

# Rancocas Federal Credit Union

218A Sunset Road  
Willingboro, NJ 08046  
(609) 835-3053

## RISK-BASED LENDING POLICY FORWARD

We believe this page is the most important page of our loan policy. Our Board of Directors, our various committees, Senior Management Team and staff all support this philosophy. All our new employees or volunteers will read and have explained to them what this philosophy means and will subscribe to this philosophy.

It is the philosophy of Rancocas Federal Credit Union to help as many of our members as possible with their credit needs. Our credit union believes in relationship lending. We have strong evidence, based on years of experience, that members pay us when they do not pay others. *While we will not ignore the fact that others may not be getting paid, we also will not solely use that as a reason to deny the loan if it is evident the member has and will continue to pay the credit union.* The credit union will also consider a member's credit score but will not deny a loan due to a credit score, alone. The credit union understands that credit scores are very volatile, plus can and will change quickly. Our mission is to counsel our members regarding their credit scores and show them how to dramatically improve their credit scores. *We want to show our members how to pay us less.*

*We believe lending has been and still is a judgment business. While we will instruct our staff to use good judgment in decision making, they are not to judge a member's character.* None of us is qualified to judge someone's character. We realize that bad things happen to good people. We also realize that under enough pressure, our members can and will make mistakes. We also believe our members deserve a chance to get a fresh start. *The only reason we believe a member should ever be turned down is when our loan officers or decision makers believe the member will not pay the credit union.* We expect our employees to be honest with the members in communicating their decisions and then to listen to the member's response. *It is more important that our employees make the right decision than to personally be right.*

Finally, *we believe that training our employees has to be our highest priority and under no circumstance will we compromise training.* Our members deserve to talk to highly motivated and highly trained employees who are positive and really care. This is our philosophy.

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It is the policy and practice of the credit union not to discriminate, which is the reason we have selected the credit bureau Risk Score. These scores were developed by Fair Isaacs Company, a leader in developing scoring models. They have tested thousands of files and have been found to be non-discriminatory.

The credit union will establish six (6) groups of interest rates according to the member's Fair Isaac Risk Model Score. These groups are as follows: (loan rates are included in the attached addendum)

1. "Platinum" Fair Isaac Risk Model score of 730 +
2. "A" Fair Isaac Risk Model score between 680-729
3. "B" Fair Isaac Risk Model score between 640-679
4. "C" Fair Isaac Risk Model score between 600-639
5. "D" Fair Isaac Risk Model score between 550-599
6. "E" Fair Isaac Risk Model score of 549 or less

In the event there is no credit report score, the Board will decide whether or not to approve based on information provided in the application, and if approved, will assign the rate for a "D" paper.

## **Loan Officer Duties**

Loan approval authority has been given to the Loan Officers under the following conditions/ limitations:

### *Loan limits*

- a. Auto Loans - \$40,000.00
- b. Unsecured Loans - \$15,000.00  
(based on credit score & income; could be less)
- c. Fully Secured Loans - No Limit
- d. Home Equity - \$150,000 (or 80% LTV, whichever is less)

Any loan that does not meet the criteria listed above must be approved by the majority vote of the Board of Directors. It is the Supervisory Committee's responsibility to ensure that the approval, denial, and actual granting of all types of loans comply with this policy.

## **Lending Authority**

No employee, Supervisory Committee Member, or Board of Director member shall have any part in approving, processing, or disbursing loans on their own account, that of a relative, or that of an individual where the appearance of a conflict of interest may result.

The Loan Officers may approve applications for credit, as prescribed in this policy, without the necessity for a meeting or approval of the Board of Directors, with the following exception:

*All employee and official loans with aggregate balances exceeding \$20,000 require board approval. This includes any loan in which the official or employee is direct obligor, endorser, or guarantor to one or more loans of which the aggregate balance exceeds \$20,000.*

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## Eligibility

This credit union shall accept and consider an application from any member of Rancocas Federal Credit Union. All applications for loans shall be made in writing and shall state the purpose for which the loan is desired and the security offered, if any. Verbal requests shall not be honored. Only application forms that are completed in all details shall be accepted. Loan applicants must be 18 years old to apply for any loan.

## Loans to Officials & Employees

Members of the Board of Directors, Supervisory Committee, and employees may borrow from the credit union provided that the loan application and personal financial verifications are completed in all details. Loans made to credit union employees will follow the same guidelines as those for credit union members, *but will receive a one percent discount*. Loans to all other officials are at the standard rates.

All loan applications for officials and employees shall be approved by the Loan Officers, with the following exception:

Any loan application for a Loan Officer must be approved by a member of the Board of Directors.

## Evaluation of Creditworthiness

### 1. *Credit History*

With the exception of fully share secured loans, a credit report will be taken and evaluated prior to a credit decision. Loan rates will be based on the member's Fair Isaac Score. The credit report shall be no older than two weeks old for loan approval. We will not issue a loan to any member that has caused a loss to any credit union.

### 2. *Employment*

Applicants applying for a loan must have proof of employment and/or verifiable income.

### 3. *Income*

Qualifying income is that which can be verified and may be reasonably expected to continue. Income must be sufficient to support the total obligations of the applicant. In general, overtime pay will not be considered unless a steady proof of this pay is provided. Income for employees will be verified through the receipt of two recent pay stubs or a recent tax return. A copy of pay stubs will be made and placed in the borrower's loan file.

### 4. *Expenses*

Monthly debt obligations include housing costs, all direct installment debts with remaining terms of six (6) months or more, outstanding revolving debts, and the payment on the proposed loan. When rent is shared with another individual, for the purpose of determining the monthly obligation, the entire rent cost will be assumed unless the sharing is verified.

### 5. *Debt Ratio*

For definition purposes, the debt to income ratio is the total amount of monthly debts divided by the gross monthly income. Debts include all consumer debts and housing expenses.

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A debt ratio worksheet shall be completed for each loan application. A separate worksheet will be completed for a co-signer unless the relationship is husband and wife. The completed debt ratio worksheet will be placed in the borrower's loan file.

As a guideline only, the credit union will use a debt ratio of 45% for the members based on their monthly gross income. Debt ratios above 55% will require Board approval. While it is important that a member has the ability to pay, it is equally or more important how they are currently paying and what the probability of future default on the loan we are granting to the member is.

To determine this, the credit union will rely on the member's credit report and their FICO score. These scores are based on the credit bureau having tested millions of borrowers using proven characteristics that work, that have been validated and are revalidated every other year, and these scores are not discriminating. FICO scores have been proven to be a far better indicator of predicting the probability of default than debt ratios. The credit union debt ratio guideline applies to all members, including those who want to co-sign. (It is not a requirement to be a member in order to co-sign.)

***More important than the overall debt ratio is the type of debt that constitutes this ratio. We are willing to consider a higher debt ratio when the debt consists of secured items (mortgages where there is equity in the home, auto loans with equity in the vehicle, etc.). If a member's unsecured debt as a percentage of their annual gross income exceeds 25%, the Board of Directors will need to review.***

At the same time, we will reduce risk by limiting the amount of unsecured loans granted as follows:

No more than 3x's monthly gross income for A Paper \*  
No more than 2x's monthly gross income for B/C Paper \*  
No more than 1x's monthly gross income for D/E Paper\*  
(\* within limits previously indicated)

## 6. Co-signer/Guarantor

When the primary applicant cannot otherwise qualify for credit, a co-signer may be used as security. The co-signer shall be subject to the same creditworthiness standards as the primary applicant and shall be required to complete his/her section of the loan application.

A notice to co-signer must be read, understood and signed by the co-signer.

## Collateral

A favorable loan to value ratio is not sufficient reason to grant a loan that would otherwise be rejected. The quality of the loan is determined by the quality of the borrower.

Any documentation to secure a legal security interest or lien on collateral is required for all secured credit. All of the documentation will be properly processed through the necessary legal

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channels to secure the credit union's security interest.

The credit union will repossess security whenever it is deemed that the loan is in JEOPARDY and the security is AT RISK.

Insurance against loss and damage shall be required for any collateral offered as security. Proof of coverage with the loss payable to the credit union shall be provided within ten days of disbursement of the loan. For auto loans, a maximum deductible of \$500.00 will be allowed for comprehensive, fire, theft, and collision.

All individuals to be listed on the title/lien must sign the loan note. If this person is not the borrower, they must sign the note as Owner of the Collateral.

## Denial

In the event that credit is denied, a written notice of action taken and a statement of the specific reasons for that action shall be given to the applicant within 30 days after receiving the completed application. All notices shall comply with the requirements of the Equal Credit Opportunity Act, Regulation B.

## Underwriting Documentation & Special Condition Required to Process Loan

1. *Loan Type – New Auto, New Boat, New RV and New Motorcycle*
  - a. Minimum loan amount - \$500.00
  - b. Maximum loan amount - \$40,000.00
  - c. Minimum term – N/A
  - d. Maximum term – 72 months (*when minimum of \$25,000 financed*)
  - e. Maximum loan value – 100%
  - f. Valuation method used – Purchase & Sales Agreement
  - g. Documentation and special conditions –
    - \* Title listing the credit union as lienholder
    - \* Purchase & Sales Agreement
    - \* Current insurance listing the credit union as the loss payee
    - \* Owner of vehicle must sign note as such if they are not the borrower
  
2. *Loan Type – Used Auto, Used Boat, Used RV and Used Motorcycle*
  - a. Minimum loan amount - \$500.00
  - b. Maximum loan amount - \$40,000.00
  - c. Minimum term – N/A
  - d. Maximum term – 72 months (up to 5 years old, minimum of \$25,000 financed), 48 months (6 or 7 years old)
  - e. Maximum loan to value – 110% of book value only, otherwise subject to Board approval
  - f. Valuation method used – book value – NADA
  - g. Documentation and special conditions –
    - \* Title listing the credit union as lienholder
    - \* Purchase & Sales Agreement
    - \* Vehicle valuation

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\* Current insurance showing the credit union as the loss payee

\* Owner of the vehicle must sign note as such if they are not the borrower

3. *Loan Type - Unsecured*
  - a. Must keep \$100.00 minimum in share account
  - b. Minimum loan amount - \$500.00
  - c. Maximum loan amount (unsecured) - \$15,000.00  
(based on credit score & income; could be less)
  - d. Minimum term - N/A
  - e. Maximum term - 48 months
  
4. *Loan Type – 100% Secured*
  - a. \$500 minimum
  - b. No maximum
  - c. Minimum term - N/A
  - d. Maximum term - 48 months
  
5. *Loan Type - Home Equity - Fixed Rate*
  - a. Minimum loan amount - \$10,000
  - b. Maximum loan amount - \$150,000 (no greater than 80% loan to value)
  - c. Minimum term - 5 years
  - d. Maximum term - 20 years
  
6. *Frequency of Refinancing*
  - a. Personal Loan – Refinancing is available after reviewing a current application & credit report.
  - b. Auto, RV & Motorcycle Loans – ***existing loans with Rancocas Federal Credit Union can be refinanced up to the book value of the vehicle only (otherwise, subject to Board approval). In situations where the member has their loan with another institution, we will refinance up to 110% of the book value (otherwise, subject to Board approval).***  
The check will be written to the member and the lending institution holding the vehicle title. Loan can be refinanced for up to 60 months (with exception of vehicles over 5 years old, in which case max is 48 months)
  - c. Additional funds (“New Money”) must be for a minimum of \$500.00

## Allowance for Loan Loss

The amount of funds reserved for delinquencies shall be established in the annual budget. The allowance for loan loss account has been established by the historical occurrences and performances of the credit union. Adequate funding of the account shall be reviewed by the Board of Directors on a quarterly basis and adjustments made at such time as voted necessary.

The credit union reserves the right to discontinue the RISK-BASED Lending program if performance so warrants. Delinquencies will be reported by the Manager to the Board of Directors monthly. Included in this report will be the effects of the RBL program. The amount of increase in delinquencies will be stated in the annual budget.

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SEE FOLLOWING PAGE FOR RATES

## RISK-BASED AUTO LOAN RATES

(new - 5 years old)

	<u>680 +</u> (A)	<u>640 - 679</u> (B)	<u>600 - 639</u> (C)	<u>550 - 599</u> (D)	<u>549 and below</u> (E)
<u>10%Down</u>	3.95	4.45	6.45	<b>10.95*</b>	<b>15.25*</b>
<u>No Down</u>	4.95	5.45	7.45	11.95	16.0
<b>36 Mo.s (10% Down)</b>	3.75				
<b>36 Mo.s (20% Down)</b>	3.50				
<b>48 Mo.s (10% Down)</b>	3.80				
<b>48 Mo.s (20% Down)</b>	3.55				

**\*20% Equity required to receive this rate.**

For term of 72 months (*minimum of \$25,000*), add one percent (1%) to the above rates.

For autos 6 or 7 years old, add one percent (1%) to the above rates.

## RISK-BASED PERSONAL LOAN RATES

<u>730 +</u> (Platinum)	<u>680 - 729</u> (A)	<u>640 - 679</u> (B)	<u>600 - 639</u> (C)	<u>550 - 599</u> (D)	<b>Co-Signer Required</b> <u>549 and below</u> (E)
8.95%	9.95%	10.95%	13.25%	16.50%	18.0%

20% Secured: Reduce above rates by one percentage point (1%)

Fully Secured: **6%** regardless of score

## HOME EQUITY LOAN RATES

4.49%	<b>5</b> Year Fixed
4.75%	<b>7</b> Year Fixed
4.99%	<b>10</b> Year Fixed
5.40%	<b>15</b> Year Fixed
5.89%	<b>20</b> Year Fixed

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(LTV above 80% is offered at a higher rate. Rates reflected for credit scores of 680 +)