# Revolving Loan Fund Policy

Adopted by the Board of Directors on
November 7, 2024
Resolution 24-19
Revised on May 9, 2025, Resolution 25-10

This edition of the Revolving Loan Fund Policies was adopted by the Board of Directors of Haa Yakaawu Financial Corporation by Resolution No. 25-10, May 9, 2025. This policy replaces the HYFC Loan Origination and Underwriting Policy.

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# 1. STATEMENT OF PURPOSE

The Board of Directors and Management Staff of Haa Yak̲aawu Financial Corporation ("HYFC"), a 501(c)(3) nonprofit Native Community Development Financial Institution (NCDFI), affirm their commitment to serving the financial needs of Native Alaskans and Native Americans across Southeast Alaska and Tlingit and Haida tribal citizens wherever they reside.

HYFC is dedicated to deploying loan capital within its target market to promote economic sovereignty, financial security, and long-term community growth. Credit will be extended for sound and legitimate purposes that align with these goals.

All loans will be underwritten with clearly defined primary and secondary sources of repayment, as well as transparent and appropriate loan terms. Financial information supporting each credit decision will be complete, current, and accurate. HYFC will perform comprehensive credit analyses, including a review of credit history and comparative financial assessments.

Where collateral is required, it must demonstrate reasonable marketability, and its valuation must be conservative or supported by appropriate risk mitigants.

The policies set forth in this document establish the framework under which HYFC operates its Revolving Loan Fund. These policies do not apply to any specially structured loan pools, pilot programs, or alternative financing initiatives that may operate under separate guidelines.

## 1.1. USING THE LOAN POLICIES

All staff members, including the Lending Team, Loan Committee, and Board of Directors are required to read and adhere to the policies outlined in this Loan Policy. Each staff member must sign an acknowledgment confirming that they have read, understood, and agreed to follow these policies.

This Loan Policy serves to communicate HYFC's lending philosophy and establish guidelines to ensure lending practices are safe, sound, and responsive to the needs of our communities. It is not intended to replace the experience, discretion, or sound judgment of the Lending Staff, Loan Committee, or Board of Directors, but rather to support and guide those decisions within a consistent operational framework.

## 1.2. UPDATING THE LOAN POLICIES

HYFC will review loan policies at least annually and update accordingly to formally adopt new loan policy guidelines and tools. If a policy change is necessary prior to an annual review, the HYFC Manager will review and ensure the policy change draft is reviewed and approved by the Board of Directors before any new action is implemented or taken.

## 1.3. DEFINITIONS

**AHFC**
*Alaska Housing Finance Corporation*

**AMI (Area Median Income)**
The midpoint income for a specific geographic area, where half of the households earn more and half earn less. AMI is calculated annually by HUD and used to determine income eligibility for housing and financial assistance programs.

**CDFI (Community Development Financial Institution)**
A specialized financial institution certified by the U.S. Department of the Treasury to provide responsible, affordable lending to help low-income, underserved communities and individuals join the economic mainstream.

**Closing Costs**
Fees and expenses, beyond the loan amount, which are paid at closing. These may include lender fees, title insurance, appraisal fees, recording fees, and escrow deposits.

**Credit Report**
A detailed report provided by a credit bureau that outlines a borrower's credit history, including debts, repayment history, and public records. Used in determining creditworthiness.

**Current Expected Credit Losses (CECL)**
An accounting standard that requires financial institutions to estimate and report the expected losses over the life of a loan. CECL replaces the previous "incurred loss" model and is used to ensure more timely recognition of credit losses.

**Debt-to-Income Ratio (DTI)**
A financial metric calculated by dividing a borrower's total monthly debt payments by gross monthly income. Used to assess a borrower's ability to manage monthly payments and repay debts.

**Deed of Trust**
A legal document used in real estate transactions in which legal title is transferred to a trustee to secure the borrower's obligation under a promissory note.

**Dependent**
A person who resides with the borrower for more than six months of the year and is under the

age of 18, and is in the legal custody of the borrower; or a person whom the borrower may claim as a dependent for federal income tax purposes, excluding:

1. The borrower's spouse; or
2. A child who is in the legal custody of another parent or legal guardian and resides away from the borrower for most of the year.

**Escrow**
A financial arrangement in which a third party holds funds (such as taxes and insurance premiums) until specific conditions are met, typically used in mortgage servicing.

**Fair Market Value (FMV)**
The estimated price a property would sell on the open market, under normal conditions, often determined through appraisal.

**Fixed Interest Rate**
An interest rate remains the same for the entire term of the loan, providing predictable monthly payments.

**Forbearance**
An agreement between a lender and borrower to temporarily pause or reduce mortgage payments due to financial hardship.

**Gross Income**
Gross annual income includes all income earned by all household members over the age of 18 who will occupy the dwelling on a permanent basis, and by the mortgagor's spouse (whether or not residing in the home), unless a legal separation order has been filed.

**Household / Family**
Includes all individuals signing the mortgage note and deed of trust, all other persons over the age of 18 who occupy the dwelling on a permanent or part-time basis, the mortgagor's spouse (regardless of whether they are a borrower), and the mortgagor's dependents who reside in the home on a permanent or part-time basis. Both spouses must execute the Deed of Trust unless the non-signing spouse completes and signs a waiver of homestead rights.

**HUD**
*U.S. Department of Housing and Urban Development* — The federal agency responsible for national policy and programs that address housing needs, enforce fair housing laws, and support community development.

**HYFC**
*Haa Yaḵaawu Financial Corporation*

**Low to Moderate Income**
Defined as 120% or less of the Area Median Family Income (AMFI) as established annually by HUD, adjusted for family size.

**MFI**
*Median Family Income*

**Mortgage Note**
A legal document in which a borrower agrees to repay a loan under specific terms, including interest rate and repayment schedule.

**Pre-qualification / Pre-approval**
An initial assessment by a lender of how much a potential borrower may qualify to borrow, based on financial information provided.

**THRHA**
*Tlingit Haida Regional Housing Authority*

**Title Insurance**
Insurance that protects the lender (and optionally the borrower) against losses from disputes over the ownership of a property.

**Underwriting**
The process of evaluating a loan application to determine the risk of lending money to a borrower, based on income, assets, credit, and collateral.

## 2. VISION, MISSION & VALUES

### Vision
We envision thriving, self-sufficient tribal citizens, and communities in Southeast Alaska.

### Mission
Our mission is to provide financial opportunities for Southeast Alaska communities and to Tlingit and Haida tribal citizens wherever they reside.

### Values
HYFC is grounded in our Tlingit and Haida values:

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| **Committed**: | We are committed to investing in individuals, families, and communities. |
| **Innovative**: | We bring creativity to our collaborations and partnerships. |
| **People-oriented**: | We customize our products and services to meet the needs of our people and their communities. |
| **Trustworthy**: | We respect and treat our people with professionalism and integrity in all that we do. HYFC will fulfill its mission through educational training and technical assistance classes, providing quality loan products, and building strong character relationships with its clientele and overall community. |

## 3. TARGET MARKET

HYFC will primarily provide its financial services to low- to moderate-income native families—defined as those earning less than 120% of the median family income (MFI), residing in southeast Alaska. This includes Tlingit and Haida citizens, both within the region and wherever they may reside. In addition, HYFC will extend lending services to enrolled members of other tribal nations who live within its designated investment area of southeast Alaska. Policy overview and governance

These loan policies are established to ensure that all funds administered through HYFC's approved loan programs are managed responsibly, and that borrowers are set up for successful repayment outcomes. While aligned with the applicable rules, regulations, and standards of individual funding sources, these policies remain grounded in the original mission of HYFC and responsive to the financial needs of Native people within our Target Market.

Any changes to these loan policies must be reviewed and formally approved by the HYFC Board of Directors.

In some cases, loan programs funded by external sources may include specific parameters or requirements that differ from those outlined in this Revolving Loan Policy. In such cases, all program-specific eligibility and compliance criteria must be satisfied prior to loan closing.

HYFC maintains a set of general requirements, terms, and conditions that apply to all loan products. Additional product-specific requirements, terms, and underwriting criteria are outlined in **Section 6** of this Loan Policy.

### 3.1. ELIGIBLE BORROWERS

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| Eligibility | • Southeast Alaskans and Tlingit and Haida Citizens<br>• Must have the legal capacity to incur a loan obligation<br>• Must be 18 years of age<br>• Must be a US Citizen<br>• Must be able to provide valid identification<br>• Must complete the required financial coaching with HYFC specific to loan type<br>• Residential real estate loans must be owner-occupied |
| Judgements, Garnishments, Liens Child Support, Collections | For all Mortgage and Small Business loan products, the following credit obligations must be satisfied in full prior to loan closing:<br>• Federal judgments<br>• Wage garnishments<br>• Tax liens<br>• Delinquent child support |

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| | • Any delinquencies or charge-offs owed to Haa Yak̲aawu Financial Corporation (HYFC) or the Tlingit Haida Regional Housing Authority (THRHA)<br><br>In general, all other unpaid charge-offs and collection accounts are also expected to be resolved prior to closing. However, exceptions may be considered on a case-by-case basis, subject to approval by HYFC's Lending Manager and/or Loan Committee, with appropriate documentation and risk mitigation. |
| Bankruptcy | A bankruptcy must have been discharged fully, and the borrower must have re-established good credit and demonstrated their ability to manage financial affairs. A minimum of 7 years must have elapsed between the discharge of bankruptcy and application date of the loan. |
| Foreclosure | Borrowers may not have had a foreclosure in the past 3 years. |
| Fees | All third-party expenses associated with a loan may be required to be paid by the borrower. Common third-party expenses include appraisal fees, title fees, title insurance, recording fee, attorney fees, etc. |
| Debt-to-Income (DTI) | Total DTI will not exceed 41%. The HYFC Loan committee can approve DTI that exceeds 41% on a case-by-case basis. |
| Loan Risk Rating | All HYFC Mortgage and Small Business loans require a risk rating of 3.5 or lower. |
| Income Verification | All applicants must be able to provide acceptable documentation to verify income. Income verification is required to determine eligibility, support underwriting, and assess repayment capacity. Acceptable forms of income documentation may include, but are not limited to recent pay stubs, tax returns, W-2s, 1099s, benefit award letters, or employer verification forms, as applicable to the loan product. |
| Asset Verification | Must be able to provide asset verification for any required cash equity. |
| Insurance | All residential real estate loans must have Hazard Insurance coverage equal to 100% of insurable value of all structures listing HYFC as loss payee. |

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| Good Standing | Must be in good standing with HYFC. |
| Jurisdiction | Southeast Alaska or wherever the Tlingit and Haida tribal citizens reside. |

### 3.2. INELIGIBLE BORROWERS

HYFC does not provide financing for individuals engaged in any of the following activities:

- Illegal activities,
- Predatory or usurious lending practices,
- Speculative enterprises,
- Pyramid or networking schemes,
- Fraternal organizations, nor
- Production or distribution of violent, unsafe, or pornographic materials.

### 3.3. EQUAL CREDIT OPPORTUNITY NON-DISCRIMINATION POLICY

HYFC complies fully with all applicable federal, state, municipal, and local laws, policies, orders, rules, and regulations that prohibit unlawful discrimination against credit applicants.

HYFC makes credit available to all eligible applicants without regard to race, color, ancestry, alienage, religion, national origin, sex, marital status, veteran status, sexual orientation, age (provided the applicant has legal capacity to enter into a binding contract), receipt of income from public assistance programs, or the good faith exercise of any rights under the Consumer Credit Protection Act. Additionally, it is HYFC's policy not to discriminate on the basis of handicap/disability or familial status.

HYFC does not discourage or dissuade any applicant from completing a credit application based on any protected characteristic.

All HYFC loan policies and procedures utilize neutral underwriting guidelines, designed to ensure that no individual or group is inadvertently discriminated against during solicitation, underwriting, approval, or loan servicing processes. Specifically, HYFC will not:

1. Fail to provide information or services, or provide different information or services, regarding any aspect of the lending process;
2. Discourage or selectively encourage applicants with respect to inquiries or applications for credit;
3. Refuse to extend credit or apply different standards in determining whether to extend credit;
4. Vary the terms of credit offered, including the loan amount, duration, interest rate, or type of loan;
5. Apply different standards in the evaluation of collateral;

6. Treat borrowers differently during the servicing or collection of a loan; or
7. Apply different standards for pooling, packaging, or selling loans in the secondary market.

## 4. LOAN PRODUCTS

HYFC offers a range of energy efficiency, conservation, small business, consumer, and housing loan products designed to meet the diverse needs of Southeast Alaska citizens. These loan programs include:

- Credit Builder Loan
- Home Renovation Loan
- Conventional First-Time Homebuyer Loan
- Loans to Sponsor First-Time Homebuyer Loan
- Native Relending Demonstration Loan
- Success Starts With Me Homebuyer Program
- Energy Efficiency and Conservation Loan
- Small Business Development Loan
- Down Payment Assistance Loan
- Home Equity and Refinance Loan
- Residential Construction Loan

Each loan product will be described in further detail, including terms, underwriting guidelines, eligibility criteria, and required documentation, in Sections 6, 7, 8, 9, and 10 of this Loan Policy.

## 5. SMALL BUSINESS LOAN PROGRAM

**Ineligible Loan Purposes**
Small Business Loan proceeds may not be used for the following purposes:

- Financial services businesses
- Franchise purchases
- Speculative enterprises (e.g., real estate and land investment for resale or rental purposes)
- Multi-level marketing (MLM) or network marketing schemes
- Fraternal organizations
- Production, distribution, or sale of pornographic materials
- Establishments whose primary business is the sale of alcohol (alcohol sales incidental to restaurant operations are permitted)

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**Required Documentation and Underwriting Requirements**

Applicants must provide the following documentation to be considered for Small Business Loan underwriting:

- Completed Small Business Loan Application

- Copy of Tribal Enrollment ID (if applicable)
- Copy of Driver's License or State Identification Card
- Signed Credit Verification Authorization
- Credit Report
- 30 days of most recent income documentation (acceptable sources include paystubs, self-employment income statements, retirement income, disability income, Social Security benefits, workers' compensation, and/or foster care income)
- 60 days of most recent bank statements
- Federal income tax returns for the past two years, including all applicable schedules
- **Completed Business Plan** (including business description, market analysis, management structure, and operational strategy)
- **Three-Year Financial Projections** (including projected income statements, balance sheets, and cash flow statements)
- **Verification of Meeting with a Business Coach** (business coaching session must be conducted with an approved Small Business Development Center (SBDC) representative or another HYFC-approved business coach)

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| Target Market | Eligible borrowers are Southeast Alaskan tribal citizens families and Tlingit and Haida Citizens wherever they reside. |
| Allowable Uses | HYFC's Small Business Loan Program is designed to support business development and economic opportunity for individuals in our Target Market. Loan proceeds may be used to:<br>• Finance start-up costs for new businesses<br>• Provide working capital to support and sustain existing businesses<br>• Fund equipment, inventory, or other business-related improvements<br>• Assisting entrepreneurs in underserved or rural Southeast Alaska communities in expanding operations, improving services, or strengthening financial capacity |
| Eligibility | • Must reside within the target market<br>• Must demonstrate ability to repay loans and make regular payments |
| Loan Size | Up to $500,000.00, exceeding the cap is subject to loan committee approval. |
| Loan Term | Up to 180 months (15 years) |

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| Interest Rate Range | Interest Rate is determined based on the amount of the loan; the loan rating and current Interest rate is Wall Street Journal Prime Rate + .5%. |
| Payment Structure | HYFC offers a variety of repayment terms that can be determined at time of closing. |
| Verification of Income<br><br>Minimum Credit Score | Verification of household income to support loan payment<br><br>Credit score is not a requirement for this loan product |
| Collateral | Will require liens (2nd and senior) on business and/or personal assets to secure the loan. Loans must not exceed 100% of collateral value, after discounts for asset age and marketability. |
| Equity | Business owners must have invested equity in the form of cash or other assets (obtained from personal or family savings) of at least 5% of the total business capitalization or project cost. |
| Fees | The larger of 1.5% of the loan amount or $100, payable by borrower at closing or added to the loan amount. |
| Financial Education | Prior to loan funding, all Small Business Loan applicants must complete the following financial education components to ensure preparedness for business ownership and long-term financial sustainability:<br><br>1. **Completed Business Plan** – The applicant must submit a business plan that:<br>a) Clearly outlines how the business will operate and perform over the loan term<br>b) Identifies key assumptions that drive the business model<br>c) Includes all foreseeable operating and fixed expenses<br>d) Demonstrates available cash flow sufficient to meet proposed loan obligations<br>e) Projects breakeven within 12 months of loan closing, based on realistic assumptions reviewed and confirmed by HYFC staff<br>2. **One-on-One Financial Counseling** – Applicants must participate in individualized financial counseling with HYFC staff or an approved financial coach. The purpose of this counseling is to: |

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| | ○ Review of the applicant's personal and business financial position<br>○ Provide budgeting and credit-building support<br>○ Address any outstanding financial concerns prior to disbursement<br>○ Confirm readiness for loan responsibility and business ownership |
| Funding | • Direct to borrower if credit has not been established<br>• May be paid direct to creditor if consolidating debt to build credit |

## 6. ENERGY EFFICIENCY AND CONSERVATION LOANS

- The Clean Energy and Conservation Loan program can only be used for the purchase installation of roof top solar
- Energy efficient appliances
- Microgrids
- Distributed Wind
- Battery storage
- Energy efficiency
- Removal of fossil fuels
- Electrification
- Electric Vehicles (EV) and EV charger installation
- Home renovation leading to net zero emissions

The following documents are required for underwriting an Energy Efficiency and Conservation loan:

- Completed loan application,
- Copy of Tribal Enrollment ID, if applicable,
- Copy of Driver's License or Identification card,
- Signed Credit Verification Authorization,
- Credit Report,
- 30 Days of most recent income documentation (including paystubs, self-employment statement, retirement, disability, social security, worker's compensation, and/or foster care income)
- 60 Day most recent bank statements
- Tax Returns for the last two years and all schedules associated with it.

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| Target Market | Eligible borrowers are Southeast Alaskan Native families and Tlingit and Haida Citizens and tribally owned businesses or tribal organizations |
| Allowable Uses | Reduce or avoid greenhouse gas emissions, air pollutants, and lead to net zero emissions. |
| Eligibility | • Must reside within the target market<br>• Must demonstrate ability to repay loans and make regular payments |
| Loan Size | Cap requirements are dependent upon the borrower's ability to repay |
| Loan Term | Up to 180 months (15 years) |
| Interest Rate Range | Determined based on level of borrower risk |
| Payment Structure | HYFC offers a variety of repayment terms that can be determined at time of closing. |
| Verification of Income<br><br>Minimum Credit Score | Verification of household income to support loan payment<br><br>Credit score is not a requirement for this loan product |
| Debt-to-Income Ratio | Total DTI will not exceed 41%. The HYFC Loan committee can approve DTI that exceeds 41% on a case-by-case basis. |
| Collateral | Unsecured |
| Cash Equity | None |
| Fees | Loan Origination fee of 1.5% of the loan |
| Financial Education | Applicants are required to register and attend one HYFC financial literacy class prior to loan approval. |
| Funding | • Direct to borrower if credit has not been established<br>• May be paid direct to creditor if consolidating debt to build credit |

## 7. CONSUMER LOANS

HYFC offers one consumer loan product, a Credit Builder Loan.

Ineligible consumer loan purposes include:

- Loans with a speculative purpose
- Loans for purchasing or improving owner-occupied residential real estate
- Loans for business purchases and/or expenses
- Loans for illegal or immoral purposes

The following documents are required for underwriting a consumer loan:

- Completed Loan Application
- Copy of Tribal Enrollment ID, if applicable
- Copy of Driver's License or Identification card
- Signed Credit Verification Authorization
- Credit Report
- 30 days most recent income documentation (including paystubs, self-employment statement, retirement, disability, social security, worker's compensation, and/or foster care income)
- Completed and signed copies of tax returns including W2's and schedules for the past two years for those borrowers who receive seasonal or self-employment income
- Bank statements for the last 60 days

### 7.1. SMALL DOLLAR CREDIT BUILDER LOAN

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| Target Market | Eligible borrowers are Southeast Alaskan families and Tlingit and Haida Citizens |
| Allowable Uses | To establish or build credit |
| Eligibility | • Must reside within the target market<br>• Must demonstrate ability to repay loans and make regular payments |
| Loan Size | Up to $2,500 |
| Loan Term | Up to 24 months (2 years) |
| Interest Rate Range | 9.00% - 12.00% |
| Payment Structure | HYFC offers a variety of repayment terms that can be determined at time of closing. |
| Verification of Income | Verification of household income to support loan payment |

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| Minimum Credit Score | Credit score is not a requirement for this loan product |
| Debt-to-Income Ratio | Total DTI will not exceed 41%. The HYFC Director or CEO can approve DTI that exceeds 41% on a case-by-case basis. |
| Collateral | Unsecured |
| Cash Equity | None |
| Fees | $100 loan processing fee |
| Financial Education | Applicants are required to register and attend one HYFC financial literacy class and a one-on-one financial counseling session prior to loan approval. |
| Funding | • Direct to borrower if credit has not been established<br>• May be paid direct to creditor if consolidating debt to build credit |

## 8. HOUSING LOANS

HYFC offers five housing loan products. These loans are used to purchase, construct, or utilize equity in an owner-occupied primary residence for home repairs or home improvements.

Ineligible housing loan purposes include:

- Loans for an investment or rental property
- Loans for a secondary residence
- Loans for personal purchases and/or expenses
- Loans for business purchases and/or expenses
- Loans for illegal or immoral purposes
- Mobile homes must be 1996 or newer

The following documents are required for underwriting a housing loan:

- Completed 1003 Uniform Residential Loan Application
- Copy of Tribal Enrollment ID, if applicable
- Copy of Driver's License or Identification card
- Signed Credit Verification Authorization
- Credit Report

- 30 Days of most recent income documentation (including paystubs, self-employment statement, retirement, disability, social security, worker's compensation, and/or foster care income)
- Completed and signed copies of tax returns including W2's and schedules for the past two years
- Bank statements for the last 60 days
- Purchase Agreement
- Appraisal or other approved property valuation method
- Proof of Homeowner's Insurance
- Tax Certificate for first mortgage loans only
- Title Report on first mortgage loans only
- Homebuyer's Education Certificate

## 8.1. HOME RENOVATION LOAN

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| Target Market | Eligible borrowers are Southeast Alaskan Native families and Tlingit and Haida Citizens |
| Allowable Uses | Borrowers may borrow equity in homes owned for home repair or improvements |
| Eligibility | Property must be located in Southeast Alaska or wherever Tlingit and Haida tribal citizens reside.<br><br>Loan terms and interest rates are dependent on Rubic Risk Rating<br><br>Renovations must comply with state laws regarding contractor licensing & minimum construction standards |
| Loan Size | Up to $100,000 without an appraisal<br>Up to $200,000, with an appraisal<br>Up to $20,000 for a trailer |
| Loan Term | Up to 180 months (15 years) |
| Interest Rate | The interest rate will be based on the current AHFC First Home Limited or Rural Owner-Occupied rate, plus a risk-based adjustment determined by HYFC's underwriting rubric. Rate adjustments will follow the tiers below:<br><br>• **Low Risk (Score: 0 – 1.0)** – AHFC base rate + 0.25%<br>• **Moderate Risk (Score: 1.0 – 2.0)** – AHFC base rate + 0.75%<br>• **High Risk (Score: 2.0 – 3.0)** – AHFC base rate + 1.00% |

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| | • **Very High Risk (Score: 3.0 – 3.5)** – AHFC base rate + 1.50% |
| Payment Structure | HYFC offers a variety of repayment terms that can be determined at time of closing. |
| Income Verification | Verification of consistent household income to support loan payment over the last 24 months |
| Debt-to-Income | Total DTI will not exceed 41%. The HYFC Loan committee can approve DTI that exceeds 41% on a case-by-case basis. |
| Cash Equity | None required |
| Loan-to-Value (LTV) | Up to 80% of appraised value |
| Minimum Credit Score | No minimum credit score required. Each loan request must have a Rubric Risk Rating of 3.5 or lower |
| Collateral | Residential Real Property. It can include single-family residence, condominiums, modular homes or 1996 or newer mobile home. |
| Appraisal | Appraisal cannot be older than 2 years, alternative for appraisal can be Property Assessment by City, Tribe, or realtor. |
| Required Equity | 20% |
| Fees | $150 application fee, and 1.5% origination fee at closing |
| Closing Costs | All third-party expenses associated with a loan may be required to be paid by the borrower. Common third-party expenses include appraisal fees, title fees, title insurance, recording fee, attorney fees, etc. |
| Financial Coaching | Participation in HYFC home maintenance class and one-on-one financial coaching |
| Loan Closing & Funding | At title company |
| Escrow | Will be held with the first mortgage lienholder to include Property Insurance and taxes |

## 8.2. FIRST TIME HOMEBUYER

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| Target Market | Eligible borrowers are Southeast Alaskan Native families and Tlingit and Haida Citizens |
| Allowable Uses | The First Time Homebuyer Loan Program may be used for the purchase of an owner-occupied, primary residence. Eligible uses of loan proceeds include:<br><br>• Acquisition of new or existing residential property<br>• Construction of a home on borrower-owned land (when combined with construction financing)<br><br>This program does not permit financing for investment properties, second homes, or commercial use. |
| Eligibility | • Property must be owner occupied by borrower<br>• Mobile homes are not eligible under this program unless the home is on its own property and constructed after 1996 |
| Loan Size | Based on borrower capacity. |
| Loan Term | Up to 480 months (40 years) |
| Interest Rate Range | The interest rate will be based on the current AHFC First Home Limited or Rural Owner-Occupied rate, plus a risk-based adjustment determined by HYFC's underwriting rubric. Rate adjustments will follow the tiers below:<br><br>• **Low Risk (Score: 0 – 1.0)** – AHFC base rate + 0.25%<br>• **Moderate Risk (Score: 1.0 – 2.0)** – AHFC base rate + 0.75%<br>• **High Risk (Score: 2.0 – 3.0)** – AHFC base rate + 1.00%<br>• **Very High Risk (Score: 3.0 – 3.5)** – AHFC base rate + 1.50%<br><br>For borrowers providing a minimum 3% down payment, HYFC will waive an additional 0.50% typically applied to the base rate. |

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| Payment Structure | HYFC offers a variety of repayment terms that can be determined at time of closing. |
| Income Verification | Borrower must demonstrate consistent income for the last 24 months |
| Debt-to-Income Ratio | Total DTI will not exceed 41%. The HYFC Loan committee can approve DTI that exceeds 41% on a case-by-case basis. |
| Loan-to-Value (LTV) | Up to 100% for loan/term refinance. |
| Minimum Credit Score | No minimum credit score required. Each loan request must have a Rubric Risk Rating of 3.5 or lower |
| Collateral | Primary single-family residence |
| Appraisal | Appraisal and home inspection is required |
| Fees | $150 application fee, and 1.5% origination fee at closing |
| Closing Costs | Any additional 3rd party fees, including credit report, appraisal, title fees, title insurance, recording, filing, inspection, and other loan closing costs.<br><br>Closing costs can be included in the loan amount or paid at closing for low-income applicants. |
| Financial Coaching | Applicants are required to attend a certified homebuyer education class and one-on-one financial coaching |
| Closing & Funding | At title company |
| Escrow | Will be held at HYFC to include Property Insurance and taxes |

### 8.3. SUCCESS STARTS WITH ME HOME OWNERSHIP PROGRAM

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| Target Market | Eligible borrowers are Southeast Alaskan Native families and Tlingit and Haida Citizens |
| Allowable Uses | First Time Homebuyer |

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| Eligibility | • A Resident of Southeast Alaska<br>• Household income must be less than 80% MFI<br>• Homebuyers must be a first-time homebuyer, or 3 years must have passed since the last home was owned, or live in an overcrowded situation<br>• If not currently a homeowner, must provide a positive landlord reference for the previous 12 months<br>• Property must be owner-occupied |
| Loan Size | Based on borrower capacity. |
| Loan Term | Up to 480 months (40 years) |
| Interest Rate Range | AHFC First Home Limited Rate less between a 0.5% and 2.0% discount depending on the median family income *will not go below 2.5 or above 4.25* |
| Payment Structure | HYFC offers a variety of repayment terms that can be determined at time of closing |
| Income Verification | Borrower must demonstrate consistent income for the last 24 months |
| Debt-to-Income Range | Total DTI will not exceed 41%. The HYFC Loan committee can approve DTI that exceeds 41% on a case-by-case basis. |
| Loan-to-Value (LTV) | Up to 100% for loan/term refinance. |
| Minimum Credit Score | No minimum credit score required. Each loan request must have a Rubric Risk Rating of 3.5 or lower |
| Collateral | Primary single-family residence |
| Appraisal | Appraisal and home inspection is required |
| Fees | $150 application fee, and 1.5% origination fee at closing |
| Closing Costs | Any additional 3rd party fees, including credit report, appraisal, title fees, title insurance, recording, filing, inspection, and other closing costs.<br><br>Closing costs can be included in the loan amount or paid at closing for low-income applicants. |

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| Financial Coaching | Applicants are required to attend a certified homebuyer education class and one-on-one financial coaching |
| Closing & Funding | At title company |
| Escrow | Will be held at HYFC to include Property Insurance and taxes |

### 8.4. NATIVE RELENDING DEMONSTRATION LOAN PROGRAM

| | |
|---|---|
| Target Market | This homeownership program is designed to assist rural tribal citizens with achieving affordable homeownership options |
| Allowable Uses | The Native Relending Demonstration Loan Program is exclusively intended to support first-time homebuyers in rural communities. Loan proceeds may only be used for the purchase or construction of an owner-occupied, primary residence located in an eligible rural area, in alignment with USDA 502 Direct Loan guidelines. |
| Eligibility | • Primary residence in Southeast Alaska<br>• Property must be owner-occupied<br>• The homebuyer must be a first-time homebuyer, or 3 years must have passed since the last home was owned<br>• Qualified applicant income must be under the 80% Area Median Income defined by USDA Loan Income Limit |
| Loan Size | USDA Area Loan Income Limits |
| Loan Term | Up to 396 months (33 years) |
| Interest Rate | Equal or less than USDA RD 502 interest rates |
| Payment Structure | Monthly principal and interest payments amortized over the term of the loan. |
| Verification of Income | Borrower must demonstrate consistent income for the last 24 months |
| Debt-to-Income Ratio | Total DTI does not exceed 41%.<br>Housing Expense Ratio does not exceed 33% |
| Loan-to-Value (LTV) | Up to 100% |

| | |
|---|---|
| Minimum Credit Score | No minimum credit score required. Each loan request must have a Rubric Risk Rating of 3.5 or lower |
| Collateral | 1st or 2nd lien on primary residence being improved. |
| Appraisal | Required, must have been completed within the last 2 years |
| Equity | Down payment is not required |
| Fees | $150 processing fee due at time of application<br><br>$2,000 flat loan packaging fee |
| Closing Costs | Any additional costs including credit report, appraisal, title insurance, title fees, recording, filing, inspection, and other closing costs may be required to be paid by the borrower. |
| Financial Coaching | Applicants are required to attend a certified homebuyer education class and one-on-one financial coaching |
| Closing & Funding | At title company |
| Escrow | Will be held at HYFC to include Property Insurance and taxes |
| Loan Conditions | THRHA/HYFC has the first right of refusal on the sale of the property<br><br>Early payoff or refinance is allowed |

### 8.5. RESIDENTIAL CONSTRUCTION LOAN PROGRAM

| | |
|---|---|
| Target Market | Eligible borrowers are Southeast Alaskan Native families and Tlingit and Haida Citizens |
| Phased Approach | This program will be provided in 3 different phases: pre-construction (planning), construction, and mortgage (after construction). All have different documentation requirements which are outlined below. |
| Client Pre-Planning | • Determine a timeline for construction<br>• Prepare a budget outlining all costs associated with the project<br>• Have prepared plans & specifications for the project from a builder or architect |

| | |
|---|---|
| | • Expect to provide all documents for a mortgage loan including in some cases for the builder. |
| Eligibility | • Must be a resident of Southeast Alaska<br>• Property must be owner-occupied |
| Loan Size | Based on borrower capacity |
| Loan Term | Up to 360 months (30 years) |
| Interest Rate | The interest rate will be based on the current AHFC First Home Limited or Rural Owner-Occupied rate, plus a risk-based adjustment determined by HYFC's underwriting rubric. Rate adjustments will follow the tiers below:<br><br>• **Low Risk (Score: 0 – 1.0)** – AHFC base rate + 0.25%<br>• **Moderate Risk (Score: 1.0 – 2.0)** – AHFC base rate + 0.75%<br>• **High Risk (Score: 2.0 – 3.0)** – AHFC base rate + 1.00%<br>• **Very High Risk (Score: 3.0 – 3.5)** – AHFC base rate + 1.50%<br><br>For borrowers providing a minimum 3% down payment, HYFC will waive an additional 0.50% typically applied to the base rate. |
| Payment Structure | Loan payments will be structured as monthly principal and interest payments, fully amortized over the term of the loan.<br><br>For construction loans, borrowers are required to make interest-only payments during the construction phase. These payments will be based on the outstanding balance of disbursed funds (drawing down amount). Upon completion of construction and full disbursement of loan proceeds, the loan will be converted to a standard amortizing schedule. |
| Verification of Income | Borrower must demonstrate consistent income for the last 24 months |
| Debt-to-Income Ratio | Total DTI will not exceed 41%. The HYFC Loan committee can approve DTI that exceeds 41% on a case-by-case basis. |

| | |
|---|---|
| Minimum Credit Score | No minimum credit score required. Each loan request must have a Rubric Risk Rating of 3.5 or lower |
| Collateral | 1st lien on primary residence being constructed |
| Fees | $150 application fee, and 1.5% origination fee at closing |
| Closing Costs | Any additional 3rd party fees, including credit report, appraisal, title insurance, title fees, recording, filing, inspection, and other closing costs will be paid by the borrower. |
| Financial Coaching | Applicants are required to attend a certified homebuyer education class and one-on-one financial coaching |
| Loan Conditions | • Construction cannot exceed 18 months<br>• THRHA/HYFC has the first right of refusal on the sale of the property.<br>• Early payoff or refinance are allowed |
| Phase I<br>Pre-Construction | • Copy of construction contract (as applicable)<br>• Building and zoning permit (as applicable)<br>• Wetlands permit (if applicable)<br>• DEC septic approval (if applicable)<br>• Estimate of construction costs<br>• Materials description list<br>• Home plans<br>• Site plan<br>• As proposed appraisal (lender will order)<br>• Street Address for proposed home plus legal description<br>• Earnest money agreement for lot purchase or settlement statement documenting lot purchase<br>• Proof of insurance (Hazard w / course of construction or builders risk endorsement) |
| Phase II<br>Construction | • Disbursement request forms (HYFC to provide)<br>• Contractor Invoices<br>• HYFC will make regular on-site inspections prior to construction disbursement, virtual site inspections may be utilized.<br>• Building inspections from municipal authority or licensed inspector (PUR 102 attached)<br>o Plans and specifications |

| | |
|---|---|
| | ○ Footings and foundations<br>○ Rough in framing, plumbing, and electrical<br>○ Insulation and vapor barrier<br>○ Conditional approval<br>○ Final approval<br>• Final as-built survey<br>• Final energy rating (5* minimum) |
| Loan Closing | At title company |
| Construction Draw Down Process | • The loan recipient is responsible for providing a detailed cost estimate for materials list and construction timeline.<br>• Each drawdown requires an inspection before disbursement is made<br>• Hazard construction insurance is required before drawdown is provided<br>• Principal loan amount and monthly payments are increased after each draw based on what has been issued to loan recipient |
| Phase III<br>Mortgage Loan | • Notice of completion recorded 15 business days prior to loan closing<br>• Final Appraisal optional – may be required by other agencies.<br>• Water sample unless on public water system<br>• DEC final approval to operate septic (if applicable)<br>• Final certificate of occupancy or PUR 102 if no building inspector<br>• Homeowner's insurance binder / Policy<br>• Any investor (such as Freddie Mac, AHFC, etc.) specific loan conditions satisfied |
| Mortgage Loan Conversion | Once construction is complete final principal amount will be converted 30-year mortgage loan |

## 8.6. LOANS TO SPONSOR PROGRAM

| | |
|---|---|
| Target Market | This homeownership program is for all eligible Alaskans. |

| | |
|---|---|
| Allowable Uses | To finance the development or rehabilitation of housing units for low- to moderate-income homebuyers through partnership with qualified sponsors. Eligible uses of loan proceeds include:<br><br>• Acquisition of new or existing residential property<br>• Construction of a home on borrower-owned land (when combined with construction financing)<br><br>This program does not permit financing for investment properties, second homes, or commercial use. |
| Loan Size | Loan amounts will be determined based on the lesser of:<br><br>• 20% of the appraised value of the project property<br>• The maximum allowable mortgage amount under Alaska Housing Finance Corporation's (AHFC) First-Time Homebuyer or applicable program guidelines in effect at the time of loan approval. |
| Loan Term | Up to 360 months (30 years) |
| Interest Rate | Interest Rate: The interest rate will be based on the current AHFC First Time Homebuyer Program rate, plus a risk-based adjustment determined by HYFC's underwriting rubric. Rate adjustments will follow the tiers below:<br><br>• Low Risk (Score: 0 – 1.0) – AHFC base rate + 0.25%<br>• Moderate Risk (Score: 1.0 – 2.0) – AHFC base rate + 0.75%<br>• High Risk (Score: 2.0 – 3.0) – AHFC base rate + 1.00%<br>• Very High Risk (Score: 3.0 – 3.5) – AHFC base rate + 1.50%<br><br>For borrowers providing a minimum 3% down payment, HYFC will waive an additional 0.50% typically applied to the base rate. |
| Payment Structure | Monthly principal and interest payments amortized over the term of the loan. |
| Verification of Income | Borrower must demonstrate consistent income for the last 24 months |

| | |
|---|---|
| Debt-to-Income Ratio | Total DTI will not exceed 41%. |
| Minimum Credit Score | Must meet the minimum credit score requirement of 620. Each loan request must have a Rubric Risk Rating of 3.5 or lower |
| Collateral | 1st or 2nd lien on primary residence being improved. |
| Appraisal | Required, must have been completed within the last 2 years |
| Equity | Minimum of 10% project equity or grant funding match |
| Fees | 1.5% loan origination fee, plus any third-party costs such as title, appraisal, or recording fees |
| Closing Costs | Any additional costs including credit report, appraisal, title insurance, title fees, recording, filing, inspection, and other closing costs may be required to be paid by the borrower. |
| Financial Coaching | Applicants are required to attend three educational workshops which include a certified homebuyer education class and one-on-one financial coaching |
| Closing & Funding | At title company |
| Escrow | Will be held at HYFC to include Property Insurance and taxes |
| Loan Conditions | THRHA/HYFC has the first right of refusal on the sale of the property |

## 9. LOAN ORIGINATION & UNDERWRITING

### 9.1 LOAN ORIGINATION

Loan Application Process

1. Application Submission
   Applicants must submit a complete loan package, including the HYFC loan application and all required supporting documentation specific to the loan product.
2. Initial Review and Pre-Qualification
   Once a complete application is received, HYFC will contact the applicant within 72 hours to provide a pre-qualification assessment notice, outlining initial eligibility based on submitted information.

3. Credit Decision Timeline
   HYFC will issue a formal credit decision within 30 calendar days of receiving a fully completed application package. The decision will be communicated in writing and will include approval, denial, or a request for additional information if needed.

## 9.2. LOAN UNDERWRITING CREDIT STANDARDS

HYFC evaluates each loan application using established credit standards to assess borrower risk and ensure responsible lending. Creditworthiness is determined through a combination of credit history, payment behavior, and overall financial profile. The following criteria guide underwriting decisions:

**1. Borrower's Credit Rating**
The borrower's past performance in repaying obligations is a key factor in determining credit acceptability. A consistent pattern of timely payments is preferred.

**2. Lack of Credit History**
For applicants without a traditional credit profile, HYFC will consider a non-traditional credit history. This may be verified through rent payments, utility bills, phone bills, or other recurring financial obligations. Applications without an established credit history will be reviewed on a case-by-case basis and must include documentation demonstrating a reliable payment pattern.

**3. Manner of Payment**
Underwriters will assess the overall pattern of payment behavior, rather than isolated instances of slow or missed payments. The credit report and any supporting credit references must demonstrate a general regard for contractual obligations.

**4. Delinquent Accounts**
Applicants must submit a written explanation for any foreclosures, numerous late payments, collections, legal judgments, or other adverse credit events. Each situation will be evaluated individually, and the underwriting staff will consider all relevant circumstances and mitigation factors.

**5. Risk Rating Threshold**
HYFC applies a standardized risk rating rubric to all loan applications. A loan cannot be approved if the average risk rating exceeds 3.50 based on HYFC's internal scoring methodology.

## 9.3. LOAN UNDERWRITING INCOME DETERMINATION

### Income Stability

The key factor in determining income stability is whether the borrower's income, whether earned individually or jointly, is expected to continue at a level sufficient to repay the debt over the full term of the loan. HYFC evaluates the stability, reliability, and consistency of all income sources to determine repayment capacity. This evaluation applies to all loan programs, including consumer loans, business loans, and home loan products.

**Required Documentation – Consumer and Home Loan Programs**

For all consumer and home loan products, including Credit Builder Loans, Down Payment Assistance, First Time Homebuyer Loans, Home Renovation Loans, and Residential Construction Loans, borrowers are required to provide the following documentation:

• Tax returns for the most recent two years, including all schedules
• W2 and 1099 forms as applicable
• Verification of current year to date income such as pay stubs, award letters, or other documentation of recurring income
• If self-employed, a year-to-date profit and loss statement is required
• Additional documentation may be requested to verify nontraditional or supplemental income sources

**Required Documentation – Small Business Loan Program**

For business loan applicants, HYFC requires documentation for both personal and business income to assess global repayment capacity. Required documents include:

• Two most recent years of personal and business tax returns with all supporting schedules
• Year to date business profit and loss statement and balance sheet
• Business bank statements for the most recent 60 days
• Verification of all additional income sources that will be used to support repayment
• If applicable, copies of contracts or revenue agreements supporting business income projections

**Income Inclusion for Eligibility Determination**

To determine whether a borrower meets HYFC's definition of low to moderate income, all income sources will be considered, including Permanent Fund Dividends. Income from all adult household members will be evaluated in accordance with applicable program rules.

**Income Inclusion for Repayment Capacity**

Not all income counted for eligibility purposes will be considered stable or dependable for repayment. HYFC will consider only income that is regular, consistent, and reasonably expected to continue. Unstable, temporary, or one time income will not be used to calculate repayment ability. The stability of income is a key factor in underwriting and risk rating.

**Debt to Income Analysis**

Debt to income (DTI) analysis is used to assess a borrower's capacity to repay by measuring the percentage of gross monthly income applied toward recurring monthly debts.

**Calculation:**

Total monthly debt obligations
÷
Gross monthly income
= Debt to Income Ratio

**Debt obligations include:**
• Proposed housing payment (principal, interest, taxes, insurance, HOA dues)
• Existing mortgage or rent
• Auto loans
• Student loans
• Credit card minimum payments
• Child support or alimony
• Any other recurring obligations reported or disclosed

HYFC uses a benchmark DTI ratio not to exceed 41 percent. Exceptions may be granted based on compensating factors such as strong credit history, substantial assets, or additional verified income. The Loans to Sponsor Program is subject to a strict 41% total debt-to-income (DTI) cap. Borrowers whose total monthly debt obligations exceed this threshold are not eligible for approval under this program.

**Global Cash Flow Analysis – Business Loans Only**

For Small Business Loan applications, HYFC conducts a global cash flow analysis to evaluate the combined ability of the borrower and the business to meet debt obligations.

**Evaluation includes:**
• Personal income and expenses
• Business income and operating expenses
• Existing personal and business debt
• Cash flow adjustments such as depreciation or one-time expenses

The borrower and business must demonstrate positive net cash flow after accounting for all recurring obligations. The global analysis may be used in conjunction with or in place of DTI calculations for small business borrowers.

**Additional Considerations for Income Underwriting**

**Multiple Income Sources**
If a borrower has multiple jobs or income streams, documentation is required to demonstrate a consistent income history, typically for at least 24 months.

**Seasonal or Irregular Income**
Applicants with irregular or seasonal income must provide supporting documentation to show a stable pattern of earnings. HYFC may request additional income history and bank records to confirm consistency.

**Public Assistance and Benefit Income**
Government benefits, including Social Security, disability income, and public assistance, may be included if verified and expected to continue for a minimum of three years.

**Non-Borrowing Household Income**
In certain programs, HYFC may consider household income from a non-borrowing spouse or other adult in the household for eligibility or affordability purposes. However, such income will not be used for repayment capacity unless the individual is a co borrower or formal guarantor.

**Loan Underwriting – Loans to Sponsor Program**

The Loans to Sponsor Program (LTSP) provides homeownership financing to eligible borrowers purchasing homes developed through AHFC-supported projects. Individual borrower underwriting must adhere to the following standards:

**1. Loan Amount**

- The loan amount shall not exceed the lesser of:
    - The **appraised value** of the home, or
    - The **maximum allowable mortgage amount** under AHFC's First-Time Homebuyer or applicable guidelines is in effect at the time of loan approval.
- HYFC may apply internal limits based on funding availability or portfolio risk exposure.

**2. Property Requirements**

- The property must be an **owner-occupied, primary residence**.
- It must be located within **Southeast Alaska** or where Tlingit and Haida citizens reside.
- Eligible property types include:
    - Single-family homes
    - Condominiums
    - Modular homes
- Mobile homes must be **1996 or newer**, placed on owned land, and meet HUD/FHA installation standards.

**3. Loan-to-Value (LTV)**

- HYFC will finance up to **100% of the appraised value**.
- AHFC's share of the financing is limited to **80% LTV**, with HYFC funding the remaining portion when applicable.

**4. Debt-to-Income Ratio (DTI)**

- The total DTI must **not exceed 41%**. No exceptions will be granted under this program.

**5. Credit and Risk Rating**

- A **minimum credit score of 620** is required for all applicants.
- Additionally, all loans must receive a **Rubric Risk Rating of 3.5 or lower** to qualify for funding.

**6. Income Verification**

Applicants must provide full documentation of stable income, including:

- Two most recent years of federal tax returns and all schedules
- W-2s or 1099s as applicable
- Year-to-date pay stubs or benefit award letters
- Self-employed borrowers must provide a current profit and loss statement
- Additional records may be requested for seasonal or variable income

**7. Collateral and Appraisal**

- All loans must be secured by a **first or second deed of trust** on the subject property.
- A full appraisal must be completed **within 24 months** of closing.
- The property must meet health, safety, and minimum livability standards.

**8. Escrow and Insurance**

- Borrowers must establish escrow accounts for **property taxes and hazard insurance**.
- Insurance must cover 100% of the insurable value and list HYFC as **loss payee**.

## 10. RISK RATING RUBRIC

HYFC recommends the risk rating of a loan in comparison to loans of the same type in the existing portfolio based on the detailed criteria below. There is rubric for each loan type, including business, consumer, and housing. The rubrics are Appendices 18.1, 18.2, and 18.3 in this Loan Policy.

Risk ratings are done on a scale of 1 to 5 with 1 being the lowest risk and 5 being the highest risk. Each category on the rubric is rated from 1 to 5. After that, all category grades are used to get the total average rating. That average rating will represent the risk rating for the loan. If the average falls between two ratings, HYFC will use the lower of the two ratings to determine the loan loss reserve.

Only loans with a risk rating of 3.5 or lower (regardless of loan type) will be deemed approvable loans.

| Risk Rating | Rating Description | Loan Grade |
|---|---|---|
| 1 | Very Strong Borrower | A |
| 2 | Strong Borrower | B |
| 3 | Average Borrower | C |
| 4 | Weak Borrower | D |
| 5 | Very Weak Borrower | F |

Below are all the categories used in the risk rating rubric.

| | |
|---|---|
| Character/Credit (FICO Score) | Based on the information listed on the credit report pulled by HYFC for the applicant. HYFC uses the median credit score to determine the FICO Score used on the risk rating rubric. If there are multiple borrowers on one loan, HYFC uses the lowest median score across all borrowers. |
| Income Stability (Years Continuous Employment) | The number of months/years the applicant has been employed at their current job without any gaps, breaks, nor transfers. |
| Debt-to-Income Ratio | Ratio of the applicant's total debt to their total income, including the new payment for the proposed loan. To calculate the debt-to-income ratio, add up all monthly debt payments and divide them by gross monthly income. Gross monthly income is the amount of money earned before taxes and other deductions are taken out. HYFC pulls the monthly debt from the amounts listed on the credit report, and the monthly income from the income documents provided by the applicant. The ratio is expressed as a percentage. |
| Loan-to-Value (Collateral) | The ratio shows the amount of the loan compared to the total market value of collateral provided, including applicable discounts. To calculate the loan-to-value ratio, divide the amount of the loan by the appraised value of the collateral. The lower the ratio, the less risky the loan. The ratio is expressed as a percentage. |
| Liquid Assets | An asset that the applicant owns can quickly and simply be converted into cash. The most common liquid assets are cash-on-hand, checking accounts, and savings accounts. HYFC evaluates the number of proposed monthly payments available in the liquid asset statements provided by the applicant. In short, the number of monthly payments the applicant has available in their accounts. The more payments the applicant has as a cushion, the less risky the loan is. |

| | |
|---|---|
| Total DTI | Ratio of applicant's gross monthly income devoted to all debt expenses, including the proposed payment for the new loan, all monthly debt payments listed on the credit report, and child support and/or alimony expenses. To calculate the ratio, add up all debt as described above and divide the total by the applicant's gross monthly income, or the monthly income before taxes and other deductions are taken out. The ratio is expressed as a percentage. |
| Housing Expense Ratio | Ratio of applicant's gross monthly income devoted to housing expenses, including proposed payment for new loan. To calculate the ratio, add up all proposed and/or actual housing expenses and divide the total by the applicant's gross monthly income, or the monthly income before taxes and other deductions are taken out. The ratio is expressed as a percentage. |
| Capital (Equity) | The amount the borrower must have in housing equity, or as the amount of down payment made in a loan. |

## 11. LOAN DECISION AUTHORITY

Loans are decisioned by the HYFC Director or HYFC President/CEO for loan amounts $50,000 or less after thorough review of the Loan Officer's recommendation for loan approval. All loan requests exceeding $50,000 requires the HYFC Director or HYFC President/CEO approval prior to submission to Loan Committee. The Board must approve loans to insiders. General decision and loan authority guidelines are listed below.

| Decision Item | Approval Required |
|---|---|
| Final loan and funding approval for loans $50,000 and below | HYFC Director or HYFC President/CEO |
| Final loan and funding approval for loans exceeding $50,000 | Loan Committee |
| Initiation of legal proceedings, including but not limited to foreclosure, against a delinquent borrower. | HYFC President/CEO and Loan Committee |
| Any loan to Insiders as described in Section 16 of this Loan Policy | HYFC President/CEO & Board of Directors |

Decisions will be made at the lowest level of authority consistent with the maintenance of sound lending decisions.

## 12. CURRENT EXPECTED CREDIT LOSS (CECL)

The CECL on the balance sheet is a contra account to the Loans Receivable asset that is equal to the aggregate Weighted Average Remaining Maturity (WARM) assigned to each loan pool in the portfolio. Any increase to the contra-asset account is accompanied by a CECL Expense entry on the income statement.

The CFO will post changes in the CECL as directed by the Director of Mortgage Lending, and approved by the President/CEO, accompanied by the appropriate expense.

## 13. LOAN CLOSING

Approved loans must be executed with the applicable loan closing process and documentation as described in the HYFC Processes & Procedures manual prior to loan funding. All real estate secured loans are closed at a title company.

## 14. CONFLICT OF INTEREST

No member of HYFC staff, Board, committees, vendors, consultants, nor any other participant recommends nor participates in the evaluation, approval, or collections related to any applicant or borrower in which the individual has a private, personal, or financial interest sufficient to appear to influence the objective exercise of the individual's official duties to HYFC.

HYFC participants must notify the Manager of any potential conflict of interest immediately upon learning of it and recuse themselves from all discussions and approvals related to the applicant or borrower. The Manager reports any potential conflict to the HYFC President/CEO who reports to the Board at the next meeting.

## 15. LENDING TO INSIDERS

Insider loans may occur from time to time. Insiders are Officers, Directors, and Employees of HYFC, and their related interests. Related interests are defined as any person or entity related by blood or marriage to any person or entity described above.

Insider loans, when made, will be made on the same terms and conditions, including interest rate and collateral, as those prevailing at the time for comparable transactions and other people. Therefore, any loans made to insiders shall not contain more favorable loan terms and interest rate, will not involve more than a normal degree of credit risk, and will not contain any other favorable features.

Insider loans will first be presented to the Loan Committee, and if approved, will be sent to the entire Board for their approval. Full Board approval, consisting of a simple majority, is required for all loans made to insiders.

Any Director or Officer of HYFC with a family or financial interest in any loan application or request from an insider shall abstain from voting on such loan application or loan request.

## 16. CONFIDENTIALITY OF APPLICANT INFORMATION

HYFC participants acknowledge that all information collected from or on behalf of an applicant or borrower is private and confidential, and participants restrict disclosure of such information a) only to other HYFC participants, and b) only for the purposes of conducting the loan process outlined in this policy. HYFC loans made to employees (current & former) have restricted access limited to HYFC management and accountant.

## 17. APPENDICES

### 17.1. LOAN RISK RATING RUBRIC

| **Rating** | **Credit FICO Score** (Character) | **DTI** (Capacity) | **Total Equity** (Capital) | **Loan-to-Value** (Collateral) | **Income Stability** (Conditions) | **Liquid Assets** (Capacity) |
|---|---|---|---|---|---|---|
| 1 (Very Strong) | >720 | <33% | >30% | ≤ 60% | 5+ years or fixed | 5x payment |
| 2 (Strong) | 675 – 720 | 33-37% | 25 – 30% | 61 – 75% | 3-4 years | 4x payment |
| 3 (Average) | 620 – 674 | 38-41% | 20 – 24% | 76 – 89% | 1-2 years | 3x payment. |
| 4 (Weak) | 560 – 619 | 42-44% | 15 – 19% | 90 – 100% | 6-12 months | 2x payment |
| 5 (Very Weak) | < 560 | >45% | >15% | >100% | 0-5 months | 1x payment |
| **Score** | | | | | | |
| **Average Risk Rating (must score a minimum of 3.5 for loan approval)** | | | | | | |