RBI

RURAL BUSINESS INNOVATION CORPORATION

LOAN POLICIES
AND
PROCEDURES MANUAL

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RBI

Loan Policies and Procedures

INTRODUCTION:

This policy manual is an internal RBI document, intended to provide guidance to the staff and governing board of RBI. It codifies RBI's operating procedures and program policies and is subject to modification and revision from time to time as experience dictates. Relevant sections are summarized and distributed as appropriate, to other persons and organizations – including prospective customers, funders, lenders, and partners. Except as determined by authorized personnel, the information contained in this RBI document is deemed confidential and proprietary information.

CHAPTER I
MISSION AND PROGRAM DESCRIPTION

SECTION1: STATEMENT OF MISSION AND VALUES

Statement of Mission

RURAL BUSINESS INNOVATION CORPORATION (RBI) is a Community Development Financial Institution.

The mission of the **RBI,** through its ***LEAP*** Local Enterprise Assistance Program, is to create and maintain local employment, especially for low income persons, support community development, and build a sustainable local economy by financing small enterprises, services and projects that promote social justice, economic opportunity and environmental responsibility.

Statement of Values

RBI Rural Business Innovation Corporation and its LEAP Local Enterprise Assistance Program will not discriminate against any applicant on the basis of: race, color, religious creed, ancestry, national origin, age or sex.

SECTION 2: FINANCING ACTIVITY

RBI's loan program serves the following types of borrowers: 75% of our clients must be below 80% of county median family income (varies by county).

RBI's loan fund is designed to be flexible and responsive to a variety of business situations. Currently the loan fund offers individual direct loans.

It is anticipated that the financing activity will broaden as the organization gains experience, capitalizes RBI, and gains a clearer understanding of the needs of its market.

In the future, other forms of lending will be studied and may be implemented if appropriate. Other types of lending may include participation loans, guarantees, and lines of credit.

The goal of RBI's financing programs is to increase the availability, throughout Columbia, Lycoming, Luzerne, Montour, Northumberland, Schuylkill and Sullivan counties, Pennsylvania.

SECTION 3: DEVELOPMENT SERVICES (TECHNICAL ASSISTANCE)

Through individual consulting, classroom training, technical assistance and financing, RBI is a source of business financing for people who are unable to access capital from other traditional sources. 75% of our clients must be below 80% of county median family income (varies by county) as defined by HUD.

CHAPTER II
LOAN PROGRAM DETAILS

SECTION 1: LOAN PRODUCTS

RBI offers direct term loan products, which are distinguished by size, allowable use of loan proceeds, the process for review and approval, as well as eligibility and underwriting criteria. Distinctions in underwriting are described more fully in Chapter III.

Additional products may be developed and added at a later date.

SECTION 2: LOAN ELIGIBILITY CRITERIA

Eligible borrowers and Uses

Borrowers are eligible to apply for a loan from RBI if the business:

- Is located in rural communities within the target area of northeastern Pennsylvania including: Columbia, Lycoming, Luzerne, Montour, Northumberland, Schuylkill and Sullivan counties, Pennsylvania.
- Is owned by low- and moderate – income persons.
- Creates or maintains jobs for low- and moderate – income persons.
- Provides essential or important services in low- and moderate- income communities.
- Results in lasting contribution to the region’s economic development.

RBI does not make loans to: Adult entertainment businesses, bars, gaming businesses, financial institutions; including but not limited to check cashing outlets and any business deemed to be unlawful.

Eligible Loan Purposes

RBI's borrowers can use their loan proceeds for any of the following based upon the specifics outlined in their loan application and in RBI's written loan commitment.

RBI makes loans for:

- Property acquisition
- Leasehold improvements
- Restoration and rehabilitation of real property
- New construction
- Purchase equipment, machinery, furnishings and inventory
- Working capital
- Start-up expenses
- Accounts receivable factoring

If the business proposes rehabilitation and/or new construction, the applicant must be the owner of the property, except when the applicant is seeking acquisition financing.

RBI does not make loans for the sole purpose of:

- Retiring existing debt
- Payment of delinquent taxes
- Liens placed by third parties

RBI may reject any loan application if the nature of the project contradicts RBI's mission and values.

SECTION 3: LOAN TERMS & CONDITIONS

Loan Sizes

RBI's loans range from $500.00 to $50,000.00. The desired average loan size is $10,000.00 as RBI's capital increases over time, maximum loan amounts may change.

The loan size for each borrower depends on the needs of the project, the experience of the borrowers and the associated risks. First-time borrowers generally receive smaller loans than seasoned borrowers. Loan amounts may also vary based on RBI's overall portfolio risk levels, current liquidity, and expected loan demand.

Interest Rates

Interest rates on RBI's loans are fixed for the term of the loan. Interest rates are determined on an individual basis by the Loan Committee or the Loan Fund Manager and are based on the repayment plan and debt service capacity of the [borrower/project]. RBI also considers its cost of funds, its need for spread or earnings on its loan portfolio, the terms and purpose of the loans, and the collateral offered by the borrower when establishing the rate to be charged to a particular borrower. A minimum finance charge of $25.00 will apply to all loans.

Loan application fees, loan origination fees, and reasonable expenses incidental to making the loan and for arranging, negotiating, securing, documenting, servicing, and collecting the loan may be charged and these charges are not included in the calculation of the lending rate.

Application fee	1% of the loan amount, or a minimum of $25.00, and a maximum of $500.00 (may be financed).
Closing Costs	Any required attorney fees and all applicable recording fees will be paid by the borrower.
Late charges	5% of the monthly payment amount with a minimum of $5.00 for any payment more than 15 days late.

Loan Terms

RBI approves its loans in keeping with the needs of the borrowers and within the limits of its own capital as well as within the specific limits established for each loan product. Sixty (60) months is the maximum loan maturity.

The terms of all RBI loans are matched to the project schedule and are negotiated with each borrower.

Generally, the maturity of each loan is determined by:

- The borrower's ability to repay
- The proposed use of proceeds
- The timeline of the project
- RBI's available resources

Collateral

RBI requires collateral for all loans exceeding $5,000. Collateral can be required for loans of $5,000.00 or less at the discretion of the Loan Fund Manager.

Collateral can be: real estate, cash or cash equivalents, corporate assets, equipment, inventory, receivables, and personal or institutional guarantees. The amount and type of collateral acceptable will be at the discretion of RBI and will generally be sufficient to assure repayment of the loan.

Repayment Structure

RBI loans will be structured usually as term (installment loans); although, interest-only loans with a balloon payment of all principal upon maturity (short-term), and balloon loans can be approved for larger loans (mortgages, etc.).

Other Loan Conditions

In addition to the above, and to the application requirements described in Chapter 4, all RBI borrowers must comply with certain reporting requirements in order to be eligible to apply for credit, including the following:

- A business plan is required for all loans regardless of size.

- Signed statement that there are no outstanding judgments pending against the loan applicant

- Agreement to provide quarterly financial statements (income statement, balance sheet and statement of cash flow) to RBI for review during the term of the loan.

- Agreement to participate in Training and Technical Assistance Programs. RBI borrowers may be encouraged to participate in training programs – and new borrowers may be required to attend a minimum sequence of courses as a condition of their loan approval.

- Agreement to participate in RBI's marketing and other promotional efforts. RBI's name (and logo) can be included in signs, press releases, and other printed information listing institutions supporting the project's success.

CHAPTER III
LOAN REVIEW PROCESS

SECTION 1: APPLICATION REQUIREMENTS

The first step in the RBI process is generally an application assembling and completing a full loan application. The application form supplies RBI with basic information about the borrower and the loan request. A RBI staff member will advise the applicant regarding their eligibility and scheduling of the full loan request.

SECTION 2: APPLICATION AND PROCESSING FEES

Application Fee

RBI charges loan applicants a fee of $25.00, due with submission of the full application materials, so help cover the costs of reviewing the request.

The purpose of RBI's application fee is to cover the direct costs of the loan processing and some of the administrative expenses of reviewing the loan request.

Origination Fee

RBI may also charge an origination fee of 1% at closing. The origination fee can be included in the loan request and deducted from the proceeds prior to disbursement to the borrower.

At its discretion, the RBI may substitute a commitment fee for the origination fee or waive or modify the origination fee.

SECTION 3: LOAN REVIEW & APPROVAL

Preliminary Eligibility Review

As a first step, a Loan Fund Manager verifies that the applicant meets RBI's eligibility criteria through a review of the information provided on the Application.

Loan Fund Manager Evaluation

The RBI Loan Fund Manager then reviews the applicant's business plan and verifies whether the application is complete and all needed documents are attached. The Loan Fund Manager reviews the application for compliance with RBI mission and goals, soundness of management, adequacy of development plan, and cost projections. The Loan Fund Manager may also visit the site and meet with the applicant.

Loan requests up to, and including $5,000.00 are reviewed and can be approved by the Loan Fund Manager.

For loans exceeding $5,000.00, the Loan Fund Manager uses the information supplied by the applicant to prepare a written credit memo summarizing the details on the loan request and an analysis of strengths and weaknesses of the loan request and the proposed project. (See attachments for Credit Memo.)

The Loan fund Manager may recommend rejection of a loan application without sending it to the Loan Committee. A report indicating all rejected loan applications, including the reason(s) for the denials, is submitted to the Loan Committee for examination on a regular basis. The Loan Committee will report its rejections to the Board a minimum of every six (6) months.

Loan Committee Review

At least one week prior to its scheduled meeting(s), the RBI Loan Fund Manager prepares and submits a loan package to the Loan Committee. The package includes a summary cover sheet, the written credit memo, and other attachments as appropriate.

The Loan Committee meets as needed, reviews the written credit memo(s) and related documents, clarifies and verifies information about the proposed loan(s) with the Loan Fund Manager, and refines the loan recommendation(s) which it will forward to the Board of Directors in the form of resolutions.

The Loan Committee will determine which loans may be approved based upon their compliance with RBI's underwriting criteria as well as other factors. Prior to review of specific credit request the Committee will receive and review the following reports prepared by staff:

- Capitalization Report: to determine the total capital currently outstanding in loans, the volume of capital which may be committed though not yet disbursed, the remaining amount of capital available for lending, the terms and conditions attached to such capital, and to review the overall capital structure compared to established Portfolio Management policies of RBI.

- Loan Portfolio Report: to determine the status of loans outstanding and the degree to which the risk profile of the individual borrowers of the aggregate portfolio may limit RBI's ability to commit to new loans.

- Pipeline Report: to determine anticipated loan requests in the event that total available capital is limited and the setting of priorities may be required in the short term.

The Loan Fund Manager attends the Loan Committee meeting to present and support his/her evaluation and recommendation. To approve a loan request, the Loan Committee must be sufficiently satisfied regarding the risk and benefits associated with the loan – which include an analysis of both the individual loan and the entire RBI portfolio.

The Loan Committee's minutes record the actions of the Committee. Additionally, the Loan Committee reports its actions and recommendations to the RBI Board of Directors in the form of resolutions which contain basic information about the loan such as: borrower name, loan amount and terms, loan purpose.

Following the approval or denial of a loan request, the RBI staff prepares a commitment letter or informs the applicant of the rejection.

SECTION 4: LOAN UNDERWRITING CRITERIA

RBI's loan applicants are considered on a first come-first served basis. Staff members are continuously apprised of applicants in the pipeline as well as RBI's current capital volume and may prioritize applications at their discretion.

The RBI Loan Committee, following extensive analysis by RBI's Loan Fund Manager, determines which loan applications to approve through a review of the borrower's credit history and management capacity, the financial feasibility of the project, the take-out, and the quality of the collateral. The result of the Loan Fund Manager's analysis of the borrower and the project is presented to the Loan Committee in the form of a written Credit Memo. The Loan Committee then makes their decision for final approval.

The staff and the Loan Committee of RBI analyze loans based on the following factors, each of which is explained further in subsequent pages:

A. Credit factors

1. Borrowers credit report/history
2. Equity
3. Liquidity
4. Break Even Analysis
5. Efficiency of Operations
6. Earning Trends
7. Repayment Plan

B. Market factors

1. Market analysis
2. Competition
3. Market strategy
4. Unique Conditions

C. Management capacity/experience

1. Key personnel and staff
2. Management structure and decision-making

D. Collateral and Valuation

The loan applicant must specify the location of the collateral and agree in writing not to sell or relocate or take any action that would encumber or devalue the collateral at any time during the term of the loan, unless written approval has first been obtained from the RBI. Property and/or liability insurance may be required with RBI named as the loss payee on insured assets.

When applicable, RBI takes first lien position on all assets financed with its loan proceeds.

E. Technical Assistance Needs

The following provides further detail on considerations for all underwriting criteria.

A. Credit Factors

1. Repayment Ability:

RBI will normally look at the following factors in evaluating repayment ability.

a. The ability of the applicant's business to generate sufficient cash flow and income from current operations, i.e., without the added effects of the loan proceeds. This is the most conservative criterion of repayment ability and requires that the business have an operating history that shows positive cash flow and income.

b. Their ability to repay the loan from the cash and income generated by the use of the loan proceeds, i.e., the projected business volume if the loan is made. There are two aspects of this:

    - An analysis of cash flow to determine if loan principal and interest payments can be covered;

    - An analysis of projected net income to determine if principal payments will reduce gross income below levels acceptable to the owners and investors.

The loan applicant must understand and be able to show RBI how the use of the loan proceeds will generate additional business volume, net cash flow and income.

Generally, repayment ability should be adequate to meet all maturing obligations and provide a margin for contingencies. A debt service coverage ratio of 1:25 is the baseline. Deviations are fundable, but require added collateral.

2. <u>Equity:</u>

Equity demonstrates the ability and willingness of the applicant and other investors in the business to risk their capital and make the project work, even when difficulties in business earnings occur. For this reason, a small business's loan application will be stronger to the extent that equity is held by the managing principals rather than by outside investors. For an on-going firm, equity also summarizes the results of historical operations.

a. For start-ups, equity contributions should be sufficient to launch start-up capitalization. No ratio predicts this. A detailed cash flow and opening day balance sheet analysis are required. An analysis of equity should include the uses as well as its proportion of total capital.

b. Businesses with an operating history should have a debt to equity ratio of 8:1 or lower. If not, a detailed worst-case scenario analysis is required.

3. <u>Liquidity:</u>

RBI's credit analysis of an on-going firm will include an examination of the applicant's liquidity position. This includes its ability to pay current obligations on time, to operate efficiently from a cash standpoint and to handle current contingencies.

a. Insights into the quality and adequacy of liquidity are gained by reviewing:

    - Net working capital quality as reflected by the quality of accounts receivable and inventories
    - Current practices relative to accounts receivable control, inventory control and payable management.
    - Ability to take advantage of vendor quantity discounts and discounts for prompt payment.
    - Net working capital levels as compared to industry standards.

b. This analysis takes on greater significance when the pupose of the requested loan is for working capital. Liquidity is measured by the following:

- Net working capital = cash equivalents and accounts receivable minus current liabilities.
  This should at least be equivalent to the expense of one payroll period and may need to be as much as one month's working capital requirements.
- Quick ratio = cash equivalents and accounts receivable/current liabilities.
- Current ratio = current assets/current liabilities
- Sales divided by net working capital

4. <u>Break-even Analysis:</u>

The applicants' volume of business will be subject to the following standards:

- If this is a start-up, break even should be projected to be achieved within the term of the loan.
  Careful analysis of the assumptions justifying this projection will be required.
- The absence of break even in an on-going business calls for careful study of the firm's market (Is there a market?) and market strategy (Are they able to reach their market?), as well as the management of the firm.
- Finally, trends in the volume of business should be analyzed for any business with a historical record.

5. <u>Efficiency of Operations:</u>

Whereas banks often compare loan applicants to industry standards for various operating ratios, applicants to RBI are usually much smaller than the smallest size categories listed by Robert Morris or other references. RBI will, where possible, compare the applicant with an operating history to other local firms of similar size and industry about which we have financial and statistical information. This includes other firms in RBI's loan portfolio. Another informal indication of the applicants' efficiency is the responsiveness, both in time and completeness, with which they respond to requests for information, data or clarifications.

6. <u>Trends:</u>

For purposes of credit analysis, RBI will look at the trend in earnings as well as the usage of such earnings for such purposes as expansion, fixed asset acquisition, training and benefits that ensure retention of key staff.

7. <u>Credit History:</u>

If the applicant's credit history is not clean (due to collections, judgments, delinquent taxes or bankruptcies) extraordinary circumstances will be documented.

B. Market Factors

1. Market Analysis:

A thorough analysis by the applicant of the need for their goods or services is fundamental. RBI will review loan applications for information and analysis on the following market issues:

- Who the (potential) customers of the business are, and how large the total demand is.
- The trends and outlook for the industry and the market to be served.
- The general economic environment in which the applicant operates and trends in the local economy.
- The legal, political, technological and regulatory climate in which the business operates or will operate, where relevant.

2. Competition:

Equally important is the amount and quality of the competition faced by the applicant. An adequate analysis of this will present information on the following:

- Who the major competitors are, their marketing strategies, what share of market each holds and their strengths and weaknesses in the market.
- The likelihood of other new competitors entering the field.

3. Market Strategy:

RBI's analysis of each application will look for a well articulated, clearly justified and reasonable marketing strategy based on the applicant's analysis of the market and competition.

- The applicant's plan to make itself different from the competition or more attractive to customers.
- The extent to which the market strategy proceeds logically from the market analysis and the strengths and weakness of competitors presented in the plan.
- Additional information on market strategies that is available to staff or board members of RBI: Does applicant's analysis seem reasonable in light of what we know about the industry or community?

4. Unique Market Conditions:

To some extent, every market is different. Yet some applicants for RBI loans will be developing new markets or attempting to meet existing needs in new ways. Our analysis will assess this and evaluate the applicant's ability to deal with it. If there are unique conditions in the market this applicant serves, do they recognize them? Does their market strategy deal with them? Does it appear adequate to the conditions they face?

C. **Management and Organization Factors**

1. Key Personnel of the Applicant's Business:

Of central importance to the success of any organization is the management team. This may include the owner or owners, key managers and technical personnel and, especially of nonprofit organizations, the Board of Directors. Their skills, style and commitment will make the difference when the unanticipated occurs, as it usually does.

Key evaluation points for loan analysis center on the background, relevant experience, integrity and past performance of the top individuals, their depth of understanding of their specific roles in the organization, their commitment to the organization or business and their willingness and ability to work together in a supportive manner. Also important is the information on the potential for any key individuals to leave the organization, what effect this would have, and the ease of their replacement, both from within and from outside the organization.

At a minimum, it is important that RBI staff gain personal knowledge of the person who is or will be the general manager or chief operating officer. This will be accomplished through personal visits to observe and talk with the manager as well as through talks with others in RBI or the community who have experience in this and related industries, their training and management and, especially, his or her attitude toward financial management.

Information on key staff members will focus on their background, experience, and competence in their roles with the applicant organizations. The loan analysis will include an evaluation of the range of skills among key staff, the complementarily and completeness of these skills and any skill gaps in the organization.

2. Management Structure and Decision-making:

A complete loan analysis will include information on the effectiveness of the organizational structure and decision-making process of the applicant. Analysis centers on the degree to which each part of the management team understands its particular responsibilities and how effectively each relates to others in furthering the operation of the organization.

RBI's analysis will address where ownership and control actually lies, who makes important decisions about the direction of the organization, and whether key-operating managers can make effective decisions in a crisis. (The last is especially important in non-profit and cooperative organizations). Review should focus on the degree of overlap between decision-makers and owners and whether key stakeholders are routinely involved with major decisions.

D. Collateral and Valuation

1. Amount:

This loss in value, coupled with a forced sale, may not provide sufficient funds to liquidate indebtedness. If a potential borrower cannot offer complete collateral coverage, the percentage that is not covered must be available in RBI's loan loss reserve. Availability is determined monthly as stated in monthly reports. RBI's interest in all collateral will be perfected.

2. Type:

Pledged collateral may consist of a variety of assets, including real estate, accounts receivable, equipment, or anything the borrower holds of value.

E. Technical Assistance Needs

When necessary, RBI will offer a borrower technical assistance. Any such technical assistance will be in response to weaknesses perceived in the loan application or in the course of obtaining and reviewing application information and will be provided as advice only.

Any specific arrangement for technical assistance may be written into the loan contract and may include specific time limits for completion of a plan or specific improvements in organizational capacity.

The failure to meet these covenants may be a condition of default and be cause for acceleration of the loan. In the majority of cases, RBI will provide the needed technical assistance to the applicant at no charge. RBI may provide this service by relying on in-house expertise or through contracts RBI has with special consultants or in partnership with other community development organizations. On rare occasions, the cost of this technical assistance may be included in the amount of the loan from RBI and amortized over the period of the loan.

SECTION 5: LOAN DENIALS

RBI retains complete discretion in determining the approval and rejection of loan requests. These decisions are made based upon established underwriting criteria as well as special requirements of funding or capital sources as well as RBI's portfolio management policies. AS a result of continuously changing circumstances, RBI's ability to approve any particular loan request may vary from time to time.

In the event that a loan request is denied, the RBI Loan Fund Manager will inform the applicant in writing.

CHAPTER IV
Loan Closing Procedures

SECTION 1: LOAN DOCUMENTATION

Once a loan request has been approved, the RBI staff will prepare the necessary documents for closing, disbursing and securing the loan.

Loan Commitment

Immediately after loan approval, the Loan Fund Manager prepares a written loan commitment.

The loan commitment specifies the following:

- Interest rate of the loan
- Frequency of payments
- Amount of each payment
- Term to maturity
- Collateral to be secured
- Total loan amount
- Use of loan proceeds
- Disbursement schedule
- Origination fee and other charges due
- Insurance requirements
- Terms of default
- Reporting, technical assistance, training requirements
- Penalties for nonpayment or late payment
- Special conditions, if any
- Expiration of the commitment

The borrower must countersign the commitment letter – to affirm agreement with the terms and conditions offered – before RBI further prepares for loan closing. RBI loan commitments expire within sixty (60) days unless otherwise extended by the Loan Committee or staff.

As a condition of disbursement, all borrowers must submit their most recent financial statements, verification of required insurance, identification of RBI as loss payee on all insured collateral, verification that all taxes and IRS withholdings are current, and appraisals for any real property serving as collateral.

Loan Agreements and Documentation

Upon receipt of a counter-signed commitment letter from the borrower, the RBI staff prepares standardized loan documents, which may include the following:

- A promissory note
- Loan agreement
- Mortgage or security agreement
- Insurance binder on property with RBI named as loss-payee
- UCC filing

RBI legal counsel may have approved all documents, but RBI should urge borrowers to conduct a legal review on their own behalf.

SECTION 2: LOAN DISBURSEMENT

No funds are disbursed until the borrower has satisfied all conditions established by the Loan Committee (or staff) as prerequisites for disbursement and also signed the Promissory Note and Loan Agreement, as well as other documents necessary to perfect RBI's lien on the collateral.

CHAPTER V
TECHNICAL ASSISTANCE, SERVICING AND COLLECTIONS

SECTION 1: MONITORING & TECHNICAL ASSISTANCE

A. Monitoring

1. Direct Technical Assistance

When appropriate, RBI provides borrowers with technical assistance through its staff and consultants. This technical assistance is usually a response to weaknesses identified in the loan review process and is provided as advice only. The staff will regularly review with borrowers any technical assistance needs that the borrowers, the staff or the Loan Committee identify.

2. Reporting

All borrowers will be required by the Loan Agreement to submit quarterly financial statements in a format acceptable to RBI.

All borrowers must also notify RBI of the following during the term of the loan:

- An annual audit
- Any change in governance or management
- Any other debt or borrowing, for this project or any project
- Any change or loss in property and casualty insurance

RBI will prepare and mail the following annual reports for borrowers for the preceding calendar:

- IRS 1098
- Report on loan status to date (amount paid to date in fees, interest, principal and outstanding balance)

3. Annual Review

Each year, the staff of RBI will undertake an "Annual Review" of the Loan Portfolio – to be summarized in a written report to the Loan Review Committee – including the following:

- An in-person visit to each business borrower.
- A drive-by and personal phone call to each borrower.
- An in-person evaluation of the continued value of any collateral securing the loan.
- A staff reviews of loan documentation to verify compliance with loan conditions and perfection of security interest, supplemented by a review by CPA conducting annual financial audit.
- Taking a photograph to document the condition of the borrower's enterprise or property and maintain a chronology of improvements/changes to the project.
- Photocopying a payment check in order to keep a record of each borrower's band account number for use in the case of collection.

SECTION 2: LOAN SERVICING AND COLLECTIONS

Defaults and Late Payment Fees

The conditions of default are outlined in each Loan Agreement. RBI allows a grace period of 15 days for borrower payments. If payment is not received within the grace period, RBI begins collection procedures as outlined below.

Loan payments received after the 15-day grace period are subject to a Late Charge of 5% of the amount of the Loan Payment or a minimum of $5.00. Loan payment checks are returned by the bank upon deposit are subject to a Returned Check Fee of $25.00.

Collection Procedures

RBI will produce and send each borrower monthly billing no less than 10 days prior to their scheduled payment. RBI has established loan-servicing procedures that facilitate its monitoring of borrower payments. It is the intent of RBI to collect all loans in full, and will take necessary collection action to collect payment; RBI strives:

- To safeguard the capital of RBI so that it will be available to future borrowers.
- To hold borrowers responsible for their obligations and their actions, and expect them to employ all of their resources towards meeting their obligations.
- To work as much as possible for the mutual benefit of the borrower and RBI, pursuing negotiated agreements with the borrower wherever possible.

RBI monitors borrowers for timeliness of payments, continued financial stability, and project progress. RBI's staff monitors repayments and takes necessary collection action if payments are late.

- Borrowers whose payments have not been received by the 5th day past the due date receive a reminder phone call.
- On the 15th day past the due date, a late charge is assessed, a notice is sent by mail, and the Loan Fund Manager sends a collection letter.
- For any loan payment not yet received by the 24th day past the due date, the Loan Fund Manager sends a collection letter.
- In the event delayed payment is due to a temporary problem, RBI will strive to work out a reasonable repayment plan that helps the borrower retain a good credit record, doesn't create an adversarial relationship, and enables RBI to provide advice or help strengthen borrower. RBI documents the borrower's response and sends a letter confirming the communication in case additional follow up is necessary.
- If payment is not received by the 29th day past the due date, a personal phone call or visit is made to confirm the delinquent status of the loan. RBI attempts to work with borrowers to find a solution for any problems. Loans past due by 30 days are determined to be I default; any loan where the borrower contradicts any other provision of the loan agreement is also notified of default.
- If the loan is not current by the following monthly payment date, including all principal, interest, and late fees, the loan is reported as "delinquent" to the Loan Committee. A second leter is sent with increasingly serious language encouraging the borrower to call RBI immediately to resolve the situation. Borrower response is documented in case additional follow up is necessary. Loans that are reported to the Loan Committee as "delinquent" are subject to increased loss reserve allocations.

- If the borrower has made no response within 45 days, a third leter is sent to the borrower advising that RBI will be turning the loan over for collections if not paid in full by next payment due date. A copy is sent to legal counsel, etc.

- If there is no response within 60 days, RBI's attorney sends a letter by certified mail advising the borrower of pending legal action. Loans that are 60 or more days past due should be placed on non-accrual status and loss reserves are adjusted accordingly.

- If there is no response within 90 days, RBI initiates appropriate legal action to collect on the total outstanding balance of the loan, additional interest and late fees. Delinquent loans may also be placed with collection agencies.

- At the discretion of the Loan Committee, borrowers may be permitted to make alternative arrangements including restructuring the loan in order to prevent collection procedures.

All loans past due 120 days will be written off and charged against loss reserves, although collection efforts will continue as appropriate. Repossession of secured property may be sought if necessary. RBI may attempt to sell the property, pay off storage fees, court costs, interest and principal. RBI may also seek a legal judgment for any balance not covered by the sale of repossessed property.

CHAPTER VI
GOVERNANCE / MANAGEMENT STRUCTURE

SECTION 1: ORGANIZATIONAL STRUCTURE

RBI is an independent, nonprofit organization with a Board of directors that represent a variety of expertise from the community served by RBI.

Board of Directors/Governance

The RBI Board of Directors is responsible for policy, planning and program monitoring; the Board meets quarterly. The board has created the Loan Committee and gives it the authority to make final decisions on all loans. The Board of Directors appoints the members of the Loan Committee.

The Loan Committee oversees RBI's loan portfolio. It makes evaluation of regular written portfolio reports from the Loan Fund Manager that provide sufficient information to track the quality of individual loans, the aggregate risk of the portfolio and its relationship to the entire balance sheet. Such reports are reviewed, developed and presented to the Board of Directors at its regular meetings.

Staff/Management

RBI is administered on a day-to-day basis by its staff. Staff members prepare and present to the Board of Directors information on the status and activity of RBI's programs activities on a monthly basis.

RBI's Program/Loan Fund Manager is selected by the Board of Directors and is responsible for all administration, management and staff supervision. The Program/Loan Fund Manager selects and supervises all other staff members, consultants, and providers of professional services.

Members of the RBI staff, under the supervision of the Program/Loan Fund Manager, are responsible for specific program and administrative assignments including the following lending-related activities:

- Developing lending program documents
- Administering the RBI loan fund and accounts, including record keeping and processing disbursements and managing collections.
- Preparing reports on loan fund activity and performance as described in the section above.
- Monitoring loans and providing borrowers with on-going management assistance.
- Promoting RBI's programs, products and services.
- Recommending changes in lending policies to the Loan Committee.
- Staffing the Loan Committee and other committees as necessary.

The Loan Fund Manager

The Loan Fund Manager determines when a loan is ready to be prepared to the Loan Committee, recommends the loan size and terms, recommends an initial risk rating for the loan, monitors loan payments, reports the status of problem loans to the Loan Committee, works with borrowers and other RBI staff members to formulate recommendations and action plans for problem loan resolution, and implements problem loan action plans, including collection procedures, if necessary.

The Loan Fund Manager also makes recommendations regarding resolution of problem loans to the Loan Committee (including proposed loan restructuring, and any revision of legal documents that may be necessary due to project or loan changes). The Loan Fund manager implements such changes as approved by the Loan Committee.

SECTION 2: LOAN COMMITTEE

Composition

The RBI Loan Committee consists of 5 to 7 members appointed by the Board. Loan Committee members are appointed with the goal of maintaining balance and diversity in experience, demographics, and professional association.

Members of the Loan Committee should represent the following constituencies whenever possible: those with financing expertise, those with small business management expertise, borrowers and others.

Responsibilities

The primary responsibility of the Loan Committee consists of reviewing, evaluating, and approving, revising, or rejecting loan applications submitted by the staff. The Loan Committee is responsible for making a recommendation to the Board on terms and conditions of each approved loan request. These terms include, but are not limited to: the amount of the loan, interest rate, loan term and monthly payments, collateral to be provided, specified uses of loan proceeds and reporting requirements. The Loan Committee also specifies any conditions that must be met prior to the execution of documents and disbursement of funds as well as the risk rating that will determine allocation of loss reserves.

A Loan Committee member shall disqualify herself or himself from considering a loan application if the member feels that she or he is unable to give the loan application an unbiased consideration for any reason. Committee minutes will not the explanation for any such self-disqualification. If a Loan Committee member disqualifies herself or himself from considering a loan application, the remaining Loan Committee members will consider the application.

The Loan Committee shall review and approve regular staff reports regarding portfolio activity and other matters related to RBI's lending activity.

The Loan Committee is responsible for reviewing RBI's "loan application package" and these Loan Policies and Procedures annually. During the review, recommendations for changes on applicant or project eligibility requirements, documentation, lending authority and other matters may be proposed by Board of Directors.

Term of Office

Members of the RBI Loan Committee serve for three years. No individual may serve more than two consecutive full three-year terms. After initial appointment of staggered-term members, future members will be selected to fill terms as they are vacated by resignation, removal or expiration of their term(s).

Frequency of Meetings

The RBI Loan Committee meets as needed to review loan applications in a timely manner. Typically, Loan Committee meetings are monthly.

Quorum

A quorum of the Loan Committee is represented by as majority of the persons appointed and serving. No action can be taken unless a quorum is present (or participating by telephone) at the meeting.

Approval or rejection of loan applications shall be by a majority vote of the members of the Loan Committee present at the meeting (or participating by telephone).

SECTION 3: REPORTING PRACTICES

Reports are prepared by the staff and presented at regular intervals (monthly or quarterly) to the Loan Committee and the board of Directors as determined by the Board. These reports include the following items:

- <u>Capitalization Report:</u> total capital, equity ratio or net worth, weighted average cost of funds, weighted average term of funds, number and categories of lenders, short-term maturities.
- <u>Loan Portfolio Status Report:</u> loan aging; borrower or project name; type of project/loan; original principal; amount disbursed; amount repaid; remaining balance; disbursement date; maturity date; amount of balloon, if any; interest rate; payment status; collateral value; any changes or comments; risk rating.
- <u>Problem Loan Report:</u> Identification of delinquent loans with action plan, and a quarterly report on troubled borrowers – not necessarily delinquent yet – with action plan.
- <u>Pipeline Report:</u> prospective applicant name and location, size of loan request, terms of loan request, purpose of loan, comments.
- <u>Social Impact Report:</u> jobs created or maintained, start-ups financed, business income increase, financial leverage, other community benefits.
- <u>Financial Statements:</u> income and expense statement, balance sheet, and report of revenues and expenditures relative to the approved operating budget.

CHAPTER VII
PORTFOLIO MANAGEMENT POLICIES

In order to assure prudent management of its assets and a quality loan portfolio, RBI employs a number of techniques to manage risk. These include: rigorous underwriting, collateral requirements, the provision of technical assistance to borrowers, and consistent monitoring of both payments and borrower progress. In addition, RBI applies a series of requirements to its own actions – applying various Portfolio Management Policies to its lending activities.

SECTION 1: EQUITY/CAPITAL STRUCTURE

Capitalization

RBI's loan fund is capitalized with equity grants program-related investments and loans. These contributions or loans are made directly to RBI, deposited in an interest baring account or other safe instruments. The capital may be restricted by the providers and/or designated by the RBI Board of Directors for targeted use.

Cost of Funds

RBI establishes goals and limits for the interest rate, terms and other conditions associated with its borrowed capital that are acceptable for meeting its program and financial goals. Interest rates are determined based on consideration of market conditions applicable to both borrowers from and lenders to RBI.

In addition, RBI is developing and implementing an overall capitalization strategy that strives for increased diversity in sources of capital with varying terms and conditions in the best interest of RBI's stability and meeting its mission. Equity

Equity

To provide financial strength and flexibility to its lending program, RBI has established goals for equity. RBI will build its net worth over the next three years to achieve (and then to maintain) a minimum of 20-25% equity (or net worth) in its loan capital fund, consistent with the recommendations of the CDFI industry.

SECTION 2: LOAN LOSS RESERVES

RBI maintains reserves to cover future loan losses and protect the assets of its lenders. Loss reserves will be reflected in RBI's financial statements as a reduction in the net asset value of loans receivable. The loan loss reserves are an accounting reserve – a "contra asset" account rather than a distinct bank account.

RBI allocates reserves based upon the risk rating of individual loans; these risk ratings may result in overall reserves of greater than 10% of loan principal outstanding. In any event, RBI will maintain an overall loan loss reserve allocation for no less than 10% of its total principal outstanding regardless of individual loan risk ratings. RBI's loss reserve allocation will be adjusted quarterly based on total principal balance outstanding for each loan, the type of collateral, and the risk rating for each loan in the portfolio.

Defaulted loans will be charged against the reserve, and any funds collected on loans that have already been written off will be returned to the reserve.

The Loan Committee and the Board of Directors quarterly will review loan portfolio quality and losses to date. Actual history may necessitate an increase or decrease in the percent of loss reserves allocated in the future.

SECTION 3: RISK RATING OF LOANS

RBI rates the risk level of all loans before they go to the Loan Committee and again at regular intervals while the loan is outstanding. The purpose of risk rating is to allow the Loan Committee to manage RBI's overall exposure at any point in time, in accordance with the guidelines established by the Board of Directors.

Until such time as the RBI's own experience recommends a different method, it shall allocate loss reserves for each new loan disbursed on the following risk rating system:

Rating	Allocation	Description
1	5.0%	Minimum for all loans; for exceptionally sound projects and borrowers; easily convertible collateral of 100% or more LTV typically reserved for post-allocation pre-development loans.
2	7.0%	Starting point for most loans; for reasonably sound projects and borrowers; collateral of 100% LTV; minimal concerns regarding project feasibility or management.
3	10.0%	For approved loans where the project or borrower exhibits specific weaknesses or potential problems; collateral uncertain in value although likely 80-100% LTV. All secured loans are assigned this rating.
4	15.0%	Post-closing adjustment rate; for projects or borrowers whose weaknesses result in clear problems, even if resolvable; collateral weak in value or convertibility.
5	20.0%	Monitoring rating; loans where difficulties are not being resolved in timely fashion, payments are delayed or irregular.

When a borrower exhibits irresolvable difficulties or makes payments more than 30 days late. RBI shall assess the risk of potential loss and allocate reserves accordingly.

Loan loss reserves will be allocated by RBI monthly, based upon the total loan principal outstanding of new loans in each risk rating class.

The staff reviews and refines the risk rating for all outstanding loans on a quarterly basis. Restructured loans are also re-evaluated for risk rating and loss reserve allocations.

SECTION 4: LIQUIDITY RESERVES

It is RBI's policy to not lend out more than 80% of its total loan capital at any one time. A 20% liquidity reserve is held for use in loan re-structuring, the refinancing of existing loans, and debt servicing or investor repayments on borrowed capital.

RBI matches the terms of investor notes with either: (1) the weighted average of borrower loans or (2) the maturities of specific loans outstanding with at least a two/three-month difference between the investment note term (the longer term) and the borrower loan term.

SECTION 5: DIVERSIFICATION

RBI seeks to establish and maintain a diverse loan portfolio – reflecting variation in type of borrower, type of project, type of takeout, experience of borrower, geographic location, risk rating, technical assistance needs, price and term to maturity.

RBI strives to maintain diversification in its loan portfolio by establishing a maximum loan amount of no more than 20% to one type borrower, of the total capital in the loan fund (including loans outstanding). As RBI grows, that cap may be reduced to provide even greater risk management.

Non-amortizing loans will be limited to not more than 15% of total capital. Loan terms will balloon payments are structured to require amortized repayment of at least 35% of the total loan.

Loan limits per borrower may also be set; no more than 20% of the portfolio will be loaned to a single project or borrower, depending on the size of the fund.

In addition, RBI may at times participate in loans with other private and public-sector lenders to share the risk of larger loans. In this event, inter-creditor agreements are used to assure that all lenders understand the relationship(s) between each lender and the borrower as well as with each other.

RBI limits loans categorized as level 3 or higher to a maximum of 33% (by dollar amount) of the total loans outstanding at any one time.

RBI monitors its outstanding loans for concentrations by project type, geographic location, risk rating, and loan terms. The Board of Directors will make adjustments to Loan Policies and Procedures as required to mitigate any inappropriate risk. RBI does not show preferential treatment to borrowers or loan requests based on diversification goals, but instead targets its marketing and outreach to achieve its portfolio goals.

CHAPTER VIII
LOAN FUND ACCOUNTING

SECTION 1: CAPITAL MANAGEMENT

The Program/Loan Fund Manager of RBI has fiduciary responsibility for the investment of RBI's capita. The Board of Directors designates where all funds are deposited and also vests the Program/Loan Fund Manager with authority for check and document signing up to specified limits. The Program/Loan fund Manager is responsible for the investment of loan fund capital and for appropriate transfers to cover loan disbursements.

RBI's capital is deposited in interest bearing accounts or other appropriate instruments with interest accruing to RBI's lending activities or program support. RBI requires its depository institutions to provide monthly statements.

The Loan Capital Fund is a restricted fund within RBI's system of accounts. Income and expenses, assets, liabilities and RBI balance of the Loan fund are recorded and managed separately from other funds within RBI, in accordance with Generally Accepted (fund) Accounting Principles and Practices. Operating expenses of RBI are the responsibility of RBI and are not expensed to the Loan Fund.

SECTION 2: ALLOCATION OF EARNINGS

Each year, loan fees (origination, late payment) and net interest earnings of RBI will be allocated by the Board of Directors to: 1) loan fund equity; and 2) operating support, based on relative need and RBI's success that year in securing outside support for its various financial needs.

CHAPTER IX
ETHICS POLICY

SECTION 1: CONFIDENTIALITY

All persons serving on RBI's staff, Committees and Board of Directors shall at all times hold confidential any and all information made known to them about RBI, its investors, its funders, and its borrowers. No information provided or discussed in Board of Committee meetings shall be disclosed to any person outside of the meeting(s).

No person except for the Program/Loan Fund Manager, or a person specifically designated (such as the Loan Fund Manager), shall communicate the results of the Loan Committee decisions regarding a loan request to the borrower. No person shall communicate loan decisions to the public prior to notification of and acceptance by the borrower. That portion of Loan Committee meetings where loan requests are discussed will be held in executive session; visitors, including borrowers or representatives of borrower(s) are **not** permitted to attend.

If confidentiality is breached, RBI will consult legal counsel to determine the extent of damage and determine a proper way to handle the situation.

SECTION 2: CONFLICT OF INTEREST

Any person on the RBI staff, Board of Committees who may have a real or perceived conflict of interest regarding a loan proposal under consideration by RBI shall immediately disclose the nature of the conflict. Any person with such a conflict of interest will be excluded from receipt of materials, from public and private discussions, and from participation in recommendations or decision-making regarding that matter.