CHART 5.1 ANTICIPATING AND ACCOUNTING FOR CREDIT LOSSES

EXAMPLE

Loss progression	Total Loans Outstanding	Beginning Loss Reserve	Delinquent Loans 30-120 Days	Delinquent Loans 120 + Days	Provision for Losses	Gross Charge-offs	Recoveries	Ending Loss Reserve	Modifications and Restructures
Dollar Value	$100,000,000	$2,000,000	$5,000,000	$750,000	$600,000	$500,000	$200,000	$2,300,000	$1,250,000
Percentage to Total Loans		2.00%	5.00%	0.75%	0.60%	0.50%	0.20%	2.30%	1.25%

Beginning Loss Reserve	The loss reserve is a non-cash deduction that reflects ratings on specific loans or actual experience on types of loans. Some lenders also add a general allocation on top of this to allow for unforeseen events. All lenders should have lending policies and rating systems for segmenting the level of risk on each loan as it is booked, and also as it is reviewed over time.
Delinquent Loans	If a payment is delinquent then the whole loan is delinquent -- not just the payment. At 120 days, loans cease accruing interest and are written down to their expected liquidation value.
Modifications and Restructures	Small business lending involves a high level of modification due to the volatility of business. Modifications are the norm. However, some lenders modify delinquent loans to avoid having them go 120 days delinquent and charging them off or writing them down. This has been a major source of misrepresentation over the years.
Charge-offs	This is the amount that management loses each year on the loans that have gone bad. It is a non-cash item that rarely shows up on the financials. It represents the amount of principal that is lost on a loan -- which on unsecured small business loans can often be in the 90-100% range.
Provision for Losses	This is a non-cash expense that management uses to cover Charge-offs and build the loss reserve. It is deducted on the Operating Statement and reduces profits. It should be significantly greater than the Charge-offs: 1.5x is a good rule of thumb. Lenders in trouble often understate the Provision.
Ending Loss Reserve	The ending loss reserve = Beginning Loss Reserve plus the Provision and the Recoveries minus the Charge-offs.

CHART 5.2 T-ACCOUNTS FOR THE LOSS RESERVE

We fully charge-off a $1mm loan

We make a provision for losses of $1.5mm to cover the loan plus any others we think may occur

We recover $200,000 on the bad loan by crediting the Loss Reserve and Debiting the Loans

We put the recovery back in our cash account by crediting our loans and debiting cash

Cash

$10,000,000	
$200,000	
$10,200,000	

Loans

$100,000,000	
$200,000	$1,000,000
	$200,000
$99,000,000	

Loss Reserve (Allowance for Losses)

	$5,000,000
$1,000,000	$1,500,000
	$200,000
	$5,700,000

Deposits

	$98,000,000
	$98,000,000

Equity

	$7,000,000
$1,500,000	
	$5,500,000

Beginning Assets	$105,000,000	Beginning Liabilities and Equity	$105,000,000
Ending Assets	$103,500,000	Ending Liabilities and Equity	$103,500,000

CHART 5.3 EXAMPLES OF DIFFERENT KINDS OF LENDERS

The Summary Expenses of Lending 2014	Large Bank	Small Bank	Credit Union	Finance Company	Online Lender	Credit Card Company	CDFI Non-profit Lender	State HFA
	(000's)							
Total Assets	$1,687,155,000	$6,760,879	$5,831,677	$47,880,000	$792,362	$159,103,000	$38,718	$5,306,000
Gross Income (Revenues) to Assets	5.00%	4.47%	3.40%	7.57%	19.95%	22.56%	31.90%	6.01%
Interest Expense to Assets	0.24%	0.28%	0.68%	2.27%	2.17%	1.07%	0.98%	2.85%
Operating Expense to Assets	2.91%	2.33%	2.08%	3.67%	10.16%	14.55%	23.52%	2.00%
Loss Expense to Assets	0.08%	0.27%	0.09%	0.21%	8.51%	1.28%	2.85%	0.05%
Total Expenses	3.23%	2.88%	2.85%	6.15%	20.84%	16.91%	27.35%	4.89%
Net Profit After Tax to Assets	**1.37%**	1.85%	**0.58%**	**1.42%**	**-2.36%**	**3.70%**	**7.50%**	**1.00%**
Total Equity	$185,262,000	$946,188	$490,222	$9,063,000	$310,605	$20,673,000	$15,885	$1,112,000
Ratio of Capital to Assets	10.98%	14.00%	8.41%	18.93%	39.20%	12.99%	41.03%	20.96%
Return on Equity/Subsidy	12.45%	13.22%	6.89%	7.51%	-6.02%	28.47%	18.28%	4.77%
Total Loans	$824,997,000	$5,074,883	$3,265,738	$19,148,000	$454,303	$70,104,000	$22,745	$3,379,000
Delinquency Rate	3.84%	1.14%	1.20%	0.16%	13.18%	1.87%	1.79%	0.34%
High Stock Price	$55.95	$69.99		$52.15	$27.98	$96.24		
Average Stock Price	$54.77	$37.45		$47.17	$23.71	$89.79		
Low Stock Price	$44.17	$30.59	NA	$41.86	$22.43	$78.41	NA	NA
Dividends per share	$0.35	$0.11		$0.15		$0.25		
Dividend payout (annual)	$1.35	$0.45		$0.55		$1.01		
EPS	$4.12	$1.52		$5.96	($0.60)	$5.56		

Note: due to the need to simplify, the NPAT is not intended to reconcile to Revenues minus Total Expenses

Went public in 2014: 700% TA growth in 3 yrs

(The revenue includes $7.1mm in grants)

CHART 5.4a Commercial Banks with Assets Greater than $3 Billion (EOY)	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Earnings and Profitability											
Percent of Average Assets:											
Interest Income (TE)	5.15	5.95	6.17	5.25	4.36	4.14	4.03	3.81	3.61	3.52	3.44
- Interest Expense	1.87	2.7	2.95	2.05	1.29	0.85	0.63	0.46	0.36	0.3	0.29
Net Interest Income (TE)	3.27	3.24	3.19	3.12	3.02	3.25	3.37	3.33	3.22	3.19	3.12
+ Noninterest Income	1.52	1.29	1.25	1.16	1.38	1.25	1.13	1.13	1.05	1.01	1.02
- Noninterest Expense	2.74	2.57	2.67	2.94	2.84	2.81	2.8	2.75	2.73	2.65	2.55
- Provision: Loan & Lease Losses	0.14	0.13	0.3	1.17	1.72	1.03	0.47	0.32	0.14	0.11	0.12
Pretax Operating Income (TE)	1.98	1.92	1.54	0.24	-0.08	0.75	1.25	1.42	1.44	1.46	1.48
+ Realized Gains/Losses Sec	0	-0.01	-0.02	-0.11	0.02	0.04	0.05	0.04	0.02	0.01	0.01
Pretax Net Operating Income (TE)	1.97	1.9	1.5	-0.06	-0.12	0.8	1.3	1.47	1.46	1.47	1.49
Net Operating Income	1.28	1.24	0.98	-0.16	-0.21	0.5	0.89	1.03	1.02	0.98	1
Adjusted Net Operating Income	1.29	1.25	1.09	0.37	0.21	0.43	0.73	0.96	0.97	0.98	1.04
Net Inc Attrib to Min Ints	0	0	0	0	0	0	0	0	0	0	0
Net Income Adjusted Sub $	1.29	1.24	0.97	-0.16	-0.24	0.49	0.87	1.02	1	0.97	0.98
Net Income	1.29	1.24	0.97	-0.16	-0.23	0.49	0.89	1.03	1.02	0.98	1
Margin Analysis:											
Avg Earning Assets to Avg Assets	91.71	91.8	91.56	91.87	92.29	91.54	91.56	91.93	92.12	92.37	92.82
Avg Int-Bearing Funds to Avg Assets	80.76	81.56	81.55	81.96	81.2	80.23	78.7	77.77	77.48	77.35	77.84
Int Inc (TE) to Avg Earn Assets	5.64	6.5	6.75	5.73	4.75	4.54	4.42	4.15	3.92	3.83	3.71
Int Expense to Avg Earn Assets	2.05	2.96	3.24	2.24	1.4	0.93	0.69	0.5	0.39	0.33	0.31
Net Int Inc-TE to Avg Earn Assets	3.58	3.54	3.5	3.42	3.29	3.57	3.69	3.63	3.5	3.47	3.37
Liquidity											
Net Non Core Fund Dep New $250M	34.76	36.22	35.89	38.85	30.19	17.19	15.13	11.68	12.88	12.87	13.95
Net Loans & Leases to Assets	62.21	63.97	65.44	65.86	62.88	60.5	60.44	60.84	63.51	65.02	66.74
Capitalization											
Tier One Leverage Capital	7.84	8.19	8.07	8.22	8.69	9.17	9.63	9.76	9.87	9.83	9.78
Cash Dividends to Net Income	46.63	47.54	62.22	35.46	20.41	21.49	29.61	46.39	42.16	41.19	41.12
Retained Earnings to Avg Total Equity	6.33	5.66	2.05	-6.09	-5.31	1.28	4.03	3.55	4.29	4.32	4.62

CHART 5.4b Commercial Banks with Assets Greater than $3 Billion (EOY)	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Growth Rates											
Total Assets	13.04	12.56	12.25	11.35	4.24	2.89	7.99	7.71	6.13	11.72	10.86
Tier One Capital	12.74	14.04	9.15	12.3	9.53	9.64	11.21	7.3	7.87	11.51	11.29
Net Loans & Leases	16.04	13.52	14.03	9.12	-1.24	0.89	8.68	9.08	9.66	15.41	13.48
Short Term Investments	56.84	160.11	39.5	90.47	218.88	62.93	26.18	23.68	6.34	23.67	18.29
Short Term Non Core Funding	21.6	23.11	23.37	15.86	-14.16	-13.31	-23.67	-2.47	11.23	20.03	18.4
Average Total Assets	6,744,940,461	7,531,338,722	8,366,510,342	9,419,492,066	9,660,121,198	9,631,860,126	9,997,715,097	10,668,789,465	11,099,607,468	11,827,707,942	12,587,032,977
Total Equity Capital	666,625,345	753,827,513	856,014,892	870,050,258	1,007,684,322	1,059,703,186	1,142,197,861	1,224,089,373	1,265,631,474	1,365,176,213	1,429,366,369
Net Income	83,728,807	92,099,239	66,149,081	3,088,010	14,612,209	61,638,174	82,441,902	99,660,156	110,870,155	113,014,498	124,289,604
Number of banks in Peer Group	181	183	188	188	181	174	180	190	201	223	228
Percent of Average Assets											
Personnel Expense	1.35	1.28	1.28	1.22	1.18	1.23	1.3	1.32	1.32	1.3	1.29
Occupancy Expense	0.36	0.34	0.35	0.34	0.33	0.33	0.34	0.33	0.33	0.32	0.31
Other Oper Exp (Incl Intangibles)	1	0.91	1	1.3	1.24	1.18	1.13	1.07	1.02	0.99	0.89
Total Overhead Expense	2.74	2.57	2.67	2.94	2.84	2.81	2.8	2.75	2.73	2.65	2.55
Overhead Less Nonint Inc	1.15	1.2	1.36	1.63	1.35	1.43	1.62	1.57	1.61	1.59	1.49
Other Income & Expense Ratios:											
Efficiency Ratio	56.15	55.97	58.44	65.64	64.97	61.73	62.94	61.55	63.01	62.46	60.92
Avg Personnel Exp Per Empl ($000)	67.27	72.1	72.23	74.07	76.11	79.9	81.78	86.81	89.52	90.36	94.68
Assets Per Employee ($Million)	6.01	7.88	7.52	9.42	12.44	10.1	9.36	9.41	9.08	8.82	9.19

CHART 5.5 THE CHIEF FOCUS AND RELATED STRATEGIES

The ROE Equation

A top priority in most businesses is the Return on Equity. It is a particular focus in the lending business where the margins are thin and the competition is intense, regulation is high and the margins are so small. Minor policy or product changes can have a major impact on the bottom line and the returns to shareholders.

ROE	=	LEVERAGE	X	PROFITABILITY	X	ASSET TURNOVER
$\frac{\text{Net Profit}}{\text{Net Worth}}$	=	$\frac{\text{Total Assets}}{\text{Net Worth}}$	X	$\frac{\text{Net Profit}}{\text{Revenues}}$	X	$\frac{\text{Revenues}}{\text{Total Assets}}$

THE ROE	All for-profits must focus first and foremost on the Return On Equity equation. Their investors require it.
THE THREE RATIOS	There are three main ways to increase the Return on Equity: (i) increase leverage; (ii) increase profit margins; and (iii) increase the speed of asset turnover.
LEVERAGE	Because regulated depositories are constrained by capital requirements, they can only go so far in increasing leverage.
PROFITABILITY	Because lending is a highly competitive -- as well as largely regulated -- market, banks also have difficulty boosting profitability: when one bank innovates, cuts costs, or takes higher credit risk to boost near term ROE, the others tend to follow suit quickly.
ASSET TURNOVER	Increasing the speed of asset turnover is the easiest option, and tends to have the highest impact. It was one of the drivers of the 2008 debt crisis. A good way to use this ratio is to turn it into a true Asset Turnover ratio: divide Total Assets by Revenues. The result can be used to estimate the number of years that the assets must stay on the balance sheet in order to generate an equal amount of revenue. The longer the stay, the lower the ROE; and the shorter the stay, the higher the ROE (all things being equal).

	ROE	LEVERAGE	PROFITABILITY	ASSET TURNOVER
Large Bank	12.45%	9.11	27.34%	2.57%
Small Bank	13.22%	7.15	41.40%	4.47%
Credit Union	6.89%	11.90	17.05%	3.40%
Finance Company	7.51%	5.28	18.78%	7.57%
Online Lender	-6.02%	2.55	-11.84%	19.95%
Credit Card Company	28.47%	7.70	16.40%	22.56%
Non-Profit	18.28%	2.44	23.50%	31.90%
State Housing Finance Agency	4.77%	4.77	16.61%	6.01%

CHART 5.6 A SUCCESSFUL AGENCY SOLUTION: THE SBA'S PARRIS SYSTEM FOR PARTICIPATING LENDERS

"P" - Portfolio Performance	Degree of financial risk to SBA that a Lender presents considering overall portfolio performance indicators and attributes.
5 year cumulative net yield	cumulative net cash flow divided by the SBA guaranteed portion
12 month default rate	default amount over last 12 months divided by the average balance plus the default amount over 12 months
5 year default rate	default amount over the last 5 years divided by the average balance plus the default amount over 5 years
"A" - Asset Management	Quality of the origination, servicing and liquidation practices in the Lender's SBA operation. This component also includes an assessment of the effectiveness of the Lender's SBA program management and related risks.
Stressed Rate	Past due 31-59 days, defferred, plus delinquent (60 days or more) divided by balance
Early Problem Loan Rate	Balance for young loans that have been deferred, delinquent, purchased, or liquidated within 18 months of origination
High Risk Origination Rate	Approval amount for young loans (36 or <) that are high risk: SBPS credit score of 160 or less divided by Approval amount for young loans
"R" - Regulatory Compliance	Lender's compliance with SBA Loan Program Requirements.
Loans in default status over 3 years	Balance of loans in default status over 3 years divided by all loans in default
24 Month Repair/Denial Rate	Last 24 months in repair, denial or purchase divided by SBA purchase amount
1502 Reporting Rate	Number of reporting loans divided by total loans in lender's portfolio
"Ri" - Risk Management	Overall institution risk and a Lender's use of an effective governance model to identify, understand, and mitigate risk exposure in its 7(a) portfolio.
FDIC Total Risk Based Capital	FDIC benchmarks
Non-Performing Asset Ratio	Nonperforming assets plus loans 90 or more days past due to equity and reserves
Lender Purchase Rating	Lender rating based on forecasted puchases for the next 12 months
"S" - Special Items	Additional key metrics or items that are not included in the other components but may pose risk to SBA or present program integrity concerns
Average SBPS credit score	Average small business portfolio score (SBPS) weighted by loan balance
Recovery Rate over the last 5 years	Recovery rate (after SBA purchase) for defaulted loans charged off or paid in full over 5 years divided by cumulative default amount for loans charged off or paid in full over last 5 years
Public Corrective Action with Regulator, or no Prudential Regulator	The occurrence of a public corrective action or absence of a prudential regulator

In addition:	**Loan Agent Rate**	**Franchise Concentration**	**Sold on Secondary Market**	**Industry Concentration**	**Acquired Loan Rate**	**Loans > $2mm over last 12 months**

CHART 5.7 THE NEIGHBORWORKS PROMPT FOR NON-PROFIT DEVELOPMENT CORPORATIONS AND CDFIS

CHART 5.7

Production/Program Service

The organization has identified, approved, and implemented program services (lines of business) and production that are consistent with its mission and plans.

The organization’s program services address identified needs of communities or populations served, providing a base to sustain or expand its efforts.

The organization’s staffing, professional service, partnership and board support are sufficient to sustain or expand its production and program service goals and future commitments.

The organization has established an ongoing process to compare current progress and capacity with future expectations and challenges to ensure that services are in place to sustain multi-year obligations.

The organization has implemented policies, procedures and monitoring systems to ensure its programs and service delivery practices are consistent and sufficient to meet commitments to funding sources.

Risks: Attempting services beyond the organization's mission or capacity can lead to wasted resources and lessened cost effectiveness. Services that do not meet partner and funder expectations can lead to dissatisfaction and reduced participation and support.

Resource and Financial Management

The organization has planned for and raised adequate resources to support current year operating and capital needs including cash flow and reserve needs. The financial planning and resource development strategies identify specific objectives, timetables and responsibilities and reflect a goal of achieving a broad base of continuing support.

The organization has sufficient liquid assets and reserves to sustain itself beyond the current year and potentially to expand its activities.

The organization’s resource development process and tools, including digital media strategies, support identification and procurement of necessary resources.

The organization has prepared adequate financial planning and oversight reports and implemented an on-going process to effectively monitor and sustain its resource development progress and financial health.

The organization maintains an established, documented, accounting structure and has financial recordkeeping procedures and practices that provide adequate internal controls, safeguard resources and produce accurate, timely records for operations and program services.

Risks: Unrealistic funding projections, poor strategies and inability to evaluate cash flowrequirements can lead to funding deficits. An organization may jeopardize its viability through inadequate accounting systems and procedures and insufficient staffing, reporting and oversight.

Organizational Management and Board Governance

The board of directors has established and documented a governance model and structure that clearly defines the authority, roles and responsibilities of the board, its committees and executive management in establishing and fulfilling the organization’s mission and safeguarding its resources.

The board utilizes established, documented meeting and reporting practices and demonstrates constructive dialog, timely decision-making and adequate oversight to attain its mission.

The board has established and maintains a diverse, skilled group of volunteers and continuous learning environment with leadership development programs that provide a knowledgeable and actively participating partnership.

The board utilizes a documented process for the annual evaluation of its paid executive leadership in fulfilling defined responsibilities.

The board engages in a self-assessment process periodically to evaluate its capacity and performance in achieving its objectives.

Risks: Insufficient exercise of management and oversight responsibilities could create unnecessary liabilities for the corporation and its members. Inadequate volunteer participation and orientation, and a lack of cyclical staff evaluations and training can lead to ineffective board, committee and staff functioning and excessive turnover.

CHART 5.7 Continued

Management Staffing and Personnel

The organization has established a structure with adequate staff to sustain current programs and support corporate functions. Staff positions and reporting relationships are clearly defined.

The organization has established human resource policies and provides periodic evaluations of its staff in fulfilling clearly defined roles and responsibilities.

Recruitment, development and compensation practices encourage tenure and skill levels needed to achieve future-year commitments and plans.

Staff meeting and reporting practices encourage productive communications and timely, coordinated actions and decisions to sustain the organization’s operations and services.

Risks: Inadequate human resource policies and management practices can cause reduced staff effectiveness, excessive turnover and an inability to meet goals.

Planning

The board, in partnership with senior staff, has established a mission and annual operating/business plan clearly identifying the primary lines of business, goals and needs, with desired outcomes.

The board, in partnership with senior staff, has implemented a process to evaluate the success of its plans. This includes achievement of goals, continued relevance to its community and partners, adequacy of resources and staffing to sustain efforts, and effectiveness of service delivery strategies and approaches.

The organization is encouraged to establish a multi-year strategic plan that identifies its organizational and line of business (service) goals, needs and outcomes.

The organization is encouraged to implement a planning process that involves its board and staff leadership and includes adequate opportunities for input from its partners and stakeholders to ensure an understanding of the community.

Risks: Poorly defined plans and goals that do not provide clarity to board members and staff may lead to inconsistent services, limited impact, and wasted resources. A lack of cyclical planning can reduce consensus and jeopardize the organization's image, resources and effectiveness.

Technical Operating and Compliance Systems

The organization has established service delivery policies, procedures, practices and client management systems to maximize staff service delivery efficiency and coordination and is encouraged to provide annual and multiyear trend analysis.

The organization has established, documented and maintains a contract management system that identifies oversight, documentation and reporting responsibilities to ensure compliance with all contracts and service agreements.

The organization has an established process to review all contracts and agreements prior to their approval to ensure that the obligations and impacts on the organization are clearly understood and appropriately integrated into its business/strategic plans.

The organization’s service delivery procedures, practices, client management systems, documents and records comply with regulations and partner expectations and provide accurate and timely production reporting to key funders.

Risks: A lack of written and approved operating policies and procedures for each major program service component may impede service delivery. Inadequate client management, service delivery and contract management systems can lead to non-conformance with contracts and loss of funding. Failure to identify legal and contract demands can lead to unexpected liabilities and a loss of credibility and funding.

CHART 5.8 RISK INDICATORS FOR A SMALL NON-DEPOSITORY PROGRAM PARTICIPANT (BROKER, MORTGAGE BANKER, ASSET-BASED LENDER)

I. SEGMENTATION OF A SMALL NON-DEPOSITORY LENDER							
Current Status							
Years	Years undewriting product line	< 3	-1	4 to 10	2	> 10	3
Revenues	Total revenues	< $1 mm	0	$1-5mm	1	> 5mm	2
Net Worth	Net Assets	< $200m	-1	$200m-2mm	2	> 2mm	3
Leverage	Total Liabilities to Net Assets	> 8	0	8 to 4	1	< 4	2
Efficiency	Operating Expenses to total Assets	> 10%	-1	10% to 6%	2	< 6%	3
Cost of Funds	Interest Expense to total Assets	> LIBOR + 3	-1	LIBOR +1-3	2	< LIBOR +1	3
Delinquencies	Defaulted loans to total loans	> 8%	-1	8%-4%	2	< 4%	3
Credit Losses	Credit losses to total loans	> 5%	0	5%-3%	1	< 3%	2
Recoveries	Recovery to defaulted principal	< 10%	0	10% to 20%	1	> 20%	2
Liquidity	Loan Repayments to New Loans Made	< 25%	-1	25%-66%	2	< 66%	3
	Total Loans o/s to Loan Repayments	> 4	0	4 To 2	1	< 2	2
Early Warnings							
Growth	Number of deals this year vs previous year	> 150%	-1	150-120%	2	< 120%	3
Deal Size	Largest deal to last year's average deal size	> 150%	0	150-120%	1	< 120%	2
Deal Flow	Number of deals Per Year	< 3	0	3 to 10	1	> 10	2
Staffing	Number of total deals to total staff	> 100	-1	100 to 50	2	< 50	3
Policy Changes	Urgent and/or repeated requests for changes in policy terms	> 10% of volume	-1	10 to 5% of volume	2	< 5% of volume	3
Claims Experience							
	Claims due to poor underwriting	>120% ofAverage	-2	80-120% of Avg	2	< 80% of Avg	8
	Claims due to fraud, carelessness	3	-5	2	5	0	15
Totals for Categorizing Non-Depository Small Lenders			**-16**		**32**		**64**

3 -5 Yr Trend (Comparative) ROE	
Asset Leverage	Total Assets over Net Assets
Return on Sales	Net Income to Total Revenues
Asset Turnover	Total Revenues divided by Total Assets
ROE	Asset Leverage X ROS X Asset Turnover

CHART 5.9 AGENCY PROTOCOLS AND PROCEDURES FOR PARTICIPATING LENDERS WITH DIFFERENT RISK RATINGS

II. LEVEL OF AGENCY MONITORING BASED ON LENDER RISK ASSESSMENT

Protocols

		< 16	16 to 32	> 32
Standard Review	Review of lending activity: volume	Qrtr	Annual	Annual
	Quality of lending performance	Qrtr	Annual	Annual
	Review Audit/Taxes of Lender	Annual	Two Years	Three Years
	Borrower credit scores and data	100%	100%	100%
	Credit Portfolio Management Review	100%	100%	100%
Credit Audit	Performed by Agency	Annual	Three Years	0
	Borrower Samples	10%	2%	0%
	Years for lender trend line analysis	5	3	3
Field Audit	Performed by Agency:	Annual	Three Years	Adverse Event
	Analysis of Transaction Documents	10%	5%	5%
	Due diligence on buyers, shipments, UCC filings	10%	5%	5%

Procedures

Credit PF Mgmt	Segment lender's exposure by type and concentration of risk: type of borrowers, size, location, credit history, NAICs, country of destination, etc.
	Capture trends in lending by portfolio segment
	Forecast activity and level of risk to the portfolio by segment
	Compare with activity of other lenders
Field Audit	Review files, documents (Purchase Order, Invoice, Bill of Lading, Payment Instructions) for accuracy and completeness on designated sample
	Perform due diligence on vendors, buyers, rshipments, receivables, UCC filings
	Evaluate Lender's processes for origination, underwriting, billing, collections, maintaining records, litigation, management depth, finance experience, staff, turnover, governance, IT, reporting
	Reconcile lending activity reports with audit and GL
Credit Audit	Review lender's credit files on designated sample of borrowers: financial data, financial status, credit bureau, credit score, liabilities, pledged collateral, receivables aging, inventory levels, major cash flow items and changes in product line, destinations and/or patterns of shipping
	Analyze lender's performance over the most recent 3-5 year period to include: product summary, evaluation of changes in product line, ROE analysis, cash flow analysis, evaluation of credit lines, collateral, capital, liquidity, asset quality and role and nature of equity holders.

CHART 5.10 GRADUATED REMEDIES FOR PARTICIPATING LENDERS WITH POOR RATINGS

III. EVALUATION TRIGGERS AND REMEDIES

Adverse Events			Agency Response		
		Lender Rating			**#REF!**
1	**20% Change**	**In Lender financial status:** Net Assets (line 3) Efficiency (line 5) Cost of Funds (line 6) Delinquency (line 7) Liquidity (line 10) Rate of Growth (line 11) Staffing (line 14) Policy Changes (line 15)	Accelerate Credit Audit	Accelerate Standard Review	Accelerate Standard Review
2	Fail Credit Audit or Review	Negatives in Section 1 (above) or other items found during Review	Accelerate Field Audit	Accelerate Credit Audit	Accelerate Credit Audit
3	20% Change	Number of Lender Claims due to excessive Credit Risk (line 16)	Accelerate Field Audit	Accelerate Credit Audit	Accelerate Credit Audit
4	20% Change	Number of Lender Claims due to Fraud (line 17)	Cease New Lending Pending Field Audit	Cease New Lending Pending Field Audit	Cease New Lending Pending Field Audit

IV. GRADUATED REMEDIES IN THE EVENT OF UNSATISFACTORY REVIEWS/AUDITS

1 Credit Limits	Reduce the size of the credit limits for the errant borrowers of the lender
	Restrict the credit scores of participating exporters
	Reduce the size of the credit limits for the lender
	Limit the countries of destination
2 Volume	Limit number of deals
	Limit deal size
3 Delegated Authority	Cease delegated authority
4 Pricing	Charge lender higher fees for use of the program
5 Terminate participation	For the earlier of 6 months or cure of problems with the program

5.10 QUICK TRACK OF THE PORTFOLIO TREND AND THE OUTLIERS

5.10a		THIS MONTH		YEAR TO DATE		ANNUAL BUDGET		YTD PRIOR YEAR		ANNUAL PRIOR YEAR		ANNUAL 2ND PRIOR YEAR	
Total Portfolio Risk Trends		Dollar	# or %	Dollar	# or %	Dollar	# or %	Dollar	# or %	Dollar	# or %	Dollar	# or %
New Volume Delinquency													
Percentage Increase (Decrease) over prior period													
Existing Portfolio Delinquency													
Percentage Increase (Decrease) over prior period													
Originator Source: Defaults > 10% of Outstandings													
1													
2													
3													
4													
5													
6													
7													
8													
9													
10													
Originator Source: Defaults > 5% of Outstandings													
1													
2													
3													
4													
5													
6													
7													
8													
9													
10													
Originator Source: Defaults > 2% of Outstandings													
1													
2													
3													
4													
5													
6													
7													
8													
9													
10													

5.10b		THIS MONTH		YEAR TO DATE		ANNUAL BUDGET		YTD PRIOR YEAR		ANNUAL PRIOR YEAR		ANNUAL 2ND PRIOR YEAR	
Bank Source: Top Ten Originator Default Rate													
1													
2													
3													
4													
5													
6													
7													
8													
9													
10													
Broker Source: Top 10 Originators Default Rate													
1													
2													
3													
4													
5													
6													
7													
8													
9													
10													
Other Source: Top 10 Originators Default Rate													
1													
2													
3													
4													
5													

6												
7												
8												
9												
10												