 Office of Credit Unions Policies and Procedures	POLICY NUMBER
	10305
LENDING	EFFECTIVE DATE
	11/01/2018
SUBJECT	REVISION DATE
	11/01/2018
Consumer Lending	PAGE(S)
	Page 1 of 2

I. PURPOSE


Examiners must determine the overall level of risk in the consumer loan portfolio, the potential impact to the financial condition, and ascertain compliance with state and federal regulations. Examiners must assess management’s knowledge and capacity to grant quality loans and adequately manage the loan portfolio.

II. PRIMARY REFERENCES / RELATED REGULATIONS

1. Michigan Credit Union Act:
 - a. [Section 421](#): Credit Committee powers, Loan Officers, etc.
 - b. [Section 422](#): Loans to Other Domestic Credit Unions or members
 - c. [Section 423](#): Loan terms, Official loans, etc.
2. [Truth in Lending Act](#) (Regulation Z)
3. [Equal Credit Opportunity Act](#) (Regulation B)

III. MINIMUM PROCEDURES

1. **General review of consumer lending practices should include:**
 - a. Evaluating the general sufficiency of loan contracts, particularly for non-industry standard forms.
 - i. Compliance with general lending regulations should be evaluated.
 - ii. A legal opinion should be obtained if the institution is using non-standard loan contracts to ensure the contracts adequately protect the institution and borrower, as well as comply with pertinent regulations.
 - iii. Review the administration of loans compared to the loan contract language to identify material inconsistencies.
 - b. Evaluating the overall level of risk of loss posed to the portfolio as a whole, relative to each type of loan being granted.
 - c. Ensuring the Board of Directors have developed and adopted comprehensive, written loan policies which define each type of loan product offered. These policies must promote safety and soundness within the credit union.
2. **Secured Consumer Loans:**
 - a. Review loan files to ensure adequate documentation. The files should include the following, at minimum:
 - i. Proof of collateral value and lien;

 Office of Credit Unions Policies and Procedures	POLICY NUMBER
	10305
LENDING	EFFECTIVE DATE
	11/01/2018
SUBJECT	REVISION DATE
	11/01/2018
Consumer Lending	PAGE(S)
	Page 2 of 2

- ii. Proof of insurance disclosing the credit union as loss payee;
- iii. Documentation supporting sound underwriting, including credit and capacity analysis.
- b. Ensure the security agreement has been accurately completed and signed. Owners of the collateral who are not borrowers or cosigners must also sign pledging the collateral to secure the loan (this is documented by signing the loan contract as “owner of collateral”).

3. Revolving Lines of Credit and Unsecured Loans:

- a. Determine whether a credit limit was established, and documented. Any increases to the maximum limit should be clearly documented with the approval signatures of the appropriate individual(s).
- b. Review controls in place to prevent/detect loans exceeding the established credit limits.
- c. Review procedures for monitoring and reviewing lines of credits, including periodic re-evaluation of borrower’s capacity, and related controls.
- d. Review the advance vouchers to assess whether they were completed accurately.

4. Share-secured Loans:

- a. Review the security agreement for accuracy of the assignment of shares as collateral.
- b. Ensure the owner of the shares has signed as a “borrower” or “owner of collateral”.
- c. Confirm the pledged shares are frozen to secure the loan.