Citizen Potawatomi
Community Development Corporation

Commercial Lending Program

Loan Policy

Amended: May 10, 2017

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I. Purpose of this policy

The policies and procedures outlined in this document provide a framework within which the Citizen Potawatomi Community Development Corporation – Commercial Lending Program ("the Loan Fund") will operate its business loan fund.

This manual is meant to be a working document and a set of guidelines to be used by staff and other participants in the Loan Fund. These policies and procedures should be flexible enough to enable the loan program to be responsive to market demands and are designed to be amended from time to time with Board Approval.

The laws of the Citizen Potawatomi Nation will govern the construction and enforcement of all loan agreements. The Citizen Potawatomi Nation Tribal Court will resolve disputes arising out of loan agreements.

II. Mission and Purpose of Financing

The Loan Fund's mission is to provide access to capital through loan fund support and business development services to members of the Citizen Potawatomi Nation and other Native Americans designed to expand the capacity of small businesses and aspiring entrepreneurs.

The Loan Fund's Investment Area is the entire United States.

The Loan Fund's Target Market is

a) enrolled members of the Citizen Potawatomi tribe who own businesses located in the Investment Area,
b) Native Americans who own businesses located in the State of Oklahoma,
c) Native American-controlled non-profit organizations or other Native American Tribes located in the State of Oklahoma.
d) Enterprises of the Citizen Potawatomi Nation, or other sovereign tribal entities.

The Loan Fund seeks loans to businesses that:

a) Create jobs for low to moderate income Native Americans that pay a competitive living wage, and/or
b) Create jobs with opportunities for Native Americans to advance themselves, including job training and developmental opportunities, and/or
c) Help new and existing businesses that strengthen low income Native American communities.

III. Eligibility

A. Ineligible Businesses

The purpose of the business financed by the Loan Fund loan must be legal.

The Loan Fund does not provide financing to businesses whose primary activity is the sale or production of violent or unsafe products or services.

The Loan Fund does not provide financing to businesses engaged in any of the following activities:

a. speculative enterprises
b. pyramid or networking schemes
c. fraternal organizations
d. pornography.

B. Eligibility Requirements

	Commercial Loans
Borrower	Members of the Target Market who own businesses or who control non-profit organizations.
Geographical Location	United States of America
Loan Size	$500 to $12,500,000*
Use of Proceeds	a) Working capital including costs directly related to researching the industry, obtaining licenses, procuring equipment and/or space directly related to establishing a product and market, b) Acquisition of real estate, plant and machinery necessary for growth or maintenance of business, c) Refinancing of existing indebtedness with terms substantially less favorable d) Acquisition of a business
Equity	Business owners may be required to have invested equity in the form of cash or other assets (obtained from personal or family savings) of at least 5% of the total business capitalization.
Collateral	Loan Fund will require liens (2nd and senior) on business and/or personal assets to secure the loan. Loans must not exceed 100% of collateral value, after discounts for asset age and marketability.
Guarantees	Individuals owning 20% of more interest in an applicant business must personally guarantee the loan. Spouses of owners and key staff members must guarantee loans to businesses in which they have an ownership interest or are clearly active in the business. The Loan Fund may accept guarantees from third parties.
No Existing Loan Fund Debt	Applicants who have defaulted on previous loans in full from the Loan Fund will not be eligible for further loans.
Business Training	All Loan Fund Applicants may be required to complete business development training sponsored by the CPCDC prior to funding.
Business Plan	All applicants must have a business plan detailing how the business will operate and perform during the loan term and how loan payments will be made.

* Loans above $300,000 to be reviewed and considered on a case by case basis. Approval made by majority of the full Board of Directors.

C. No Discrimination

Loan Fund shall comply with all federal, State and local law, policy, orders, rules and regulations which prohibit unlawful discrimination because of actual or perceived race, creed, color, religion, national origin, ancestry, or citizenship status, age, disability or handicap, gender, marital status, veteran status, or any other characteristic protected by applicable federal, State or local laws.

D. Loans to Insiders

Although the CDC is not bound by or regulated under the same strict federal statutes that govern supervised lenders (banks and Savings and Loans), such statutes may serve as the basis for defining "insider loans."

Therefore, the following definitions, instructions and guidelines shall be hereafter recognized as the established disclosure parameters for any loan defined as an "Insider Loan," as it relates to the CDC.

(I.) "Insiders" are defined as executive officers, directors, appointed officers and their related interests, and Tribal Enterprises as follows:

1) Elected or appointed tribal officials of the Citizen Potawatomi Nation.

2) Executive officers are defined as the executive director and the officers (if any) appointed by the executive director or the Board of Directors of the CDC.
3) Directors shall be defined as any person or entity who serves as an elected or appointed member of the Board of Directors, of the CDC.
4) Related interests shall be defined as immediate family; defined as husband, wife, daughter, son, mother, father, brother, sister, father-in-law, mother-in-law, son-in-law, daughter-in-law, sister-in-law, and brother-in-law or any entity described above.
5) Tribal Enterprises shall be defined as any business, service or department owned and/or operated by any segment, branch or unit of the Citizen Potawatomi Nation.

(II.) Insider loans, when made, will be made on substantially the same terms and conditions, including rate or collateral, as those prevailing at the time for any other customer. Therefore, any loans made to insiders shall not contain favorable rates, will not involve more than a normal degree of risk, and will not contain other favorable features.

(III.) General Guidelines Covering Loans Made to Insiders

1) Credit applications and accompanying Credit Memos for insider loan requests, will be submitted and reviewed by the Loan Committee. If said request is approved by the Committee, then it will be submitted to entire Board, for full disclosure and final approval or denial. The vote of the Board shall be final.
2) Submissions to members may be in person, or by electronic means.
3) Each Board member shall be expected to cast his or her vote on said submission, within three (3) business days of receipt thereof.
4) Full Board approval, consisting of a simple majority, is required for all extensions of credit to insiders.
5) Declined submissions shall be treated as would any other declined loan, with proper, written notice being sent to the applicant from the CDC loan officer.
6) Approved loans will be processed in accordance with regularly accepted CDC operating procedures.
7) Aggregate loans to any insider, which total more than the CDC's established lending limit, must be approved by a vote of the full Board of Directors.
8) Loans to insiders shall be supported by detailed current financial statements and, as applicable, appraisals from approved sources.
9) Loans made to executive officers and directors shall have a demand feature.
10) Any director or officer with a family or financial interest in any credit application or credit memo from any insider shall abstain from voting on such application or memo.
11) Loan pricing, including origination fees and interest rate, shall maintain conformance with generally practiced policies and procedures of the CDC, to fully comply with existing risk analysis and reserve requirements.

E. Conflicts of Interest

I. A conflict of Interest may be defined as any director having a business or financial relationship with any person for whom a loan request is or shall be considered.
II. In all such events, that Director shall make such relationship known to the Board, and shall abstain from voting on all such loans.
III. In the event any Director shall have a relationship as described above, wherein the loan being considered will not be presented to the full Board, that Director shall be obligated to inform the Executive Director of the relationship of the reporting Board Member, to the requesting Borrower. The Loan Committee, if it approves the loan, will send it on to the full board for final approval.

IV. Loan Products

	Commercial Loans
Interest Rate	WSJ Prime + 2 to 16%, accrued daily and payable per payment terms.
	The Loan Committee may adjust the interest rate from time to time at Loan Committee meetings based on the following: a) local bank financing rates, b) risk of loan repayment, c) the cost of Loan Fund funding, d) revenue requirements of Loan Fund's operating budget e) Staff time required to originate and monitor the loan.
Term	Not to exceed [80]% of the remaining useful life of the collateral.
Amortization	Wherever possible, loans amortize "mortgage style" with level payments of principal and interest. Balloon payments are offered when the likelihood of the borrower obtaining "take-out" financing is high, based on conservative business assumptions. Loan Fund may offer a grace period of up to 6 months after closing during which no payments will be due. Staff shall have the option to incorporate other types of loan terms as appropriate for individual loan structure.
Closing Fee	An amount up to 2% of the loan amount but not less than $250, payable by borrower at closing. The fee may be included in the loan amount.
Expenses	The Borrower is responsible for the costs of legal, recording, filing, appraisal and other third party fees associated with loan processing and collateral perfection.
Late Fee	5% of amounts past due for each increment of 30 days late.
Other Fees	$25 fee for any returned check; $25 Deferral/Extension Fee

Other Products
Other loan products may from time to time be developed and added to these Loan Policies following approval of the Board of Directors.

V. Portfolio Diversification

Startups	Loan Fund limits the dollar amount of loans to start-up businesses to 50% of its total loans outstanding. Startups are defined as businesses with less than two full year of operating history.
Single Borrower Limit	a) Loan Fund limits the size of loan(s) to a single borrower or project to 20% of its loan capital (the total of Loan Fund's funding borrowed from third parties plus net assets dedicated or restricted for lending), but not to exceed $300,000 (or currently established limit) without the approval of the Loan Committee and the full Board of Directors. b) The 20% single borrower limit may be exceeded if it is for a project to a sovereign nation and the CPCDC has excess cash on hand, according to its liquidity requirements. c) The 20% single borrower limit provision shall not apply to certain special program loans, and in the event such loans are requested, each request shall be approved or declined on a case by case basis by the Board of Directors.

VI. Loan Staff and Loan Committee

1. Loan Staff

Loan Fund's Loan Staff is comprised of Loan Officers and a Portfolio Manager.

The Loan Staff is responsible for implementing the lending components of the mission outlined in Loan Fund's statement of purpose, articles of incorporation, and by-laws. Specific responsibilities include: analyzing and recommending loans to the loan committee and the Board of Directors, executing loans, monitoring portfolio risk, collecting repayments and managing defaults and foreclosures. All of the Loan Staff's tasks are to be carried out in accordance with this Loan Policy and at the direction of the Board of Directors.

No member of the Loan Fund's staff may recommend or participate in the approval or collections of any loan to a related party.

B. Loan Committee

The Loan Committee ("LC") is a standing committee that reports to the Board of Directors that meets when necessary to provide oversight to the Loan Staff and to carry out responsibilities as outlined below and in the Articles of Incorporation. Actions of the Loan Committee are reported at the Board's regular meetings.

Composition

The LC is comprised of no fewer than four members and no more than seven members.

Members are nominated and approved by the Board of Directors. Members are professionals who, as a group, have the following qualifications:

1. have experience in small business lending to low-income communities in the Investment Area,
2. represent the Target Market as a small business owner or director of a nonprofit organization,
3. have legal, accounting, industry or other requisite expertise,
4. have loan portfolio operation and/or management experience, preferably in a community development environment,

5. sit on Loan Fund's Board of Directors
6. Executive Director

These members have a diversified skill set and knowledge base that can actively contribute to loan approval, fund management and portfolio management decisions.

Regulations

1. LC member terms are [2] years. LC members may serve maximum of [two] consecutive terms. Terms and limits may be extended at the discretion of the Board of Directors.
2. The LC will meet as called by the Board Chairman or as part of a Board of Directors meeting.
3. Minutes will be kept in a corporate record book at Loan Fund's office or in conjunction with normal Board minutes and made available for public inspection.

Voting

1. A quorum exists when three members are present.
2. LC loan and portfolio decisions are made by simple majority.
3. LC decisions to remove a member require 2/3 majority. Reasons for removal include, but are not limited to, a) activity that is deemed to be against the interest of the organization, b) disclosure of confidential Loan Fund information, c) absence without excuse for two consecutive meetings, or d) absence from 50% or more of the LC meetings during any calendar year.
4. LC members may not vote or attempt to influence the votes of others on loans to related (financially or otherwise) parties.
5. LC members may not vote or attempt to influence the votes of others on loans where there may exist an actual or potential conflict of interest.
6. Presentation and voting may be in person, or by electronic means.
7. Members located 50 or more miles from the meeting location may attend by conference call.
8. Loans may be cast in person or by written or electronic means.

Responsibilities

1. Critically assess and analyze credit memos.
2. Approve or deny loans recommended by the Staff.
3. Approve loan rating assignments.
4. Review portfolio risk and sufficiency of loan loss reserve.
5. Review delinquent loan status and approve foreclosure and collection actions.
4. Execute other special projects assigned by Board of Directors.

VII. Loan Underwriting

A. Initial Screening

Loan Assistant will:

1. screen potential applicants to confirm that they meet the eligibility requirements in III A and B,
2. give them a copy of the Application attached as Exhibit A,
3. describe the third party technical assistance available to new business owners.

The Loan Officer will answer any questions about the Application and may refer the applicant to training or provide one-on-one technical assistance directly, where appropriate.

B. Application Review

Upon receipt of a reasonably complete application, the Loan Officer confirms the following:

1. The loan requested is consistent with:
   a) the loan product(s) offered
   b) Eligibility Requirements, and
   c) Portfolio Diversification restrictions.
2. Funding is available for the proposed loan.
3. Borrower does not need further business training prior to due diligence,
4. All necessary documentation has been submitted by the applicant.

Incomplete applications are returned to the applicant with a message indicating information required for the Loan Fund's review of the application.

C. Due Diligence

The Loan Officer conducts a complete and thorough due diligence of the proposed loan including reviewing cash flow projections (including the assumptions underlying the projections) and the business plan received from the applicant, researching the industry, making a site visit, researching the borrower's credit rating and structuring the loan payment schedule to comply with the borrower's needs. Refer to Underwriting Guidelines for the analysis customarily used by the Loan Fund.

The due diligence process is finalized when the Loan Rating is assigned (VII E and Exhibit B below). Only ratings of A, B or C are acceptable for new loans.

If the due diligence results are not acceptable, the Loan Officer will notify the applicant in a letter containing the reason for the denial and possible changes that could make the loan acceptable upon re-application. In this case, the Application Fee will not be refunded but can be applied to one future re-application, if such re-application occurs within six months of the date of the letter.

After six months from the application date, should the applicant not reapply, the Loan Officer will send all original documents (other than the application) and other information received in connection with the application.

D. Credit Memorandum

If the due diligence results are acceptable, the Loan Officer prepares a Credit Memo based on the template attached as Exhibit C. The Credit Memo should contain a summarized analysis of all relevant risks ascertained by the Loan Officer during the due diligence process and explain the proposed Loan Rating assignment. The Credit Memo also includes a list of conditions that would need to be satisfied prior to closing.

E. Loan Rating

Based on the Loan Rating System detailed in Exhibit B, the Loan Officer recommends a Loan Rating that reflects the risk of the loan in comparison to the loans in the existing portfolio. The Loan Rating is the basis for the loan loss reserve ("LLR") amount associated with the loan upon closing. After closing, the loan rating is updated to reflect the results of monitoring efforts (Section XI below).

VIII. Loan Approval

A. Staff Recommendation

Based on the contents of the Credit Memo, including the loan rating recommendation, the Loan Officer may recommend a loan for approval. The Loan Officer recommends loans by submitting a draft Credit Memo to the Portfolio Manager for review and comment. Loan Officer and Portfolio Manager may work together to make changes to the structure of the loan, the risk profile of the loan and/or the Credit Memo. Following finalization of the Credit Memo, the Portfolio Manager signs the signature page of the Credit Memo.

The Loan Officer and/or the Portfolio Manager present the loan opportunity to the Executive Director who signs the Credit Memo if he/she agrees with the recommendation. The Executive Director may require changes to the loan or Credit Memo. The Loan Officer schedules the loan for review at the next meeting of the Loan Committee and distributes the Credit Memo to committee members at least four days before the meeting.

B. Lending Authority

Loan Description	Approval Required
a) loan approvals b) changes to Loan Ratings occurring after closing	1. Executive Director and Portfolio Manager, <u>and</u> 2. Loan Committee
Loans that are: a) materially not in compliance with Loan Policies, or b) loan foreclosures and collateral repossessions, or c) Any loans designated "Insider Loans" as set forth in Section III of the Policies & Procedures, and <u>ANY loan wherein the principal balance exceeds the established limit (currently $300,000.)</u>	1. Executive Director and Portfolio Manager, <u>and</u> 2. Loan Committee, <u>and</u> 3. Board of Directors.
Loan restructurings (any changes to a loan involving an extension of term or lowering of payments)	▪ <u>First and second restructuring</u>: 1. Executive Director and Portfolio Manager ▪ <u>Subsequent restructurings</u>: 1. Executive Director and Portfolio Manager, <u>and</u> 2. Loan Committee

C. Approval

Any approving party may decline a loan for the following reasons:

- if the loan does not fit within Loan Fund's mission
- the risk of repayment is unacceptable
- the loan would cause diversification of the outstanding loan portfolio to be outside the guidelines
- insufficient information
- the loan is materially out of compliance with this Loan Policy
- funding for the loan is not available.

Following loan approval, each approving party signs the signature page attached to the Credit Memo, making note of any additional terms or conditions imposed by the approving body (the "Loan Approval"). For the Loan Committee, the Committee Chair signs the Credit Memo. Dissenting committee members are free to note any issues they may have had with the loan on the signature page.

IX. Loan Closing

A. Executed Commitment Letter

The Loan Fund uses a commitment letter to summarize the terms and conditions of the Loan Approval for the borrower. The Commitment Letter is a legal agreement between the Applicant and the Loan Fund and obligates Loan Fund to disburse the loan should the Applicant satisfy its obligations, including pre-closing conditions, outlined therein.

After obtaining a Loan Approval, the Loan Officer will draft a Commitment Letter, based on templates drafted by legal counsel and maintained by the Loan Fund that reflects the terms and conditions contained in the Loan Approval. Loan Officer will then submit the Commitment Letter for approval by the Portfolio Manager, and then by the Applicant.

The Commitment Letter is the basis for discussions and negotiations with the applicant. Changes that would cause the terms of the Commitment Letter to materially deviate from those of the Loan Approval must be approved by the required approving parties. The approval for the deviation is noted on or attached to the signature page of the Credit Memo.

The Executive Director or Assistant Director shall countersign the Commitment Letter on behalf of Loan Fund. The signatory confirms that the terms and conditions of the Commitment Letter and Loan Approval are consistent in all material respects. In the interest of maintaining a check and balance system, in no event should the person who prepares the Commitment Letter also be the sole person who signs the Commitment Letter on behalf of Loan Fund.

The Applicant and any guarantors sign the Commitment Letter on behalf of the Applicant.

B. Loan Documentation

After the Commitment Letter is signed, and any deviations from the Loan Approval are approved by the required parties, the Loan Officer will prepare draft loan documents based on templates drafted by legal counsel and maintained by Loan Fund that reflect the terms and conditions contained in the Commitment Letter as well as other terms that are customary for lending in the geographical area.

The Executive Director has authority to sign the loan documents for which Loan Approvals have been obtained on behalf of Loan Fund. The signatory confirms that the terms and conditions outlined in the loan documents and Loan Approval are consistent in all material respects.

The Loan Officer works with the Applicant to schedule a Closing Date by which all conditions to closing will have been satisfied.

C. Disbursement

The Loan Officer postpones the closing date if pre-closing conditions do not look as if they will be satisfied prior to the closing date.

At least 5 business days prior to the closing, the Loan Officer submits to the CPCDC Accountant a written request for the disbursement amount together with the loan loss reserve to be posted for the loan. The Portfolio Manager and Executive Director sign the request after confirming individually that the loan disbursement is in accordance with a Loan Approval. A copy of the Loan Approval (the Credit Memo and signature sheet), along with any subsequent changes to the Approval, should be attached to the disbursement request.

The CPCDC Accountant prepares a check for the disbursement amount in time for the scheduled closing.

On the closing date, Borrower and Loan Officer or Portfolio Manager meet and discuss the documentation, sign the documents and the Loan Officer gives the Borrower the disbursement check(s). Should the applicant plan to bring legal counsel to the closing, Loan Officer will arrange to be represented by the Loan Fund's legal counsel.

On the closing date, the CPCDC Accountant posts the loan loss reserve amount indicated on the written disbursement request.

X. Maintenance of Loan Loss Reserves

The Loan Fund will maintain an accounting reserve for loan losses in accordance with FASB standards and the chart below. The loan loss reserve ("LLR") on the Loan Fund's balance sheet is a contra account to the Loans Outstanding asset. The LLR will equal or exceed the aggregate of the loan loss reserves assigned to each loan. Loan loss reserves are a function of the Loan Rating which is approved by the Board and modified from time to time as a result of staff's monitoring efforts. The LLR requirement may be waived or reduced, if the Board of Directors deems fit, such as when a tribal, federal or cash guarantee or insurance is associated with a particular loan. If a 90% Federal Insurance or Guarantee is in place, and is expected to be honored, the board may opt to carry up to 10% LLR.

Any increase to the contra-asset account is accompanied with a Loan Loss Expense (or Provision for Loan Losses) entry on the income statement.

Loan Loss Reserves for loans rated a "D" shall be supported by appropriate analysis of all considerations at the time such reserves are established.

Loan Rating	Loan Loss Reserve
A+	**0%**
A	**5%**
B	**10%**
C	**15%**
D	**16-100%**

XI. Loan Monitoring

A. Documents and Files

For each loan closed, the originating Loan Officer maintains a file containing the following information:

The Loan File:

1. Research and analysis upon which Credit Memo was based
2. Original copy of Loan Approval including the Credit Memo
3. Executed Commitment Letter and Loan Documentation.
4. Any amendments or other legal agreements between Loan Fund and the Borrower

The Post Closing File:

1. Milestone schedules and dates of compliance
2. Periodic disclosures from Borrower
3. Annual tax returns
4. Log of discussions between Loan Fund and Borrower, including site visit notes.

The original loan files are maintained in the Loan Fund office in a fire-safe cabinet.

B. Receipt of Loan Payments

The Portfolio Manager is responsible for producing the aging report, recording payments in the loan software and confirming whether all payments have been received.

All payments received from borrowers are applied first to satisfy any outstanding Late Fees, second to accrued interest, and finally to reduce loan principal.

If late fees are not collected with payment the Portfolio Manager has the authority to adjust the aging of the loan in the Downhome Loan Software System as to not reflect the customer as delinquent.

C. Periodic Disclosure from Borrowers

The Portfolio Manager is responsible for confirming receipt of periodic disclosures (milestone schedules, financial statements, new product updates, and confirmation of insurance) required under the Loan Agreement. If disclosures are not received when due, the Loan Officer will contact the Borrower to discuss better performance of disclosure obligations.

The Loan Officer or Portfolio Manager reviews all disclosures from Borrowers to determine whether the condition of the borrower has improved or deteriorated since the Loan Rating was last reviewed.

D. Monitoring Responsibility

The Portfolio Manager is responsible for ensuring that Loan Ratings are updated to reflect the current risk profile of each loan in the portfolio as a result of changes in the market prospects and financial health of the Borrower, payment status or environmental changes that could materially impact the Borrower's ability to meet payment obligations under the Loan Agreement.

The Portfolio Manager may report delinquent payments to a credit bureau on a monthly basis.

The Loan Officer or Portfolio Manager reviews the status of each Borrower in accordance with the following schedule but in any event, at least annually at the Borrower's fiscal year end following the receipt of annual financials and report any changes in the risk profile of the loan to the Board.

Loan Rating	Monitoring Frequency
A	Annually, at Borrower's fiscal year-end.
B	Semi-annually
C	Quarterly
D	Monthly or more frequently

Only loans with a rating of A through C may be approved.

E. Maintenance of Reports

At all times, the Portfolio Manager will maintain a list of the loans outstanding showing the original amount of the loan, the disbursement date, the interest rate, the outstanding balance of the loan, any disbursements to be made in the future under the existing Loan Documents, the maturity date, the delinquency status, the Loan Rating, and the Loan Loss Reserve (in % and dollar amount) (the "Loan Report"). The Loan Report also shows other amounts that are due from borrowers including late and/or return check fees.

XII. Portfolio Management

The Portfolio Manager, with the Executive Director's oversight, is responsible for tracking and reporting to the Board and Loan Committee the performance of the portfolio in accordance with these policies.

A. Portfolio Status Reporting

At each Board and Loan Committee meeting, the Portfolio Manager presents:

1. The Loan Report (defined in Section XI)

2. The Portfolio Report
   A report showing the total loans outstanding, current commitments, unused capital, total loan loss reserve, YTD loan income and fees, diversification of the portfolio and the portion of the outstanding principal that is 60 – 89 days late, 90+ days late and loans in foreclosure.

At each Board and Loan Committee meeting, the Executive Director presents the Capitalization Report outlining the amount available for lending, including contributions to the investment fund(s) received since the last the quarter, plans for capitalization to be obtained over the next twelve months, total loans outstanding, Loan Fund Equity and deployment ratio (the "Capitalization Report").

B. Assessment of Sufficiency of Loan Loss Reserve in light of Portfolio Risk

Monthly, the Portfolio Manager determines the necessary change, if any, to the Loan Rating and Loan Loss Reserve to reflect the borrowers delinquency status.

Payment Status	Loan Downgrade	Loan Rating Recovery
90 days delinquent	Reduce Loan Rating by one category	90 days of on-time payments
120 days delinquent	Reduce Loan Rating by two categories	120 days of on-time payments
180 days delinquent	Reduce Loan Rating by three categories	180 days of on-time payments

From time to time, following periodic monitoring of a loan, the Portfolio Manager and Executive Director may recommend for Loan Committee approval, a change in a Loan Rating, up or down, to reflect a decline or improvement in a borrower's business prospects or other condition which would jeopardize repayment.

The CPCDC Accountant will post changes in the loan loss reserve as directed by the Portfolio Manager, accompanied by the appropriate loan loss expense.

C. Loan Fund Equity

Loan Fund maintains a net asset balance in the loan fund of at least 20% of the sum of all borrowed funds plus net assets dedicated or restricted to lending.

D. Loan Fund Investment Guidelines

The Portfolio Manager, with the Executive Director's oversight, will deposit undisbursed loan funds in a FDIC-insured institution, in an interest-bearing bank account(s) located at the First National Bank & Trust Company of Shawnee. When allowable the Portfolio Manager will seek the highest interest bearing bank accounts available while preserving sufficient liquidity to meet funding requirements over the next twelve months (refer to Asset-Liability matching below).

E. Asset – Liability Matching

The Portfolio Manager will confirm Loan Fund's ability to make scheduled repayments by grouping loans outstanding and investments by maturity and providing for a reserve fund to meet payment obligations assuming at least a <u>six month delay</u> in receipt of payments from borrowers.

F. Non-Accrual Policy
A loan will be placed on nonaccrual if principal or interest has been in default for 90 days or more, unless the loan is well secured and in the process of collection. A loan may be restored to accrual status when two consecutive and timely payments under modified loan terms are received. The consecutive payments may include repayment performance prior to the restructuring.

XIII. Delinquency

The Portfolio Manager will maintain a log of all verbal and written communication about past due payments.

A. 5 Days Late
In the event that loan payments are more than five days late, the Loan Officer will call the Borrower to ascertain why the payment is late and to obtain a commitment for a payment date.

B. 15 Days Late
In the event that loan payments are more than fifteen days late, the Loan Officer will call to obtain a commitment for payment and mail a written notice of the delinquent payment to the borrower.

C. 30 Days Late

In the event that loan payments are more than 30 days late, the Portfolio Manager will call to obtain a commitment for payment and mail a written notice of the delinquent payment to the borrower.

At this point, the Portfolio Manager will review the file to confirm that collateral and other security documentation is in place and in order and that all insurances required by borrower are in place so as to protect Loan Fund's foreclosure and other rights.

Portfolio Manager will update the Delinquency Report to reflect that the loan payment is more than 30 days past due.

D. 45 Days Late

By the 45th day of a late payment, the Portfolio Manager or Loan Officer will make a site visit. The goal of this meeting will be to develop an agreed upon payment plan to bring the borrower current.

E. 60 Days Late

Loan Officer will call the Borrower. Portfolio Manager will update the Delinquency Report to reflect that the loan payment is more than 60 days past due.

F. 90 Days Late

If the payment has not been received by the 90th day, the Portfolio Manager updates the Delinquency Report, drops the Loan Rating by one rating category and reports to the CPCDC Accountant so that he/she can adjust the loan loss reserve accordingly.

At the next Board meeting, the Portfolio Manager makes a full report detailing the nature of the problem and recommending actions including:

a) informing any additional sureties to the loan of the situation;

b) inspection the Borrower's operations, including their books;

c) sending notice of default

d) sending a technical assistance provider visit to the borrower to work on the problems identified by the borrower and/or the lender;

e) in cases where Staff can demonstrate it is reasonably likely that Borrower can repay the loan in the future, restructuring the loan

f) sending the borrower a collection letter from Loan Fund's legal counsel and waiting for an additional period without action.

G. 120 Days Late

If the payment has not been received by the 120th day, the Portfolio Manager updates the Delinquency Report, drops the Loan Rating by another rating category and reports to the CPCDC Accountant so that he/she can adjust the loan loss reserve accordingly.

At the next Board meeting, the Portfolio Manager will present a detailed account of the borrower's operational information and a review of the collateral. The Board will again examine the situation and develop a strategy for further action including:

a) a loan restructuring

b) a strategy to liquidate the collateral

c) a notice of default and the intention to foreclose

d) a further forbearance of action based upon certainty of repayment and confidence of operations

e) sending the loan to the collection agency.

XIV. Loan Foreclosure

In most instances, a foreclosure on collateral will be viewed as the last option. There are, however, instances when foreclosure is the only remedy to a deteriorating situation. Foreclosure may only take place with concurrence of the Board of Directors prior to initiation of foreclosure proceedings by the staff.

All foreclosure proceedings and actions should be done in such a way as to provide maximum protection of the Loan Fund's capital and for the interest of affected parties, including customers and employees of the Borrower.

Loan Fund uses collateral liquidations to cover the cost of the outstanding loan principal, any accrued interest owed to the lenders, and the transaction costs of liquidation (i.e. legal, marketing, staff time).

XV. Write-Offs

Upon the conclusion of collection efforts, Loan Fund will write off the uncollected principal from the loss reserve account. The loan loss reserve may then have to be adjusted so that it equals the aggregate of the LLRs assigned to each loan remaining in the portfolio.

EXHIBITS

Exhibit A. Application Form

See attached

Exhibit B.

1. Summary of Loan Rating System

Loan Rating	Total Points		Loan Loss Reserve	Acceptable for Approval?	Monitoring Frequency
	Lo	High			
A	23	31	5%	Yes	Annually, at Borrower's fiscal year-end.
B	19	22	10%	Yes	Semi-annually
C	15	18	15%	Yes	Quarterly
D	5	14	16-100%	No - reserved for deterioration after closing.	Monthly or more frequently

Exhibit B. Loan Rating System (Continued)

2. Loan Rating Categories

Applicant: ________________________________ **Date:** ___________

			Lo	Hi	Points	
Loan Risk Criteria						
1	**FICO Score** If loan to Sole Prop or Guaranteed by an Individual	Average FICO Scores from Equifax, Transunion and Experian no more than 60 days from loan approval. For co-Borrowers, use average of FICO Scores for each Borrower.	700	+	5	
			650	699	4	
			600	649	3	
			500	599	2	
			0	499	1	
2	**Collateral**	Loan to collateral value, after discounts for liquidity, excluding collateral pledged to senior parties.	110	+	6	
			100	109.5	4	
			90	99.99	2	
			0	89.9	0	
3	**Equity**	Percent of business capital invested by applicant (from own savings - excludes gifts)	20.0%	+	5	
			5.0%	19.9%	3	
			1.5	4.9%	1	
4	**Character**	Applicant's qualification to run business, community business reputation, criminal or other public history, financial and business literacy	Strong		5	
			Medium		3	
			Weak		1	
5	**Business History**	Years of operating history of business	> 24 months		5	
			12 - 23 months		3	
			0 - 11 months		1	
6	**Personal/ Business Debt Service Coverage**	Monthly income divided by fixed monthly expenses (including proposed loan payments)	2	+	5	
			1.5	1.99	3	
			0	1.5	1	

TOTAL	
Loan Rating	