Credit Administration and Documentation Standards

OVERVIEW:

It is the objective of this Organization to extend adequate and constructive credit, in accordance with regulations, under the definition of a sound loan. A sound loan portfolio is essential to meeting the goals and objectives of the Organization.

It is necessary that a loan is originated in a manner that demonstrates appropriate credit administration and credit documentation practices. Appropriate administration and documentation practices serve the Organization in the following additional ways:

- Assists the loan officer in making more informed credit decisions and thereby, fully supporting the credit action taken.
- Document agreed upon terms and understandings with the borrower for possible use in later servicing actions and/or negotiations.
- Allow Organization personnel, other than the primary loan officer, a means to assist the borrower in his/her absence.
- Assist in the supervisory review of the credit file.

A loan officer is expected to gather appropriate information and perform an analysis to make a sound lending decision (i.e., whether the terms and conditions of the loan can be met). The Organization places emphasis on the professional judgment of the individual loan officer, including decisions regarding how extensively data should be developed and analyzed prior to making a decision. To develop less than necessary information may result in an uninformed decision; whereas, over analysis is costly, inefficient, and may cause unwarranted member relation problems. It is the responsibility of the loan's approving authority to review the adequacy of data and forms used, and to ensure that the primary purposes of credit documentation listed above are met.

In order to assess the risk in an application, the loan package is developed from facts gathered in a disciplined, systematic fashion and analyzed quantitatively and qualitatively. The underwriting program requires a differential evaluation of the five credit factors (Character, Capital, Repayment Capacity, Collateral, and Conditions).

The risk rating guidelines are an integrated system designed to use objective and subjective criteria to identify inherent strengths, weaknesses, and risks in a particular relationship. A risk rating will be assigned to each relationship based on the analysis of the credit factors.

Loan requests present various levels of risk. To efficiently process loans, the analysis and documentation required is differential and commensurate with the size, complexity, history, and credit quality of the borrower. Judgment is used to provide the appropriate analysis and documentation required to make an informed credit decision.

Generally, applications not meeting the eligibility of the other differential loan programs will require analysis on the basis of these Underwriting Standards.

SPECIFIC PROCEDURES AND ACTIONS:

DEVELOPMENT

Gathering and verifying information is the initial step in assessing a credit request. To develop a loan package, appropriate legal, operational, financial, and economic information (both historical and prospective) is obtained in a manner and from sources that reasonably assure it is complete and reliable. Differential development of a credit request is indicated commensurate with the loan size, risk, and complexity. The level or degree of information obtained will be dependent on loan officer judgement for each respective underwriting program to include the following:

- Investigation of the borrower's credit history.
- Receiving historical financial information to trend the borrower/applicant's financial history.

- Obtaining current financial statements that are accurate, properly completed, and signed.
- Verification of reported assets and liabilities, and employment where necessary.

DOCUMENTATION

Credit documentation includes the information and/or verifications used to analyze and support the loan decision and any subsequent loan servicing decision. Documentation needs will vary given the loan size, risk, and complexity. Documentation must provide adequate support for the decision made.

Credit Documentation Guidelines

Loan Officer judgment is essential in determining the degree or extent of documentation necessary to support the loan decision. Therefore the required documentation is differential and commensurate with the size, complexity, history, and credit quality of the applicant. The following list represents documentation guidelines for loan origination and servicing:

- Active Loan Application
- Signed Note
- Financial Statement
- Loan Narrative
- Loan Servicing Plan (where required)
- Regulatory Disclosure
- Loan Approval
- Security Documents and Collateral Evaluation
- Personal Property and Real Estate Search Reports
- Credit Bureau Report
- Supporting financial information which may include:
  - * Cash and/or accrual trend analysis. Accrual preferred.
  - * Post closing adjusted balance sheet on a market value basis.
  - * Reconciliation of Net Worth.
  - * Current year's earnings statements.
  - * Projected earnings statement.

Financial Statement Guidelines

To be informative and reliable, financial measures must be calculated from accounting data prepared in an appropriate and consistent manner. Financial statements and income verification are required with all loans underwritten with these standards. The Account Officer is responsible for verifying the financial information presented by the applicant. The following are guidelines with regard to financial reporting when requests are processed:

- Loan relationships $2,000,000 or less – Balance sheets and income statements or Accountant prepared compilation reports including income statements. Annual financial statement history of three years preferred.
- Loan relationships greater than $2,000,000 and less than $5,000,000. – Three consecutive year end accountant review quality financial statements. Consolidating supplements obtained as appropriate.
- Loan relationships greater than $5,000,000 – Three consecutive year end audit quality financial statements. Consolidating supplements as appropriate.
- In addition to the above, financial information is required of all general partners, related entities, and individual obligors as appropriate.

Notwithstanding the guidelines, loan officer judgment shall dictate the need to obtain the appropriate balance sheet(s) and income statement(s) from borrowers. There will be circumstances that indicate a variance from the guidelines.

Once a credit relationship is established, periodic financial and loan related information is expected to be obtained as needed to properly measure and manage risks within the loan portfolio and the allowance for losses. Accounts will generally have annual, year end, verifiable financial statements gathered subsequent to loan closing. However, notwithstanding any rights the Organization may have to obtain such information from borrowers, staff should be judicious in exercising such right. The annual financial statement requirements would generally not be exercised for credits meeting any one of the following criteria:

- A loan is paid as agreed and the existing loan contract does not provide the legal right to obtain financial information (no request should be made).
- A loan is paid as agreed and the loan has regular, frequently scheduled payments that demonstrate the borrower's financial soundness and ability to repay the indebtedness.

Loan Narrative Format Guidelines

The format guideline to be used for this underwriting program is provided below. The level of detail necessary will be dependent upon loan officer judgment relative to size, complexity, and quality of the credit.

LOAN NARRATIVE

ACCOUNT NAME:____

REQUEST DATE ____

REQUEST

- What is being requested?
- Describe the loan purpose.
- If a loan is requested – loan amount, terms, rates, and margin.
- Justification of request.
- Identify all credit facilities with the Orginization that will exist after the current request is closed or after all multiple requests are closed. Provide sufficient detail for each facility (i.e., loan purpose, collateral, etc.)
- Identify total Organization indebtedness. (Maximum credit risk)
- Describe collateral type and quality.
- Document loan/AV
- Describe collateral limitations when applicable.

BORROWER

- Address eligibility, providing support where necessary.
- Identify primary borrower, business structure, and management personnel.
  * Address management experience and depth.
  * Attach an organization chart of the borrower if applicable.
  * Rate and justify the financial and production management
  * Address management succession if appropriate.
- Identify all liable parties including borrower(s), cosigner(s), co-maker(s)
- Describe the size of the operation – owned and rented.
  * Note the adequacy of plant and equipment
  * Address any planned changes in size.
- Discuss repayment performance with the Organization and other lenders.
- Discuss performance of the borrower with regard to existing loan covenants.
- Address any environmental concerns and borrowers aptitude/attitude toward environmental regulations.

OUTLOOK OF INDUSTRY AND COMPETITION

- Discuss the short (1 year) and long term (5 year) prospects for the primary industry of the borrower. Include information regarding price outlook and anticipated industry trends.
- Discuss the position of the borrower on a competitive basis within their primary industry and anticipated future viability as compared to their peers. Address the strength and weakness of the borrower in relation to the industry.

STATEMENT ANALYSIS

- Address balance sheet trends, focusing on major changes from the previous year.
  * Reference key operating ratios.
  * Discuss the earned net worth change.
- Discuss Income Trends
  * Accrual and cash methods, referencing the cause for material differences.
  *Actual performance versus projected, addressing the cause for major discrepancies.
- Discuss the projected operating statement.

* Explain major deviations from historical figures.
* Provide a sensitivity analysis (where applicable).
* Note the blended term debt amortization.

- Address future capital needs and the borrower's ability t meet them based on earnings.

SUMMARY

- Provide a recommendation.
- Summarize the strengths and weaknesses of the borrower.
- Address how more then normal risks with the loan are being mitigated.
- Note and support any credit classification change.

LOAN SERVICING PLAN

- Identify the basis for criticism within the operation.
- Address the strategy to manage or correct the risk in the account.
- Discuss targeted actions for servicing. Make sure the loan agreement supports the actions required.
- Where applicable, state a contingency plan if there is a deviation from original strategy.

DATE AND SIGN THE SUMMARY

ANALYSIS

Proper credit analysis involves correctly analyzing all credit factors to determine if the credit risk is acceptable and consistent with sound business and credit practices. The result will ensure that each loan is made on a sound basis.
A sound loan is one made to a responsible individual or entity of established integrity who has a credible operating and financial record, or equivalent characteristics if a new business, in an amount sufficient to accomplish a useful purpose. It should be made in an amount and under terms and conditions that will reasonably ensure repayment, usually without adversely affecting the borrower's financial position. It should be supported by sufficient equity or collateral, or both, to afford the lender reasonable protection against loss if adverse conditions occur.

In order to assess the risk in a credit request, the loan package is developed from facts gathered in a disciplined, systematic fashion and analyzed quantitatively and qualitatively. Analysis separates key credit factors into consistent and logical parts, and studies their relationships to describe the credit risks present with the request. Each underwriting program requires a differential evaluation of the credit factors. Guidelines pertaining to the key credit factors include:

Character --Consideration of character involves investigating and evaluating the applicant's eligibility to borrow; honesty and integrity evidenced by previous contractual performance and credit references; financial, production, and marketing management ability; and the ownership structure of the business. Analysis is based on specific performance data as well as subjective assessment of the applicant. The applicant should be of sound integrity and reflect the capability to successfully manage the business being financed. The ownership structure of the applicant should be appropriate and meet all legal requirements.

Capital -- refers to the financial structure of the business as measured by equity (net worth) and liquidity (working capital). Consideration can also be given to the following additional factors (where appropriate):

- Overall debt structure.
- Income producing ability and salability of assets.
- Number and types of creditors and amounts, purposes, repayment terms, interest rates, and maturity dates of debts.
- Sources and uses of funds, including net worth, cash, and working capital reconciliation as applicable.
- Financial position trend.
- Existence of contingent liabilities.

The applicant(s) capital position must provide the financial support necessary to withstand adversity and thereby allows for continuation of the business despite an economic disruption.

Repayment Capacity -- refers to the profitability of the business being financed and its ability to meet all obligations under a projected forecast. The applicant should demonstrate adequate earnings to meet operating expenses and debt requirements, while also providing for capital growth, necessary capital expenditures, and other contingencies.

Depending on the type of operation and degree of risk present, an accrual and cash analysis of earnings should be completed.

Collateral -- Collateral affords the Organization protection in the event the borrower cannot repay the loan from primary sources. Short and intermediate term loans may be unsecured only when warranted by the borrower's credit worthiness. It is imperative that collateral be appropriately valued, the environmental risk be measured (where applicable), and type/durability of collateral required has a proper relationship to the amount of the loan and its repayment term. All long term real estate mortgages must be secured by a valid and enforceable first lien on eligible real estate security.

Conditions – Conditions are appropriate lending terms and conditions (i.e., amount, purpose, structure, pricing, loan structure, loan covenant(s), etc.) necessary to meet the requirements of loan approval and to manage the post close risk. A loan agreement that addresses these areas must be completed with each loan origination and servicing. Please refer to the Executive Order "Loan Agreements" for further discussion on this subject.

RISK RATING GUIDELINES

The risk rating system is used to objectively and subjectively identify inherent strengths, weaknesses, and risks in a credit relationship. The strengths, weaknesses, and risk in a credit relationship are then quantified into an overall risk rating category. In assigning a risk rating, it is important for the loan officer to note that not all or even most of the criteria must apply to a loan to be placed in a respective risk rating category. For example, a weakness in one of the categories may be sufficient to lower the borrower's risk rating. Certain criteria deserve more attention than others (such as financial condition and earnings) and therefore should have a greater influence on the risk rating. Conversely a strong co-maker or guarantee could qualify the borrower for a more favorable risk rating. Collateral may be a factor, but is not the primary consideration in the risk rating definitions. To qualify for better ratings, loans should be adequately collateralized. Loans that are not adequately collateralized should have a mitigating factor to support the unsecured position. Otherwise partially unsecured or unsecured loans may expose the Organization to increased risk and may qualify for a less favorable risk rating.

DECISIONS

Credit decisions must reflect good judgment based on an analysis of all credit factors and must comply with legal, regulatory, and policy constraints. Furthermore, the decision should evidence that the request is reasonable and within the Organization's risk bearing capacity.

EXHIBIT A
RISK RATING GUIDELINES

Characteristics	1A Superior	1B Strong	1C Satisfactory
	Acceptable credit class Minimal risk with little servicing requirement	Acceptable credit class Better than average risk with average servicing.	Acceptable credit class Average risk with additional servicing.
Financial Statements	Current, good quality and of even date with sufficient detail to make informed decisions. Generally, larger relationships should have audit or review quality statements. The lack of good quality financial information (despite financial strength warrants a higher risk rating.		
Overall Financial Condition	Key financial and production measures compare favorably to the industry	Key financial and production measures compare well to the industry.	Key financial and production measures are average (or could fall below) comparisons to the industry.
Net Worth and Liquidity	Market value proforma exceeds 75% owner equity. Liquidity is strong. Low term debt to equity.	Market value proforma exceeds 50% owner equity. Liquidity is good.	Market value proforma may be less than 50% Liquidity is adequate with the current ratio generally exceeding 1:1.
Earnings	History of strong and consistent earnings.	Satisfactory earnings with positive financial trend.	Generally profitable, some losses (not over an extended period of time.
Cash Flow	Strong. Upward potential to exceed projected debt service requirements.	History of adequate cash flow.	History of reasonable cash flow and ability to meet projected debt service requirements. Minimum coverage is 1:1.
Repayment Performance	Adheres to repayment schedule.	Adheres to repayment Some forbearance due to timing and not earnings.	Adheres to repayment schedule Some forbearance but not due to chronic earnings problems.
Loan Covenant Performance	Adheres to all covenants	Adheres to all covenants.	Adheres to covenants with occasional waivers.
Industry Outlook	Industry outlook is stable or improving	Industry outlook is stable or improving.	Industry outlook is stable or experiencing some stress. However, the borrower has the financial strength to weather the adversity.
Management	Integrity and ability of borrower are above average and generally is an industry leader.	Integrity and ability of are above average.	Integrity and ability of borrower is generally good (may include untested borrowers with good credit ratings).

EXHIBIT A
RISK RATING GUIDELINES CONTINUED

Characteristics	2 Special Mention	3 Substandard	4 Doubtful	5 Loss
	Potential undue risk with extra servicing. Not to the point of	Significant risk with well defined weakness that	Substantial potential risk with probable loss and very high	Uncollectable

	classifying substandard.	jeopardizes liquidation of the debt.	servicing.
Financial Statements	Adequate financial information, not necessarily of even date, but with sufficient detail to make an informed decision.	Adequate or inadequate financial information to make an informed decision	
Overall Financial Condition	Some key financial and production measures below industry averages.	Most key financial and production measures are below industry.	
Net Worth & Liquidity	Market value proforma may be less than 50% owner equity. Liquidity is marginal and current ratio may be less than 1 : 1.		
Earnings	Occasional moderate losses that do not materially impact the balance sheet.	Significant loss or trend of loss that negatively impacts balance sheet.	
Cash Flow	History of marginal cash flow and ability to meet obligations. Minimum coverage ratio is generally 1:1. Some irregularities in trend may be present.	History of inadequate cash flow and earnings. Inability to meet debt service requirements.	
Repayment Performance	Adheres to repayment schedule with an occasional over 30 day delinquency.	Adheres to repayment schedule or is unable to adhere to repayment schedule due to chronic earnings problems or is able but unwilling to adhere to schedule.	Unable to adhere to contractual repayment schedule due to chronic earnings problems or is able but unwilling to adhere to schedule.
Loan Covenant Performance	Generally adheres to covenants with occasional waivers.	Generally adheres to covenants with frequent waivers.	Unable to adhere to loan covenants.
Industry Outlook	Industry is acceptable but may be sensitive due to adverse economic or weather conditions.	Industry outlook is weak. It may be currently reacting to adverse economic or weather conditions and the borrower does not have the financial strength	
Management	Integrity of the borrower is generally good, but may include untested borrowers with fair credit ratings. Management could be rated average or untested.	Integrity is good but lacks the ability to recognize or react to adverse conditions OR Integrity is poor and borrower is not cooperating.	

Risk rating guidelines do not include categories to further differentiate 2A/2B and 3A/3B loan classifications.

<u>APPROVED by PRESIDENT & CEO</u>:

<u>EFFECTIVE DATE</u>: