MINUTES OF THE MEETING OF THE BOARD OF DIRECTORS OF THE

PHILADELPHIA AUTHORITY FOR INDUSTRIAL DEVELOPMENT

JANUARY 13, 2015

Thomas A.K. Queenan, Chairman, presided at the Meeting of the Members of the Board of Directors of the Philadelphia Authority for Industrial Development on Tuesday, January 13, 2015, at 5:00 p.m. in PIDC's Board Room, 26th floor, Centre Square West, 1500 Market Street, Philadelphia, PA.

Members attending:

Evelyn Smalls
David L. Hyman, Esquire
Harold Yaffe, DDS

Attending from the PIDC staff:

John Grady	President, PIDC
Ilene Burak, Esq.	Senior Vice President/General Counsel
Anthony Simonetta	Senior Vice President
Wanda Speight	Senior Vice President
Tiffany Courtney	Vice President, Financial Reporting
Meg Clark	Executive Assistant, Office of the President
Mary Corcoran	Assistant Secretary

Others attending:

Andrea Allon	Chair, PIDC Audit Committee
Frank Froio	BDO
Keith Hammond	BDO – Audit Director

Upon motion made by Dr. Yaffe and seconded by Mr. Hyman, the Minutes of the Meeting of the PAID Board held on December 2, 2014 were approved.

Mr. Froio presented a wrap-up of the 2013 PAID Audit stating that there were no significant findings, no corrections and no material weaknesses.

Ms. Allon and Messrs. Froio and Hammond left the meeting.

Mr. Grady requested approval of the following:

1. A Resolution adopting the Loan Policy Manual, as attached to this Resolution, to provide the Philadelphia Authority for Industrial

Development Board of Directors with the general parameters for evaluating and approving requests for financing and, with respect to loan administration, to make consistent, high quality decisions. The appropriate officers of Philadelphia Authority for Industrial Development 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 motion made by Dr. Yaffe and seconded by Ms. Smalls, the Members unanimously approved the above Resolution.

2. A Resolution authorizing the Philadelphia Authority for Industrial Development (PAID) to provide a loan in the amount of $4,100,000 for a term of 10 years with three renewals of five years each at a fixed interest rate of 3.00% to Building 100, LP or its nominee or assignee. The appropriate officers of PAID are hereby authorized and empowered to execute all necessary documents and agreements, and do such other acts necessary to assist Building 100, LP or its nominee or assignee upon such terms and conditions as they deem to be in the best interests of this Corporation.

   Upon motion made by Ms. Smalls and seconded by Mr. Hyman, the Members unanimously approved the above Resolution.

3. A Resolution authorizing the Philadelphia Authority for Industrial Development (PAID) to provide funds in an amount not to exceed $3,000,000 for a term of 15 years at a fixed interest rate of 1.00% from the Economic Conversion Fund to acquire 1321 Intrepid Avenue, known as Building M-7 located at The Navy Yard. The appropriate officers of PAID are hereby authorized and empowered to execute all necessary documents and agreements, and do such other acts necessary to assist PAID or its nominee or assignee upon such terms and conditions as they deem to be in the best interests of this Corporation.

   Upon motion made by Mr. Hyman and seconded by Dr. Yaffe, the Members unanimously approved the above Resolution.

4. A Resolution authorizing the Philadelphia Authority for Industrial Development (PAID) to enter into a lease with I Square Systems, LLC or its nominee or assignee for 525 square feet of space in Building 101 located in The Navy Yard's Historic Core section. The lease will have a fixed rental rate of $2,000 per month, equaling $24,000 per year. Building operating expenses and The Navy Yard Common Area Maintenance Charges (CAM) are included in the fixed rent. The initial lease will have a term of three years and includes a three-year renewal option.

   Upon motion made by Ms. Smalls and seconded by Mr. Hyman, the Members unanimously approved the above Resolution.

5. A Resolution authorizing the Philadelphia Authority for Industrial Development (PAID) to enter into a lease with Lux Products or its nominee or assignee for approximately 7,500 square feet of space in Building 101 located in The Navy Yard's Historic Core section. The lease term will be for 10 years at a stepped base rent commencing at $21.00 per square foot, resulting in an annual base rent of $157,815 in Year one. All expenses, including The Navy Yard Common Area Maintenance Charges (CAM) and operating expenses will be reimbursed by the tenant in addition to the base rent. Base rent will remain constant through Year two, increase by $1.00 per square foot annually through Year 5, and thereafter will increase by 2.75% annually. Lux Products will receive six months of free base rent but will take full responsibility for all tenant improvements.

   Upon motion made by Ms. Smalls and seconded by Dr. Yaffe, the Members unanimously approved the above Resolution.

6. A Resolution authorizing the Philadelphia Authority for Industrial Development (PAID) to submit Redevelopment Assistance Capital Program (RACP) Grant Applications to the Commonwealth of Pennsylvania's Office of the Budget for an aggregate amount not to exceed $5,500,000; and to enter into Grant Agreements with the Office of the Budget on behalf of the grant recipients; and to enter into Sub-grant Agreements with the appropriate entities of the following individual projects.

Project	**Grant Amount**
PREIT Rubin, Inc. - Gallery at Market East (Phase II)	$2,500,000
Academy of Music, Inc.	1,500,000
Center for Autism	1,000,000
Woodmere Art Museum	500,000
Total	**$5,500,000**

   Upon motion made by Dr. Yaffe and seconded by Ms. Smalls, the Members unanimously approved the above Resolution.

There being no further business, the Meeting was adjourned.

Loan Policy Manual

Policy Manual Administrator: Financial Services staff
Loan Committee Approved: January 8, 2015
Board of Directors Approved: January 13, 2015
Last Modified: January 13, 2015, to be reviewed annually
Location: S: Financial Services/Administration/Loan Policy Manual

TABLE OF CONTENTS

SECTION I: INTRODUCTION ....

1.1 Background & Governance .... - 7 -

1.2 Purpose of the Manual .... - 7 -

1.3 Compliance with Laws and Regulations .... - 8 -

SECTION II: LENDING PRODUCTS ....

2.1 Introduction to Lending Products .... - 9 -

2.2 Small Business Lending Products .... - 9 -

2.3 Project Finance Lending Products .... - 9 -

2.4 Economic Development Loans .... - 9 -

SECTION III: GENERAL LENDING POLICIES ....

3.1 General Characteristics of an Eligible Business or Project .... - 10 -

3.2 General Characteristics of an Ineligible Business or Project .... - 10 -

3.3 Application Process .... - 11 -

3.4 Underwriting Evaluation .... - 11 -

SECTION IV: APPROVAL AUTHORITY ....

4.1 Loan Committee Review and Standards .... - 14 -

4.2 Waiving Loan Committee Review .... - 14 -

SECTION V: LOAN DOCUMENTATION & CLOSING ....- 1

5.1 Loan Terms and Conditions .... - 15 -

5.2 Commitment Letters and Loan Documentation .... - 15 -

5.3 Outside Counsel Selection .... - 16 -

5.4 Closing .... - 16 -

SECTION VI: LOAN & PORTFOLIO MANAGEMENT ....- 1

6.1 Loan Monitoring and Portfolio Management .... - 18 -

6.2 Delinquencies and Loan Workouts .... - 18 -

6.3 Methodology for Non-Accrual and Write-offs/Charge offs .... - 19 -

6.4 Determination of Loan Loss Reserve Levels .... - 19 -

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 geographically, prioritizing projects located in highly distressed low income communities in Philadelphia, and programmatically, prioritizing projects with economic impact potential.

PAID supports businesses which are located or plan to relocate in the city of Philadelphia and have been in operation for at least two years. Characteristics 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.

Eligible business owners must be able to demonstrate a need for financing and the ability to repay any loan through a realistic business plan.

3.2 General Characteristics of an Ineligible Business or Project

PAID will not finance:

- Speculative real estate ventures
- Businesses or projects with limited public policy support
- 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, 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 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.

- **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 their spouses) 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.

- **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.

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 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 Portfolio Credit Review Report is available for inspection by the Board of Directors, investors, and prospective investors upon request.

6.2 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.

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

Impaired loans are those loans that have deteriorated in credit quality to the extent that full collection of the original contractual principal and interest is doubtful. A loan is considered impaired if the loan meets one or more of the following criteria:

- Loan is 91+ days delinquent
- Borrower has a history of delinquency on other loans within the portfolio
- Loan has undergone a troubled debt restructuring ("TDR")
- There are triggering events indicating the deterioration of cash flow and/or collateral value

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 management'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.

Loans are considered charged off once all collection efforts have been exhausted. All loan charge offs must be approved by the Loan Committee, and if required, by the applicable funding agency.

6.4 Determination of Loan Loss Reserve Levels

Staff establishes an allowance for loan loss either on an individual loan basis or in the aggregate.

Staff maintains a general reserve on all non-impaired loans. 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 based on the risk of loss.

The individual loan loss reserves are termed "specific reserves" and are generally applied to impaired loans. The specific reserve is estimated quarterly based upon the excess of a loan's loss exposure over the fair value of the collateral or other loan guarantees. Management obtains current collateral information on impaired loans where available. In cases where a current collateral value is not available, management may apply a valuation discount to stale dated valuation information by leveraging trends of commercial property indices, trends of real estate values, similar property sales, etc. In addition, management will also review recent financial information of the borrower to determine if cash and net income projections are sufficient to cover the borrower's outstanding obligations.