

# Loan Participation Program (LPP) - Program Policy

Southern Oregon Regional Economic Development, Inc. (SORED)



<b>Approved by:</b>	SORED Board of Directors
<b>Effective Date:</b>	February 10, 2026
<b>Supersedes:</b>	All prior SORED loan participation directives

## 1. Relationship to the Master Credit Policy

This Program Policy ("Policy") operates under and is governed by the SORED Master Credit Policy. It establishes program-specific parameters for SORED's Loan Participation Program with regulated financial institutions in commercial real estate transactions. Where this Policy references standards already established in the Master Credit Policy, the Master controls. If conflicts arise, the stricter requirement will apply unless an approved exception is documented per the Master Credit Policy.

## 2. Program Overview & Purpose

SORED will participate alongside banks and credit unions (collectively, "Senior Lenders") in conventional commercial real estate (CRE) financing to increase the combined loan-to-value (LTV) up to 90%. By reducing the required cash down payment, the program preserves borrower liquidity and supports economic resilience while aligning with SORED's mission. The program is designed to be streamlined, quick to approve, and easy for Senior Lenders to market to eligible borrowers.

## 3. Senior Lender Eligibility & Lead Role

Eligible Senior Lenders are FDIC or NCUA-regulated institutions. The Senior Lender will be the lead underwriter and servicer of its own loan. SORED will rely on the Senior Lender's conventional underwriting and due diligence, subject to the minimum standards and documentation requirements in this Policy and the Master Credit Policy.

## 4. Borrower & Transaction Eligibility

- **Eligible Borrowers:** For-profit businesses with a primary operating presence in Jackson or Josephine County, Oregon.
- **Eligible Transactions:** Owner-occupied CRE purchases, expansions, construction, or renovation; or CRE acquired/held in support of an operating business (e.g., sale-leaseback to affiliated operating entity).

- Ineligible Uses: Passive real estate investment with no operating business component; speculative projects; any use prohibited by the Master Credit Policy or applicable funder requirements.

## 5. Loan Structures, Amounts, Rates & Fees

- Maximum Loan Amount: The maximum SOREDI loan participation amount is \$250,000 per transaction, unless a higher amount is specifically authorized by the full SOREDI Board of Directors.
- Participation Amount: Sized so that the combined Senior Lender + SOREDI exposure does not exceed 90% LTV, based on the Senior Lender's accepted valuation. SOREDI's share typically ranges from 5% to 25% of total project debt, subject to fund availability and portfolio limits.
- Term & Amortization: SOREDI will match the Senior Lender's amortization schedule; the maximum SOREDI note term is 10 years. Balloons are permitted.
- Pricing: SOREDI will match the Senior Lender's interest rate. Where a funding source imposes minimum rate or term constraints, SOREDI will meet or exceed those requirements.
- Application Fee: \$200, due upon submission of a substantially complete package for underwriting.
- Late Fee: A \$25 late fee may be assessed when payments are not received within the grace period set forth in the loan documents.
- Origination Fee: SOREDI will match the Senior Lender's fee.
- Prepayment Fee: SOREDI does not charge a fee for early prepayment.
- Third-Party Costs: All third-party closing costs (e.g., title, appraisal, environmental, recording) are paid by the borrower and cannot be financed by SOREDI.

## 6. Underwriting Standards (Reliance + Minimum Coverage)

Reliance: SOREDI will adopt the Senior Lender's underwriting criteria and conclusions where the Senior Lender's loan is conventional and made under its regulated standards, provided minimum coverage tests below are met and required documentation is provided.

Minimum Coverage: Historical or projected DSCR or Global DSCR must be at least 1.15:1, incorporating SOREDI's proposed debt service. If historical coverage is below 1.15:1, credible projections supported by written assumptions may be used to demonstrate  $\geq 1.15:1$  on a go-forward basis.

SORED I shall be insured with an appropriate amount of title insurance coverage to protect its interests depending on the type of transaction and collateral (ALTA extended/standard), including all applicable standard endorsements and/or any additional endorsements deemed necessary.

## 7. Documentation Required from Senior Lender

SORED I will maintain a complete file that includes copies of the Senior Lender's source documents and analyses. Documentation should generally include:

- Senior Lender credit approval memorandum.
- Borrower application package accepted by the Senior Lender (if applicable)
- Historical business financial statements (2–3 years) and tax returns, plus interim YTD (if applicable); personal financial statements and tax returns for guarantors as applicable.
- Pro forma projections and DSCR/global coverage analysis used by the Senior Lender, including assumptions (if applicable).
- Real property appraisal or evaluation accepted by the Senior Lender (USPAP/MAI where applicable).
- Environmental due diligence (e.g., Phase I ESA or appropriate screen/questionnaire) and any reliance letters, if available.
- Flood zone determination and evidence of flood insurance if in SFHA.
- Preliminary title report/commitment with pertinent endorsements; property tax status; draft deed of trust and assignment of rents (if applicable)
- Organizational documents for borrower and corporate guarantors (if applicable).
- Insurance binder(s): hazard/property, general liability; business interruption where required; SORED I named as mortgagee or lender's loss payee, as applicable.
- Rent roll and material leases if part of repayment or collateral.
- Construction budget, contractor information, permits, and draw schedule if applicable.
- Draft intercreditor or participation agreement (lien priority, voting, remedies, waterfall, cure rights).
- Senior loan terms (note summary and key covenants) sufficient to align amortization and rate on SORED I's note.

## 8. Collateral, Lien Positions, Intercreditor & Subordination Agreements

### Collateral

SORED I's loan will be secured by a deed of trust on the subject property and other collateral as appropriate. Personal or corporate guarantees are required from owners with  $\geq 20\%$  interest unless waived via approved exception.

### Lien Position

Generally subordinate to the Senior Lender; pari passu may be considered with documented terms.

### Intercreditor and Subordination Agreement

Each transaction will require an executed Intercreditor and Subordination Agreement between SORED I and the Senior Lender. This agreement will:

- Establish SORED I's security interest as subordinate to the Senior Lender's, regardless of filing or perfection timing.

- Define standstill and cure rights, payment waterfall, enforcement coordination, bankruptcy provisions, and compliance with EDA RLF and USDA IRP requirements (if applicable).
- Require the Senior Lender to provide SOREDI with prompt notice of default, and allow SOREDI consultation rights regarding enforcement actions.
- Ensure that recoveries, interest, and fee income attributable to EDA-funded loans are treated as RLF Income and applied per federal requirements.

## **9. Valuation & Environmental Review**

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SORED I may rely on the Senior Lender’s appraisal/valuation and environmental due diligence when documented and acceptable. Additional reviews may be required for higher-risk or atypical properties. Flood insurance will be required where applicable.

## **10. Closing & Funding**

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Conditions precedent must be satisfied per approval. Disbursement may occur concurrently with Senior Lender closing or immediately thereafter. Controlled disbursement (e.g., escrow/vendor pay) may be used for construction/improvement draws.

### Servicing Arrangements

At SORED I’s discretion, the Senior Lender may service SORED I’s loan participation for a reasonable fee, documented in the participation or servicing agreement. The Senior Lender will provide SORED I with timely access to payment records, default notices, and other material borrower communications as required for monitoring and compliance.

- The servicing fee amount and payment terms will be set in the participation agreement and must be reasonable, transparent, and consistent with SORED I’s cost recovery and compliance requirements.
- The servicing agreement must be executed prior to or at closing if the Senior Lender will service SORED I’s loan.

## **11. Monitoring & Reporting**

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SORED I will apply risk-based monitoring consistent with the Master Credit Policy: periodic financial reporting; insurance and tax ticklers; site visits as warranted; and portfolio reviews. Copies of material Senior Lender notices (e.g., covenant breaches, default notices) should be requested and retained.

The Senior Lender shall provide SORED I with copies of annual reviews of the borrower and/or loan, if such reviews are conducted as part of the Senior Lender’s standard portfolio management practices.

If the Senior Lender is servicing SOREDI's loan, the Senior Lender must provide SOREDI with timely access to payment records, notices of default, and any material borrower communications required for SOREDI's monitoring, portfolio review, and EDA/USDA reporting obligations.

## **12. Portfolio Limits & Risk Ratings**

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Loans under this Program are assigned risk ratings at approval and reviewed periodically, using SOREDI's seven-grade scale. Portfolio concentration and single-obligor limits will be assessed based on the size of the portfolio with considerations made for industry and market risk; to be monitored and adjusted by the Loan Manager.

## **13. Compliance Agreement**

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Transactions funded in whole or in part by federalized sources (e.g., EDA RLF, USDA IRP) must meet applicable plan requirements, minimum interest rate standards (unless waived), reporting, and RLF Income rules. Where such rules impose stricter terms than this Policy, they govern.

## **14. Exceptions**

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Policy exceptions may be approved when justified by mission impact and supported by documented mitigants. Exceptions must be transparent, infrequent, and approved at the appropriate level per the Master Credit Policy. All exceptions will be noted in the credit memorandum.

## **15. Effective Date**

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This Program Policy is effective on the date above and remains in force until amended by the Board.

Approved by the Board of Directors of Southern Oregon Regional Economic Development, Inc.

**Board President**

Chris DuBose

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

**Executive Director**

Blair Sundell

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

## **Appendix A (Glossary & Acronyms)**

**Assignment of Rents:** An instrument recorded with the deed of trust that assigns rental income from the property to secured lenders upon default or per agreement.

**Balloon:** A loan structure with amortization longer than the note term, requiring a lump-sum payment at maturity; permitted under this Program.

**Combined Loan-to-Value:** The loan-to-value resulting from the Senior Lender and SOREDI's principal loan balance divided by the collateral value.

**Deed of Trust:** The real property security instrument securing SOREDI's loan participation on the subject CRE.

**DSCR (Debt Service Coverage Ratio):** Cash flow capacity metric indicating ability to repay debt from cash flow; inclusive of SOREDI's debt service.

**EDA RLF (Economic Development Administration Revolving Loan Fund):** Federal capital source that may fund certain participations.

**Environmental Due Diligence:** Property environmental review accepted by the Senior Lender (e.g., Phase I Environmental Site Assessment or appropriate screen); reliance letters may be obtained as available.

**Evaluation:** A valuation alternative to an appraisal for certain bank transactions.

**FDIC / NCUA-Regulated Institution:** Eligible Senior Lenders under this Program are banks (FDIC insured) or credit unions (NCUA insured) that underwrite and service their own loans.

**Flood Zone Determination / SFHA:** Determination whether the property lies in a Special Flood Hazard Area; flood insurance is required if applicable.

**Global DSCR (Global Cash Flow Coverage Ratio):** Cash flow capacity metric consolidating borrower and guarantor sources and obligations; inclusive of SOREDI's debt service.

**Hazard / Property Insurance:** Insurance coverage on the collateral property; SOREDI is named appropriately (mortgagee clause or lender's loss payee) per closing requirements.

**Intercreditor Agreement:** Agreement between the Senior Lender and SOREDI establishing lien priority, voting, standstill/cure rights, remedies, bankruptcy provisions, and cash-flow waterfall.

**Lender's Loss Payee / Mortgagee Clause:** Insurance endorsements protecting lenders' interests in collateral; required on applicable policies at closing and during the loan term.

**Loan Participation:** A structure where SOREDI provides a separate note and security interest alongside a Senior Lender's conventional CRE loan to achieve combined LTV targets.

**LTV (Loan-to-Value):** Loan amount divided by property value.

**MAI Appraisal / USPAP:** A real property appraisal prepared under Uniform Standards of Professional Appraisal Practice; MAI denotes a Member of the Appraisal Institute. SOREDI may rely on the Senior Lender's accepted appraisal.

**Owner-Occupied CRE:** Commercial real estate primarily occupied by the borrower's operating business; a core eligible transaction type for this Program.

**Pari Passu:** Lien sharing arrangement in which creditors have equal priority; may be considered case-by-case with documented terms, though subordination is typical under this Program.

**Participation / Servicing Agreement:** Document that sets terms when the Senior Lender services SOREDI's participation for a reasonable fee; includes reporting access, payment records, and default notice requirements.

**Pricing (Rate Matching):** SOREDI matches the Senior Lender's interest rate subject to any funding-source minimums or constraints that SOREDI must meet or exceed.

**Reliance Underwriting:** SOREDI relies on the Senior Lender's conventional underwriting and due diligence, provided minimum coverage tests are met and required documentation is provided.

**RLF Income (EDA):** Under EDA-funded transactions, recoveries, interest, and fee income attributable to the RLF must be treated as RLF Income and applied per federal rules.

**Senior Lender:** The bank or credit union that underwrites and services its own loan, provides documentation, and leads the transaction; SOREDI participates alongside the Senior Lender.

**Standstill / Cure Rights:** Provisions in intercreditor agreements that define how and when subordinate lenders (SOREDI) may act or cure defaults before the Senior Lender proceeds with remedies.

**Title Report / Commitment:** Preliminary title documentation showing liens, encumbrances, and required endorsements; referenced at closing with the deed of trust.

**USDA IRP (Intermediary Relending Program):** Federal capital source for rural lending; when used, transactions must follow IRP requirements for terms, reporting, and compliance.