CREDIT SCORING LOAN PROGRAM POLICY

BOARD POLICY (Board Approval: , Board Last Reviewed: , Effective Date: , Owner:)

OVERVIEW

The Board of Directors recognizes that credit scoring has become the standard industry method for analyzing small loan requests, as well as a screening tool for larger loan requests. Scoring provides a lower-cost alternative to traditional analysis and improves customer service by speeding up loan decisions.

SPECIFIC POLICIES AND ACTIONS

It is the responsibility of the Organization president to develop appropriate procedures and guidelines for implementing this program and ensuring adequate quality control. The Organization's policies and procedures shall incorporate, at a minimum, the following standards and/or guidelines:

- Secure loans with a perfected lien on the item being financed and limit unsecured credit to only the strongest of applicants.
- Establish differential loan documentation and servicing requirements as appropriate for the required loan quality, maximum loan amount parameters, loan purpose and loan term parameters.
- Delegate loan approval authority appropriately.
- Include a process to review a sample of credit scored loans, including overrides, to identify and report any credit administration weaknesses to management and the Board of Directors.
- Limit the volume of loans (principal and commitment) outstanding underwritten exclusively using Credit Scoring to 250% or less of the ACA risk funds.
- Handle loan performance problems in accordance with Organization policies and procedures on collection practices and forbearance actions.

<u>Specifically identify on the loan system loans that are credit scored exclusively and have no additional or supplementary analysis to support the credit decision. The identification of these loans can then be available for the allowance for loan losses, portfolio management analyses, board reports and management reports, as needed.</u>

REPORTING

The Organization president or his designee is responsible for monitoring those loans identified as exclusively credit scored and reporting to the Board of Directors on a quarterly basis. This reporting will entail:

1. A summary of applications scored during the period, including accepts, declines and overrides.
2. A comparison of actual charge-offs, delinquencies and override rates to the following Organization goals:
   - Override rate: 10.0% or less by number of applications scored;
   - Delinquency rate: 1% or less on a rolling 12-month average of delinquency principal and
   - Charge-off rate: 0.15% or less of outstanding principal in the program.
3. Provide the following reports, and others as deemed appropriate, to keep the Board of Directors informed and ensure that the level of risk is properly managed.

   - Trend of Credit Quality for the Program Portfolio and Comparison to the Entire Portfolio

- Volume of Loans in the Program and Comparison to Organization Risk Funds
- Rolling 12-Month Delinquency Report and Comparison to Delinquency Report for Entire Portfolio
- Trend of Nonaccrual Volume of the Program and Comparison to Nonaccrual for the Entire Portfolio