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2012

# Four Directions Development Corporation Loan Policies



*Abridged Version*

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## **MISSION & PURPOSE OF FINANCING**

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### **About This Document**

The policies and procedures outlined here are a framework within which Four Directions Development Corporation (FDDC), a non-profit community development corporation (CDC) and US Treasury-certified community development financial institution (CDFI) will operate its Housing and Business Loan programs.

These policies and procedures provide guidelines for use by Staff and other FDDC participants, ensuring that FDDC Staff and Committees make fair and consistent loan decisions while managing lending risks.

We recognize risk cannot be eliminated; we seek to manage it by identifying major indicators. As a certified CDFI, our mission is to be a source of flexible capital. To that end, we make concerted efforts to find creative solutions to meet the Applicant's needs.

This is a living document. We expect that, with recommendation from FDDC Staff, Loan and Finance Committees, and approval from FDDC Board of Directors, this document will reflect design and implementation review from time to time.

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### **Mission**

FDDC's mission is to improve the social and economic conditions of the four Native American tribes in Maine -- the Maliseet, Micmac, Passamaquoddy, and Penobscot -- through education and investment in affordable housing, tribal business ventures, and Native entrepreneurship.

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### **Investment Area**

FDDC's investment area is the state of Maine

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### **Customer Base**

FDDC's customer base is the following U.S. residents:

- Enrolled members and tribal governments of the four Native American Tribes in Maine:
    - The Passamaquoddy
    - The Penobscot Indian Nation
    - The Houlton Band of Maliseets
    - The Aroostook Band of Micmacs
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**MISSION & PURPOSE OF FINANCING, continued**

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**Customer Base**  
(continued)

- Any enrolled Native American from a federally recognized tribe living in Maine who otherwise meets all specified criteria of the funding agency.
  - Non-member spouses, children, and direct descendants of above.
  - Businesses in Maine that can be proven to provide sustained direct economic, cultural, and/or social benefit to the four Native American tribes in Maine who otherwise meet all specified criteria of the funding agency.
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## **LOAN STAFF & LOAN COMMITTEES**

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### **Loan Staff**

FDDC Loan Staff is responsible for implementing the lending components of the mission as outlined in FDDC's statement of purpose, articles of incorporation, bylaws, and this policy at the direction of the Board of Directors.

Responsibilities include:

- analyzing and recommending loans to the Loan Committee (LC),
- executing loans,
- monitoring portfolio risk,
- collecting overdue repayments, and
- managing defaults and foreclosures

The Loan Staff reports to the Executive Director who reports to the Board of Directors:

- Accountant
  - Chief Financial Officer
  - Business Program Manager
  - Housing Program Manager
  - Legal Counsel
  - Loan Originator
  - Loan Servicer
  - Portfolio Manager
- 

### **Loan Committees**

The Business and Housing Loan Committees are standing committees of FDDC Board of Directors, meeting regularly to provide oversight to the Loan Staff and carrying out responsibilities as outlined in these policies and procedures.

The Board of Directors nominates and approves committee members.

In addition to the Executive Director, at least one member of the LCs must be an active member of the Board of Directors.

Actions of the LCs are reported at the Board's regular meetings.

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**LOAN STAFF & LOAN COMMITTEES, continued**

**Loan Committee Membership & Structure**

LCs are comprised of no fewer than three (3) Members and no more than nine (9) Members.

Members may be FDDC Staff, Board of Directors or elected officials.

Members are professionals who have a diverse skill set and knowledge base that actively contribute to loan approval, fund management, and portfolio management decisions, and who:

- Have experience in housing and business lending to low-income communities in the Investment Area,
- Are community member(s), business owner(s), or community leaders,
- Have legal, accounting, industry, or other requisite expertise, such as community development loan portfolio operation and/or management experience.

**Removal from Loan Committee Service**

Removal of a Member from the LC requires simple majority of the LC and ratification by the Board of Directors.

Reasons for removal include, but are not limited to:

- Activity that may appear to be unethical and/or not in the best interest of the organization,
- Breach of FDDC and/or client confidentiality,
- Absence without excuse for three (3) consecutive meetings, or
- Absence from 50% or more of the LC meetings during any calendar year.

**Regulations**

- LC meetings will occur at least eight (8) times per calendar year.
- LC Member terms are unlimited.
- The LCs elect their Chair and a Vice-chair, annually, by majority vote
- The Vice-chair officiates over meetings when the Chair is not able to perform his/her duties
- FDDC Staff records minutes of each meeting
- Minutes will be kept in a corporate record book at FDDC's office and are available for public inspection

## **LOAN STAFF & LOAN COMMITTEES, continued**

### **Voting**

- A quorum is a majority of Members
- A quorum is required for decision-making
- LCs loan and portfolio decisions are determined by simple majority.
- Voting for loans may take place in person, or via teleconferencing (Skype / Go-To-Meeting or other web enabled technology / conference call), with the LC Chair signature on the Loan Approval document faxed or delivered to FDDC's office.
- Staff, Board, and LC Members do not vote on loan applications about which they have a conflict of interest or have not reviewed.
- Staff, Board, and LC Members who present the loan package or who have packaged the deal do not vote on that loan application.

### **Responsibilities**

- Critically assess and analyze loan packages
- Approve or deny loans
- Analyze and approve loan rating assignments.
- Review portfolio risk
- On a quarterly basis, and in consultation with Finance Committee (FC), review loan loss reserve sufficiency
- Sitting Board Member(s) reports result of LC meetings to Board by providing written LC meeting summary
- Implement other special projects assigned by Board of Directors.

### **Confidentiality of Borrower Information**

FDDC must protect the confidentiality and privacy of Borrowers.

All members of the Staff, Board of Directors, LCs, and FDDC Consultants are required to complete training about FDDC's duty of confidentiality.

FDDC Staff, Board of Directors, LCs, and Consultants are required to sign FDDC's confidentiality agreement annually.

FDDC Staff, Board of Directors, LCs, and Consultants are prohibited from accessing, viewing, or copying Borrower information except in the performance of their regular duties or functions.

At no time shall Borrower information be disclosed or released to unauthorized individuals or third parties unless required by law.

The confidentiality standard of FDDC does not prohibit the practice of reporting to or requesting information from credit bureaus.

Management is authorized to provide credit references or other information to third parties if requested by the Borrower in writing.



**LOAN STAFF & LOAN COMMITTEES, continued**

**Conflict of Interest**

LC Members do not vote on loan matters when a conflict of interest exists.

FDDC Staff, Board of Directors, LCs, and Consultants have a duty to disclose the existence of a conflict of interest in connection with a loan prior to discussion of the loan in question.

A conflict of interest shall exist between FDDC Staff, Board of Directors, LCs, and/or Consultants and a Borrower/Applicant when the Borrower is:

- A business partner,
- An employee or colleague with direct supervision relationship to the Applicant, or
- A significant other or relative within the third degree of kinship, as defined below:
  - 1<sup>st</sup> degree: parent, child, spouse, or domestic partner;
  - 2<sup>nd</sup> degree: sister, brother, grandparent, grandchild;
  - 3<sup>rd</sup> degree: aunt, uncle, first cousin, niece, nephew, great-grandparent, great-grandchild;
  - 4<sup>th</sup> degree: great aunt, great uncle, grandniece, grandnephew, great-great-grandparent, great-great-grandchild.

**Loan Decision Authority**

The Board of Directors reserves the authority to approve loan requests that are exceptions to this policy provided the LC recommends the action due to sufficient and appropriate compensating factors.

Decision Item	Approval Required
All loans with terms in compliance with this loan policy.	LC
Loans which deviate from the guidelines with respect to loan-to-value (LTV), credit requirements, and/or debt to income (DTI) only.	LC
Material modifications to loan terms subsequent to initial loan approval.	Executive Director, Portfolio Manager, and Housing / Business Program Manager(s)
Initiation of foreclosure or collection proceedings against a delinquent Borrower.	LC and Board of Directors

## **LOAN PORTFOLIO MANAGEMENT**

### **Portfolio Management Team**

The Portfolio Management Team is made up of:

- Business Program Manager
- Housing Program Manager
- Loan Originator
- Portfolio Manager

Portfolio Management Team meets biweekly to review loan condition and, with Executive Director approval, create and implement remedial action plans.

The Portfolio Manager is responsible for tracking and reporting the performance of the portfolio to the Executive Director, the LC, and the Board of Directors.

### **Loan Loss Reserve**

For each loan in the portfolio, FDDC will maintain an accounting reserve for loan losses in accordance with generally acceptable accounting standards and the Loan Rating System outlined in this policy for each of the loan programs.

The loan loss reserve on FDDC's balance sheet is a contra account to the Loans Outstanding asset that is equal to or greater than the aggregate of the loan loss reserve ("LLR") assigned to each loan in the portfolio. Any increase to the contra-asset account is accompanied with a Loan Loss Expense (or Provision for Loan Losses) entry on the income statement.

### **Portfolio Summary (Monthly Report)**

Upon request, the Portfolio Manager will produce a Loan Report for each of the Business and Housing portfolios showing, at minimum:

- Name of the Borrower
- Name of the business
- Location of the home or business
- Original amount of the loan
- Disbursement date
- Maturity date
- Interest rate
- Outstanding balance
- Any disbursements to be made in the future under the existing loan documents
- delinquency status
- Loan rating
- Loan loss reserve (in both percentage and dollar amount)

***LOAN PORTFOLIO MANAGEMENT, continued***

**Activity Report**  
*(Monthly Report)*

For each meeting of the LCs and Board of Directors, the Portfolio Manager will provide the monthly Activity Report showing:

- New loans
- Loans paid off
- Loans committed but not yet closed
- Foreclosed loans
- Loans written off
- Restructured loans
- Problem loans

**Impact Summary**  
*(Monthly Report)*

For each meeting of the LC and Board of Directors, the Portfolio Manager will present:

- A summary of the portfolio growth
- The outstanding balance and loan loss reserve by loan quality (A-F loans)
- YTD loan income and fees
- A balance sheet reconciliation and diversification by funder, by on/off reservation, by income level and by tribal affiliation

**Funding Sources**  
*(Monthly Report)*

Quarterly, at each meeting of the Board of Directors, the Executive Director presents a report outlining:

- The amount available for lending
- Including contributions to the investment fund(s) received since the last quarter
- Plans for capitalization to be obtained over the next twelve (12) months,
- Total loans outstanding
- Deployment ratio for in-house aggregate and pipeline (net loans outstanding / total loan capital)

**Assessment of Sufficiency of Loan Loss Reserve in Light of Portfolio Risk**

The Portfolio Manager is responsible for ensuring that Loan Loss Reserves are updated to reflect the current risk profile of each loan in the portfolio as a result of:

- Changes in the market prospects of the business
- The financial health of the Borrower
- Delinquency status
- Changes in personal or family conditions such as health, divorce, accidents, and/or death that could materially impact the Borrower's ability to meet payment obligations under the loan agreement

**LOAN PORTFOLIO MANAGEMENT, continued**

**Monitoring Frequency**

In accordance with the Monitoring Frequency schedule, the Portfolio Management Team will review the status of each Borrower and report any changes in the risk profile of the loan to the LC and the Board.

<b>Loan Risk Rating</b>	<b>Monitoring Frequency</b>
A: Strong	Annually, at Borrower’s fiscal year-end or on the anniversary of closing date.
B: Good	Semi-annually
C: Acceptable	Quarterly
D: Weak	Monthly or more frequently
F: Negative	Monthly or more frequently

On a monthly basis, the Portfolio Manager determines necessary changes to the Loan Loss Reserve to accommodate the delinquent payment status of the Borrower, or any changes in the risk profile of the portfolio that are identified by FDDC Staff’s periodic portfolio reviews.

The Portfolio Manager will recommend changes in the Loan Loss Reserve for approval by the FC and Executive Director.

**Loan Fund Equity**

FDDC maintains a net asset balance in the loan fund of at least 40 % of the sum of all borrowed funds plus net assets dedicated or restricted to lending.

**Un-Deployed Capital Investment Guidelines**

With the Executive Director’s oversight, the Chief Financial Officer, will deposit undisbursed loan funds in an FDIC-insured, interest-earning bank account(s) located within the Investment Area.

The Chief Financial Officer will seek the highest interest-bearing bank accounts he/she can find while preserving sufficient liquidity to meet funding requirements over the next twelve (12) months.

In accordance with FDDC’s Financial Policy, FDDC will promptly liquidate any contributions received in the form of investments (including stocks, bonds or other less marketable assets).



***LOAN PORTFOLIO MANAGEMENT, continued***

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**Liquidity Reserve** FDDC may implement a Liquidity Reserve in the future.  
The Liquidity Reserve strengthens its ability to make payments to FDDC when due by maintaining a cash liquidity reserve of a designated number of months of loan payments at all times.

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## **DEFAULT & COLLECTIONS**

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As part of its collection policy and practices, FDDC attempts to understand the causes of a Borrower's delinquency in order to work with the Borrower to address those causes, and to give the Borrower adequate opportunity to cure the short-term difficulties causing the delinquency before moving to a workout plan.

FDDC Staff and its agents maintain documentation of all communication regarding past due payments.

If attempts to cure the delinquency fail to result in a positive loan payment status and default is imminent, FDDC will initiate vigorous collections, within the limits of Maine consumer protection laws, including:

- Repossession of personal property,
- Foreclosure on real estate securing loans,
- Filing judgments against Borrowers or guarantors, and
- Payment of any government guarantees that secure individual loans (such as Section 184 or BIA loans).

Acknowledging that loan cancellation may carry tax consequences to the Borrower, FDDC must report such cancellations to appropriate entities.

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## **Restructuring**

FDDC does not use restructuring as a way of delaying legal action against a delinquent Borrower or as a means of improving its own financial statements but may restructure certain delinquent loans.

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## **Legal Action**

Initiation of legal action against a Borrower requires approval from the Board of Directors. FDDC pursues legal remedies available under the terms of the loan agreement and promissory note to cover the cost of the outstanding loan principal as well as the transaction costs of liquidation (i.e. legal, marketing, staff time).

Our legal actions maximize protection of its capital on behalf of FDDC.

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## HOUSING LOAN PROGRAM ELIGIBILITY REQUIREMENTS

Loan Product	Home Improvement	Home Equity	Residential Land Purchase	Home Purchase (1st Mortgage)	Home Construction & Renovation
<b>Applicants</b>	Members of the Customer Base, over 18 years of age, who own or are planning to purchase property used for their primary residence within the Investment Area.				
<b>Minimum Amount</b>	\$2,500.00			\$5,000.00	
<b>Maximum Amount</b>	\$20,000.00		\$50,000.00	\$150,000.00	
<b>Home</b>	<p>FDDC finances the purchase, construction and renovations of dwellings, including the land, which is located in the Investment Area and intended for occupation by members of the Customer Base as their primary residence, to include mobile and modular homes.</p> <p><b>Home Construction:</b> A minimum of two bids are required prior to contractor selection. Qualified owner-builders are allowed. FDDC requires that all home construction be done under a contract among a qualified construction contractor, FDDC, and the owner. FDDC will keep a signed copy of the contract in the Borrower's loan file.</p>				
<b>Use of Proceeds</b>	Cost of improvement to a home.	To offset: <ul style="list-style-type: none"> <li>• Housing</li> <li>• Medical</li> <li>• Educational</li> <li>• Business expenses</li> <li>• Repayment of predatory loans</li> </ul>	Purchase of land on which to build a home.	Purchase of existing or new-construction home.	Construction of new construction home prior to completion.
<b>No Prior Loan Losses</b>	Applicants with a history of uncured loan payment defaults are not eligible for a loan from FDDC.				
<b>Repossession, Foreclosure, Bankruptcy</b>	Applicants who have had a repossession, foreclosure, or bankruptcy in the previous three years are not eligible for a loan from FDDC.				
<b>FDDC Security</b>	First or second lien on the home including the land, wherever possible.		First lien on the home, including the land wherever possible.		
<b>Credit Requirement</b>	<p>FDDC will pull a tri-merge credit report (TransUnion, Experian, and Equifax).</p> <ul style="list-style-type: none"> <li>• The average score is used to determine eligibility</li> <li>• An average score of 600 is required.</li> </ul> <p>Unsecured Mutual Help Home Improvement Loans:</p> <ul style="list-style-type: none"> <li>• Credit score greater than or equal to 725 for loans up to \$10,000.00</li> <li>• Credit score greater than or equal to 650 for loans up to \$5,000.00.</li> </ul>				

## HOUSING LOAN PROGRAM TERMS & CONDITIONS

Loan Product	Home Improvement	Home Equity	Residential Land Purchase	Home Purchase (1 <sup>st</sup> Mortgage)	Home Construction & Renovation
<b>Training</b>	FDDC encourages Applicants to participate in training including: <ul style="list-style-type: none"> <li>• Homebuyer education program (required prior to closing for first-time homebuyers and those who have not owned a home within three (3) years.</li> <li>• Financial literacy training program</li> <li>• Session(s) with a Housing Counselor (required for Applicants with a tri-merge average credit score less than 650)</li> </ul> All required training must be completed prior to disbursement.				
<b>Terms (months)</b>	24 – 120, based on Applicant’s income and loan amount.			120 – 360, based on Applicant’s income.	6 – 24, based on construction period.
<b>Housing Interest Rate</b>	The LC sets the Housing Interest Rate on a loan by loan basis based on: <ul style="list-style-type: none"> <li>• Local bank financing rates</li> <li>• Cost of FDDC funding</li> <li>• Revenue requirements of FDDC operating budget</li> </ul> Loan interest rate is fixed for the term of the loan.				
<b>Maximum Loan to Value (LTV)</b>	80% of appraised value.		75% of appraised value.	90% of appraised value.	
<b>Disbursement</b>	Draw schedule based on milestones.	Payments to 3 <sup>rd</sup> party vendors or service providers or owner.	Payment to seller.		Draw schedule based on milestones.
<b>Periodic Disclosures</b>	FDDC requires annual disclosures from Borrowers including evidence of insurance on the home and payment of property taxes.				
<b>Credit Report Fee</b>	\$25.35 (single); \$29.70 (joint) The Credit Report Fee is paid by FDDC to a 3 <sup>rd</sup> party vendor and is subject to change based on the vendor’s pricing.				



**HOUSING LOAN PROGRAM TERMS & CONDITIONS, continued**

Loan Product	Home Improvement	Home Equity	Residential Land Purchase	Home Purchase (1 <sup>st</sup> Mortgage)	Home Construction & Renovation
<b>Application Fee</b>	\$150.00 paid in full upon acceptance of disclosures.				
<b>Origination Fee</b>	2% of loan amount				
<b>Construction Fee</b>	1% of construction and improvement costs				
<b>Guarantee Fee</b>	HUD Section 184 Loans Only: 1% of loan amount is Borrower's responsibility. It may be financed into the loan.				
<b>Late Fee</b>	5% of amounts due over 15 days; 4% for HUD Section 184 loans.				
<b>Grace Period</b>	FDDC may offer a grace period of up to three (3) months during which no payments will be due.				
<b>Guarantees</b>	FDDC may require personal guarantees from third parties.				
<b>Expenses</b>	The Borrower is responsible for paying the cost of legal, recording, filing, inspection, appraisal and other costs incurred by FDDC in connection with loan processing and security arrangements. These amounts are payable by Borrower at closing, or financed into the loan.				
<b>Amounts Due to FDDC</b>	Prior to funding, Applicant must repay any fees and expenses owed to FDDC arising from previous loan applications or loan underwritings prior to funding.				
<b>Legal Jurisdiction</b>	Loan documentation is subject to the legal jurisdiction of the federal government, the State of Maine, and relevant tribal court system (if applicable).				
<b>Escrow</b>	All loans are required to escrow property taxes (if applicable) and homeowner's insurance.				

**Diversification Restrictions**

**Single Borrower Limit.** FDDC limits the size of any combination of loan balances to a single Borrower or project of 10% of FDDC loan capital (the total of FDDC funding borrowed from third parties plus net assets dedicated or restricted for lending).

**HOUSING LOAN PROGRAM LOAN RISK RATING SYSTEM**

**Loan Loss Reserve Assignments (Before Closing)**

The Loan Originator assigns a Loan Rating to each loan as part of the due diligence process by filling out the Housing Loan Rating Sheet (EXHIBITS).

The Loan Rating Sheet concludes with an assignment of a Loan Rating of A, B, or C based on the mean (or average) Risk Rating for all the categories listed.

<b>LOAN RISK RATING</b>	<b>LOAN LOSS RESERVE AT CLOSING</b>
A – Strong	3.00%
B – Good	5.00%
C - Acceptable	7.00%

**Loan Loss Reserve Assignments (After Closing)**

For each loan for which six (6) months of scheduled payments has elapsed, each financial quarter, upon receipt of the Payment Report from the Loan Servicer, the Chief Financial Officer and Portfolio Manager review and in some cases revise the Loan Risk Ratings assigned to each loan in the Loan Report to reflect actual delinquency status as follows:

<b>LOAN RISK RATING</b>	<b>LOAN LOSS RESERVE AFTER CLOSING</b>
A – Strong	3.00%
B – Good	5.00%
C – Acceptable	7.00%
D – Weak	Up to 30.00%, less value of collateral
E – Workout Status	Up to 50.00%, less value of collateral
F – Foreclosure Probable	Up to 100.00%, less value of collateral

### HOUSING LOAN PROGRAM LOAN MONITORING

MONITORING STATUS	ACTION	LOAN LOSS RESERVE	RESPONSIBILITY & OVERSIGHT
<b>30 – 59 DAY DELINQUENT</b>			
9 consecutive months in 30 day delinquency	Re-evaluate and may downgrade	1 or 2 levels	Portfolio Manager and CFO oversight
9 times within a 12 month period			
<b>60 – 89 DAY DELINQUENT</b>			
At 60 day delinquent	Re-evaluate and may downgrade	1 or 2 levels	Portfolio Manager, Executive Director and CFO oversight with FC and LC awareness
3 consecutive months in 60 day delinquency			
3 times within a 12 month period			
<b>90 DAY DELINQUENT</b>			
At 90 day delinquent	Downgraded to D status; collateral may be evaluated	Up to 30.00%, less the value of the collateral	Portfolio Manager, Executive Director and CFO oversight with FC, LC, and Board of Directors awareness
<b>120 DAY DELINQUENT</b>			
At 120 day delinquent	Downgraded to E status; collateral may be evaluated	Up to 50.00%, less the value of the collateral	Portfolio Manager, Executive Director and CFO oversight with FC and LC awareness, and Board of Directors
<b>150 DAY DELINQUENT</b>			
At 150 day delinquent	Downgraded to F status; collateral may be evaluated	Up to 100.00%, less value of collateral	Portfolio Manager, Executive Director and CFO oversight with FC and LC awareness, and Board of Directors oversight

## **BUSINESS LOAN PROGRAM ELIGIBILITY REQUIREMENTS**

	<b>Microenterprise</b>	<b>Enterprise</b>	<b>Development</b>
<b>Eligible Business Location</b>	Businesses within FDDC's Investment Area.		
<b>Applicants</b>	Members of the Customer Base, over 18 years of age, who own at least 51% of an Eligible Business.		Businesses, including Maine tribal businesses, which create or retain jobs and/or can be shown to share other significant benefit to the communities in which the members of the Customer Base live.
<b>Businesses</b>	Start-up businesses.	Start-up or early stage businesses.	Growing and mature businesses.
<b>Min Loan Size</b>	\$1,000	\$5,000	\$100,000
<b>Max Loan Size</b>	\$5,000	\$100,000	\$500,000
<b>Use of Proceeds</b>	Purchase of items necessary for growth or maintenance of a business including:		
	<ul style="list-style-type: none"> <li>• working capital (including, obtaining licenses</li> </ul>	<ul style="list-style-type: none"> <li>• procuring equipment</li> </ul>	
	<ul style="list-style-type: none"> <li>• Inventory &amp; supplies</li> </ul>	<ul style="list-style-type: none"> <li>• Acquisition of real estate, plant, machinery</li> </ul>	
	<ul style="list-style-type: none"> <li>• space directly related to business transactions),</li> </ul>	<ul style="list-style-type: none"> <li>• Start-up losses incurred prior to achieving breakeven sales, or</li> </ul>	
<b>Business Plan</b>	Prior to funding, Applicants will have completed a business plan (EXHIBITS)		
<b>No Prior Loan Losses</b>	Applicants with a history of uncured loan payment defaults are ineligible for loans from FDDC; default must be cured in order to be eligible for FDDC loan products.		
<b>Repossession, Foreclosure, Bankruptcy</b>	Applicants who have had a repossession, foreclosure, or bankruptcy in the previous three (3) years are ineligible for a loan from FDDC.		
<b>FDDC Security</b>	<b><u>First lien</u></b> on business and/or business owner's personal assets	<b><u>First or second lien</u></b> on business and/or business owner's personal assets	<b><u>First, second or third lien</u></b> on business and/or business owner's personal assets
<b>Personal Guarantees</b>	FDDC requires personal guarantees (EXHIBITS) from business owners.		FDDC may require tribal guarantees (EXHIBITS) for development loans



***BUSINESS LOAN PROGRAM ELIGIBILITY REQUIREMENTS, continued***

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**Ineligible Sectors** FDDC does not provide financing to businesses for the following activities or purposes:

- Check cashing
  - Lending
  - Investing in public securities, private ventures or speculative enterprises
  - Pyramid or networking schemes
  - Fraternal organizations
  - Pornography
-

## BUSINESS LOAN PROGRAM TERMS & CONDITIONS

	Microenterprise	Enterprise	Development
<b>Training &amp; Technical Assistance</b>	<p>FDDC may require Applicants and Borrowers to participate in training, business education, business counseling, and technical assistance including:</p> <ul style="list-style-type: none"> <li>• Credit Counseling</li> <li>• Financial Literacy for Business Owners</li> <li>• Financial Management/Accounting for Business Owners</li> <li>• Part or all modules of entrepreneurship training</li> <li>• Business planning and development</li> <li>• Business counseling or coaching</li> <li>• Educate Borrowers re consequence of late pays, defaults, and collections and FDDC procedures.</li> </ul> <p>FDDC may require that training, business education, business counseling, and technical assistance be completed prior to disbursement.</p>		
<b>Term</b>	Up to 36 months	Up to ten (10) years	Amortized up to 30 years, with term of up to 15 years on a case-by-case basis. Term will not be advertised.
<b>Interest Rate</b>	<p>The LC sets the interest rate on a loan-by-loan basis based upon:</p> <ul style="list-style-type: none"> <li>• Local bank financing rates</li> <li>• Cost of FDDC's funding</li> <li>• FDDC's operating budget revenue requirements</li> </ul> <p>Loan interest rate is fixed for the term of the loan. If default is cured, interest rate returns to original rate.</p>		
<b>Periodic Disclosures</b>	<p>FDDC requires disclosures of the following documentation from Borrowers annually and upon request:</p> <ul style="list-style-type: none"> <li>• Evidence of insurance</li> <li>• Proof that tax payment are current</li> <li>• Financial statements</li> <li>• Utility usage</li> <li>• Programmatic data</li> </ul>		
<b>Application Fee</b>	\$150 paid in cash on date of application.		Up to \$200 paid in cash on date of application.
<b>Processing Fee</b>	1 – 3% of the loan amount, payable at closing, in cash or added to the loan amount.		
<b>Late Fee</b>	5% of amounts due over 15 days.		
<b>Deferments &amp; Modifications</b>	FDDC may offer a grace period of up to three (3) months during which no payments will be due.		
<b>Expenses</b>	The Borrower is responsible for paying the cost of legal, recording, filing, appraisal and other costs incurred by FDDC in connection with loan processing and security arrangements. These amounts are payable by Borrower at closing, or added to the loan amount.		
<b>Amounts Due to FDDC</b>	Prior to funding, Applicant must repay fees and expenses owed to FDDC arising from previous loan applications or underwritings.		
<b>Legal Jurisdiction</b>	Loan documentation is subject to the legal jurisdiction of the State of Maine or relevant tribal court system, whichever is applicable.		

### ***BUSINESS LOAN PROGRAM PORTFOLIO DIVERSIFICATION REQUIREMENTS***

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**Startups**

While acknowledging the risks inherent in lending to startup businesses, FDDC is committed to assisting microenterprise and small business development in our Investment Area.

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**Single Borrower  
Limit**

FDDC limits the size of loans to a single Borrower or project to 10% of FDDC loan capital (the total of FDDC funding borrowed from third parties plus net assets dedicated or restricted for lending).

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***BUSINESS LOAN PROGRAM RISK RATING SYSTEM***

**Loan Loss Reserve Assignments**  
*(Before Closing)*

The Loan Originator assigns a Loan Rating to each loan as part of the due diligence process by completing the Business Loan Rating Sheet (EXHIBITS)

The Loan Rating Sheet concludes with an assignment of a Loan Rating of A, B, C, or D, based on the mean Risk Rating for all the categories listed.

<b>Loan Risk Rating (from Loan Rating Sheet)</b>	<b>Loan Loss Reserve</b>
A	5%
B	10%
C	15%
D	20%

**Loan Loss Reserve Assignments**  
*(After Closing)*

Each month, upon receipt of payment report from Loan Servicer, the Loan Originator modifies the loan ratings.