.
- B. Evaluate and monitor the ongoing performance of appraisers and persons who perform evaluations.
- C. Ensure that appraisals comply with the Agencies' appraisal regulations and are consistent with supervisory guidance.
- D. Ensure that appraisals contain sufficient information to support the credit decision.
- E. Maintain criteria for the content and appropriate use of evaluations consistent with safe and sound practices.
- F. Provide for the receipt and review of the appraisal or evaluation report in a timely manner to facilitate the credit decision.
- G. Assess whether an existing appraisal or evaluation may be used to support a subsequent transaction.
- H. Utilize internal controls that promote compliance with these program standards, including those related to monitoring third party arrangements.
- I. 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.

## **B. 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.

## **C. 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.

#### **D. 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.

#### **E. 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:
    - o External data sources (such as market sales databases, public tax, and land records);
    - o 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).

#### **F. 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.

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.

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.

### **G. 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.

### **H. Program Compliance**

Deficiencies in FAACU's 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's 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's appraisal and evaluation function from any influence by loan production staff.

- Ensure the FAACU's 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's 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.

## **I. 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.

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 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.

## **J. 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. For those transactions qualifying for the appraisal threshold of \$250,000, existing extensions of credit, or the business loan exemptions.





**FAA CREDIT UNION**

Policy No: 2.14.2

Date: September 22, 1992

Revised: March 28, 2012

**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

**FAA CREDIT UNION**

Policy No: 2.14.2 Pg 2  
Date: March 19, 2002  
Revised: March 28, 2012

**SUBJECT: FAA PREFERRED FIRST MORTGAGE PROGRAM (continued)**

**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.

**FAA CREDIT UNION**

Policy No: 2.14.2 Pg 3

Date: March 19, 2002

Revised: March 28, 2012

**SUBJECT: FAA PREFERRED FIRST MORTGAGE PROGRAM (continued)**

**15 Year Balloon with 30 Year amortization**

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.

Points: Subject to changed based on management review of current market conditions.

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

**FAA CREDIT UNION**

Policy No: 2.14 .3

Date: February 18, 2003

Revised: March 27, 2012

**SUBJECT: RESIDENTIAL CONSTRUCTION LOANS**

**POLICY:** The Credit Union shall make residential construction loans to members for the purpose of building an owner occupied, single-family residence located in the State of Oklahoma in accordance with the following guidelines:

Maximum Loan Amount: Same as **secondary market** conventional loan limit.

Maximum Term: 12 months, with a 3-month renewal option on a case-by-case basis

Maximum Loan To Value: 90% of acquisition cost (land and total cost to build) or appraisal whichever is less, with approved builder.  
70% of acquisition cost (land and total cost to build) or appraisal whichever is less, if member is acting as their own general contractor.

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

Fee: An origination fee of **.5% with** a minimum of \$500 will be collected on each loan.

Other: Member must be approved for permanent financing prior to loan approval. Underwriting guidelines, borrower, property, and inspection requirements are specified in the lending procedures manual.

**FAA CREDIT UNION**

Policy No: 2.14.4

Date: August 16, 1994

Revised: March 28, 2012

**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

**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: March 28, 2012

**SUBJECT: Secondary Market Loans**

Policy: **FAA Credit Union (FAA CU)** will sell first mortgage loans **into the Secondary Market**. Loan limits, rates, terms, procedures and documentation requirements will be established by Fannie Mae 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: Fixed and adjustable rate loans offered through .

Rates: Interest rates are determined by **secondary market**. FAA CU will add a minimum of .25% to **the secondary market's** rate for servicing the loan.

Closing: All purchase transactions will close at an insured title company. Refinances will close at the credit union or Title Company if necessary.

Fees: Fees may be assessed as required which are normal Real Estate Settlement & Procedures Act (RESPA) transactions and set by outside vendors ad market. An appraisal, credit report, lock-in fee, and any other necessary fees may be collected at application to cover up-front expenses.

**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: March 28, 2012

**SUBJECT: SECOND MORTGAGE REAL ESTATE LOANS**

Policy: FAA Credit Union shall make second mortgage Real Estate loans on owner occupied, primary residences located in the State of Oklahoma in accordance with the following guidelines:

Maximum Loan Amount : \$100,000 Approved by FSR. Higher loan amount approved by **President**.

**Maximum Loan to Value (LTV): Up to 90%** of appraised value, less first mortgage balance.

**Up to 95% of appraised value**, less first mortgage balance with Private Mortgage Insurance required.

**Maximum term: 20 years**

**Rates: Rates will be based on current economic condition and secondary market pricing.**

**FAA CREDIT UNION**

Policy No: 2.15 Pg 2

Date: November 24, 1992  
Revised: March 28, 2012

**SUBJECT: SECOND MORTGAGE REAL ESTATE LOANS (continued)**

Members carrying a first and second mortgage with the Credit Union are limited to a combined loan to value ratio of **95%**. When the credit union is financing both the first and second mortgage, the member may be required to purchase mortgage insurance on the second mortgage to reduce the Credit Union's exposure to 80% loan to value ratio.

2.15

Pg 2

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## FAA CREDIT UNION

Policy No.: 2.16

Date: September 25, 2012

Last Reviewed: September 25, 2012

### SUBJECT: WORK OUT LOANS

#### 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 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 or 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, the V.P. of Human Resources, **or the 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 LTV ratios, particularly in areas with continued market declines, and total loss exposure in relation to net worth;
  - f. High DTI ratios;
  - g. Credit quality; and
  - h. 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 generally accepted accounting principles (GAAP) and reported on the 5300 Call Report.
5. The determination that a loan workout or modification is a TDR shall be consistent with the definitions provided in the credit union's Troubled Debt Restructuring Policy and as further defined by The Financial Accounting Standards Board (FASB) Accounting Standards Update No. 2011-2, *Receivables: A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring*.
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, the V.P. of Human Resources, **or the 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 to 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 prohibit 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, the V.P. of Human Resources, **or the 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. 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 last two paystubs, or 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.
  - 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. Collateral valuation will be determined through an updated Appraisal.
- 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.
- 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 be 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 that is not kept in-house 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. Analysis and determination of appropriate loan structure (e.g., term and amortization schedule), curtailment, covenants, or re-margining requirements;
- vi. Have the appropriate legal documentation drafted for any changes to loan terms.
- vii. Perform an analysis of the borrower's global debt service that reflects a realistic projection of the borrower's and guarantor's expenses;
- viii. The Credit Union will monitor the ongoing performance of the borrower and guarantor under the terms of the workout;
- ix. Accurately identify the level of risk in the workout loan arrangement;
- x. 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.
- xi. 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.
- xii. 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.
- xiii. 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.
- xiv. 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.
- xv. 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.

- xvi. 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.
- xvii. 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.
- xviii. 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.
- xix. Modified business loans will not exceed 10% of the MBL portfolio.

## FAA EMPLOYEES CREDIT UNION

Policy No: 2.18

Date: September 22, 1992

Revised: September 16, 2003

**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, adhere to all laws, and conform to proper reporting standards, 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 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 must be approved by a Senior Loan Officer, Vice President of Lending, Executive Vice President, or President.
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.
5. All loans, other than an advance on a line of credit, or share secured loan, will be reported monthly to the Board of Directors.

**FAA CREDIT UNION**

Policy No: 2.18.1

Date: September 22, 1992

Revised: June 26, 2012

**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 of their immediate family.

**FAA CREDIT UNION**

Policy No: 2.19

Date: September 22, 1992

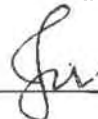
Revised: February 21, 2006

**SUBJECT: LOAN APPROVAL LIMITS & POLICY EXCEPTIONS**

**POLICY: Financial Service Representative, (FSR's) may be appointed by the Credit Manager, 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 Limits**

1. The total aggregate amount of unsecured lending (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.
2. Any secured consumer loan, not exceeding \$50,000, may be approved by FSR's if all other loan conditions are met.
3. **An underwriter may approve any secured consumer loan not exceeding \$100,000.**
4. **An underwriter may approve any Real Estate loan, not exceeding \$200,000, if all other loan conditions are met.**
5. All secured Consumer loans, excluding Share Secured, in excess of **\$100,000**, must be approved by the **either the AVP or VP of Lending, VP or AVP of Operations**; or in his/her absence, the President, or Executive Vice President, if all other loan approval conditions are met.
6. All Real Estate Loans in excess of **\$200,000** must be approved by the **AVP or VP of Lending, VP or AVP of Operations**; or in his/her absence, **either** the President, or Executive Vice President, if all other loan approval conditions are met.
7. Loans exceeding the FNMA (Federal National Mortgage Association) conventional limit must be approved/denied by **either the VP of Lending or VP of Operations**, and **either** the Executive Vice President or the President.





**FAA CREDIT UNION**

Policy No. 2.19 pg 2

Date: September 22, 1992

Revised: February 21, 2006

**SUBJECT LOAN APPROVAL LIMITS & POLICY EXCEPTIONS  
(continued)**

Loan Exceptions

1. Exceptions to loan policies for loans of less than the FNMA (Federal National Mortgage Association) conventional limit must be reviewed by an **Underwriter, AVP of Lending, and AVP of Operations.**
2. Loan exceptions exceeding the FNMA (Federal National Mortgage Association) conventional limit must be reviewed and approved/denied by **either** the President or Executive Vice President.
3. Any exception will be fully documented in the members' loan file. The terms and conditions of **all** exceptions exceeding the FNMA conventional limit will be reported to the Board of Directors at the first monthly meeting following approval of the exception.



**FAA EMPLOYEES CREDIT UNION**

Policy No. 2.20  
Date: February 18, 2003

**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, Executive Vice President, Vice President of Lending, Lending Supervisors, Branch Managers, and Senior Loan Officers. 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.



## FAA CREDIT UNION

Policy No: 2.23

Date: November 18, 1997

Revised: July 24, 2012

**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 \$1000.00 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.

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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 Pg 1

Date: June 17, 2003  
Revised: October 25, 2011

**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 and all NCUA lending 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 Executive Vice President 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 CREDIT UNION**

Policy No. 2.25 Pg 2

Date: June 17, 2003  
Revised: October 25, 2011

**SUBJECT: LOAN PARTICIPATIONS Cont'd**

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.

**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.

**FAA CREDIT UNION**

Policy No. 2.25 Pg 3  
 Date: June 17, 2003  
 Revised: October 25, 2011

**SUBJECT: LOAN PARTICIPATIONS Cont'd**

The Board authorizes the disbursement of participation proceeds to an originating credit union with the approval of the President/CEO, Executive Vice President, 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:

The loan underwriting policies are compliant with FAACU underwriting standards.

The loan underwriting practices confirm that the credit union can segregate participation loans on their system.

Collections policies and procedures are appropriate and effective.

**FAA CREDIT UNION**

Policy No. 2.25 Pg 4

Date: June 17, 2003  
Revised: October 23, 2011**SUBJECT: LOAN PARTICIPATIONS Cont'd**

Operational procedures are adequate to properly service loans

9) Financial analysis to determine trends in capital, earnings, delinquency, loan growth, and loan losses

**Underwriting**

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

Review of the loan application

Evaluation of the credit report for each borrower - all derogatory information must be explained

Examine proof of income and determination of ability to repay

Verify collateral value - utilize certified appraiser's report as applicable

Verify the terms of the loan comply with the originating credit union's policies and guidelines

Verify payment amounts with originating credit union's documents

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.**

**Monitoring**

Participation loans will be monitored on an on-going basis. Such monitoring will include, **but not limited to, review and analysis, at least annually, of financial statements, tax returns, payment history, paid property taxes (if applicable) and proof of insurance coverage** from the lead lender and include a review of the payment history of each loan.



## FAA CREDIT UNION

Policy No.: 2.27

Date: September 25, 2012

Last Reviewed: September 25, 2012

### SUBJECT: **TROUBLED DEBT RESTRUCTURINGS (TDR)**

**POLICY:** TDR loans shall be defined in accordance with GAAP (Generally Accepted Accounting Principles). Under GAAP, 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 FASB Accounting Standards Update No. 2011-02, the specific accounting set forth in the Statement of Financial Accounting Standards No. 114 (SFAS 114) 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 with GAAP.
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 GAAP 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.

## FAA CREDIT UNION

**Policy No:** 2.28  
**Date:** June 26, 2011  
**Reviewed:** June 26, 2012

**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 365.).

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 (SAFE) 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 Director of Human Resources is appointed as S.A.F.E. Act Officer and will manage FAA CU'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 SAFE 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 CU and MLO information to the Registry and monitor for changes.

**The MLO 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.

**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 CU employees, and the CU, may not act as a mortgage loan originators (MLO).

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.

MLOs will provide their assigned Unique Identifier to applicants as required, following the procedures of FAA Credit Union.

The S.A.F.E. Act Officer will develop a training program to be delivered to all MLOs upon implementation of the program and annually thereafter. Training will be required for all newly hired MLOs as part of orientation and will also be conducted when any changes are made to the law or when audits or reviews identify issues.

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 CU 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.

## **FAA Credit Union**

**Policy No:** 2.29  
**Date:** January 2012  
**Revised:** June 26, 2012

**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. Truth in lending governs both 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 interagency rules as set forth in the Truth In Lending Act (15 USC 1601, et al.) and Regulation Z (12CFR 226, et al.).

FAA Credit Union will make all necessary disclosures clearly and conspicuously in writing at loan consummation or within the time frames set forth in Regulation Z.

- 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 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 except on investment properties.
- Provide new disclosures if a disclosure becomes inaccurate because of an event that occurs after the initial disclosures are delivered.
- Require escrow accounts for all "higher priced" first lien mortgages secured by a borrower's principal dwelling
- Ensure that the TILA for a variable rate consumer credit obligation secured by a dwelling will contain a lifetime maximum interest rate.
- Regulate certain credit card practices, and provide a means for fair and timely resolution of credit billing disputes.

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 \$50,000 as of July 21, 2011, although credit secured by real property is subject to the regulation even if the loan is for more than \$51,800.

**Advertising:**

All advertisement that set forth specific credit terms will be in compliance with Regulation Z.

**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 24, 2012

**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 & 11-CU-01.

### **Authorization**

The Board of Directors authorizes the Senior Management Team (President, Sr. VP of Operations and AVP of Operations) 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 60 days past due.
- 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.

- 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 the 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 President or Chief Financial Officer 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.

### **Governance**

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



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 EMPLOYEES CREDIT UNION

Policy No: 3.04  
Date: August 1, 1988

SUBJECT: INDIVIDUAL RETIREMENT ACCOUNTS (IRAs)

POLICY: An Individual Retirement Account is an account for FAA Employees Credit Union members to set aside money which may be tax deferred. FAA Employees Credit Union offers accumulation IRAs, spousal IRAs, rollover IRAs, transfer IRAs, and SEP (self employed persons) IRAs.

Withdrawal from an IRA account is subject to the Internal Revenue Service withholding requirements. The Credit Union will at the member's request, 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.

FAA EMPLOYEES CREDIT UNION

Policy No: 3.05  
Date: August 1, 1988

SUBJECT: CHECK CASHING

POLICY: FAA Employees Credit Union will cash personal, payroll, business, two-party, perdiem, government, or insurance checks, or any other negotiable item for MEMBERS IN GOOD STANDING.

Certain checks will be cashed for students who have DOT IDs and an authorized FAA ECU 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 checks will be cashed.

Contractors located at Mike Monroney Aeronautical Center (not eligible for membership) 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 checks will be cashed.

A fee will be assessed those not in the Credit Union's field of membership.

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FAA EMPLOYEES CREDIT UNION

Policy No: 3.06  
Date: January 18, 1994

SUBJECT: FEE POLICY

POLICY: Fees may be charged for certain products & services that are commensurate with the cost of the related service. 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.)

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.

## **FAA CREDIT UNION**

Policy No: 3.07  
Date: March 15, 1994  
Revised: June 26, 2012

### **SUBJECT: FUNDS AVAILABILITY**

**POLICY:** The general policy of FAA CREDIT UNION is to make funds deposited into a member's transaction (checking) account available the day of deposit. In some cases, we may delay ability to withdraw funds beyond the business day of deposit. Then, **\$200.00** will be available on the day of deposit, the balance of the funds will generally be available 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 MAY APPLY**

Funds deposited by check may be delayed for a longer period under the following circumstances:

- A. We believe a check deposited will not be paid.
- B. Checks totaling more than \$5,000 are deposited on any one day.
- C. A check has been redeposited that has been returned unpaid.
- D. The account has been overdrawn repeatedly in the last six months.
- E. There is an emergency, such as failure of communications or computer equipment.

Longer holds will generally be available on the seventh business day after the day of deposit.

### **NOTICE OF HOLD**

The Credit Union will notify the member if a delay of ability to withdraw funds for any of these reasons, and the member will be informed at the time of deposit when funds will be available. If a decision to hold funds is made after the member leaves the Credit Union, a notice will be mailed 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 longer delay applies or 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.

### **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.

## COMPLIANCE AND TRAINING

The Senior Vice President of Operations shall be responsible for maintaining and monitoring the Credit Union's compliance to 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 are 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 be included in new employee orientation training for teller and member service positions.

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: September 25, 2007

### SUBJECT: OVERDRAFT POLICY

Policy: **FAA Credit Union**, at its discretion, may advance money to cover a member's overdraft without a credit application from the member. The criteria to pay a member's overdrafts will be established by management.

The total dollar amount of all overdrafts the Credit Union will honor will not exceed \$200,000. The total dollar amount that each member will be allowed to overdraw is a maximum of \$1,000 at any one time, unless approved by management.

The member must deposit funds or obtain an approved loan to cover the existing overdraft within **Ten (10) business days**. Members who fail to cover the negative balance will have collection steps taken on their accounts.

It is not the intention of the **FAA Credit Union** to encourage members to write overdrafts against their accounts. Therefore, **FAA Credit Union** will assess a fee per overdraft item, which will be disclosed in the Truth In Savings Disclosure to honor the overdraft items.

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. **FAA Credit Union** may enforce its right to collect payment for overdrafts and overdraft fees against the account of any co-signer and/or joint owner.



**Member Business Accounts:**

**FAA Credit Union, at its discretion, may advance money to cover a Member Business Account overdraft without a credit application from the member. The criteria to pay a member business overdraft will be established by management.**

**The total dollar amount of all member business overdrafts the Credit Union will honor will not exceed \$500,000. The total dollar amount that each member will be allowed to overdraw is a maximum of \$100,000., or the aggregate of all unsecured loans to one borrower at any on time, unless approved by management**

**The member must deposit funds or obtain an approved loan to cover the existing overdraft within three (3) business days. Members who fail to cover the negative balance will have collection steps taken on their accounts.**

**It is not the intention of FAA Credit Union to encourage members to write overdrafts against their accounts. Therefore, FAA Credit Union will assess a fee per overdraft item, which will be disclosed in the Truth in Savings Disclosure to honor the overdraft items.**

**To pay an overdraft account requires approval from any one of the following:**

**Assistant Vice President of Member Business Lending  
Vice President of Member Business Lending  
Sr. Vice President of Operations  
Executive Vice President  
President/CEO**



## FAA CREDIT UNION

Policy No: 3.09  
Date: October 18, 1994  
Revised: September 25, 2007

### **SUBJECT: INSUFFICIENT FUNDS**

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

Processing of items presented for payment will be done after the closing of all CU offices each business day. 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. 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 for all 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



**FAA CREDIT UNION**

Policy No: 3.09 Pg 2  
Date: October 18, 1994  
Revised: September 24, 2007

**SUBJECT: INSUFFICIENT FUNDS**

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  
Reviewed: September 25, 2012

**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.

## **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. Balance information
- d. Fees
- e. Transaction limitations
- f. Nature of dividends
- g. Bonus information
- h. Features of term share certificates

## **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. Annual percentage yield earned
- b. Amount of dividends
- c. Fees
- d. Length of statement period
- e. **If applicable, the total overdraft and returned item fees required to be disclosed**

#### **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 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**

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.

### **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.

## FAA CREDIT UNION

Policy No: 3.11  
Date: October 19, 1999  
Revised: September 27, 2011

### SUBJECT: AUTOMATED CLEARING HOUSE (ACH)

Policy: FAA Credit Union (FAACU) shall comply fully with the requirements of the National Automated Clearing House Association (NACHA) ACH rules as set forth in NACHA's Articles Rules Book. Furthermore, all FAACU ACH transactions are subject to Article 4A of the Uniform Commercial Code (UCC). **FAA Credit Union will accept all SEC codes as permitted by law.**

FAACU shall put in place ACH processing and service procedures/practices that are discretionary to the Credit Union provided that such procedures/practices do not conflict with compliance rules and regulations governing ACH transaction activities. These ACH procedures and practices shall address all processing, servicing, compliance, and audit issues as identified in the Articles of the NACHA Rules Book. Electronic transfer of funds from savings accounts, which includes ACH transactions, is limited as stipulated in Federal Reserve Regulation D.

**The Senior Vice President of Information Technology** is designated as the Credit Union's managing officer responsible for:

1. Coordinating and monitoring the day-to-day ACH operations;
2. Establishing procedures/practices assuring regulatory compliance;
3. Updating departmental procedures and practices to assure continued Credit Union compliance with all Regulatory Agencies and applicable NACHA Rules.







Revised

**FAA CREDIT UNION**

Policy No: 5.01

Date: July 19, 1983

Revised: September 20, 2005

**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.**

5.01

PG. 1

09/05

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Revised

**FAA CREDIT UNION**

Policy No: 5.02

Date: July 19, 1983

Revised: September 20, 2005

**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.

5.02

PG. 1

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BOD Chrmn



**FAA CREDIT UNION**

Policy No: 5.03

Date: July 25, 1983

Revised: December 23, 2008

**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 will be allocated for meals while attending training as follows:

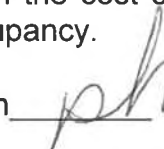
**\$20.00 Breakfast**

**25.00 Lunch**

**50.00 Dinner**

In addition, a 15% gratuity will be allocated with each particular meal.

Hotel costs will be a direct reimbursement based on the cost of the room plus applicable taxes, based on single or double occupancy.



**FAA CREDIT UNION**

Policy No: 5.03 Pg 2

Date: July 25, 1983

Revised: December 23, 2008

**SUBJECT: TRAVEL AND REIMBURSEMENT FOR EDUCATIONAL MEETINGS**

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 excess 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 Pg 1

Date: February 21, 1995

Revised: August 16, 2005

**SUBJECT: INFORMATION SYSTEMS**

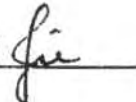
- POLICY:**
1. All computer hardware, software, information, and other related work products are the sole property of the Credit Union. Protection of Credit Union property from damage, loss, misuse, inappropriate disclosure, or fraudulent alteration is the responsibility of management and personnel of 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 may be 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 **Information Technology Vice-President** before being used. This also pertains to information removed from the premises for work purposes at home.
  4. The **Information Technology Vice President** is responsible for the accuracy, authorization, and completeness of computer processing.
  5. Computer room physical access is restricted to authorized users designated by the **Information Technology Vice President**.

5.04

P1

08/05

BOD CHRMN



**FAA CREDIT UNION**

Policy: 5.04 Pg 2

Date: February 21, 1995

Revised: September 20, 2005

**SUBJECT: INFORMATION SYSTEMS**

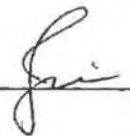
6. Each user will use computer information only for official Credit Union business.
7. Each user is responsible for activity logged against his/her user I.D.
8. Each user will keep the password for his/her user I. D. strictly confidential. If, for an isolated and supervised use of an application, that 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 **Information Technology Vice President, Executive Vice President** or the President of the Credit Union. Such situations would include, but are not limited to, theft, vandalism, or unauthorized use of computer systems.

5.04

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09/05

BOD CHRMN





**FAA CREDIT UNION**

Policy: 5.05

Date: September 16, 1997

Revised: April 24, 2012

**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.

**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.

**FAA CREDIT UNION**

Policy: 5.05 Pg 2

Date: September 16, 1997

Revised: April 24, 2012

**SUBJECT: USE OF COMPANY ISSUED CREDIT CARDS**

**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.

**The card is only to be used for Credit Union purchases or activities. Personal charges are not allowed.** Should a personal 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 charge if not paid the next business day.

Abuses of the card, such as using it for personal 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

Pg 2

08/05

BOD Chrmn



## FAA CREDIT UNION

Policy No: 5.07  
Date: September 19, 2000  
Revised: September 25, 2012

**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;



- 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, 2008

**SUBJECT:** Electronic Commerce and Guidelines

**Policy:** 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.

The Credit union will practice a risk based management approach when providing e-commerce services. The **Senior** Vice Presidents of Operations and IT (Information Technologies) 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 Operations and **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 Operations and **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. 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)

**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**

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.

A handwritten signature in blue ink, appearing to be 'ph', is written over a horizontal line.

**FAA CREDIT UNION**

**Policy No:** 5.09

**Date:** December 20, 1994

**Revised:** September 25, 2012

**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. **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](mailto:patriot@fincen.treas.gov), directly on FinCEN's Web site, ([www.fincen.gov](http://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](http://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.

**FAA Credit Union**

Policy No. 5.09.1  
Date: March 18, 2003  
Revision: September 27, 2011

**SUBJECT: OFAC REGULATIONS**

FAA Credit Union shall comply with the Office of Foreign Assets Control (OFAC) regulations. The Sr. Vice President of Operations 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 a current OFAC listing of prohibited countries, organizations and individuals.
3. Compare new accounts and the parties of all transactions, of those entities identified as high risk, with the most current OFAC listing.
4. Compare established accounts with updated OFAC listings on a monthly basis or within the reasonable technical capability of the Credit Union.
5. Block account and their 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. Perform an OFAC risk assessment annually, or more frequently if warranted.
7. **Review International ACH transactions (IAT) including all parties to the transaction and foreign correspondent banks with the most current OFAC listing.**
8. Report all blockings to OFAC within 10 days of occurrence, file the necessary reports, and retain all reports for at least five years.
9. All supporting documents and transaction records relating to OFAC regulation compliance will be maintained for five (5) years.

The **Sr.** Vice President of Operations 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

### **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 customer opens the account and obtains the TIN within a reasonable period of time after it opens the account. If the Credit Union does not receive the TIN within 30 days, the account will be closed.**

The identifying information provided by a customer 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. 5.09.1

Date: March 18, 2003

Revision: September 25, 2012

### 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 a current OFAC listing of prohibited countries, organizations and individuals.
3. Compare new accounts, and the parties of all transactions, and of those entities identified as high risk, with the most current OFAC listing.
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. Perform an OFAC risk assessment annually, or more frequently if warranted.
7. Review International ACH transactions (IAT) including all parties to the transaction and foreign correspondent banks with the most current OFAC listing.
8. Report all blockings to OFAC within 10 days of occurrence, **and** file the necessary reports, and retain all reports for at least five years.
9. 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.

Revised

**FAA CREDIT UNION**

Policy No: 5.10  
Date: December 13, 1983  
Revised: August 16, 2005

**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.

Check signing authority limits are listed in Schedule A.

5.10

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**FAA CREDIT UNION**

Policy No: 5.10 Schedule A  
 Date: December 13, 1983  
 Revised: September 20, 2005

**SUBJECT: CHECK SIGNING AUTHORITY AND LIMITS****POLICY: COUNTER/TELLER CHECKS**

Teller	Up to \$10,000
Teller Supervisor, <b>Financial Service Representative (FSR)</b> , Sr. Accountant	Up to \$50,000
Vice President, Controller, Asst. Vice President, Branch Manager, <b>Financial Service Representative (FSR) Supervisor</b> (Excludes Information Technology Vice President)	Up to \$350,000
President, Executive Vice President	Up to \$500,000

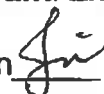
**LOAN DISBURSEMENT CHECKS**

Loan Operations Employees	Up to \$50,000
<b>Financial Service Representative (FSR)</b> , Senior Accountant	Up to \$50,000
<b>Underwriter</b>	Up to \$100,000
Controller, Asst. Vice President, Vice President, Branch Manager, <b>Financial Service Representative (FSR) Supervisor</b> (Excludes Information Technology Vice President)	Up to \$350,000
President, Executive Vice President	Up to \$500,000

**GENERAL LEDGER CHECKS**

Senior Accountant	Up to \$50,000
Loan Operations Employees (loan funding transactions only) (loan draft transactions only)	Up to \$50,000
Loan Operations Supervisor/ <b>Underwriter</b> (loan transactions only)	Up to \$200,000
Vice President, Controller, Asst. Vice President (Excludes Information Technology Vice President)	Up to \$350,000
President, Executive Vice President	Up to \$500,000

Checks exceeding \$500,000 require the signature of the President and Executive Vice President.



**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:

<b>Senior Management</b>	<b>\$100,000.00</b>
Volunteers	50,000.00
<b>Staff</b>	<b>50,000.00</b>

**FAA CREDIT UNION**

Policy No.: 5.12  
Date: July 18, 1990  
Revised: June 26, 2012

**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 CU'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. Procedures explaining how to recover the computer and technology related systems of the Credit Union.
10. Procedures explaining how to recover the key credit union facilities.
11. Procedures explaining how to recover the key business functions of the Credit Union.
12. Public relations information to facilitate clear communication with members, the media, and the community.
13. Procedures for publishing/reporting to members and the public regarding the loss or suspension of services
14. 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

Revised

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 at any main frame terminal.

## **EMERGENCY PREPAREDNESS DETERMINATIONS**

In addition, the President, SR Vice Presidents, Vice Presidents, Branch Managers, and other key personnel have a written copy of the BCDR at their residences.

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 Supervisor, 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

**SUBJECT: DORMANT ACCOUNTS**

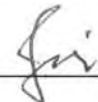
**POLICY: A dormant account is an account with no activity for 12 consecutive months.**

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

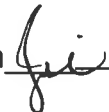
**SUBJECT: CAPITAL EXPENDITURES AND DEPRECIATION OF FIXED ASSETS**

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: January 25, 2011

**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. It is the duty of the Nominating Committee to nominate members for each vacancy, to determine that the nominee is agreeable and eligible to serve if elected, and to oversee the 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. It is also the duty of the committee to determine that each nominee is eligible and agreeable to serve if elected.**

**Self-Nominations**

Self-nominations for any position may be accepted by petition up to a date determined annually by the Board of Directors. **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 150 current members of the Credit Union. The Supervisory Committee or its designee will ascertain that the petition information is valid 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.





**FAA CREDIT UNION**

Policy: No: 5.15  
Date: October 19, 1993  
Revised: January 25, 2011

**SUBJECT: OFFICIAL FAMILY ELECTION PROCEDURES**

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 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 and mail balloting.

Ballots and biographical information will be printed by the Contractor, and mailed by regular or 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 by return envelope or through electronic means to the Contractor for tabulation.

**Request for Misplaced/New Ballots:**

Members who request a replacement ballot will be required to call a number provided by the Contractor to receive a replacement ballot. The member will need to provide necessary personal and account information to receive another ballot either by mail or be encouraged to vote on-line to avoid missing the voting deadline.

Balloting deadlines will be as follows: Any ballot received by the Contractor by mail or through electronic means up to 4:00P.M. three 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 by 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

Revised

**FAA CREDIT UNION**

Policy: No: 5.15  
Date: October 19, 1993  
Revised: January 25, 2011

**SUBJECT: OFFICIAL FAMILY ELECTION PROCEDURES**

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 in paper and/or electronic form 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.

A handwritten signature in cursive script, appearing to be "J. J. J.", is written over a horizontal line.

**FAA CREDIT UNION**

Policy No: 5.17  
Date: November 17, 1998  
Revised: April 24, 2012

**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 administratively to the President of the Credit Union and functionally to the Supervisory Committee.

**Functional activities include, but are not limited to, developing the scope of audits, reviewing audit plans, and any audit related issues. 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.**

While examining and evaluating the activities of the Credit Union, the internal auditing function will be permitted full, free, and unrestricted access to all Credit Union records, property, and personnel. At the discretion of management, the Internal Auditor will participate as a consultant in the planning, design, development, and implementation of new programs and services

**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

### 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

**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

**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: April 19, 2005

### 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.

#### Duties and Responsibilities

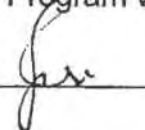
Associate Directors will attend and participate in *regular* Board of Directors meetings, provide input and support, but will not cast a vote on any motion or question.

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

A Selection Committee comprised of the Chairman of the Board, Vice Chair, Secretary, and Treasurer will present candidates to the Board as needed. The Board shall appoint no more than two associate directors from those candidates. The Associate Director Program will not have more than two appointees at any time.



**FAA CREDIT UNION**

Policy No: 5.20 Pg 2

Date: May 18, 2004  
Revised: April 19, 2005

**SUBJECT: ASSOCIATE DIRECTOR PROGRAM Continued**

**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 correspondence 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 Pg 3

Date: April 19, 2005

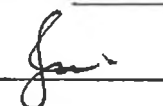
**SUBJECT: ASSOCIATE DIRECTORS ANNUAL PLEDGE**

**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.

Signature \_\_\_\_\_ Date \_\_\_\_\_



## FAA CREDIT UNION

Policy No: 5.21

Date: May 18, 2004

Revised: February 28, 2012

**SUBJECT: BOARD OF DIRECTORS DUTIES AND ANNUAL PLEDGE**

Policy: To provide governance for the credit union 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. Approve loan and **deposit** critical standards.
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.



**FAA CREDIT UNION**

Policy No: 5.21 Pg 2

Date: May 18, 2004  
Revised: February 24, 2012

**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.
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. Remain current on all personal credit obligations with the credit union.

5.21

Signature \_\_\_\_\_ Date \_\_\_\_\_  
Pg 2 02/12 BOD Chrmn 

**FAA CREDIT UNION**

Policy No: 5.22

Date: November 15, 2005

**Subject: COMPLIANCE POLICY**

POLICY:

The Board of Directors of FAA Credit Union is committed to serving its members on a fair and nondiscriminatory basis. FAA Credit Union is a State-chartered Credit Union and a business entity in the State of Oklahoma and therefore is subject to Oklahoma state law. In addition, we are subject to Federal laws and regulations, including NCUA Rules and Regulations.

It is necessary for the Credit Union to be in compliance with all applicable consumer protection laws at all times. Therefore, the Board of Directors has established a Compliance Committee to supervise the Credit Union's consumer compliance activities.

**COMPLIANCE COMMITTEE & RESPONSIBILITIES**

The Compliance Committee is responsible for overall Credit Union compliance with consumer protection statutes. 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 consumer complaints;
- (6) Maintaining an ongoing review program of credit union compliance.

The Compliance Committee has the authority to implement all policies and procedures necessary to maintain compliance with consumer protection statutes. 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, VP of Operations, VP of Lending, VP of Human Resources/Marketing, VP of Information Technologies, AVP of Operations, Business Lending Officer and AVP of Lending

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;
2. Drafting policies and procedures to implement those laws and regulations;
3. Seeing that those policies and procedures are followed.



## FAA CREDIT UNION

**Policy No.** 5.23  
**Date:** May 22, 2007  
**Revised:** February 28, 2012

**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 has conducted a Security Risk Assessment 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 was identified and a risk rating was 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 updated as new risk or threats are identified.

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 & Real Estate, and VP of HR & 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

### 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.

## 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.

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.

## 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, Executive Vice President or CEO.
- Questions/inquiries regarding confidential information or the security of this information should be directed to a manager.

### **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 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: December 20, 2011

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. A "covered account" is defined as either:

- (i) 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
- (ii) 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.

### 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:
  - (1) The methods by which we open accounts;
  - (2) The methods by which members can access their accounts; and
  - (3) 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:
  - (i) *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;

- (ii) *Detect Red Flags* that have been incorporated into the Program of the credit union;
  - (iii) *Respond* appropriately to any Red Flags that are detected to prevent and mitigate identity theft; and
  - (iv) *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 Operations as the Identity Theft Program Administrator responsible for the oversight, development, implementation and administration of the program. The status of the 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:
- Understanding the red flags the credit union has identified as relevant to its Identity Theft Prevention Program;
  - The credit union's internal policies and procedures for detecting and responding to red flags;
  - 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.
6. 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.
7. Member Address Changes. For members who have been issued debit or credit cards, the credit union will have adequate procedures to validate address change requests if it receives an address change request and, within a short period of time thereafter (30 days or less) is requested to issue a replacement or additional card. No cards will be issued or sent until the address change has been validated by proper credit union procedures.

**FAA CREDIT UNION**

**Policy No:** 5.25

**Date:** January 25, 2011

**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: January 25, 2011

**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.
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.

Signature \_\_\_\_\_

Date \_\_\_\_\_





## FAA CREDIT UNION

Policy No: 5.26  
Date: April 26, 2011  
Revised: February 28, 2012  
**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 and Real Estate and VP of Human Resources and 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 annually review the risk assessment according to the guidelines as outlined in NCUA letter 07-CU-13 and then determine the critical vendors based on the assessment.

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).

Each critical vendor or third party that provides such support services shall be also 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

Credit union management 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. SAS 70 Reports
2. Financial Statements
3. Contract Provisions
4. 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 credit union management. Vendor selection for 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 support by their 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.

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.



## FAA Credit Union

Policy: 5.27  
Date: December 20, 2011

### **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. Heit, Inc., a third party managed security firm, will monitor for unauthorized access attempts. Heit, Inc. will perform periodic evaluations of the firewall integrity.

## **ADMINISTRATION**

Heit, 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 Heit, Inc. to implement. Heit, Inc. will notify the Credit Union when the changes have been implemented.

Access to the firewall management interface shall be limited to Heit, Inc. and the Credit Union's IT Department.

Heit, 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 Heit, 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.

**FAA CREDIT UNION**

Policy No: 5.28 (page 2 of 2)  
 Date: February 28, 2012

**SUBJECT: CONCENTRATION POLICY**

<b>Policy Limits</b>		
%	% Net	% of Loans
Assets	Worth	or Other

**LIQUIDITY RISK**

**Loans to Assets** 85%

**CREDIT RISK**

<b>Indirect Lending</b>	25%	341%	
A+ OR A (limits are % of loans)			100%
B			40%
C			20%
D			2.50%
E			1.50%

**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%

**INTEREST RATE RISK**

**Investments**

Mortgage Backed Securities 65%





**FAA EMPLOYEES CREDIT UNION**

Policy No: 6.01

Date: February 1, 1999

Revised: May 20, 2003

**SUBJECT: GENERAL INFORMATION FOR EMPLOYEES**

**POLICY Employment Guidelines**

The employment guidelines for the FAA Employees 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 22, 2012

### **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.

## FAA CREDIT UNION

Policy No: 6.02, Pg. 2  
Date: December 16, 2003  
Revised: June 21, 2005  
Reviewed: May 22, 2012

### **SUBJECT: 401K Plan Roles and Responsibilities, continued**

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 on going 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: April 18, 2000

**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 full 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 for a fractional part of a pay period at the beginning of or at the end of an employee's term of service. 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: April 18, 2000

**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.: 7.00

Date: August 1, 1988

Revised: August 28, 2012

## 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 IMPAIREMENT (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: August 28, 2012

## 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 and/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 or 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, 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, if necessary, 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 and/or exchange of portfolio securities shall be made by the President and Senior Investment Officer, as authorized by the ALCO, only from institutions 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	<b>20%</b>
+200BP	<b>30%</b>
+300BP	<b>40%</b>

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);
- 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 \$500,000.00.
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 \$1,000,000.00.
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 AA or better by Moody's, Standard & Poors or Fitch.
8. At the time of purchase of any in-state non-rated bonds, an assessment of the creditworthiness of the issue shall be performed. 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 less 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. Any corporate 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 and/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 IMPAIRMENT (OTTI)**

As of the end of each quarter, the Credit Union's securities portfolio will be reviewed for possible OTTI. This assessment will include all debt and equity securities held in both the Available-for-Sale and Held-to-Maturity account. The evaluation shall be performed and documented in accordance with regulatory and financial accounting guidelines in effect at the time of the evaluation. An overview and summary of the results of the impairment analyses shall be presented to the Board at least semi-annually, if applicable.

## **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/or 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. 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 and/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

The limit for unsettled trades with any of the above dealers is \$10,000,000.00.

## 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

Texas

## EXHIBIT 4

### INVESTMENT POLICY QUALITY RATINGS

The following ratings will serve as a guide in assessing the credit quality of rated municipal obligations and corporate securities:

<u>Standard &amp; Poor's</u>	<u>Moody's</u>	<u>Descriptions</u>
		<b><u>Credit Union Quality Investments:</u></b>
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
		<b><u>Speculative &amp; Defaulted Issues:</u></b>
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
		<b><u>Provisional or Conditional Rating:</u></b>
Rating - P	Con (Rating)	Debt service requirements are largely dependent on reliable estimates as to future events



# FAA CREDIT UNION

Policy No.: 8.1

Date: January 18, 1994

Revised: September 25, 2012

## SUBJECT: ASSET/LIABILITY MANAGEMENT POLICY

### NO.    POLICY / TOPIC

- I.    GENERAL POLICY STATEMENT
- II.   GOAL
- III.   BOARD RESPONSIBILITIES
- IV.   MANAGEMENT RESPONSIBILITIES
- V.    ALCO ORGANIZATION AND RESPONSIBILITY
- VI.   ALCO 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
- XXIII.   AUDIT

# FAA CREDIT UNION

Policy No.: 8.1

Date: January 18, 1994

Revised: September 25, 2012

## 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 (ALCO).

### 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 ALCO with the task of monitoring, and ensuring the committee actively monitors, the IRR profile and has sufficiently broad representation across major functions that can directly or indirectly influence the Credit Union's IRR exposure (e.g., lending, investment securities, wholesale and retail funding);
  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 ALCO 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. ALCO ORGANIZATION AND RESPONSIBILITY

A. ALCO, 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. ALCO will be chaired by a Board member appointed by the Board Chairperson. ALCO 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 ALCO 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 ALCO will constitute a quorum.

C. The Board of Directors delegates responsibility for funds management to ALCO. ALCO 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 ALCO meeting will be maintained for reference by ALCO and the Board of Directors.
3. ALCO shall actively monitor the Credit Union's interest rate risk and liquidity profiles.
4. ALCO shall ensure the risk measurement system adequately identifies and quantifies risk exposure.
5. ALCO 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 ALCO shall have available the information necessary to adequately perform its ALM function. A general list of data that might be reviewed by ALCO 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 (quarterly)
  - n. Vault Cash
  - o. ALCO meeting minutes.

## **VI. ALCO DUTIES: QUARTERLY MEETING**

- A. At its quarterly meeting the ALCO 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. ALCO 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, ALCO will primarily rely on liquid assets to fund increases in loan demand. ALCO will concentrate on adjusting the price and availability of credit and the level of liquid assets held in response to changes in member asset and liability preferences.
- 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 Board sets a budgeted liquidity ratio of 5%. 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. ALCO 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' CFP will be regularly tested and updated 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.
- 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 ALCO will be activated. ALCO 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. ALCO 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.

## **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 ALCO 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.

## **XIII. 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 ALCO 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	>-50%
+200 basis points	>-40%
+100 basis points	>-30%
+50 basis points	>-30%
-0-	>-30%
-50 basis points	>-30%
-100 basis points	>-30%
-200 basis points	>-40%
-300 basis points	>-50%

**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 maintain a primary capital to asset ratio of not less than 7% and an equity capital to asset ratio of not less than 6%. Further, 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 ALCO 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's has established maximum concentration limits and those concentration limits are set forth in Exhibit "1" 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 ALCO Committee to convene, two members of the ALCO, 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 ALCO will prepare a report comparing the Credit Union's operating position with the limits and guidelines contained in this Policy.

**EXHIBIT "1"**

**CONCENTRATION POLICY LIMITS**

	<b>% Assets</b>	<b>% Net Worth</b>	<b>% of Loans or Other</b>
<b>LIQUIDITY RISK</b>			
<b>Loans to Assets</b>	85%		
<b>CREDIT RISK</b>			
<b>Indirect Lending</b>	25%	341%	
A+ or A (limits are % of loans)			100%
B			40%
C			20%
D			2.50%
E			1.50%
<b>Business Loans</b>	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%	
<b>Real Estate</b>	25%	341%	
<b>Troubled Debt Restructuring (TDR) Loan Limits</b>			
Consumer Loans			5%
Real Estate Loans			5%
Member Business Loans			10%
<b>INTEREST RATE RISK</b>			
<b>Investments</b>			
Mortgage Backed Securities			100%