ENCLOSURE A

Guidance on On-going Quality Control Procedures

As part of their on-going quality control program, management may want to consider developing a “watch list” for reviewing and tracking loans that meet certain criteria such as the following:

• Loans having weaknesses that jeopardize full collection of the debt, including the distinct possibility the credit union will sustain some loss if it does not correct the deficiencies;

• Loans where, even if collected, the credit union would incur collection costs, which could be substantial;

• Loans, both open-end and closed-end, past due 90 days from the contractual due date;

• Loans where it appears the credit union will not collect a substantial portion, even though the borrower makes partial or irregular payments;

• Loans with inadequate documentation;

• Loans that are current but represent potential losses to the credit union due to questionable security;

• Loans that are current according to their terms, but represent potential losses because of the payment terms or past practices. This category might include single payment loans and "balloon" loans that the credit union has repeatedly refinanced or extended;

• Workout loans in which the credit union permanently amended the original terms of the note to lower payments or reduce interest rates. Workout loans generally allow the borrower to continue a reasonable payment stream thus avoiding default; and

• Any other loan as warranted.