

WAC 208-490-040 Is there a list of subjects that credit unions must consider for inclusion in their policies and procedures? Yes, the guidance requires all financial institutions, including credit unions, to focus on the following subjects and apply the relevant ones to their existing policies and procedures:

- Help borrowers understand ARM risks, including:
 - Low initial payment;
 - High or unlimited reset rate caps;
 - Low or no documentation loans;
 - Problems of frequent refinancing;
 - Risk layering;
 - Simultaneous second lien loans;
 - Prepayment penalties;
 - NCUA prohibited practices.
- Understand portfolio and risk management practices, including:
 - Relationship between subprime lending and predatory lending;
 - Risks of loans based on foreclosed or liquidation value;
 - Problem of loan "flipping";
 - Fraud detection;
 - Use of qualifying standards;
 - Maintenance of appropriate capital levels;
 - Use of appropriate allowance for loan and lease loss levels;
 - Risks of stated income loans.
- Underwriting standards.
- Workout arrangements.
- Consumer protection principles, including:
 - Use of a summary disclosure form;
 - Avoidance of steering borrowers to inappropriate products;
 - Explanation of payment shock risk;
 - Explanation of prepayment penalty;
 - Explanation of balloon payment;
 - Explanation of costs of low documentation or stated income loans;
 - Compliance with the Truth in Lending Act and other federal requirements;
 - Importance of good consumer communications in promotional materials and product descriptions;
 - Explanation of borrower responsibility for taxes and insurance.
- Development and maintenance of strong internal controls, including:
 - Management of deals with third-party originators;
 - Management of secondary market risk;
 - Effective management information and reporting;
 - Use of stress testing and performance measures;
 - Actual practices consistent with policies.

There may also be other subjects contained in the guidance that may be relevant to some credit unions.

[Statutory Authority: RCW 43.320.040, 19.144.040 (2008 c 108). WSR 08-22-072, § 208-490-040, filed 11/4/08, effective 12/5/08.]