BUILDING SUCCESS WITH 504 LOANS

Credit Policies & Procedures

MARCH 23, 2016

RMI is a private, non-profit, membership organization whose mission is to:

Serve as regional catalyst for improving the economic wellbeing of individuals, businesses and communities.

INTRODUCTION AND PURPOSE OF LOANS

PURPOSE OF 504 LOANS (13 CFR 120.800 Subpart H—Development Company Loan Program (504)

In accordance with 13 CFR 120.800 Subpart H—Development Company Loan Program (504), the SBA program was established by Congress to foster economic development, create or preserve job opportunities, and stimulate growth, expansion, and modernization of small businesses.

As authorized by Congress, SBA has established the Development Company Loan Program (504) to foster economic development, create or preserve job opportunities, and stimulate growth, expansion, and modernization of small businesses. (13 CFR 120.800 Subpart H) Loans made under the SBA 504 Loan Program are administered by community based Certified Development Companies which are approved or certified by the U.S. Small Business Administration. RMI was approved by the SBA to become a CDC on February 25, 1983.

The outlined policies and procedures in this manual are in compliance with the Small Business Administration (SBA) regulations, 13 CFR Subpart H—Development Company Loan Program 120.800; SOP 50 10 5 including all updates, SOP 50 55 Loan Servicing and Liquidation (including all updates); SOP 50 51 Loan Liquidation (including all updates), SBA Procedural Notices, and directives from the SBA Sacramento Loan Processing Center and Fresno Commercial Loan Servicing Center. References will be made throughout this manual to specific provisions in these regulations, SOPs, and publications relevant to the policy being addressed.

This manual is a living document and will be periodically reviewed and updated. This manual's value lies in the fact that it communicates to all staff involved in lending activities the policies and procedure of RMI and insures that all staff has current and consistent guidance.

FAIR LENDING POLICY (EQUAL CREDIT OPPORTUNITY ACT (ECOA OF 1974)

RMI does not discriminate against an applicant during any aspect of a 504 credit transaction. is committed to the principles of fair or equal opportunity lending. A consistent and high level of assistance and service will be provided to all small businesses or business owners regardless of race, color, religion, national origin, sex, marital status, age, receipt of public assistance. Underwriting standards will be applied fairly and consistently. Applicants with equivalent credit qualifications will receive the same consideration. RMI will strive to meet specific percentage goals for loans to women, minorities, and in support of SBA Public Policy Goals.

RMI NON-PROFIT STATUS AND GOOD STANDING: (13 CFR 120.816)

In accordance with 13 CFR 120.816, RMI is a non-profit corporation, incorporated in the state of Missouri on January 10, 1966. RMI will remain in good standing and comply with all laws, including taxation requirements in the state of Missouri and other states where RMI conducts business.

In addition, RMI is registered as a foreign corporation in the states of Kansas and Illinois, which reflects our multi-state designation and service delivery area. RMI will maintain good standing in Missouri, Kansas and Illinois. RMI is not affiliated with any other for-profit or non-profit entity.

RMI will maintain a satisfactory SBA performance, as determined by SBA in its discretion. RMI's Risk Rating, among other factors, will be considered in determining satisfactory SBA performance. Other factors may include, but are not limited to, on-site reviews/examination assessments; historical performance measures (like default rate, purchase rate and loss rate); loan volume to the extent that it impacts performance measures, and other performance related measurements and information (such as contribution toward SBA's mission).

RMI BOARD OF DIRECTORS (13 CFR 120.823)

RMI has a Board of Directors with at least nine (9) voting directors. The RMI Board is actively involved in encouraging economic development in our multi-state and LEA area of operation. RMI's Board has directors with background and expertise in internal controls, financial risk management, commercial lending, legal issues relating to commercial lending, and corporate governance. Directors are either currently employed or retired. RMI has at least one voting director that represents the economic, community or workforce development fields, and at least two voting directors that represent the commercial lending field.

(b) At least two voting members of the Board of Directors, other than the RMI Executive Director, will possess commercial lending experience satisfactory to SBA. When the Board votes on SBA loan approval or servicing actions, at least two voting Board members, with such commercial lending experience, other than the RMI Executive Director, will be present and vote.

(c) The Board of Directors will meet at least quarterly and shall be responsible for the actions of RMI and any committees established by the Board of Directors. In addition, the Board of Directors is subject to the following requirements:

- Except for the RMI Executive Director, no person on RMI's staff may be a voting director of the Board; ○ A quorum must be present to transact business. The quorum shall be set by RMI but shall be no less than 50% of the voting members of the Board of Directors;

- Attendance at meetings may be through any format permitted by State law;
- Directors from the commercial lending field will comprise less than 50% of the representation on the Board; and
- RMI will not permit more than one of its Directors to be employed by or serve on the Board of Directors of any other single entity (including the entity's affiliates), unless that entity is a civic, charitable, or comparable organization that is not involved in financial services or economic development activities. No RMI Board member may serve on the Board of another CDC in accordance with 13 CFR 120.851(b).

(d) The Board will have and exercise all corporate powers and authority and be responsible for all corporate actions and business. There must be no actual or appearance of a conflict of interest with respect to any actions of the Board. The Board is responsible for ensuring that the structure and operation of RMI, as set forth in the Bylaws, comply with SBA's Loan Program Requirements. The responsibilities of the Board include, but are not limited, to the following:

- Approving the mission and the policies for RMI;
- Hiring, firing, supervising and annually evaluating the RMI Executive Director;
- Setting the salary for the RMI Executive Director and reviewing all salaries;
- Establishing committees, at its discretion, including the following:

(1) *Loan Committee.* The Board of Directors may establish Loan Committee(s). The Loan Committee may exercise the authority of the Board only as set forth below; however, the delegation of its authority does not relieve the Board of its responsibility imposed by law or Loan Program Requirements. If the Board of Directors chooses to establish a Loan Committee(s) RMI staff and/or Executive Director may serve on the Loan Committee but is not a voting member. The Loan Committee must:

- Be chosen by the Board of Directors from the membership;
- Have a quorum of at least five (5) committee members authorized to vote;
- Have at least two members with commercial lending experience satisfactory to SBA;
- Have no actual or appearance of a conflict of interest, including for example, a Loan Committee member participating in deliberations on a loan for which the Third Party Lender is the member's employer or the member is otherwise associated with the Third Party Lender; and
- Consist of members who live or work in the Area of Operations of the State where the 504 project they are voting on is located unless the project falls under one of the exceptions listed in 13 CFR 120.839.

- Ensuring that RMI's expenses are reasonable and customary;
- Hiring directly an independent auditor to provide the financial statements in accordance with Loan Program Requirements;
- Monitoring RMI's portfolio performance on a regular basis;
- Reviewing at least semiannually a report on portfolio performance from the RMI Executive Director, which would include, but not be limited to, asset quality and industry concentration;
- Ensuring that RMI establishes and maintains adequate reserves for operations;
- Ensuring that RMI invests in economic development in each of the States in its Area of

Operations in which it has a portfolio, and approving each investment. If the investment is included in RMI's budget, the Board's approval of the budget may be deemed approval of the investment. If the investment is not included in the budget, the Board must separately approve the investment;

- Establishing a policy in the Bylaws of RMI prohibiting an actual conflict of interest or the appearance of same, and enforcing such policy (13 CFR 120.140 and 13 CFR 120.851);
- Retaining accountability for all of the actions of RMI;
- Establishing written internal control policies, in accordance with 13 CFR 120.826;
- Establishing commercially reasonable loan approval policies, procedures, and standards. The RMI Bylaws includes any delegations of authority to the Loan Committee(s). In addition, RMI has established and written this policy manual for the credit approval process. All 504 loan applications must have credit approval prior to submission to the SBA. The Loan Committee(s) may be delegated the authority to provide credit approval for loans up to $2,000,000 but, for loans of $1,000,000 to

$2,000,000, the Loan Committee's action must be ratified by the Board prior to Debenture closing. Only the RMI Board may provide credit approval for loans greater than $2,000,000.

All members of the RMI Board of Directors must annually certify in writing that they have read and understand 13 CFR 120.823 and copies of the certification must be included in the Annual Report to SBA.

The RMI Board of Directors shall maintain Directors' and Officers' Liability and Errors and Omissions insurance in amounts established by SBA that are based on the size of the RMI portfolio and other relevant factors.

RMI OPERATING REQUIREMENTS (13 CFR 120.826)

RMI will operate in accordance with the following requirement:

(a) RMI will meet all 504 Loan Program Requirements. In its Area of Operations, RMI will market the 504 program, package and process 504 loan applications, close and service 504 loans, and if authorized by SBA, liquidate and litigate 504 loans. RMI will provide SBA current and accurate information about all certification and operational requirements, and maintain the records and submit all reports required by SBA. These reports will include but not be limited to:

- Quarterly Delinquency Report report to the SBA Commercial Loan Servicing Center on all delinquent loans (60 days or more past due). Reports will be submitted no later than 30 days after March 31st, June 30th, September 30th and December 31st.
- Quarterly Liquidation Status Report within 15 days of receiving notice that the debenture has been purchased and every 90 days thereafter.
- Site visit report to be prepared after every visit to the borrower's business premises. Liquidation Wrap-Up Report
- SBA Annual report within 180 days after RMI's year-end which would be March 31. Included in the annual report will be:
  - The financial audit
  - Certification of members with written certification by each Board member that he/she has read and understands the requirements set forth in 13 CFR 120.823.
  - Report on investment activities in economic development
  - For each new staff member, associate, member or Board Member, a Statement of Personal History (SBA Form 1081)

(b) RMI's Board of Director's will adopt an internal control policy which provides adequate direction for effective control over and accountability for operations, programs, and resources. The board adopted internal control policy will, at a minimum:

- Direct management to assign the responsibility for the internal control function (covering financial, credit, credit review, collateral, and administrative matters) to an officer or officers of RMI;
- Adopt and set forth procedures for maintenance and periodic review of the internal control function;
- Direct the operation of a program to review and assess RMI's 504-related loans. For the 504 review program, the internal control policies must specify the following:
    - 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;
    - Loan quality classification standards consistent with the standardized classification systems used by the Federal Financial Institution Regulators; ○ Specific control requirements for RMI's oversight of Lender Service Providers; and
    - Standards for training to implement the loan review program; and address other control requirements as may be established by SBA.

© RMI will have its financial statements audited annually by a certified public accountant that is independent and experienced in auditing financial institutions. The audit will be performed in accordance with generally accepted auditing standards as adopted by the Auditing Standards Board of the American Institute of Certified Public Accountants (AICPA). The auditor must be independent, as defined by the AICPA, of RMI. Annually, the auditor must issue an opinion as to the fairness of the RMI's financial statements and their compliance with GAAP. The audit or review must be conducted by an independent certified public accountant who:

- Is registered or licensed to practice as a public accountant, and is in good standing, under the laws of the state of Missouri;
- Agrees in the engagement letter with RMI to provide the SBA with access to and copies of any work papers, policies, and procedures relating to the services performed;
- Is in compliance with the AICPA Code of Professional Conduct; and ○ (ii) Meets the independence requirements and interpretations of the Securities and Exchange Commission and its staff;
- Has received a peer review or is enrolled in a peer review program that meets AICPA guidelines; and;
- Is otherwise acceptable to SBA.

To manage the information necessary to perform required application, data collection, closing, and servicing functions, RMI uses a database management system called Loan Management System (LMS) that was developed to monitor sales efforts, pipelines of potential clients, packaging process, closing process and ongoing servicing activity. In general, the purposes of the database is:

- To serve as a "tickler" file to identify loans for specific servicing tasks,
- To provide easy access to primary information about borrowers in an organized format, and
- To provide a source of data for reporting portfolio information to the SBA and the RMI Board.

This software is also used in loan packaging and loan closing document preparation. It is designed to increase efficiency and quality of information used by RMI.

RMI also utilizes BMI Imaging Solutions as electronic document storage and paper management to provide secure storage and access of information throughout RMI 504 operations. With the integration of BMI and LMS, together they provide a document management solution that fundamentally centralizes important organization records in one, secure location.

SBA GUIDELINES AS TO CDC STAFF (13 CFR 120.824)

In accordance with 13 CFR 120.824, RMI will have full-time professional management, including an Executive Director (or the equivalent) managing daily operations. It must also have a full-time professional staff qualified by training and experience to market the 504 Program, package and process loan applications, close loans, service, and liquidate the loan portfolio, and sustain a sufficient level of service and activity in the Area of Operations. RMI may obtain, under written contract, marketing, packaging, processing, closing, servicing or liquidation services provided by qualified individuals (service providers) who live or do business in RMI's Area of Operations under the following circumstances:

- RMI has at least one salaried professional employee that is employed directly (not contracted) full-time to manage RMI..
- SBA must pre-approve the service provider contracts RMI makes for managing, marketing, packaging, processing, closing, servicing, or liquidation functions. (RMI may contract for legal and accounting services without SBA approval, except for legal services in connection with loan liquidation or litigation.)
- Contracts must clearly identify terms and conditions satisfactory to SBA that permit RMI to terminate the contract prior to its expiration date on a reasonable basis.
- RMI will provide copies of these contracts to SBA for review annually by including them in the annual report.
- If RMI's Board believes that it is in the best interest of RMI to contract for a management, marketing, packaging, processing, closing, servicing or liquidation function, RMI's Board must explain its reasoning to SBA. RMI's Board must demonstrate to SBA that:
  - The compensation under the contract is only from RMI, is reasonable and customary for similar services in the Area of Operations, and is only for actual services performed;
- The full term of the contract (including options) is reasonable; and
- The contract does not evidence any actual or apparent conflict of interest or self-dealing on the part of any RMI officers, management, and staff, including members of the Board and any Loan Committee member.
- No contractor (under this section) or Associate of a contractor may be a voting or non-voting member of RMI's Board.

All RMI Employees involved with lending are directly accountable for their actions. General guidelines for RMI employees are that they are responsible for maintaining the highest standards of performance by:

- Thoroughly understanding and adhering to RMI's credit processes, policies, standards and requirements;
- Effectively balancing productivity and quality;
- Ensuring that personal interests do not conflict with their responsibilities and duties;
- Upholding the ethical standards of RMI in their performance;
- Acting to best serve the long-term interests of RMI while prudently meeting the reasonable needs of its borrowers;
- Respecting other professionals of RMI and outside professionals;
- Maintaining uncompromising integrity;

- Confronting differences of opinion openly and constructively – speaking up when issues need to be resolved, listening to differing views, and embracing new ideas when it becomes apparent that pre-existing beliefs are no longer valid;
- Holding all RMI and borrower related information in the strictest confidence. The only exception to this policy will involve the release of limited information necessary to establish or maintain a credit.

Confidentiality: General Information - Employees must handle confidential or proprietary information about RMI and its borrowers or bankers in strict confidence and are not to discuss such information with any person outside of RMI. Information compiled by employees while working for RMI includes but is not limited to the following: rolodexes, business card files, mailing lists, customer information, and loan leads. Employees are also responsible for the internal security of confidential information about its customers.

Code of Ethics and Business Conduct: RMI will compete ethically in the marketplace, and will not violate the law or the RMI's ethical standards in conducting RMI business activities. An illegal or unethical act cannot be justified by saying it benefited the company, or that it was directed by someone else in the organization, with a higher authority. RMI Members, Directors and Staff are never authorized by the company to commit or to direct another employee to commit such an act. Employees and Directors are expected to act lawfully, ethically and professionally in the performance of their duties at all times. Disparaging remarks or comments to or about our customers, borrowers, staff, directors or related professionals that compromise or jeopardize RMI's reputation are unacceptable.

Integrity: RMI's standards are intended to ensure a climate conducive to transparency and integrity. These standards serve to prevent breaches of ethical behavior and to provide the framework for integrity. These standards will also be strictly enforced. Any action or behavior that, in the opinion of RMI's Executive Director, violates or jeopardizes this standard of honesty, integrity and nondiscriminatory behavior may result in immediate disciplinary action up to and including termination. The nature of our business provides opportunities that can be developed through integrity in our personal and professional business practices. RMI is accountable to a number of constituencies – the RMI Board, our customers, government agencies (i.e. SBA), the communities we serve, the general public, and all employees. As such, all employees must treat all RMI resources, including the RMI name, with the respect befitting a valuable asset. Employees should never use or abuse RMI's name and benefit(s) in a way that could be interpreted as imprudent, improper or for personal gain.

Personal Benefit: Employees will not take advantage of their position at RMI to profit personally from information, corporate property, services or other business opportunities, unless the situation is deemed incidental or authorized by the RMI Executive Director.

Accuracy of Records: In addition to ensuring all records are accurate for the purpose of reporting requirements, each employee is responsible for ensuring that all documents completed by RMI are accurate. In addition to accounting and audit records, this includes time records, all loan documents, phone records, and all other records that are a part of our day-to-day business. The notarization of documents must be in full compliance with notary requirements. All records should accurately reflect transactions in a timely manner, and errors must be disclosed and corrected immediately. Falsifying documents or failure to maintain accurate records in accordance with RMI policies and procedures will result in disciplinary action, up to and including termination.

Maintaining Confidentiality: RMI staff will maintain a professional standard of conduct that assures confidentiality of information and relationships between RMI and its customers. Confidential information regarding customers should not be discussed except in the normal transaction of business. The use of any information stemming from employment shall be restricted to that which is absolutely necessary for the legitimate and proper business purposes of RMI. Externally, the privacy of RMI customers shall be protected. A random remark with family, friends or acquaintances can form the basis for misinterpretation or otherwise violate the integrity of RMI relationships. Therefore, care and restraint should be exercised at all times by RMI staff, contractors and RMI Board. Also, information about how RMI is operated (such as the strategic plans, products, etc.) or other nonpublic information about customers shall be treated as confidential. Inappropriate discussions or the improper release of information may result in disciplinary action up to and including termination. When an RMI staff person's employment or an RMI Board Member's service ends, there is an obligation to maintain the confidentiality of information,

Conflict of Interest: It is a conflict of interest if an RMI employee has an interest outside of work that interferes with their responsibilities to RMI or affects that employee's ability to perform their duties properly. Both RMI employees, as well as members of the RMI Board of Directors must avoid conflicts of interest and potential conflicts of interest, including situations where there might be an appearance that there is, or could be, a conflict of interest.

Employees of RMI may not engage in any employment or activity which is in competition with any business of RMI which conflicts with the fiduciary obligations of any other department; or which creates a conflict of interest with the employee's position or department. In all cases, positions in which the employee is employed outside of RMI must be approved in advance by the RMI Executive Director.

RMI encourages participation in civic affairs as a part of the company commitment to community involvement including service with constructive and legitimate for-profit and non-profit organizations. There are cases, however, in which organizations have business relationships with RMI or in which the handling of confidential information might result in a conflict of interest. Discretion is advised and any questionable participation should be discussed with the RMI Executive Director.

All actual and potential conflicts of interest must be reported immediately to RMI's Executive Director. In the case of an actual or potential conflict involving senior management or an RMI Board member, the actual or potential conflict of interest must be reported to the Executive Director and the Board of Directors with appropriate action being taken.

Use of Company Resources: RMI telephones, personal computers, copy and fax machines, supplies, mail service, including e-mail, bulletin boards and conference rooms are intended for Company business only. Personal use of these or other Company resources can disrupt the vital flow of information or tie up resources our customers depend on. Misuse or abuse of RMI resources may result in disciplinary action, including termination. Company resources assigned to RMI staff during the course of employment must be returned upon termination and/or at the request of RMI.

Business Communications and Records: All communications, whether verbal or written, should be conducted professionally and should adhere to RMI ethical standards. What we say, write and do should reflect a clear understanding of RMI's ethical values and expectations and should demonstrate sound personal judgment. That means being clear, truthful, and accurate. It also means being respectful. What we say, write or do should preserve or enhance RMI's integrity and reputation; it should never jeopardize it. This policy applies to communications of all kinds, including voice mails, e-mail, social media and informal notes or memos.

Credit Ethics: RMI employees will be held to the highest standard of honesty when developing, preparing and presenting loans internally, to the SBA and to any other entity that RMI may work with. Employees may not knowingly change credit information to make any loan seem better than it is or knowingly falsify any loan documentation. Employees may not solicit or accept gratuities from any borrower or banker. However, gifts or meals of up to $ 25.00 are acceptable if not solicited.

Internal Documents: RMI employees will be held to the highest standard of honesty when preparing and submitting employment, leave, loan documents, expense accounts or other records and will not knowingly falsify such documents.

CDC SERVICE PROVIDERS (13 CFR 120.824)

RMI Service Providers are held to the same conduct standards as regular employees. The service provider contracts will clearly identify terms and conditions satisfactory to SBA that permit RMI to terminate the contract prior to its expiration dates on a reasonable basis. RMI will provide copies of these contracts to SBA for review annually. Compensation under the contract will be reasonable and customary for similar services in our area of operations and is only for actual services performed. The contract will not evidence any actual or apparent conflict of interest of self-dealing on the part of any of RMI's officers, management and staff, including members of the Board and any Loan Committee. No contractor will be a voting or non-voting member of the RMI Board of Directors. The credit applications submitted by RMI contractors will undergo an independent analysis and review by the Executive Director. Service Providers will be evaluated during the Independent Loan Review. Of the total loans being reviewed, not less than 10% of those files will be loans originated by service providers. It will be noted on the 504 Risk Based Lender Review File Checklist those applications completed by the service provider. By performing this type of file review, RMI will be able to effectively track and evaluate the quality of the 504 loan application to adequately assess potential risks associated with the 504 applicant(ion).

RMI CORPORATE GOVERNANCE (13 CFR 120.823)

In accordance with 13 CFR 120.823, RMI will have a Board of Directors with at least nine voting directors. The RMI Board of Directors will be actively involved in encouraging economic development in our Area of Operations. At a minimum, the RMI Board will have directors with background and expertise in internal controls, financial risk management, commercial lending, legal issues relating to commercial lending, and corporate governance. Directors may be either currently employed or retired. RMI will have at least one voting director that represents the economic, community or workforce development fields and at least two voting directors that represent the commercial lending field. When the RMI Board of Directors votes on 504 loan approval or servicing actions, at least two voting Board members, with such commercial lending experience, other than the CDC manager, will be present and vote.

The RMI Board of Directors will meet quarterly and shall be responsible for the actions of RMI and any committees established by the Board of Directors. In addition, the Board of Directors is subject to the following requirements:

(1) Except for the RMI Executive Director, no person on RMI's staff may be a voting director of the Board;

(2) A quorum of the Board must be present to transact business. The quorum shall be set in RMI's bylaws but shall be no less than 50% of the voting members of the Board of Directors;

(3) Attendance at meetings may be through any format permitted by State law;

(4) Directors from the commercial lending fields must comprise less than 50% of the representation on the Board; and

(5) RMI may not permit more than one of its Directors to be employed by or serve on the Board of Directors of any other single entity (including the entity's affiliates), unless that entity is a civic, charitable, or comparable organization that is not involved in financial services or economic development activities. No RMI Board member may serve on the Board of another CDC in accordance with 130 CFR 120.851(b).

(5) Ensuring that the RMI's expenses are reasonable and customary;

(6) Hiring directly an independent auditor to provide the financial statements in accordance with Loan Program
Requirements;

(7) Monitoring RMI's portfolio performance on a regular basis;

(8) Reviewing at least semiannual a report on portfolio performance from RMI's Executive Director, which would include, but not be limited to, asset quality and industry concentration;

(9) Ensuring that RMI establishes and maintains adequate reserves for operations;

(10) Ensuring that RMI invests in economic development in each of the States in its Area of Operations in which it has a portfolio, and approving each investment. If the investment is included in the RMI budget, the Board's approval of the budget may be deemed approval of the investment. If the investment is not included in the budget, the Board must separately approve the investment;

(11) Establishing a policy in the Bylaws of RMI prohibiting an actual conflict of interest or the appearance of same, and enforcing such policy as set forth in 13 CFR 120.140 where lenders, intermediaries and RMI must act ethically and exhibit good character and 13 CFR 120.851 which requires RMI and their Associates must act ethically and exhibit good character.

(12) Retaining accountability for all of the actions of RMI;

(13) Establishing written internal control policies, in accordance with 13 CFR 120.826;

(14) Establishing commercially reasonable loan approval policies, procedures, and standards. The Bylaws must include any delegations of authority to the Loan Committee and Executive Committee, if either Committee has been established. In addition, the CDC must establish and set forth in detail in a policy manual its credit approval process. All 504 loan applications must have credit approval prior to submission to the Agency. The Loan Committee, if established, may be delegated the authority to provide credit approval for loans up to $2,000,000 but, for loans of $1,000,000 to $2,000,000, the Loan Committee's action must be ratified by the Board or Executive Committee prior to Debenture closing. Only the Board or Executive Committee, if authorized by the Board, may provide credit approval for loans greater than $2,000,000.

(15) All members of the Board of Directors must annually certify in writing that they have read and understand this section, (13 CFR 120.823) and copies of the certification must be included in the Annual Report to SBA and will be maintained in the individual Board member's file.

(e) The Board of Directors shall maintain Directors' and Officers' Liability and Errors and Omissions insurance in amounts established by SBA that are based on the size of the CDC's portfolio and other relevant factors.

RMI LOAN COMMITTEES (13 CFR 120.823)

In accordance with 13 CFR 120.823, the RMI Board of Directors may establish a Loan Committee(s). The Loan Committee may exercise the authority of the Board only as follows; however, the delegation of its authority does not relieve the Board of its responsibility imposed by law or Loan Program requirements. If the Board chooses to establish a Loan Committee, no RMI staff or manager may serve on the Loan Committee. The Loan Committee must:

A) Be chosen by the Board of Directors from the membership;

(B) Have a quorum of at least five (5) committee members authorized to vote;

(C) Have at least two members with commercial lending experience satisfactory to SBA; and

(D) Have no actual or appearance of a conflict of interest, including for example, a Loan Committee member participating in deliberations on a loan for which the Third Party Lender is the member's employer or the member is otherwise associated with the Third Party Lender; and

(E) Consist of members who live or work in the Area of Operations of the State where the 504 project they are voting on is located unless the project falls under one of the exceptions listed in 13 CFR 120.839, case-by-case application to make a 504 loan outside the RMI's area of operations.

In accordance with 13 CFR 120.826, RMI's Board of directors will adopt an internal control policy which provides adequate direction to RMI for effective control over and accountability for operations, programs, and resources. The RMI internal control policy is attached.

CONCENTRATIONS OF CREDIT:

Prudent portfolio risk management requires that concentrations of credit be actively diversified and managed. In accordance with 13 CFR 120 and SOP 50-10 (5) RMI management and Board of Directors will quarterly review industry concentrations. Concentrations in certain industries and/or new businesses should be closely monitored since either could indicate a greater vulnerability to market risks.

RMI has determined that, in consideration of the SOP and 13 CFR 12, no more than 25% of the ***number*** of outstanding loans in the portfolio will be made to a particular industry segment (as determined by the first two digits of the NAICS Code). If the portfolio exceeds this percentage but projects within that two-digit NAICS code are credit worthy and/or performing satisfactorily, RMI will not limit approving additional loans within that NAICS code. The number of loans to start-up businesses will be limited to 25% of the number of loans in the outstanding portfolio. As market conditions or regulatory climate dictate, specific industry concentrations will be periodically reviewed and policies amended as needed.

INDEPENDENT LOAN REVIEW (SBA Independent Loan Review Guide)

Independent Loan Review has an important role in RMI's internal control of the 504 loan portfolio. Periodic objective, independent reviews of credit risk levels and risk management processes are essential to effective portfolio management. The Independent Loan Review is also a part of a sound internal control policy as mandated by SBA policy 13 CFR 120.823 and 13 CFR 120.826)

Independent Loan Review Sample Size and Metrology:

RMI's internal control policy establishes the following guidelines for an independent loan review:

- The Independent Loan Review shall be conducted at least annually;

- Independence of the loan reviews and credentials of the reviewers must be such they are qualified to perform such a review;
- Review of sample size will be at least 10 new loans and at least 25 legacy loans with a maximum of 10% of the number of 504 loans in the outstanding portfolio.
- The sampling will include loans with appraisals originated in the last 12 months for underwriting/closing purposes;
- The sampling for reviewing loans in servicing will be based on loans that are current, delinquent, in intensive servicing and liquidation;
- The review will include reviews of the appraisals to ensure the meeting of the SBA appraisal standards'
- All work papers and documentation will be maintained in the Independent Loan Review file.

Loan Reviewers

The review of loans should include both new and legacy loans (loans originated over 12 months ago) for adherence to SBA Loan Program Requirements. The review of new loans (originated in the past 12 months) will focus on underwriting and closing, and the review of legacy loans should focus on servicing and liquidation, if applicable. The review will also include an assessment of the loan grade to ensure loans are risk rated appropriate at the time of application and that risk ratings are updated at least annually if not more frequently as needed.

Each 504 loan file in the sample will be reviewed for:

- Eligibility
- Credit analysis
- Credit documentation
- Collateral documentation
- Proper lien perfection
- Adherence to loan covenants
- Loan Authorization, closing and disbursement
- Appraisals
- Environmental reports
- Servicing and liquidation
- Compliance with internal policies and procedures and applicable laws and regulations; and
- The accuracy and timeliness of risk rating assigned by the loan officers and/or portfolio manager.

Core Analysis Phase

The Core analysis phase during the Independent Loan Review will include:

- Determining whether deficiencies noted in the last examination and most recent internal/external audit have been addressed and/or corrected by management; and
- Determining if any member of senior management of Board of Directors/Chairman have ability to override credit grades or decisions.

Outcome of the Independent Loan Review

The following objectives will be addressed in an effective RMI Independent Loan Review process and should serve as potential points for improvement:

- To provide the RMI Board of Directors and senior management with an objective assessment of the overall portfolio quality;

- To assess the adequacy of, and adherence to, SBA's Loan Program Requirements, and to monitor compliance with relevant laws and regulations;
- To promptly identify loans with credit weaknesses so that timely action can be taken to minimize credit loss, including review of the loan's risk rating;
- To identify relevant trends affecting the collectability of the loan portfolio and isolate potential problem areas;
- To evaluate the activities of lending personnel, including loan service providers; and
- To provide management with information related to credit quality that can be used for financial and regulatory reporting purposes.

Loan Quality Classifications with Federal Financial Institution Regulators

The Independent Loan Reviewer should opine on the risk rating of each loan reviewed as to whether he/she agrees with the risk rating or feels that tit should be up-graded or down-graded and provide an explanation for the change. Timely and accurate loan grading allows RMI to better manage its 504 loan portfolio. The loan grading system RMI is using a guideline is the Farm Credit System.

Control Requirements for RMI's Oversight of Loan Service Contracts (LSC)

RMI will monitor their Loan Service Contracts to ensure that the services provided and the fees paid are prudent and customary. There will be no actual or appearance of a conflict of interest. RMI will include in the Independent Loan Review an adequate sample of 504 loans made by a LSC. Those 504 loans will be so noted at the time of review of the complete loan file by the independent loan reviewer.

Standards for Training to Implement the Independent Loan Review

RMI training procedures are essential to maximize the benefit of the independent loan review. This training procedures will include who is being trained; what information is provided in the training and their qualifications for performing the independent loan review. The reviewers will receive annual training prior to the performance of the independent loan review. An extensive checklist will be provided to the loan reviewer for each 504 loan reviewed.

RMI Follow Up on Results of the Independent Loan Review

The RMI Board of Directors and senior management will use the results of the Independent Loan Review which will be contained in the Independent Loan Review Report to improve the current and future loan making and monitoring functions. Upon completion of the Independent Loan Review report, it will be provided to the RMI Board of Directors for approval and reflected in the minutes of the Board of Director's meeting.

PURPOSE OF 504 LOANS (13 CFR 120.800 AND SOP 50 10 5)

As stated in 13 CFR 120.800 and SOP 50 10 5, the purpose of the 504 loan program is an economic development program designed to finance fixed assets for small businesses on reasonable terms and to stimulate employment through a job retention/creation goal.

A 504 project must create or retain one job opportunity per amount of 504 loan funding that is specified by SBA from time to time in the Federal Register notice. Such Job opportunity average remains in effect until changed by subsequent Federal Register publication(s).

A 504 project that achieves any of the following community development or public policy goals is eligible if RMI's overall portfolio of 504 loans, including the new loan, meets or exceeds RMI's required job opportunity average. Loan applications must indicate how the Project will meet the specified economic development objective as outlined in 13 CFR 120.862:

- Community Development Goals Public policy goals
- Energy saving goals

<u>THE SMALL BUSINESS APPLICANT MUST DEMONSTRATE A NEED FOR THE 504 LOAN (50 10 5 AND 13 CFR 120.101)</u>

The Small Business Applicant's need for the 504 loan is determined by the availability of "credit elsewhere". This is to determine if the Small Business Applicant has the ability to obtain some or all of the requested financing from other sources without undue hardship. RMI must determine

- The Small Business Applicant is unable to obtain the loan on reasonable terms without a federal government guaranty; and
- Some or the entire loan is not available from the resources of the applicant business. If some or the entire loan applied for is otherwise available on reasonable terms, the loan application must be reduced or declined.

The factors that demonstrate an identifiable weakness in the credit or that show the credit will exceed the policy limits of the Third Party Lender include:

- The business needs a longer maturity than the Third Party Lender's policy permits;
- The requested loan exceeds either the Third Party Lender's legal lending limit or policy limit regarding the amount that it can lend to one customer;
- The collateral does not meet the Third Party Lender's policy requirements;
- The Third Party Lender's policy normally does not allow loans to new businesses or businesses in the applicant's industry; and/or
- Any other factors relating to the credit that, in RMI's opinion, cannot be overcome without the 504 loan. These factors will be specifically documented in the loan file.

RMI will certify that credit is not otherwise available by signing the CDC Official block on the appropriate 504 application form.

<u>ELIGIBILITY (13 CFR 120.880 AND SOP 50 10 5 SUBPART C CHAPTER 2 PARAGRAPH III.):</u>

In accordance with 13 CFR 120.880 and SOP 50 10 5, to be an eligible borrower for a 504 loan, a small business must:

- Be an operating business;
- Be organized for profit ○ Non-profit businesses are not eligible for 504 financing
    - For-profit businesses owned by a non-profit business are eligible if they meet SBA's other eligibility requirements. If the loan proceeds are used for the benefit of the non-profit rather than the for-profit, the for-profit business is not eligible
- Be located in the United States (include territories and possession)
- Be small (as defined by SBA); and ○ The applicant business (considering its affiliates, if any) must meet either the same size standards applicable to 7(a) business loans set forth in 13 CFR 121.301(a) or the size standards for development company loans set forth in 13 CFR 121.301(b)
- Demonstrate a need for the desired credit (13 CFR 120.101)

To determine if a business is eligible for 504 financing, RMI must:

- Determine the primary business industry of the Small Business Applicant (13 CFR 121.107)
- Determine whether the Small Business Applicant is one of the types of businesses listed as ineligible in SBA regulations 13 CFR 120.110 which includes:
    - Non-profit businesses
    - Financial Businesses
    - Passive businesses
    - Life insurance companies
    - Businesses located in a foreign country
    - Pyramid sale distribution plans
    - Businesses deriving more than 1/3 of gross annual revenue from legal gambling
    - Businesses engaged in any illegal activity
    - Private clubs and businesses which limit the number of membership for reasons other than capacity.
    - Government-owned entities (except for Businesses owned by Native American Tribe)
    - Businesses principally engaged in teaching, instructing, counseling or indoctrinating religion or religious beliefs whether in a religious or secular setting
    - Consumer and marketing cooperatives
    - Loan packagers earning more than 1/3 of their gross annual revenue from packaging SBA loans
    - Businesses with an Associate who is incarcerated, on probation, on parole, or has been indicted for a felony or a crime of moral turpitude
    - Businesses in which the lender or CDC, or any of its associates owns an equity interest
    - Businesses which present live performances of a prurient sexual nature or derive directly or indirectly more than a de minimus gross revenue through the sale of products or services, or the presentation of any depictions or displays of a prurient sexual nature
    - Businesses that have previously defaulted on a Federal Loan or Federally assisted financing resulting in a loss to the Federal Government (13 CFR 120.110(q))
    - Businesses primarily engaged in political or lobbying activities; and
    - Speculative businesses
    - Businesses owned by non-US citizens

Character Determination of Eligibility for Business applicant/associate of Poor Character (SOP 50 10 5 Subpart C Chapter 2. Section III.D.)

SBA requires that every proprietor, general partner, officer, director, managing member of an LLC, owner of 20% or more of the equity of the applicant, trustor, and any person hired by the applicant to manage the day-to-day operations must be of good character. The completion of an SBA Form 912, Statement of Personal History by each identified individual is required as part of the character evaluation process and the form must be completed within 90 days of submission of the 504 application to SBA. Every person completing a 912 must answer each question fully giving details about any “yes” response. NOTE: A “yes” is required even when the record is allegedly sealed, expunged or otherwise unavailable.

If an identified individual answers “yes” to question 8 or 9 on SBA Form 912, then that individual must go through a background check and character determination unless the charge resulting in the “yes” answer was a single misdemeanor that was subsequently dropped without prosecution. If the individual pled guilty to the charges or to lesser charges, the background check and character determination must be conducted.

ELIGIBLE PASSIVE COMPANY (13 CFR 120.110 and SOP 50 10 5 SUBPART C Chapter 2. Paragraph F)

Passive businesses owned by developers and landlords that do not actively use or occupy the assets acquired or improved with the 504 loan proceeds are not eligible. However, The Eligible Passive Company Rule (EPC) is an exception to SBA regulations which prohibit financing assets which are held for their passive income.

An Eligible Passive Company must use loan proceeds to acquire or lease, and/or improve or renovate, real or personal property (including eligible refinancing), that it leases to one or more Operating Companies (OC) for conducting the OC's business. Any ownership structure or legal form may qualify as an EPC. (13 CFR 120.111)

Conditions that apply to all legal forms:

- The Operating Company must be an eligible small business, and the proposed use of the proceeds must be an eligible use if the Operating Company were obtaining the 504 financing directly;
- The EPC (with the exception of a trust) and the OC each must be small under the appropriate size standards in 13 CFR 121.
- The lease between the EPC and the OC must be in writing and must be subordinated to SBA's mortgage, trust deed lien, or security interest on the property. Also, the EPC (as landlord) must furnish as collateral for the loan an assignment of all rents paid under the lease;
- The lease between the EPC and the OC, including options to renew exercisable solely by the OC, must have a remaining term at least equal to the term of the loan and continue through the maturity of the 504 loan;
- The OC must be a guarantor or co-borrower with the EPC.
- Each holder of an ownership interest constituting at least 20 percent of the EPC and the OC must guarantee the loan (the trustee shall execute the guarantee on behalf of any trust).

Additional eligibility conditions apply to borrower's eligibility as Trusts regarding the trustor. All donors to the trust will be deemed to have trustor status for eligibility purposes. A trust qualifying as an EPC may engage in other activities as authorized by its trust agreement. The trustee must warrant and certify that the trust will not be revoked or substantially amended for the term of the 504 loan without the consent of SBA. The trustor must guarantee the loan. For purposes of this section, the trustee shall certify to SBA that:

(1) The trustee has authority to act;
(2) The trust has the authority to borrow funds, pledge trust assets, and lease the property to the OC;
(3) The trustee has provided accurate, pertinent language from the trust agreement confirming the above; and
(4) The trustee has provided and will continue to provide RMI with a true and complete list of all trustors and donors.

LOAN STRUCTURE AND TERMS (13 CFR 120.931 AND SOP 50 10 5 SUBPART C PARAGRAPH 4.)

In accordance with 13 CFR 120.931, the 504 loan amount shall be limited to:

(a) An outstanding balance of $5,000,000 for each Borrower and its affiliates if the loan proceeds will not be directed towards a Project in paragraph (c) of this section;

(b) An outstanding balance of $5,000,000 for each Borrower and its affiliates if one or more of the public policy goals enumerated in §120.862(b) applies to the Project; and

(c) $5,500,000 for each Project for:

(1) Small Manufacturers (NAICS Codes 31-33) with all production facilities located in the United States;

(2) Reduction of the Borrower's, or if the Borrower is an Eligible Passive Company, the Operating Company's energy consumption by at least 10%; or

(3) Plant, equipment and process upgrades of renewable energy sources such as the small-scale production of energy for individual buildings' or communities' consumption, commonly known as micro power, or renewable fuel producers including biodiesel and ethanol producers.

A 504 project has three main partners who are general: the Third Party Lender who provides 50% or more of the financing; RMI (the CDC) who provides up to 40% of the financing; and the applicant (borrower) who injects at least 10% of the financing. (13 CFR 120.801 and 13 CFR 120.900) No more than 50% of eligible project costs can be from Federal sources. (13 CFR 120.930(a).)

A. Third Party Loan (13 CFR 120.920)

The Third Party Lender must be in place at the time of the 504 application and must be evidenced by a letter of intent/term sheet or commitment letter included in the application package outlining the terms and conditions of the Interim and/or Third Party Loan to enable RMI and SBA to evaluate the 504 application.

The terms of the Third Party Loan are defined in 13 CFR 120.921:

- **(SOP 50 10 5 J)** The third Party Loan must total at least 50% of the Project costs if the Borrower (or Operating Company if the Borrower is an Eligible Passive Company) has operated for two years or less or the Project is for the acquisition, construction, conversion or expansion of a limited or single purpose asset. (Exception is if it is a new business because of a change in ownership that results in new, unproven ownership/management and increased debt unrelated to business expenses.)
- The Maturity. A Third Party Loan must have a term of at least 7 years when the 504 loan is for a term of 10 years and 10 years when the 504 loan is for 20 years. If there is more than one Third Party Loan, an overall loan maturity must be calculated, taking into account the maturities and amounts of each loan. If there is a balloon payment, it must be justified in the loan report and clearly identified in the 504 Loan Authorization.
- Interest rates. Interest rates must be reasonable.
- Other terms. The Third Party Loan must not have any early call feature or contain any demand provisions unless the loan is in default. By participating, a Third Party Loan lender waives, as to the RMI 504 Loan, any provision in its deed of trust, or mortgage, or other documents prohibiting further encumbrances or subordinate debt. In the event of default, the Third Party Lender must give RMI and SBA written notice of default within 30 days of the event of default and at least 60 days prior to foreclosure.
- Future advances. The Third Party Loan must not be open-ended. After completion of the Project, the Third Party Lender may not make future advances under the Third Party Loan except expenditures to collect amounts due the Third Party Loan notes, maintain collateral and protect the Third Party Lender's lien position on the Third Party Loan.
- Subordination. The Third Party Lender's lien will be subordinate to the CDC/SBA lien regarding any prepayment penalties, late fees, other default charges, and escalated interest after default due under the Third Party Loan.
- Escalation upon default. A Third-Party Lender may not escalate the rate of interest upon default to a rate greater than the maximum rate set forth in paragraph (b) of this section.

- The Third Party Loan may be closed and begin amortizing prior to the debenture funding as long as the Third Party Lender obtains the borrower's written consent.
- The Third Party Lender's note and loan documents must not have any cross-default, "deem-at-risk," or any other provisions which allow the Third Party Lender to make demand prior to maturity unless the loan is in default.
- The Third Party Lender liquidates or otherwise exhausts all reasonable avenues of collection with respect to the Additional Collateral no later than the disposition of the Project Property, and
- The Third Party Lender applies any proceeds received as a result of the Additional Collateral to the balance outstanding on the Third Party Loan prior to the application of proceeds from the disposition of the Project Property to the Third Party Loan.
- (SOP 50 10 5 J) RMI will not enter into any Intercreditor Agreement with the Third Party Lender other than that Third Party Lender Agreement (SBA Form 2287) without prior written consent of SBA.

B. Interim Financing (13 CFR 120.890 and SOP 50 10 5 Chapter 1 Paragraph III. B.)

Loans under the 504 program provide permanent or take-out financing. An interim lender (either the Third Party Lender or another lender) provides the interim financing to cover the period between RMI and SBA approval of the project and the debenture sale. After the project is completed, RMI will close the 504 loan. The proceeds from the Debenture sale repay the interim lender for the amount of the 504 project costs that it advanced on an interim basis.

- Any experienced, independent source including the third party lender may supply interim financing provided they meet the following conditions:
  - The financing is not derived from any SBA program, directly or indirectly; ○ The terms and conditions of the financing are acceptable to SBA ○ The source is not the borrower or an associate of the borrower; and
  - The source has the experience and qualification to monitor properly all project construction and progress payments.
  - A CDC may provide interim financing but only for a project financed by another CDC. As stated in the regulation, neither the borrower nor an Associate of the borrower may supply interim financing.

The interim financing must be fully disbursed and the project completed prior to the sale of the Debenture with one exception. A portion of the debenture proceeds may be put into an escrow account to complete a minor portion of the total project. The CSA, title company RMI attorney or bank may hold debenture proceeds in escrow to complete project components such as landscaping and parking lots, and acquire machinery and equipment if the component or acquisition is a minor portion of the total project and has been contracted for completion or delivery at a specified price and future date. The escrow agent must disburse funds upon approval by RMI and SBA, supported by invoices and payable jointly to the small business and the designated contractor (13 CFR 120.961)

BORROWER'S CONTRIBUTION (13 CFR 120.910, 120.911, 120.912 and 120.913 and SOP 50 10 5 J (pages 255-256)

The definition of New Business SBA has defined as a business that has been in operations for 2 years or less then defines "operations" are when the business begins generating revenue from its intended operations.

P. New Business is a business that has been in operations for 2 years or less at the time the loan is approved. A business that has been in operation for more than 2 years at the time the loan is approved may be considered a New Business if it is a change of ownership that will result in new, unproven ownership/management and increased debt unrelated to business operations. If there is a change of ownership, RMI will review the management and level of debt and make a determination whether an additional borrower's contribution of 5% is necessary. Operations are deemed to begin when the business begins generating revenue from its intended operations. Revenue, rather than sales, is used because many small businesses provide services rather than selling merchandise or products.

A 504 Loan cannot be used to finance a business that is not generating revenues yet.

Limited or Special Purpose Properties (SOP 50 10 5 J pages 259-260)

Examples of Limited or Special Purpose Properties: (this is not an all inclusive list)

i. Car wash
ii. Gas stations
iii. Hotels, motels and other lodging facilities
iv. Hospitals, nursing homes and assisted living centers
v. Marinas
vi. Farms, including livestock and dairy facilities

If a project is not on this list and if the appraiser does not state that the Project Property is Limited or Special Purpose, then RMI should not consider it to be Limited or Special Purpose. However, if other Projects for similar properties have been identified as Limited or Special Purpose, then RMI and SBA will too.

BORROWER INJECTION (SOP 50 10 5 Subpart B Chapter 4 paragraph I.E.3)

RMI will verify the borrower's equity injection prior to closing and funding the 504 loan. Documentation for equity injection could include:

- A copy of a check or wire transfer along with evidence that the check or wire was processed showing the funds were moved into the appropriate escrow account;
- A signed and dated copy of the HUD/ Settlement Statement evidencing the amount of cash provided at closing by the borrower; and/or
- Verification from the Third Party Lender of the deposit made into the escrow account.

(SOP 50 10 J p. 259-260) The borrower must contribute to the Project cash (or property acceptable to RMI and SBA obtained with the cash) or land (that is part of the Project Property)

The additional borrower's contribution will reduce the SBA's portion of the financing. The borrower's equity in land previously acquired may be counted toward the borrower's contribution. The borrower also may count toward its contribution, equity in land and buildings that will be part of the Project if they are adding a new building to the same property. If the borrower's equity contribution is borrowed:

a) Any lien position on the Project Property must be subordinate to the 504 loan;

b) Only in situations where the borrowed equity contribution is collateralized by the Project Property, borrower may not pay the loan for its equity contribution at a faster rate than the 504 loan (13 CFR 120.912) unless it is approved in writing by the D/FA or designee; and

c) If the borrowed contribution is collateralized by assets other than the Project Property, the borrower must demonstrate repayment of the loan for its contribution from the cash flow of the business or other sources.

RMI will require additional Borrower contribution if the business, including its affiliates, has more than one Project involving a Limited or Special Purpose Property. For each subsequent Project, the borrower must contribute at least 20% (SOP 50 10 J page 259).

Subsequent Projects include all Projects with Limited or Special Purpose Properties that the business and its affiliates have done that required a 15% Borrower contribution, including those Projects prior to January 1, 2018. For example, if the business had a hotel project in 2010 and its affiliate is doing a second hotel project in 2018, then the Borrower contribution will be at least 20%. If the Borrower, including its affiliates, is both a new business and is doing a subsequent Project with limited or Special Purpose Project, then the borrower contribution will be at least 25%. The additional Borrower contribution will reduce the 504 portion of the project financing.

LOAN APPLICATION PROCESS (13 CFR 120 and SOP 50 10 5 Subpart C Chapter 4.)

RMI will comply with 13 CFR 120 and SOP 50 10 5 Subpart C, Chapter 4, which stipulate the policy. Procedures and controls for the application of a 504 loan program. Unless specified within the body of 13 CFR 120, the regulatory requirements of the business loan programs cannot be altered or waived by the SBA. However, when the policy set forth does not adequately address the unique circumstances regarding a particular matter, an exception to policy may be approved by the SBA Director of the Office of Financial Assistance (D/FA). (SOP 50 10 5 Subpart A). The D/FA may not approve an exception to policy if such exception would be inconsistent with a statute or regulation. The policy and procedures of the business loan program are divided between the policies directly associated with statutory or regulatory provisions of the law or regulation and those promulgated, i.e., established under the authority provided the SBA to maintain both prudent and quality lending practices. Policies directly associated with law or regulation cannot be waived unless the law or regulation specifically permits a waiver.

One or more small businesses may apply for 504 financing through RMI in our service area. If the 504 loan is approved, the Authorization and Debenture Guaranty is SBA's written agreement between the SBA and RMI providing the terms and conditions under which SBA will guarantee the 504 loan.

Borrower's Deposit (SOP 50 10 5 Subpart C Chapter 9 I.):

At the time of 504 application, RMI will require a deposit from the borrower of $2,500 or 1% of the Net Debenture Proceeds, whichever is less. A written agreement between RMI and the applicant will be signed and include the following:

- If RMI or SBA declines the application, the deposit will be refunded in full
- If SBA approves the loan, the deposit may be applied toward the CDC processing fee; and
- If the applicant withdraws its loan application at any time before SBA issues the Authorization, RMI may deduct its reasonable and necessary costs incurred in packaging and processing the loan application. Such costs will be documented and will not be a percentage of the 504 loan amount. Any remaining deposit will be remitted to the applicant.
- A copy of the Deposit Agreement will be maintained in the borrower's file.

The borrower completes a 504 Loan application with the assistance of an RMI loan officer. The application will help insure that adequate information about the financial condition of the borrower is obtained. The application should be filled out as completely as possible to provide sufficient information with which to begin the analytical process, form the basis for an initial site visit and understand proposed collateral.

One of the objectives of thorough initial visits with the potential borrower is to determine their character, business condition, prospects, and to gather supplemental financial information. Identification and site appraisal of the collateral is also essential during the initial visit.

The way a potential borrower handles its obligations with other creditors is a strong indication of how it will handle its obligations with RMI. Therefore, RMI should ask questions of other creditors concerning their experience with our potential borrower. Answers to these questions will increase understanding of the credit and make loan officers more confident about proposing sound loan recommendations. The basic question is: does the potential borrower honor its obligations on a timely basis?

<u>Analysis of Credit Risk (SOP 50 10 5 Subpart C Chapter 1. Paragraph II. B.)</u> RMI's credit risk analysis begins with the clear and careful identification of risk factors including but not limited to:

- Background of the borrower
- Purpose of the loan
- Source of repayment
- Owner's background, character and management capability
- Value of collateral and guarantee(s)
- Cash flow and financial strength of borrower, owner and guarantor(s)
- Ability to penetrate market sectors and competitive factors
- Environmental issues (if applicable)
- Franchise issues (if applicable)

RMI's credit analysis will include but not be limited to:

1. A financial analysis of the small business concern's (SBC) pro forma balance sheet. The pro forma balance sheet must reflect the loan proceeds, use of the loan proceeds, and any other adjustments such as required equity injection or stand-by debt.
2. A financial analysis of repayment ability based on historical income statements, tax returns (if an existing business) and projections, including the reasonableness of the supporting assumptions.
3. A ratio analysis of the financial statements including comments on any trends and a comparison with industry averages

   (NOTE: All 504 applications require financial statements on the applicant, including balance sheets and profit and loss statements for the two most recently completed fiscal years. In addition, interim financial statements that need to be current within 120 days of the date of application. A business that has not commenced operations is exempt from this requirement. In addition, a debt schedule and an aging of accounts receivable and accounts payable must accompany the application. In addition, Federal tax returns for the previous three years for the OC must accompany the application. The names of affiliated or subsidiary businesses as well as the last three years Federal tax returns must also be included in the application.)

   (Financial statements are also required from the seller of assets or a business to the applicant when the analysis of repayment is dependent on how well these assets or this business performed for the seller. Financial statements from the seller of the assets to the applicant are not required when the analysis of repayment for the proposed loan is not dependent on historical performance.)

4. A discussion of the owners' and managers' relevant experience in the type of business, as well as their personal credit histories.

5. An analysis of collateral adequacy, including an evaluation of the collateral and lien position offered as well as the liquidation value. (For further guidance, please see SOP 50 51, Loan Liquidation and Acquired Property.) 6. A discussion of the Small Business Applicant's credit experience, including a review of business credit reports and any experience the CDC may have with the applicant. Credit reports are only required for the small business concern applying for the loan and its owners and affiliates who are guarantors. Credit reports are not required on nonguarantor affiliates.
7. An analysis of liquidation values of collateral according to the following liquidation value guidelines:
   - Commercial Real estate 75%
   - Non-commercial real estate 80%
   - Machinery and Equipment 50% of cost
   - Inventory (when applicable) 10%
8. Other relevant information (for example, if the application involves a franchise, the success of the franchise).

RMI will complete the borrower's application for the 504 loan to include a detailed credit memo including but not limited to the following information:

- Borrower information
  - A discussion of the small business applicant's credit experience, including a review of business credit reports and any previous experience RMI may have with the applicant. Credit reports are only required for the small business concern applying for the loan and its owners and affiliates who are guarantors. Credit reports are not required on non-guarantor affiliates (SOP 50 10 5 Subpart C. Chapter 1. Paragraph II.6.)

    (NOTE: If consented by the borrower, credit information may only be shared with proposed Third Party Lenders. Credit report information may not be copied, but may be summarized for the Third Party Lender. All information is to be treated as highly confidential. All employees, contract employees, directors, and loan committee members are required to execute a Confidentiality Agreement.)
- Project costs ○ Purpose of loan and description of project ○ Project transaction type (purchase or construction) ○ Financing structure ○ Source of borrower's contribution
  - Entity information (EPC/OC, structure, ownership)
    - Management and history of the business
    - Affiliate information ○ Guarantor information
    - Personal credit score
    - Business credit
    - Personal resources ○ Jobs created and/or retained
    - Job creation ratio/debenture amount; or
    - Economic development objectives ○ Previous government financing ○ 504 size standards ○ Collateral
    - Real estate
    - Personal property
    - Appraised value analysis
    - Liquidated value analysis
    - Adequacy of collateral ○ Key risks ○ Key strengths
  - Conclusion/recommendation

Collateral (13 CFR 120.934)

RMI will usually take a second lien position on the project property to secure the 504 loan. Sometimes additional collateral is required (In rare circumstances, SBA may permit other collateral substituted for project property.) All collateral must be insured against such hazards and risks as SBA may require with provisions for notice to RMI and SBA in the event of impending lapse of coverage.

Adequacy of Collateral (SOP 50 10 5 Subpart C Chapter 3. I.C,)

1. SBA's 2nd lien position will be considered adequate when the applicant meets all of the following criteria:
   a) Strong, consistent cash flow that is sufficient to cover the debt;
   b) Demonstrated, proven management;
   c) The applicant business has been in operation for more than 2 years; and
   d) The proposed Project is a logical extension of the applicant's current operations.
2. If all four factors are present, no additional collateral or Borrower's contribution is required.
3. If one or more of the above factors is not met, additional collateral and/or increased Borrower's contributions may be required.
4. Because leasehold improvements provide minimal collateral value, RMI will consider requiring additional collateral.
5. RMI will not encumber assets or require additional contributions that the Borrower needs to sustain ongoing operations. Taking additional collateral with minimal liquidation value only serves to limit the Borrower's ability to obtain additional short-term financing while offering little or no additional protection to SBA.

Mixed Use Collateral (SOP 50 10 5 Subpart C Chapter 3.I.D.)

When one 504 debenture finances both real estate and significant shorter term assets, such as machinery and equipment and furniture and fixtures, the RMI will consider the following:

1. Taking, along with the Third Party Lender, lien positions based upon proportional shares in the financing of the Project;
2. Taking a 1st lien position on the shorter term assets. SBA requires at least a 2nd lien position unless there is a lien from an existing 504 loan on the assets;
3. Requiring additional equity or collateral; or
4. Removing the shorter term assets from the Project and have them financed by another source.

Guarantees (SOP 50 10 5 Subpart C Chapter 3.I.E.)

1. **Personal Guaranties:** Individuals who own 20% or more of a Small Business Applicant must provide an unlimited full personal guaranty. Each 504 loan must be guaranteed by at least one individual or entity. RMI and/or SBA may require other individuals to guarantee the loan as well. (13 CFR §120.160(a)) The guaranty by owners of less than 20% may be limited or full. If a limited guarantee is used, RMI may choose one of the payment limitation options in SBA Form 148L (Unconditional Limited Guarantee) and specify the option in the Authorization.

a) RMI will obtain a personal financial statement from all individuals guaranteeing the loan.

b) Guaranty may be secured or unsecured but must meet SBA's collateral requirements. If the loan is not fully collateralized by business assets, available personal assets may be pledged to secure the guaranty. **c)** Guaranty of Spouse:

i. Each spouse owning 5% or more of a Small Business Applicant must personally guarantee the loan in full when the combined ownership interest of both spouses is 20% or more.

ii. For a non-owner spouse, RMI will require the signature of the spouse on the appropriate collateral documents. The spouse's guaranty secured by jointly held collateral will be limited to the spouse's interest in the collateral.

2. Corporate/Other Guaranties: All entities that own 20% or more of a Small Business Applicant must provide an unlimited full guaranty. RMI and/or SBA may require other entities to guarantee the loan as well. If the entity that owns 20% or more of the Small Business Applicant is a trust (revocable or irrevocable), the trust must guarantee the loan with the trustee executing the guaranty on behalf of the trust and providing the certifications required in SOP 50 10 5 Chapter 2, Paragraph III.F.3.c) and e) of this Subpart. In addition, if the trust is revocable, the Trustor also must guarantee the loan. Financial statements are necessary to determine the assets available to support the guaranty.

Appraisal Requirements (13 CFR 120.,160(b) and SOP 50 10 5 Subpart C Chapter 3.II.A

RMI will comply with the regulations governing appraisal requirements set forth in 13 CFR 120.160(b).

Commercial Real Estate

1. RMI will require a real estate appraisal if the estimated value of the Project Property is: **a)** Greater than $250,000; or
   b) $250,000 or less, if such appraisal is necessary for appropriate evaluation of creditworthiness.

2. The appraiser must be:
   a) Independent and have no appearance of a conflict of interest (such as a direct or indirect financial or other interest in the property or transaction); and
   b) Either State-licensed or State-certified with the following exception: when the Project Property's estimated value is over $1,000,000, the appraiser must be State-certified.

3.The "Appraisal Report" must be prepared in compliance with the Uniform Standards of Professional Appraisal Practice (USPAP).

4. In order for the appraiser to identify the scope of work appropriately, the appraisal must identify SBA as the client or an intended user of the appraisal, as those terms are defined in the Uniform Standards of Professional Appraisal Practice (USPAP). RMI may also be identified as the client or an intended user. It is acceptable to SBA if the appraisal identifies the Third Party Lender as the client and SBA as an intended user. RMI and SBA may not use an appraisal prepared for the applicant. The cost may be passed on to the borrower.

5.If the loan will be used to finance new construction or the substantial renovation of an existing building, the appraisal must estimate what the market value will be at completion of construction. ("Substantial" means rehabilitation expenses of more than one-third of the purchase price or fair market value at the time of the application.) After construction is completed, RMI will obtain a statement from the appraiser, general contractor, project architect, or construction management firm that the building was built with only minor deviations (if any) from the plans and specifications upon which the original estimate of value was based. If RMI cannot obtain such a statement, then RMI cannot close the loan without the Sacramento Loan Processing Center's prior written permission.

6. If the loan will be used to acquire an existing building that does not require construction, the appraiser should estimate market value on an as-is basis. If the appraiser estimates the value other than on an as-is basis, the narrative must include an explanation of why the as-is basis was not used.

7. If the appraisal engagement letter asks the appraiser for a business enterprise or going concern value, the appraiser must allocate separate values to the individual components of the transaction including land, building, equipment and business (including intangible assets).

8. When the collateral is a Special Purpose Property, the appraiser must be experienced in the particular industry.

9. An appraisal must be submitted and approved by the Sacramento Loan Processing Center prior to closing. If the appraisal comes in:

a) at 90% or more of the estimated value, RMI may close the loan but must include a written explanation in the loan file if the appraisal is less than the estimated value; or

b) at less than 90% of estimated value, the debenture must be reduced or, if available, RMI will secure additional collateral or additional investment from the borrower and/or guarantors that will be added to the required Borrower's Contribution and will be sufficient to address the gap in value. If additional collateral or additional investment is not available, but the applicant demonstrates strong, consistent cash flow sufficient to support the debt, then the Sacramento Loan Processing Center can approve the appraisal and RMI may close the loan.

10. An appraisal must be submitted to the Sacramento Loan Processing Center with the application under the following circumstances:

a) Equity in land owned for 2 years or more is being contributed as part of Borrower's contribution; **b)** The real estate is Third Party Lender's OREO; or

c) The Project is not an arms-length transaction (e.g., family members).

<u>Environmental Policies and Procedures (SOP 50 10 5 Subpart C III.)</u>

RMI will apply the following environmental policies and procures to all 504 loans:

The Risks of Environmental Contamination include:

1. The costs of Remediation could impair the borrower's ability to repay the loan and/or continue to operate the business;

2. The value and marketability of the Property could be diminished. If the borrower defaults, RMI and SBA might have to abandon the Property to avoid liability or accept a reduced price for the Property;

3. RMI and/or SBA could be liable for environmental clean-up costs and third-party damage claims arising from Contamination if title to contaminated Property is taken as a result of foreclosure proceedings and/or RMI or SBA exercises operational control at the Property; and

4. If a Governmental Entity cleans a site, it may be able to file a lien for recovery of its costs which may be superior to RMI/SBA's lien.

ENVIRONMENTAL INVESTIGATIONS (SOP 50 10 5 Subpart C Chapter 3. Paragraph 3)

RMI will requires an Environmental Investigation of all commercial Property upon which a security interest such as a mortgage, deed of trust, or leasehold deed of trust is offered as security for the 504 loan. The type and depth of an Environmental Investigation to be performed varies with the risks of Contamination. Prudent lending practices may dictate additional Environmental Investigations or safeguards.

Submission of Environmental Investigation Reports

RMI will submit the Environmental Investigation Report to the Sacramento Loan Processing Center processing. RMI will comply with and meet the requirements of the Environmental Policies and Procedures set forth in SOP 10 5 Subpart C Chapter 3 Paragraph III. All Transaction Screens, Phase I and Phase II ESAs will be performed by an Environmental Professional and be accompanied by a Reliance Letter. (A Reliance Letter is required even if the Environmental Investigation Report is addressed to RMI.) Any request for an exception to Agency Environmental Policies and Procedures must be directed to the SBA Environmental Committee.

The Steps of an Environmental Investigation (SOP 50 10 5 Subpart C.III. E.)

NAICS Codes. For all Property *except* a unit in a Multi-Unit Building, RMI will begin by making a Good Faith effort to determine the NAICS code(s) for the Property's ***current and known prior uses*** and compare the NAICS code(s) to the list of environmentally sensitive industries in SOP 50 10 5 Appendix 4. For a unit in a MultiUnit Building, Lender may proceed directly to subparagraphs b)i. and ii. below.

a) If there is a NAICS code match to an environmentally sensitive industry identified in Appendix 4, the Environmental Investigation must begin with a Phase I, regardless of the amount of the loan. If the NAICS code begins with 447 (gas stations with or without convenience stores), the Environmental Investigation must begin with a Phase I and RMI will also refer to and, if applicable, comply with "Environmental Investigation Requirements for Gas Station Loans" in Appendix 5.

b) If there is not a NAICS code match to an environmentally sensitive industry, or if the Property is a unit in a Multi-Unit Building, RMI will proceed as follows:

i. If the loan amount is up to and including $150,000, the Environmental Investigation may begin with an Environmental Questionnaire. ii. If the loan amount is more than $150,000, the Environmental Investigation must, at a minimum,
begin with an Environmental Questionnaire and Records Search with Risk Assessment.

Environmental Questionnaire Results. If the Environmental Questionnaire reveals it is unlikely that there is environmental contamination at the Property and that no further investigation is warranted, RMI will submit the results of the Environmental Investigation to SBA with recommendations and seek SBA's concurrence. If at any time an Environmental Questionnaire reveals that further investigation is warranted, RMI will obtain, at a minimum, a Records Search with Risk Assessment.

Environmental Questionnaire & Records Search with Risk Assessment Results

a) If the Environmental Questionnaire reveals it is unlikely that there is environmental contamination at the Property and that no further investigation is warranted, and the Records Search with Risk Assessment concludes that the Property is a "low risk" for Contamination, RMI will submit the results of the Environmental Investigation to SBA with recommendations and seek SBA's concurrence.

b) If the Records Search with Risk Assessment concludes that the Property is an "elevated risk" or "high risk" for Contamination, RMI will obtain a Phase I ESA.

Transaction Screen Results

a) If the Environmental Professional conducting the Transaction Screen concludes that no further investigation is warranted, RMI will submit the results of the Environmental Investigation to SBA with recommendations and seek SBA's concurrence.

b) If the Environmental Professional conducting the Transaction Screen concludes that further investigation is warranted, RMI will obtain a Phase I ESA.

Phase I ESA Results

a) If the Environmental Professional conducting the Phase I ESA concludes that no further investigation is warranted, RMI will submit the results of the Environmental Investigation to SBA with recommendations and seek SBA's concurrence.

b) If the Environmental Professional conducting the Phase I ESA concludes that further investigation is warranted (typically a Phase II), and RMI still wants to make the loan, RMI will proceed as recommended by the Environmental Professional, or in the alternative submit the results of the Environmental Investigation to the SBA with recommendations and seek SBA's concurrence. In general, SBA will require compliance with all of an Environmental Professional's recommendations (including "housekeeping measures," such as secondary containment, decommissioning monitoring wells, sealing floor drains, etc.). In the rare instance where an exception may be warranted, RMI will provide a rationale for not wanting to follow the Environmental Professional's recommendation.

Phase II ESA Results

a) If the Environmental Professional conducting the Phase II ESA concludes that no further investigation is warranted, RMI will submit the results of the Environmental Investigation to SBA with recommendations and seek SBA's concurrence.

b) If the Phase II ESA reveals Contamination and RMI still wishes to make the loan, RMI will ensure that the Environmental Professional has documented:

i. Whether the Contamination quantities exceed the reportable or actionable levels; ii. Whether Remediation is necessary; iii. An estimate of any Remediation costs (Environmental Professionals may use ASTM E2137-01 Standard Guide for Estimating Monetary Costs and Liabilities for Environmental Matters); and iv. The projected completion date of any Remediation.

c) If the Environmental Investigation reveals Contamination, RMI should determine whether disbursement is appropriate under one or more of the factors identified in the paragraph below, "Approval and Disbursement of loans when there is Contamination or Remediation at the Property".

If at any stage of the Environmental Investigation SBA concurs with RMI's recommendation that environmental risk has been sufficiently minimized and that no further investigation is required, the loan may be disbursed.

Legal Responsibilities of SBA Field Counsel and Center Counsel

With respect to environmental investigations that are required to be submitted to an SBA Loan Processing Center, SBA loan processing personnel must obtain field or center counsel's opinion as to the adequacy of an Environmental Investigation and whether the risk of Contamination, if any, has been sufficiently minimized.

Approval and Disbursement of loans when there is Contamination or Remediation at the Property

Loans may not be approved or disbursed if there is known Contamination or on-going Remediation at the Property unless the risks have been minimized to the satisfaction of the Sacramento Loan Processing Center personnel after consulting with and obtaining the concurrence of SBA field counsel or Center counsel. When RMI is seeking loan approval or disbursement authority despite Contamination or on-going Remediation at the Property, must submit a recommendation to SBA that includes, at a minimum, a discussion of the following:

1. Nature and Extent of the Contamination including copies of the following documents pertaining to the Property:
   a) All relevant Environmental Investigation Reports;
   b) All publicly available Governmental Entity correspondence;
2. Remediation
   a) Recommended method of Remediation;
   b) Status of on-going Remediation, if any;
   c) Environmental Professional's estimated cost of Remediation;
   d) Environmental Professional's estimated completion date;
   e) Governmental Entity's designation of responsible Person(s);
   f) Person(s) paying for on-going Remediation;
3. Collateral Value
   a) Proposed loan amount and proposed use of proceeds;
   b) Appraised or the estimated value of the Property;
   c) Institutional Controls and Engineering Controls, if any, and their impact on repayment ability, collateral value and marketability of the Property; and
4. Mitigating Factors

SBA will rely upon one or more of the following factors when deciding to disburse before completion of Remediation or monitoring:

a) Indemnification. If any Person who possesses sufficient financial resources to cover the costs of completing Remediation executes the SBA Environmental Indemnification Agreement in Appendix 6 of SOP 50 10 5, approval or disbursement may be considered. RMI will conduct an analysis of the proposed indemnitor to ensure that it has sufficient assets to honor an indemnification agreement. The Third Party Indemnitor cannot be the borrower or operating company.

The SBA Environmental Indemnification Agreement (SOP 50 10 5 Appendix 6): i. Cannot be modified;

ii. Must be executed by the Borrower and (if applicable) Operating Company: Must be executed by the Borrower and (if applicable) Operating Company; iii. Must have a copy of the Environmental Investigation Report attached to it; and

iv. Must be properly recorded in the memorandum format in (SOP 50 10 5 Appendix 6 Exhibit C)

a) RMI will submit the finalized SBA Environmental Indemnification Agreement to SBA for review and approval no less than two weeks in advance of submission of the loan closing package to the SBA District Office.

b) Completed Remediation. If the Governmental Entity has affirmed in writing that active Remediation is complete but additional monitoring is required, approval or disbursement may be considered after the following occurs: (a) monitoring results for the first year are obtained; (b) an Environmental Professional concludes that the results show no unacceptable increase in Contamination since Remediation; and (c) Environmental Professional concludes that the owner/operator of the Property is in compliance with any continuing obligations, including activity and use limitations, Engineering and Institutional Controls, and post-Remedial monitoring required by the Governmental Entity.

c) "No Further Action". If RMI obtains a "no further action letter" or "closure letter" from a Governmental Entity stating that no further Remediation or monitoring of Contamination previously found is required, approval or disbursement may be considered.

d) "Minimal Contamination". If the extent of Contamination and cost of Remediation are de minimus in relation to the value of the Property and/or the resources of the Person responsible for Remediation, and the Remediation is projected to be completed within one year, approval or disbursement may be considered. RMI will identify the Environmental Professional that will supervise the Remediation and discuss: ((a) the nature of the Contamination; (b) the reliability of the Remediation estimates; (c) the projected completion date; and (d) the duration of ongoing monitoring.

<u>Clean-up Funds.</u>

If RMI provides evidence from a Governmental Entity that the borrower or Property has been approved by a fund to pay for or reimburse Remediation costs, and the amount allocated is sufficient to cover the costs of Remediation, approval or disbursement may be considered. RMI will also address any conditions of Remediation that might preclude payment or reimbursement and the financial capability of the fund.

f) Escrow Account. If an escrow account is available which (a) equals a minimum of 150 percent of the total estimated cost of required Remediation and (b) is controlled by the Third Party Lender as trustee, approval or disbursement may be considered. The Governmental Entity must concur with the Remediation's scope. The Loan Authorization and escrow agreement for the escrow account must ensure that escrow funds will only be used for Remediation costs. The source of the escrow funds may not be SBA loan proceeds. Depending upon the circumstances, an escrow account with more than 150 percent of the estimated costs of Remediation may be appropriate. The escrowed funds may be used for Remediation. Any remaining funds in the account may not be released until the appropriate "closure letter" or "no further action letter" is received or, in the case of monitoring, when all monitoring wells related to the Property have been decommissioned.

(Note: The Third Party Lender's role as trustee of the escrow account is solely to release funds upon the satisfactory completion of Remediation work -- the Lender must not control or manage the Property being Remediated.)

g) Groundwater Contamination Originating from Another Site. If groundwater Contamination on the Property is shown to have come from another property, approval or disbursement may be considered if:

i. Another Person with sufficient resources is performing Remediation pursuant to a Remediation action plan that has been approved by the appropriate Governmental Entity; or ii. The state has laws or regulations that provide that an owner or operator of property will not be responsible for Contamination from another site; or iii. The Governmental Entity provides satisfactory written assurance that it will not hold the Property owner liable for the Contamination. RMI will attempt to have RMI and SBA included by name in the letter along with the Property owner and future purchasers.

h) Additional or Substitute Collateral. If additional or substitute collateral is being pledged, or an additional equity contribution is being made, sufficient to overcome the potential loss due to Contamination, then approval or disbursement may be considered.

i) "Other Factor(s)". RMI and SBA may rely on factors other than or in addition to the eight referenced above when considering approval or disbursement. For example, the existence of adequate environmental insurance, bonds,
agreements not to sue present and future property owners from the Governmental Entity, Engineering and Institutional Controls, etc. However, reliance solely upon "Other Factor(s)" requires clearance from the SBA Environmental Committee. RMI will each finalized SBA Environmental Indemnification Agreement to the SBA District Office for review and approval no less than two weeks in advance of submission of the loan closing package to the SBA District Office if they want the loan to be considered in that closing cycle.

Special Use Facilities

Prudent lending practices dictate that specific additional environmental assessments be performed for certain special use facilities. For example, Property constructed prior to 1980 that will be used for daycare or child care centers or nursery schools or residential care facilities occupied by children must undergo a lead risk assessment (for lead based paint) and testing for lead in drinking water, and the results of these assessments must be submitted to the SBA. Disbursement will not be authorized unless the risk of lead exposure to infants and small children has been sufficiently minimized. On-site dry cleaning facilities, which may have utilized tetrachloroethene (PCE) and trichloroethene (TCE) in the course of their business operations, may present significant clean-up costs if these contaminants have entered the soil or groundwater. Prudent lending practices dictate and RMI and SBA require that on-site dry cleaners in operation for more than five years undergo a Phase II Environmental Site Assessment in addition to a Phase I which would be required due to the NAICS code match. Any Phase II performed in connection with an on-site dry cleaning facility must be conducted by an independent Environmental Professional *who holds a current Professional Engineer's or Professional Geologist's license and has the equivalent of three (3) years of full time relevant experience.* Gasoline stations also present significant clean-up costs if contaminated.

In addition, RMI will complete all documents and exhibits as required by SBA. All 504 loans are processed at the Sacramento Loan Processing Center (SLPC). The application will also include all documents as required by the SLPC.

When the 504 loan has been analyzed by RMI, approved by the appropriate RMI Loan Review Committee or Board of Directors, then the 504 application is submitted to SBA for review.

504 LOAN CLOSING (SOP 50 10 5 Subpart C Chapter 6) and 13 CFR 120.960)

RMI is responsible for the 504 loan closing including compliance with all SBA Loan Program Requirements. The debenture closing is the joint responsibility of RMI and SBA. RMI prepares the closing documents and RMI's designated attorney along with SBA Counsel review the loan closing package for legal sufficiency.

The 504 loan must be closed in accordance with the 504 Loan Authorization and Debenture Guaranty. The basic loan conditions as established by SBA in the National Authorization Boilerplate reflect the policies and procedures in effect at the time the Boilerplate is issued. The Boilerplate is incorporated by references to 13 CFR 120 and SOP.

The SBA has adopted a 504 Debenture Closing Checklist (SBA Form 2286) and RMI will use this checklist for all 504 loan closings. The checklist lists the documents SBA requires to determine whether the debenture can be sold to fund the loan. It is not intended to include all the items RMI will need to properly close the loan. RMI will submit to SBA the following documents for SBA counsel review:

- For expedited closing packages the first eight items and the Closing Checklist.
- Documents on the Checklist that have an SBA form number
- Opinion of CDC Counsel
- The SBA approved environmental indemnification agreement.
- All lien instruments to include but not be limited to Deed of Trust, Mortgage, Security Agreement, and UCCs

504 Lending Limits (13 CFR 120.931)

504 loan amounts shall be limited to:

(a) An outstanding balance of $5,000,000 for each Borrower and its affiliates

(b) An outstanding balance of $5,000,000 for each Borrower and its affiliates if one or more of the public policy goals apply to the Project; and

(c) $5,500,000 for each Project for:

(1) Small Manufacturers (NAICS Codes 31-33) with all production facilities located in the United States;

(2) Reduction of the Borrower's, or if the Borrower is an Eligible Passive Company, the Operating Company's energy consumption by at least 10%; or

(3) Plant, equipment and process upgrades of renewable energy sources such as the small-scale production of energy for individual buildings' or communities' consumption, commonly known as micro power, or renewable fuel producers including biodiesel and ethanol producers.

Project Cost Documentation

RMI will obtain project cost documentation to verify the use of proceeds for the 504 project costs:

For the acquisition of land or land with an existing building:

a) Copy of the signed and dated HUD 1/Settlement Statement

a. This may also serve as the source document for the borrower’s injection For construction or renovation:

a) Construction or renovation contract with the general contractor
b) AIA disbursement form(s)
c) Other disbursement forms completed by the Interim Lender (i.e. bank’s in-house disbursement form or spreadsheet)
d) Invoices and paid receipts and/or cancelled checks

For the acquisition of furniture, fixtures, machinery and equipment a) Invoices and paid receipts and/or cancelled checks

b) Interim Lender’s disbursement form or spreadsheet

For professional fees

a) Invoices and paid receipts and/or cancelled checks

b) Interim Lender’s disbursement form or spreadsheet

Interim Interest

a) Confirmation from the interim lender of the amount of interest paid to date and subsequent interest due until date of funding.

Disbursement Period, Interest Rates, and Loan Maturity (13 CFR 120.931) (SOP 50 10 5 Subpart C Chapter 5 I. B.):

The loan must be disbursed within 48 months from the date of approval. There will be no extensions. SBA will automatically cancel undisbursed dollars. The SBA Denver Finance Center (DFC) will make a reasonable effort to mail an initial message to RMI approximately 3 months prior to taking action on undisbursed funds. The message will inform RMI of the undisbursed dollar amount and will provide a date on which the dollars will be automatically be cancelled. After the 3-month message has expired, DFC will make a reasonable effort to mail a second message on the day the automatic cancellation is processed.

Interest Rate:

The interest rate for 10 and 20 year 504 debentures is based on market conditions for long-term government debt at the time of sale. (13 CFR 120.932)

504 Loan Maturity

504 Loan maturities are 10 or 20 years based upon the useful life of the property being financed and is generally:

a) 20 years for real estate;
b) 10 years for machinery and equipment; and
c) 10 or 20 years based upon a weighted average of the useful life of the assets being financed.

Insurance Requirements (13 CFR 120.160© and SOP 50 10 5 Subpart C Chapter 5 Paragraph D.) In accordance with 1. Hazard Insurance 13 CFR §120.160(c):

a) SBA requires hazard insurance on all assets pledged as collateral. If the business is located in a state that requires additional coverage such as wind, hail, earthquake or other, on the hazard insurance or in a separate policy, the borrower must provide.

b) Real Estate:

i. Coverage must be in the amount of the full replacement cost.

ii. If full replacement cost insurance is not available, coverage must be for the maximum insurable value. iii. Insurance coverage must contain a MORTGAGEE CLAUSE (or substantial equivalent) in favor of the RMI/SBA. This clause must provide that any action or failure to act by the mortgagor or owner of the insured property will not invalidate the interest of RMI/SBA. The policy or endorsements must provide for at least 10 days prior written notice to RMI/SBA of policy cancellation.

c) Personal Property:

i. Coverage must be in the amount of full replacement cost.

ii. If full replacement cost insurance is not available, coverage must be for maximum insurable value. iii. Insurance coverage must contain a LENDER'S LOSS PAYABLE CLAUSE in favor of RMI/SBA. This clause must provide that any action or failure to act by the debtor or owner of the insured property will not invalidate the interest of RMI/SBA. The policy or endorsements must provide for at least 10 days prior written notice to RMI/SBA of policy cancellation.

Flood Insurance

a) SBA flood insurance requirements are based on the Standard Flood Hazard Determination (FEMA Form

086-0-32 or FEMA Form 81-93). RMI will use only FEMA Form 086-0-32 The Standard Flood Hazard Determination Form until such time a new FEMA form is available to determine whether or not a property is located in a federally defined flood zone. The mandatory purchase of flood insurance requirements set forth by the National Flood Insurance Program (NFIP) apply with equal force to condominium and cooperative units. Policies for such units will consist of separate policies obtained by the individual unit owner for the particular unit and the condominium or cooperative association for the exterior of the entire building.

b) If any portion of a building that is collateral for the loan is located in a special flood hazard area, RMI will require the Borrower to obtain flood insurance for the building under the National Flood Insurance Program (NFIP).

c) If any equipment, fixtures or inventory that is collateral for the loan ("Personal Property Collateral") is in a building any portion of which that is located in a special flood hazard area and that building is collateral for the loan, RMI will require Borrower to also obtain flood insurance for the Personal Property Collateral under the NFIP.

d) If any Personal Property Collateral is in a building any portion of which is located in a special flood hazard area and that building is not collateral for the loan, RMI will require the Borrower to obtain flood insurance for the
Personal Property Collateral. RMI may request a waiver of this requirement from the Sacramento Loan Processing Center. RMI will submit with its request a written justification that fully explains why flood insurance is not economically feasible or, if flood insurance is not available, the steps taken to determine that it is not available.

i. Uses prudent lending standards to determine that flood insurance is not economically feasible or not available; and ii. Includes written justification in the loan file that fully explains why flood insurance is not economically feasible or, if flood insurance is not available, the steps taken to determine that it is not available.

e) Insurance coverage must be in amounts equal to the lesser of the insurable value of the property or the maximum limit of coverage available.

f) Insurance coverage must contain a MORTGAGEE CLAUSE/LENDER'S LOSS PAYABLE CLAUSE (or substantial equivalent) in favor of RMI/SBA. This clause must provide that any action or failure to act by the debtor or owner of the insured property will not invalidate the interest of RMI/SBA.

Life Insurance

a) RMI will determine if the viability of the business is tied to an individual or individuals. In these situations, RMI will require life insurance.

b) Life insurance required will be consistent with the size and term of the loan. The amount and type of collateral available to repay the loan in the event of the death of the borrower may be factored into the determination of the appropriate amount of life insurance.

c) For each policy required under this paragraph, RMI will obtain a collateral assignment, identifying RMI/SBA as assignee that is acknowledged by the Home Office of the Insurer. As part of RMI's servicing responsibilities, RMI will assure that the borrower pays the premiums on the policy.

d) RMI/SBA may accept the pledge of an existing life insurance policy. When a new policy is required, a decreasing term policy is most appropriate. Credit life insurance or whole life insurance should not be required.

Other Insurance

RMI will include any other insurance appropriate to the loan, including but not limited to: **a)** Liability Insurance;
b) Product Liability Insurance;
c) Dram Shop/Host Liquor Liability Insurance;
d) Malpractice Insurance;

e) Disability insurance
f) worker's compensation insurance; and
g) any state specific insurance requirements.

<u>IRS Tax Transcript/Verification of Financial Information (SOP 50 10 5 Subpart C Chapter 5 Paragraph I E)</u> 1. SBA's Tax Verification process is to determine if:

a) The Small Business Applicant filed business tax returns; and
b) The Small Business Applicant's financial statements provided as part of the application agree with the business tax returns submitted to the IRS.

2. For a sole proprietorship, RMI will verify the Schedule C.
3. For a change of ownership, RMI will verify the seller's business tax returns or a sole proprietor's Schedule C.

Where there is an acquisition of a division or a segment of an existing business, other forms of verification may be used in lieu of the 4506-T (e.g. Sales tax payment records).

4. Prior to first disbursement of Loan proceeds, RMI will obtain:

a) Verification of Financial Information—

i. Within 10 days of receipt of the Authorization, RMI will submit IRS Form 4506 - T with SBA logo to the Internal Revenue Service to obtain federal income tax information on Borrower, or the Operating Company if the borrower is an EPC for the last 2 years unless the 7(a) size standard is used which requires three years. ii. If the business has been operating between zero and two years, RMI will obtain the information for all years in operation. iii. This requirement does not include tax information for the most recent fiscal year if the fiscal yearend is within 6 months of the date SBA received the application. If the applicant has filed an extension for the most recent fiscal year, RMI will obtain a copy of the extension along with evidence of payment of estimated taxes. iv. RMI will compare the tax data received from the IRS with the financial data or tax returns submitted with the loan application.

v. Borrower must resolve any significant differences to the satisfaction of RMI and the Sacramento Loan Processing Center. Failure to resolve differences may result in cancellation of the loan. vi. For a change of ownership, RMI will verify financial information provided by the seller of the business in the same manner as above. vii. If RMI does not receive a response from the IRS or copy of the tax transcript within 10 business days, RMI:

(a) May proceed to close and disburse the loan; or
(b) Will follow-up with the IRS to obtain and verify the tax data by resubmitting a copy of the Form 4506-T to IRS with the notation "Second Request" in the top right hand side; and
(c) Will document its file with a dated copy of the second submission; and
(d) Will perform the verification and resolve any significant differences discovered.

<u>Standby Agreements SOP 50 10 5 Subpart C Chapter 5. I.F.)</u>

SBA Form 155 - Standby Agreement. RMI will use SBA Form 155 or its own Standby Agreement Form. A copy of the standby note must be attached to the standby agreement. The Standby Creditor must subordinate any lien rights in collateral securing the loan to RMI/SBA's rights in the collateral, and take no action against the Borrower or any collateral securing the Standby Debt without RMI's consent.

<u>Assignment of Lease and Landlord's Waiver (SOP 50 10 5 Subpart C Chapter 5. Paragraph I.G.)</u>

When a substantial portion of the loan proceeds are to be used for leasehold improvements or a substantial portion of the collateral consists of leasehold improvements, fixtures, machinery, or equipment that is attached to leased real estate, RMI will obtain:

a) An Assignment of Lease with

i. A term including renewal options that equals or exceeds the term of the loan; and

ii. A requirement that the lessor provide a 60-day written notice of default to RMI with option to cure the default; and

b) A Landlord's Waiver.

The Landlord's Waiver gives RMI access to the leased premises and facilitates the liquidation of the collateral on the borrower's premises and should be obtained for all SBA loans with tangible personal property as collateral.

If the loan proceeds will finance improvements on a leasehold interest in land, the underlying ground lease must include, at a minimum, detailed clauses addressing the following:

a) Tenant's right to encumber leasehold estate;

b) No modification or cancellation of lease without RMI's or assignee's approval; **c)** RMI's or assignee's right to:

i. Acquire the leasehold at foreclosure sale or by assignment and right to reassign the leasehold estate (along with right to exercise any options) by RMI or successors; lessor may not unreasonably withhold, condition or delay the reassignment; ii. Sublease;

iii. Hazard insurance proceeds resulting from damage to improvements; iv. Share in condemnation proceeds

<u>Construction Loan Provisions (SOP 50 10 5 Subpart C Chapter 5 Paragraph I.H.)</u>

In the construction of a new building or an addition to an existing building, RMI will obtain:

a) Evidence of compliance with the "National Earthquake Hazards Reduction Program Recommended Provisions for the Development of Seismic Regulations for New Buildings" (NEHRP), or a building code that has substantially equivalent provisions. (13 CFR 120.174)

i. The NEHRP provisions may be found in the American Society of Civil Engineers (ASCE) Standard 7 and the International Building Code. ii. Examples of evidence include a certificate issued by a licensed building architect, construction engineer or similar professional, or a letter from a state or local government agency stating that an occupancy permit is required and that the local building codes upon which the permit is based include the Seismic standards.

b) The Authorization boilerplate automatically inserts the NEHRP provision when any of the use of proceeds options selected includes construction financing, including leasehold improvements. If the leasehold improvements made with loan proceeds will become permanently affixed to any structure on the leased premises, then they must comply with the NEHRP. If the improvements are only temporary, they do not need to comply with the NEHRP. Accordingly, if the borrower can demonstrate that the leasehold improvements will be temporary, RMI may request modification of the authorization to remove the NEHRP provision

RMI will certify that the Project was completed in accordance with the final plans and specifications unless a minor portion of the project has been escrowed for a valid reason. (13 CFR 120.891)

Special Provisions for Franchises (SOP 50 10 5 Subpart C Chapter 5 Paragraph I. I.) When lending to a franchise, RMI will consider obtaining an agreement from the franchisor that:

1. Allows RMI and SBA access to Franchisor's books and records relating to Borrower's billing, collections and receivables;
2. Upon loan payment default or deferment, defers payment of franchise fees, royalties, advertising, and other fees until Borrower brings loan payments current;
3. Gives RMI 30 days notice of intent to terminate the Franchise Agreement; and/or
4. Gives RMI the same opportunity to cure any defaults under the franchise or lease agreement that is given

the franchisee under the same agreements.

CERTIFICATIONS (SOP 50 10 5 Subpart C Chapter 5 Paragraph I. J.K.L)

Certifications of the CDC

The certifications required of RMI are listed on SBA Form 2101.

Certifications of the Borrower

The certifications required of the Borrower are listed on SBA Form 2289.

Certifications of the Interim Lender

The certifications required of the Interim Lender are listed on SBA Form 2288.

RMI must provide SBA a certification that there has not been an unremedied material adverse change, such as deterioration in the borrower's financial condition, since the 504 loan was approved, or that approving the closing of the Debenture will put SBA at unacceptable financial risk. (13 CFR 120.960 (7)) If RMI identifies an unremedied financial adverse change prior to debenture funding, RMI will delay the funding of the debenture until the adverse change has been remedied or if the debenture is already scheduled for funding, RMI will notify the Servicing Agent by the "pull loan date" in order to stop the funding of the debenture.

RMI will include in the closing file an SBA Form 159 Form "Fee Disclosure Form and Compensation Agreement" identifying the names of persons engaged by or on behalf of the applicant for the purpose of expediting the application and the fees paid to or to be paid to any such person. (13 CFR 103 and SOP 50 10 5 Subpart C Chapter 8. Paragraph III.A.)

POST-CLOSING ACTIVITIES (SOP 50 10 5 Subpart C Chapter 6. Paragraph I & II.)

RMI's responsibilities include but are not limited to:

1. Notify SBA Counsel in writing of planned debenture closings at least 30 days before the Field Office deadline for RMI to submit closing packages.
2. Request from the SLPC all necessary modifications to the Authorization before submitting closing packages as far in advance of submitting the loan closing package as possible. RMI will obtain SBA approval of all such issues before submitting the closing package to the appropriate SBA field office.
3. RMI's designated attorney/closing counsel will issue an opinion that to the best of its knowledge there has been no unremedied substantial adverse change in the Borrower's (or Operating Company's) ability to repay the 504 loan since its submission of the loan application to SBA ("finding"). RMI will do the financial review utilizing current financial statements current within 120 days and keep the unremedied adverse change memo and supporting documentation. RMI will make a finding of no unremedied substantial adverse change 14 calendar days prior to submission of the closing package to District Counsel and retain the finding and copies of the financial statements on which they relied in their files. If the debenture closing is not consummated in the month following the finding, RMI will make a new finding of No Adverse Change and request for transmission of the file including SLPC's approval of the new finding to District Counsel.

4. Request each Authorization be transmitted by the SLPC to the field office for closing in time to meet the field office's deadline for submission of loan closing packages. RMI will not request a transmission unless the debenture is ready for closing and sale during the month following the request.

5. Submit closing packages by the deadline established by SBA Counsel. RMI will submit a closing package electronically, by facsimile or hard copy.

6.RMI will use only the 504 Debenture Closing Checklist and submit documents in the closing package or for documents not applicable to a particular transaction, RMI will write "NA" in the block. RMI will submit only a copy of each document, and must retain the original until SBA Counsel completes his or her review. After the debenture sale, the RMI will retain an electronic copy of the closing package in its files and make it available to SBA upon request.

7. Hold all original loan documents until SBA gives RMI written notification that SBA has completed its review of the closing package and approved the debenture sale. If SBA Counsel determines that the loan is ready for funding, SBA Counsel must notify RMI and CSA that the debenture is ready for sale. If the SBA Counsel determines that changes are needed in the closing documents, SBA will notify RMI of such changes before the cut-off-date by which the CSA must receive documents from RMI for the debenture sale. After RMI makes the necessary changes and SBA has approved the changes, SBA must notify RMI and CSA that the debenture is ready for sale.

8. Send by overnight mail to the CSA the necessary debenture closing documents for the debenture sale. After SBA sends RMI notice of which debentures SBA has approved for sale, RMI will send to the CSA by overnight mail the following debenture closing documents for each debenture to be sold:

a) Servicing Agent Agreement (SBA Form 1506) (original)

b) Development Company 504 Debenture (SBA Form 1504) (original)

c) Note (RMI/504 Loans) (SBA Form 1505) (copy)

d) Authorization Agreement for Preauthorized Payment (Debit) and voided check (original)

e) Request for Taxpayer ID Number and Certification (IRS Form W-9) (original)

f) Third Party Lender participation fee check (if not being deducted from the RMI processing fee) (original)

9. Forward the original of all documents listed on the 504 Debenture Closing Checklist (which serves as the original collateral listing) to the appropriate **CLSC** within 30 days after the debenture sale.

a) RMI will forward the collateral file containing all the original documents listed on the Checklist to the CLSC. RMI will use the Checklist as the collateral listing. RMI will maintain the electronic collateral file in a manner acceptable to SBA.

b) If RMI has not yet received all original documents by 30 days after the debenture sale date, RMI will send the documents it does have and must send additional documents along with a collateral listing upon receipt.

10. Ensure that all recorded documents are canceled of record (officially canceled at the place of recordation, as required by law), if a 504 loan is canceled after closing but before funding.

<u>CLOSING, RECORDATION AND POST-CLOSING ACTIVITIES:(13 CFR 120.960 and SOP 50 10 5 Subpart C Chapter 6)</u>

At the 504 loan closing, all required closing documents are executed, notarized when applicable, and given back to RMI. All collateral documents to be recorded (i.e. Deed of Trust, Mortgage, or other lien instruments, Third Party Lender Agreement, financing statement(s), etc.) are delivered to the title company for recordation along with a letter of instruction. In cases where the county of jurisdiction has e-recording capabilities, the documents will be recorded directly by RMI. A copy of the documents the borrower signed are provided to the borrower at the time of the 504 loan closing.

Upon receipt of the net debenture proceeds, the Interim Lender will apply the net debenture proceeds to pay off the Interim Lender's share of the Interim financing or will reduce the principal balance of the Interim Lender's debt to an amount not to exceed the amount of the Third Party Lender Loan amount as stated in the Authorization. In addition, the Interim Lender will within 30 days record a lease of lien for the interim collateral or, as appropriate, will provide evidence to RMI of the loan modification indicating the correct balance payable to the Third Party Lender.

After closing, the RMI closing department will obtain a title bring down or a copy of the recorded lien release instrument(s) to confirm the RMI/SBA required lien position on the collateral.

504 LOAN SERVICING AND MANGING RISK AFTER APPROVAL (13 CFR 120.970 AND SOP 50 55)

A 504 Loan moves from approval status to regular servicing status when the loan has been closed and the final loan disbursement has been made. Borrowers are expected to repay their 504 loans in accordance with the terms specified in the Note and other loan documents. However, when loan servicing and liquidation activities are necessary, they should reflect a balance of SBA's interest in (1) achieving the goals of the loan program, i.e. helping entrepreneurs start, build and grow viable small businesses; and (2) maintaining the integrity of the loan program, i.e. ensuring that SBA can maximize its recovery if the borrower defaults on the loan.

It is RMI's policy that servicing staff follow closely the ongoing activities of 504 borrowers, anticipating the impact that a default, deferment, and/or liquidation will have on the overall performance of RMI and the 504 Program. After 504 disbursement, RMI begins to regularly monitor performance of each borrower on at least an annual basis and more often, if needed. In the monitoring process, RMI will perform an independent assessment of the credit risk. Special attention will be given to those loans which are past due. All 504 loans will be examined to assess their quality and to insure that loan is serviced and documented appropriately.

Frequently after an SBA loan has been disbursed, circumstances change and give rise to Borrower Servicing Requests. They can range anywhere from a simple request to change a mailing address to a complicated request involving the exchange of collateral. Regardless of the level of complexity, all Servicing Requests must be reviewed, analyzed and acted upon in accordance with prudent lending practices. When responding to a Servicing Request, as long as the Borrower is viable, the goal should be to meet the Borrower's short and long term needs without impairing the integrity of the 504 Loan Program.

The supporting documents and the level of analysis required to make an informed decision regarding whether the Servicing Request should be denied or approved, and if so, under what conditions, will vary depending on the circumstances. In all cases, the decision must be justified and documented in a Loan Action Record that is independent of any document prepared by a senior lienholder or any other person with a conflict of interest. The relevant steps listed below should be followed to ensure that each Servicing Request is properly reviewed and analyzed.

In servicing 504 loans, RMI will comply with Loan Program Requirements and in accordance with prudent and commercially reasonable lending standards. RMI is responsible for routine servicing including receipt and review of the Borrower's and/or Operating Company's financial statements and personal financial statements on an annual basis and monitoring the status of the Borrower and 504 loan collateral. RMI will perform its due diligence when it comes to ensuring that the Borrower makes all required insurance premium payments and has paid all taxes when due. RMI will file renewals and extensions of security interests on collateral for the 504 loan, as required. RMI will respond timely to Borrower requests for loan modifications.

For any 504 loan that is more than three months past due, and there is no possibility of bringing the loan current, RMI will request that SBA purchase the Debenture at the next semi-annual debenture payment date. However, RMI may also request for approval from SBA a deferment or workout plan to allow the Borrower to catch up on delinquent loan payments. It is preferred that the borrower continue to make small payments to keep the borrower in the habit of making payments. The borrower may make interest only, interest and fees or any combination thereof which has been determined the borrower has the capacity to pay.

All servicing and liquidation loan action decision, including the justification for the decision, will be documented in the Loan Management System history. The SBA approval along with the supporting documentation should be saved in the BMI electronic file for each 504 loan. Copies of all paper, email and telephone conference calls or conversations should be documented and kept in the 504 loan file in LMS or in the BMI electronic servicing file. Electronically stored information may be needed for litigation purposes and is subject to discovery. Therefore, all electronically stored information will be preserved in its originally created format.

LOAN FILE RETENTION (SOP 50 55 Chapter 3. Paragraph G. 6.a.)

RMI will retain its loan file on a 504 loan for nine years after the loan is paid in full or for ten years after the loan is charged-off, whichever is applicable. The exception to this will be if litigation is anticipated as steps would be taken to preserve all potentially relevant information regarding the loan, including electronically stored information.

LOAN MONITORING (SOP 50 55 CHAPTER 3 PARAGRAPH H)

After a loan has closed, changes often occur that can impact the ability to administer or collect the loan. They include, for example, a Borrower's name change, relocation, or consolidation with another entity; deterioration of the borrower's financial condition; and changes that affect the value of collateral, such as failure to pay real estate taxes that can become a senior lien on the collateral. RMI will monitor each 504 Loan in their portfolio and for mitigating the risk of loss associated with any change in accordance with prudent lending practices. (13 C.F.R. 120.970) For example:

Name, Address or Legal Structure Changes

In addition to notifying SBA and updating the Loan File or Computer Tracking System, if a change in the name, address, legal structure, etc., of an obligor or any other relevant person (e.g., a standby creditor) could impact the ability to collect the 504 Loan, appropriate corrective action will be taken immediately. For example, a UCC-3 should be filed to reflect a name change and preserve the priority of personal property liens; if a borrower changes its legal structure, generally the new entity should be required to formally assume the 504 Loan (technical assumption); and if an obligor dies, in addition to collecting the proceeds from any life insurance policy pledged as collateral for the loan, legal action may be necessary to protect the ability to collect the balance owed on the loan.

Borrower's Creditworthiness (13 CFR 120.970 (b)

The Borrower's creditworthiness, i.e., financial and operational condition, will be monitored on an on-going basis to ensure that early warning signs that the borrower is in financial trouble are not overlooked. The main way this is accomplished is through review of financial statements the Borrower is required to submit at least annually, contact with the Borrower via the phone calls or site visits, or review of relevant financial data from sources such as credit reports, credit scores and tax returns. RMI will make every attempt to obtain at application and maintain after closing, current financial information on the borrower or, in the case of an EPC/OC scenario, the Operating Company (where applicable).

A primary means for monitoring each loan should be review of delinquency reports generated by the CSA. If the system flags a loan for an overdue payment, the borrower will be contacted by telephone to identify and correct potential problems before the loan goes into default.

As required in SOP 50 10 5, RMI will not charge a default interest rate or a separate servicing fee for past due financial statements. (SOP 50 10) (Submission of the past due financial statements should be required as a condition for considering any future servicing request made by the Borrower.”

UCC Filings

All UCC filings must be monitored, and any document needed to maintain the perfection and priority of the lien securing the 504 Loan will be properly prepared and filed, including, for example, a UCC-3 to continue an existing financing statement. This duty continues regardless of whether the loan has been charged off or the Borrower has filed for Bankruptcy.

Taxes and Assessments

Secured 504 Loans should be monitored to ensure that all taxes and assessments, which if unpaid could result in senior liens against the collateral, are paid in a timely manner.

504 Loans will be monitored to ensure that all insurance coverage required by the Loan Authorization is in place throughout the term of the loan.

Senior Secured Loans

The loans of other creditors secured by senior liens against the collateral for a 504 Loan (the Third Party Loan) should be monitored. Timely, prudent, and commercially reasonable action will be taken to prevent elimination of the lien securing the 504 Loan through a foreclosure action by the senior lien holder, or dissipation of the equity available to cover the 504 Loan through, for example, the imposition of default charges.

Hazard Insurance

The hazard insurance coverage requirements set out in the Loan Authorization should not be terminated. RMI will collect insurance renewals as hazard insurance expires and will ensure the appropriate Lender Loss Payable clause is included on the insurance renewal.

Life Insurance

The life insurance requirements as set out in the Loan Authorization should not be terminated unless the reason for requiring the life insurance policy no longer exists. If a life insurance policy expires during the life of the 504 loan, RMI will collect the life insurance renewal and ensure that RMI/SBA are named as collateral assignees on the policy.

Flood insurance

When a 504 loan is secured by real estate or personal property and the property is located in a FEMA designated special flood area, the borrower must maintain flood insurance for the life of the loan. RMI will insure that flood insurance is maintained until 504 loan maturity.

Servicing Requests (SOP 50 55 Chapter 6.A.)

Frequently after a 504 loan has been disbursed, circumstances change and give rise to Borrower Servicing Requests. They can range anywhere from a simple request to change a mailing address to a complicated request involving the exchange of collateral. Regardless of the level of complexity, all Servicing Requests will be reviewed, analyzed and acted upon in accordance with prudent lending practices. When responding to a Servicing Request, as long as the Borrower is viable, it will be RMI’s goal to meet the Borrower’s short and long term needs without impairing the integrity of the 504 loan program.

Generally, the Loan Documents should not be modified unless there has been a material change in the Borrower's circumstances since the loan was made. The Supporting Documents and the level of analysis required to make an informed decision regarding whether the Servicing Request should be denied or approved, and if so, under what conditions, will vary depending on the circumstances. In all cases, the decision must be justified and documented in a Loan Action Record that is independent of any document prepared by a senior lienholder or any other Person with a conflict of interest. The relevant steps listed below should be followed to ensure that each Servicing Request is properly reviewed and analyzed.

RMI will process servicing requests with the following procedures:

1. Document Receipt of the Servicing Request by keeping the email request and entering the request into the loan management system.
2. Follow the applicable 504 loan requirements

Requests Concerning Assumption, or Substitution of Collateral or Obligors

- Servicing requests on loans in regular servicing status that involve substitution of collateral, substitution of Guarantors, or assumptions are subject to the Loan Program Requirements in effect at the time the loan was made, which are located in SOP 50 10. This includes, for example, those pertaining to Appraisals, Environmental investigations, and eligibility requirements.

3. Determine whether the servicing request is properly supported:
   - Servicing Requests should be accompanied by the Supporting Documents that a prudent lender would need to make an informed decision.
4. **Servicing Requests Involving Credit Issues**
   - Generally, all Servicing Requests that require a credit analysis (e.g., an increase in the amount of the 504 Loan or a prior lien) should be supported by the Borrower's:
   - Current financial statement; and
   - Federal income tax returns for the last two years.
5. **Servicing Requests Involving Collateral**

   In addition to the financial documents listed above, Servicing Requests that involve collateral, (e.g., subordination, substitution or release of lien), should also be supported by a current:
   - Appraisal of the relevant collateral where appropriate;
   - Lien search, i.e. a title report if the request involves real property; a UCC lien search if the request involves personal property; and
   - Evidence of the third party lender's balance owed on the senior lien.

6. Obtain additional supporting documents when necessary which would include but not be limited to:
   - Credit report(s) when applicable;
   - Guarantor financial statements and tax returns
   - A copy of executed documents relevant to the transaction, i.e. sales contract, escrow instructions, HUD/Settlement Statement, and/or seller-carryback note. Environmental Investigation Report, where applicable.
7. RMI will analyze the borrower's financial condition to determine whether the borrower is viable, i.e. will be able to repay the loan if the servicing request is approved.

8. RMI will analyze the collateral to ensure its recoverable value evidencing the collateral before and after the servicing request.

Assumptions (SOP 50 55 Chapter 11 A.)

Assumptions are requests to allow another person to assume the 504 loan by taking over the existing borrower's legal obligations and benefits. RMI will review the assumption request and perform the proper analysis as outlined in SOP 50 10 5.

Deferment (SOP 50 51 03 Chapter 11. Paragraph 4. And SOP 50 55 Chapter 12. A.)

A deferment is a temporary solution to a temporary problem. When used appropriately, i.e., when a borrower is experiencing a temporary cash flow problem, a deferment can enable the borrower to improve its cash flow so that it can resume payments on its SBA loan. When used inappropriately, i.e., when the Borrower's problems are permanent, a deferment can harm the borrower, RMI and SBA. Especially if, for example, during the deferment period, the collateral loses its value and the obligors deplete all of their resources, including the money in their retirement accounts and the equity in their homes, in a futile attempt to turnaround a non-viable business. Past or future payments of principal, interest, or both may be deferred for a stated period of time.

The general rule is if the borrower's cash flow problem is temporary, delinquent payments, as well as full or partial future monthly payments, may be deferred (i.e., postponed without classifying the loan in Doubtful status.) This will allow the borrower a stated period of time in order to enable the borrower to get past the temporary setback.

Prior to granting a deferment, RMI will obtain, review and analyze the following documents in order to determine whether the borrower's cash flow problem is temporary, i.e., whether the borrower will be able to overcome the cause of its cash flow problem, and be able to make not only regular payments, but also catch-up payments at the end of the proposed deferment period.

 Statement Documenting Temporary Nature of Cash Flow Problem

A written statement from the borrower outlining the reason(s) for its cash flow problem, as well as the reason(s) why the Borrower believes that it is a short-term, rather than a long-term problem.

(Note: If the 504 loan becomes than 90 days past due, it would appear the borrower's repayment problems may be permanent or long-term. If that is the situation, the debenture will be purchased and more appropriate loan actions such as liquidation may be appropriate If RMI and borrower cannot agree on a workout solution.)

When receiving a request from a borrower for deferment, the following documents will be obtained to include, but not be limited to:

- Current business and personal financial statements
- Business Federal income tax returns for the past two years, if not in the file.
- Personal Federal income tax returns for the past two years.

Deferred amounts will not exceed six cumulative monthly payments. During the deferment period, RMI will monitor the borrower's operations (through telephone calls, site visits, monthly financial statement review, emails, etc.) so that at the end of the deferment period, RMI can determine whether an additional deferment is necessary and prudent. Prior to granting an additional deferment, RMI will have a documented strategy that specifies the justification for a deferment of more than six months.

Although the full amount of each monthly payment may be deferred if justified, partial payments should be required if the Borrower is able to make them. The amount of any partial payment required during the deferment period must be based on the Borrower's capacity to pay as documented by the financial analysis required.

A plan to repay the delinquent or deferred payments should be negotiated whenever a deferment is granted. The borrower should pay the deferred amount within five years of the expiration of the deferment period if SBA has not repurchased the debenture. The 504 loan should be completely "caught up," (i.e., all delinquent and deferred payments paid in full), prior to the maturity date of the loan, and in no case later than ten years from the effective date of the plan.

A catch-up plan must specify the amount and frequency of the catch-up payments, which generally should be remitted along with the regular payments. It may not include a balloon payment at the end of the deferment period, but it may include lump sums due on other specified dates.

REPORTING REQUIREMENTS (SOP 50 55 Chapter 3 Paragraph I)

Quarterly Delinquency Report

RMI will submit a quarterly delinquency report to the SBA Commercial Loan Servicing Center (CLSC) on each 504 loan in its portfolio that is 60 days or more past due until the Debenture has been purchased. (13 CFR 120.830(f)) Quarterly delinquency reports will be submitted no later than 30 days after March 31st, June 30th, September 30th and December 31st.

Quarterly Liquidation Status Reporting Requirements

Within 15 business days of receiving notice that a Debenture has been purchased, and every 90 days thereafter until a Wrap-up Report has been filed, RMI will provide the CLSC with a written liquidation status report that includes, at a minimum, a description of the status of the following:

(1) Obligors;
(2) Collateral;
(3) Workout negotiations;
(4) Recoveries and expenses incurred;
(5) Liquidation and litigation proceedings; and (6) REO and acquired personal property collateral.

Site Visit Report

A Site Visit Report, which should be kept in the electronic Loan File, will be prepared after every visit to the borrower's business premises regardless of whether the loan is in regular servicing or liquidation status. RMI will provide the CLSC with a Site Visit Report along with our proposed Liquidation Plan, if needed.

During a post-default site visit, a good faith effort should be made to gather sufficient information to accomplish the applicable goals listed below.

- Inspect and Inventory the Collateral
- Prepare a comprehensive written inventory that includes a complete and accurate description of the collateral, including its current condition, photographs, and the serial numbers of significant items of personal property, i.e., items with a Liquidation Value of $5,000 or more.
- Establish the recoverable value of the collateral
- Determine the amount of expenses that must be taken into consideration to accurately calculate the Recoverable Value of the collateral, such as the cost of any necessary care and preservation measures

If a site visit was not conducted for a 504 loan in liquidation, the reason why a site visit was neither necessary nor prudent will be documented in the Loan File and explained in the Wrap-up Report.

Liquidation Wrap Up Report (SOP 50 51 03 Chapter 20 Paragraph E)

RMI will submit a Wrap-up Report to the CLSC upon completion of the liquidation activities associated with each 504 Loan for which they are responsible for liquidating within 90 days of completing all reasonable and cost-effective recovery efforts. The Wrap Up Report will include the following:

- Status of Obligors
- Status of Collateral
- Status of Collection Activities
- Site Visit Report
- Recoveries
- Expenses
- Recommendation

Reporting of Job Creation and Retention (SBA Notice 5000-1374)

As required by SBA in the RMI annual report, RMI will report the estimated and actual job creation and retention numbers for all funded 504 loans. RMI will obtain from the 504 borrower in writing either on borrower letterhead or in an email on the two-year anniversary date of funding the actual number of jobs created and/or retained. RMI will retain this information in the electronic servicing file.

SBA Guidance on Jobs Created and Retained Reporting: The basis of reporting part time employees as full time equivalents will be at 40 hours per week. Two requests will be sent to the borrower requesting the job creation and retention information. If the borrower is unresponsive after two requests, RMI will make a telephone call and have the borrower document the jobs. If the borrower is unresponsive to the telephone call, RMI will make a site visit.

Environmental Risk Management (SOP 50 55 Chapter 5. A.)

Prudent servicing and liquidation of the 504 loan regarding potential environmental risk will include:

1. Conducting adequate due diligence before taking any loan action that could result in a loss, or increase the risk of loss, due to actual or alleged presence of contamination;
2. Monitoring the loan for compliance with the environmental covenants in the loan documents, and requiring the borrower to take appropriate corrective action if necessary; and
3. Compliance with environmental laws that allow secured creditors to avoid or significantly limit potential liability.

(Note: Changes in the Borrower's financial condition that could signify an increase in environmental risk include, e.g., regulatory fines discovered while reviewing financial statements. Activities that could signify an increase in environmental risk include, e.g., failure to maintain engineering controls or evidence of a release discovered during a site visit.)

In a post default situation, RMI will take the following steps to conduct an environmental investigation in order to obtain adequate information for making an informed decision regarding the risks of contamination:

1. Order an Environmental Site Assessment
2. Conduct additional necessary, cost effective inquires
3. Follow the additional requirements for gas stations and dry cleaners as outlined in SOP 50 55 Chapter 5. Part A.
4. Follow the extra requirements if taking over a business that uses hazardous substances

LOAN MONITORING AND ASSET QUALITY (RISK/LOAN RATING)

Credit risk is a dynamic variable, subject to change. In order to manage risk effectively, it is RMI's policy that staff establish a loan grade at the time of application and RMI will maintain a continuous review throughout the life of the 504 loan.

The loan grading system uses both objective and subjective components when evaluating the overall risk. The individual loan officer will assign a loan grade at the time of application which will be a reflection of the underwriting process. The objective components are typically industry specific where financial ratios are compared to RMA data or other benchmarks. Subjective components generally comprise factors that are not financially driven.

The loan monitoring and regrading will be performed annually or more often if needed or necessitated and the loan grade updated accordingly. Special attention will be given to 504 loans that have circumstances where RMI will need to revisit that particular grade for the following, not inclusive, reasons:

- Death of the owner, spouse or key manager
- Business is closed
- Borrower vacates the building
- Judgment filed against the borrower and/or affiliate companies
- Divorce
- Lease of the business property to a third party

All 504 loans receiving a servicing action will be reviewed and evaluated to determine whether or not a change of loan grade is necessary. The change in loan grade may be determined by the Portfolio Manager or in collaboration with RMI management.

MONITORING OF 504 LOAN PAYMENTS:

It is RMI's policy to monitor closely the repayment of every loan. A good faith effort will be made to help delinquent borrowers bring their loans current. But, when a payment default cannot be cured, the Note may be accelerated, demand made on the obligors, the loan classified at least Substandard, the Debenture may be repurchased, and a Liquidation Plan with site visit prepared and implemented without delay.

There are several reasons why a 504 Loan borrower may not make a timely payment. With 504 loan payments being made through ACH, a change of account or some other oversight may result in a rejected payment. Usually, however, a delinquent payment record indicates a borrower with financial problems.

COLLECTION EFFORTS AND ACTIONS

RMI will work closely with the borrower to bring the loan current as soon as possible, determine the reason for the delinquent payment(s), take necessary steps to monitor the borrower's progress, and work with the borrower as appropriate to assure the loan is kept current. More serious short-term problems may be handled through a deferment with catch up plan. Serious long-term problems with delinquency may require the debenture be purchased and the loan be classified as Substandard, Doubtful, or Loss.

Loans 0-30 Days Delinquent

Monthly payments are due on the first business day of each month. The Central Servicing Agent (CSA), Monthly Status of Portfolio report will include the non-current report. In addition, RMI will review the report provided by the CSA on the 5th of the months for those 504 loans with ACH rejections. A 504 loan is less than 30-days delinquent when one payment is missed. It is RMI's intent that most payments missed in a given month are made up by the end of the month.

The reports from the CSA of missed payments for the month are reviewed and all borrowers who missed their payment for the month are contacted. Borrowers not making payment on the due date will be contacted by phone, email and/or letter to encourage the borrower to make their payment prior to the 15th of the month (when late payment penalties are assessed). After the initial contact with the borrower is made, the borrower is informed of how to make up the missed payment. The borrower is advised that if the payment is not received by the CSA by the 15th of the month, a late payment penalty will be assessed. The servicing staff will monitor each borrower through the CSA's on-line system to verify that payments are made. All calls made should be documented and copies of all correspondence will be placed in the servicing file. Electronic notes are also kept on LMS for each borrower providing the date of the contact, results of the contact, and initials of who made the contact.

Follow-up calls to the borrower should be made through the end of the month until each missed payment is collected. The 504 loan that is not brought current by the end of the month will be reviewed and regarded.

Loans 30-60 Days Delinquent Borrowers missing one loan payment who haven't made up the payment by the end of the month are contacted again by the servicing staff. The attempt will be made to determine the cause of the delinquency and whether the borrower is suffering a short-term problem or problems of a more serious nature.

Initial emphasis should be on bringing the loan current. If the borrower misses a second payment, and does not cure the default in 60 days, the 504 loan may be placed in liquidation unless other documented alternatives are in place to assist the borrower to become current

Borrowers missing a second payment will be notified that failure to bring the loan current before the end of the second month may result in the loan being placed into liquidation and a demand letter should be written to the borrower and all obligors demanding the loan be brought current within 10 days or the entire loan balance will become due. Demand letters will be sent via certified mail to enable RMI to confirm delivery. If the borrower and/or obligors fail to respond, reasonable efforts will be made to contact anyone who fails to respond either by telephone, or email, to determine their intentions with regard to repaying the loan.

Follow-up calls to the borrower should be made through the end of the month until each missed payment is collected. The 504 loan that is not brought current by the end of the month will be reviewed and regarded.

Loans 60+ Days Delinquent

The 504 Note may be accelerated whenever there has been an event of default and it is clear that the borrower cannot, or will not, keep the loan current through regularly scheduled payments. (e.g., if the borrower is more than three months past due on a payment and there is no SBA approved deferment or catch-up plan in place, or the borrower closes the business and delivers the keys to the Third Party Lender or RMI, the Note must be accelerated, the loan must be placed in liquidation, and RMI will request that SBA purchase the Debenture and the next semiannual debenture payment date.) (13 C.F.R. §120.970(f)

A loan becomes 60-days delinquent when the borrower is two payments delinquent and no payment is made by the end of the month in which the second payment was missed. By the time a loan is 60-days delinquent, RMI will be aware of the problems the borrower is having and be prepared to determine if a deferral/catch-up plan should be submitted or if a liquidation plan with site visit should be drafted. A site visit will be made and frequent contact with the Third Party Lender is necessary.

Generally, during the first few weeks following liquidation classification and Debenture purchase, a workout may be negotiated whenever feasible. However, during this same time period, the information and reports needed to liquidate the collateral and enforce collection from the obligors as appraisals, title reports, UCC searches, Environmental Reports, asset searches, credit reports, etc., should be obtained so that in the event an acceptable workout plan cannot be implemented, lien foreclosure and/or other enforced collection activities can commence without delay. In cases where it is not feasible to agree on a workout plan with the borrower, RMI will request repurchase of the debenture prepare a Liquidation Plan within 30 calendar days of the debenture purchase.

LOAN CLASSIFICATIONS AND STANDARDS (Farm Credit System (FCS)

Credit classifications will be assigned on the basis of risk and include the following five categories:

1. Acceptable
2. Special Mention Assets
3. Substandard
4. Doubtful
5. Loss

Loans classified Substandard, Doubtful, and Loss are considered adversely classified assets; assets classified less than fully Acceptable (i.e. Special Mention Assets, Substandard, Doubtful and Loss) are considered critical assets. Any 504 loan that is risk rated Substandard, Doubtful or Loss will be reviewed in detail and “Watch Listed” by the Portfolio Manager. Any upgrades or downgrades to a loan classification due to a classification override will be determined by the Portfolio Manager in discussion with the Executive Director. A general description and application of each classification category is provided:

1. **Acceptable**

   These are noncriticized assets of the highest quality. They do not fit into any of the other categories. They have a strong ability to meet their financial obligations. The debt service coverage ratio would be 1.25 or greater for the past 3 years. Ratios will be at or better than RMA.

2. **Special Mention Assets**

   Assets in this category are currently potentially weak. These assets constitute an undue and unwarranted credit risk, but not to the point of justifying a classification of Substandard. The credit risk may be relatively minor yet constitute an unwarranted risk in light of the circumstances. Special Mention Assets have potential weakness that may, if not checked or corrected, weaken the asset or inadequately protect RMI/SBA’s position at some future date. Assets in this category may include loans that have deviations from prudent lending practices, and/or those subject to economic or market conditions that may, in the future, affect the borrower. An adverse trend in the borrower’s operations or an imbalanced position in the balance sheet that has not reached a point where repayment is jeopardized may best be handled by this classification. This category should not be used to list loans that bear risks usually associated with the particular type or financing.

   Any type of loan, regardless of collateral, financial stability, and responsibility of the borrower, involves certain risks. A loan secured by accounts receivable has a certain risk, but to criticize such a loan it must be evident that risk is increasing beyond the level at which the loan originally would have been granted. A rapid increase in receivables, concentrations that lack proper credit support, lack of onsite appraisals or inspections or other similar matters could lead RMI to question the quality of the receivables and possibly classify the loan as Special Mention. Loans in which actual, rather than potential weaknesses are evident and significant should be considered for more severe classification. Debt service coverage ratio is usually 1.1 and meets the industry averages or is just below.

3. **Substandard**
   These assets are inadequately protected by the repayment capacity, equity, and/or collateral pledged. Assets so classified have a well-defined weakness or weaknesses that could occur under normal collection of the debt. They are characterized by the distinct possibility that the lend will sustain some kind of loss if the deficiencies are not corrected. Loss potential, while existing in the aggregate amount of Substandard assets, does not have to exist in individual assets. Debt service coverage ratio is 1.0 or slightly lower. Credit history may contain delinquency(ies). Ratio averages at below RMA.

4. **Doubtful**
   Assets classified doubtful have all the weaknesses inherent in those classified Substandard with the added characteristic that weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The possibility of loss is extremely high because of certain important, specific, pending factors that may work to the advantage or disadvantage of the assets. Classification as Substandard or Loss is deferred until a more exact status can be determined. Pending factors might include a proposed merger, acquisition, liquidation, capital injection, perfecting liens on additional collateral or a refinancing and workout plan.

5. **Loss**
   Assets classified Loss are considered uncollectable and of such little value that their continuance as bookable assets is not warranted. This classification does not mean the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this basically worthless asset even though practical recovery may be effected in the future.

   Delaying the recognition of losses due to the remote possibility that a restructure will occur is not considered consistent with the definitions of generally accepted accounting principles. It is expected that RMI and the borrower will arrive at a formal agreement within a reasonable period of time following the start of negotiations to restructure. Normally, formal written agreements for restructuring should result within 6 months of the start of negotiations. Negotiations continuing for a significantly longer period without a final written agreement between RMI and the borrower indicates that the possibility of restructuring is remote. In these situations, the loan will need to be charged off.

Internal Control Policy

In accordance with 13 CFR 120.826, RMI has adopted this internal control policy ensuring compliance with the above referenced law and the U.S. Small Business Administration (SBA) Program Requirements. This policy provides adequate direction to RMI for effective control over and accountability for organizational operations, oversight by RMI's Board of Directors for financial matters, required reporting and certifications in compliance with 13 CFR 120.823. This policy shall:

- Assign direct management and responsibility for the internal control function (covering financial, credit, credit review, collateral and administrative matters) to the Executive Director who is also an officer of the corporation;
- Adopt and set forth procedures for maintenance and periodic review, at least annually, of this internal control policy;
- Direct the operation of a program to review and assess the CDC's 504 loans. For the 504 loan review and assessment, this policy specifies:
    - Loan, loan –related collateral and appraisal review standards, including standards for scope selection (for review of any such loan, loan-related collateral or appraisal) and standards for work papers and supporting documentation;
    - Loan quality classification standards consistent with the standardized classification systems used by the Federal Financial Institution Regulators;
    - Specific control requirements for the CDC's oversight of Lender Service Providers; o Standards for training to implement the loan review program; and o Address other control requirements as may be established by SBA.

Financial Internal Controls

RMI is considered a small organization which inherently has some limitations on segregation of duties. However, RMI will annually review these processes and adjust them accordingly when needed to optimize complete functionality of internal controls. Staff qualifications and integrity are also taken into consideration in the review of financial internal controls to ensure proper checks and balances.

Credit Policy Controls/Overview

The 504 Loan Program origination/credit review process is as follows:

- The appropriate RMI Loan Review Committee(s) will meet once a month or as needed to review 504 Loan applications for initial approval prior to submission to the SBA. The Loan Review Committee(s) review of the application provided by RMI employees and/or Lender Service Provider(s). The 504 Loan application which includes the credit analysis for review will include: repayment ability, management, collateral, character and credit score(s). At the time of loan origination, RMI will provide an initial grade based on the criteria outlined in the Credit Policy—Loan Grading System. Throughout the life of the loan, at least annually, the loan will be re-graded based on the Loan Grading System criteria which include but not be limited to the following factors: default, bankruptcy, non-payment of real estate taxes, lapses in any type of insurance or inability to obtain financial statements.
- On a quarterly basis, the loans approved by the RMI Loan Review Committee(s) will be presented to the Board of Directors for ratification. The exception to this approval process will be those loans that exceed $2,000,000 which will be presented for approval to the entire RMI Board of Directors.
- Monthly financial statements are presented to the Executive Director and RMI Board Treasurer. Monthly financial statements include the Balance Sheet, Income Statement, Budget vs. Actual expenses with an explanation of budget variances and other pertinent financial information.

- Quarterly, the RMI Board of Directors will be presented with comparative, year-to-date financial statements for review and voted on for acceptance. The RMI Board of Directors will also review the following: Loan Activity Reports; Current and Non-Current 504 Loans; RMI Lender Portal Report; investment(s) in economic development; RMI's performance compared to other CDCs within the country and region and any other pertinent 504 Loan information that may be required.
- The full RMI Membership meets annually at which time all financial and program reports are provided, reviewed and approved by the RMI Board of Directors.

Independent Loan Review

Annually, a portfolio sampling of new and legacy 504 Loans will be reviewed for the purpose of ensuring adequate loan quality and that the SBA 504 Loans were eligible, approved and closed in accordance with the authorization. Specifically, the Independent Loan Review will:

- Be conducted by reviewers that are independent of the process being reviewed and have adequate credentials. For example, someone involved in loan underwriting will not be reviewing the loan underwriting area. The independent loan reviewer(s) will be provided a copy of the SBA Independent Loan Review Guide, along with the 504 Risk Based Lender Review File Checklist. The review team will be educated and trained in but not limited to 504 Loan eligibility, packaging, underwriting standards, collateral, appraisals, environmental policies, loan authorization, closing and disbursement process, servicing, liquidation and will be given access to tools to include SBA Notices, SOPs and regulations.
- Determine the size of the 504 Loan sampling to include loans and appraisals in the last 12 months for underwriting/closing requirements;
- Determine the sampling methodology for reviewing loans in servicing based on loans that are current, delinquent, in intensive servicing and liquidation.
- Review the appraisal standards; and
- Include the work papers and other documentation as utilized by the reviewers.

A minimum loan sample will be at least 10 new loans and 25 legacy loans or no less than the most recent OCRM on-site review required sampling size. Each 504 Loan will be reviewed for all criteria as outlined on the Checklist for 504 Independent Loan Review Reports. In addition, the risk rating for these loans will be reviewed for appropriateness.

Lender Service Providers (LSP) will be evaluated during the Independent Loan Review. Of the total loans being reviewed, not less than 10% of those files will be loans originated by LSPs. It will be noted on the 504 Risk Based Lender Review File Checklist those applications completed by the LSP. By performing this type of file review, RMI will be able to effectively track and evaluate the quality of the 504 loan application to adequately assess potential risks associated with the 504 applicant(ion).

Upon completion of the Independent Loan Review, the final written report will be presented by the review team to the RMI Board of Directors. The RMI Board should review the Independent Loan Review process, final report and make any recommendations or act on any findings.