The Board of Directors should adopt and implement a Loan Policy and ensure that the officers of the bank consistently follow it. The policy thereafter should be reviewed on an annual basis and at a minimum, include the following:

A. The geographical trade area from which bank loans should be generated and prohibition of loans outside of this area;

B. The types of loans deemed desirable;

C. Guidelines governing the required repayment period pursuant with the type of loan and nature of collateral;

D. Collateral margins required pursuant with the type of collateral pledged;

E. Guidelines under which unsecured loans will be granted;

F. Minimum documentation requirements pertaining to all loan types;

G. Appropriate limitations on the extensions of credit through overdrafts;

H. Guidelines for handling insider and insider-related loans;

I. Guidelines concerning the total direct and indirect obligations of a single borrower and his or her related interests;

J. Guidelines governing the purchase of loan participations, including documentation required for each loan;

K. Procedures governing the issuance, recordation, and documentation of letters of credit;

L. Responsibility of a discount committee or the Board of Directors in reviewing and approving all loans;

M. Guidelines governing additional advances to loan accounts identified and made a part of the monitoring system. Advances to debtors classified by regulatory examination as either Substandard, Doubtful, or Loss shall require prior approval of the Board or a committee with Board representation and can only be granted subsequent to Board or committee determination and documentation that such an advance is in the bank's best interest;

N. A general prohibition of the capitalization of interest. Exceptions may be established provided the debtor maintains the ability to repay. At a minimum, the reason for capitalization and the ultimate source and timing of repayment shall be identified and assessed by the Board or a committee with Board representation. The Board or committee shall determine whether the debtor's capacity to repay is deemed reasonable;
O. Procedures for the maintenance of an adequately funded Loan Loss Reserve. A specific review of the loan accounts identified within the monitoring system will be conducted at least quarterly to identify and record the potential loss exposure. A basis for potential reserves against loans deemed of satisfactory quality shall be identified;

P. Procedures establishing a formal system to identify, record, and monitor loan accounts displaying weaknesses and deficiencies that jeopardize the orderly repayment of the loan. (Loans listed for Special Mention or otherwise classified shall be included in the monitoring system). This will include an assessment of the account deficiencies and the formulation of corrective strategy. The deficiencies and corrective strategy will be summarized and made a part of the formal monitoring system. Deficiencies would generally represent conditions that violate Loan Policy guidelines or other factors that significantly affect the level of credit risk represented. This information will be made available to the Board and reviewed at regular meetings;

Q. Appropriate and adequate collection procedures including, but not limited to, the actions to be taken against borrowers who fail to make timely payments;

R. Guidelines governing the placement of loans on a nonaccrual status. Delinquent loans shall follow Call Report instructions;

S. Individual officer lending limitations;

T. Guidelines for rates of interest;

U. Guidelines establishing limitations on the maximum volume of loans in relation to total assets;

V. With regard to state and Federal laws and regulations, guidelines assuring that loans are made in accordance with applicable laws and regulations; and,

W. A provision for the annual review, revision, and approval of the policy.