Credit Policies

Loan Terms and Conditions

OVERVIEW:

The Board of Directors believes that Organization borrowers should have available a wide variety of payment programs and loan terms. This will enable the Organization to maximize service to its borrowers, while also maintaining prudent lending practices.

SPECIFIC POLICIES, OBJECTIVES, AND ACTIONS:

A. The Organization will offer payment programs and loan terms consistent with Regulations and Policies of the Supervising Bank, including:

- Short-term or operating loans;
- Intermediate-term or capital loans; and
- Long-term real estate loans.

B. SHORT-TERM OPERATING LOANS shall have maturities appropriate for the purpose of the loan, coinciding with the normal business cycle of the enterprise being financed. Repayment should occur as income is received and should not extend into another operating cycle.

C. INTERMEDIATE-TERM LOANS shall have maturities appropriate for the purpose of the loan, not exceeding 10 years (or 15 for aquatic loans). Intermediate-term loans with ten-year amortizations should not be used to refinance operating losses from previous years.

- When specific loans are made to finance individual major capital items; such as, new equipment, new or remodeled buildings, operating facilities, etc., the term of the loan may not exceed the useful life of the item being financed. Such loans must be amortized and the purpose shall be specifically identified.

- Intermediate-term loans with extended amortizations may be made to finance or refinance the acquisition or construction of improvements, facilities and other assets with a useful life exceeding the amortization of the loan. Loans with the extended amortization must include the following features:

    1. The initial repayment term (i.e., balloon period) does not exceed 10 years;

    2. The loan amortization does not exceed 15 years;

    3. The loan may be refinanced only if the Organization determines, at the time of refinancing, that the loan meets its loan policy and underwriting criteria; and

    4. Any refinancing must not extend repayment beyond 15 years from the date of the original loan.

- Intermediate-term loans with maturities of up to 15 years may be made to producers or harvesters of aquatic products for major capital expenditures such as purchase of vessels, construction or purchase of shore facilities, and similar purposes directly related to the production or harvesting operation, including refinancing indebtedness incurred for an eligible purpose.

D. LONG-TERM REAL ESTATE LOANS must be secured with a certified first lien position against real estate and have maturities of not less than 5 years nor more than 30 years for financing a qualified borrower's long-term credit needs. balloon maturity with a longer amortization period (e.g., a 5 year balloon loan with a 20 year amortization) may still be a long-term loan unless the borrower intends to repay the loan at the balloon. An expectation of refinance by the Organization would indicate the loan is a long-term loan.

- Long-term loans may not exceed 85% of the appraised value of the primary security or 97% of the appraised value if the loan is guaranteed by a Federal, State, or other governmental agency, or Private Mortgage Insurance is obtained and the loan amount in excess of the 85% to appraised value of the real estate is covered by the insurance.

- The real estate that is used to satisfy the loan-to-value limitations must be comprised primarily of agricultural or rural property (i.e., greater than 50%), including agricultural land and improvements thereto, a farm related business, a marketing or processing operation, a rural residence, or real estate used as an integral part of an aquatic operation.

- Agricultural land is defined as improved or unimproved land which is devoted to or available for the production of crops and other products such as but not limited to fruits and timber or for the raising of livestock.

- Rural property may consist of land that is either improved or unimproved, commercial or residential, and located in a rural area.

- The Organization shall monitor and identify those long-term real estate loans where the outstanding loan balance is equal to or greater than the appraised value of the agricultural land used to satisfy the loan-to-value limitation on the loan.

E. When determining the term of a construction loan, there are normally 3 options depending on how the loan is structured.

   1. A construction loan with no commitment for permanent financing by the Organization would be considered a short-term loan.

   2. A combination construction and permanent loan; i.e., where a commitment to convert the construction loan to permanent financing at the end of the construction period has been issued, would be considered either an intermediate- or long-term loan depending on the amortization period of the permanent financing.

   3. A permanent loan with the proceeds advanced into a trust account and disbursals are made as construction is completed would be considered either an intermediate- or long-term loan depending on the amortization period of the loan.

F. In all cases, the borrower's earnings history, repayment record, and earnings projections must satisfactorily support the loan and provide reasonable assurance of repayment within the term of the loan.

G. Convenience loans (e.g., revolving lines of credit, inventory operating lines of credit, home equity lines of credit) shall be made available to creditworthy borrowers and may have maturities up to a maximum of 10 years.

H. Short- and intermediate-term loans may be unsecured only when warranted by the borrower’s creditworthiness.

I. The Organization President and CEO shall provide credit procedures and guidelines to implement this policy. This will include provisions for selection of payment programs to maximize service to borrowers while maintaining prudent lending practices to ensure a sound loan portfolio.