

OTHER REAL ESTATE LOAN POLICY

(OREOs 7/30/2009)

I. PURPOSE: The Board of Directors recognizes that from time to time the credit union may have to foreclose on a real estate loan (1st and/or 2nd Deed of Trust). In light of this, the following policy, which is consistent with the Department of Financial Institution's regulations concerning OREOs, is being established to ensure:

- An appropriate Risk Assessment for foreclosing and holding of an OREO is properly performed.
- Levels of risks are established in relationship to holding an OREO.
- Proper accounting for the OREO is done.
- A strategy for either the liquidation or holding of the OREO is done.

II. RESPONSIBILITY: The Chief Lending Officer (CLO) is responsible to establish procedures to fulfill this ORE policy. Such procedures should include:

- Pre-Foreclosure Prevention.
- Foreclosure Procedures.
- Monitoring and maintenance of properties in foreclosure and held OREOs.
- Evaluation process to assess risk to the credit union prior to and after foreclosure.
- Marketing and disposition of all OREOs.
- Accounting procedures for OREOs.

III. WORKING WITH REAL ESTATE LOAN BORROWERS: The CLO is responsible to establish procedures that are consistent with State and Federal Regulations to constructively work with members who may be unable to meet their contractual payment obligations for their real estate loan(s). Prudent workout arrangements, in the long term, can be in the best interest of both the credit union and the members. However, when foreclosure is unavoidable, it will be the responsibility of the CLO to establish procedures that take into consideration all the risks associated with the foreclosure, holding of an OREO and the liquidation of the OREO.

IV. FORECLOSURE OF REAL ESTATE LOANS: It is the responsibility of the CLO to establish procedures for:

- Initial evaluation of the projected financial impact to the credit union involved in completing a foreclosure. The initial evaluation must include a reasonable market evaluation of the property, maintenance costs, holding costs and selling costs with supporting documentation.
- It is understood and recognized by the Board of Directors that due to adverse market conditions a real estate loan that is in a junior lien position (ie, closed end 2nd or Home Equity Loan) has a higher loss potential than a real estate loan that is in a first lien position. It is further understood that due to adverse market conditions that in considering a foreclosure of a junior lien it might be necessary to make the decision not to foreclose on the junior lien and write-off the entire loan. In such cases,

however, the CLO will be responsible to seek other collection means in relationship to the unforeclosed note.

- It is the responsibility of the CLO to monitor the foreclosure process and to update the Board concerning the status of the foreclosures.

V. OTHER REAL ESTATE OWNED (OREO): It is the responsibility of the CLO to establish procedures on foreclosed properties that have become Other Real Estate Owned by the credit union. These procedures should include at least the following:

- Inspecting and Securing each property.
- Establishing the Fair Market Value of each property.
- Evaluation process to determine if the credit union will or will not have a projected loss in the sale of the property.
- On-going maintenance of each property.
- Developing a definitive marketing program for each property with the purpose of selling each property within 12 months of acquisition of each property. It is understood that due to certain market and economic conditions a property might not be able to be sold within the proposed 12 month period. In such cases, procedures are to be established to ensure the continuation of a definitive marketing program and re-evaluation of the market value of such a property.
- Accounting of expenses involved with maintaining and selling the property.
- Ensure that real estate taxes and hazard insurance is maintained for each property.

VI. EVALUATION OF POTENTIAL GAIN OR LOSS AND REPORTING OF OREOs TO THE BOARD: The CLO will be responsible to report to Senior Management and the Board of Directors on a regular basis the status of all OREOs and pending OREOs. This report is to include at least the following:

- Potential loss of pending and actual OREOs.
- Status of all OREO properties.