LENDING POLICY

POLICY NUMBER: 01-011 POLICY TYPE: EXECUTIVE LIMITATIONS

With respect to the management of the loan portfolios and lending activities, the Chief Executive Officer shall ensure that all conditions, procedures, and decisions are ethical, appropriate, fair, and do not unduly risk loan capital.

Except as limited below, the Chief Executive Officer is free to choose any appropriate organizational means for achieving and maintaining compliance with this policy.

The Chief Executive Officer shall not:

1. Engage in lending activities that do not further the organizational goals of addressing the needs of low-income and disadvantaged people or that fail to fill financing gaps that are outside the traditional banking system.

   Interpretation: All CU lending activities are focused on serving low-income and disadvantaged families and communities through our consumer, small business and infrastructure financing.

   Response: **COMPLIANCE**.

   Discussion: All of our lending activity has worked to further the organizational goals of addressing the needs of low-income and disadvantaged people and/or has filled gaps that are outside the traditional banking system. In FY23, 27% of small business loans made and 35% of loans made to water and wastewater systems were in persistent poverty counties.

   Through September 2023, CU has closed 244 small business loans with 78% of those to Black owned businesses, 10% to Hispanic owned businesses and 82% to women owned business.

2. Allow the loan portfolio to substantially deviate from typical performance measurements of similar lending organizations or fail to consider "best practices" for Community Development Financial Institutions (CDFIs).

   Interpretation: CU works to set a high standard for ethical and responsible lending while achieving its mission, consistent with the best practices in the community lending industry. As a result, our goal is to provide access to fair and appropriate loan products for families, businesses and communities in rural and under-resourced communities and neighborhoods.

   Response: **COMPLIANCE**.

   Discussion: CU is an active member of Opportunity Finance Network (OFN), a network of CDFIs and partners. Through OFN CU has access to industry information including the "Opportunity Financing Institutions Side by Side" report, which provides measure for comparison. OFN has also been a resource for researching best practices including those around loan risk ratings, loan policies, collection policies and more.

3. Allow the equity-to-total capital percentage to fall below 20%.

   Interpretation: An equity-to-total capital ratio is a standard measure used in the lending industry to insure that the lender has adequate financial reserves to minimize the risk of loss to other providers of loan capital that are investing in the company. This policy establishes a specific minimum capital requirement for CU. In essence, this also limits the amount of debt capital that CU is authorized to incur.

   Response: **COMPLIANCE**.

   Discussion: The Net Asset Ratio at September 30, 2023 was 56% with nearly $14 million available for loans.

4. Create an unfavorable imbalance between loan terms offered by CU and average terms of borrowed capital.

   Interpretation: This policy is designed to minimize CU's risk as it relates to rates and maturities on the money it lends compared to the money it borrows.

   Response: **COMPLIANCE**

   Discussion: CU's cost of funds is currently at about 1.2%. As CU has worked to increase its capital, loan rates have ranged from .75 to 3%.

   CU tracks loan funds by the source of funds to ensure that that loans provided to borrowers 1) comply with all funder requirements, 2) provide a return in excess of the rate paid by CU and 3) carry terms that will allow CU to use revolved funds to repay borrowed funds.

   CU has some exposure in our mortgage portfolio. This is due to the fact that some mortgages made by CRG were originally written with a 20 to 30-year term, while the source of funds used for this portfolio (PRI from the Ford Foundation) had a 15-year maturity. CU made the final payment on the Ford Foundation PRI in September 2020 but still has a portfolio of loans for a total of $612,833.87 and some maturities at 2037. The servicing of this portfolio is soon to be managed by a CDFI partner in the Valley whose primary business is mortgage lending to the Hispanic community. Efforts will be made to provide mortgage relief for those who qualify for a TX covid mortgage forgiveness fund, and others will begin the legal process for collection.

5. Fail to provide a mechanism for an appropriate loan review and approval process that manages the credit risk associated with new loan commitments.

   Interpretation: The organization will perform reasonable due diligence to insure that borrowers successfully repay their loans. CU will perform standard underwriting to qualify credit-worthy borrowers consistent with best practices of the CDFI industry.

   Response: **COMPLIANCE**

   Discussion: All loans are underwritten and presented to the appropriate loan committee. These committees include both CU employees and external individuals who have lending expertise.

6. Fail to respond quickly and decisively to problems that arise in the portfolio, taking legal steps to protect the organization's assets, if warranted.

   Interpretation: When a problem arises in the portfolio, we take immediate action up to and including legal steps to insure that our collateral (if any) is protected and that we seek a timely resolution to the problem. Our goal is to avoid surprises.

   Response: **COMPLIANCE**

   Discussion: CU's Lending team meets regularly to review collection items and is using the Collector Module in NLS to track progress on each loan. CU works with an attorney in Pine Bluff who has assisted with loans in Arkansas and has connected CU to attorneys in other states as needed.

7. Fail to aggressively pursue loan receivables after a reasonable grace period and to provide adequate reserves for loan losses.

   Interpretation: We will make every attempt to collect loan payments that are due to CU. We take a proactive approach to identify loan problems early and work with the borrowers to help them get loan payments back on schedule.

   Response: **COMPLIANCE**

   Discussion: CU aggressively pursues delinquent loans. In addition to the steps described above, clients are contacted immediately when there is a problem and technical assistance provider is engaged. If the borrower fails to engage in technical assistance, the loan will be turned over to a collection agency or an attorney.

   CU has implemented a monitoring process to help identify and resolve problems early and avoid collections problems and losses. The monitoring process for loan clients is shared by both Loan Program assistants, lenders and the Entrepreneur Team.

8. Fail to process and post loan payments on a timely basis or disburse funds under controls that are insufficient to meet the board-appointed auditor's standards.

   Interpretation: Loan payments are processed within 24 hours of receipt and posted the next morning. Controls meet auditor standards.

   Response: **COMPLIANCE**

   Discussion: Timely internal payment processing standards are in place. Disbursement controls meet auditor standards. All loan payments are processed in Fayetteville.

9. Operate without adequate conflict of interest policies and assurance of staff compliance with them.

   Interpretation: Conflicts of interest or the appearance thereof, can be very serious in this business. Consequently, we take extra steps to insure that we understand both real and perceived conflicts.

   Response: **COMPLIANCE**

   Discussion: Our Conflict of Interest Policy requires each staff member to sign an annual Conflict of Interest Disclosure Statement. Conflict of Interest compliance is monitored by the Human Resources department.

10. Fail to build loan capital and increase the financial self-sufficiency of the lending function so it contributes to the organization's overall financial health.

    ***Interpretation**:* Adequate loan capital is essential to meeting our mission. Our goal is to serve more customers while also being profitable with our lending activities.

    ***Response**:* **COMPLIANCE**

    ***Discussion**:* Growth of loan fund capital is a very high priority of CU staff. Currently, CU has approximately $13 Million in capital available to lend with most of those funds allocated to water and wastewater loans. In 2023 CU has received loans for relending to small businesses from the Amarillo Area Foundation, Opportunity Finance Network, Wells Fargo, Walton Family Foundation, AR Community Foundation, Truist Foundation, Winthrop Rockefeller Foundation and the Sisters of Charity. We have received approval for additional SBA microloan funds. New funders are WoodNext Foundation, TLL Temple and Robert Wood Johnson. USDA RD has significantly increased funding for Environmental Lending in 2024. CDFI grant funding is in place for FY24 for over $2MM.

11. Fail to enhance loan products by providing appropriate technical assistance, as appropriate, that will help build the capacity of borrowers and result in better loan outcomes.

    ***Interpretation**:* Since many of our customers have had limited experience with credit, we work to provide them with financial education along with the loan.

    ***Response**:* **COMPLIANCE**

    ***Discussion**:* Consistent with available resources, we offer technical assistance to enhance the management and financial capacity of our borrowers whether small businesses or water systems. The technical assistance services often begin before the loan is closed.

12. Fail to develop and implement comprehensive portfolio management policies to manage portfolio risk and meet financing goals.

    ***Interpretation**:* In order to be fair and consistent while minimizing our risk, we will have written policies that govern our lending programs.

    ***Response**:* **COMPLIANCE**

    ***Discussion**:* CU has a Loan Policy that has been updated and revised including new risk rating policies for both small business and water wastewater loans. Loan Loss Reserves are at 8.5% currently. Delinquency ratios are under 4%.