MINUTES OF THE MEETING OF THE BOARD OF DIRECTORS OF PHILADELPHIA AUTHORITY FOR INDUSTRIALDEVELOPMENT
October 10, 2019

In the absence of Chairperson Evelyn Smalls, Vice Chairperson David Hyman presided over the Meeting of the Members of the Board of Directors of the Philadelphia Authority for Industrial Development held on Thursday, October 10, 2019 at 5:00 p.m. in PIDC's Board Room, 35th floor, Centre Square West, 1500 Market Street, Philadelphia, PA.

Other Members attending:

Kate Hagedorn
Christina Wong
Thomas A. K. Queenan

Attending from PIDC staff:

John Grady, President
Ilene Burak, Esq., Senior Vice President and General Counsel
Cassie Gardner, Executive Assistant

Upon a motion duly made and seconded the Minutes of the meeting held on September 24, 2019 were unanimously approved.

Before reviewing the resolutions, Mr. Grady introduced and welcomed new Board Member Christina Wong, Director/Producer at the Comcast Corporation, to the group.

Vice Chairperson David Hyman requested approval of the following Resolutions:

I. A Resolution authorizing PAID to adopt the attached Loan Policy Manual (Enclosure 1), 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, the Members unanimously approved the above Resolution.

II. A Resolution authorizing PAID to enter into a contract with PECO Energy for engineering services, in the amount of $350,000. The contract will commence on or about October 25, 2019.

The appropriate officers of PAID are hereby authorized and empowered to execute all necessary documents and agreements, and to 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.

Prior to adjourning the meeting Mr. Grady updated the Board with regard to the National Museum of American Jewish History and the status of their tax-exempt debt of approximately $30m issued by PAID in 2015.

There being no further business before the Board, the meeting was adjourned.

Loan Policy Manual

For internal use only: Do not distribute without permission.

Policy Manual Administrator:	Financial Services and Credit Portfolio Management staff
Loan Committee Approved:	January 8, 2015 (original approval date)
	October 3, 2019
Board of Directors Approved:	January 13, 2015 (original approval date)
Board- Approved Updates:	August 16, 2016
	September 26, 2017
	[*Proposed: October 8, 2019*]
Location:	S:\Financial Services\Administration\POLICIES\Loan Policy Manual

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SECTION I: INTRODUCTION

1.1 Background

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. PIDC's mission is to spur investment, support business growth, and foster developments that create jobs, revitalize neighborhoods, and drive growth to every corner of Philadelphia. Armed with flexible financing products, a targeted portfolio of industrial and commercial real estate, and decades of Philadelphia-based knowledge, PIDC provides the resources and expertise to help its clients invest, develop, and grow.

To achieve its mission PIDC attracts, manages, and invests public and private resources in the clients, communities, and markets that energize Philadelphia's economy. PIDC initiates loans ranging from $50,000 to as much as $125 million that include flexible terms, such as 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, capital deployed to low/moderate-income areas and size of contract being bridged. PIDC is continually seeking to diversify its capital sources, thereby maintaining the flexibility to support clients with creative financial solutions. The ultimate goal is to generate sustainable loan products and continued efficiencies. As a result, this document is subject to periodic updates and review.

1.2 Subsidiaries and Affiliates

PIDC manages a family of organizations to accomplish its mission and provides financing through a variety of corporate entities. Several corporations with identical corporate governance to PIDC that reflect its public-private partnership include PIDC-Local Development Corporation ("PIDC-LDC"), PIDC-Financing Corporation ("PIDC-FC"), and PIDC-Penn Venture Fund (collectively referred to as "PIDC"). In addition, PIDC manages the Philadelphia Authority for Industrial Development ("PAID"), an authority of the Commonwealth of Pennsyvlannia, and PIDC Community Capital ("PIDC CC"), formerly known as PIDC-Regional Development Corporation or PIDC-RDC), a private, 501(c)(3) non profit corpotation. This Loan Policy Manual applies to loans and investments originated and closed on the books of any of the PIDC managed entities as well as any loans under PIDC management. This Loan Policy Manual does not cover bond financing through PAID.

PIDC Community Capital is a 501(c) (3) nonprofit organization and is certified as a community development financial institution ("CDFI") and a community development entity ("CDE") by the U.S. Treasury Department's Community Development Financial Institutions Fund ("CDFI Fund"). PIDC Community Capital delivers additional resources to Philadelphia's underserved, low-income communities in support of PIDC's mission of community investment.

Historically, PIDC's lending activity has been capitalized with public funds. In contrast, PIDC CC, a CDFI, uses primarily private, external capital sources including banks and foundations to fund its lending activity. As PIDC CC seeks to expand its presence as an alternative financial services entity in an unregulated industry, it becomes increasingly important to external investors for PIDC CC to adhere to best practices for the industry.

1.3 Purpose of the Manual

The following Loan Policies are designed to provide the staff (Financial Services, Credit and Portfolio Management), Loan Committee, and the 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 PIDC'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

The Loan Policy Manual is not intended to address detailed procedures or loan accounting practices. A supplemental Loan Accounting Manual addresses matters for which Accounting and Financial Reporting is responsible including the Allowance for Loan Losses and Troubled Debt Restructures.

1.4 Compliance with Laws and Regulations

PIDC's loans, in some instances, are funded with federal, state, municipal, or other governmental sources of capital. It is PIDC's policy to comply with the letter and the spirit of statutory, regulatory and contractual obligations.

1.5 Exceptions

Exceptions as defined herein must be approved by the Loan Committee and the Board of Directors, or its Executive Committee, and the exception shall be noted in the Loan Committee and the Board minutes.

SECTION II: LENDING PRODUCTS

2.1 Introduction to Lending Products

PIDC provides loan products in furtherance of its mission that fall into three categories: (1) Small Business Loan Products, (2) Project Finance Products, and (3) Economic Development or Early Stage 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. Terms and conditions including eligible uses of funds for any loan product are governed by policies established in this Loan Policy Manual in addition to applicable rules, regulations and contractual obligations of the funding source.

2.2 Business Lending Products

PIDC offers small business borrowers several flexible loan products to meet their financing needs and fill gaps in the private debt and equity markets, which include:

- **Capital Project Loan**: Supports businesses and nonprofits undertaking capital projects such as building acquisition, renovation, new construction, leasehold improvements, or equipment purchases where additional financing is needed to complete the project. PIDC will typically fund up to 40% of the total project cost to supplement borrower's access to market rate debt and equity resources, and borrowers should create at least one new full-time equivalent job for every $35,000 in direct financing extended by PIDC. The maximum loan size is $750,000.

- **Commercial Mortgage Loan:** Supports small businesses and nonprofits that need financing to purchase buildings that they either currently occupy or intend to relocate to. These loans are targeted to small businesses owned by minorities, women, immigrants, veterans, or other disadvantaged populations as well as nonprofits and businesses located in low income communities in order to build equity. Maximum loan size is $500,000.

- **Working Capital and Equipment Loan**: Supports small and midsize businesses and nonprofits which need term financing for working capital, equipment, or leasehold improvements to support their growth. The maximum loan size is $750,000.

- **Contract Line of Credit Loan**: Provides support to small, minority, women, and disabled owned businesses that need a line of credit to fund working capital for contracted receivables. The maximum loan size is $500,000[1].

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:

[1] In September 2017, the maximum loan size for the CLOC product was reduced from $1,000,000.

- **Bridge Loan**: Provides bridge financing for contract receivables, primarily for state and City grants. The program is particularly targeted to assist recipients of the Commonwealth of Pennsylvania's Redevelopment Assistance Capital Program ("RACP") grants. The maximum loan size is $3,000,000.

- **New Markets Tax Credit ("NMTC")**: The program attracts private capital for high-impact projects in eligible low-income census tracts by permitting investors to receive a tax credit against their federal income tax in exchange for making investments in specialized financial intermediaries like PIDC Community Capital. Qualified investments, in the form of equity or loans with below-market interest rates and/or flexible terms, can be provided to experienced commercial developers, businesses and non-profits for property acquisition, construction, renovation, leasehold improvements, and equipment purchases. Projects typically have costs above $5,000,000. PIDC Community Capital has also used NMTC as an innovative product to capitalize the Impact Development Fund, a loan program that can fund projects with loan needs between $500,000 and $2,000,000.

- **Subordinate Term Loan/Flexible Real Estate Debt**: Provides financing to experienced developers of commercial and industrial projects of all sizes throughout all neighborhoods of Philadelphia. PIDC 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. The maximum loan size is $5,000,000.

- **Neighborhood Development Loan**: Provides financing to fill funding gaps for developers of mixed-use, commercial and industrial projects located throughout Philadelphia's neighborhoods. Available either for new projects or refinancing of existing debt related to tenant improvements, construction/building renovation, machinery and equipment and soft costs. The maximum loan amount is $500,000.

- **Welcome Fund (EB-5) Loan**: Provides below market financing for large scale, job-creating projects undertaken by strong governmental, corporate, or institutional sponsors through a partnership with CanAm Enterprises.

2.4 Economic Development and Early Stage Loans

Economic Development and Early Stage loans that do not meet PIDC's credit criteria are prohibited from being originated using PIDC CC funding sources and may be presented to the Loan Committee for their advice and guidance and presented to the Board or its Executive Committee for approval without prior approval of the Loan Committee.

Economic Development Loans: On occasion, the City of Philadelphia or other public entities request that PIDC act as a conduit for public funds to support projects or programs with a public policy goal (an "Economic Development" loan). Public policy goals for Economic Development Loans may include social or economic benefits such as: (1) attracting, creating or retaining employment, (2) stabilizing a community or otherwise reducing or eliminating blight, (3) providing goods and services to an underserved community, (4) maintaining or growing the city's tax base, or (5) addressing environmental or sustainability issues. Existing Economic Development Loan programs include "Instore Loans" funded with Community Development Block Grant funds to borrower's at the City's direction, and "forgivable loans" funded with Economic Stimulus Funds to borrowers at the City's direction.

Early Stage Loans: On a limited basis, PIDC offers financing to early-stage, “high-risk” businesses through direct investment, participation in a fund, or extension of debt with unsecured or equity-like qualities (an “Early Stage” loan) to further promote its mission of economic development and as limited by available funding sources. Active Early Stage loan programs include loans or investments capitalized from the “Penn Venture Fund” or made in partnership with the Ben Franklin Technology Partnership.

2.5 Loan Products, Funding Sources and PIDC Corporate Structure

PIDC CC as a 501(c)(3) private non-profit Community Development Financial Institution (CDFI) and Community Development Entity (CDE) serves as the conduit for New Market Tax Credits and is generally capitalized with loans from banks or other financial institutions and foundation or governmental grants to support Philadelphia’s small business community, including developers and non-profits. Loan products funded through PIDC CC from these sources generally include:

- Capital Project Loan
- Contract Line of Credit
- Working Capital and Equipment Loan
- Neighborhood Development Loan

PIDC and its related corporations as a public-private partnership generally serves as the conduit for public sector resources that are targeted to promotion of economic growth. Loan products funded through PIDC from these sources generally include:

- Subordinate Term Loan / Flexible Real Estate Debt
- Bridge Financing
- Economic Development and Early Stage Loans

In rare cases, loans may be transferred between PIDC CC and other PIDC entity portfolios provided that the transfer does not adversely impact PIDC CC. Examples include:

- Loans may be transferred from PIDC CC to PIDC when a PIDC CC loan is a significant policy exception due to changes in the Loan Policy made after the loan was originated
- Loans or funds may be transferred from PIDC to PIDC CC when the public entities approve legacy public funding sources of loans to be released of their funding requirements and transferred to PIDC CC for future deployment (i.e. Enterprise Zone Funds)

SECTION III: GENERAL LENDING POLICIES

3.1 General Characteristics of an Eligible Business or Project

PIDC targets its lending activities to borrowers and projects that:

- Demonstrate financial need
- Demonstrate creditworthiness 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. These projects 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 community-serving facilities, office buildings, retail stores/shopping centers, 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. Loans typically will provide: 1) the short-term capital required to finance receivables associated with contracts that provide construction, procurement, or professional services to public or institutional users; or 2) other types of working capital and equipment needs.

- **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

In addition to limitations on eligible uses or borrowers dictated by sources of funds, PIDC will generally not finance:

- Speculative real estate ventures
- Businesses not located in the City of Philadelphia (unless specifically provided for by a source of funds)
- 100% residential deals
- Schools, not including day-care facilities
- Non bankable, cash-based businesses
- 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 and funding source.

3.3 Loans to Directors and Officers

An extension of credit to a Director or Officer of PIDC or PIDC CC, or an organization with which a Director or Officer of PIDC or PIDC CC has a "business relationship", as that term is defined in PIDC's Conflict of Interest policy (a "Related Party") shall:

- be evaluated and offered on comparable terms and in accordance with PIDC's standard underwriting procedures for the relevant loan product;
- be managed and modified or restructured, including pursuit of remedies under default, consistent with PIDC's practices for similar loan products; and,
- be disclosed and require recusal during the approval process in accordance with Article VIII of PIDC's Bylaws and PIDC's Conflict of Interest Policy with respect to a Director or Officer.

3.4 Loan Limits

PIDC calculates its aggregate borrower/sponsor exposure as loans are proposed, and tracks exposure on a quarterly basis for prudent portfolio risk oversight. In the interest of greater adherence to CDFI best practices. PIDC CC will limit its exposure to a borrower/sponsor (in one or more financing transactions) to the greater of $750,000 or 5% of PIDC CC's Net Assets as of the prior year-end. [2] Exceptions to these loan limits will be acknowledged by the Loan Committee and approved by the Board of Directors or its Executive Committee and the exception shall be noted in the Loan Committee and Board minutes. [3] This borrower exposure limit excludes amounts loaned to borrowers from other PIDC affiliates which are under common management.

3.5 Application Process

PIDC 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 PIDC loan products is a match and the client represents an eligible business or project.

If after a preliminary assessment, staff determine that PIDC is unable to finance a given project because of financial, eligibility, legal, or other policy considerations, then staff will attempt to suggest alternative options. Alternatives may include referrals to government or economic

[2] As of 12/31/2018, PIDC CC Net Assets are $13,713,455, 5% of which results in a limit of $685,673.

[3] This loan limit policy was approved for incorporation into the Loan Policy Manual as of August 16, 2016 and only applies to loan approved by the Loan Committee and Board of Directors after this data. This policy is not applied retrospectively to loans approved prior to this date.

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 PIDC's loan products, staff will contact the client 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 may be followed up with a formal written notification of the loan denial through either an email correspondence or letter to the client. .

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 PIDC gave misleading or damaging referral information in the event that a suggested alternative does not work out.

3.6 Underwriting Evaluation

PIDC 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.

PIDC evaluates credit in accordance with a Risk Rating System that was first adopted in 2013 and is periodically updated and approved by the Loan Committee. Each underwriter completes a Risk Rating worksheet and provides the Loan Committee with the rationale for assigning a rating based upon a thorough and comprehensive analysis.

PIDC underwriting 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 shall include management experience, personal credit scores, business credit references, and the operating company's history.

- **Financial Capacity**: An evaluation of financial capacity may include borrower's equity, business profits, current ratio, sponsor'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*: PIDC generally requires a minimum equity contribution 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 appropriate contingency or other sources of capital to cover potential cost overruns.

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

- **Cash Flow / Debt Service Coverage**: Historic and/or projected cash flows shall be used in the evaluation and 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. 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 be discounted to 75% of its appraised value, using a Member of the Appraiser Institute ("MAI") or PA-certified appraiser. For the purpose of this policy, commercial real estate shall include residential investment properties. 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 be discounted to 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 be discounted to 80% of its value as reasonably determined by PIDC Staff.

  - *Machinery & Equipment*: New secured machinery and equipment ("M&E") will be discounted to 50% of acquisition cost less estimated removal cost. Secured used M&E will be discounted to 25% of the 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, and may be valued more highly if justified by specific circumstances.

  - *Inventory*: Secured inventory will be discounted to 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, and may be valued more highly if justified by specific circumstances.

  - *Personal Guarantees*: PIDC requires the joint and several personal guarantees of owners with a 20% or more ownership interest (and may request spousal guarantees) of the borrowing entity, or senior secured collateral equal to 25% of the face amount of the loan in addition to 100% collateral as described above. 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 PIDC in the event of a default, such as a 401K retirement account. Additionally, staff will typically remove the stated value of an individual's ownership in the business unless a compelling reason exists to include it.

- *Corporate Guarantees:* In addition to personal guarantees, PIDC may require the corporate guarantee of the operating affiliate or other related business of any single-purpose entity

- *Assignment of Contract Proceeds*: In the case of Contract Lines of Credit, collateral will typically include the assignment of proceeds from one or more contracts. In these cases, staff analyzes the quality of future receivables related to the assigned contract or contracts. Staff shall identify if the contract is with a public agency or a private entity and conduct due diligence to identify administrative or other risks related to all contracts. This analysis will focus primarily on the borrower's experience with the contract owner and/or general contractor, PIDC's history with the contract owner and/or general contractor, and the proposed loan amount as a percentage of the contract or contracts. Additional due diligence is warranted on all private contracts, including, but not limited to client's track record with contract holder, status of payment of union or similar membership dues, contract holders history of payment disputes. Staff may elect to limit the advance against private contracts. As part of the underwriting, staff will assess the internal operational capacity of each client and if warranted recommend business support services tied to performance measures (i.e. periodic internally prepared cash flow statements, annual projections, pipeline reports, defined success measures with required actual versus projected reports.)

- **Prior Performance**: The Risk Rating system allows additional points to be provided or taken away based on borrower's past performance with PIDC, 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.

SECTION IV: APPROVAL AUTHORITY

4.1 Loan Committee Composition

The Loan Committee is a committee of the Board of Directors and consists of at least five members, of which at least two shall be members of the Board of Directors. The Loan Committee shall be chaired by a member of the Board of Directors. Appointments will be made for terms of up to one year and may be renewed. Appointments are made by the Chair of the Board.

A majority of voting Loan Committee members present will constitute a quorum. One of the members present must be the Committee Chair or the Chair's designee. Decisions require a simple majority of those present. Loan Committee meeting shall be held in person although members are allowed to attend by phone unless in-person attendance is specifically required.

4.2 Loan Committee Review and Approvals

All loans are presented to the Loan Committee except as otherwise described herein. 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 relevant PIDC Board of Directors, or its Executive Committee, PIDC CC Board of Directors, or PAID Board of Directors for formal and final approval. All loans shall undergo a complete and thorough analysis as described herein.

4.3 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 Board of Directors or its Executive Committee without the prior Loan Committee review or approval. In such an event, a write-up for the project may be presented to the Loan Committee, whose input and advice may be sought as to how to optimally structure the transaction. (See Section 2.5 for a list of loan types that typically do not need Loan Committee approval.)

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, or its Executive Committee, PIDC 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 detailed project plans and specifications, 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 PIDC's loan.

- *Distribution Limitations*: PIDC 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*: PIDC may have negotiated to have a debt service reserve fund or certain receivables, such as lease payments, placed in a lockbox maintained by a trustee. Such an arrangement usually requires the execution of an escrow agreement or control agreement.

- *Lease Guarantee and Tenant Estoppels*: PIDC may require lease guarantees by certain tenants and/or an agreement with the tenant and landlord restricting either from amending their lease agreement without PIDC'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 PIDC's loan may be required.

- *Liquor License:* When lending to foodservice entities with a liquor license, PIDC may require that entity to pledge its liquor license as collateral for the loan.

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, PIDC will utilize in-house counsel to draft legal documents and to prepare for closing. However, larger and more complex transactions (typically investor/developer deals and New Markets Tax Credit transactions) 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 PIDC for legal costs incurred in connection with the project, regardless of whether or not the loan closes. In addition, the borrower may be required to submit a deposit to be applied against PIDC's legal costs, if deemed necessary by PIDC.

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 of 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 PIDC 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

- **Nonperforming Loans:** Loans with delinquencies of 91+ days.

- **Impaired Loans**: Loans at high-risk of not repaying contractual principal and interest which results in a substandard risk rating.

- **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.

- **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 Portfolio Reporting

Quarterly Portfolio Reporting

On a quarterly basis, PIDC staff meets to discuss the Quarterly Portfolio Report, which tracks and analyzes individual loan performance and portfolio-wide trends. An abbreviated Quarterly Portfolio report is shared with the Loan Committee.

Annual Portfolio Reporting

On an annual basis, PIDC staff meets to discuss the Annual Portfolio Report, which includes all the elements of the Quarterly Portfolio Report plus more robust analysis including the following:

- Portfolio Geographic Distribution
- Portfolio Impact

The Annual Portfolio Report is shared with the Loan Committee annually. An abbreviated "dashboard" version of the report is shared with either the Board or its Executive Committee annually.

The full Annual Portfolio Review is available for inspection by the Board of Directors, its Executive Committee, investors, and prospective investors upon request.

6.3 Loan Monitoring and Impaired Loans

Loan Monitoring

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

There are delinquency measures that Credit and Portfolio Management follows from the time a loan becomes delinquent, in order to prevent the borrower's performance from further deterioration and loss of PIDC's loan investment.

Impaired Loans

Impaired loans represent the portion of the loan portfolio that has a high risk of not being repaid as evidenced by a risk rating of substandard or below. All loans identified as impaired are immediately placed on nonaccrual and placed on the Watchlist. All changes to a borrowers risk rating are documented on a Risk Rating Update Datasheet. Impaired loans have the following characteristics:

1. Substandard risk rating as a result of the following: underwriting at origination, annual review, or an underwriting modification, or other new information,
    - **Substandard Risk Rating at Origination**
    - **Annual Review**
        - All loans that go through the PIDC underwriting and approval process undergo an annual review which results in an updated risk rating
        - Loan are risk-rated by project; all loans in the same project should have the same rating with any exceptions noted and documented.
        - When an individual loan is deemed to be impaired, the risk ratings of all loans to that client and/or borrower should re-assessed to determine if any other projects are impaired
        - Loans made to different clients and/or borrowers that may be closely related to an impaired loan may trigger an updated re-risk rating (i.e. one borrower is an anchor tenant of another borrower)
        - Credit and Portfolio Management will maintain the documentation used for the updated risk rating and update results in Portfol
    - **Underwriting Modification**
        - Evidence of financial weakness in the review of financial information needed for loan modifications.
        - Credit and Portfolio Management will maintain the documentation used for the updated risk rating, and update results in Portfol
        - Financial Reporting will assess if modification meets the criteria of a Troubled Debt Restructuring. See Loan Accounting Manual.
    - **Other New Information**
        - Deterioration of collateral (fire, flood, or other casualty)

2. Substandard risk rating due to an event of default
    - **Events of Default**
        - Nonperforming as defined by a delinquency of 91+ days
        - Closure of businesses
        - Bankruptcy filing
        - Noncompliance with loan covenants

Watchlist

Impaired loans are placed on the Watchlist which is used by the Portfolio Management team to heighten loan monitoring on all impaired loans. Heightened loan monitoring strategies include:

- Requests for quarterly financials
- Meeting with the borrower
- Enrollment in business support services

The Vice President of Loan Administration uses the Watchlist to execute collection efforts on nonperforming impaired loans through workout strategies. PIDC's workout strategies include:

- Loan modification or restructure
- Settlement Agreement
- Liquidation of Collateral
- Legal involvement
- Update/enforce liens

All loans on the Watchlist are monitored by Credit & Portfolio Management, collectively, using the following categorization:

1. **In Workout**
   Loans that are nonperforming and workout strategies are actively underway. Workout strategies should be executed within 12 months.

2. **Charge-off eligible**
   The following are eligibility standards for loan charge offs:
   - A loan has been in workout status for over 12 months and continues to be non-performing;
   - No workout strategy has been executed

   If at any point while in workout status it is reasonably believed that a portion of the loan will be uncollectable the loan should be charged-off (i.e. shortfall of a settlement agreement, shortfall of an agreement of sale).

   All charge-offs are to be brought to loan committee for approval. Management will continue to exhaust all collection efforts post charge off.

3. **Exception**
   Loans that are not charged-off in accordance with the charge-off eligibility standards must be documented as an exception.
   - Examples of reasons for exceptions include:
     - Public funding sources not approving the charge-off
     - Collection is reasonably expected within one year
   - Exceptions will be documented and re-evaluated quarterly

4. **In Payment Monitoring**

   The payment monitoring phase is defined as three consecutive quarters of payment history while the loan is on the watch list.

   If a loan has been modified, management continues to monitor the performance of the loan to determine if the modification is successful. During the payment monitoring phase, management maintains regular contact with the borrower to determine if other workout strategies are required. If the loan has performed according to a contractual agreement for at least three quarters, then the loan will be eligible for an upgrade.

If the loan continues to be nonperforming during the payment monitoring phase, management will assess whether there are workout options available, or if the loan is charge off eligible.

5. Upgrade Eligible

After a loan has been performing for three quarters after being put on the watchlist, management will reassess the loan's risk rating using the borrower's most current financial information.

If the updated risk rating assessment results in a risk rating above substandard, the loan will be removed from the watchlist. If the updated risk rating assessment results in a below substandard risk rating, the loan will remain in the "in payment monitoring" phase and will be reassessed in another three quarters.

Credit and Portfolio Management will maintain the documentation used for the updated risk rating and update results in the loan management system.

Modifications and Restructuring

Modifications to loan terms may require Loan Committee and /or Board approval. The Senior Vice President & Chief Operating Officer will make this determination. In some cases, modifications may be approved by the Senior Vice President & Chief Operating Officer with no further action.

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

- 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

6.4 Specific Reserve

A specific reserve assessment is done for all impaired loans:

- The specific reserve is determined by the amount of the loan outstanding minus the following collateral types:
    - Liquid/available assets (liquidated in 12 months or less)
    - Assets for which there is an agreement-of-sale
    - Assets in which PIDC has a 1^{st} lien position and is prepared to liquidate the assets
- PIDC generally pursues all other available remedies before pursuing foreclosure on personal residences. Thus, personal residences will typically not be able to be liquidated in less than one year and should not be given value when calculating the ALL

- Subordinate lien positions, equipment or personal guarantees are not valued as they do not have collateral value for ALL purposes, as these assets do not have a readily determinable market value.
- Collateral is discounted for the following:
    - 10% cost to sell
    - 6% transfer tax
    - Reduction for outstanding liens

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

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

Age of Appraisal	Discount	Cost to Dispose	Total Discount
1-2 years	0%	10%	10%
3- 5 years	20%	10%	30%
5+ years	30%	10%	40%

- **Web-Based Valuation (i.e. Zillow, CoStar)**: If an appraisal is not available, PIDC 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; PIDC 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, PIDC will consider fully reserving the loan.