

Credit Union

Foreclosed Assets (FRA) Policy

12/05/2008

I. PURPOSE: The Board of Directors recognizes that from time to time the credit union may have to foreclose on a real estate loan. In light of this, the following policy is being established to ensure:

- An appropriate Risk Assessment for holding Foreclosed Assets is properly performed.
- Levels of risks are established in relationship to holding Foreclosed Assets.
- Proper accounting for the Foreclosed Asset is done.
- All applicable consumer regulations and state laws are properly considered and addressed.
- A strategy for either holding the Foreclosed Asset or the liquidation of the Asset is done.

II. WORKING WITH RESIDENTIAL MORTGAGE BORROWERS. It is the responsibility of the CEO, along with the CLO, to establish procedures to constructively work with residential mortgage borrowers who may be unable to meet their contractual payment obligations. Prudent workout arrangements, in the long term, can be in the best interest of both the credit union and members. However, when foreclosure is unavoidable, it will be the responsibility of the CEO to establish procedures that take into consideration all the risks associated with the foreclosure, holding of Foreclosed Assets and the liquidation of the Foreclosed Assets.

III. FORECLOSURE OF REAL ESTATE LOANS: It is the responsibility of the CEO, along with the CFO and CLO, to establish procedures for:

- a. Initial evaluation of the projected financial impact to the credit union involved in completing a foreclosure. The initial evaluation must include a reasonable valuation of the property with supporting document.
- b. Initiation process for a foreclosure. Ensure that all Federal and State regulations and laws are adhered to in initiating and completing a foreclosure.
- c. Proper property management of the asset during the foreclosure process.
- d. Securing the Foreclosed Asset once the foreclosure has been successfully completed.

IV. REAL ESTATE OWNED: When the credit union becomes the title owner of a property through a foreclosure action or loan default mitigation the asset should only be held temporarily and not permanently as an income producing asset. The property should normally be actively marketed for sale by the credit union. However, it is also understood that there are times due to economic conditions there can be a turndown in the real estate market that might cause the credit union to hold onto the property longer than its normal practice. It is the responsibility of the CEO, along with the CFO and CLO, to establish procedures in relationship to a Foreclosed Asset (FRA), also referred to as Real Estate Owned (REO) to ensure:

- a. *Risk Assessment.* A proper risk assessment is completed to determine the appropriate action(s) to be followed in either holding or selling the Foreclosed Asset. The risk assessment should include at least the following:
 - (1) *Liquidity.* The holding and managing of an REO has an impact upon the credit union's liquidity. Determine if the holding and managing of an REO will put an undue stress on the credit union's liquidity and develop procedures for monitoring this potential impact as long as the REO is being held by the credit union.
 - (2) *Transaction.* Procedures to appropriately report on the statement of financial condition the REO. Determine if the REO is to be reported as:
 - (a) Held-For-Sale at the lower of cost or fair value through a separate valuation allowance or
 - (b) Held for the credit union's use and depreciated.
 - (3) *Strategic.* Evaluation of the chosen strategy in relationship to the credit union's current and future earnings, which should include the level of REO the credit union can afford to carry in relation to net worth and liquidity.
 - (4) *Market Valuation.* An actual market valuation (i.e. independent appraisal, real estate broker market analysis, etc.) must be included with the procedures of the risk assessment.
- b. *Holding REO.* It will be the responsibility of the CEO, along with the CLO and CFO, to establish procedures to determine which properties (REO) will be sold immediately and which will be held for a short period of time. It is understood that the downturn in current real estate prices may have many implications that must be considered when making the decision how long to hold an REO, including the aggressiveness of marking. The procedures should ensure the credit union can safely manage all implications associated with REO on the statement of financial condition.

c. *Selling REO*. If it is determined to market the REO, it will be the responsibility of the CEO, along with the CLO and CFO, to establish procedures for the marketing and selling of the REO. In establishing these procedures the following *factors* should be taken into consideration:

- (1) On-going maintenance and protection of the REO to prevent value deterioration.
- (2) Anticipation of typical expenses include, but are not limited to, maintenance, real estate taxes, insurance and inspection fees.
- (3) Establishing an aggressive marketing plan to efficiently sell the REO.
- (4) An assessment of the project loss or gain if the REO is successful sold.
- (5) Length of time before credit union considers the renting/leasing of the property if unable to sell the REO. Included in this procedure is the documentation of whether or not the credit union is within the requirements of the Federal and State regulations in holding REO.
- (6) Ensure the accounting of the REO is consistent with GAAP and that all necessary reporting, such as Call Reports, is being done properly.

