

**STATE OF MICHIGAN
DEPARTMENT OF INSURANCE AND FINANCIAL SERVICES**

Bulletin 2005-08-CU

**In the matter of
Lending Policy and Procedures**

**Issued and entered
this 10th day of June 2005
by Linda A. Watters
Commissioner**

The purpose of this bulletin is to establish minimum lending procedures to ensure safe and sound credit union operation. Section 401(2)(i) and Article 4, Part 2 of the Michigan Credit Union Act, 2003 PA 215, as amended, MCL 490.401(2)(i), MCL 490.421 through MCL 490.424, authorize credit unions to grant loans, while Section 342(3)(i), MCL 490.342(3)(i), requires the Board of Directors to adopt policies necessary for credit union operations. Loans normally represent a material segment of the credit union's assets and significantly impact its risk profile.

Loan Policies

The Board of Directors must develop and adopt comprehensive, written loan policies which define each type of loan product offered. These policies must promote safety and soundness within the credit union. At a minimum, the loan policy should address the following:

- Individual, aggregate, and portfolio limits for each type or class of loan.
- Loan application and underwriting documentation requirements, and loan approval criteria. Loan approval criteria must include such factors as debt ratios, loan-to-value ratios, disposable income, recent verification of income and employment, credit history, tax returns, and financial statements.
- Procedures and documentation to approve exceptions to the loan policy.
- Payment terms, amortization periods, and maximum maturity for each loan type.
- Collateral requirements and valuation methods, including criteria and procedures for substitution and release of security.
- Criteria for real estate and commercial lending, including approved loan structures and participations, loan-to-value limitations, trade areas, assumption criteria, appraisals and valuation requirements, title and hazard insurances, annual monitoring, and other risk management factors.
- Controls and practices to ensure compliance with all applicable State and Federal regulations governing disclosure and underwriting requirements.
- Policies, procedures, and tracking systems to ensure receipt of perfected liens, recorded mortgages, current insurance, and loss payee status.
- Criteria and timeframes for classifying and charging off various loan types.

- Collection procedures and timeframes.
- Extension and refinancing criteria and limitations.

Applications

Credit applications must contain sufficient information to determine the purpose for the loan, to carefully analyze the character and financial condition of each loan applicant, cosigner and guarantor, and to ascertain their ability to repay fully and promptly. Members must sign credit applications. Unsigned requests for advances under an open-end revolving credit plan or pre-approved line-of-credit plan may be honored as provided in the underlying contract and policies adopted by the Board of Directors. Each credit application must be retained until disposition is authorized by the Board of Directors. Applications may not be disposed until the latter of:

- Twenty-five months after the date of the application
- The date the loan is repaid in full
- The date the line of credit is closed.

Approval

No loan, line of credit, renewal of a loan or line of credit, extension agreement, deferral of payments, release of security, or substitution of security on a loan may occur until approved in writing by a majority of the members of the credit committee, the Board of Directors, or a loan officer to whom such authority has been properly delegated. Credit union records must document who granted the approval.

Loans to Officials

A loan officer may be delegated the authority to approve only the following classes of loans to officials:

- Loans fully secured by shares and deposits
- Loans under an existing open-end revolving credit agreement provided a specific amount has been pre-approved by the credit committee or the Board of Directors, if there is no credit committee.

No official may act as cosigner or endorser for borrowers, except as permitted by law.

Contracts and Receipts

Each loan or other extension of credit must be evidenced by a promissory note or other binding agreement signed by the borrower. Each disbursement must be as directed by the borrower and evidenced by a proper voucher, receipt, check, or draft. Disbursements under a pre-approved line of credit agreement may be honored remotely if the borrower can be authenticated.

Lending Review

Management shall review lending activities throughout the year to ensure conformity with the loan policy adopted by the Board of Directors. Examiners will evaluate the lending function and associated controls to ensure appropriate risk management practices are present to maintain public confidence in Michigan-chartered credit unions.

Any questions regarding this bulletin should be directed to:

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/s/

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