

**Credit Union
Member Business Loan Procedures Manual**

SAMPLE

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I. Member Business Lending Steps and Areas of Responsibility

1. Prospective clients are tracked in “Pipeline Report” perpetually throughout this process and reported weekly to the Chief Lending Officer or Chief Financial Officer (example shown on Page 4)- *Lender, Lender Support*
2. Interview prospective client to determine needs-*Lender*
 - a. Perform quick assessment of credit quality-*Lender*
 - b. Look prospects entire financial picture, particularly existing consumer and commercial loans watchful for refinance and cross sell opportunities-*Lender*
 - c. Schedule business site visit-*Lender*
 - d. If Real Estate is to be used as collateral, complete Environmental Checklist (example Page 13)-*Lender*
3. Conduct on-site visit of business-*Lender*
4. Work-Up loan proposal based on CU’s standards and lending policy guidelines-*Lender*
5. Credit checks performed/BSA/CIP compliance investigation performed-*Lender, Lender Support*
6. Completed financial package submitted for analysis to independent source-*Lender, Lender Support*
7. Independent financial analysis performed based on guidelines published on Pages 5-10 and throughout MBL Policy-*Commercial Credit Analyst, CUSO*
8. A formal credit memorandum is prepared by independent source-*Commercial Credit Analyst, CUSO*
9. Disputes or uncertainties within analysis are resolved between lender and independent source-*Lender, Chief Lender/Commercial Credit Analyst, CUSO*
10. A Risk Rating or Loan Grade is assigned in the manner as discussed on Page 12-*Lender, Credit Committee, Credit Analyst, CUSO*
11. Pending favorable credit analysis, lien searches are obtained-*Lender Support*
12. Appropriate lending approval authority is obtained based on lending limits outlined in Lending Policy. Approval documented for file on Credit Memorandum-*Lender, Approving Authority*
13. A Commitment Letter or Term Sheet based on the guidelines discussed out Page 12 issued containing the terms and conditions dictated by the approving authority-*Lender, Lender Support*
14. Outstanding Commitment Letter tracked-Pipeline Report Updated-*Lender, Lender Support*
15. Member accepts commitment according to terms dictated; acknowledging acceptance by signing commitment letter
16. If Real Estate is involved, a site inspection may be performed-*Lender*
17. If Real Estate is involved, an appraisal is obtained from approved list of appraisers-*Lender, Lender Support*
18. If Real Estate is involved, a Phase I Environmental Assessment may be ordered-*Lender*
19. If Real Estate is involved, a title policy is ordered-*Lender, Lender Support*
20. Pending the results of appraisal and title policy, loan documents are ordered and closing is scheduled-*Lender, Lender Support Attorney, CUSO*
21. Disbursement mechanisms, checks, wires, etc are drawn up and signed by independent source-*Lender Support, VP, CFO, etc*
22. Closing is held, documents are executed, funds are disbursed-*Lender, Attorney*
23. Holds are placed on business deposit accounts if taken as collateral- *Lender, Lender Support*
24. Required documents are sent for recordation-*Lender, Lender Support, Attorney*

II. Loan Volume Management

By 2 pm every Friday, a Pipeline Report as detailed on the following page shall be updated and supplied to the Chief Lending Officer and Chief Financial Officer.

The purpose of this report will be twofold. The Chief Lending Officer will use the report to monitor loan officer productivity and the Chief Financial Officer will use the report to anticipate cash needs relative to larger loan disbursements and as a tool in overall ALM.

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III. Credit Analysis

All credit analysis performed on member business loans must be independent of the loan officer. Within one day of receiving the request for analysis, the analyst should review the package for completeness.

Credit Analyst's Duties:

Independently determine performance history on existing loan and deposit accounts of the applicant and any co-borrowers or guarantors

- A. Enter or have data entered into a statement spreading program or template in the manner outlined in the Statement Spreading Guidelines contained on Pages 8-12 of this manual.
- B. Perform or outsource vertical and horizontal trend analyses of the
 - a. Balance Sheet
 - b. Income Statement
 - c. Cash Flow Statement
- C. Calculate or outsource the calculation of liquidity, leverage and debt service ratios
- D. Compare ratios to general internal minimums
- E. Compare or outsource the comparison of the business with industry averages (RMA peer data)
- F. Identify at least two viable sources of repayment
- G. Perform or outsource a collateral analysis
- H. Risk Ratings should be assigned as per Section XXV of this Policy
- I. Document or outsource the documentation of findings in a formal credit memorandum/loan request

Sound credit quality is the primary factor defining a good business loan from a bad business loan....

Credit Union can:

- A. Identify at least two viable sources of repayment
- B. Identify collateral sufficient to meet NCUA and internal guidelines
- C. Structure the credit request in such a manner to mitigate undue risk

A Credit Memorandum shall be prepared and completed by name an independent source. The Credit Memorandum at a minimum should contain the following:

- **Description of “the business of the business”**
 - Location of the business
 - Market area of the business
 - Identification of owners
 - Identification of management team
- **Description of the loan request and the terms for repayment**
- **Collateral analysis**
- **Financial statement analysis**
 - Balance Sheet and Income Statement
 - Cash Flow Statement
 - Ratio Analysis.....

Financial Documentation Requirements

Entity Type	Minimum Type of Financial Data-Initially	Minimum Type of Financial Data-Annually
Sole Proprietorship	<ul style="list-style-type: none"> -3 Years Personal Tax Returns (1040s) with all Supporting Schedules (C, E, F &/or J) -Interim Profit and Loss Statement if tax data is more than 90 days old -Business Debt Schedule -Copies of W-2 forms -Personal Financial Statement -Personal Credit Bureau Report -Business Credit Report, if available 	<ul style="list-style-type: none"> -1 New Personal Tax Return (1040) with all Supporting Schedules (C, E, F &/or J) -Interim Profit and Loss Statement if tax data is more than 90 days old by time received -New Business Debt Schedule -Copies of New W-2 forms -New Personal Financial Statement -New Personal Credit Bureau Reports -New Business Credit Report, if available
Partnership	<ul style="list-style-type: none"> -3 Years Partnership Tax Returns (1065's) with all Supporting Schedules, especially K-1's <u>AND/OR</u> -3 Years Accountant Prepared Financial Statements -Interim Profit and Loss Statement if tax data is more than 90 days old -Business Debt Schedule -3 Years Personal Tax Returns from all individual/guarantors with all Supporting Schedules -Copies of W-2 forms -Personal Financial Statements from all individuals/guarantors -Personal Credit Bureau Reports on all individuals/guarantors -Business Credit Report, if available 	<ul style="list-style-type: none"> -1 New Year Partnership Tax Return (1065) with all Supporting Schedules, especially K-1's <u>AND/OR</u> -1 New Year Accountant Prepared Financial Statement -Interim Profit and Loss Statement if tax data is more than 90 days old by time received -New Business Debt Schedule -Copies of New W-2 forms -1 New Year Personal Tax Returns from all individual/guarantors with all Supporting Schedules especially K-1's -New Personal Financial Statements from all individuals/guarantors -New Personal Credit Bureau Reports all individuals/guarantors -New Business Credit Report, if available
Corporation	<ul style="list-style-type: none"> -3 Years Corporate Tax Returns (1120's) with all Supporting Schedules, especially K-1's <u>AND/OR</u> -3 Years Accountant Prepared Financial Statements -Interim Profit and Loss Statement if tax data is more than 90 days old -Business Debt Schedule -3 Years Personal Tax Returns from all individual/guarantors with all Supporting Schedules -Copies of W-2 forms -Personal Financial Statements from all individuals/guarantors -Personal Credit Bureau Reports on all individuals/guarantors -Business Credit Report, if available 	<ul style="list-style-type: none"> -1 New Year Corporate Tax Return (1120) with all Supporting Schedules, especially K-1's <u>AND/OR</u> -1 New Year Accountant Prepared Financial Statement -Interim Profit and Loss Statement if tax data is more than 90 days old by time received -New Business Debt Schedule -Copies of New W-2 forms -1 New Year Personal Tax Returns from all individual/guarantors with all Supporting Schedules, especially K-1's -New Personal Financial Statements from all individuals/guarantors -New Personal Credit Bureau Reports all individuals/guarantors -New Business Credit Report, if available

Risk Ratings:

Risk ratings or loan grades are to be assigned prior to loan approval by the Loan Officer or Credit Analyst or another named group as outlined and dictated in the MBL Policy.

- Are based on the scale outlined and discussed in the MBL Policy
- Shall be assigned on all new loan requests by the Commercial Credit Analyst or Lender or Loan Committee. Any disputes over the rating assigned shall be resolved prior to submitting the request for approval.
- Are assigned to loan specific not assigned to relationships
- Are subject to change.
 - Each time an existing loan is reviewed by the Commercial Credit Analyst, the risk rating is reevaluated and re-assigned
 - There is a change in payment status
 - There is evidence which warrants doing so
- Can be changed by Loan Review and or Examiners
- Must be reported at least quarterly to the Board of Directors

All loans rated OAEM or Special Mention, Substandard, Doubtful or Loss will be considered Watch List loans. Reporting to _____ as dictated in the MBL Policy.

The ALLL will in large part be dictated by the Risk Rating assigned to each loan or loan relationship as outlined in the MBL Policy.

Classification and accounting for any impaired loans shall be done in compliance with compliance with all accounting pronouncements and under the guidance of the Chief Financial Officer.

Commercial Credit Information Exchange-Commercial Credit Analyst or Chief Lending Officer

In the normal course of business, our member businesses seek credit from their suppliers and vendors as well as other financial institutions and credit providers. These other credit providers, suppliers and vendors often conduct commercial credit inquiries. The duty of responding to these types of inquiries is the responsibility of the commercial credit analyst or Chief Lending Officer or another named individual with access to both business deposit and loan account information and who understand the importance of providing accurate and timely information.

The types of inquiries referred to in this section do not include loan balance inquiries from CPA's who are performing annual business audits. Year end inquiries from audit firms can be completed by the Loan Operations Supervisor.....

All inquiries will be responded to in General Figure Ranges, rather than specific dollar amounts. To ensure the accuracy of information exchanged, the RMA suggested ranges as outlined below will be used:

(First Digit of Balance):

Low = 1 to 1.9

Moderate = 2 to 3.9

Medium = 4 to 6.9

High = 7 to 9.9

(Actual Balance):

Nominal = Under \$100

3 Figures = \$100 to \$999

4 Figures = \$1,000 to \$9,999

5 Figures = \$10,000 to \$99,999

6 Figures = \$100,000 to \$999,999 and so on.

Example:

Deposit account balance =
\$60,000 [XX, XXX]

Response: Medium 5 Figures

So an appropriate response to an inquiry on an account with an average balance of \$60,000 would be “Medium 5 Figures.”

IV. Loan Approval Authority

The levels of approval authorities are contained within and governed by the Sections VI and VII of the MBL Policy. There are no acceptable deviations from obtaining the appropriate lending authority approval. All approvals must be obtained prior to issuance of commitment to the member business and prior to closing.

Modifications or amendments to terms must be approved by the appropriate approving authority and documented in writing.

Annual renewals must also be approved by the appropriate approving authority and documented in writing.

V. Loan Documentation Requirements

Commitment Letters and Term Sheets

The level of complexity and loan amount shall govern when commitment letters are issued. In the case of _____ Credit Union, they are to be issued on all transactions involving: _____ and on all loans and aggregate exposure totaling greater than \$ _____.

At a minimum, our Commitment Letters will contain the following:

1. Business name including fictitious names (t/a or d/b/a)
2. Amount of the loan
3. Interest rate. If adjustable, then the adjustment intervals and the index to which it is tied.
4. Payment intervals (monthly, quarterly)
5. Loan maturity date
6. Identify of guarantors

Appraisers:

All appraisers must meet specific requirements as outlined and dictated in the MBL Policy. Loan officers are permitted to only use those appraisers meeting those specific standards and chosen for inclusion on the “List of Approved Appraisers” as outlined in the MBL Policy. The “List of Approved Appraisers” was last approved on _____ and contains the following list of names of appraisers:

A through review of all appraisals shall be conducted by the Lender and documented for the file on the Appraisal Review Questionnaire as outlined on the following pages. The appraisal review should include a determination if the Lender agrees with the appraiser’s conclusions and that the conclusions are in line with policy.....

Appraisal Review Questionnaire

Appraiser Qualifications:

- | | | |
|---|---|---|
| 1. Is the appraiser on the Credit Union’s approved list of appraisers? | Y | N |
| 2. Are the appraiser’s qualifications appropriate for the type of property being appraised? | Y | N |
| 3. Is there any correlation between use of this appraiser and classified assets? | Y | N |
| 4. Does the appraisal include a statement: | | |
| a. as to the appraiser’s license/certification number and state of issuance? | Y | N |
| b. that the appraiser has no present or prospective interest in either the subject property or parties involved? | Y | N |
| c. indicating whether or not the appraiser made a personal inspection of the subject property? | Y | N |
| d. indicating that to the best of the appraiser’s ability, the analyses, opinions, and conclusions were developed and the report was prepared in accordance with the appraisal standards of the credit union? | Y | N |

Etc.....

Environmental Risk Assessments

All real estate secured MBLs require an environmental assessment. The completion of an Environmental Questionnaire as outlined below and dictated by the MBL Policy is required on all business loans, regardless of the amount, which are secured by improved non-residential real estate.

Secondly, a site visit by the loan officer, if performed, should be documented and include a brief discussion on the observation of any environmental hazards such as above ground storage tanks, discolored soil, empty or leaking barrels or containers, discarded tires, etc. Additionally, an appraisal, while not to be relied upon for environmental assessments, can sometimes provide insight into any possible hidden environmental hazards such as underground storage tanks, or past use of land.....

Real Estate Environmental Risk Questionnaire

Applicant's
Name: _____
Telephone: _____ County: _____

Street
Address: _____
City: _____ State: _____

The property is: (Check all that apply)

- | | | |
|---|---|--|
| <input type="checkbox"/> To be purchased | <input type="checkbox"/> To be expanded and/or renovated | <input type="checkbox"/> New Construction |
| <input type="checkbox"/> To be substantially demolished | <input type="checkbox"/> Used in applicant's present operations | <input type="checkbox"/> Vacant Land |
| <input type="checkbox"/> Farm | <input type="checkbox"/> 1-Family Dwelling | <input type="checkbox"/> 2-Family Dwelling |
| <input type="checkbox"/> 3 or More Family Dwelling | <input type="checkbox"/> Apartment | <input type="checkbox"/> Retail |
| <input type="checkbox"/> Office | <input type="checkbox"/> Convenience Store | <input type="checkbox"/> Gas Station |
| <input type="checkbox"/> Bar or Restaurant | <input type="checkbox"/> Light Industrial | <input type="checkbox"/> Heavy Industrial |

Etc.....

Insurance Requirements-Lender

It is the Loan Officer's duties or his/her support staff's duty to perform a Flood Hazard Determination on all loans secured by improved real estate. This determination shall be maintained in the Documentation File.....

General Loan Documentation-Lender, Lending Support

For all loans less than \$; loan documents will be created internally using system or by law firm. For all loans greater than \$; loan documents will be created internally using system or by law firm. Upon receipt of the completed set of documents, the Lender is charged with the responsibility of reviewing the document package to ensure accuracy, completeness and compliance with the terms and conditions as approved.

VI. Loan Closing Procedures

Disbursements-Accounting or Independent Area

Loan disbursements shall be.....

Loan Closings-Attorney, Lender

will be present at all closing where the total loan request exceeds \$.
Transactions less than \$ can be closing in the lender's office by the lender.....

VII Loan Operations-New Loans

Oversight of the following will be administered by the Loan Operations Supervisor. Periodically the Loan Operations Supervisor will conduct quality control audits to ensure that procedures outlined in this manual are being followed by loan operations staff members.

Boarding-Lending Support

Within two days of closing, the Lender Support Staff shall complete the form on Page 17 for each new loan and enter or "board" the new loan information according to the terms in the loan note and internal policies on the core processing system.....

- a. UCC-1 Ticklers, if appropriate (Encoded 4 years and 6 months from date of loan)
- b. Financial Statement Expiration Dates (Encoded 3 months following Business Fiscal Year End)
- c. Insurance Expiration Dates
- d. Collateral Codes
- e. NAICS or SIC (Encoded with 3-6 digits)
- f. Etc.....

Processing New Loans-Loan Operations Staff

1. Obtain “New Loans” report from IT Staff (Resulting from G/L slips processed by Disbursements Area coded for “New Loans”)
2. Print label from “New Loans” report for every new loan. This label will be used on the DOCUMENTATION file (may be color coded depending on type of loan)
3. Print label (if new client) for every new loan for use on the CREDIT file if a new client; add new materials to existing CREDIT FILE if existing client
4. At the end of each week, report all unused “New Loan Labels” to your immediate supervisor
 - a. Operations Supervisor shall report all outstanding “New Loans” to Chief Lending Officer at the end of each month
5. Etc.....

Exception Reporting-Loan Operations Staff

Any exceptions noted during the processes outlined about shall be reported to the Operations Staff Supervisor who will compile the data into a report for the Chief Lending Officer, Credit Committee and Board or as dictated in Section IX of this Manual.

VIII. Loan Operations-Existing Loans

Quoting Pay-Offs- Loan Operations Staff

1. Establish to whom you are speaking. If the person is not on the loan, do not release any information about the loan to the caller. The only exceptions to this rule are for dealers, Settlement Agents, or Title Companies and then a written request should be obtained.....

Processing Paid Member Business Loans- Loan Operations Staff

1. Obtain “Paid Loans Report” daily from IT Staff (Lender/Chief Lender should receive their own reports).....

Matured Loans- Loan Operations Staff

1. Obtain “Matured Loans Report” daily from IT Staff (Lender/Chief Lender should receive their own reports)
2. Check against all incoming “Matured Loan Renewal Request Forms” received from Chief Lending Officer.....

Renewal of Matured Loans-Loan Operations Staff

If a matured loan has been renewed, the Loan Officer shall document appropriate approval authority and complete a Matured Loan Renewal Request Form. All of this data along with the newly executed modification agreements (loan documents) shall be forwarded to the Loan Operations Staff. Upon arrival the Loan Operations Staff will review it to ensure the appropriate approval authority was obtained and documented. Then will then proceed to make necessary modifications to the terms on the core processing system as outlined by the lender in the Matured Loan Renewal Request Form.

Legal Fees- Loan Operations Staff

All satisfaction fees, UCC Financing Statement Recordation Fees etc, will be paid from an account managed by the Loan Operations Supervisor. This account is subject to periodic audit by the Credit Union’s auditors.

Insurance Policies- Loan Operations Staff

(Excluding Auto and Excluding Consumer Mortgages with Balances < \$)

1. Obtain “Expired Home and Business Insurance Report” from IT Staff.....

UCC Financing Statements- Loan Operations Staff

1. Obtain “UCC Expiration Report” from IT Staff (Expiration dates were previously encoded 4 years and 6 months from date of loan)
2. If loan has a term remaining of greater than 6 months but less than 1 year, discuss in writing the need for filing of a continuation statement UCC-3 with the loan officer **(Note: It is imperative that UCC-3 financing statements be filed only by the appropriate loan operations staff and not the loan officer).....**

Financial Statement Expirations- Loan Operations Staff, Commercial Credit Analyst

1. Obtain “Financial Statement Notices” and “Financial Statement Expirations Report” as generated by IT Staff (See Sample Exhibit) on the 15th of each month
2. Compare against all newly received “financial statements” (Depending on structure may also need to check with Commercial Credit Analysts and/or CUSO)
 - a. If no new statements have been received, send notice to member business
3. If new statements have been received, and update system with new year’s expiration.....

IX Reports to the Chief Lending Officer/Credit Committee and Board

As dictated in the Lending Policy, portfolio monitoring responsibilities reside with Credit Committee, first and then finally with the full Board at a frequency established by the Board.

Monthly and Quarterly Portfolio Reporting Requirements

Monthly:

- Aggregate MBL Portfolio Reports (first sort by member/related and affiliated relationships)

Aggregate Unsecured MBL Portfolio Reports-including business credit cards (first sort by member/related or affiliated relationships).....

Quarterly:

- Concentration of credits within specific industries (first sort, NAICS, second sort borrower name).....

Comprehensive Commercial Loan Exception Reports-Loan Operations

1. Fifteen days prior to the end of each quarter, obtain a “Commercial Loan Exception Report” from the IT Staff which is sorted two ways: on a per loan/ per member basis and on a per loan officer basis:
 - a. Account name and number
 - b. Loan Officer
 - c. Risk Rating
 - d. Then sub categories shall include:
 - i. Outstanding insurance policies
 - ii. Outstanding financial statements
 - iii. Financial covenant violations
 - iv. Appraiser violations.....

X. Delinquent Loans

It is the business lending officer’s responsibility to make regular contact with the borrowers and guarantors of delinquent business loans. When the usual collection efforts have failed, and the lending officer believes legal collection efforts are the only recourse, the facts shall be presented to Business Loan Committee who will then make the final determination to file suit.....

XI. Workouts-

Often times it is more beneficial to the credit union, the member business and the community to keep a business in operations for an extended period of time in under the terms of a workout agreement rather than to immediately initiate foreclosure proceedings. However, this decision is only made under the guidance of a skilled workout specialist or attorney. All member business loans over \$ delinquent more than 90 consecutive days should be placed on non-accrual status and reviewed for possible restructure, workout or foreclosure.....

XII Lines of Credit-

It is expected that true working capital lines of credit experience principal reductions or pay downs through out the year.

Those which don’t experience expected pay downs relative to the line of business of the member, shall be reviewed and considered for possible downgrade in risk rating and possible restructure.

XIII Business Lending Policy-

Annually, beginning in _____, the _____ shall solicit recommendations for changes to the credit union’s MBL Policy. Annually in _____ the _____ shall submit the MBL Policy containing highlighted requested revisions to the board of directors for review and approval.

XIV Loan Review-

At least annually, a sampling of the credit union's MBL portfolio should be reviewed. This sampling shall represent:

- Independence from the lending function
- No less than % of the total outstanding committed MBL portfolio
- A random sampling of loans/relationships
- A full review of an entire relationship not a specific loan within a relationship

Each relationship review shall:

- Include an assessment of the adequacy of the business loan documentation.....

XV Loan Participations-

Determining Eligibility for Sale:

- shall submit a report to the Board of Directors (Reg 701.22-701.23) seeking sales approval prior to marketing and/or sale of any MBL
 - The Board shall establish the terms and conditions of sale including interest rate, term, fees, and other important considerations.....

XVI Safekeeping

All personnel of the credit union shall take the utmost care in the security and safekeeping of loan and collateral documents. Promissory notes, collateral documentation, and credit files should be secured and locked at the end of each business day. Negotiable collateral shall be held in safekeeping under dual control in the vault.

All files must be signed out and signed in as they are taken from the file vault.

During examinations, examiners should prepare a list of requested files in advance of the need to review them, giving Loan Operations Staff adequate time to locate, pull and log-out all files.