 <b>Office of Credit Unions</b> <b>Policies and Procedures</b>	<b>POLICY NUMBER</b>
	<b>10355</b>
<b>LENDING</b>	<b>EFFECTIVE DATE</b>
	<b>11/01/2018</b>
<b>SUBJECT</b>	<b>REVISION DATE</b>
	<b>11/01/2018</b>
<b>Loan Extensions</b>	<b>PAGE(S)</b>
	<b>Page 1 of 2</b>

## I. PURPOSE


Examiners must determine the level of risks associated with granting loan extensions. Credit and collateral risk may vary depending on the controls the Board of Directors and management have established to govern loan extensions and modifications. Management's understanding of, and ability to control the risk associated with loan extensions must be evaluated. Compliance with applicable state and federal regulations and guidelines in policies and procedures will also be reviewed.

## II. PRIMARY REFERENCES / RELATED REGULATIONS

1. Michigan Credit Union Act:
  - a. [Section 342\(3\)\(i\)](#): Adopting policies
  - b. [Section 342\(4\)\(g\)](#): Establishing internal controls
  - c. [Section 386](#): Establishment and maintenance of reserves
  - d. [Section 421](#): Credit Committee
  - e. [Section 423](#): Loan conditions
2. [Office of Credit Unions \(OCU\) Letter 2010-CU-01](#)
3. [FFIEC Uniform Retail Credit Classification and Account Management Policy](#)
4. [Truth in Lending Act](#) (Regulation Z)
5. [12 CFR 741 Appendix C](#): Interpretive Ruling and Policy Statement on Loan Workouts, Nonaccrual Policy, and Regulatory Reporting of Troubled Debt Restructured Loans

## III. MINIMUM PROCEDURES

1. Review policy guidelines and restrictions for granting loan extensions. Determine whether the policy guidelines are clear, specific, and adequately address risks associated with extensions. Sound guidelines should include, at minimum:
  - a. The individual(s) or position(s) that have the authority to grant loan extensions and modifications.
  - b. The types of loan extensions which will be available. Examples include:

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	<b>11/01/2018</b>
<b>SUBJECT</b>	<b>REVISION DATE</b>
	<b>11/01/2018</b>
<b>Loan Extensions</b>	<b>PAGE(S)</b>
	<b>Page 2 of 2</b>

- i. Skipped payments;
    - ii. Interest only payments;
    - iii. Lowered interest rates; and
    - iv. Lowered payments.
  - c. The length of the extension/modification.
  - d. A review of the member's capacity to repay with established criteria.
  - e. Acceptable circumstances (also possible unacceptable circumstances).
  - f. A requirement for consecutive agreed upon payments prior to granting the extension/modification.
  - g. A limit of extensions/modifications per loan or per borrower.
  - h. Maximum amortization of loans.
  - i. Required documentation (updated personal and credit information, credit report, proof of income, etc.).
  - j. An analysis of the adequacy of collateral value.
2. Review the Credit Committee or loan officer minutes, as applicable, to assess the quantity and types of loan extensions which have been granted since the previous examination. From the minutes, assemble a sample of loan extensions for review. The following should be considered when determining the size of the sample:
- a. Quantity of loan extensions granted;
  - b. Acceptability of the criteria and guidelines for granting loan extensions; and
  - c. Risk of inappropriate use of loan extensions to mask delinquency.
3. Review the sample of loan extensions:
- a. Determine whether loan extensions comply with the policy guidelines.
  - b. Assess the level of credit risk apparent in the loan extensions.
  - c. Determine whether loan extensions are used as a mechanism for masking delinquency.
4. Discuss the procedures for monitoring loan extensions and modifications with management. There should be an established system for monitoring the performance of loans extensions to ensure the borrowers are paying as agreed. The monitoring system should allow for early detection for any payment problems.