



Banner Federal Credit Union

Ethical Guidelines

CUNA MEMBER CREDIT UNION MORTGAGE LENDING STANDARDS AND ETHICAL GUIDELINES

NOTE: FOLLOWING ARE THE MORTGAGE LENDING STANDARDS AND ETHICAL GUIDELINES AS ADOPTED BY THE CUNA BOARD OF DIRECTORS. THESE STANDARDS AND GUIDELINES WERE DEVELOPED BY THE CUNA FEDERAL CREDIT UNION SUBCOMMITTEE IN CONJUNCTION WITH THE CUNA GOVERNMENTAL AFFAIRS COMMITTEE. THESE STANDARDS AND GUIDELINES ARE INTENDED TO BE CONSIDERED AND ADOPTED BY CREDIT UNIONS ON A VOLUNTARY BASIS. THE CUNA BOARD OF DIRECTORS OPPOSES A REGULATION FOR CREDIT UNIONS IN THIS AREA BECAUSE SUCH REGULATION IS UNNECESSARY.

ISSUE: HOMEOWNERS ACROSS THE COUNTRY, SEEKING TO BORROW AGAINST THE EQUITY IN THEIR PROPERTY, MAY BE FORCED TO PAY EXCESSIVE RATES AND FEES, BE SUBJECTED TO OTHER ABUSIVE BORROWING ACTIVITY, OR BE AT RISK OF ACTUALLY LOSING THEIR HOMES, IF THEY FALL PREY TO UNSCRUPULOUS LENDING PRACTICES KNOWN AS PREDATORY LENDING. SUCH BORROWERS ARE OFTEN ELDERLY OR OTHER INDIVIDUALS FACING SIGNIFICANT FINANCIAL DEMANDS WHO ARE ANXIOUS TO HAVE ACCESS TO CREDIT AND THUS, VULNERABLE TO UNCONSCIONABLE DEMANDS AND REQUIREMENTS OF THE PREDATORY LENDERS.

Credit Unions; Concerns/Interests

CREDIT UNIONS HAVE A PROUD HISTORY OF SERVICE TO THEIR MEMBERS AND PROVIDE PRODUCTS THAT MEET MEMBERS' NEEDS AND ARE IN MEMBERS' BEST FINANCIAL INTERESTS. AS MEMBER-OWNED, DEMOCRATICALLY CONTROLLED FINANCIAL COOPERATIVES, CREDIT UNIONS WANT TO HELP PROTECT CONSUMERS FROM ABUSES OF PREDATORY LENDING IN THE FINANCIAL MARKETPLACE, EVEN THOUGH CREDIT UNIONS THEMSELVES OFFER PRODUCTS THAT ARE FAIRLY PRICED, WITH REASONABLE TERMS AND CONDITIONS. UNDER THE FEDERAL CREDIT UNION ACT AND/OR REGULATIONS FROM THE NATIONAL CREDIT UNION ADMINISTRATION, MORE STRINGENT RULES APPLY TO CREDIT UNION MORTGAGE LENDING THAN APPLY TO COMMERCIAL BANK HOME LOAN PRODUCTS. FOR EXAMPLE, FEDERAL CREDIT UNIONS ARE SUBJECT TO A 15 USURY RATE CEILING, WHICH MAY BE ADJUSTED UP TO 21 AND NOW STANDS AT 18. ALSO, FEDERAL CREDIT UNIONS MAY NOT CHARGE PREPAYMENT PENALTIES. A CHART SHOWING THE DIFFERENCES BETWEEN CREDIT UNION AND BANK HOME MORTGAGE LENDING RULES IS ATTACHED. STATE PROVISIONS VARY, BUT MANY STATE CHARTERED CREDIT UNIONS OPERATE UNDER SIMILAR LIMITATIONS.

THE CREDIT UNION NATIONAL ASSOCIATION, THE LARGEST TRADE ASSOCIATION REPRESENTING CREDIT UNIONS, CONDEMNS THE PRACTICE OF PREDATORY LENDING. CUNA'S BOARD OF DIRECTORS CALLS ON EVERY CUNA MEMBER CREDIT UNION TO ADOPT HOME EQUITY LENDING STANDARDS AND ETHICAL GUIDELINES THAT WILL HELP EMPHASIZE CREDIT UNIONS' CONCERN FOR CONSUMERS AND FURTHER DISTINGUISH CREDIT UNIONS AS INSTITUTIONS THAT CARE MORE ABOUT PEOPLE THAN



Banner Federal Credit Union

MONEY. CUNA WILL WORK WITH KEY POLICYMAKERS, INCLUDING STATE AND FEDERAL CREDIT UNION REGULATORS, TO ENSURE THEY SUPPORT AN APPROACH THAT IS DESIGNED TO INCREASE AWARENESS OF THE PREDATORY LENDING PROBLEM AND HIGHLIGHT CREDIT UNIONS' ROLE AS NOT-FOR-PROFIT, CONSUMER-OWNED FINANCIAL INSTITUTIONS.

Guidelines and Ethical Standards

THE FOLLOWING GUIDELINES ARE DESIGNED TO APPLY TO NON-PURCHASE MONEY CLOSED-END HOME EQUITY LOANS. CREDIT UNIONS ABHOR PREDATORY LENDING AND SEEK TO PROTECT CONSUMERS FROM SUCH ABOMINABLE PRACTICES. PREDATORY LENDING INCLUDES HOME EQUITY-STRIPPING LOAN PRODUCTS WITH ONE OR MORE OF THE FOLLOWING CHARACTERISTICS:

- INTEREST RATES THAT ARE SIGNIFICANTLY ABOVE MARKET RATES AND WHICH ARE NOT JUSTIFIED BY THE DEGREE OF RISK INVOLVED IN PROVIDING THE CREDIT;
- EXCESSIVE BALLOON PAYMENTS THAT REQUIRE REFINANCING AT A RATE THAT IS MORE THAN THE RATE ON THE EXISTING NOTE;
- LENDING WITHOUT REGARD TO WHETHER THE BORROWER HAS THE ABILITY TO REPAY;
- REQUIREMENTS FOR FREQUENT REFINANCING OF THE LOAN RESULTING IN ADDITIONAL COSTS TO THE BORROWER AND SIGNIFICANT EROSION OF THE BORROWER'S EQUITY;
- PREPAYMENT PENALTIES, IN EXCESS OF ACTUAL COSTS INCURRED AND UNPAID;
- EXORBITANT FEES AND INSURANCE PREMIUMS THAT THE BORROWER MAY BE REQUIRED TO FINANCE, FURTHER JEOPARDIZING EQUITY;
- MISLEADING OR FALSE ADVERTISING.

PREDATORY LENDING DOES NOT ENCOMPASS LEGITIMATE PRODUCTS SUCH AS REVERSE MORTGAGES OR RISK-BASED LENDING RECOGNIZED BY FAIR LENDING AND FAIR CREDIT STATUTES THAT ALLOW FINANCIAL INSTITUTIONS TO PRICE LOAN PRODUCTS BY TAKING INTO CONSIDERATION THE RISK TO THE INSTITUTION IN MAKING A LOAN. RECOGNIZING THAT PREDATORY LENDING IS FULLY INCONSISTENT WITH THE PHILOSOPHY AND PRINCIPLES UNIQUE TO THE CREDIT UNION SYSTEM, CREDIT UNIONS ADOPTING THESE HOME EQUITY LENDING GUIDELINES AND ETHICAL STANDARDS AGREE TO:

Emphasize Member Education

- PROVIDE A COPY OF THESE STANDARDS TO MEMBER/BORROWERS, AS APPLICABLE;
- EDUCATE MEMBERS REGARDING THE DANGERS AND ABUSES OF PREDATORY LENDING BY OFFERING COUNSELING AND OTHER USEFUL INFORMATION ABOUT THE LENDING PROCESS;
- INFORM MEMBERS ABOUT THE DIFFERENCES AND ADVANTAGES ASSOCIATED WITH CREDIT UNION LENDING PRODUCTS, SUCH AS APPLICABLE USURY CEILINGS, LACK OF PREPAYMENT PENALTIES;
- INFORM BORROWERS ABOUT ALL APPLICABLE LENDING PRODUCTS THE CREDIT UNION OFFERS;
- ASSIST BORROWERS IN UNDERSTANDING APPLICABLE LOAN DISCLOSURES, RATES, FEES AND TERMS, INCLUDING ANY RIGHTS OF RESCISSION; MEET MEMBERS' BORROWING NEEDS
- ENSURE HOME EQUITY LOAN PRODUCTS MEET THE CONSUMER'S BORROWING NEEDS AND ABILITY TO REPAY, CONSISTENT WITH CREDIT UNION LOAN POLICIES AND LEGAL REQUIREMENTS;



Banner Federal Credit Union

Prohibit and Refrain From Abusive Practice

- EXCLUDE TERMS AND CONDITIONS THAT ARE NOT JUSTIFIED BY THE DOCUMENTED RISK TO THE CREDIT UNION OF EXTENDING THE LOAN;
- EXCLUDE INTEREST RATES THAT ARE HIGHER THAN MARKET INDICES, EXCEPT AS PROPORTIONATE TO COMPARABLE TREASURY SECURITIES BASED ON THE BORROWER'S CREDIT HISTORY, INCOME AND OTHER INDICATORS OF ABILITY TO REPAY THE LOAN;
- PROHIBIT REFINANCING OF BALLOON PAYMENTS AT A HIGHER RATE THAN ON THE ORIGINAL NOTE WHEN NOT JUSTIFIED BY MARKET CONDITIONS OR THE RISK OF MAKING THE LOAN;
- EXCLUDE FEES AND INSURANCE PREMIUMS FROM THE AMOUNT TO BE FINANCED; (DOES NOT INCLUDE EXTENDED WARRANTY PROGRAM)
- PROHIBIT CHARGING FOR OR FINANCING INSURANCE PRODUCTS OR UNRELATED GOODS OR SERVICES WITHOUT THE CONSENT OF THE BORROWER;
- ENSURE LENDING STAFF ARE WELL TRAINED TO AVOID POTENTIALLY MISLEADING STATEMENTS IN CONNECTION WITH A LOAN TRANSACTION;
- PROHIBIT LOAN "FLIPPING", WHICH IS PROVIDING A LOAN TO A BORROWER TO REFINANCE AN EXISTING HOME LOAN WHEN THE NEW LOAN DOES NOT HAVE A NET BENEFIT TO THE BORROWER, TAKING INTO CONSIDERATION THE TERMS OF BOTH LOANS AND THE BORROWER'S CIRCUMSTANCES;
- EXCLUDE MANDATORY ARBITRATION CLAUSES THAT LIMIT THE RIGHTS OF BORROWERS TO SEEK REDRESS IN COURT SHOULD PROBLEMS ARISE. SUPPORT EFFORTS IN THE MARKETPLACE TO PROHIBIT PREDATORY LENDING FOLLOW FNMA AND FHLMC ANTI-PREDATORY LENDING GUIDELINES, WHICH INCLUDE KEY PROVISIONS SUCH AS:
 - LOANS PURCHASED MAY NOT HAVE POINTS OR FEES THAT GENERALLY EXCEED 5, EXCLUDING DISCOUNT POINTS;
 - PREPAID SINGLE-PREMIUM CREDIT LIFE INSURANCE MAY NOT BE SOLD IN CONNECTION WITH LOANS PURCHASED;
 - LENDERS WHICH SELL TO FNMA OR FHLMC MUST REPORT ON LOANS THEY ARE SERVICING EACH MONTH;
 - WAIVERS SHOULD NOT BE ALLOWED FROM THE REQUIREMENT THAT SERVICERS MAINTAIN ESCROW ACCOUNTS FOR THE PAYMENT OF TAXES, INSURANCE PREMIUMS, ETC. FOR BORROWERS WITH "BLEMISHED" CREDIT RECORDS.