Lowell Community Loan Fund, Inc
DBA
Mill Cities Community Investments

Loan Policies

Approved at February 19, 2009 Board meeting.

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1. Objective:

These lending policies have been reviewed and adopted by the Board of Directors of the Lowell Community Loan Fund, Inc DBA Mill Cities Community Investments (MCCI) for use in administering a Revolving Loan Fund and related lending activities.

These policies establish clear standards by which homeowner lending programs of the MCCI are delivered in a timely, effective and uniform manner during the origination, processing, documenting and servicing of residential loans in portfolio or packaged for sale to NHSA. These policies will provide MCCI with the guidelines needed to make every effort to comply with the requirements of all federal and state laws and any other rules and regulations related to the granting of credit. It is the explicit policy of MCCI not to discriminate against any loan applicant on the basis of neighborhood, handicap, race, color, religion, national origin, ethnic origin, sex, sexual orientation, marital or familial status, age (provided the applicant has the capacity to enter into a binding contract), because all or part of the applicant's income derives from any public assistance program or the fact that the applicant has in good faith exercised any right under the Consumer Credit Protection Act .

It is the policy of the MCCI to serve the credit needs of our investment area in the contiguous communities of Lowell, Dracut, Methuen, Lawrence, North Andover and Haverhill in the Merrimack Valley in a nondiscriminatory manner, consistent with safe and sound underwriting practices, by offering lending services to the whole community, with a focus on those of low- and moderate-income. MCCI will extend credit to members of the Board of Directors, its employees and members of their immediate families in accordance with federal and state laws and regulations relating to such extensions of credit.

2. General Policy:

A. Eligible Borrowers

Any person eighteen years of age or older who own or wants to purchase a residential property or improve a residential property in the investment area may apply for a residential loan product at MCCI. MCCI will strive to make every loan to eligible borrowers if they meet the underwriting criteria and as long as MCCI has available funds to make such loan request. Eligible borrowers must agree to attend a pre- purchase or post purchase educational training session(s) offered by MCCI approved educational partners as a condition for approval.

B. Conflict of Interest

Applications made by members of the following groups will be considered to be in conflict of interest and will not be accepted:

Elected and appointed officials of federal, state or local government and members of their immediate families

Applications from employees of federal, state and local government and their families are not considered to be in conflict of interest and will be accepted.

Applications from members of the following groups will be considered to be in conflict and can only be accepted with executive board approval and if the loan is made, it will need a full board approval prior to commitment:

Members of the MCCI board of directors and their immediate families;

Members of the MCCI Loan Committee and their immediate families;

Employees of MCCI and their immediate families

C. Allowable purposes of financing

MCCI will partner with local financial institutions and Neighborhood Housing Services of America in order to provide first mortgage acquisition funds for First Time Homebuyers or low/ moderate income households. MCCI will also offer two types of financing products to be used in improvements to an owner occupied home to address code issues, improve systems and or structure or modernize an existing home and a second mortgage for acquisition by a first time homebuyer or low/moderate income household. Low/moderate household include those households with income ranging from 50% to 150% of area medium income.

D. Types of loans

MCCI will offer the following loan products:

NHSA first residential mortgage loan for owner occupied 1 to 4 family residential real estate. The minimum and maximum amount of these loans, the rate and collateral for these loans will follow the bank's criteria and shall consist of a fixed interest rate with a term and amortization of 30 years.

The two second mortgage products offered by MCCI shall observe the following criteria:

For home improvement loans, the property must be a 1-4 family, owner occupied residential real estate. The minimum amount is $10,000.00 with a maximum loan limit of $50,000.00. The term of the loan will be 10 to 20 years with a maximum amortization schedule of 20 years with monthly payments of principal and interest, with interest only option for the remodeling period, if warranted. The rate will be fixed for the term and will follow the guidelines established under the pricing of the loans section 2F of this general policy as is the origination fee associated with this financing. The Collateral requirements consist of a second mortgage on improved real estate as described in the loan to value section in section 6F of this general policy. All loan application for home improvement must be accompanied by a Massachusetts licensed contractor's estimate of cost.

Loan advances will be made with proceeds payable under the names of the borrower and the licensed contractor observing the following schedule:

25 % of the loan proceeds at beginning of work

30 % of loan proceeds at 50% work completion

30 % of loan proceeds at 100% work completion

10% of loan proceeds at punch list agreement

5% of loan proceeds once lien waivers have been obtained

For second mortgage acquisition loans by first time homebuyers or low/moderate income household, the property must be a 1-4 family, owner occupied residential real estate. The minimum amount is $5,000.00 with maximum loan limit of $50,000.00. The term of the loan will be 10 to 20 years with a maximum with a maximum amortization schedule of 20 years of monthly principal and interest. The rate will be fixed for the term and will follow the guidelines established under the pricing of the loans section 2F of this general policy as is the origination fee associated with this financing. The Collateral requirements consist of a second mortgage on improved real estate as described in the loan to value section in section 6F of this general policy.

E. Investment area

MCCI will invest at least sixty percent of its loans in the low to medium income households and the additional investment portfolio in mixed income in the contiguous communities of Lowell, Dracut, Methuen, Lawrence, North Andover and Haverhill in the Merrimack Valley.

F. Lending Authority

MCCI loan committee will review and approve all loans to be held in portfolio up to $25,000.00. For loans over $25,000.00 to be held in portfolio, the loan committee will review the loan and make recommendations to the executive board of MCCI, for approval. The executive board will submit for ratification by the full board, on a monthly basis as applicable, all of its loan approvals.

All NHSA first mortgages loans will follow the lending bank's criteria for approval.

G. Pricing of loans:

All loan products will be subject to a 1% origination fee. Interest rate for the NHSA first mortgage loan product will be set according to Partner Bank/ NHSA criteria. Second mortgages loan rates will be set by the MCCI loan committee from time to time. Second mortgage rates guidelines will be reviewed and may be adjusted at the annual review of the loan policy.

All portfolio loans will initially be priced according to the NHSA purchase rate (the index) and fixed as follows:

Home Improvement loans–
10 year rate- Index plus .35 % with a minimum rate equal to cost of funds plus 3%.
15 year rate- Index plus .35 % with a minimum rate equal to cost of funds plus 3%.
20 year rate- Index plus .35% with a minimum rate equal to cost of funds plus 3%

Acquisition loans-
10 year rate-Index plus .35 % with a minimum rate equal to cost of funds plus 3%.
15 year rate-Index plus .35 % with a minimum rate equal to cost of funds plus 3%.
20 year rate- Index plus .35 % with a minimum rate equal to cost of funds plus 3%.

H. Application Fee

There will be no application fees

I. Commitment fee

There will be no commitment fee

J. Rehab Fee

MCCI's rehab fee will equal 1% of the loan amount or $400.00, whichever is greater, to reimburse MCCI staff costs associated with oversight of contractor's work.
This fee may be incorporated as part of the loan proceeds

K. Additional fees
The following fees will be the responsibility of the borrower (if necessary for the consummation of the loan):

Appraisal fee- negotiated cost-Paid by borrower when ordered
Loan prep fee- $50.00
Legal fees- negotiated cost
Credit report fee- at cost
Flood zone certificate- at cost
Mortgage and liens filings/search- at cost
Payments of these costs will be made at the time of the closing of the loan or as when specified above. The form of payment may be either from loan proceedings or the borrower's own funds.

3. Sale to NHSA

A. First mortgages
The sale of first mortgages to NHSA will be done in accordance with the Lender/ NHSA agreement. MCCI staff will cooperate with the lender and NHSA staff and assist the borrower during the entire process including attending the closings, if so desired by the borrower.

B. Documentation
Application and documentation for Lender/NHSA first mortgage must conform with Lender/NHSA loan application/documents criteria as mandated by NHSA/MCCI lending agreement.

C. Second mortgages
MCCI staff will be responsible to sell, in a timely fashion, the current revolving loan portfolio to NHSA according to the documented NHSA standards. MCCI will have all necessary state lending licenses in order to originate loans in Massachusetts and also to be licensed as a mortgage broker.

4. Owner occupied residential second mortgage for acquisition

A. Application
The Loan Application shall detail the borrower's history, trends and attitude as a means of trying to predict future loan repayment behavior. The loan application therefore must be able to provide the following information:

1. Type of mortgage and terms of the loan
Details the mortgage option the borrower(s) have chosen.

2. Property information and purpose of the loan
The property information will include location, legal description and value of property as well as manner in which title is held. The purpose of the loan will assist the organization in structuring the loan in a manner that will best service the borrower.

3. Borrower information
Personal information about the borrower-name, address, phone number, social security number, age, schooling, marital status, etc. If the borrower has resided at his or her address for two years or less, the previous address information must also be provided. There shall be a parallel section for the same information on any co-borrower.

4. Employment information
Borrower's current employment and how many years they have been in this line of work. If the borrower is employed for less than two years at the present job, previous

employment information must also be included. If self employed, it must be noted on the application.

5. Monthly income and combined housing expense information

The income section shall provide spaces for primary employment income, overtime, bonuses, commissions, dividends, net rental income, and income from any other sources. Income derived from alimony or child support does not need to be disclosed unless the borrower wants this considered as income to qualify for the loan. Self employed applicants need to supply supporting documents such as personal tax returns, corporate tax returns or financial statements.

The combined housing expense information section shall provide monthly housing expenses such as rent, mortgage payments, secondary financing, insurance, real estate taxes, etc.

6. Assets and liabilities

This section will allow the borrower to list all assets and liabilities to determine net worth. Assets are items of value owned by the borrower. Liabilities are financial obligations or debt owed by the borrower. Debts are any recurring monetary obligation that cannot be cancelled. The distinction is that liabilities are any amount of money owed; debt specifically refers to recurring obligations (e.g., monthly bills). Borrowers must reveal alimony or child support as a liability if owed. Debts with ten or less payments remaining will not be consider except for leases which always count regardless of how many payments remain. Borrowers must list all payments including collections, slow pays and judgments.

7. Declarations

This section asks the borrowers and co-borrowers to declare under oath that he or she does not have any judgments, bankruptcies, foreclosure, etc. which may not have shown up during the underwriting. The borrower(s) must also disclose whether they are obligated to pay alimony or child support, have borrowed any part of a down payment, are co-signers on other debts, are U.S citizens or permanent residents, and whether they intend to occupy the property as their primary residence.

8. Acknowledgement, Agreement and borrowers signature

Borrower and co-borrower must date and sign the application; acknowledging that they have answered everything truthfully, and that they understand and agree to be bound by the terms of the loan, if granted.

9. Information for government monitoring purposes

This section is optional on the part of the borrower(s) but must be filled out by the interviewer to the best of their knowledge and observations.

B. Credit Investigation

Credit history: A credit report will be obtained for most loans. After obtaining an initial report from a credit reporting agency, verification of the other significant information submitted by the applicant not verified on the credit report will be obtained by direct contact. These reports shall include all information uncovered in a current investigation of the applicant that has a bearing on the borrower's capacity to repay the loan. We will normally verify current employment and salary information and obtain credit references on the debts listed on the credit application, which are not also contained in a report from a credit reporting agency, including terms, balances and manner of payment. We will also consider all other debts discovered; if there is one or more significant debts (not including minor obligations) not disclosed by the applicant in the application, the applicant might be attempting to conceal liabilities in order to qualify for the loan. This could be grounds for declining the credit application.

Alternative credit history: An alternative means may be used to develop a credit history, for applicants who normally do not use credit; for example, previous rent verifications, verification of utility payments, and verification of personal property tax payments or verification of lay away plan. Church offerings and tithing when verifiable will be utilized as part of the credit worthiness analysis.

In those cases where evidence that an applicant has been subject to bankruptcy proceedings or liens and judgments, or has given a deed in lieu of foreclosure, the applicant shall furnish satisfactory documentation showing the reasons and the resolutions of the adverse conditions. An applicant who has recovered from a bankruptcy proceeding and demonstrated over a period of time (normally past 2 years), the capability of managing financial affairs should not be overly penalized. Similarly, an applicant who has had temporary financial difficulties, which may even have resulted in liens or judgments, should not be overly penalized if there has been a history of recovery and good financial standing prior to the credit application. In the absence of an acceptable reason for bankruptcy, liens or judgments, there must be strong offsetting factors if the applicant is to be considered favorably.

C. Amortization

The term of the loan will be 10 to 20 years with a maximum amortization schedule of 20 years with monthly payments of principal and interest.

D. Collateral

A second mortgage shall be placed on the acquired real estate. The borrowers will have to obtain insurance coverage to cover 100% of our outstanding mortgage amount.

5. Owner occupied residential second mortgage for home improvement

A. Application

The Loan Application shall detail the borrower's history, trends and attitude as a means of trying to predict future loan repayment behavior. The loan application therefore must be able to provide the following information:

1. Type of mortgage and terms of the loan

Details the mortgage option the borrower(s) have chosen.

2. Property information and purpose of the loan

The property information will include location, legal description and value of property as well as manner in which title is held. The purpose of the loan will assist the organization in structuring the loan in a manner that will best service the borrower.

3. Borrower information

Personal information about the borrower-name, address, phone number, social security number, age, schooling, marital status, etc. If the borrower has resided at his or her address for two years or less, the previous address information must also be provided. There shall be a parallel section for the same information on any co-borrower.

4. Employment information

Borrower's current employment and how many years they have been in this line of work. If the borrower is employed for less than two years at the present job, previous employment information must also be included. If self employed, it must be noted on the application.

5. Monthly income and combined housing expense information

The income section shall provide spaces for primary employment income, overtime, bonuses, commissions, dividends, net rental income, and income from any other sources. Income derived from alimony or child support does not need to be disclosed unless the borrower wants this considered as income to qualify for the loan. Self employed applicants need to supply supporting documents such as personal tax returns, corporate tax returns or financial statements.

The combined housing expense information section shall provide monthly housing expenses such as rent, mortgage payments, secondary financing, insurance, real estate taxes, etc.

6. Assets and liabilities

This section will allow the borrower to list all assets and liabilities to determine net worth. Assets are items of value owned by the borrower. Liabilities are financial obligations or debt owed by the borrower. Debts are any recurring monetary obligation that cannot be cancelled. The distinction is that liabilities are any amount of money owed; debt specifically refers to recurring obligations (e.g., monthly bills). Borrowers must reveal alimony or child support as a liability if owed. Debts with ten or less payments remaining will not be consider except for leases which always count regardless of how many payments remain. Borrowers must list all payments including collections, slow pays and judgments.

7. Declarations

This section asks the borrowers and co-borrowers to declare under oath that he or she does not have any judgments, bankruptcies, foreclosure, etc. which may not have shown up during the underwriting. The borrower(s) must also disclose whether they are obligated to pay alimony or child support, have borrowed any part of a down payment, are co-signers on other debts, are U.S citizens or permanent residents, and whether they intend to occupy the property as their primary residence.

8. Acknowledgement, Agreement and borrowers signature

Borrower and co-borrower must date and sign the application; acknowledging that they have answered everything truthfully, and that they understand and agree to be bound by the terms of the loan, if granted.

9. Information for government monitoring purposes

This section is optional on the part of the borrower(s) but must be filled out by the interviewer to the best of their knowledge and observations.

B. Credit Investigation

Credit history: A credit report will be obtained for most loans.

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In those cases where evidence that an applicant has been subject to bankruptcy proceedings or liens and judgments, or has given a deed in lieu of foreclosure, the applicant shall furnish satisfactory documentation showing the reasons and the resolutions of the adverse conditions. An applicant who has recovered from a bankruptcy proceeding and demonstrated over a period of time (normally past 2 years), the capability of managing financial affairs should not be overly penalized. Similarly, an applicant who has had temporary financial difficulties, which may even have resulted in liens or judgments, should not be overly penalized if there has been a history of recovery and good financial standing prior to the credit application. In the absence of an acceptable reason for bankruptcy, liens or judgments, there must be strong offsetting factors if the applicant is to be considered favorably.

C. Amortization

The term of the loan will be 10 to 20 years with a maximum amortization schedule of 20 years with monthly payments of principal and interest with interest only option for the remodeling period, if warranted.

D. Collateral

A second mortgage shall be placed on the improved real estate. The borrowers will have to obtain insurance coverage to cover 100% of our outstanding mortgage amount.

E. Repair requirements

All estimates and repairs must be done by a licensed Massachusetts contractor. Prior to approval and closing, the applicant must provide as part of the application, an estimate that is in the contractor's letterhead and clearly display the contractor's Massachusetts license number and be signed and dated by the licensed contractor.

6. General credit underwriting criteria

A. Credit reporting criteria

After obtaining an initial report from a credit reporting agency, verification of the other significant information submitted by the applicant not verified on the credit report will be obtained by direct contact. These reports shall include all information uncovered in a current investigation of the applicant that has a bearing on the borrower's capacity to repay the loan. We will normally verify current employment and salary information and obtain credit references on the debts listed on the credit application, which are not also contained in a report from a credit reporting agency, including terms, balances and manner of payment. We will also consider all other debts discovered; if there is one or more significant debts (not including minor obligations) not disclosed by the applicant in the application, the applicant might be attempting to conceal liabilities in order to qualify for the loan. This could be grounds for declining the credit application.

In those cases where evidence that an applicant has been subject to bankruptcy proceedings or liens and judgments, or has given a deed in lieu of foreclosure, the applicant shall furnish satisfactory documentation showing the reasons and the resolutions of the adverse conditions. An applicant who has recovered from a bankruptcy proceeding and demonstrated over a period of time (normally past 2 years), the capability of managing financial affairs should not be overly penalized. Similarly, an applicant who has had temporary financial difficulties, which may even have resulted in liens or judgments, should not be overly penalized if there has been a history of recovery and good financial standing prior to the credit application. In the absence of an acceptable reason for bankruptcy, liens or judgments, there must be strong offsetting factors if the applicant is to be considered favorably.

B. Credit report

A credit report is necessary to make sound lending decisions. A credit profile indicating risk scores can be used at the discretion of MCCI staff and loan committee members provided that all listed on the application appears on the report, all information is timely; no undisclosed debt appears, and a positive credit is indicated.

A Residential Mortgage Credit Report (RMCR) from an independent agency must be used when required by a funder; when negative or undisclosed credit appears on the profile, or when the applicant disputes information obtained.

The RMCR should reflect the applicant's overall credit history and a public record search for each locality in which the borrower has lived during the 2 year period that precedes the report issuance. The legal search must disclose whether judgments, foreclosures, garnishments or bankruptcies were discovered in a search of the public record. Any finding that occurred before the 2 year period, as long as it can be considered under the limitations of the Fair Credit Reporting Act, should be reported. The credit report must provide the terms, balances and ratings of all debt listed on the credit application. This report must reflect all adverse credit that is 30 or more days old or older and identify any debts not disclosed on the application. If the credit reports do not contain a reference for each significant debt on the application, the staff must obtain a separate written verification for each debt that was not reported. All information in the applicant's credit report must be verified by sources other than the applicant.

A credit report must be obtained for each borrower listed on the loan application.

C. Employment

An evaluation shall be made as to the stability and durability of income.

An applicant who has demonstrated job stability or is in a line of work in continuing demand, where advancement is possible, should receive favorable consideration, provided an ability to manage financial affairs has been demonstrated. Education or training that would strengthen job opportunities and earning capacity should be reviewed favorably.

An applicant who has changed jobs rather frequently for advancement within the same line of work should receive favorable consideration if there is evidence the applicant is successful in that work, but has outgrown the opportunities provided by a previous employer. Job changes are recognized as normal in some lines of work. Frequent job changes without advancement, or from one line of work to another, could lead to unstable income. However, if the applicant has maintained stable income over the recent past (2 years), job-hopping without advancement should not result in unfavorable consideration. An unstable employment history may also be offset by the applicant's financial strength and by a consistent ability to meet financial obligations when due. Current Fair Lending Guidelines will be utilized to make these determinations.

D. Income

Stable monthly income is the applicant's gross monthly income from primary employment base earnings plus stable secondary income.

An applicant's secondary income, such as bonuses, commissions, overtime or part-time employment, is recognized as "stable monthly income" if such items of secondary income are typical for the occupation, substantiated by the applicant's previous two years' earnings, and if continuation is probable based on foreseeable circumstances. Many individuals and families rely heavily on secondary income. Care must be taken when determining the stability of secondary income that is heavily relied upon.

If real estate holdings are not producing positive net income, but the applicant has good equities in properties that are readily marketable, the monthly obligations should not be considered as stringently as consumer-type debt or unsecured debt. In this instance, the borrower could liquidate the real estate and be relieved of the installment obligation without the credit position being jeopardized.

When an applicant relies on self-employed income, the normal minimum documentation to verify this income is signed federal income tax returns. These documents should evidence that the net income of the applicant is consistent with that stated in the application and that the business can reasonably be expected to continue to support this net income. If the business has recently been formed, the MCCI should be furnished current business financial statements (Balance Sheet and Profit & Loss Statement) and verification of the applicant's employment history for the prior two years.

If an applicant discloses income from alimony, child support or maintenance payments, MCCI will consider such payments as income to the extent that they are likely to be consistently received. Factors which may be considered in determining the likelihood of consistent payments include, but are not limited to, whether the payments are received pursuant to a written agreement or court decree; the length of time the payments have been received; the regularity of receipt; the availability of procedures to compel payment; whether full or partial payments have been made; the age of any child; and the credit-worthiness of the payer, including the credit history of the payer where available to the lender under the Fair Credit Reporting Act or other applicable laws.

Aside from considering the applicants capacity to legally enter into a binding contract, the age of the applicant is not a criterion for declining a request for credit. If the applicant is about to retire or is retired, the underwriting should be based upon retirement income and the financial reserves available for living expenses and debt service. When older applicants have limited income, factors such as large down payments and a demonstrated ability to manage financial affairs are to be favorably considered.

Loan interviewers are expected to develop the quantity, quality and durability of the applicant's primary income and any secondary income. Current Fair Lending Guidelines will be utilized to make these determinations.

E. Debt ratio

The maximum housing expense ratio (including the proposed loan) generally cannot exceed 38% of income; the total debt ratio generally cannot exceed 42% of income. The maximum housing expense ratio (including the proposed loan) when rental income from the subject property is used for qualifications purposes, as described below, generally cannot exceed 38% of income; the total debt ratio generally cannot exceed 50% of income.

Rental income from subject property- If rental income from the subject property is documented by signed lease agreements or from a verification of rent paid from current tenants, 75% of the rental income may be used to reduce the total housing expense. If projected rents are being used because of vacancies, 50% of the projected rent can be used to reduce the total housing expenses as long as the proposed rents are within the local rental market range for comparable type rental unit. Housing expenses includes all mortgages, taxes and insurance.

F. Loan to value

First mortgage loans will observe Lender/NHSA loan to value guidelines.

Second mortgage loans for acquisition will require that the **as is** appraised value of the proposed collateral is great enough that the loan to value (LTV) of the MCCI investment (including the amount of the MCCI loan and the mortgage interest of the senior loan) does not exceed 100%.

Second mortgage loans for home improvements will require that the **upon completion** appraised value of the proposed collateral is great enough that the LTV of the MCCI investment (including the amount of MCCI loan and the mortgage interest of the senior loan) does not exceed 100%.

G. Risk Ratings

A Seven point risk scale will be utilized:

1. Strong –low risk
   Excellent credit history
   Strong debt service capacity (less than 32% total debt ratio)
   Total LTV 80%
2. Good- less than average risk
   Good credit history
   Good debt service capacity (less than 38% total debt ratio)
   Total LTV 85%
3. Satisfactory- average risk
   Acceptable credit history
   Debt service capacity (38% total debt ratio)
   Total LTV 90%
4. Acceptable with care- Above average risk
   Fair credit history
   Borrower may not be strong enough to sustain major setbacks (42% total debt ratio)
   Total LTV 100%
5. Watched Assets- risky
   Marginally acceptable credit history
   Earnings trend is adverse or weak (More than 42% total debt ratio except when rental income generated from the property is utilized)

Total LTV exceeds 100%

6. Doubtful
   Delinquent credit history
   Full payment is questionable
   Serious problems exist with partial loss of principal likely. Weakness so pronounced that on the basis of current information, conditions and value, collection is highly improbable.
7. Loss
   Expected loss
   Uncollectible asset or one of such little value that it does not warrant classification as an active asset

H. Risk Management Reporting requirements

1. The Loan Committee shall receive a monthly portfolio update that itemizes portfolio status within the context of the above portfolio management policies. This monthly capital report ("Cap Report") is intended to provide sufficient information to the loan committee in order that they can make loan allocation decisions.

2. The monthly Cap Report will contain current information on loan balances, rates and maturities, as well as senior and subordinate note balances, rates and maturities.

3. On a quarterly basis, the Loan Committee will receive a complete listing of all loans with loan number, borrower, outstanding amount rate, maturity date and any other pertinent information requested. This information will supplement the monthly Cap Report.

I. Loan monitoring Policies

MCCI believes that loan monitoring is an essential part of community development lending. Good loan monitoring is never a substitute for sound underwriting, but it is a crucial component of maintaining both the lender's security interest and assisting the borrower in organizational growth and asset management. Monitoring loans is an on-going process that involves the maintenance of payment regularity, site visits, the submission of financial and operational information from the borrower to the fund, the on-going re-evaluation of collateral worth, and appropriate forms of technical assistance when necessary. The nature and frequency of loan monitoring is based on performance, and overall risk evaluation.

MCCI staff will maintain a list of monitoring requirements segregated by loan type and risk level.

J. Loan Monitoring Report

1. Quarterly the MCCI Loan Committee will receive an updated loan monitoring report. The loan monitoring report shall have a listing of each loan on portfolio that details the following:
   - Name of the borrower
   - Amount of the original principal
   - Interest rate of the loan
   - Payment status
   - Amount of principal repaid
   - Collateral value

- Operational irregularities that merit attention
- Date of maturity
- Loan rating
- Current comments as needed

2. Efforts will be made to re-analyze the value of collateral on an annual basis. This revaluation can be done through staff analysis of comparable values, and does not, except in workout situations, require an appraisal report.

3. The full quarterly loan monitoring report must also be presented to the MCCI Loan Committee, at least two times per year (January and June). The report is available for inspection by board members and investors.

K. Late payments, delinquencies, and default

1. If payment has not been received eight (8) days after the due date, a loan officer or other staff person will follow up with a telephone call (contact and/or verbal message).

2. In the event that loan payments are more than fifteen (15) days late, a notice of late payment will be forwarded to the borrower. Penalty fees can be assessed in compliance with loan documents and state laws. The Executive Director can waive a late fee, but all late payments will be reported to the MCCI Loan Committee.

3. If payment has not been received by the 25th day, a second notice will be sent out. By the 30th day of a late payment, the loan monitoring staff must make a full report to the board detailing the nature of the problem and making recommendations. Recommendations include, but are not limited to:

- Correspondence or meeting with the borrower
- Sending of a notice of default;
- Sending of late charge notice;
- Development of a re-structuring plan or a cure plan;
- Waiting for an additional period without major new action.

4. If by the 45th day, no payment has been received, a default committee consisting of a loan officer, MCCI attorney (optional), and one or more members of the MCCI Loan Committee will be convened. The committee will examine the situation, based upon a meeting with the borrower and a detailed account of operational information. The default committee will then recommend action to the loan review committee. Recommended action may include:

- Loan re-structuring
- Notice of default and the intention to foreclose

L. Foreclosure Policies

1. In most instances a straight foreclosure will be viewed as the last option.

There are, however, instances when foreclosure is the best option and the only remedy to a deteriorating situation.

2. In instances of foreclosure, the default committee will make a detailed assessment of the situation to a special meeting of the Loan Committee. The detailed foreclosure assessment must include a full analysis of the plans and consequences of foreclosure.

3. All foreclosure proceedings and actions should be done in such a way as to provide maximum protection for MCCI's senior note purchasers and for the interest of affected parties, especially the actual or potential recipients of low and moderate income services or commodities.

4. Collateral liquidations must attempt to cover the cost of MCCI's loan principal, any accrued interest owed to MCCI, and the transaction costs of liquidation (i.e. Legal, marketing, staff time).

M. Monitoring social impact

1. Two times per year (January and June), staff shall compile social impact data on all MCCI loans. Such data shall be presented to the Loan Committee in the form of a summary report.

2. Social impact data must include but is not limited to the following.
Geography of MCCI loans
Type of MCCI loans
Income level and race of loan end users
Leverage capacity of MCCI loans

7. Appraisals

Lending officers have a responsibility that a determination of value of the collateral pledged for real estate loans is adequate. This policy will apply to all new real estate loans and requests for partial release of real estate from existing real estate loans.

The qualifications and standards for the appraisals utilized by MCCI will conform to the Standards of Professional Appraisal Practice of the Appraisal Institute (USPAP). All loans will be supported by an appraisal or evaluation consistent with prudent underwriting and regulatory standards. Licensed or Certified appraisers, as prescribed by law, will be used for appraisals of real estate in loans.

Lending Officers, as part of their underwriting process, will ensure that an independent review of appraisal reports used in the underwriting process are performed and that the appraisal or evaluation of real estate meet the general loan underwriting criteria before the loan is consummated.

Appraisal Independence

In accordance with Interagency *Appraisal and Evaluation Guidelines*, MCCI has adopted the following standards for the independent appraisal and evaluation of real estate:

1. The loan committee will, from time to time, select individuals or companies that will perform real estate appraisals and evaluations for the MCCI lending functions. The list of approved appraisers will be reviewed with the Board of Directors annually.

Real estate appraisers or real estate appraisal companies will be independent of the transaction for which they are performing the appraisal services.

2. Real estate appraisers engaged by MCCI will be competent to perform the appraisal. An appraiser will be deemed competent, unless otherwise judged not competent by MCCI, by holding a current real estate appraisers license issued by the State of Massachusetts or by holding a professional designation recognized by the National Association of Real Estate Appraisers or the Appraisal Institute.

3. Appraisers cannot be recommended by the loan applicant or cannot be selected by the loan applicant from a list of the MCCI appraisers.

Appraisals prepared by an individual selected by or engaged by the borrower cannot be accepted as the primary appraisal or evaluation utilized in the credit transaction.

Appraisals originally prepared for other financial institutions and accepted as the primary appraisal utilized in the credit transaction for purchase of the property offered as collateral for the MCCI, may utilized by MCCI if the appraisal in not more than 2 months old .

4. All appraisal engagements will be made in writing and a copy of the engagement letter will be maintained in the permanent loan file.

5. Completed appraisals will be reviewed and the valuation results accepted by a qualified and adequately trained individual who is not the sole approval authority for granting the loan request.

B. List of approved appraisers

A list of approved appraisers are attached as exhibit A of this loan policies

8. Approved closing attorneys

A. All Massachusetts licensed attorneys, in good standing with the Massachusetts Board of Bar Overseers of the Supreme Judicial Court may be engaged in the preparation, recording and execution of legal documents to perfect our loan documentation and collateral position. A copy of the attorney liability insurance certificate and a professional resume will be required to be in file for the attorney to be considered an active approved attorney for MCCI.

B. List of the approved attorneys

A list of the approved closing attorneys is attached as Exhibit B of these policies

9. Loan documentation

A. At a minimum portfolio loans will be supported by the following legal documents:

An application and supporting documents appropriate to the type of loan will be obtained from the borrower at the time of loan request.

An appraisal or evaluation conforming to the standards outlined in MCCI's Appraisal Policy,

Properly drawn and recorded mortgages or deeds of trust, title certifications and/or title insurance policies, hazard insurance policies (as applicable), flood insurance policies (as applicable), and other documentation necessary to ensure MCCI's secured position in the real property.

A promissory note

Assignment of lease or rents (if applicable)

Any document deemed necessary for the consummation of the loan and to protect the interests of MCCI.

10. Regulations

A. Regulation B

Regulation B, the Equal Credit Opportunity Act (ECOA) primary purpose is to prevent discrimination in granting credit to people based on sex, age, marital status, race, color, religion, national origin or receipt of public assistance. It is the intent of the MCCI through its loan policies to fully comply with Regulation B.

B. Regulation C

Regulation C, the Home Mortgage Disclosure Act (HMDA) provides the public loan data that can be used to assist:
In determining whether financial institutions are serving the housing needs of their communities
In distributing public sector investments as to attract private investments to areas where it is needed
In identifying possible discriminatory lending practices

MCCI will fully comply with the ACT information which will help show that MCCI is servicing the housing needs of the neighborhoods and communities that comprise our investment area.

C. Regulation Z

Regulation Z of the Truth –In-Lending Act requires lenders to disclose credit costs in a uniform manner to promote informed use of consumer credit. MCCI will comply with the act by proving the consumer the costs associate with the extension of credit so the consumer will know exactly what they are paying for credit, enabling them to compare credit costs and shop around for the best credit terms. These disclosures will be made at the time that MCCI offer credit or funds to the borrowers and also when MCCI advertises its credit terms to potential customers.

To comply with the Act's requirements, MCCI will give the applicant a Good Faith Estimate at the time the application is made. Prior to the consummation of the transaction, the borrower will be provided with a Truth-In-Lending Disclosure Statement (TIL) that will include at minimum the following information:

Name of lender
Amount financed
Notice of a right to receive an itemization of the amount financed including any charges that are financed
Total finance charges-interest rate plus the cost of obtaining the funds
Finance charge expressed as an annual percentage rate (APR)
Total of all payments
Number, amount and due dates of payments
New payment, late payment and pre-payment provision
Description and identification of the security
Whether the loan may be assumed by a subsequent buyer

Right to rescind: Borrowers will be given notice prior to the consummation of their loan that they have the right to rescind. The right to rescind the credit transaction extends until midnight of the third business day after a transaction closes.

MCCI will also comply with the Truth-In-Lending Act by including all required disclosures in all its advertisements.

D. Regulation X

The Real Estate Settlement Procedures Act (RESPA) of Regulation X requires lenders, brokers, or servicers of home loans to provide borrowers with pertinent and timely disclosures of the nature and costs of the real estate process. In order to comply with the requirements of this act, MCCI will provide the borrower within three (3) business days after receipt of a written application a good faith estimate (GFE) of the amount of or range of settlement charges the borrower is likely to pay. The GFE will include all charges that will be listed in section L of the HUD-1 Settlement Statement. A Uniform settlement statement (HUD 1) will be completed by the person conducting the closing (settlement agent) and must conspicuously and clearly itemize all charges related to the transaction.

E. Patriots Act
To comply with the Patriots Act, MCCI will require that borrowers sign an additional disclosure that allows it to obtain, verify, and record information that identifies each borrower involved in the transaction.

11. Exceptions to the policy

This policy states the general rules for granting loans. Exceptions may be made when, in the judgment of the loan committee, a loan should be approved or ongoing requirements waived in order to allow the organization to meet its mission and approval of such exception would benefit the low and moderate community in our investment area. Exceptions should be documented and monitored on an ongoing basis. The recommended policy exception and resulting decision will be reported to the Board of Directors at the next regularly scheduled meeting of MCCI Board of Directors.

12. Review of Policy

The loan committee will be responsible for reviewing the policy annually and for recommending changes or amendments to the Board of Directors as part of the Board of Directors annual review of policies.

Exhibit A

List of Approved Appraisers:

Exhibit B
List of Approved Closing Attorneys: