MONROE COUNTY
MCIDC
INDUSTRIAL DEVELOPMENT CORP.

INTERNAL CONTROL POLICY PROCEDURES

Monroe County Industrial Development Corporation, (the "Corporation"), a not-for-profit local development corporation under the Membership Corporation Law and operated under its successor statute, Article 14 of the Not-For-Profit Corporation Law, and a Certified Development Corporation approved by the U.S. Small Business Administration (the "SBA") for purposes of providing loans through the 504 loan program, sets forth the following internal controls and procedures. The Corporation must comply with the provisions of applicable laws and regulations, including the New York Public Authorities Law, the Code of Federal Regulations, and the SBA. The Corporation's Board of Directors and Officers (the "Board") have a fiduciary duty to provide effective control over, and accountability for, operations, programs, and resources.

The Corporation shall comply with all applicable laws, regulations, requirements, and ethical standards; as well as adhere to its public mission, create and adhere to policies regarding conflicts of interest, ethics, personnel and accounting; prepare and file annual financial data with required federal and state regulatory authorities, including the SBA; and make its annual financial report available to the Board and any member of the public who requests it. The Corporation will address other control requirements as may be established by the SBA.

The Board will adopt and set forth policies and procedures to protect and manage the assets of the Corporation, create reliable financial reporting, promote compliances with laws and regulations, and achieve effective and efficient control over, and accountability for, operations, programs and resources. The Corporation will follow the processes and criteria outlined in its SBA 504 Loan Program Policies and Procedures Manual, as approved by the SBA (the "Corporation's 504 Loan Manual"). The Corporation's 504 Loan Manual will be reviewed annually by the Corporation for compliance with all applicable laws, and more frequently, as necessary, to comply with SBA requirements.

The following internal controls, policies and procedures shall apply:

1. An annual income and expense budget will be prepared, and periodic reports will be presented to the Board. The reports will compare actual receipts and expenditures to the budget with variance explanations.

2. Checks in excess of $5,000 shall require two signatures as designated by the Board. No expenditures shall be made or incurred except in accordance with the Corporation's Procurement Policy and duly adopted budget.

3. All receipts by check shall be duly entered in the books of the Corporation, and a copy made of each check received shall be attached to the invoice and bank deposit.

4. All accounts receivables shall be maintained on a current basis to the extent practicable. Account receivables which are more than 90 days old shall be reported to the Board on a monthly basis. The Board may direct such action as may be appropriate as to said receivables.

5. Electronic data regarding financial records and reports shall be preserved.

6. The Audit Committee shall have oversight of the annual audit process.

7. Periodic reports of finances and programs shall be submitted to the Board. The Corporation's annual financial audit shall be filed as required by law and made available to the public.

8. The Executive Director of the Corporation will be responsible for the internal control functions of the Corporation (covering financial, credit, credit review, collateral, and administrative matters).

9. An annual assessment of the effectiveness of these internal controls, policies and procedures will be conducted by the Corporation, or an independent auditor acceptable to the SBA, and in compliance with Sections 2800 (1)(a)(9) and 2800 (2)(a)(8) of Public Authorities Law, and 13 CFR 120.826(b).

10. Professional Services Contracts. The Corporation will provide the SBA with a copy of all current contracts for management and staff, and a copy of a waiver request as required in 13 CFR 120.824(a). All contracts for management and staff are to be reviewed annually by the Corporation and the Board. Contracts must be coupled with a copy of the Board resolution approving the contract, and the Board meeting minutes. The Corporation annually contracts with the County of Monroe for administrative support (the "County Contract"). The Corporation and the Board have determined the following:

- It is in the best interest of the Corporation to contract with the County of Monroe for administrative services.
- Compensation under the County Contract is from the Corporation only.
- The County Contract is reasonable and customary for similar services in Monroe County and is for actual services provided.
- The term of County Contract is reasonable.
- The County Contract does not evidence any actual or apparent conflict of interest or self-dealing on the part of the Corporation, its officers, management and staff, including Board Directors.

11. The Executive Director will direct the operation of a program to review and assess the Corporation's 504 loans, to include the following:

A. Reviews of loan, loan-related collateral, and appraisal review standards, including standards for scope of selection (for review of any such loan, loan-related collateral or appraisal) and standards for work papers and supporting documentation;

B. Review of specific control requirements for the Corporation's oversight of Lender Service Providers related to the 504 loan program; and

C. Review of standards for training to implement the 504 loan review program.

12. Job Survey Procedures and Reporting. The primary goal of the 504 Loan Program is to foster economic development by enabling small businesses to create and retain jobs within the community. Therefore, MCIDC is required to verify, document and report on the actual number of jobs created and/or retained by its 504 borrowers as of each debentures 2-year funding anniversary. Procedures for job surveys will be completed as follows:

MCIDC will request and obtain job reporting from the borrowers (or, for an EPC/OC 504 Loan, the operating companies) verifying the actual number of full-time (or equivalent) jobs that were created and/or retained at the 2-year funding anniversary. In addition to the 2-year anniversary reporting, MCIDC will request job surveys on a yearly basis; on each funding anniversary for the duration of the loan, along with applicable supporting documentation. For loans funded less than two years, the report will be for the estimated jobs, as indicated on the loan application SBA Form 1244.

The job report may be requested from the borrower within 60 days of the anniversary date. The format of the survey form provided to the borrower will include the actual jobs created and/or retained by the business, the "as of" date of the reporting, and the date the information was verified. The job survey form will include the borrower name and loan number. The borrower's response must be in writing, signed and dated by an authorized individual employed by the business. The survey must be on the borrower's letterhead or in an email from the borrower. If the borrower responds by email, the response must be a scan of the signed and dated job survey. MCIDC will retain the job report in the applicable loan file.

If the completed job survey is not provided to MCIDC, a second request will be made. If a response is still not met, MCIDC will attempt to contact the company by phone. These attempts will be documented in the loan file.

In its Annual Report, MCIDC must report either estimated or actual job creation and retention numbers for all funded debentures (except debentures that have been accelerated) as follows:

SBA Form 1253 defines "Jobs Created" as full-time equivalent (8 productive hours per day/40 productive hours per week) permanent or contracted employment created within 2 years of financing. SOP 50 10 5 provides that a Job Opportunity does not have to be at the project facility, but 75% of the jobs must be in the community where the project is located. An example of this is as follows:

> Example 1: A small business operates from locations in Community A and Community B. The business obtains a loan for an expansion of the facility in Community A. The loan enables the business to create 20 jobs. If at least 15 of the jobs are located in Community A, the CDC can report 20 jobs created.

SBA Form 1253 defines "Jobs Retained" as jobs that otherwise might be lost to the community if the project were not done. A CDC may not count all existing jobs as being retained if they were not at risk of being lost. Examples of a sufficient basis for reporting jobs retained are as follows:

> Example 1: A small business has lost a contract, which would require it to lay off 10 employees. The company has an offer for another contract to replace the contract it lost, but the new contract would require a new piece of equipment. If the company purchases the new equipment and changes its processes, it can retain the 10 employees who would otherwise be laid off. The CDC can report 10 jobs retained.

> Example 2: A small business operates from locations in Community A and Community B. The business obtains a loan for expansion of the facility in Community A. The loan enables the business to retain 10 jobs there that would otherwise be moved to the facility in Community B. The CDC can report 10 jobs retained. If, on the other hand, the business would have retained those 10 jobs in Community A whether or not the facility was expanded, those jobs cannot be reported as jobs retained.

13. <u>Independent Loan Review Procedures</u>. The Corporation will perform an Independent Loan Review of its 504 loan portfolio as required by SBA regulations (13 CFR Sections 120.823 and 120.826(b)). An independent loan review will be conducted at least annually, by someone qualified to conduct such a review and independent of the function being reviewed. The review will include an assessment of the loan

classification to ensure loans are risk classified appropriately, and that risk classifications are updated timely. Please see below section titled: "Independent Loan Review Procedures."

The Independent Loan Review process will include specific selection criteria and methodology when deciding which loans to review. The selection of loans to review must be representative of the portfolio, and be in accordance with SBA guidelines.

Loan Selection Process: The reviewer will select loans for review based on loan categories of "New," "Legacy," and "Active Default" loans. New loans include those closed since the prior Loan Review, and will have an issue date within the last 12 months. Legacy loans are loans issued later than 12 months' time. Active Default loans are those that are risk rated by the Corporation as Watch, Substandard, Doubtful or Loss (see below section on Loan Classification and Risk Rating Methodology).

The reviewer will provide the Corporation with details on the specific selection criteria used, including the methodology behind deciding which loans to select, and how the sample of reviewed loans is sufficient to represent the condition of the portfolio. The selection of loans to be reviewed will include:

(1) New Loans: All New loans, and will focus on underwriting and closing.

(2) Legacy Loans: Between 8 and 15 Legacy loans (the specific number based on portfolio size, and NADCO recommendations). The reviewer will select Legacy loans from one half of the loans issued within the last three fiscal years (excluding New loans). Any remainder of loans will be selected randomly with the selection criteria of different types of businesses and large loans. The review of Legacy loans will focus on servicing and, if applicable, liquidation.

(3) Active Default Loans: All Active Default loans.

The independent loan review will follow a three-step process:

Step 1. Review of Documents: The following documents will be provided to the reviewer prior the start of the Independent Loan Review:

- Loan Policy and Underwriting Guidelines, including Risk Rating Matrix.
- Watch List.
- Status of Portfolio – Non-Current (CSA's Delinquency Loan Report).
- Status of Portfolio (CSA's Active Portfolio Report).
- Latest SBA SMART Analytical Report.
- Latest Independent Loan Review Report.
- Latest CPA Audit Report.

Step 2. Examination of Selected Loan Files: The 504 Risk Based Lender Review Form (See Appendix A, attached) will be completed for each loan file reviewed, and the following will be completed:

- Credit quality.
- Sufficiency of credit and collateral documentation.
- Proper lien perfection.
- Proper loan approval.
- Adherence to loan covenants.
- Compliance with internal policies and procedures, laws and regulations.

- The accuracy and timeliness of credit grades.
- Loan reclassification when appropriate.

Step 3. Loan Review Report: The reviewer will prepare a formal report summarizing findings, conclusions, and recommendations. The report will address specific information detailed in the Corporation's 504 Loan Manual, including the following items:

- An objective assessment of the overall portfolio quality.
- Assess compliance with SBA's Loan Program Requirements, and relevant laws and regulations.
- Identify loans with credit weaknesses so that timely action can be taken to minimize credit loss.
- Identify relevant trends affecting the collectability of loans and isolate potential problem areas.
- Evaluate the activities of lending personnel.
- Provide credit quality information for financial and regulatory reporting purposes.

The final Independent Loan Review results will be used to improve loan making and monitoring functions. Corrective actions will be developed to address any deficiencies identified in the review, and a report will be made to the Board within 30 days of the issuance of the Independent Loan Review Report.

14. Loan Classification and Risk Rating Methodology

The Corporation is responsible for establishing and maintaining a Loan Risk Rating System on its 504 loan portfolio. The risk rating standards will be applied to all loans at origination to determine a loan classification, and potential risk to the portfolio. The risk rating should be fully justified in each loan presentation memorandum. The loans are categorized into 6 categories ranging from Pass to Loss. The Corporation will also maintain a Watch List and Critical Asset List for loans in need of more intensive servicing. Risk ratings will be reassessed annually, and at any time when new information may materially affect the credit risk of the loan. The Executive Director shall resolve any disagreement over an assigned risk rating. No member of the Board of Directors has the authority to override risk ratings. The Corporation's loan risk rating system will comply with standardized classification systems used by the Federal Financial Institution Regulators. The Corporation will provide a report of the 504 loan portfolio and loan risk rating to the Board at least semi-annually. The risk rating system is outlined below, and is detailed more fully in the Corporation's 504 Loan Manual. Please see below sections titled: "Loan Classification and Risk Rating Methodology," and "Loans Requiring Additional Servicing."

The Corporation will utilize a Risk Rating Matrix (See Appendix B, attached) created to comply with FFIR guidelines to determine a loan grade and potential risk of its 504 loan portfolio. The loan classification, or risk rating, is determined by evaluating the relative strength or weakness of the following components: financial, security, management, and environmental. Where information is unknown, or unavailable, for any category, the equivalent "Cautionary" rating box should be checked. It is important to obtain all the required information possible or a negative impact on the risk rating will result for the Borrower.

The six categories of the Risk Rating Matrix are defined as follows:

(1) Pass rated loans are adequately protected by current sound worth and debt service capacity of the borrower, guarantor, or the underlying collateral loans. Loans are according to terms, and full repayment is not in doubt, even if there is same deficiency or vulnerability due to changing economic conditions. Assessment is based on liquid collateral, with adequate margin, or supported by strong financial statements.

Borrowers have established history, and unquestionable character. Characteristics of loans rated as Pass include:

DSCR	Leverage	Liquidity	Profitability	Collateral	Management	Industry	Delinquency
> 1.15x	< 5:1	CR > 1.0	Consistently average, from core operations	LTV 75% - 100% or better	Capable; good financial controls, succession plan contemplated	Generally acceptable trends; mild competition	None

(2) Pass/Watch loans possess some credit deficiency or potential weakness, which deserve close attention but show no sign of jeopardized repayment. The key distinctions of a Pass/Watch classification are credit characteristics of a Pass rating that is performing normally, but there is an uncertain level of risk, such as (1) lack of information about the current condition of the borrower, and/or (2) documentation defect that could ultimately jeopardize repayment of the loan in full. Typical examples of Pass/Watch rated borrowers are business start-ups and most real estate construction/renovation projects. The level of risk in a Pass/Watch credit is considered non-criticized (i.e. 6 or worse) and within normal underwriting guidelines, provided the loan is given the proper level of management supervision. Debt service coverage may be weaker than a Pass rating, and secondary repayment sources may be less secure.

(3) Special Mention loans have potential weaknesses that deserve management's close attention. If left uncorrected, the result may be deterioration of the repayment prospects for the asset, or of the borrower's credit position. Special Mention assets are not adversely classified, and do not have sufficient risk to warrant an adverse classification. The Special Mention category is not to be used as a means of avoiding a clear classification decision. Neither should it be used when uncertainties and complexities, perhaps coupled with size, create some reservation about the loan. Loans to new customers should not be approved with this loan rating. Special Mention rated loans generally reflect these characteristics:

DSCR	Leverage	Liquidity	Profitability	Collateral	Management	Industry	Delinquency
< 1.15x and worsening	D/W > 5:1 or worsening	CR < 1.0	Average or inconsistent; some other income contribution	LTV 100% - 133%	Potential weaknesses developing	Neutral to unfavorable outlook; vulnerable to business cycle	Up to 45-60 days, frequent 30+ days

(4) Substandard loans are inadequately protected by current sound worth and paying capacity of the borrower or of the collateral pledged, if any. Loans so classified show a well-defined weakness that jeopardizes the liquidation of the debt. They are characterized by the distinct possibility that the Corporation will sustain some loss if the deficiencies are not corrected. One or more of the following characteristics may be exhibited:

- Possess a defined credit weakness, and uncertain or nonexistent likelihood that the loan will be repaid from the primary source of repayment.
- Financial deterioration is under way, and very close attention is warranted to minimize potential and probable losses.
- Loans are inadequately protected by net worth and paying capacity of the borrower.
- Unusual courses of action are needed to maintain a high probability of repayment.
- The borrower is not generating enough cash flow to repay loan principal (even if continuing to make interest payments by drawing on external but non-contractually obligated sources).
- The Corporation is forced into an inadequately protected position (e.g. subordinated or unsecured position due to flaws in documentation).

- Loans have been restructured so that payment schedules, terms, and collateral represent concessions to the borrower when compared to the normal loan terms.
- Initiation of legal action which would cause the Corporation to be inadequately protected based on the best judgment of the Corporation and the SBA. Loans to new customers will not be approved with this loan rating. Substandard ratings generally reflect these characteristics:

DSCR	Leverage	Liquidity	Profitability	Collateral	Management	Industry	Delinquency
< 1x and significant deterioration	D/W > 5:1 No likelihood of improvement	CR negative and worsening	Inconsistent with material loss after previous profitability	LTV 133%-150%	Incapable or ineffective; weak financial controls	Highly unfavorable outlook; strong competition	Up to 90 days

(5) Doubtful. Loans classified as Doubtful have all the weaknesses as Substandard, with the added characteristic that the weaknesses make collection, or liquidation, in full highly questionable or improbable (based on facts, conditions, and values). Doubtful ratings generally reflect these characteristics:

DSCR	Leverage	Liquidity	Profitability	Collateral	Management	Industry	Delinquency
Minimal or negative	D/W >5:1 and/or negative ➢	CR strongly negative	Consistent material losses	LTV over 150%	Ineffective; no succession plan; lacking financial controls	Significant deterioration in market conditions; superior competitors	Over 90 Days

(6) Loss. Loans classified as Loss are considered uncollectible, and of such little value that continuing to carry them as assets is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather it is not practical nor desirable to defer writing off this basically worthless asset, even though partial recovery may be affected in the future.

15. Loans Requiring Additional Servicing. In addition to the loan classifications, the Corporation will maintain a list of loans in need of more intensive servicing activities (the Watch List) and loans requiring intensive servicing efforts (the Critical List).

Watch List. The Corporation will maintain a Watch List for the purpose of loans in need of more intensive servicing activities. In general, loans will be included on the Watch List as follows:

- Loans appearing on the CSA 60-day delinquency report.
- Loans in Catch-up status which are delinquent.
- Loans having property taxes two years past due.
- Loans with other serious conditions as identified by servicing staff.
- Loans rated as “Watch” that appear on the Risk Rating Matrix.

The condition of each borrower on the Watch List will be monitored by the Corporation. Such intensive servicing may include: site visit, more frequent contact with borrower, making contact with the third party lender to determine status of bank loan, and/or the order and review of credit reports for the borrower and individual obligators. A site visit will be made on any borrower that is more than 60 days past due, as specified by the SBA. The Corporation will update the Watch List borrower information quarterly or add borrowers at any time as circumstances warrant. The status of all borrowers on the Watch List will be reviewed by the Board at least quarterly. Borrowers on the Watch List can be removed only by Board approval.

Critical Asset List. A Critical Asset List of borrowers with the following conditions will be maintained:

- Loans containing significant information deficiencies.
- Loans over 60 days past due that lack a viable catch-up plan.
- Loans for which the bank first mortgage loan is delinquent.
- Loans placed on the list under discretion of servicing staff.
- Loans rated as “Substandard,” “Doubtful,” and “Loss” on the Risk Rating Matrix.

The Critical Asset List contains borrowers which require intensive servicing efforts, such as: a mandatory site visit, and contact with the borrower, the Third Party Lender and the SBA legal staff. Best efforts are made to make and maintain payment collection while working toward a viable catch-up plan. If efforts are unsuccessful, consideration will be given to repurchase of the Debenture, and liquidation by the SBA. The Corporation will update borrower information on the Critical Asset List quarterly, or add borrowers at any time as circumstances warrant. The status of all borrowers on the Critical Asset List will be reviewed by the Board at least quarterly. Borrowers on the Critical Asset List can be removed only by Board approval.

Re-adopted March 15, 2023
Re-adopted March 20, 2024

Appendix A

504 Risk Based Lender Review

File Checklist

CDC ______________________ FIRS ______________

Loan Name ______________________ SBA Loan # ______________

Approved Amount $ ____________ Current Balance $ ____________

Approval Date ____________ Final Funding Date ____________

Third Party Lender ____________ First Lien Amount $ ____________

Delivery Method ____________ Amt of Other SBA Loans ____________

Reviewer Name ____________ Review Date ____________

Status

☐ Current ☐ Past Due ☐ Delinquent (+60 days) ☐ Active Purchase ☐ Liquidation

Check any of the following that apply to this loan

☐ EPC/OC ☐ Franchise ☐ Rental Property ☐ Early Default

☐ Start-up ☐ Existing Business

Use of Proceeds ($ Amount)

________ Machinery/Equipment ________ Fixtures ________ Leaseholds

________ Purchase R/E ________ Construct R/E ________ Other

________ Other ________ Other ________ Other

Key Metrics

________ Debt/Net Worth ________ Current Ratio

________ Equity Contribution % ________ Debt Service Coverage

ELIGIBILITY

Reference: 13 CFR §120.100, 101, 102,103, 110, 111, 860, 861, 862, 880, 881 & SOP 50 10 5 (C) Subpart C Chapter 2 & www.frandata.com.

Questions	Req	Yes	No	NA	Explain
1. Business is an eligible for-profit, domestic operation.	X				
2. Size determinations were correct and analyzed according to SBA policy.	X				
3. Written evidence that credit is not available elsewhere without guarantee provided by SBA.	X				
4. Franchise is on FranData, lender obtained Cert. of Change/No Change or otherwise eligible per SBA requirements.					
5. SBA Form 912 "Statement of Personal History" obtained for all the owners, loan guarantors, and key management (if applicable); if any question answered in the affirmative proper SBA clearance was obtained.	X				
6. No prior loss to the Government from prior federal assistance.	X				
7. Owner(s) & guarantor(s) are eligible citizens or have eligible non-citizen status.	X				
8. All EPC/OC conditions have been met.					
9. Project meets at least one of the required Job Opportunity standards.					
10. Project is not relocating, causing a reduction in workforce or increasing unemployment in any area of the country.					
11. Loan proceeds were used for eligible business purposes in accordance with Loan Authorization.					
12. Loan proceeds used for refinance meet refinancing requirements.					
13. All occupancy percentage and proceed requirements are met.					
14. Business meets all other eligibility requirements.					

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15. No actual or apparent conflicts of borrower and/or CDC were detected.					
Additional Comments:					

CREDIT STANDARDS AND UNDERWRITING

Reference: 13 CFR §120.110, 150, 910, 912 & SOP 50 10 5 (C)Subpart C Chapter 1 & Chapter 4					
Questions	**Req**	**Yes**	**No**	**NA**	**Explain**
16. Personal resources test to determine appropriate borrower contribution for the project was performed and documented.					
17. Credit analysis was performed and included repayment ability based on historical income statements and/or tax returns.					
18. Repayment is justified based on projections with reasonableness of assumptions and compared to industry standards.					
19. A ratio analysis of the financial statements including comments on any trends and a comparison with industry averages was performed.					
20. Owners' & managers' relevant experience in business, credit histories & explanation of adverse info on credit histories.					
21. Consider the economic viability of the market in which loans are made.					
22. Borrower's equity contribution has been verified prior to disbursement through supporting documentation.					
Required Narrative Describing Credit Underwriting:					

COLLATERAL, APPRAISALS AND ENVIRONMENTAL POLICIES

Reference: 13 CFR §120.150, 160, 170, 848, 920, 923 & SOP 50 10 5 (C) Subpart C Chapter 3					
Questions	**Req**	**Yes**	**No**	**NA**	**Explain**
23. CDC determined the project collateral 2nd lien position is adequate and no additional collateral is required.					
24. CDC collateral analysis includes liquidation value of pledged collateral.					
25. Appraisals were obtained and comply with SBA loan program requirements					
26. Environmental assessment was conducted and documented (Environmental Investigation Report and reliance letter).					
27. Collateral and appraisal analysis complies with CDC internal control policie					
Additional Comments:					

LOAN AUTHORIZATION, CLOSING AND DISBURSEMENT

Reference: 13 CFR §120.150, 160, 170,191, 848 & SOP 50 10 5 (C) Subpart C Chapter 3, Chapter 5, Chapter 6 and Chapter 7.

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Questions	Req	Yes	No	No	Explain
28. Loan Authorization prepared in accordance with credit memo.					
29. Hazard Insurance Policies obtained for all assets pledged as collateral.					
30. Standard Flood Insurance Policy or documentation showing property is not located in a special flood hazard area.					
31. Life insurance determination documented.					
32. Collateral assignment of life insurance obtained (if applicable).					
33. Other insurance policy requirements (workers' comp, disability, malpractice).					
34. Reconciled IRS tax transcripts to verify historic financial information upon which credit decision was made.					
35. Stand-by agreements with a copy of the note were obtained and properly executed (if applicable).					
36. All required SBA Forms 159 (Fee Disclosure Form and Compensation Agreement) to identify all agent/broker relationships were obtained.					
37. All required personal and corporate guarantees (SBA Form 148/148L) wer obtained.					
38. Evidence that the loan proceeds were used for purposes defined in the loan authorization.					
39. All required collateral lien positions have been adequately perfected.					
40. Loan risk rating reflects the risks posed at the time of closing.					
Additional Comments:					

SERVICING AND LIQUIDATION

Reference: 13 CFR §120.535, 540, 848, 970, 975, SOP 50 50 4 Chapter 4 & SOP 50 51 3 Chapter 6, Chapter 7, Chapter 8 & Chapter 19.			
Questions	**Yes**	**No**	**Explain**
41. Lender obtained annual financial statements and analyzed in accordance with loa authorization.			
42. Monitoring of continued creditworthiness is considered sufficient and describe the evidence in file.			
43. Evidence that the loan has been risk rated at least annually in accordance with CDC's risk rating policies.			
44. SBA form 1506 Servicing Agent Agreement executed properly.			
45. Evidence that CDC performed a site visit or engaged in other intensive servicing activities when loan became 60 days past due.			
46. CDC had prior written SBA approval for servicing and/or liquidation actions as described in the SOP.			
47. PCLP's servicing/liquidation actions were documented and well justified.			
48. SBA was notified upon classification of the loan "in liquidation".			
49. CDC has a written liquidation plan.			
50. Evidence that, upon placing the loan in liquidation, CDC performed timely site visits and took reasonable steps to secure the collateral.			
51. Current appraisals were used by the CDC to evaluate liquidation collateral.			
52. In a liquidation case where property title was taken, an environmental review was done prior to the acquisition of title.			
53. CDC has forwarded all recoveries on repurchased debentures within 15 days of receipt.			
54. The Wrap-Up Report has been completed and submitted to SBA in accordance with loan program requirements.			

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Additional Comments:

AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009 (RECOVERY ACT)

Reference: 74 FR 27196 of June 8, 2009, Policy Notice 5000-1097, Policy Notice 5000-1103 & Policy Notice 5000-1105.

Questions	Yes	No	Explain
RA1. If a Recovery Act loan, all guaranty fee collections, payments and/or Reimbursements are in accordance with Recovery Act requirements.			
RA2. If a Recovery Act loan, loan is not made to restricted industry.			
Additional Comments:			

ADDITIONAL REFERENCE
SOP EFFECTIVE DATES

ORIGINATION

50-10 (4)	12/01/00
50-10 (5)	08/01/08
50-10 5A	03/01/09
50-10 5B	10/01/09
50-10 5C	10/01/10
50-10 5D	10/01/11

LIQUIDATION

50-51 2	12/01/97
50-51 2B	04/20/05
50-51 2C	09/06/05
50-51-3	11/15/10

Appendix B

RISK RATING MATRIX

LOAN RISK RATING SUMMARY			
Borrower:______		Date: ______	
Risk Rating		Attributes	Score
Pass 1	Excellent	• Virtually no risk	81-100
		• Government borrower	
		• Full cash security	
		• Strongly capitalized	
		• Outstanding management	
Pass 2	Good	• Minimal risk of any loss	61-80
		• Strong security position/capitalization	
		• Excellent financial history/trends	
		• Strong management	
		• Stable/strong industry	
Pass 3	Satisfactory	• Good security margin/LTV	41-60
		• Demonstrable debt service capacity	
		• Sound management	
		• Steady financial trends	
		• Moderate capital level	
4	Pass/Watch	Similar to Satisfactory rated loan however:	41-60
		• Some weaknesses that need close attention	
		• Repayment not yet in jeopardy	
		• May lack current information	
		• Possible documentation defect(s)	
5	Special Mention	• Deteriorating/lack of financials	31-40
		• Covenant breaches	
		• Potential security shortfalls	
		• Potential debt service shortfalls	
		• Significant adverse developments	
6	Substandard	• Need for immediate action indicated	15-30
		• Security shortfall/capital crisis	
		• Cessation of operations	
		• Adverse management change	
		• Interest/principle arrears	
7	Doubtful	• Receivership or bankruptcy	<15
		• Definite loss evident	
		• Disappearing assets/security	
		• Fraud	
8	Loss	• Considered Uncollectible	None
		• May have recovery or salvage value in the future	
		• Legal action taken	

LOAN RISK RATING GRID | BORROWER:____ | DATE: ________________

Financial (35%)			**Security (35%)**			**Management (15%)**			**Environmental (15%)**		
Components	Y/N	Score	*Components*	Y/N	Score	*Components*	Y/N	Score	*Components*	Y/N	Score
DSR 2X or better		7.0	Cash out virtually on demand		12.0	Very high skill level/long tenure		3.5	Evaluation unnecessary or full		5.0
D/W 1:1 or better			Evaluation self-evident/undoubted			High/evident commitment			external certification		
Top Qualility Financials			100% liquid/ <1@ LTV F.A. coverage			Exceptional infrastructure/support			Low risk Industry		
W.C. Ratio > 2:1						Formal written succession plan			Virtually no competitors		
Financial trends Exemplary						High quality current/planning					
						Information provided frequently					
DSR between 1.5X and 2X		5.0	Cash out within 90 days		8.0	Above average skills/medium tenure		2.25	Possible issues-insurance held		3.5
D/W between 1:1 and 2:1			Strong 3rd party evaluation			Strong commitment			Evaluation unnecessary or full		
Good 3rd Party Financials			Partial liquid/ 1.5 ->2.0 F.A. coverage			Strong infrastructure/support			external certification		
W.C. Ratio between 1.0 and 2.0						Logical, informal succession plan			Low to moderate risk Industry		
Financial trends strongly positive						Good quality current information			Minimal viable competion		
						Provided regularly; annual budget					
DSR between 1X and 1.5X		3.5	Cash out 180 - 365 days		6.0	Average skills/short tenure		1.25	No issues- insurance may be held		2.5
D/W between 2:1 and 5:1			Reliable internal/external eval.			Good commitment			Appropriate internal/external		
Acceptable Financial Info			1.0-> 1.5 F.A.coverage			Appropriate infrastructure/support			evaluation done		
W.C. Ratio 1.0 to 1.5						Succession plan contemplated			Moderate risk industry		
Financials steady/positive						Appropriate quality current info			No major competitive threats		
						Provided annually; no budget					
DSR < 1X/deteriorating		2.4	Cash out possible < 365 days		4.0	Marginal/deteriorating skills		0.8	Possible issues-no insurance held		1.5
D/W >5.1 or deteriorating			Dated/marginal evaluation			Average/reducing commitment			No or insufficient evaluation		
Poor Qualility Info			.75->1.0 F.A. coverage			Weak infrastructure/support			Moderate to high risk Industry		
W.C. Ratio < 1.0						Poor or weak succession plan			Strong/ emerging competition		
Financial trends weakening						Basic information provided					
						only, often late/incomplete					
DSR < 1X/significant deterioration		1.5	Full cash out unlikely <365 days		2.0	Low skills/neglect		0.5	Possible issues - no insurance available		1.0
D/W > 5.1 and/or no likely solution			Dated/questionable evaluation			Questionnable/weak commitment			No or insufficient evaluation held		
Late Financial Info			<.75 F.A. coverage			Poor/inadequate infrastructure/support			Higher risk Industry		
W.C. Ratio negative and worsening						Inadequate succession plan			Superior competitors		
Financial trends unsatisfactory						Poor quality or no information provided					
DSR minimal or negative		0.6	Full cash out very unlikey		1.0	Inadequate skills/abandonment		0.1	Probable issues - no insurance available		0.5
D/W > 5.1 and/or negative			Quaetionable/no evaluation			No commitment evident			No or insufficient evaluation held		
No financial info			< .50 F.A. evaluation			No infrastructure/support			Extremely high risk Industry		
W.C. Ratio strongly negative						No succession plan in place/contemplated			Significant competitive disadvantage		
Financial trends unacceptable						Information not available or very unreliable					
Raw Score:	35%			35%			15%			15%	