MINUTES OF THE MEETING OF THE BOARD OF DIRECTORS OF PHILADELPHIA AUTHORITY FOR INDUSTRIAL DEVELOPMENT

September 26, 2017

In the absence of Chairperson Smalls, David Hyman presided over the Meeting of the Members of the Board of Directors of the Philadelphia Authority for Industrial Development held on Tuesday, September 26, 2017 at 5:00 p.m. in PIDC’s Board Room, 26th floor, Centre Square West, 1500 Market Street, Philadelphia, PA.

Other Members attending:

David L. Hyman
Kate Hagedorn
Dennis Pagliotti
Thomas A. K. Queenan

Attending from PIDC staff:

John Grady, President
Sam Rhoads, Executive Vice President
Ilene Burak, Esquire, Senior Vice President/General Counsel
Cassie Gardner, Executive Assistant

Upon a motion duly made and seconded, the Minutes of the meeting held on September 12, 2017 were unanimously approved.

Mr. Hyman requested approval of the following Resolutions:

I. A Resolution authorizing PAID to adopt the attached Loan Policy Manual, as amended, to define the general parameters for review, analysis, approval, and documentation of loan applications, and management of PAID’s loan portfolio.

The appropriate officers of PAID are hereby authorized and empowered to execute all necessary documents and agreements, and to take such other actions as may be required to implement this Resolution.

Upon a motion duly made and seconded, with Mr. Queenan abstaining (see Enclosure 1) the Members unanimously approved the above resolution.
II. A Resolution authorizing PAID to enter into an agreement with Delaware Valley Recycling (Seller) to exchange 5.17 acres of land located at 2751 S. 58th Street in return for 3.502 acres of improved land located at 3107S. 61st Street in Philadelphia, PA.

The appropriate officers of PAID are hereby authorized and empowered to execute all necessary and desired documents and agreements, and do such other acts necessary upon such terms and conditions as they deem to be in the best interests of PAID.

Upon a motion duly made and seconded, the Members unanimously approved the above resolution.

III. A Resolution authorizing PAID to amend an energy services agreement with Ameresco Navy Yard Peaker LLC (Ameresco) providing that: 1) Ameresco will expand the natural gas fired generator facility at The Navy Yard from 6MW to 8MW; 2) PAID will purchase the additional 2MW facility upon completion at an incremental price of up to $4,000,000; and, 3) Ameresco will operate and maintain the additional 2MW for a twenty (20) year term at an incremental cost of $216,637 per year escalated annually by 3%.

The appropriate officers of PAID are hereby authorized and empowered to execute all necessary documents and agreements in, and to do such other acts necessary to contract for the energy services supporting PAID, for the benefit of The Navy Yard electric utility, upon such terms and conditions as they deem to be in the best interests of PAID.

Upon a motion duly made and seconded, the Members unanimously approved the above resolution.

There being no further business before the Board, the meeting was adjourned.
Loan Policy Manual
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SECTION I: INTRODUCTION

1.1 Background & Governance

Philadelphia Authority for Industrial Development (“PAID”) is a public authority incorporated by the City of Philadelphia and organized to undertake three main activities:

- **Deliver Governmental Funding for Economic Development Projects throughout the City of Philadelphia**: PAID initiates loans ranging from $50,000 to as much as $2 million that include low interest rates, extended terms, or subordination to senior private financing. Typically, the amount of financing available for a project through a funding source is based upon direct impact factors such as the number of jobs created/retained, tax revenue generated, and capital deployed to moderate/low income areas. This Loan Policy Manual is intended to cover loans made through PAID and is subject to periodic updates and review.

  PAID also serves as a conduit for governmental contract and grant program funding for economic development projects throughout the City. This Loan Policy Manual does not cover grant activities through PAID.

- **Manage Industrial and Commercial Real Estate**: PAID manages properties and industrial sites on behalf of the City including property acquisition, improvement, environmental remediation and/or sale. These activities are not covered through this Loan Policy Manual.

- **Issue Taxable and Tax-Exempt Bonds**: PAID issues taxable and tax-exempt bonds on behalf of nonprofit organizations, qualified manufacturers, other exempt organizations, and the City of Philadelphia. This loan policy manual does not cover bond financing through PAID.

The day-to-day affairs of PAID are managed by PIDC under the direction and governance of the five-member PAID Board appointed by the Mayor of Philadelphia. PIDC is Philadelphia’s public-private economic development corporation. PIDC is a nonprofit partnership between the City of Philadelphia and the Greater Philadelphia Chamber of Commerce, founded in 1958.

1.2 Purpose of the Manual

The following Loan Policies are designed to provide the staff, Loan Committee, and the PAID Board of Directors with the general parameters to make loan decisions and to provide loan oversight to make consistent, high quality decisions. The Loan Policy was developed with PAID’s mission and market in mind. This Loan Policy Manual is organized by chapters on:

- Lending Products
- General Lending Policies
- Approval Authority
- Loan Documentation and Closing
- Loan and Portfolio Management
1.3 Compliance with Laws and Regulations

PAID’s loans, in some instances, are funded with pools of federal, state, and municipal sources of capital. It is PAID’s policy to comply with the letter and the spirit of laws of the federal government, the Commonwealth of Pennsylvania, the City of Philadelphia, or other governmental agency, as applicable.
SECTION II: LENDING PRODUCTS

2.1 Introduction to Lending Products

PAID provides loan products that fall into three categories: (1) Small Business Loan Products, (2) Project Finance Products, and (3) Economic Development Loans. The loan products are primarily funded by grants or loans from various federal, state, or City agencies as well as financial institutions and foundations. The funds are generally distributed at the direction of the funding agencies or based upon specific requirements of the sources of capital.

2.2 Small Business Lending Products

PAID offers small business borrowers Capital Project Loans to meet their financing needs. These loans support businesses and nonprofits undertaking capital projects such as building acquisition, renovation, leasehold improvements, or equipment purchases where additional financing is needed to complete the project. PAID will typically fund up to 40% of the total project cost (with a maximum loan size of $750,000) and borrowers must create at least one new full time equivalent job for every $35,000 in direct financing extended by PAID.

2.3 Project Finance Lending Products

Project Finance Lending Products are designed to provide either for profit or nonprofit entities with “gap” financing to complete the capital sources for real estate development or acquisition needs. Such products include Subordinate Term Loans which provide financing to experienced developers of commercial and industrial projects of all sizes throughout all neighborhoods of Philadelphia. PAID seeks to fill funding gaps in projects, which will create jobs for low and moderate income people, spur investment in underserved areas, and/or improve building energy efficiency.

2.4 Economic Development Loans

On occasion, the City of Philadelphia or other public entities request that PAID act as a conduit to support projects with an economic development purpose or public policy goal. PAID provides Economic Development Loans to support projects resulting in social or economic benefits, which might include: (1) creating or retaining jobs, (2) eliminating blight, (3) providing goods and services to an underserved community, (4) increasing tax revenue, or (5) addressing environmental or sustainability issues.

Typically, the public entity will capitalize these loans as well as define eligibility and underwriting standards.
SECTION III: GENERAL LENDING POLICIES

3.1 General Characteristics of an Eligible Business or Project

PAID targets its lending activities to borrowers and projects that:

- Demonstrate financial need
- Demonstrate credit worthiness and the ability to repay any loan through a realistic business plan
- Align with PIDC’s mission
- Are located or willing to locate in Philadelphia

Types of borrowers include, but are not limited to the following:

- **Commercial, Industrial, and Manufacturing Business Owners / Users**: Clients who seek to fund projects that will enable their businesses to continue operating efficiently or to expand. The project will typically consist of real estate acquisition, improvements, and/or equipment acquisition.

- **Real Estate Investor / Developers**: Borrowers who develop and retain ownership of real property that will be used, leased, or operated by third party entities or businesses. Typical investor/developer properties include office buildings, retail stores/shopping centers, parking garages, and hotels. The developer collects rent and/or sometimes a share of the profits of the businesses operating from the property.

- **Small Business Clients**: Small, minority, women, and disabled-owned businesses seeking financing to support their growth.

- **Nonprofits**: Borrowers who may also act as investors, developers, owners or users, as described above. Loans to nonprofit borrowers are underwritten similarly to for-profit entities of the same type.

3.2 General Characteristics of an Ineligible Business or Project

PAID will not finance:

- Speculative real estate ventures
- Businesses not located in the City of Philadelphia
- Projects for which private market capital financing is readily available

In addition, various funding sources may have specific eligibility requirements for which such funds may be used. During the application process, staff will determine a client’s eligibility for a specific loan product.

Any exceptions must be approved by the Loan Committee and the PAID Board of Directors and the exception shall be noted in the Board minutes.
3.3 Application Process

PAID actively markets its loan products and receives many inquiries as to the possibility of providing financing for a wide variety of projects. Staff will review each request prior to accepting an application to assure one of the PAID loan products is a match and the client is an eligible business or project.

Often, after a preliminary assessment, staff will determine that PAID is unable to finance a given project because of financial, eligibility, legal, or other policy considerations. When this occurs, staff will attempt to suggest alternative options. Alternatives may include referrals to government or economic development agencies, private financial institutions, other nonprofit lenders, or providers of technical assistance.

In the event an applicant does not meet the basic eligibility requirements for PAID’s loan products, staff will contact the client by phone to review the specific reasons why the application could not be processed. Depending on the particular aspects of the application and the possible need for official documentation, this phone call may be followed up with a formal written notification of the loan denial through either an email correspondence or letter to the client. As noted above, whenever possible, staff will attempt to suggest alternative options for financing and provide referrals.

In making referrals to private financial institutions, staff should provide as many options as possible to avoid the appearance of favoritism toward any particular institution. And, in the case of any referral, staff should not “oversell” an alternative option or give the applicant an undue sense of the likelihood of success in pursuing an alternative option. This is to avoid any future claim that PAID gave misleading or damaging referral information in the event that a suggested alternative does not work out.

3.4 Underwriting Evaluation

Staff underwrites the application and, where applicable, the underlying project as part of the financing decision process. The underwriting process must provide staff and the Loan Committee with sufficient information to assess the strengths and weaknesses of the applicants, evaluate the relative risk of the proposed financing, make financing decisions, and structure financing transactions appropriately.

Staff evaluates credit in accordance with a Risk Rating System that was adopted in 2013 and is periodically updated and approved by the Loan Committee. Each underwriter completes a Risk Rating work sheet and provides the Loan Committee with the rationale for assigning a rating based upon a thorough and comprehensive grid chart.

Staff adheres to standard credit analysis practices, which are outlined in the Risk Rating System and include the following:

- **Management Capacity**: An evaluation of management capacity may include management experience, personal credit scores, business credit references, and operating company’s history.
- **Financial Capacity**: An evaluation of financial capacity may include borrower’s equity, business profits, current ratio, developer’s equity, and tenant quality. In addition:
  - *Profitability & Net Worth Considerations*: If an owner/user firm has at least three years of level or upward trending profitability and net worth in excess of 200% of the project size, the 100% loan collateralization requirement may be reduced and/or the personal guarantee requirement may be waived or limited.
  - *Minimum Equity Participation*: In most transactions, PAID imposes a minimum equity contribution requirement of 10% of total project costs. There may be exceptions, such as when a project is located in a distressed area or the applicant is serving the needs of low income individuals. In cases when there is less than 10% equity contribution, applicant must provide substantiated sources of contingency funding to cover potential cost over runs or other sources of capital, if required.

- **Industry and Market**: An evaluation of industry and market may include: industry outlook and stability, business’s position in industry, or project’s competitive position in industry.

- **Cash Flow / Debt Service Coverage**: Historic and/or projected cash flows may be used in the evaluation. The expected debt service coverage ratio (“DSCR”) for a project/borrower must be calculated. The nature of the ratio and its calculation methodology will vary depending on the type of project/borrower being analyzed. Generally, a minimum DSCR of 1.10 will be required but this standard may be raised or lowered depending on circumstances. Depending on the nature of the borrower/project circumstances, a more sophisticated approach to this calculation may be necessary. Staff may also analyze historic global cash flow, which generally covers the last two calendar years and integrates all sources of income and expenses for business owners and their spouses.

- **Valuation of Collateral**
  - *Commercial Real Estate*: Secured commercial real estate will not exceed 75% of its Member of the Appraiser Institute (“MAI”) or PA-certified appraised value. This ratio may be reduced in response to any relevant specialized use considerations.
  - *Personal Residential Real Estate*: Secured personal residential real estate will be valued as follows:
    - If the property serves as the primary collateral in the transaction, it will not exceed 80% of its Senior Residential Appraiser (“SRA”), MAI, or PA-certified appraised value.
    - If the property serves as secondary collateral in the transaction, it will not exceed 80% of its appraised value by a third-party real estate professional acceptable to PAID.
  - *Machinery & Equipment*: New secured machinery and equipment (“M&E”) will be valued at up to 50% of acquisition cost less estimated removal cost. Secured used M&E will be valued at up to 25% of original acquisition cost less depreciation and estimated removal cost. The degree to which M&E will be valued will be based on reasonable staff recommendation.
  - *Inventory*: Secured inventory will range from 0%-15% of the lower of current level or last three years average level. No value will be ascribed to subordinated
inventory liens. The degree to which inventory will otherwise be valued will be based on reasonable staff recommendation.

- **Personal Guarantees**: PAID requires the joint and several personal guarantees of the owners with a 20% or more ownership interest (and may request spousal guarantees) of the borrowing entity. This requirement may be waived if the borrower provides, in addition to the 100% collateral as described above, senior secured collateral equal to 25% of the face amount of the loan. Staff analyzes the value of personal guarantees by reviewing owners’ personal financial statements and conservatively calculating adjusted net worth. Typical adjustments to personal net worth will include removal of any asset not available to PAID in the event of a default, such as a 401K retirement account as well as acknowledgement of any contingent liabilities. Additionally, staff will typically remove the stated value of an individual’s ownership in the business unless a compelling reason exists to include it.

- **Other**: The Risk Rating system allows additional points to be provided or taken away based on borrower’s past performance with PAID, if applicable.

- **Mitigating Factors**: Adjustments to the Risk Rating score can be made by awarding “mitigating factors” points, up to a maximum of three points.

Based on the above components, a loan is given a score ranging from Prime to Projected Loss. Any loan scored having less than a Satisfactory rating is evaluated as part of the specific reserve assessment, which is further outlined in Section 6.

Loans are not subsequently rerated, based on the following mitigating controls:

- There are robust delinquencies measures that Loan Administration follows from the time a loan goes 15-30 days delinquent, in order to prevent the borrower’s performance from further deterioration and loss of PAID’s loan investment.

- A quarterly credit review assesses the risk of loss for the entire portfolio, and conservatively places loans on a watch list if the borrower demonstrates the following: 91+ days delinquent, undergone a loan modification, has a history of delinquencies in other portfolios (even if the loan is currently performing), if information is known in advance regarding impairment/financial deterioration, and/or the borrower received less than a satisfactory rating at time of underwriting.

- Loan Administration reviews borrower financial data on at least an annual basis. Effectively using financial information as a risk indicator allows the organization to work with the borrower before an actual default event occurs, and ultimately protect PAID’s lending investment.
SECTION IV: APPROVAL AUTHORITY

4.1 Loan Committee Review and Standards

All loans are presented to the Loan Committee, which is a sub-committee of the PIDC Board of Directors, although not all members of the Loan Committee are required to be members of the PIDC Board of Directors. The Loan Committee is the oversight mechanism for loan transactions and reviews the staff’s assessment of the applicant’s financial position and available collateral. The Loan Committee will review a loan against the basic applicable underwriting standards described above.

All new loan requests must go to the Loan Committee for a recommendation and to the PAID Board of Directors for formal and final approval. All loans shall undergo a complete and thorough analysis.

4.2 Waiving Loan Committee Review

To accommodate special situations, the President of PIDC and/or Executive Vice President may elect to present a loan request directly to the PAID Board of Directors without the prior Loan Committee review or approval. Even in such an event, a write-up for the project may be presented as a courtesy to the Loan Committee, whose input and advice may be sought as to how to optimally structure the transaction, even when its approval is not requested.
SECTION V: LOAN DOCUMENTATION & CLOSING

5.1 Loan Terms and Conditions

Basic loan terms are negotiated and agreed upon with a prospective borrower prior to Loan Committee review. Terms are generally dictated by the underlying loan program requirements and will usually follow the concepts described below.

5.2 Commitment Letters and Loan Documentation

Following approval from the Board of Directors, staff generates a Commitment Letter which, once accepted by the applicant, is followed by loan documents, which may include the following legal documents:

- **Note**: The note is the borrower's formal "IOU" and lays out the terms of repayment.

- **Loan Agreement**: The loan agreement restates many of the loan terms and lays out in considerable detail many of the specific boilerplate terms and covenants. The loan agreement will also include highly detailed project plans and specs, construction schedule, as well as a budget, which should approximate the more general budget of eligible project costs approved by the Loan Committee, Board, and relevant governmental authorities.

- **Mortgage**: The mortgage restates many of the loan terms, records the pledge of real property securing the loan, and describes the lender’s ability to foreclose.

- **Guarantees (Company, Personal, and Related Parties)**: The guarantees describe the detailed terms by which the guarantors guarantee the loan.

- **Subordination & Intercreditor Agreements**: These documents articulate the lien priority and actions of the various project lenders in an event of default, foreclosure, or liquidation proceedings.

- **Lease Assignments**: This document records the pledge of any lease receipts as securing the loan.

- **UCC Financing Statements**: These documents record the security interest in machinery & equipment, furniture fixtures & equipment, receivables, inventories, and other personal property securing the loan.

- **Additional Collateral Provisions**: Additional documents or provisions may be necessary to properly record specialized security arrangements, such as:
  - **Subordination by Officers**: Principals or officers of the borrowing entity who have lent funds to the firm or an affiliate, may, if appropriate, be required to subordinate their loans to PAID’s loan.
  - **Distribution Limitations**: PAID may require limitations on the ability of the borrowing entity or corporate guarantor to make cash flow distributions to the principals during the term of the loan.
- **Funds Control**: PAID may have negotiated to have a debt service reserve fund or certain receivables, such as lease payments, placed in a lock box maintained by a trustee. Such an arrangement usually requires the execution of an escrow agreement or control agreement.

- **Lease Guarantee and Tenant Estoppels**: PAID may require lease guarantees by certain tenants and/or an agreement with the tenant and landlord restricting either from amending their lease agreement without PAID’s approval.

- **Key Person Life Insurance Assignments**: The assignment of life insurance policies on owners or key management personnel in an amount up to the value of PAID’s loan may be required.

To perfect security interests in the collateral, counsel files all county and state level UCC and mortgages.

### 5.3 Outside Counsel Selection

For most loan transactions, PAID will utilize counsel to draft legal documents and to prepare for closing. However, larger and more complex transactions (typically investor/developer deals) may require retaining the services of outside counsel. In such an event, the following conditions should be met prior to engagement of the private attorney: The borrower should sign a letter acknowledging that it will reimburse PAID for all legal costs incurred in connection with the project, regardless of whether or not the loan closes and the borrower may be required to submit a deposit to be applied against PAID’s future legal costs, if deemed necessary by PAID.

### 5.4 Closing

Upon receipt of the necessary approvals and completion of the documents, loan closing may occur. However, certain technical items must be resolved prior to actual funding on the loan. These include:

- **Title**: Any property title issues must be resolved.

- **Insurance**: The borrower must have submitted insurance (property, casualty, and liability) certificates acceptable to PAID naming it as a mortgagee and loss payee.

- **Tax Clearance**: The borrower must not be delinquent on any City taxes or must be in compliance with a payment plan.

- **Source of Fund Approvals**: The relevant private or public entities must have issued all approvals required by the source of funds.

- **Miscellaneous Legal Documents**: Any miscellaneous loan legal documentation must have been finalized.

- **Fee Payment**: All application and commitment acceptance fees must have been received.
• **Closing Costs**: All expenses including, but not limited to the following must be paid at or prior to closing: appraisal, legal, title and recording, and bank account fees.
SECTION VI: LOAN & PORTFOLIO MANAGEMENT

6.1 **Key Definitions**

- **Allowance for Loan Losses (ALL):** Reflects the estimated probable credit losses that may be incurred on the loans receivable portfolio, and is maintained at an amount deemed adequate to cover estimated losses.

- **Estimated Credit Losses:** Estimate of the current amount of loans that it is probable the organization will be unable to collect given facts and circumstances as of the evaluation date. Thus, the estimated credit losses represent projected net charge offs that are likely to be realized for a loan or group of loans.

- **Impaired Loans:** Those that have deteriorated in credit quality to the extent that full collection of the original contractual principal and interest is doubtful. Generally, a loan is impaired if the loan meets one or more of the following criteria: the loan is 91+ days delinquent; the borrower has a history of delinquency on other loans within the portfolio; the loan has undergone a troubled debt restructuring (TDR); has a below satisfactory risk rating score; and/or there are triggering events indicating the deterioration of cash flow and/or collateral value. A loan does not accrue interest if it is deemed to be an impaired loan.

- **Troubled Debt Restructuring:** Loan modifications that result in a restructuring of a debt if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider.

6.2 **Loan Monitoring and Portfolio Management**

Individual loans are monitored with respect to loan repayment, maintenance of insurance, submission of financial statements, and achievement of employment objectives.

On a quarterly basis staff meets to discuss the Credit Review Report, which tracks and analyzes individual loan performance and portfolio-wide trends. This report encompasses both on balance sheet loans and loans under PIDC management, including PAID loans. Included in the report are the following:

- Delinquency Tracking
- Borrower Concentration
- Industry Sector Concentration
- Allowance for Loan Loss Portfolio Analysis for All Companies
- Listing of Qualitative Factors Affecting the Portfolio
- Specific Reserve Tracking

Individual loan performance is used as the primary indicator by which loans are characterized as performing or impaired.

Twice annually, the Loan Committee will receive and review an excerpt of the Loan Portfolio Credit Review Report as well as a staff narrative of loans in the collection process. The Loan
6.3 Delinquencies and Loan Workouts

A loan is considered delinquent when a contractual principal or interest payment is 30+ days past due. Staff has procedures in place to address delinquencies to include meeting with the borrower, determining the extent of the client’s problems preventing timely payment, and recommending an appropriate course of action. In situations where a borrower’s problems result in an uncured default, a loan modification and loan work out may be warranted.

Workouts and restructurings will typically consist of one or more of the following modifications:

- Interest or payment deferrals
- Interest rate reductions
- Principal write-downs/forgiveness
- Amortization and/or maturity extensions
- Restructuring or release of collateral in return for other consideration
- Renegotiation of inter-creditor terms
- Partial waiver or deadline extension of employment objective requirements

Modification to loan terms may require Loan Committee and/or Board approval. The Senior Vice President of Operations will make this determination, in some cases depending on the issues related to a particular request. Modifications may be approved by the Senior Vice President of Operations with no further action.

6.4 Components of the Allowance for Loan Loss (ALL)

PAID has the ability and intent to hold loans for the foreseeable future or until maturity or payoff; as such, the loans are stated at the amount of unpaid principal reduced by an allowance for loan loss. The allowance for loan loss does not apply to loans carried at fair value, loans held for sale, and off balance sheet credit exposures.

The allowance for loan loss reflects the estimated probable credit losses that may be incurred on the loans receivable portfolio, and is maintained at an amount deemed adequate to cover estimated losses. In determining the level to be maintained, PAID evaluates many factors, including historical loss experience, the borrower’s ability to repay and repayment performance, estimated collateral values; and if applicable, qualitative factors. The allowance for loan loss is assessed for the entire loan portfolio either on an individual loan basis (specific reserve) or in the aggregate (general reserve).

The allowance for loan loss is reviewed quarterly. The following sections detail the components of the quarterly ALL review.

6.5 Specific Reserve

The specific reserve considers impaired loans meeting one or more of the following characteristics:
• Loans that are 91+ days delinquent;
• Borrower has a history of delinquency on other loans within the portfolio;
• Loan has undergone a troubled debt restructuring (TDR);
• Below satisfactory risk rating score; and/or
• There are triggering events indicating the deterioration of cash flow and/or collateral value.

Pursuant to the Office of the Comptroller of the Currency (Interagency Policy Statement on the Allowance for Loan and Lease Losses), loans assessed for impairment individually, estimated credit losses reflect consideration of one of the three standards of impairment measurement at the evaluation date: (1) present value of expected future cash flows discounted at the loan's effective interest rate (2) the loan's observable market price or (3) the fair value of the collateral the loan is dependent upon.

The fair value of the impaired loans is generally based on the fair value of the underlying collateral (less cost to dispose) securing these loans because most of PAID's impaired loans are collateral dependent. Refer to further discussion within the “Collateral” section below.

6.6 Specific Reserve - Troubled Debt Restructuring

Pursuant to Accounting Standards Codification - Receivables, Troubled Debt Restructuring by Creditors ("ASC") 310-40, a restructuring of a debt constitutes a troubled debt restructuring if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. A troubled debt restructuring may include, but is not necessarily limited to, one or a combination of the following:

• Transfer from the debtor to the creditor of receivables from third parties, real estate, or other assets to satisfy fully or partially a debt (including a transfer resulting from foreclosure or repossession)

• Issuance or other granting of an equity interest to the creditor by the debtor to satisfy fully or partially a debt unless the equity interest is granted pursuant to existing terms for converting the debt into an equity interest

• Modification of terms of a debt, such as one or a combination of any of the following:
  o Reduction (absolute or contingent) of the stated interest rate for the remaining original life of the debt
  o Extension of the maturity date or dates at a stated interest rate lower than the current market rate for new debt with similar risk
  o Reduction (absolute or contingent) of the face amount or maturity amount of the debt as stated in the instrument or other agreement
  o Reduction (absolute or contingent) of accrued interest.

6.7 Assessment of Concession

Pursuant to ASC 310-40-15-13, a creditor has granted a concession when, as a result of the restructuring, it does not expect to collect all amounts due, including interest accrued at the
original contract rate. A restructuring that results in only a delay in payment that is insignificant is not a concession. The following factors, when considered together, may indicate that a restructuring results in a delay in payment that is insignificant:

- The amount of the restructured payments subject to the delay is insignificant relative to the unpaid principal or collateral value of the debt and will result in an insignificant shortfall in the contractual amount due.

- The delay in timing of the restructured payment period is insignificant relative to any one of the following:
  - The frequency of payments due under the debt
  - The debt’s original contractual maturity
  - The debt’s original expected duration.

### 6.8 Assessment of Debtor Financial Difficulty

Pursuant to ASC 310-40-15-20, in evaluating whether a receivable is a troubled debt restructuring, a creditor must determine whether the debtor is experiencing financial difficulties. In making this determination, a creditor shall consider the following indicators:

- The debtor is currently in payment default on any of its debt. In addition, a creditor shall evaluate whether it is probable that the debtor would be in payment default on any of its debt in the foreseeable future without the modification. That is, a creditor may conclude that a debtor is experiencing financial difficulties, even though the debtor is not currently in payment default.

- The debtor has declared or is in the process of declaring bankruptcy.

- There is substantial doubt as to whether the debtor will continue to be a going concern.

- The debtor has securities that have been delisted, are in the process of being delisted, or are under threat of being delisted from an exchange.

- On the basis of estimates and projections that only encompass the debtor’s current capabilities, the creditor forecasts that the debtor’s entity-specific cash flows will be insufficient to service any of its debt (both interest and principal) in accordance with the contractual terms of the existing agreement for the foreseeable future.

- Without the current modification, the debtor cannot obtain funds from sources other than the existing creditors at an effective interest rate equal to the current market interest rate for similar debt for a nontroubled debtor.

The above list of indicators is not intended to include all indicators of a debtor’s financial difficulties. Refer to Appendix 1, “Troubled Debt Restructuring (“TDR”) Evaluation Form” for additional consideration points.

On a quarterly basis, the Vice President of Financial Reporting reviews the Portfol report and Loan Modifications Audit Report, which captures all changes made to loans in a given period. Vice President of Financial Reporting documents the assessment of whether the change to the loan constitutes a TDR using the guidelines above.
Modification to loan terms may require Loan Committee and/or Board approval. The Senior Vice President of Operations will make this determination, in some cases depending on the issues related to a particular request. Modifications may be approved by the Senior Vice President of Operations with no further action.

6.9 Specific Reserve - Collateral

The Vice President of Financial Reporting and the Vice President of Loan Administration review the available collateral for each impaired loan on a quarterly basis.

Capital Project and Subordinate Term Loans

The capital project loans and subordinate terms loans are generally collateralized by commercial and/or residential real estate. PAID considers these loan products to be collateral dependent as the repayment of the loan is expected to be provided solely by the underlying collateral in the event of default. In the assessment of the available collateral balance, the amount due to the senior financial institution is reduced from the available collateral.

The value of the collateral is determined by the following sources (from highest to lowest source of validation):

- **Appraisals**: As the PAID loan portfolio is often subordinate to other lenders, appraisals are obtained at the request of the senior financial institution. Generally, PAID will not initiate a request for an appraisal in a subordinate lien position due to the cost burden incurred by the borrower or PAID. To the extent appraisals are received, the appraised value of the property will be discounted based on the age of the appraisal:

<table>
<thead>
<tr>
<th>Age of Appraisal</th>
<th>Discount</th>
<th>Cost to Dispose</th>
<th>Total Discount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-2 years</td>
<td>0%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>3-5 years</td>
<td>20%</td>
<td>10%</td>
<td>30%</td>
</tr>
<tr>
<td>5+ years</td>
<td>30%</td>
<td>10%</td>
<td>40%</td>
</tr>
</tbody>
</table>

- **Web Based Valuation (i.e. Zillow)**: If an appraisal is not available, PAID will obtain one or more web based appraisals/valuations. The valuation is discounted by 10% to account for costs to dispose.

- **Property Tax Valuation**: To the extent appraisals or web based valuations are not available; PAID will leverage the City of Philadelphia’s Office of Property Assessment. The valuation is discounted by 10% to account for costs to dispose.

If no collateral information is available, staff will consider fully reserving the loan.

6.10 Non-Accrual Loans

Once a loan is considered impaired, the loan is placed on non-accrual status. Any unpaid interest previously accrued on those loans is reversed from income. Loan repayments received on impaired loans are generally applied to late fees, interest, and then principal. The application of repayments on impaired loans may differ based on loan work outs, and/or Vice President of
Loan Administration’s judgment as to the collectability of principal. Impaired loans are generally not returned to a performing status until the loan is brought current, the borrower has performed in accordance with the restructured contractual agreement for at least six months, and the collection of the contractual principal and interest payments are no longer in doubt. However, the above are general guidelines for returning loans to performing status and may vary based upon the facts and circumstance of an individual loan.

Staff reviews the specific reserve components on a quarterly basis. The results of the assessment are documented within the quarterly allowance for loan loss files.

6.11 General Reserve Assessment

The general reserve assesses the potential risk of loss for the population of non-impaired loans. The general reserve assesses the risk of loss as the historical cumulative default rate of the loan portfolio adjusted for certain qualitative factors, if any. The historical default rate is calculated for each loan funding source as the cumulative percentage of loan charge-offs divided by the cumulative total dollar value of loans originated. Based on historical evidence, it has been concluded that the calculation of the general reserve by loan funding source sufficiently groups loans by similar characteristics. Staff generally does not fund loans from its operating cash. Instead, the loan portfolio is substantially funded by contracts or grants each of which has its own requirements for the types of borrowers, projects and risk tolerance. The historical default rate is updated annually.

As noted within the “Charge-off” section below, Staff employs a patient lender approach, therefore; loans are not written off based on the number of days delinquent. Given a lagging charge off history, staff compares the cumulative write off rate to the 5 year write off history on an annual basis to ensure the write off rate is at least comparable to recent activity.

Staff considers qualitative factors in the assessment of the general reserve. On a quarterly basis, staff documents its response to the following qualitative factors:

- Changes in lending policies/procedures, including changes in underwriting standards, collections, charge offs and recovery practices
- Changes in international, national, regional and local conditions
- Changes in the nature of volume of the portfolio and terms of loans
- Changes in the experience, depth, and ability of lending management
- Changes in the volume and severity of past due loans and other similar conditions
- Changes in the quality of PAID’s loan review system
- Changes in the value of underlying collateral for collateral dependent loans
- The existence and effect of concentrations of credit and changes in the level of such concentrations
- The effect of other external factors (i.e. competition, legal, regulatory requirement) on the level of estimated credit losses
6.12 Funded Reserve

PAID may receive a grant or contract proceeds or otherwise be required by a funding source to establish a funded allowance for loan loss, which can be used to offset potential loan losses associated with a particular loan program or funding source.

6.13 Methodology for Non-Accrual and Write-offs/Charge offs

Credit Quality Assessment

On a quarterly basis, the Senior Vice President of Financial Services, Senior Vice President of Operations, Senior Vice President & Chief Operating Officer, Vice President of Portfolio Management, Vice President of Financial Reporting, and Loan Administration Manager review and establish the allowance for loan loss for all affiliated and managed entities. On a semi-annual basis, the results of the credit review are presented to the Loan Committee.

Policy for Charge Offs

As many PIDC loans are funded with government and/or investor funds, it is PIDC’s policy to preserve and collect the contractual amount of principle and interest associated with a loan. In many cases, the repayment of principal and interest allow PIDC to replenish a loan fund, and provide additional loans to borrowers within PIDC’s target market. As such, PIDC does not require loans to be charged-off after a specified time period. Management determines the probability of loan collection during the quarterly review of the allowance for loan loss. In order to prevent the value of loans receivable from being overstated, PIDC (re)establishes a loan loss reserve on a quarterly basis to reflect the net realizable value of the underlying collateral. The adjusted allowance for loan loss is included in the quarterly financial statements. Once management has collectively concluded that all collection efforts have been exhausted, PIDC obtains approval to charge off a loan from the Loan Committee and, if required, by the applicable funding agency.
James Leonard, Esq
Commissioner of Records
Department of Records
Room 156, City Hall
Philadelphia, PA. 19107

RE: Potential Conflicts of Interest - Chapter 20-600 Philadelphia Code

Dear Mr. Leonard:

I am a Member of the PAID Board of Directors and also the Senior Vice President and Chief Operating Officer for PIDC.

I was present at a PAID Board meeting today and disclosed my position as Senior Vice President and Chief Operating Officer for PIDC prior to any discussion or vote thereon and announced my disqualification from consideration of a Resolution authorizing PAID to adopt the Loan Policy Manual, as amended, to define the general parameters for review, analysis, approval, and documentation of loan applications, and management of PAID’s loan portfolio.

Sincerely,

THOMAS A.K. QUEENAN

TQ/jg