

# GREAT FALLS DEVELOPMENT AUTHORITY, INC.

## LOAN POLICIES AND PROCEDURES

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# 1. GENERAL PROVISIONS

## 1.1. Purpose of Policies

The Lending Policies and Procedures Manual is intended to ensure that Great Falls Development Authority, Inc. (GFDA) is meeting its program objectives while simultaneously maintaining the quality of the loan portfolio, setting parameters for acceptable risk and ensuring the consistency of underwriting standards. The following lending policies are intended to help staff, Loan Committee, and the Board make loan decisions and manage and monitor GFDA's risk related to diversification of borrowers, types and terms of credit extended, key underwriting criteria, and general standards for portfolio management. The lending policies are adopted by the Board of Directors to clarify roles and responsibilities in the financing activities of GFDA. Any subsequent modifications shall be approved by the Board of Directors of GFDA, with review by the Board as needed based upon GFDA's performance.

These policies are intended to provide an overview for the Lending Team at GFDA. It is written based on historical policies and industry best practices. The document may be amended as staff, management, and the Board update policies and procedures in order for GFDA to maintain flexibility and the ability to deliver service and products to customers.

The document is confidential and proprietary and should be treated as such.

## 1.2. Program Objectives

Great Falls Development Authority, Inc. (GFDA) is a certified CDFI and an economic development entity serving the Great Falls trade area, a 13-county region (small metro, rural and tribal) in Montana.

Our mission is to grow diverse economic opportunities that enhance quality of life. We seek to transform Great Falls, Montana and the surrounding rural and tribal region into a thriving economy that raises the standard of living, particularly for underserved populations and economically distressed areas, and creates greater economic opportunity for people, entrepreneurs, and businesses.

As the only CDFI focusing on our service area, we provide access to financial products and targeted development services to catalyze investments that would not otherwise become available in north central Montana.

To provide capital for GFDA loan activity, segregated loan funds are obtained with a program objective to create positive economic impact for small businesses, communities, and specific industries. These include: Brownfields Clean-Up Loan Funds, Enterprise Loan Fund, Downtown Revolving Loan Fund and additional funds (see Appendix B). This list of funds may be periodically updated in policy by GFDA staff (without Board-approved amendment to the Loan Policy Manual) based on program existence and funding availability.

## **2. GENERAL LENDING POLICIES**

### **2.1. Target Market**

GFDA finances small businesses, entrepreneurs, nonprofits, and community-focused real estate developers engaged in economic development projects. The ultimate goal for GFDA is to make loans that have a positive impact on low-income business owners, employees, and communities in an effort to promote growth and diversification. GFDA seeks to create tangible impact, as opposed to meeting arbitrary lending goals. Impact is defined as helping GFDA borrowers to survive, prosper, grow, create jobs, provide role models, create career paths, and generate individual and community wealth.

Please see Appendix A for the Target Market Verification Policy.

### **2.2. Eligibility Criteria**

#### **2.2.1. Borrower**

GFDA seeks borrowers with an established, satisfactory credit history and financial performance. Strong consideration is given to the impact and community benefit resulting from the requested loan including jobs retained and created, potential for income increases, added service to the community, and related impacts consistent with the GFDA mission.

- If the loan application is an established business, the business may be required to provide financial statements, background information and an ability to satisfactorily repay the loan.
- For businesses under two years old and startups, GFDA may require the submission of a realistic, well-supported business plan accompanied by cash flow projections with assumptions. The business owner must be able to project sufficient income to repay principal and interest within the terms of the loan.

All borrowers must meet the following:

- Business is located in Montana with emphasis on those in the 13-county market area for GFDA.
- The business demonstrates that the requested financing will result in increased economic activity including but not limited to: job creation or retention, business expansion, or growth.

- The business has been in operation for a minimum of two years
- Or, if less than two years of operation or a startup, a business plan including financial projections may be required.

GFDA business borrowers should meet at least one of the following criteria:

- Be a targeted GFDA industry
- Operate in downtown Great Falls
- Operate in a rural area
- Provide essential service(s) to the community served
- Retain or create high wage or high-quality jobs
- Meet a strategic priority of GFDA

### **2.2.2. Uses**

Eligible uses for GFDA loans may include the following purposes:

- Purchase land or buildings for:
  - New construction
  - Expansion or conversion of existing facilities
- Finance machinery, equipment, furniture, fixtures, supplies or materials
- Working capital including short and long term needs for:
  - Accounts payable
  - Inventory
  - Seasonal financing
  - Contract performance
  - Export and distribution of products
- Acquire an existing business
- Fund business startup expenses
- Meet a strategic priority of GFDA

### **2.3. Loan Products**

GFDA offers six main loan products:

1. Microenterprise loans
2. Small business loans
3. Commercial and Housing real estate loans
4. Primary Sector loans
5. Brownfields Clean-up loans
6. Meat and Poultry Intermediary

These products are designed to both meet the needs of the borrower while following loan guidelines and parameters set by GFDA's funders.

GFDA frequently makes gap and bridge loans. Gap loans finance the difference between the owner's equity or investment in a project and the loan amount provided by the primary lender. Bridge loans are typically shorter term and fund an interim period during which the borrower is waiting for permanent financing or a specific funding source to repay the bridge loan.

In general, the GFDA Loan Officer structures financing packages that meet the borrower's cash flow ability, minimize portfolio risk, and deploy or redeploy funding as quickly as possible to maximize community impact. Interest rates are generally set at 1% to 2% above local bank and credit union market rates. Lower rates may be approved by the President/CEO for high-impact, mission-sensitive borrowers. If exceptions to policy are needed to better meet client needs while maintaining prudent loan underwriting standards, then a loan exception is reviewed and recommended to the GFDA Loan Committee for approval.

#### **2.4. Maximum Lending Limits and Loan Concentrations**

Limits on loan amounts are jointly influenced by market considerations, portfolio risk, and management considerations. There is no maximum total credit exposure to a single borrower, however, greater concentrations and risk will be reviewed by the Executive Committee.

Diversification in lending activity is a key goal and a critical factor in managing risk. In order to minimize loan concentrations, the following loan portfolio guidelines will be used:

- No more than 25% of GFDA loan capital to be loaned to or invested in a single borrower
- No more than 10% of GFDA equity to be loaned to or invested in a single borrower
- Industry concentrations are limited to:
  - Hospitality and Lodging: Maximum 25%
  - Housing production: Maximum 50%

Concentration targets are monitored quarterly by the President & CEO and any exceeding these limits are reported on the monthly Loan Portfolio Report.

The existence of a credit limit does not absolve the Loan Committee from considering portfolio effects in credit or investment decisions. Any credit or investment decision will necessarily take into account the effect the decision has on the level of risk in the GFDA loan and investment portfolio. Continually lending at the maximum credit limit is not anticipated due to the need to diversify GFDA loans and investments while managing the risk level of the entire portfolio.

## **2.5. Delegated Lending Authority**

Lending authority resides with the Board of Directors, which may delegate authority to the GFDA Loan Committee and the GFDA President/CEO. Delegation of loan authority is made at the discretion of the Board and may be withdrawn if deemed appropriate.

The GFDA President/CEO has individual loan authority up to \$50K (combined for a borrower's total debt), subject to the restrictions and requirements of each funding source.

Loans that result in a combined exposure greater than \$50,000 to one borrower are approved by the GFDA Loan Committee. The committee is appointed by the Board of Directors with a minimum of seven (7) members including two (2) that are Board members. Appointments are made by the Board annually and may be renewed.

The duties and responsibilities of the Committee are as follows:

- **Members:** The membership of the Committee includes, but is not limited to, community members that represent banking, accounting, law, and business management.
- **Duties:** The duties of the Committee include
  - Approve or decline loan requests
  - Ensure that loans are extended in accordance with GFDA Loan Policy
  - Assess credit underwriting to ensure that loan transactions reflect proper loan structure, collateral, and loan covenants
  - Provide counsel and guidance to the GFDA lending staff on loan-related matters including best lending practices, portfolio monitoring, and improvement of underwriting standards.
- **Meeting Schedule:** The Committee meets as needed in person, by phone, or video conference.
- **Meeting Minutes:** Minutes of the meeting are recorded and maintained by GFDA.

- **Materials:** The Credit Memo (see Appendix C) and supporting documents are sent out to committee members at least two working days prior to the meeting.
- **Quorum:** A quorum of at least five committee members is required.
- **Meeting Chair:** A Chair is appointed by the Board annually and is a member of the Board Executive Committee.
- **Authority:** The Committee is empowered by the Board to approve, approve with modification, table (for more information) and/or deny all new loans and loan modifications, including charge offs that have been evaluated, approved, and recommended by the President & CEO and/or GFDA loan officer or underwriter.
- **Exceptions:** The Committee may approve loan proposals for which a waiver from policy is requested. Exception approvals shall be reported to the Board of Directors.
- **Absentia Voting:** Committee members who cannot attend an in-person meeting may vote in absentia via phone or email.

## 2.6. Staffing Roles and Responsibilities

GFDA has assigned lending responsibilities among the management and loan staff in order to effectively originate new loans, monitor loan performance, identify and cure collection problems, and maintain loan quality within CDFI industry standards. The following describes the primary GFDA staffing roles for the lending function:

**GFDA President/CEO.** The Board designates a President/CEO to oversee all GFDA operations including strategic planning, investor relations, operations, and staffing. These duties include responsibility for the entire lending function, portfolio management, financial performance, and reporting.

**Vice President Lending.** The Vice President Lending supervises the lending and credit process. It is the responsibility of this individual to maintain and manage credit quality by monitoring systems to allow the Board to be aware of loan activity, credit quality, and capital needs.

**Loan Officer.** The Loan Officer is responsible for loan origination, packaging, structuring, and underwriting. Additional duties include business development, loan closings, borrower relations, and collections. Loan underwriting responsibilities include preparing the Credit Memo in accordance with GFDA policies and procedures with recommendations for loan structure, terms, and conditions. The

Loan Officer evaluates loan assumptions, reviews business plans, analyzes historical trends, and assesses markets and competition.

**Business Development Officer.** The Business Development Officer is the face of GFDA and the primary contact with lenders and financial institutions. The officer conducts outreach to attract referrals and find new clients in order to build the loan pipeline.

**Origination and Closing Associate.** The Origination and Closing Associate works with borrowers to obtain a complete loan application package and arranges for closings once the loan is approved. This individual prepares the loan closing documents and ensures that all loan commitment letter requirements are met by the borrower prior to or at closing.

**Lending Associate.** The Lending Associate is the primary risk management and operations officer. The associate oversees loan payment administration, funder reporting, and portfolio financial tracking. Additional responsibilities include review of all extensions of credit, risk ratings, loan quality, past dues, collections, and work out loans. The associate monitors GFDA loan modifications, forbearance, and collection actions.

**Accountant.** The Accountant oversees setting up ACH loan payments, booking loans, and issuance of annual IRS 1099 tax forms. Additional responsibilities include maintaining accurate financial reporting of GFDA loan fund bank accounts.

Additional key positions may be established as GFDA management deems necessary based on the strategic plan and continued growth of the organization.

## 2.7. Loan Goals

The GFDA Executive Committee is responsible for annually setting financial performance benchmarks and reporting to the Board of Directors.

The responsibility of the lending staff is to meet these goals in accordance with the GFDA strategic plan. To accomplish this, GFDA staff lead economic development efforts to promote growth, diversification, and the creation of high wage jobs. GFDA partners with local lenders and economic development organizations to meet the financing needs of growing businesses and startups. This includes creating and managing a portfolio of loans and investments that optimizes GFDA's financial and mission objectives as constrained by risk, capital availability, and funding source criteria. When deploying loan capital, financial risk is balanced with GFDA's mission and strategic plan. Each loan is reviewed for impact in four primary categories:

- Location: The business is located in a rural region, targeted economic development area, downtown revitalization section, or contaminated site clean-up.

- Jobs: GFDA loans help businesses create and retain high-wage, high-quality jobs.
- Industry: Targeted industries, as identified by the strategic plan, are strengthened with increased loan capital available from GFDA.
- Strategic Priority: GFDA loans help businesses, real estate developers, and non-profit organizations to achieve strategic priorities such as housing creation, childcare, and essential community services.

## 2.8. Records of Action

All loans submitted for consideration by the Board of Directors, the Loan Committee or the CEO are to be accompanied by the GFDA Credit Memo. The decision of the Loan Committee is to be noted in the Loan Committee minutes and maintained as part of the applicant's record.

A record of all loan requests acted upon by the Loan Committee or under the delegated authority guidelines will be reported to the Board of Directors at the next scheduled meeting.

## 2.9. Prohibited Loans

No loans will be made to businesses that:

- Engage in illegal activities according to local, state, and/or federal law
- Conduct processes or produce products intentionally harmful to the environment

GFDA loan funds cannot be used for any of the following purposes:

- Effect a partial change of business ownership or a change that will not benefit the business
- Repay delinquent state, local or federal withholding, business or personal income taxes
- Permit the reimbursement of funds owed to any owner, including any equity injection or injection of capital for the business's continuance until the loan is disbursed
- Consolidate existing debt or refinance existing debt where the existing lender is in a position to sustain a loss and GFDA would take over that loss through refinancing

- Personal expenses

Specific types of businesses not eligible for a GFDA loan include:

- Real estate investment
- Speculative businesses
- Purchasers of antiques or rare objects such as coins and stamps
- Lending activities
- Pyramid sales plans
- Gambling activities, including any business whose principal activity is gambling

Additionally, federal funding sources have prohibited specific industries, entities, or individuals from receiving government loan funds. GFDA follows the guidelines from each funder in order to meet the regulatory requirements for each borrower's loan.

These regulations change continually and will be monitored to ensure continued compliance.

GFDA staff, Board and Loan Committee members, and their immediate families are not eligible for loans. Exceptions may be granted by a majority vote from GFDA's Board of Directors depending on the loan fund, only if the loan applicant can show direct benefit to GFDA's mission.

## **2.10. Related Loan Activities**

### **2.10.1. Grants**

Grants are available to eligible nonprofit organizations and public agencies through the Brownfields Clean-Up Loan Funds. The GFDA Executive Committee is delegated the authority to review and approve these grant requests. Standard credit memo write-up procedures are used to underwrite and document each application.

### **2.10.2. Other GFDA Resources**

The GFDA lending staff partners with and recommends the services offered by several business resource providers for the benefit of each borrower. The Small Business Development Center (SBDC) advising and training services, Business Development concierge services, and the APEX Accelerators (APEX)

government contract assistance program are integral to the success of the GFDA lending staff and its portfolio. These team members can provide technical assistance (TA) to GFDA borrowers pre- and post- closing. Trained business counselors may assist the borrower with loan application preparation. This helps the Loan Officer to complete due diligence and loan underwriting in order to ensure a complete Credit Memo and file.

### **3. LOAN EVALUATION AND APPROVAL**

GFDA's lending philosophy is to provide loan capital to businesses, real estate developments, and non-profit organizations that help to expand economic growth by creating and retaining quality jobs, create housing and commercial spaces, revitalize communities, and provide essential community services. The lending staff is trained to assist businesses through financial education and flexible, affordable loans. Mission-focused organizations may also receive financing based on community impact and growth potential.

In order to properly manage higher levels of credit risk than traditional lenders, GFDA uses sound credit practices when structuring and underwriting each loan. This process begins with a client meeting that may include a recommendation for business counseling to help complete a business plan or financial projections. Careful due diligence is conducted by the lending and underwriting staff including analysis of collateral, owner equity investment, debt coverage ability, credit history, and management experience. GFDA will typically accept credit risk that is greater than a bank or credit union. The additional risk along with a loan recommendation is explained in a Credit Memo written for each loan and presented by the Loan Officer to the approving individual or committee.

#### **3.1. Application Requirements**

Recommended documents for GFDA loan financing are as follows.

- Loan application completed and signed by borrower (See Appendix C)
  - Business name, names of principals, Social Security number for each principal and the business address.
  - Purpose of the loan: exactly what the loan will be used for and why it is needed.
  - Amount required: the exact amount you need to achieve the purpose.
  - Business description: history and nature of the business, its age, number of employees and current business assets.
  - Ownership structure: details on the company's legal structure.
  - Management profile: a short statement on each principal in the business, including background, education, experience, skills, and accomplishments.

- Business Plan
  - The business plan may include a complete set of projected financial statements, including profit and loss, cash flow and a balance sheet.
- Market Information
  - Clear definition of the business' products as well as the market(s).
  - Identification of competition and explanation of how the business competes in the marketplace.
  - Profile of customers and how the business can satisfy their needs.
- Documented value of proposed collateral, as available
- Applicable legal documents, such as:
  - Business licenses and registrations required to conduct business
  - Articles of Incorporation
  - Copies of contracts with any third parties
  - Franchise agreements
  - Commercial leases
  - Partnership Agreement
- Application fee (if applicable)
- Financial information
  - Existing Business
    - Two years of business tax returns
    - Two years of business financial statements (profit and loss, balance sheet and projections)
    - Current personal financial statement (not older than 6 months)
    - Two years of personal tax returns
    - Aging of accounts receivable
  - Startup Business
    - Cash projections (2 years recommended)
    - Business plan
    - Current personal financial statement (not older than 6 months)
    - Two years of personal tax returns
    - Resume(s) of owner(s)
- Additional documentation may be requested as needed.

### 3.2. The Five C's of Credit

The following defines the Five C's of Credit commonly used when underwriting loans:

1. Capacity is the borrower's ability to repay the loan from cash flow and earnings. This is the primary source of repayment.

2. Capital is the money invested by the owner and/or equity that has built up from successful operation of the business.
3. Collateral, or personal guarantees, are additional forms of security for the loan. Collateral is a second source of repayment in the event of default.
4. Conditions consider local economic conditions and overall business climate within the borrower's industry and related markets as addressed in the borrower's business plan.
5. Character includes the business owner's background, experience, commitment to the business, and demonstrated willingness to work with the lender.

### 3.3. Underwriting Guidance

#### 3.3.1. Capacity: Credit History

Prior credit history is used to determine how likely it is that a borrower will repay a loan. Personal credit scores are frequently used along with past credit references for the business. The following are general guidelines for evaluating personal credit scores:

- 680+: Outstanding credit. Review to ensure that there is not too much debt.
- 640-680: Good credit
- 550-640: Acceptable credit (550 is minimum score for GFDA borrowers)
- < 550: Poor credit (GFDA considers on an exception basis, only if there is a compelling explanation for the poor credit)

GFDA evaluates each borrower's credit history as a whole, not just the credit score. GFDA looks for borrowers that have a good or improving credit history. In cases of poor credit, the loan applicant should provide a written explanation as to the cause and demonstrate that the past credit is being remedied.

Loan applicants may have no credit or very limited credit. GFDA may encourage these borrowers to apply for a small or micro business loan in order to establish credit. A borrower without credit history may qualify for a maximum loan of \$10,000 - \$25,000 based on a satisfactory review of the business plan, financial projections, and owner background.

**Mitigation.** Weak credit history can be mitigated by credit repair documentation, repayment of alternative credit, and/or a qualified personal guarantor.

Credit repair documentation may include: verification of paid collection accounts (canceled check, letter from creditor, or verbal confirmation); paid/released tax liens or judgments (canceled check, letter from creditor, or verbal confirmation); credit accounts in dispute (copy of letter sent or verbal confirmation from credit bureau); and bankruptcy discharge or release (documents from bankruptcy court).

Repayment of alternative credit sources includes:

- History of increased savings in bank statements
- Landlord reference and rental history
- Trade credit references
- Satisfactory payment of utilities and phone bills

A co-signer or guarantor may be considered who meets the following criteria:

- Outstanding personal credit
- Established personal net worth
- Stable job and income
- Not connected to the business

The co-signer/guarantor is willing to commit to:

- The co-signer/guarantor is jointly and separately liable for the debt.
- If the borrower defaults, then the co-signer/guarantor is obligated to pay.
- Legal action may be taken against the co-signer/guarantor in order to collect repayment.

### **3.3.2.Capacity: Cash Flow**

Borrowers need to demonstrate sufficient repayment ability to repay the loan. Cash flow from the business is the primary source of repayment. A strong or a weak historical cash flow is a predictor of the ability to repay. Conventional lenders use Debt Coverage Ratio (DCR) as a standard measure of capacity:

Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)  
12 months of full loan service payments

Using this ratio, GFDA seeks a minimum DCR of 1:1. A repayment ratio below that level, if approved, is noted as an exception to loan policy.

Existing Businesses: Repayment ability is determined based on historical financial statements or projections. The greater the debt coverage ratio, the stronger the cash flow. The historical or projected cash flow needs to cover existing and proposed debt service. The longer that a business shows an ability to cover debt service, the stronger the credit.

Startup Businesses: Repayment ability is evaluated based on financial projections with a minimum of two years recommended for consideration. The projections should include reasonable and attainable assumptions. Additional personal or other income may be considered when determining repayment ability.

**Mitigation.** Other non-business income may be considered as a source of repayment, if clearly available to help improve cash flow and repay the loan. Expenses related to this additional source of income need to be included. Examples of secondary income sources include:

- Full or part-time job of the borrower or borrower's spouse
- Rental income
- Other sources of household income

### **3.3.3.Capital**

GFDA expects borrowers to contribute from their own resources to the business before applying for funding. Owner investment demonstrates a vested interest and commitment to the project or business. In general, the higher the equity percentage, the less the amount of debt is needed. Canceled checks, receipts, or paid invoices may be used to document the amount of owner investment. A minimum 10% owner equity contribution is preferred.

### **3.3.4.Collateral**

GFDA seeks to secure a loan with collateral whenever feasible. While cash flow is the primary source of repayment, collateral may be taken as a secondary source to protect against future loan losses. Personal guaranties may also be considered to strengthen the creditworthiness of the loan.

The following are general types of acceptable collateral:

**UCC-1 Filing:** A UCC-1 filing is a lien against assets of a business by the lender and must be filed with the Secretary of State in order to perfect the security interest. The filing expires five years from the filing date, unless continued/renewed by the lender. There are two types of UCC-1 filings:

- Blanket UCC-1: a lien against all the assets of the business (including equipment, machinery, inventory, accounts receivable, etc.). The lien impacts the borrower in two ways:
  - If the borrower goes into default or the business fails, GFDA may have rights to repossess and liquidate the assets of the business.

- If the business owner sells the business, the loan should be repaid in full prior to or at the time of sale in order for GFDA to release the lien.
- Specific UCC-1: a lien against a specific asset (i.e. a specific piece of machinery)

**Vehicle Title:** A vehicle title evidences ownership and may be taken as collateral. The borrower still owns the vehicle but cannot sell or transfer ownership without GFDA releasing its lien. GFDA needs to be specifically named as the lienholder on the title.

**Trust Indenture or Mortgage:** A trust indenture or mortgage places a lien on real estate. GFDA can take a trust indenture on both business and personal property. If a borrower were to default on a loan, GFDA would have the option of foreclosing on the property in order to be repaid.

**Valuation of collateral:** In order to minimize potential loan losses, GFDA does not lend the full value of the collateral. The following discounts are used to determine the amount of lendable collateral value when underwriting the loan:

	<b>Discount</b>	<b>Book Value Source</b>	<b>Comment</b>
<b>Equipment</b>	25%	CDFI research	Book values for comparable equipment may be researched online. GFDA needs a landlord's consent to take equipment*.
<b>Vehicles</b>	80%	Kelly Blue Book or similar source	Personal vehicle book values may be found on Kelly Blue Book. Commercial vehicles (i.e. trucks) book values may be researched online.
<b>Inventory</b>	10%	Borrower	Value may be found in the business financials
<b>Accounts Receivable</b>	70%	Borrower	Typically A/R is not good collateral (especially on GFDA loans). In the event of a default, A/R is difficult to collect and should have no value for term loans. A/R concentration (w/ large customers) should be low (not more than 25% w/ one customer) and A/R should be < 60 days.
<b>Leasehold Improvements</b>	0%	N/A	Leasehold improvements typically have no collateral value. The only exception is if GFDA has an assignment of lease**.
<b>Real Estate</b>	75%	Appraisal	LTV (loan-to-value) on real estate should be less than 80% (including GFDA loans). When above 90% collateral has little liquidation value. As foreclosed houses typically sell for less than appraised value, the liquidation value will be less than the appraised value.

\* Landlord's Consent – This document needs to be signed by the landlord and gives permission for GFDA to enter the business location and take the business assets that serve as collateral in the case of default.

\*\* Assignment of Lease and Rents – This document gives GFDA the option of taking over the borrower's lease in the case of default. This only comes into play if the borrower owns a business that could be sold as a whole (i.e. restaurant).

### **3.3.5.Conditions: Business Plan**

A business plan is recommended for loan applicants in which the company is less than two years old and for startups. The business plan should be accompanied by 2-3 years of financial statements and 1-3 years of financial projections.

The business plan is very important as it demonstrates the level of thought and analysis for the business idea. There are a lot of “canned” business plans and financial templates, which allow applicants to follow the required process without necessarily a deep understanding or clean rationale applied in the process. The loan officer and underwriter need to closely review the main concepts behind the business plan, marketing plan, and business model. Detailed questions should be asked of the loan applicant regarding the assumptions and hypothesis used. The business plan and financial projections are the best “capacity” estimate for startup businesses. Therefore, it is extremely important to fully understand and evaluate the proposal.

### **3.3.6.Character**

GFDA always considers the personal character of the potential borrower in evaluating a loan request. Honesty and consistency of information point towards a willingness to repay and establish a long-term relationship with GFDA. An individual's character may be assessed through a review of their resume that includes: educational background, years of experience in business and in the industry, references, and personal credit background. Additionally, the background and experience levels of key management employees should be considered.

### **3.3.7.Other: Owner Financials**

The owner's personal financial statement and credit status should be reviewed as part of the loan decision process. This is done to evaluate the owner's ability to manage personal debt, build wealth/equity, and support the business further. GFDA considers the following:

- Level of debt: Little or no debt may be a sign of good financial management. Unsecured debt above \$10,000 should raise a red flag and

spur deeper analysis (Was this money used for startup costs, sustainable credit card debt, etc.)

- Fixed expense / gross income ratio: (includes rent, mortgage, minimum credit card payments): A very low fixed expense / gross income ratio (below 25%) can corroborate significant savings as well as indicate a capacity to absorb a downturn in business. Conversely, ratios above 75% are potential red flags; ratios in the 60-75% range could present a concern. GFDA considers not only the percentage, but also the absolute number.

### **3.4. Loan Loss Allowance and Risk Rating**

#### **3.4.1. Risk Rating Process**

The risk rating system has been developed in order to improve the consistency with which management and loan officers evaluate the strengths and weaknesses of credit applications and portfolio loans. The system is not designed as a means for approving or denying credit. Other factors such as mission, support services, character, community benefit, and source of funding should be considered as part of the final credit decision.

The risk rating process serves as a tool to summarize particular strengths or weaknesses of the borrower or applicant in an objective manner, as determined by the lending team. Lower rated applications and loans should be recognized as greater credit risks for which a higher Loan Loss Allowance needs to be established.

The Loan Officer shall have the initial responsibility of evaluating the credit worthiness of a loan based on the risk rating process. The rating system is based upon the potential risk associated with each credit as scored through the rating process. The Risk Rating is assigned by the loan officer or underwriter at closing. All loan officers are to be thoroughly familiar with the rating criteria in order to provide the most objective rating possible. Those credit factors which are particularly weak should be fully discussed in the loan write-up and include mitigating factors.

#### **3.4.2. GFDA Risk Ratings**

All GFDA loans are risk rated. The risk rating process serves as a consistent method for summarizing credit strengths or weaknesses of the borrower or loan applicant. Risk ratings are not used to approve or deny credit. Rather, the loan risk rating system serves to identify credit risk across the GFDA loan portfolio. Lower risk rated applications and loans represent a greater credit risk which is taken into account when determining Loan Loss Allowance (LLR).

### 3.4.3. Loan Loss Allowance and Risk Rating Reviews

When a loan is initially approved and closed, GFDA establishes a Loan Loss Allowance (LLR) based on the loan's risk rating. The LLR is set aside in order to guard against potential losses in the loan portfolio. The risk rating and corresponding LLR is determined during initial underwriting. Then, the risk rating may be adjusted over the life of the loan if there is subsequent improvement or deterioration in credit quality. The following table is used as a guideline to determine the percentage of the loan to be set aside as LLR:

<b>Risk Rating</b>	<b>% in Loan Loss Allowance</b>
1 - Excellent	5%
2 - Good	10%
3 - Satisfactory	15%
4 - Special Mention	20%
5 - Substandard	30%
6 - Doubtful	50%
7 - Loss	100%

The Risk Rating and the corresponding Loan Loss Allowance are reviewed at the end of every quarter.

An unscheduled review can be warranted if a material change occurs in the company (e.g., change in management, loss of major customers, notification of unfavorable judgment, etc.) even though the company may be current with payments. The President/CEO is responsible to see that loans are properly monitored, risk rating reviews conducted on a timely basis, and any emerging problem situations are reported to the Loan Committee and Board of Directors.

The decision to downgrade a loan's risk rating may be due to several factors. The most common concerns are: chronic delinquency, non-compliance with loan covenants, decline in financial performance by the business, and/or deterioration in collateral value. Additional warning signs for potential problem loans include:

- Financial business losses
- Delayed or no financial statements
- Delinquent loan payments
- Unwillingness to work with GFDA staff and/or inconsistent communication
- Violation of loan covenants
- Insurance cancellation notices
- Frequent overdrafts or late payments with other lenders or vendors

GFDA shall establish a portfolio Watch List that includes all risk rated 4-6 loans. The Vice President of Lending and the President/CEO shall review portfolio

delinquencies, restructured loans, charge off and other loan monitoring issues and provide regular portfolio reports to the Loan Committee and Board of Directors for discussion, no less than quarterly.

### **3.5. Approval Process**

Loans are approved within assigned loan authorities as described in Section 2.5.

### **3.6. Closing Process**

Once the loan is approved and the borrower has agreed to the terms of the loan commitment, the GFDA lending team ensures that all loan conditions are met as required before and at closing. Loan closing documents are prepared in-house by the lending staff and approved by the Vice President of Lending and the President/CEO prior to closing. Once approved, a closing date is arranged with the borrower. Clear and timely communication is essential so that a sound working relationship is established post-closing.

### **3.7. Perfecting Collateral**

The lending team is responsible for ordering title, pre-UCC search, and other collateral search documentation prior to closing. Post-closing the lending team will send UCC's, mortgages, and trust indentures for public filing and recording. Post-closing, within two business days, the complete loan package is sent to the GFDA loan servicing staff member to follow up on outstanding items needed post-closing.

### **3.8. Disbursal of Loan Proceeds**

The lending team notifies GFDA accounting of the closing date and disbursements are prepared. The VP of Lending and President/CEO approves issuance of the disbursement check(s). The Accountant issues the check according to GFDA procedures. Funds are disbursed at closing via check. In some circumstances, with approval from President/CEO, a wire may be required for disbursement of funds rather than a check. If funds are not fully disbursed at closing, then funds are disbursed through future advances approved by the borrower. This seldom occurs but may happen when full funding is not available at GFDA.

### **3.9. Loan Platforms and Services Used to Support Origination**

GFDA uses various software systems for underwriting, loan document preparation, online loan applications and document uploads.

## 4. PORTFOLIO MANAGEMENT

### 4.1. Loan Management

#### 4.1.1. Collecting and Recording Loan Payments

GFDA loan payments are set up for automated bank fund transfer (also known as ACH), with payments due on the 1st day of each month. In special circumstances, the business may request to schedule payments on a different day of the month or a different payment method. Some older GFDA loans are paid by check. In order to improve operating efficiency, the lending staff is encouraged to have the borrower convert to ACH payments.

#### 4.1.2. Managing Troubled Borrowers

From time to time, borrowers may become delinquent on loan payments. GFDA's lending practice is to work with a borrower that is committed to improving the business and meeting the terms of the loan agreement.

**Watchlist Loans:** The GFDA lending staff maintains a Watchlist of loans for troubled borrowers. This may include past due loans and those whose business has shown financial deterioration, a notable decline in collateral value, economic concern, or other type of drop in credit quality. Watchlist loans are discussed regularly with the President/CEO and GFDA lending staff. Whenever possible, an action plan for monitoring the loan should be established.

#### 4.1.3. Past Due Payment Collection Procedures

When payments are not received on the day the payment is due, a member of the GFDA lending staff contacts the borrower to make a payment arrangement that brings the loan current. When the payment is 10 days late, the borrower may be assessed a late fee per the Loan Agreement. A late fee may be waived at the discretion of the lending staff.

**Returned Payments:** When a client's payment is returned to GFDA for "insufficient funds" or "closed account," the borrower is contacted immediately to deposit sufficient funds. A returned payment fee may be assessed per the Loan Agreement or waived at the discretion of the lending staff.

A loan default occurs when the borrower fails to make a regularly scheduled payment by the due date. For reporting purposes, delinquencies are recorded after one payment cycle of the loan period is missed (i.e., 30 days for a monthly payment). A loan remains delinquent until the past due amount has been paid and the account is brought current. To help the borrower, GFDA may agree to a loan modification, debt restructure, and/or a workout agreement.

#### **4.1.4. Debt Modifications**

Modifications are defined as a change in payment terms and a restructuring of the loan. Modifications may amend the loan term, interest rate, payment amount, and/or payment due date. The Debt Modification Agreements are approved by the President/CEO and Loan Officer. If the modification represents a significant change in loan terms, then the President/CEO will obtain approval from the GFDA Loan Committee.

When a Debt Modification is requested, the Loan Officer reviews the loan file for completeness and collects the following from the borrower:

- Current business financial statements  
  
Updated personal financial statements and tax returns for all owners and guarantors
- Evidence of current insurance coverage  
  
Determine status of all taxes due (income, real estate, personal property, sales - if applicable, etc.)
- Other relevant information about the business and owner.

The Loan Officer uses this information to determine a repayment plan and loan structure for the Debt Modification that is manageable for the business. To help the owner develop a turnaround strategy, the Loan Officer may require the borrower to meet with an SBDC Small Business Advisor or equivalent business counselor.

Debt Modifications are generally not approved until the loan file is up to date. Any modification of the loan should be consistent with GFDA loan policy. Increased frequency of financial reporting from the borrower to GFDA may be recommended in order to better monitor ongoing financial performance.

Once approved, the client signs a written Debt Modification Agreement that describes the new loan term and payment structure. A Debt Modification fee may be charged.

#### **4.1.5. Nonaccrual Loans**

Loans delinquent 90 days or more may be placed on nonaccrual status subject to approval by the President/CEO. All accrued interest outstanding is charged off at the time the loan is put on nonaccrual. Loans on nonaccrual are reviewed on a weekly basis by the President/CEO to determine if the financial circumstances have improved.

The President/CEO may decide not to place a loan on nonaccrual if the borrower agrees to a workout plan, provides additional collateral, adds a guarantor and/or other circumstances that improve the creditworthiness of the loan.

#### **4.1.6. Loan Charge Offs**

In general, loans should be charged off when more than 120 days past due. At the same time, GFDA loan staff may continue to work with the past due borrower to recover part or all of the outstanding balance. The decision of when to charge off a loan will be on a case-by-case basis depending on GFDA staff discretion and the approval of the President/CEO. A loan is considered for charge off when one or more of the following occurs:

- A demonstrated inability to repay the loan
- Evidence of insolvency, fraud, and/or bankruptcy
- Owner refusal to pay or cooperate with GFDA
- Substantial deterioration and/or loss of collateral
- GFDA determination that the loan cannot be fully collected

On a quarterly basis, all loans in default are reviewed by the GFDA lending staff and an estimate of the likely loan loss is determined with a recommendation to charge off that amount. The recommendation to charge off a loan is documented by the assigned Loan Officer, reviewed with the lending staff, and approved by the President/CEO.

The President/CEO may charge off any loan not 120 days past due if the loan is determined to be uncollectible. All non-accruals and charge off loans are reported to the Loan Committee and the Board of Directors at the next regular meeting.

GFDA works diligently to recover loan losses from charged off loans through liquidation of collateral and/or appropriate loan guarantees. Repossession, liquidation, foreclosure, and other legal actions are the last source of repayment and begin immediately when a loan is in default and all other options to collect have failed. Every reasonable effort is made to recover monies owed by the borrower to GFDA. Repossession and legal actions are pursued in consultation with GFDA legal counsel and in accordance with state statutes that allow for the maximum protection of GFDA capital and the interest of affected parties.

## **4.2.Risk Management**

### **4.2.1. Loan Portfolio Reporting**

GFDA shall engage in regular review of its risk exposure and report both internally and to the Loan Committee and Board of Directors. The following information will be prepared by GFDA lending staff:

- List of any loans closed, modified or extended that are handled through the internal approval process. This list will be ratified and become a part of the minutes of the regular Loan Committee.
- Any exceptions to the Loan Policy
- Any changes in loan ratings
- Any loans charged off
- Risk Rating summary of all loans
- Any concentrations of credit, either by customer or by industry sector
- Problem and Watch loan list for all loans
- Update of impact measures: jobs created or saved, increased income, etc.

The GFDA Board of Directors will receive the following reports at least quarterly:

- All loans closed
- Any exceptions to loan policy that change GFDA's financial position or security
- Any changes in loan ratings where the loan balance becomes doubtful
- Any loans charged off
- Risk Rating summary of all loans
- Any concentrations of credit, either by customer or by industry sector
- Problem and Watch loan list for all loans
- Update of impact measures: jobs created or saved, increased income, etc.
- Any proposed changes to the Lending Policies or their appendices initiated by the Loan Committee.

#### **4.2.2. Legal Issues**

GFDA retains legal counsel as needed to assist with loan documentation, resolving issues, collections, or taking action against a borrower.

#### **4.2.3. Lender Liability**

Actions for which lenders can be held accountable include, but are not limited to:

- Failure to fund pursuant to commitment
- Improperly demanding payment of a note, or improperly accelerating a term note
- Bad faith implementation of the terms of a loan agreement, i.e., seizure of collateral under circumstances which in the past were considered routine

- Enforcing the terms of an agreement that the lender previously waived routinely
- Suggesting (threatening) taking action against a borrower without intention to do so
- Exercising control over a borrower's operations, or interfering with business decisions
- Supplying misleading or improper business or credit information to a third party who is contemplating doing business with the borrower

GFDA's lending staff members do not offer business counseling, TA, or pro forma/cash flow preparation for clients. If a client requires business assistance, GFDA lending staff refers the client to an SBDC Small Business Advisor or the equivalent.

#### **4.2.4. Equal Credit Opportunity Act**

The Federal Equal Opportunity Act prohibits creditors from discriminating against credit applicants on the basis of race, creed, color, religion, national origin, sex, sexual orientation, age, disability, or any political or union affiliation because all or part of the applicant's income derives from any public assistance program; or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act. The Federal agency that administers compliance with this law concerning this creditor is The Federal Trade Commission (FTC). Visit [www.ftc.gov](http://www.ftc.gov) for more information. The GFDA policy is to be in compliance with these regulations.

#### **4.2.5. Confidentiality**

Loan files are confidential between lender and borrower. No information from any borrower's file may be discussed, disseminated, distributed, or in any way released from a file to an outside entity or individual unless the borrower has specifically authorized its release. GFDA's loan application includes an authorization from the borrower that allows GFDA to release all information on business and individual applicants to bankers and other economic development agencies who are directly involved in the financing package.

GFDA maintains systems that ensure secure and confidential client information.

Loan Officers may discuss credit reports, and other findings from the underwriting process with clients; however, GFDA does not release the Credit Memo, underwriting materials, or credit reports to borrowers.

GFDA may request approval from the borrower to use the name of the business and owner to promote and market GFDA programs. In order to document the business approval, the following language is to be included in the borrower's loan commitment letter:

"Borrower shall allow lender to publicize the commitment and loan closing."

#### **4.2.6. Conflict of Interest**

At the Loan Committee meeting, committee members must declare any conflict or potential conflict of interest related to a loan being considered. Conflicts of Interest may include, but are not limited to situations in which the committee member:

- Has a potential benefit to themselves or entities in which the committee member holds an interest
- Is an employee of the borrower or receives financial compensation from the borrower
- Works for an organization that receives financial compensation from the borrower
- Has a material financial interest in the transaction
- Has personally been employed by a business that has approved or denied the loan package
- Has a material or financial interest that competes with the borrower
- Is a close personal friend or relative of the borrower

Once a potential conflict has been declared the committee member is excused from voting.

For additional questions and clarifications, please refer to the GFDA Conflict of Interest policy.

#### **4.2.7. Loan Review**

The primary function of Loan Review is to reduce loan losses and help business clients succeed. The secondary purpose is to make sure that the GFDA Loan Loss Allowance is adequately funded to protect the organization in the event of substantial loan write-offs.

The GFDA lending staff has the risk management responsibility for reviewing overall credit quality through an ongoing Loan Review process. A Loan Review process is used to ensure risk ratings, potential credit problems, and recommended increases in loan allowances properly reflect the credit quality for each loan. The President/CEO has the responsibility for approving Loan Loss Allowance amounts, monitoring portfolio asset quality, and participating in Loan Review.

The Loan Review Process: The Loan Review for each borrower is conducted at least annually. The Loan Officer completes the Loan Review for his/her loan accounts and documents the credit file with a detailed description of the date, location, attendees, business status, financial results, and other pertinent information. The following should be completed as part of the Loan Review:

- Annual onsite visit. Visitation schedule to follow:
  - New loans: Between 30 and 90 days of the loan closing
  - Existing loans: Onsite visit completed annually
- Financial review
  - New loans: As determined by the Loan Officer
  - Existing loans: Annual
- Loan monitoring requirements as determined by the loan documents and the Loan Officer
- Loan credit file review
  - Conducted annually by the Loan Officer
  - Review for current financial information including tax returns, personal financial statements, and any other items required to financially monitor the loan.
- Document review
  - Conducted annually by the GFDA lending staff
  - Review for current UCC filings and renewals, lien filings, insurance, title policies, deeds of trust, mortgages, organizational papers, name change documents, and any other items needed to ensure proper documentation and continued lien coverage.

#### **4.2.8. Overall Portfolio Management**

GFDA's President/CEO oversees the Loan Portfolio and monitors it for mission performance, adherence to loan policy, financial performance, and strategic direction as set by the Board. The President/CEO and Vice President of Lending are responsible for reporting to the Board on the financial health and performance of the portfolio.

**Net Assets and Loan Loss Allowance:** As part of responsible loan portfolio management, GFDA sets equity and reserve guidelines to ensure it remains financially sound. In the event of a substantial deterioration in loan credit quality, GFDA has established a minimum amount of loan fund equity to be maintained along with reserving adequately for potential loan losses. Three key standards to be met are as follows:

- Net Assets: A minimum loan portfolio equity level of 20% will be maintained. Equity is defined as permanently restricted net assets for lending, unrestricted net assets, and change in net assets.
- Loan Loss Allowance: GFDA will maintain an allowance of at least six (6) percent of total loan receivables to reflect the assessment of the Actual Loan Risk, or specific loan capital funder requirements, whichever is greater.
- Loan Loss Cash Reserves: GFDA will maintain cash reserves as may be required by individual funders and GFDA assessment of portfolio risk for borrowed loan capital, whichever is greater.

#### **4.2.9. Mission Performance & Reporting**

Mission performance is measured through impact monitoring and reporting. Impact tracking may include community development targets and outcomes set by GFDA and/or funders. The following lists key tracking metrics used by GFDA to measure impact:

- Job creation and retention
- Job quality and increased income
- Amount of additional loans and investment leveraged
- New business starts
- Number of women- and minority-owned businesses
- Number of low income-owned businesses
- Number of housing units created

GFDA periodically reviews and refines these impact measures to ensure that mission performance and funder requirements are being met.

#### **4.2.10. Loan Policy and Appendix Revisions**

The GFDA Loan Policy is periodically updated and revised to reflect actual practices within the organization, best practices in the industry, and changes in market needs. GFDA staff review and revise policies at least every three years. Changes may be made more frequently if deemed necessary by the staff, Board of Directors, or Loan Committee.

These policies require the approval of the GFDA Board of Directors. The lending staff submits policy revisions to the President/CEO and Loan Committee for review prior to Board approval.

Minor policy changes, known as amendments, may be approved by the Board of Directors based on recommendations by the lending staff and President/CEO. These amendments are approved as needed without requiring a review of the entire policy document. The date of the Board approval for the amendment is noted and, then during the next full document review, the amendment is incorporated into loan policy.

An Appendix section follows with Exhibits that may be periodically updated by the lending staff and President/CEO to reflect current policy and program information without the need for Board approval. Any major changes are reported to the Loan Committee and to the Board of Directors. These changes do not require Board approval.

# **Appendix**

**Appendix A: Target Market Verification Policy**

**Appendix B: GFDA Loan Funds**

**Appendix C:GFDA Loan Application**

**Appendix D: GFDA Sample Credit Memo**

## Appendix A

### TARGET MARKET VERIFICATION POLICY

Great Falls Development Authority, Inc.'s (GFDA) CDFI-certified Target Market is:

- Pre-qualified Investment Area (IA) census tracts (i.e. all IA-qualified tracts)

#### **Pre-Qualified Investment Area (IA) Census Tracts TM Verification**

Per CDFI guidance, an investment is considered IA TM directed if it meets the following criteria:

1. **Individual:** At least 50% of the individuals named as recipients in the Financial Product and/or Financial Services transaction agreement are assessed as having a primary place of residence in a qualified census tract.
2. **For-Profit Entity:** If all parties named as recipients in the Financial Product and/or Financial Services transaction agreement are for-profit entities that are wholly owned by one or more individuals (i.e., are not owned in whole or in part by another entity) and are not tax exempt, at least 50% of the owners' business locations are located in qualified census tracts.
3. **Non-Profit Entity:** If all parties named as recipients in the Financial Product and/or Financial Services transaction agreement are tax exempt:
  - a. At least 50% of locations for the project or service must be located in a qualified census tract; or
  - b. At least 50% of end-users of a project or service must reside in a qualified census tract.

For individual borrowers, GFDA has implemented the following procedures to determine if a loan is IA TM directed, in line with the Fund's pre-approved **IA.1** TM verification methodology.

Using CDFI Funds CIMS mapping system, GFDA will determine if the primary place of residence for individual borrower(s), as assessed via a government-issued (including Tribal government) photo identification or an allowable document showing proof of primary residence, is in a qualified census tract.

1. The loan application form will request the primary residential address for each individual named as a recipient in the loan agreement.
  - a. All individuals named as recipients of the Financial Product will be counted as separate individuals when determining the overall percentage of those that qualify, even if they are part of the same family, household or entity.

- b. If the Financial Product is for a home purchase, and the new home will be the Financial Product consumer's primary place of residence, the new home address will be used to determine if the homebuyer resides in a qualified census tract.
- c. For a student loan, the address is the primary residence of the borrower, which could be on- or off-campus.

2. The loan package will require acceptable residence documentation in order to confirm the primary residence that was reported on the loan application form for each recipient named in the loan agreement. Acceptable residence documentation includes: driver's license, utility bill, or other documentation on a case-by-case basis.

3. Once primary residence address is confirmed, GFDA will use the CDFI CIMS mapping system to determine if the primary place of residence is in a qualified census tract. If at least 50% of the individuals named in the loan agreement reside in qualified tracts, the loan will be determined to be IA-Target Market directed.

4. The result of this analysis, including FIPS code of the primary residence(s), will be recorded in the applicant file and tracking database for ease of tracking and reporting.

For business borrowers, GFDA has implemented the following procedures to determine if a loan is IA TM directed, in line with the Fund's pre-approved **IA.2** TM verification methodology.

Using the CDFI Fund's CIMS mapping system, GFDA will determine if the geocoded address(es) of the business's locations (i.e. **where the financing is actually or specifically intended to be used**) is in a qualified census tract.

1. The loan application form will request the address of all business locations for the business which the financing proceeds are intended to be used in the loan agreement. (Addresses used for collateral should not be counted as business locations unless those addresses are an actual location for the relevant entity.)

2. The loan package will require acceptable business location documentation in order to confirm the business location(s) that were reported on the loan application form. Acceptable business location documentation includes: business license, utility bill, or other documentation on a case-by-case basis.

- a. **If the Financial Product is provided for pre-development, the financing entity should geocode the known location of where the facility is to be built.** If the location has not yet been determined, the transaction cannot be assessed as in an IA.

3. Once business location addresses are confirmed, GFDA will use the CDFI CIMS mapping system to determine if each business location is in a qualified census tract.

If at least 50% of the business's locations are in qualified tracts, the loan will be determined to be IA-Target Market directed.

4. The result of this analysis, including FIPS codes of the business location(s), will be recorded in the applicant file and tracking database for ease of tracking and reporting.

For nonprofits, in order to verify that at least 50% of a non-profit's locations for the project or service funded with the loan are located in a qualified census tract, GFDA has implemented the following procedures to determine if a loan is IA TM directed, in line with the Fund's pre-approved **IA.2** TM verification methodology.

Using the CDFI Fund's CIMS mapping system, GFDA will determine if the geocoded address(es) of the non-profits locations (i.e. where the financing is actually or specifically intended to be used) is in a qualified census tract.

1. The loan application form will request the address of locations for the non-profit which the financing proceeds are intended to be used in the loan agreement.

2. The loan package will require acceptable project location documentation in order to confirm the location(s) that were reported on the loan application form.

Acceptable project location documentation includes: x, y, z depending on type of project.

- a. If the loan is intended for working capital for the nonprofit, the locations would include all nonprofit office/facility locations.
- b. If the loan is a real-estate acquisition or development loan, the locations would include where the project is
- c. If the Financial Product is provided for pre-development, the financing entity should geocode the known location of where the facility is to be built. If the location has not yet been determined, the transaction cannot be assessed as in an IA.

3. Once the location addresses are confirmed, GFDA will use the CDFI CIMS mapping system to determine if each business location is in a qualified census tract. If at least 50% of the business's locations are in qualified tracts, the loan will be determined to be IA-Target Market directed.

4. The result of this analysis, including FIPS codes of the business location(s), will be recorded in the applicant file and tracking database for ease of tracking and reporting.

### **Compliance Responsibility**

Loan Officer will be responsible for monitoring compliance with this policy.

### **Records Retention**

All documentation and records pertaining to the TM verification process will be retained with the applicant file for a minimum of 5 years.

## **Appendix B**

### **GFDA Loan Funds**

Great Falls Development Authority, Inc.'s (GFDA) creates new Revolving Loan Funds (RLF's) driven by client needs and loan capital funding opportunities. Current revolving loan funds are:

#### **SSBCI 2.0**

GFDA operates a State Small Business Credit Initiative (SSBCI) RLF under an agreement with the Montana Department of Commerce (MDOC). The Montana SSBCI 2.0 program is a 1:1 loan participation product that supports business startups, expansions, and attractions.

#### **USDA MPILP 1 & 2**

GFDA operates two Meat Processing Intermediary Relending Program (MPILP) RLF's under agreements with the United States Department of Agriculture (USDA). The MPILP RLF provides gap and bridge financing for meat processing startups, expansions, and attractions. Revolved funds can be used to support businesses involved in meat processing and other eligible food processing operations.

#### **USDA IRP 1**

GFDA operates an Intermediary Relending Program (IRP) RLF under an agreement with the United States Department of Agriculture (USDA). The IRP RLF provides gap and bridge financing for business startups, expansions, and attractions located in eligible rural areas.

#### **EDA Defederalized**

GFDA operates a defederalized RLF under an agreement with the U.S. Economic Development Administration (EDA). The Defederalized EDA RLF provides gap and bridge financing for business startups, expansions, and attractions.

#### **Cascade County CDBG**

GFDA operates a Community Development Block Grant (CDBG) RLF under an agreement with Cascade County. The Cascade County CDBG RLF provides gap and bridge financing for business startups, expansions, and attractions.

#### **EDA COVID**

GFDA operates a COVID RLF under an agreement with the U.S. Economic Development Administration (EDA). The COVID EDA RLF provides gap and bridge financing for business startups, expansions, and attractions.

#### **EPA Brownfields 1 & 2**

GFDA operates two Brownfields RLF's under agreements with the U.S. Environmental Protection Agency (EPA). The Brownfields RLF's provide financing for

eligible hazardous material clean-up expenses related to redevelopment of properties.

**Downtown Great Falls RLF**

GFDA operates a Downtown Great Falls RLF under an agreement with the City of Great Falls. The Downtown GF RLF provides financing to support construction and renovation of properties in eligible downtown Great Falls areas.

**MicroBusiness RLF**

GFDA operates a MicroBusiness RLF under an agreement with the Montana Department of Commerce (MDOC). The MicroBusiness RLF provides financing to support eligible microbusinesses.

**Big Sky Economic Development Program RLF**

GFDA operates a Big Sky Economic Development Program RLF under an agreement with the Montana Department of Commerce (MDOC). The Big Sky RLF provides gap and bridge financing for business startups, expansions, and attractions.

**Enterprise RLF**

GFDA operates an Enterprise RLF using loan capital secured from a variety of sources. The Enterprise RLF provides gap and bridge financing for a wide variety of borrowers undertaking businesses, real estate development, non-profit services, and other activities that support the achievement of GFDA's mission and strategic priorities.