LOAN PROCESSES AND PROCEDURES MANUAL

Approved by HYFC President/CEO on
May 10, 2024

This 1st edition of the Loan Process and Procedures Manual was approved by
HYFC President/CEO
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1. STATEMENT OF PURPOSE

The Loan Processes and Procedures outlined in this document are a framework within which Haa Yakaawu Financial Corporation ("HYFC"), a 501(c)(3), non-profit Native Community Development Financial Institution (NCDFI), will operate its lending program.

These loan policies provide guidelines for use by the HYFC Lending Department and other participants, ensuring that HYFC staff and committees make fair and consistent loan decisions while managing lending risks. Its goal is to help loan staff move applicants through the loan process, while insuring basic legal and administrative requirements are met.

HYFC recognizes risk cannot be eliminated, but we seek to manage it by identifying major indicators. As a Native CDFI, our mission is to be a source of flexible capital. To that end, we make a concerted effort to find creative solutions to meet our applicant's needs.

This loan process & procedure manual is a living document. With recommendation from the HYFC Lending Department, Loan Committee, and approval from the Board of Directors (BOD), we expect that this document will reflect updates as deemed necessary.

2. LENDING DEPARTMENT STRUCTURE & RESPONSIBILITIES

The HYFC Lending Department is responsible for implementing the lending components of the mission as outlined in HYFC Statement of Purpose, Articles of Incorporation, Bylaws, and Loan Policies.

2.1. COMPOSITION

HYFC Lending Department is made up of the following roles, based organizational approved HYFC organizational chart dated January 31, 2024.

- President/CEO
- HYFC Director
- HYFC Manager
- Loan Servicing Specialist
- Financial Education Coordinator

The HYFC Director provides oversight to the Lending Department's responsibilities and work. The Director reviews loan recommendations provided by the Lending Department and gives the ultimate approval and funding for said loan recommendations.

The Lending Department reports to the Director, who reports to the President/CEO, who reports to the board.

2.2. RESPONSIBILITIES

The Lending Department is responsible for the following during the loan process:

- Initial loan applicant contact,
- Determining applicant eligibility,
- Structuring loans based on applicant's needs and eligibility,
- Collecting all required loan documents from the applicant,
- Pulling the applicant's credit report,
- Reviewing all loan documentation and completing all pertinent due diligence,
- Ordering appraisals,
- Evaluating collateral,
- Writing up and presenting the loan recommendation for approval,
- Write up letters of denial, as needed,
- Preparing loan documents,
- Closing loans with borrowers,
- Requesting loan fund disbursements,
- Filing liens after closing, as needed, and
- Providing financial education and technical assistance,
- Maintaining consistent contact with applicants and loan clients to ensure a smooth loan process.

Other responsibilities may be required through the loan process. The Lending Department will ensure all needed items are completed in the due diligence process to ensure a high-quality experience for the applicant/borrower. The Lending Department will address ad hoc problems and additional responsibilities as they arise.

The Lending Department meets on a weekly basis to go over workflows, volume, and problem solve, as needed.

3. LOAN PORTFOLIO MANAGEMENT TEAM

The HYFC Portfolio Management Team is responsible for managing the loan portfolio, reporting to the BOD, maintaining the loan loss reserve, and tracking/overseeing loan delinquencies.

3.1. COMPOSITION

The HYFC Portfolio Management Team is made up of the following roles (based on positions within the approved organizational chart dated XXX):

- HYFC Director

- HYFC Manager
- Loan Servicing Specialist

The HYFC Director is responsible for tracking and reporting the performance of the loan portfolio to the President/CEO and the BOD. The HYFC Manager will provide support to the HYFC Director, as needed.

3.2. RESPONSIBILITIES

The Portfolio Management Team is responsible for the following:

- Ensures all loan files and loan documentation are complete
- Ensures all loans are properly booked in loan software system
- Recommends proper loan loss reserve
- Monitors all loan covenants and compliance, insurance requirements and collateral is properly secured and all financial reporting requirements
- Provides servicing to loan clients
- Designs and implements client-focused surveys and evaluates customer satisfaction
- Reviewing the loan portfolio monthly,
- Reporting portfolio performance to the BOD quarterly,
- Reviewing any material deviations that may be recommended, needed, or required,
- Tracking and overseeing loan delinquencies, and
- Recommending the initiation of any legal proceedings, including but not limited to foreclosure.

The Portfolio Management Team meets at a minimum monthly to review loan conditions as well as create and implement remedial action plans with the HYFC Manager and President/CEO approval.

The HYFC Manager is responsible for tracking and reporting the performance of the loan portfolio to the President/CEO and the BOD.

4. LENDING COMMITTEE

The HYFC BOD has established a Lending Committee to make decisions on behalf of the loan fund.

The Lending Committee will be comprised of individuals that have lending/banking experience and/or applicable experience in business and industry. The Lending Committee will have at least five members and will be appointed by the President/CEO of HYFC.

The Lending Committee is responsible for the following:

- Reviewing and approving loan recommendations where the loans materially deviate from loan policy with respect to loan amounts, loan-to-value (LTV), credit requirements, and/or debt-to-income (DTI), and are considered policy exceptions,
- Reviewing and approving loan recommendations where the borrower is considered an Insider as described in Section 15 of the HYFC Revolving Loan Fund Policies.
- Reviewing and approving loan policy updates and/or changes, and
- Initiating legal proceedings, including but not limited to foreclosure, against a delinquent borrower.

5. LOAN PROCESS

The HYFC Lending Department follows the below procedures for processing and closing new loans.

5.1. GENERAL FORMS

All loans require proper documentation to evidence the loan transactions. It is a violation of HYFC Loan Policies to provide funds to a borrower without the proper due diligence, acceptable loan documents, loan approval, and execution of closing documents.

Below is listed the documents HYFC uses in the loan process. Some forms are required on all loans, while others are only required for specific loan products.

Intake Form	Short form completed during the initial visit. The includes the applicant's name, address, phone number, date of birth, social security number, and income eligibility, if applicable. This form also includes a Borrower's Authorization and Release of Information that requires a signature and date. This gives HYFC permission to request information from third parties, such as employers, insurance agencies, and other creditors, for the sole purpose of processing the applicant's loan request.
Loan Application	All clients who receive funds from HYFC loan programs must complete an application to be kept in their file. Applications can be completed in person or via an online application available on HYFC website.
Identification Verification	A form that verifies an individual's identity. With this form, a copy of a tribal, state, or federal identification card, including driver's license, Tribal ID card, or passport.

Enrollment Verification	A form that verifies enrollment in a federally recognized tribe. A copy of the individual’s CDIB (Certificate Degree Indian Blood)/Tribal Identification Card will be collected.) when required.
Credit Report	A standard credit report will be run for each client in the processing of loan applications. Personal and/or business repayment history will be reviewed and considered in loan approvals and denials. HYFC reserves the right to deny applications based upon factors negatively found directly relating to the proposed applications. Documents processed will be kept in the client file.
Income Verification	Required loan documentation to verify a client’s income. Verification documents include copies of the previous two years and most recent paystubs, per capita verification, W-2s, and tax returns depending on the client’s income type and the loan program’s requirements.
Credit Memo	A written credit memo is prepared that is used to explain the nature and purpose of the loan transaction along with a detailed credit analysis. All loans, regardless of their size, require a written credit presentation. This document shall be presented to the proper approval authority to make the credit decision.
Pre-Qualification Assessment Notice	A notice confirming pre-qualification loan approval signed by an authorized representative of HYFC. This notice should specify all the necessary loan terms and other conditions of the loan. The notice should be signed by the borrower to accept the loan conditions. if required.
Collateral Documentation	Documentation showing proof of ownership of collateral as well as documentation showing the appraised value of said collateral. For mortgage loans, an appraisal completed by a certified appraiser serves as collateral documentation. In some cases an alternative for appraisal can be Property Assessment by City, Tribe, or realtor.
Loan Guaranty	Document that acts as a binding promise that one party will fulfill the financial responsibilities of another party if the original party cannot fulfill obligation. Used to protect HYFC in lending to riskier borrowers. Can be used to bolster weaker applicants. Some loans will condition for a personal guaranty for all required parties This could include both personal guaranty and/or a guaranty from a

	related corporate entity that is owned or controlled by the borrower.
Promissory Note	Required for every loan and will be signed and dated by the client and authorized signer for HYFC. The original executed document will be kept in a secure location at HYFC office, and a copy will be kept in the client's file. The promissory note obligates the funds received from HYFC and states the position of each lien holder. The note should include the following information: borrower name, transaction date, loan amount, interest rate, payment amount, payment structure, maturity date, late payment charges, NSF check charges, and authorized signer names and titles.
Loan Agreement	Required for every business loan and will be signed by the client and authorized signer for HYFC The original executed document will be kept in a secure location at HYFC office, and a copy will be kept in the client's file. This agreement obligates the client to meet all loan requirements during the term of the loan. This includes loan terms and loan covenants.
Closing Statement	Listing of all sources and uses of funds.
Real Estate Mortgage	Security agreement/Deed of Trust to place a lien on real estate. The dollar amount of the lien should be properly noted on the mortgage as well as other pertinent information. Security agreement/Deed of Trust for real property should be recorded with the County the real property is located.

5.2. APPLICATION

All loan applicants are required to complete the standard loan application and provide supporting materials, including all financial information as dictated by loan program requirements. HYFC staff will screen the applications to confirm the applicant meets the eligibility requirements. The HYFC staff will assist the applicant in preparing the package when appropriate, answer any questions, and address any concerns that arise during the application process. HYFC staff will examine the applications for completeness and determine within 30 working days whether the proposed application conforms to the standards of HYFC Loan Policy. The HYFC staff will also determine if financial education, technical assistance or credit coaching is required to ensure the applicant is loan ready.

Once HYFC staff has completed its review of the loan application, the applicant will be informed of any deficiencies and requested to amend the application. From the date of notification of deficiencies, the applicant shall provide the necessary amendments and information within one hundred & twenty days (120) days, or the application will be considered closed. In unusual circumstances, HYFC may allow an extension in writing with a specified due date beyond one hundred and twenty days. Upon receipt of a completed application, HYFC staff will process the loan application.

As part of the preliminary determination, HYFC staff should conduct a preliminary review of credit and review application, income stated and credit bureau report to calculate the debt-to-income ratio. Preliminary credit checks include ordering a credit report, checking court documents, tribal status, identification requirements, as needed.

Once the eligibility has been determined and initial review has been completed, HYFC staff will notify the applicant by notice or personal contact that an initial determination has been made. If the applicant is ineligible for a loan, the HYFC staff will contact by phone or email and inform them of the reason for denial.

In the future, if an applicant reapplies for a loan, the applicant will need to fill out a new application and update all information, as necessary.

5.3. UNDERWRITING

HYFC staff is responsible for conducting all due diligence required to properly underwrite the loan. This includes evaluating income and credit history, reviewing historical financial statements, examining business documents, and conducting pertinent financial analysis. This is a dynamic process and the length of time required will be different in every loan. By conducting the due diligence properly, HYFC staff learns the strengths and weaknesses of the applicant and ensure the applicant is loan ready.

Regardless of loan product, HYFC staff must evaluate the applicant by determining affordability of the loan, whether the applicant is income eligible, and if the applicant can demonstrate a credit history that indicates the ability to repay a loan.

One criterion in determining whether an applicant can afford a loan is the availability of the applicant’s income to make a loan payment. HYFC bases the analysis of affordability on the percentage of the applicant’s debt-to-income ratio (debt service coverage ratio in business loans). A credit report will be pulled to verify applicant’s debts. HYFC staff will also need to verify that the applicant’s income is steady and dependable.

HYFC may submit various forms for employment verification to the employer for verification, if needed.

If the applicant is self-employed, the applicant must provide two years of self-employment verification of income. The applicant will need to provide signed copies of their IRS Tax Forms or a Schedule C from their previous two year's State and Federal income tax return.

Income will be calculated by gross income.

The income documents must be the "most recent" as of the date the loan application is made, must clearly identify the applicant as the employees by name and/or social security number, must show the gross earnings for that pay period and year-to-date, and must be computer-generated or typed.

For employment verification, HYFC will document in the record the date of contact and list the following: employer's name, address, phone number, contact person, and contact title; the employee's name, date of employment, present position, and probability of continued employment; and the amounts of current base pay and other income, such as overtime, bonus, commissions, etc. along with the likelihood that the level of current earnings will continue. HYFC staff will place their name and title next to this verification in the record. If HYFC staff determines that an applicant's income source is unstable and undependable, the income must be excluded.

HYFC staff will use income information to 1) determine whether an applicant is eligible for a loan; 2) calculate the applicant's ability to repay a loan; and 3) determine the amount of the loan. When reviewing the applicant's ability to make a payment, HYFC staff must determine whether the income is stable and dependable. HYFC staff will generally need to look at a two-year history to determine whether the applicant's income is dependable.

Wage and Salary Income	Income from employment that may include a base hourly wage or salary, overtime pay, commissions, fees, tips, bonuses, housing allowances, and other compensation. When the applicant demonstrates a one-year history of stable or rising income, income from this source may be used unless there is evidence to the contrary (such as the employer's indication that such income is not likely to continue).
Gross Income	Is based on current verified income of the Borrower at the time the loan application is submitted.
Average Income	In those fields where income fluctuates from year to year and cannot be verified as a constant figure, the verification of year to

date and previous two years income will be averaged. However, if the pattern of income is not stable or increasing, a conservative view will be taken, and financing may not be available.

Self-employment Income

A Borrower who has an ownership interest in 25% or more of a business is self-employed. Even if salaried income would be enough to meet qualifying rations, the business must be analyzed to determine that it will not negatively impact the personal income and assets of the Borrower. Corporate, partnership or S Corporation income to qualify the Borrower will be considered only if the Borrower has the legal right to draw additional income from the corporation and can provide evidence of access to funds. If a Borrower has been self-employed for less than two full years, generally financing will not be available unless special circumstances warrant consideration and financing may not be at the maximum level.

The Borrower must provide for review, signed federal income tax returns including all applicable schedules for the most current two years, a current year to date profit and loss statement dated no more than 120 days prior to the closing date of the loan and a balance sheet for the previous two years if the business is a sole proprietorship.

If current year income has decreased from income reported on tax returns, the income used to qualify the Borrower must be based on the lowest earnings to represent a conservative underwriting approach. A continuing large decline in gross income over two or more years should be closely reviewed and may not be considered as acceptable even if the current income and debt ratios meet acceptable guidelines.

Income should be averaged from only the most recent two years' tax returns, provided the returns evidence stable or increasing income. The year-to-date profit and loss should evidence the business is continuing to be profitable at or above the same level shown on the tax returns. If the profit and loss statement show approximately the same income and expenses as the tax returns, the profit and loss statement may be completed by an independent accountant. It should not be completed by the borrower, a family member, or an employee.

When calculating Self-Employment Income, HYFC staff will calculate the net profit (item #31 on Schedule C or item #36 on Schedule F) and add the following to the net income:

- Depletion (item #12 on Schedule C/this item is not applicable on Schedule F)
- Depreciation (item #13 on Schedule C or item #16 on Schedule F)
- Interest (item #16a and b on Schedule C or item #23a and b on Schedule F)

Note: Line-item numbers are subject to change.

Commission Income

As commission income may be subject to fluctuations from year to year, an average of the last two years' earnings should be used in evaluation the Borrower's income qualifications. Commission income must be supported by federal income tax returns for the previous two years. Less than a two-year history of commission earnings is generally not acceptable unless there are significant compensating factors.

Rental Income

Must be verified by the most recent two years of tax returns. And must take into consideration that the income may be less than the actual loss from rental operations.

Overtime, Bonuses, and Other Earnings

Income received for overtime work, bonuses, incentive plans, etc., will not be included as effective income unless it is established that such earnings are characteristic of the employer, type of employment, and are of a continuing nature.

Second Jobs

Income from a second job will not be considered as effective income unless the Borrower has demonstrated a history of working a second job for at least two years and in conjunction with full-time employment.

Typically, the Borrower must have established a minimum of 12-month history of overtime earnings and a 24-month history of bonus income before it will be considered as effective income.

Seasonal Income

Will only be considered if the applicant can provide two years of history of earnings. The applicant must provide the most recent Federal Income Tax Returns, the prior year's W2s, and/or the prior year's 1099 statements.

Contractual Income	Based on the contract, the income may be considered if it covers the duration of the payback period. Applicant to provide 1099's to verify contractual income.
Child Support or Alimony	In instances where a Borrower is relying on child support or alimony received as a portion of the monthly effective income, a copy of the divorce decree evidencing continuation for at least three years from the date of application must be provided in addition to evidence that the funds have been received for the last 12 months. Acceptable evidence includes cancelled checks, court letter of payment, if paid through court system or tax returns.
Permanent Fund Distribution	Is not counted as income for qualifying purposes in calculating ratios. The funds may be used as an asset available for down payment and closing costs.
Social Security/Retirement Income/Longevity Bonus	Income from Social Security benefits other retirement programs or longevity bonus will be considered as effective income providing the benefits are permanent, or if they contain a defined expiration date disclosing at least three years remaining at the time of application. Acceptable verification is a copy of the Social Security Award letter, a copy of your longevity bonus check, or other retirement award letters which clearly stipulate the duration and amount of benefit the Borrower will receive.
Interest and Dividend Income	May be used if it is properly documented and has been received for the past two years and is anticipated to continue for at least the next three years.
Other Sources of Income	Retirement, Disability, Worker's Compensation, and/or Foster Care Income for children or adults. *Note: Applicant must provide evidence of a 30-day history of receiving any of these benefits.*

Total Debt-to-Income Ratio will be determined by a ratio of the applicant's income to debt. The Loan Officer will determine the applicant's overall debt based on the monthly payments listed on the credit report as well as legal documents, as needed. The Total Debt-to-Income Ratio should not exceed the minimum DTI per loan product. More stringent percentages are used in certain loan products. Fixed expenses that are verified on the applicant's credit report or check stubs are considered in this calculation.

The following sources of income are never considered when calculating income:

- Temporary, non-recurring, or sporadic income (including gifts and unemployment),
- Income from the employment of persons under 18 years of age,
- Child Support,
- Permanent Fund Distribution (may be used for down payment but not DTI)

The HYFC staff will evaluate the credit history of each proposed party in the Note. A joint application can be accepted from a co-borrower if the borrower alone cannot satisfy the credit requirement. An applicant's overall credit record must demonstrate an ability and willingness to repay the obligation.

If necessary, HYFC staff will evaluate all derogatory credit of each proposed party to the Note. Once derogatory credit is determined accurate, the HYFC staff will calculate 5% of all derogatory credit and this amount will be applied to the applicant's total debt-to-income ratio.

Under no circumstances will an applicant be determined eligible if the applicant has defaulted on a HYFC loan in the past.

There may be special circumstances where the applicant is deemed ineligible based upon past loan repayment history. These will be handled on a case-by-case basis. Persons with prior delinquent loan history with special circumstances may be considered for a loan in the future, but stricter guidelines may be considered. These guidelines may include rigorous evaluation of other debts paid in a timely manner, a shorter amortization period for the requested loan, a higher interest rate, etc. This information will be included in the credit review and approved by the appropriate lending authority. The waiting period to reevaluate the borrower will be one year from the time the previous loan was paid in full.

Additional income and financial analysis may be required based on the loan product.

All analysis is compared to the applicable risk rating rubric to determine a loans approvability and risk rating. All risk rating rubrics are in the HYFC Revolving Loan Fund Policy.

Once all due diligence is completed, HYFC staff will create a written credit presentation called the credit memo. The credit memo is used to explain the nature and purpose of the loan transaction and perform a detailed credit analysis. All loans, regardless of their size, require a credit memo. Once prepared, this document shall be presented to the proper approval authority to make the credit decision.

Every loan transaction is unique, and each loan product has specific requirements. In general, consumer and housing credit memos will include the below to attain a consistent underwriting process and philosophy.

Consumer loans require the following:

- Borrower name,
- Loan amount, interest rate, collateral, guarantors, and repayment terms,
- Detailed explanations of the use of loan proceeds (sources and uses statement),
- Analysis and explanation of historic financial statements, as needed,
- Financial analysis, including debt-to-income ratio,
- Explanation and evaluation of collateral, and
- Financial strength and credit history of the borrower.

Housing loans require the following:

- Borrower name,
- Loan amount, interest rate, collateral, guarantors, and repayment terms,
- Detailed explanations of the use of loan proceeds (sources and uses statement),
- Analysis and explanation of historic financial statements, as needed,
- Verification of assets to ensure funds for down payment,
- Financial & collateral analysis, including housing ratio and debt-to-income ratio,
- Appraisal completed by a licensed appraiser, or other approved valuation method and
- Financial strength and credit history of the borrower.

5.4. APPROVAL

Once the credit memo is complete, the HYFC Manager presents it to the appropriate lending authority for approval.

The HYFC Director reviews and approves of the loan recommendation.

The HYFC Director and HYFC President/CEO approves all loans up to $50,000

Loan Committee approves all loans and loan fundings that exceed $50,000 and all loans for any dollar amount that have a loan exception to the approved loan policy.

If needed, loan approvals are escalated to the Lending Committee and/or Board of Directors according to the approval authority guidelines in the HYFC Revolving Loan Fund Policies.

Once the loan receives the appropriate approval, HYFC staff prepares the Loan Approval Letter and signs it as an authorized representative of HYFC. The letter should specify all loan terms and other conditions of the loan. The letter should be signed by the borrower to accept loan conditions.

5.5. DECLINE RECOURSE BY APPLICANT

If an applicant disagrees with HYFC reason(s) for declining a loan request, the applicant may in writing request a clarification up to 30 days after receiving a loan decision. In such case, the applicant must first submit a written request to the HYFC Manager or designee who shall review the request considering the requirements set forth in Loan Policy. The HYFC Manager or designee will provide a written response to the applicant. If the applicant does not agree with the HYFC Manager's response the applicant has the option to send a written request to the Board of Directors. The finding(s) shall be reviewed by the Board of Director's at its next designated meeting and a vote taken. A majority vote by those members present shall govern. Said decision shall be final. (Note that this process shall be used at any point in the loan application process wherein the loan is turned down and the applicant notified of the loan decision in writing).

An applicant may withdraw an application, however, will be responsible for all third-party fees incurred by HYFC in processing the application. Fees could include appraisal fees, credit report fee, tax service fee, title fees, inspection fees, etc.

5.6. LOAN COLLATERAL REQUIREMENTS

Collateral will be required for housing loans. Collateral represents additional protection and a secondary repayment source. Unsecured loans are acceptable for credit builder loans.

Collateral shall be analyzed and explained thoroughly and discussed in the Loan Recommendation. The discussion should include a collateral description (i.e., age, type, description, and condition), valuation source, date, marketability, and other relevant factors which are important in determining the adequacy of the collateral.

When an extension of credit is secured by collateral, HYFC staff is responsible for:

- Ensuring proper completion and filing of all necessary documents to perfect HYFC's security interest,
- Monitoring of the continued perfection of the HYFC security interest,
- Ensuring that collateral documentation is forwarded to the appropriate personnel for tracking,
- Ensuring evidence of current and ongoing insurance coverages (including flood insurance if applicable), and
- Ensuring that HYFC is named as Lender Loss Payee or Additional Insured on all insurance policies for secured loans.

5.7. COLLATERAL RELEASE AND SUBSTITUTION

All collateral securing a loan must remain in place until the loan has been satisfied. Once a loan has been satisfied and is paid in full HYFC staff may prepare the appropriate lien releases/reconveyances to release the collateral back to the borrower. All lien release/reconveyance documents must be approved by the HYFC Manager or designee.

5.8. CONDITIONAL APPROVAL LETTER

All housing loans will require a Conditional Approval Letter.

HYFC uses a Conditional Approval Letter to summarize the terms and conditions, including any contingencies, of the loan approval for the borrower. The Letter is a legal agreement between the applicant and HYFC and obligates HYFC to disburse the loan should the applicant satisfy its obligations, including pre-closing conditions, outlined therein within 60 days of the loan approval.

After obtaining a Loan Approval, HYFC staff drafts a Conditional Approval Letter that reflects the terms and conditions contained in the loan approval. The Conditional Approval Letter includes any loan contingencies. HYFC staff submits the Conditional Approval letter for approval to the HYFC Manager, and then to the applicant.

The Conditional Approval Letter is the basis for discussions and negotiations with the applicant. Changes that would cause the terms of the Conditional Approval Letter to materially deviate from those of the Loan Approval must be approved by the original approving parties. The approval for the deviation is noted on or attached to the signature page of the Loan Recommendation.

The HYFC Manager or a designated alternate has authority to sign the Conditional Approval Letter on behalf of HYFC. The signatory confirms that the terms and conditions of the Conditional Approval Letter and loan approval are consistent in all material respects.

The applicant must confirm the acceptance of terms and covenants listed in the Conditional Approval Letter via email from an authorized party or via letter signed by authorized party.

5.9. CLOSING

The Loan Servicing Specialist prepares the loan documentation. All loans must have a promissory note and specific loan products require additional documents, such as security agreements.

The Loan Servicing Specialist prepares the Release of Funds paperwork and acquires signatures on checks in accordance with HYFC signature authority. All checks above $100,000 will require an authorized signature from the President/CEO, CFO, HYFC Director or THRHA Director of Administrative Services. The President/CEO can be the sole signer of checks up to $100,000.

Loan Servicing Specialist or designated staff will oversee all consumer loan closings. Once all documentation has be explained to and signed by the borrower, the funds will be disbursed via check or wire disbursement to the appropriate parties based on the set up of the loan.

All real estate secured loans are closed at the title company. HYFC staff prepares all loan documents and submits them to the title company for the closing package.

5.10. POST LOAN CLOSING

The Loan Servicing Specialist prepares and files with the appropriate agency all the proper legal documents to secure HYFC's collateral lien position for all collateral pledged to support an approved loan.

6. LOAN ADMINISTRATION

6.1. LOAN BOOKING

All loans closed must be booked immediately to HYFC internal systems. This consists of entering all loan details into HYFC loan management software system, and all financial details of the loan details into HYFC accounting system.

6.2. LOAN DISBURSEMENTS

All loan disbursements must be supported by closing loan documents. Each document must be checked for accuracy and executed properly with all applicable signatures. Funds will be disbursed from the appropriate HYFC bank account. Disbursements can include payments to the Borrower for the Net Loan Proceeds, or the title company for loan funding. All disbursements made shall match the disbursements on the closing statement.

6.3. INVOICES TO BORROWERS FOR LOAN PAYMENTS

The loan management system will be used to generate the loan payment invoices. When the loan is booked to the system, the proper payment amount and frequency needs to be established and shall match the payment terms of the Note.

6.4. APPLICATION OF LOAN PAYMENTS

Loan payments should be applied first to interest, then to principal, then to late fees and other charges. The exception to this rule is when a loan is distressed, or in collection, then the payments should be applied to principle to reduce the loan balance and minimize any loan loss.

6.5. LOAN FILES

Loan files will be established for all borrowers. To provide the organization with an adequate understanding and history of the loan relationship, the loan file will contain all information regarding the borrower. This includes but is not limited to the following:

- Completed Loan Application,
- Approved Loan Credit Memo Document,
- Executed Loan Closing Documents,
- Signed Borrower's Authorization, which gives HYFC the authorization to obtain a credit report, if not specifically stated in loan application,
- Credit report for all individuals and guarantors,
- Articles of Incorporation,
- Operating Agreement (for an LLC),
- Partnership Agreement (for a partnership),
- EIN# for a business entity,
- SSN# for individuals and guarantors,
- Title search for all loans secured by real property,
- Financial Statements,
- Financial Analysis Spreadsheets,
- Tax Returns – Business and Individual,
- Personal Financial Statements,
- Loan Officer comments and file memos,
- Correspondence with the Borrower, including pertinent emails,
- Evidence of insurance, and,
- Any loan amendments or other legal agreements between HYFC & Borrower,
- Annual Reviews of the loan,
- Milestone schedules and dates of compliance
- Periodic disclosures from Borrower
- Log of discussions between HYFC and Borrower, including site visit notes

Loan Files are maintained in the HYFC office in a fire-safe cabinet.

7. LOAN SERVICING

7.1 CONFIRMATION OF PAYMENT STATUS

All payments received from borrowers shall be applied first to satisfy any outstanding Late Fees, second to escrow account, third to accrued interest, and finally to reduce loan principal.

The Loan Servicer is responsible for 1) confirming whether all payments have been received, 2) recording payments in the loan software and 3) maintaining the loan software.

7.2 PERIODIC DISCLOSURES FROM BORROWERS

The Loan Servicer is responsible for confirming the receipt of periodic disclosures (milestone schedules, financial statements, new product updates, confirmation of insurance, impact reports) required under the Loan Agreement. If disclosures are not received when due, the Loan Servicer will contact the Borrower(s) to discuss better performance of disclosure obligations. Failure to respond on the part of the Borrower constitutes a technical default under the loan documents.

The Loan Servicer reviews all disclosures from Borrower(s) to determine whether the condition of the borrower has improved or deteriorated since the Loan Rating was last reviewed and reports any material changes to the Director of HYFC or President/CEO.

8. PORTFOLIO REPORTING AND MONITORING

All portfolio reporting and monitoring is done by the Portfolio Management Team, including the HYFC Manager, HYFC Director, and Loan Servicing Specialist.

The HYFC Manager is responsible for tracking and reporting to the President/CEO & PRESIDENT/CEO, and the Board of Directors the performance of the portfolio in accordance with these policies.

8.1. MONTHLY PORTFOLIO SUMMARY

The Loan Servicing Specialist will produce a monthly portfolio summary to be distributed to the HYFC President/CEO after review and approval by the HYFC Manager. This report will include:

- Name of the Borrower(s),
- Original amount of the loan,
- Disbursement date,
- Maturity date,
- Interest rate,
- Outstanding balance,
- Any disbursements to be made in the future under the existing loan documents delinquency status,
- Loan rating, and
- Loan loss reserve.

8.2. MONTHLY ACTIVITY REPORTS

For each meeting of the BOD, the HYFC Manager will provide the following most recent Activity Reporting:

The Loan Portfolio Report
A report showing current and historical total loans outstanding, current commitments, capital available, total CECL, YTD loans (number and dollar amount), income and fees, and diversification. The Portfolio report also includes a list of the loans that are 60 – 89 days late, 90+ days late and over 120 days late.

The Capitalization Report
A report outlining the amount available for lending, including contributions to the investment fund(s) received since the last quarter, plans for capitalization to be obtained over the next twelve months, total loans outstanding and deployment ratio.

Assessment of Sufficiency of CECL
At least quarterly, the Portfolio and Operations Manager determines the necessary change, if any, to the CECL to accommodate the delinquent payment status of Borrowers, and any changes in the expected risk profile of the portfolio, that are identified by Loan Staff's periodic portfolio reviews.

The Portfolio and Operations Manager will recommend changes in the CECL to the President/CEO & PRESIDENT/CEO and the CFO will post such changes, accompanied by the appropriate loan loss expense.

Loan Fund Investment Guidelines
The CFO, with the President/CEO & PRESIDENT/CEO's oversight, will deposit undisbursed loan funds in FDIC-insured, interest-earning bank account(s). The CFO will seek the highest interest-bearing bank accounts they can find while preserving sufficient liquidity to meet funding requirements over the next twelve months.

Liquidity Reserve
The dollar amount or percentage of payments due to lenders during next 12 months.
For each meeting of the BOD, the HYFC Manager presents a report outlining:

8.3. ANNUAL REVIEW

All loans require an annual review. Annual reviews will include a review of payment history, insurance is in place and any events that would cause a change in risk rating. Annual reviews can include requesting information from the borrower. If it is determined that reporting will be required of the borrower, that reporting should be included in the loan agreement.

9. CURRENT EXEPECTED CREDIT LOSS ASSIGNMENTS

The CECL assignment will be based on the HYFC CECL policy.

9.1. PRIOR-TO-CLOSING – BORROWER RISK RATING

HYFC staff assigns a risk rating to each loan as part of the due diligence process. Only loans with a risk rating of 1, 2, or 3 (regardless of loan type) will be deemed approvable loans.

9.2. POST-CLOSING – MONITORING BORROWER RISK RATING

On a regularly set basis, the Portfolio Management Team will determine necessary changes to the a borrower risk rating in tandem to the delinquent payment status of the borrower, or any changes in the risk profile of the portfolio that are identified by HYFC Lending Department's periodic portfolio reviews and will refer to the Lending Committee and/or Board of Directors, as needed.

The Portfolio Management Team will assess and, if needed, revise the risk rating for each loan based on matrix below.

After the sixth scheduled payment date, from time to time, the Loan Staff may modify the Risk Rating as a result of the borrower's delinquency history as well as the staff's monitoring efforts.

Loans that have had a workout or modification of loan terms to avoid a loan default, will remain a F-rating throughout the life of the loan.

Delinquency	Risk Rating Downgrade	Risk Rating Upgrade
30 days – no more than one time in last six months	Reduce rating by one category	One quarter of on-time payments
60 days – no more than one time last six months	Reduce rating by one additional category	Two quarters of on-time payments
90 days	Reduce rating by one additional category	Three quarters of on-time payments
120 days	Reduce rating by one additional category	One year of on-time payments
180 days	Write-off	

9.3. UPGRADES

Potential loan upgrades in Loan Risk Rating will meet the following conditions:

- Less than 80% LTV on discounted collateral value,
- 24 months of on-time payment history, and
- Upgrade may only increase one risk rating level.

10. DELINQUENCY, DEFAULT, AND COLLECTIONS

As part of its collection policy and practices, HYFC attempts to understand the cause(s) of a borrower's delinquency to work with the borrower to address those causes, and to give the borrower adequate opportunity to cure the short-term difficulties causing the delinquency before moving to a workout plan.

HYFC Lending Department will maintain documentation of all communication regarding past due payments.

If attempts to cure the delinquency fail to result in a positive loan payment status and default is imminent, HYFC will initiate vigorous collections, within the limits of Alaska's consumer protection laws, including:

- Foreclosure on real estate securing loans,
- Filing judgments against Borrowers or guarantors, and
- Payment of any government guarantees that secure individual loans (such as USDA loans).

Our legal actions maximize protection of its capital on behalf of HYFC.

Acknowledging that loan cancellation may carry tax consequences to the borrower, HYFC must report such cancellations to appropriate entities.

10.1. LATE FEES

A late fee will be charged on the 15th day following a missing payment and assessed monthly until the loan is brought current. Late fees may be reversed if it is found that the collection problem was not that of the client or if a client works with a Loan Officer to cure and address any late payments immediately. It shall be tracked as a separate assessed fee. Late fee will be charged to the loan. Collection of payment will be applied first to late fees, then to interest, and finally, principal.

10.2. LATE PAYMENTS

Under the Fair Debt Collection Practices Act, calls may be made between 8:00 a.m. and 9:00 p.m. Calls cannot be made to the debtor's workplace, if they have requested you not contact them at work.

HYFC will maintain a log of all verbal and written communication about past due payments. Every action below will be documented and recorded in the log.

Days Late	Responsible Party	Task	Action
10	Loan Servicing Specialist	1) Attempts to contact borrower via email or phone to obtain commitment for payment, and 2) Reminds borrower of late fees to be assessed after 15 days.	First contact
10	Loan Servicing Specialist	1) Emails first written notice of delinquency with a request for reply and a commitment for payment.	First written notice
10	Loan Servicing Specialist	1) Attempt to contact borrower daily if there has been no contact with the borrower since the payment became late.	Daily Follow-Up
15	Loan Software	1) Late fees begin accruing automatically.	Late Fees Accruing
30	Loan Servicing Specialist	1) Makes call to borrower and Emails second written notice of delinquency with a request for reply and a commitment for payment, and 2) Notifies the HYFC Manager of the delinquency. 3) Review loan file to confirm that collateral, security, and other documentation is in place and in order and that all insurance required by the borrower is in place so as to protect HYFC's foreclosure and other rights. 4) Update loan software with downgrade	Second written notice Delinquency escalated
30	HYFC Manager	1) Reviews delinquent loan and drops loan rating by one point if necessary, and 2) Notifies HYFC Director of rating change and delinquency.	Loan Rating Drop President/CEO notified
45	Loan Servicer & Financial Counselor	1) Attempts to meet with the borrower for one-on-one financial coaching. The goal of this meeting is to develop a Client Action Plan with the Borrower to bring the Borrower current and/or to identify a co-signer for the loan.	Request meeting to set action plan w/ Client.
60	HYFC Manager	1) Attempts to meet with the borrower to obtain a commitment for repayment and to determine training needs,	Third Written Notice – Demand Letter

<table>
<tr><td></td><td></td><td>2) Emails third written notice of delinquency with an explanation of urgency, a request for reply, and a commitment for payment with the HYFC Director and President/CEO copied,
3) Drops loan rating by one point and notifies the HYFC Director and President/CEO of the drop,
4) Adds the loan to the agenda list for the next Lending Committee meeting, and
5) Executes the 60-Day Action from the Lending Committee.</td><td>2nd Loan Rating Drop</td></tr>
<tr><td>60</td><td>HYFC Manager</td><td>1) At the next Lending Committee meeting, makes a full report detailing the nature of the delinquency and recommending a course of action such as:
a. Contacting the borrower’s other funders,
b. Inspecting the borrower’s operations,
c. Engaging legal counsel,
d. Sending a technical assistance provider to the borrower to work on the problems identified by the borrower and/or the lender,
e. Restructuring the loan if the Lending Department can demonstrate it is reasonably likely that the borrower can repay the loan in the future,
f. Recommending write-off to the Board at its next meeting, or
g. Continuing with no action until the next Board meeting.</td><td>Lending Committee Notified</td></tr>
<tr><td>60</td><td>Loan Committee</td><td>1) Approves a course of action.</td><td>60-Day Action</td></tr>
<tr><td>90</td><td>Loan Servicing Specialist</td><td>1) Set loan software to non-accrual status, and
2) Notifies the HYFC Manager and Director of the update.</td><td>Non-Accrual Status 4th written notice sent. Notice of default letter w/ intent to pursue legal action.</td></tr>
<tr><td>90</td><td>HYFC Manager</td><td>1) Drops the Loan Rating by one point and notifies the HYFC Director and HYFC President/CEO of the drop,
2) Adds the loan to the agenda list for the next Board meeting, and
3) Carries out the 90-Day Action.</td><td>3rd Loan Rating Drop</td></tr>
<tr><td>90</td><td>Accounting Department</td><td>1) Reviews and updates the loan loss reserve if necessary.</td><td>Update LLR</td></tr>
<tr><td>90</td><td>HYFC Manager
Loan Committee
Financial Counselor</td><td>1) At the next loan committee meeting, makes a full report to the members, recommending a course of action such as:</td><td></td></tr>
</table>

	Accounting Department	a. Contacting the borrower's other funders, b. Inspecting the borrower's collateral, c. The Financial Counselor will develop a Client Action Plan to identify the problems and goals set by the borrower and/or the lender. d. Engaging legal counsel, e. Restructuring the loan if the Lending Department can demonstrate it is reasonably likely that the borrower can repay the loan in the future, or f. If payment is unlikely, prepare to Write-off loan before the next fiscal year end.	
90	Loan Committee	1) Approves a course of action.	90-Day Action
120	HYFC Manager	1) Drops the Loan Rating by one point and notifies the HYFC Director and President/CEO of the drop.	4th Loan Rating Drop
120	HYFC Director Accounting Department	1) Reviews and updates the loan loss reserve if necessary.	Update LLR
120	HYFC Director Board	1) At the next Loan Committee, the HYFC Manager will present a detailed account of the borrower's status. The Board will again examine the situation and decide whether to restructure or write off the loan.	Restructure or Write-off
180	HYFC Director Accounting Department	1) Increases the provision for loss assigned to the affected loan to 100%.	Automatic Write-off
180	Lending Department	1) Does NOT inform the borrower of the change in the loan status internally at White Buffalo and continues collection efforts until either a bankruptcy notice has been reviewed by HYFC legal counsel or the Loan Committee directs the Staff to cease.	Collection Efforts
180	Accounting Department	1) Some time prior to the beginning of the next fiscal year, writes off the uncollected principal, accrued interest and fees from the Reserve account, adjusting the Reserve to equal or exceed the aggregate of the Reserves assigned to each loan remaining in the portfolio. The Accounting Department books any subsequent recoveries as a gain (Recovery of Bad Debts) on the Statement of Activities.	Adjust Reserves

10.3. RENEWALS, RESTRUCTURE, AND WORKOUTS

HYFC is committed to assisting the Borrower maintain their mortgage. The Borrower is required to contact HYFC and to participate in Financial Counseling. HYFC does not use restructuring as a way of delaying foreclosures but considers restructuring of certain delinquent loans only if:

A. The borrower's financial situation has changed significantly since the closing of the loan.

B. If it appears that lowering payments and extending the loan term are likely to help the borrower become current with the loan.

C. A disaster has been declared. In this situation HYFC will follow its Disaster Relief Policy.

When borrowers report financial difficulties that prevent them from performing their contractual payment obligations, such as loss of job, medical emergency, or change in family circumstances, HYFC may prudently assist on a case-by-case basis in order that the loan may remain current or cured of its delinquency.

HYFC documentation identifies and tracks any loan that is re-aged, extended, deferred, renewed, or rewritten, or in workout and includes the number of times such action has been taken by HYFC

Additionally, this documentation validates that HYFC personnel communicated with the borrower, the borrower agreed to pay the loan in full, and the borrower can repay the loan.

HYFC Manager will prepare a written workout and recovery plan that is approved by the HYFC Director and President/CEO. May need loan committee approval as outlined in loan policy.

10.4. REWRITE

Underwriting an existing loan by significantly changing its terms, including payment amounts, interest rates, amortization schedules, or its final maturity.

10.5. EXTENSIONS

- Extending monthly payments on a closed end loan and rolling back the maturity by the number of months extended.
- The account is shown current upon granting the extension.
- If extension fees are assessed, they should be collected at the time of the extension and not added to the balance of the loan.

10.6. DEFERRALS

The account is shown current upon granting the deferral.

10.7. ACTIVE-DUTY LOANS

These loans will be handled in accordance with applicable Federal law(s).

10.8. COLLECTION AGENCY

Delinquent accounts may be sent to a collection agency and will be handled by the collection agency from that point forward. Collection Agency handles all processes associated with judgements. In such cases, HYFC no longer has control over resolution of the account.

If at any time during the delinquency and prior to turning over to Collections, the Loan Officer contacts the borrower and resolves the problem, the Director of Lending or President/CEO may approve to suspend any further collection proceedings.

11. FORBEARANCE

Definition of Forbearance
Forbearance is when HYFC allows the Borrower to temporarily pay their mortgage at a lower payment or pause paying the monthly mortgage.

Borrowers will have to repay a payment reduction or the paused payments back later.

Forbearance Guidelines
Forbearance is for emergencies only and is requested by the borrower, and the loan officer and will require approval from the Director of HYFC or President/CEO.

Length of Forbearance is determined by type of emergency, but the maximum approved length is 12 months or 365 days.

HYFC will implement 3 different types of forbearance based on the type of emergency and situation:

- Informal Forbearance, up to 3 months or 90 days, applies only to changes regarding income.
- Formal Forbearance, up to 6 months or 180 days, applies only to income changes, divorce, or death of the borrower.
- Special Forbearance, up to 12 months or 365 days, applies only to special circumstances such as emergency disaster, serious injuries, or death of the borrower.

If Forbearance is approved, the borrower is required to sign a revised promissory note with the updated timeline of when the loan will be paid in full.

All forbearances require a forbearance agreement that identifies the emergency, estimated timeline, and signed by both the borrower and Director of HYFC or President/CEO.

12. FORECLOSURE

In most instances, a foreclosure on collateral will be viewed as the last option. There are, however, instances when foreclosure is the only remedy to a deteriorating situation. Foreclosure may only take place with the concurrence of the President/CEO prior to initiation of foreclosure proceedings by the staff.

All foreclosure proceedings and actions should be taken in such a way as to maximize protection of HYFC's capital and the interests of affected parties, including employees and customers of the Borrower.

1. The Foreclosure process starts when the Demand letter expires.
2. The Loan Servicer turns the Borrower's file over to HYFC's attorney.
3. The Attorney provides Beneficiary's Declaration of Default to a local title company to file a Notice of Default and Notice of Sale.
4. HYFC has the first right of refusal on all properties in its loan portfolio. If HYFC chooses not to purchase the property at the value owed on the mortgage, then the attorney will proceed with letter E.
5. The attorney provides the recorded Notice of Default and Notice of Sale to a process server who posts the notice on the property. Notice of Default and Notice of Sale state the set day, time, and which courthouse the sale will be announced. The Borrower has until that set day and time to bring the loan current. If the loan is not current by that date and time the lender may sell the house to the highest bidder. If there is no bidder, then the property is turned over to the lender.
6. If the property is turned over to the lender on the set date and time as stated in the Notice of Default and Notice of Sale, the lender must post notice stating that they are now the owner of the property.
    a) If the property is still occupied, the Loan Servicer must file an eviction notice with the court. The Attorney will do this process upon request.
    b) If the property is unoccupied, the Loan Servicer must have the locks changed, and start preparing the property for the next steps.

13. APPENDICES

13.1. CONSUMER CREDIT MEMO TEMPLATE

13.2. HOUSING LOAN CREDIT MEMO TEMPLATE