

# Master Credit Policy Manual

Southern Oregon Regional Economic Development, Inc. (SOREDI)



<b>Approved by:</b>	SOREDI Board of Directors
<b>Effective Date:</b>	February 10, 2026
<b>Supersedes:</b>	All prior credit policy directives

## 1. Purpose, Mission Alignment & Scope

### Purpose

This Master Credit Policy (Policy) establishes the principles, standards, and governance framework for all SOREDI lending activities. It is intended to ensure disciplined, consistent, and mission-aligned credit decisions and portfolio management across all SOREDI loan programs.

### Mission Alignment

SOREDI's lending exists to support the development of economic enterprise that strengthens the economies of Jackson and Josephine counties through entrepreneurship, business expansion, job growth, innovation, and broadly shared economic prosperity. As a regional economic development lender, SOREDI recognizes that non-traditional financing can be necessary to fill market capital gaps and enable economically beneficial projects that may not fit conventional private-sector lending criteria.

SOREDI seeks to leverage and catalyze private capital whenever possible and does not intend to compete with sound, available private-sector financing. SOREDI lending programs and policies will be implemented in a manner to maintain compliance with local, state and federal funding sources, meet its economic and community development objectives, and prepare borrowers for private capital markets. Programs should be structured to complement, not compete with, banks and credit unions, and should, where feasible, support other community lenders or investors through participation lending.

SOREDI is entrusted with public funds including, but not limited to, the U.S. Department of Agriculture Intermediary Relending Program (IRP) and the U.S. Department of Commerce's Economic Development Administration Revolving Loan Fund (EDA RLF), which capitalized certain SOREDI loan funds. SOREDI will balance lending risk with desired economic outcomes while maintaining prudent credit practices and full compliance with funder requirements, agreements, and applicable law.

### Scope

This Policy applies to all loan programs operated by SOREDI. Each program will publish a separate Program Policy that specifies program-level eligibility, underwriting standards, terms, fees, templates, checklists, and workflows. If a conflict exists, the stricter requirement between

this Master Credit Policy and the Program Policy will apply unless a documented exception is approved.

When making loans, SOREDI will consider the original funding source and apply the compliance requirements applicable to that fund's current status (e.g., federalized or defederalized). Loan fund allocation will be based on alignment between the borrower's intended use of proceeds and the funder's requirements at the time of the transaction.

## **2. Governance & Delegations**

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### Board of Directors (Board)

Sets credit risk appetite, approves this Policy and material updates, establishes overall portfolio limits, establishes delegated authority to the Loan Committee, and approves large or exceptional transactions (e.g. application for grant or RLF funding).

### Executive Director

Oversees lending strategy, ensures adherence to this Policy, manages escalations, other duties set forth in the SOREDI Bylaws and this Policy.

### Loan Committee

The Loan Committee is a standing committee established by the Board to review and act on credit recommendations presented by SOREDI staff. The Committee operates under authority delegated by the Board to ensure timely, consistent, and mission-aligned credit decisions across SOREDI lending programs, consistent with applicable law and funding source requirements.

- **Composition & Membership Requirements:** The Loan Committee shall be composed of individuals appointed by the Board. Committee structure will support independence, expertise, and broad industry representation as follows:
  - The Executive Director serves as an ex officio, non-voting member and shall not be counted for purposes of quorum.
  - At least one Committee member shall also serve on SOREDI's Board of Directors.
  - The Board will appoint no fewer than five and no more than seven at-large members.
  - No more than fifty percent of members may be employed by, or serve as representatives of, lending institutions.
  - At least one member shall be an individual who is, or has previously been, an owner of a business enterprise.
  
- **Appointment & Terms:** Members are appointed by the Board for two-year terms. Members may be reappointed at the end of a term and may serve up to ten consecutive years. The Board may authorize service beyond this limit when continuity, expertise, or program needs justify additional terms.

- Leadership: The Board will designate a Chair and Vice Chair from among appointed members. The Chair is responsible for presiding over meetings, ensuring adherence to this Policy, and serving as the primary liaison to the Board. The Vice Chair fulfills these responsibilities in the Chair's absence. Leadership terms are one year and may be renewed at the discretion of the Board.
- Quorum & Voting Standards: A quorum consists of a majority of appointed members. Actions of the Committee require a simple majority of members present. The Chair shall not vote except to break a tie. If the Chair is absent, the Vice Chair shall not vote except to break a tie. If neither is available, or if they abstain, the matter will be escalated to the Executive Committee in the event of a tie.
- Temporary Non-Compliance with Membership Requirements: If Committee composition falls out of alignment with stated requirements due to resignation or similar circumstances, the Committee may continue to operate for up to ninety days while the Board takes steps to restore compliance. During this period, reasonable efforts to correct the imbalance must be documented in meeting minutes.

#### Loan Manager

Accountable for day-to-day credit administration, pipeline management, underwriting quality, recommending credit actions to the Loan Committee, lien perfection, servicing, monitoring, temporary relief (Section 15), reporting, and other duties consistent with management of the loan portfolio.

Once a loan is approved and closed, the Loan Manager is responsible for administering, servicing, and taking all actions necessary to pursue repayment, recovery, collections, and workouts, consistent with this Policy and any funder requirements. All servicing and recovery activities are reported through routine portfolio reporting.

### **3. Credit Risk Philosophy**

- SOREDI intentionally serves credit gaps while promoting responsible lending practices, risk transparency, and measurable economic outcomes.
- Risk is managed at both the transaction and portfolio level, recognizing that some loans will carry meaningful economic impact and increased credit risk, counterbalanced by lower-risk assets, guarantor financial strength, and/or management experience.
- Priority given to collaborations that leverage SOREDI's capital and de-risk its position (participations, senior/subordinate intercreditor structures, collateral sharing, and guarantees).
- Preference for: strong capacity and character; industry and management experience; verifiable cash flow; perfected collateral with reliable recovery value; and additional credit enhancements (guarantees/pledges).

## 4. Eligibility & Ineligible Uses

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### Eligible applicants

- Entities with a physical location in Jackson or Josephine County, Oregon.
- Additional eligibility criteria (size, stage, industry, job impact, etc.) will be specified in each Program Policy.

### Eligible uses

- Defined per program in Program Policy (e.g., working capital, equipment, inventory, purchase order fulfillment, real estate, tenant improvements, etc.).

### Universal ineligible uses (apply to all programs)

- Speculative activities (including certain commodity or investment speculation)
- Illegal activities or businesses
- Golf courses, racetracks, convention centers, gambling facilities
- Lending or investment institutions and insurance companies
- Any use that violates funder restrictions, environmental laws, or sanctions requirements
- Marijuana-Related Businesses: Any business engaged in, or deriving any revenue from, the cultivation, processing, distribution, sale, or transportation of marijuana or marijuana-derived products, including any ancillary or service business, regardless of legality under state or local law.

## 5. Geographic Considerations

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Financing outside Jackson or Josephine County is prohibited unless the Program Policy allows limited exceptions to serve employers with a primary operating presence and material local impact.

## 6. Credit Lifecycle & Process Overview

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1. Intake & Pre-Screen (program fit & preliminary eligibility)
2. Application (materials as defined by Program Policy)
3. Underwriting (analysis and risk rating per Section 7)
4. Credit Decision (per delegations; documented rationale)
5. Closing & Funding (documentation, lien perfection, insurance)
6. Post-Closing Monitoring (site visits, reporting)
7. Servicing & Collections (payment processing, delinquencies)
8. Modifications/Workouts (temporary relief, restructuring)
9. Charge-off/Recovery (liquidation, guarantees, collateral disposition)
10. Reporting & Audit (portfolio, compliance, funder reports)

## 7. Underwriting Standards

- Eligibility Determination: Documented compliance with Program/Funding Source eligibility criteria.
- Character & Management: Experience, track record, references, and integrity of owners/management.
- Capacity/Cash Flow: Primary repayment source must be business cash flow; analyze historical and projected performance, seasonality, sensitivity, and order pipelines (where applicable).
- Capital: Equity invested and retained earnings; alignment of owner capital at risk.
- Collateral: Secondary repayment source; adequacy relative to exposure, volatility of value, enforceability, and ease of liquidation.
- Conditions: Industry trends, regulatory factors, competitive dynamics, and local market conditions.
- Credit Enhancements: Personal/corporate guarantees, subordination agreements, reserve accounts, or insurance products.
- Environmental & Legal: Environmental risk review where relevant (e.g., real estate collateral); confirm organizational good standing, permits, licenses, and material contracts.
- Economic Development Impact: Jobs, wages, regional supply chain benefits, revitalization, or innovation impact proportional to risk.

*Note: Program-specific metrics and documentation standards appear in Program Policy.*

## 8. Risk Rating System

SORED I employs a 7-grade risk rating scale, assigned at approval and updated throughout the loan life. Ratings guide pricing (where applicable), monitoring, interest income recognition and workout decisions, and charge-off timing.

- 1 (Low Risk / Strong): Exceptional financial strength at origination with stable cash flows, good liquidity and conservative leverage. Ongoing monitoring of payment performance is strong with low industry risk.
- 2 (Satisfactory): Adequate financial performance at origination with manageable leverage, normal business and industry risk. Timely ongoing payment performance.
- 3 (Watch / Acceptable): Emerging weaknesses, but mitigants are present. Ongoing monitoring of payment performance may not be timely. Close monitoring warranted.
- 4 (Special Mention): Potential weaknesses that, if uncorrected, may lead to well-defined weaknesses; no current loss. Payment performance may be problematic.
- 5 (Substandard): Well-defined weaknesses; distinct possibility of loss; GAAP interest-recognition evaluation required and a workout plan in place. When collection of principal or interest is not probable, accrual of interest must cease under GAAP.

Management will determine and document the appropriate cash-basis or cost-recovery recognition method.

- 6 (Doubtful): Collection highly questionable, liquidation highly probable, and/or liquidation in process; loss is probable though not precisely measurable; interest income recognized under cash-basis or cost-recovery, as appropriate.
- 7 (Loss): Considered uncollectible; proceed to charge-off per Section 14; interest income recognized under cash-basis or cost-recovery, as appropriate.

Risk ratings must be reviewed at least quarterly and upon material events (e.g., 60+ days past due, collateral impairment, borrower insolvency).

## **9. Portfolio Limits & Concentration Management**

- Single Borrower/Obligor Group Limit: Exposure caps to avoid over-concentration.
- Industry/NAICS Limits: Caps on aggregate exposure to cyclical or high-risk industries.
- Collateral Type Limits: Diversify across real estate, equipment, inventory/AR, etc.
- Program & Funder Limits: Adhere to USDA IRP, EDA RLF, and other funder constraints, including minimum leveraging expectations and cost-share rules when applicable.

Total outstanding indebtedness to any one borrower and its affiliates, across all SOREDI loan programs, shall not exceed \$250,000 unless expressly approved by the SOREDI Board of Directors. Other numeric limits may be set by the Board, Funding Agreement(s), and/or Program Policy.

## **10. Collateral & Lien Perfection Standards**

### General principles.

- Take security interests consistent with risk, loan purpose, and liquidation practicality.
- Perfect liens promptly at or immediately after closing.
- File UCC-1 financing statements (if applicable) in the correct jurisdiction(s); use correct debtor legal name.
- Obtain and verify title for titled assets; record real property instruments properly.
- Use intercreditor, participation or subordination agreements where applicable.
- Maintain a collateral tickler system for expirations (UCC continuations, insurance renewals, property taxes).
- Consider appraisals, valuations, or market price guides appropriate to collateral type (details in Program Policy).

### 10.1 Real Property (Fee or Leasehold; Fixtures)

- Documents: Deed of Trust/Mortgage; Assignment of Rents (if applicable)
- Perfection Steps:
  1. Confirm ownership and legal description; obtain title report/commitment.

2. Clear title defects and record Deed of Trust (and assignments) in county records.
3. File UCC Fixture Filing in county of the property for fixtures.
4. Verify property taxes status; require evidence of hazard insurance with mortgagee clause and appropriate flood insurance if in SFHA.
5. Consider Phase I ESA (or environmental screening) when warranted by property type or funder rules.

#### 10.2 Titled Vehicles (Autos, Trucks, Trailers)

- Documents: Security Agreement, DMV Title Application, Lien Entry Form.
- Perfection Steps:
  1. Verify VIN and ownership and obtain copies of title/registration.
  2. File lien with the Oregon DMV (or relevant state) to be listed as lienholder on title.
  3. Confirm auto insurance naming SOREDI as loss payee.
  4. For cross-state titled assets, follow that state's title-perfection law.

#### 10.3 Non-Titled Equipment & Machinery

- Documents: Security Agreement, UCC-1.
- Perfection Steps:
  1. Identify equipment with make/model/serial and location.
  2. File UCC-1 in debtor's state of organization/primary residence (for sole proprietors).
  3. Obtain insurance (property/inland marine) naming SOREDI as lender's loss payee.
  4. For large/specialized equipment, consider independent valuation or invoices/purchase orders (PO).

#### 10.4 Inventory

- Documents: Security Agreement, UCC-1, Borrowing Base (if applicable).
- Perfection Steps:
  1. File UCC-1 with appropriate collateral description ("all inventory, now owned or hereafter acquired").
  2. Coordinate purchase-money security interests (PMSI) notices when applicable.

#### 10.5 Deposit Accounts (Cash Collateral)

- Documents: Control Agreement (tri-party with depository), Security Agreement.
- Perfection Steps:
  1. Execute an Account Control Agreement granting SOREDI control under UCC 9-104.
  2. File UCC-1 as a precautionary filing.

#### 10.6 Guarantees & Additional Support

- Documents: Unconditional personal or corporate Guaranty, Board resolutions (if corporate), Subordination agreements (if necessary).

- Steps:
  1. Verify authority and financial capacity of guarantors.
  2. Execute and store consistent with SOREDI's record management policy (Section 17); perfect any pledged collateral per above types.

## 11. Closing & Funding Controls

- Conditions precedent specified in approval memo and Program Policy must be satisfied.
- Legal documentation reviewed by counsel as appropriate for complexity or risk.
- Funding authority: Upon completion and review of all executed loan documents, the Loan Manager shall prepare and submit a formal funding request to the Chief Operating Officer (COO). The COO will review the request, confirm that loan terms and conditions align with applicable funding source requirements, and, upon verification, forward the request to the Executive Director for final approval and authorization of disbursement. In the event the Loan Manager, or alternate, is unavailable, the COO shall assume responsibility for preparing and submitting the funding request directly to the Executive Director. Prior to authorizing disbursement under this alternate process, the Executive Director must obtain concurrence from the Board President/Loan Committee Chair to ensure appropriate oversight.
- Disbursement controls: Use controlled disbursements, progress draws, third-party vendor pay, or escrow when purpose warrants.
- Maintain a closing checklist and finalize a credit file with executed documents and filing evidence.

## 12. Post-Closing Monitoring

- Site visits & contact: Periodic calls/visits; intensified monitoring for Watch/Special Mention and worse.
- Insurance & tax ticklers: Verify ongoing coverage (loss payee/mortgagee clauses), property tax status, UCC continuation (every 5 years), and license renewals.
- Portfolio reviews: Quarterly portfolio-level review of risk ratings, concentrations, delinquencies, and trends; report to the Loan Committee and Board.
- Modification & Relief Actions report (quarterly): A quarterly summary prepared by the Loan Manager describing servicing, collections, workout actions, and any escalated items (including required actions for EDA-funded loans). Borrower-specific details are limited to governance and compliance needs.
- Loan status tracking: Maintain and update standardized status flags (Current, Delinquent, Default, Workout, Written-Off, Fully Repaid). When loan management system limitations exist, maintain a shadow register mirroring the loan management system to support audit trails and ED-209 portfolio reporting.
- EDA reporting (if applicable): Prepare ED-209 (and Portfolio Loan List) with accurate classifications for Active / Written-Off / Fully Repaid loans and cumulative measures

required by EDA (defaults, dollars written off, cash percentage, net RLF income), per award conditions.

- **Impact tracking:** Jobs, wages, investment leveraged, geographic distribution, and other metrics defined in Program Policy or funder guidance.
- **Off-balance sheet credit exposures:** Record and present a separate liability for expected credit losses on unfunded commitments and other off-balance-sheet credit exposures within the scope of ASC 326 (Appendix A – GAAP & Accounting Standards); evaluate whether commitments are unconditionally cancellable.
- **Quarterly Review:** Update risk ratings and portfolio status flags (Current, Delinquent, Default, Workout, Written Off, Fully Repaid).
- **ACL Governance (ASC 326):** SOREDI will estimate and update the allowance for credit loss (ACL) at least quarterly by:
  - Pooling financial assets with similar risk characteristics.
  - Applying the  $PD \times LGD$  estimation method.
  - Incorporating historical loss experience, current conditions, and reasonable & supportable forecasts.
  - Reverting to historical loss information beyond the forecast horizon.
  - Considering prepayments and expected recoveries as applicable.
  - Documentation: Maintain completed CECL documentation worksheet in the credit file, which contains the supporting calculations.

*Note: Monitoring frequency and depth are commensurate with risk rating, complexity, and available resources; Program Policies may specify minimums for certain products or funders.*

## **13. Servicing, Delinquency & Collections**

### 13.1 Servicing Standards

SORED I will administer payments, apply receipts per loan documents, maintain servicing notes, and safeguard borrower information. Servicing practices will be commensurate with risk, complexity, and available resources.

### 13.2 Delinquency Management

SORED I applies a graduated response aligned to risk and GAAP requirements (interest income recognition), with documentation sufficient for audit and EDA reporting:

- Early Past Due (generally < 30 days): Courtesy reminder; confirm administrative issues.
- Past Due (generally 30-60 days): Written notice; obtain causes and near-term plan; consider temporary relief where merited.
- Heightened Concern (generally 60-90 days or material deterioration): Elevate risk rating as appropriate; intensify monitoring.
- Prolonged Delinquency / Default: Consider remedies under loan documents and law, including negotiated resolutions, collateral actions, or legal enforcement; consider charge-off for amounts deemed uncollectible (see Section 14).

All actions (contacts, analyses, workouts, etc.) must be recorded in servicing notes and reflected in status flags for ED-209 reporting (if EDA-funded). The Loan Manager may take servicing and recovery actions necessary to pursue repayment, consistent with Section 2.

### 13.3 Collections Tools

Tools may include repayment plans, temporary relief, interest-only periods, deferrals, re-amortizations, maturity extensions, collateral actions, guarantor actions, forbearance, and legal remedies, as appropriate. Actions are documented with rationale, and Loan Committee involvement is required where specified in Sections 14–15 or for EDA-funded loans.

## **14. Problem Loans, Workouts, Charge-offs & Recoveries**

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### 14.1 Problem Loan Management

The Loan Manager may structure and carry out workout strategies to pursue repayment, protect collateral value, or reduce loss severity, consistent with funder requirements and this Policy.

### 14.2 Documentation & Oversight

Decisions are supported by concise memoranda stating facts, options, rationale, and expected outcomes; risk ratings are updated as warranted. Risk ratings will be updated as warranted. All workout decisions are subject to the conflicts-of-interest requirements in 13 CFR §302.17 (Appendix A – EDA Regulations & Guidance) and Section 17 of this Policy. Risk ratings are updated as needed. Actions remain subject to 13 CFR §302.17 and Section 18.

### 14.3 Charge-offs & Recoveries

- Charge-offs: Write off (full or partial) the portion of a loan deemed uncollectible in the period that conclusion is reached; reflect write-offs through the allowance for credit losses (ACL).
- Recoveries: Recognize recoveries as adjustments to the allowance for credit losses (ACL); do not write up the asset directly. For EDA RLF awards, recoveries constitute RLF Income and must return to the Capital Base or fund same-year eligible administrative costs per 13 CFR §307.12.
- Allowance policy: Maintain a non-funded, non-cash allowance for credit losses (ACL) measured under ASC 326. The ACL does not reduce the RLF Capital Base value reported on SEFA (if EDA-funded and federalized), consistent with 13 CFR §307.15.
- Status reporting: Record charge-offs in the portfolio register with Written-Off status and include in ED-209 (if EDA-funded and federalized).

### 14.4 EDA RLF Federalized Operational Requirements

Workout actions must remain consistent with EDA RLF requirements, including Allowable Cash Percentage management, minimum interest rate standards (unless waived by EDA), and restrictions on refinancing without sound economic justification; all changes must be reflected in the RLF Plan and reported per award conditions.

## **15. Modifications, Extensions & Temporary Relief**

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### 15.1 Purpose

To promote collectability and program objectives when a borrower is experiencing temporary stress or when circumstances warrant aligning repayment terms with project realities.

### 15.2 Types

May include payment deferrals, interest-only periods, maturity extensions, and/or re-amortizations. Program Policies may define any product-specific limitations.

### 15.3 Standards

A modification should:

- (a) be supportable by current information proportionate to risk;
- (b) reasonably enhance the likelihood of repayment, value preservation, or mission outcomes; and,
- (c) be documented with the decision rationale and updated risk rating.

### 15.4 Approvals

SORED I staff will determine, according to ASC guidelines, whether a modification results in a new loan or a continuation of the existing loan and will provide required disclosures for borrower modifications involving financial difficulty, if applicable.

### 15.5 Loan Manager Portfolio Management Best Efforts

In the ordinary course of servicing and portfolio management, the Loan Manager will make best efforts to work with borrowers experiencing temporary or long-term stress to evaluate, structure, negotiate and document relief consistent with this Policy. Collection efforts must be in the best interest of protecting SORED I and/or federal funder's interests to recover, to the extent possible, principal, accrued interest and fees, while balancing community perception.

### 15.6 Reporting

The Loan Manager will provide a standing quarterly "Modification & Relief Actions" report alongside portfolio reports to the Loan Committee and Board, summarizing actions taken pursuant to Sections 12 and 15. The report will indicate whether actions were within actions taken by staff in the ordinary course of servicing and recovery, or required committee/board approval, and will note any policy exceptions.

## **16. Allowance for Credit Losses (ACL) Calculation Framework**

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### Purpose:

To establish a systematic and CECL-compliant approach for estimating the Allowance for Credit Losses (ACL) on SORED I's loan portfolio using the Probability of Default  $\times$  Loss Given Default (PD $\times$ LGD) method tied to SORED I's existing risk rating system.

## 16.1 Definitions

- Probability of Default (PD): The likelihood that a borrower will default on contractual obligations over the remaining life of the loan. PD is expressed as a percentage and is linked to SOREDI's internal risk rating scale.
- Loss Given Default (LGD): The percentage of loan exposure expected to be lost if a borrower defaults, after considering collateral recovery, guarantees, and other credit enhancements.

## 16.2 Risk Rating to PD Mapping

<b>Risk Rating</b>	<b>Description</b>	<b>PD</b>
1 – Low Risk / Strong	Exceptional financial strength	5%
2 – Satisfactory	Adequate performance	10%
3 – Watch / Acceptable	Emerging weaknesses	25%
4 – Special Mention	Potential weaknesses	50%
5 – Substandard	Well-defined weaknesses	75%
6 – Doubtful	Collection highly questionable	90%
7 – Loss	Considered uncollectible	100%

## 16.3 LGD Guidelines

Indicative LGD ranges by collateral profile:

- Fully secured; highly marketable collateral: 10%-30%.
- Fully secured; specialized or limited-marketability collateral: 30%-70%.
- Partially secured: 70%-99%.
- Unsecured or guaranty unlikely to produce recovery: 100%.

Liens on guarantor residences:

If a guarantor's primary residence is pledged, foreclosure is generally not pursued. Accounts are typically charged off while the lien is retained for potential future recovery. Accordingly, the assigned LGD should reflect the expected near-term write-off at charge-off, rather than any uncertain long-term recovery attributable to the lien.

*Note: These ranges are indicative. Final LGD should consider collateral volatility, lien seniority, likely liquidation method (orderly vs. forced), workout prospects, legal/collection costs, and time to recovery.*

## 16.4 Calculation Formula

Expected Credit Loss (ECL) = Exposure at Default (EAD) × PD × LGD

Where:

- EAD = Exposure at Default (outstanding principal loan balance).
- PD = Probability of Default based on risk rating.
- LGD = Estimated loss severity after recoveries.

### 16.5 Example Calculation

*Loan Balance: \$100,000*

*Risk Rating: 2 (Satisfactory, PD = 10%)*

*LGD: 40%*

*ECL = \$100,000 × 0.10 × 0.40 = \$4,000*

### 16.6 Governance

PD and LGD assumptions will be reviewed quarterly and adjusted for:

- Current economic conditions
- Reasonable and supportable forecasts
- Collateral valuations and recovery experience

### 16.7 CECL Methodology and Documentation Requirements

SORED I will document the following for each loan or pool, in accordance with ASC 326:

- Identification: Loan or pool name/ID, borrower/obligor group, program/funding source, risk rating, and outstanding balance (EAD).
- Estimation Method: Method used (PD × LGD).
- PD & LGD Selection: Selected PD (%) and LGD (%), with basis for each (internal historical data or external benchmark).
- Data Inputs:
  - Indicate whether internal historical loss experience is used.
  - If not, document why (e.g., underwriting/risk appetite changes) and source of external benchmark.
  - List current conditions considered.
  - State forecast horizon (months) and reversion method beyond the forecast period.
- Calculation: Show ECL calculation (EAD × PD × LGD) and final ACL amount.
- Documentation & Approval: List data sources, calculation file reference, preparer/date, and management approval.

## **17. Recordkeeping, Data Privacy & Information Security**

- Loan files: Maintain complete credit and collateral files (digital or physical) with clear indexing: application, underwriting, approvals, closing docs, filings, ticklers, monitoring, correspondence, and servicing notes.
- Retention: Keep records for the longer of (a) SORED I's retention policy, (b) applicable law, or (c) funder/grant agreements.
- Privacy: Protect non-public information; limit access to a need-to-know basis; use secure systems; encrypt sensitive data in transit and at rest where feasible.
- Third parties: Ensure vendors handling borrower data meet SORED I security standards (contracts, SOC reports where applicable).
- Incident response: Report data incidents promptly to ED; document remediation and notifications consistent with law and contracts.

## 18. Ethics & Conflicts of Interest

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SORED I employees, directors, and committee members may not apply for or receive financing during their tenure. Any related-party matter requires disclosure and recusal from discussion and voting.

Individuals must promptly disclose any actual, potential, or perceived conflict (including financial interests and close personal relationships) and recuse themselves from receiving materials, discussions, deliberations, and votes on the matter.

Personnel involved in credit decisions must avoid accepting anything of value intended to influence a decision and must conduct SORED I business with impartiality and integrity.

### EDA-Specific Restrictions (13 CFR §302.17)

For loans funded in whole or in part by the Economic Development Administration (EDA), the following additional requirements apply:

- No Interest in SORED I: Ultimate recipients (borrowers), including co-makers or guarantors, and their principal officers or immediate family members must hold no legal or financial interest in SORED I or its Loan Committee.
- No Interest by SORED I Officials: Members of SORED I's Board of Directors, Loan Committee, and their immediate family members must hold no legal or financial interest in any ultimate recipient.
- Two-Year Restriction: Former Board members of SORED I and their immediate family members are prohibited from receiving an EDA-funded loan for a period of two years following the date the individual last served on SORED I's Board.
- Recusal for Financial Interest: Any representative from the financial or business community serving on the Loan Committee who has a separate financial interest in a loan applicant (excluding standard deposit accounts) must recuse themselves from all deliberations and decisions related to that applicant.

## 19. Policy Exceptions & Deviations

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- **Definition**: Any approval of a new loan that departs from this Master Credit Policy or the applicable Program Policy.
- **Process**:
  1. Exception request documented by Loan Manager with rationale, mitigants, and impact on risk/mission.
  2. Reviewed and approved by the Loan Committee per delegations (Board if material or precedent-setting).
- **Principle**: Exceptions should be infrequent, transparent, and justified by mission impact and risk mitigants.

## 20. Legal & Regulatory Compliance

- Funder requirements: SOREDI will administer each loan program in compliance with the regulations and restrictions applicable to its funding source, considering whether the fund is federalized or defederalized at the time of the loan. This includes USDA IRP, EDA RLF, and any other agreements.
- Single Audit / SEFA: SOREDI does not currently meet the federal expenditure threshold that triggers Single Audit and SEFA reporting under Uniform Guidance. If this changes in future years, SOREDI will implement SEFA reporting and related compliance requirements.
- GAAP: SOREDI will operate in accordance with GAAP, including recognition and measurement of expected credit losses under ASC 326 (CECL).
- Equal Credit Opportunity Act / Fair Lending: SOREDI prohibits discrimination on any unlawful basis.
- Environmental: Conduct environmental due diligence appropriate to collateral and use of proceeds; comply with federal and state laws.
- Presentation: The ACL is presented as a valuation allowance reducing the amortized cost basis of in-scope financial assets. The liability for off-balance-sheet credit exposures is presented separately on the balance sheet.

### Treatment of Uncommitted Cash While Federalized

For loan funds capitalized by federal awards (EDA RLF, USDA IRP) and still considered federalized, SOREDI will:

- Maintain uncommitted cash balances in interest-bearing accounts that are:
  - Federally insured (FDIC or NCUA) or collateralized per funder requirements.
  - Segregated by program to ensure compliance with award conditions.
- Credit all interest earned on these accounts to the respective loan fund as program income, consistent with 13 CFR §307.12 (EDA) and 7 CFR §4274.332(b) (USDA IRP).
- Ensure that interest-bearing accounts do not violate any funder restrictions on allowable investments (e.g., no speculative instruments).
- Document account details and interest postings in the fund's financial records and include in required reports (e.g., ED-209 for EDA).

## 21. Insurance Requirements (General)

- For equipment, vehicles and inventory, SOREDI named as lender's loss payee.
- Flood Insurance if applicable under federal flood mapping.
- Business Interruption may be required for higher risk profiles.
- Proof of insurance required at closing and monitored thereafter.

*Note: Program Policy will define limits, forms and applicability.*

## **22. Appraisals, Valuations & Collateral Reviews**

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- Use independent and competent valuation sources appropriate to asset type, size, and risk (e.g., MAI appraisals, broker price opinions, tax assessor values, desktop evaluations, invoices, OEM quotes, price guides for vehicles/equipment).
- Establish internal LTV and advance rate parameters by Program Policy; ensure reasonableness to liquidation values.
- For participations, honor lead lender appraisal policies when documented and acceptable to SOREDI.

## **23. Participations, Co-Lending & Intercreditor**

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- Structures: Lead/participant, pari passu, senior/subordinated.
- Standards: Written participation or intercreditor agreement covering voting, servicing, collateral control, defaults, and waterfall.
- Reliance: SOREDI may rely on lead lender underwriting subject to independent review sufficient to satisfy this Policy.
- Conflicts: Address lead/servicer conflicts and realignment triggers.

## **24. Pricing, Fees & Income Use**

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- Pricing principles: Reflect risk rating or Program Policy, collateral, servicing complexity, and funder guidance; maintain affordability to meet mission.
- Maximum Interest Rate: The interest rate charged on any SOREDI loan shall not exceed 18% per annum.
- Default Interest Rate: Upon default, SOREDI may impose a default interest rate up to 5 percentage points above the loan's stated interest rate, provided that the total interest rate (including default rate) does not exceed 18% per annum.
- Late Fee: A late fee of \$25 may be assessed for each payment not received within the applicable grace period as specified in the loan agreement.
- Loan Origination Fee: Transparent, cost-based where feasible, and disclosed in Program Policy.
- Income use: Apply interest and fee income consistent with funder rules if applicable (e.g., program income requirements for federal funds).
- Prepayment Penalty: SOREDI does not charge any fees or penalties for early repayment of loans.

## 25. Technology, Controls & Segregation of Duties

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- Systems: Use loan management software or standardized trackers.
- Access control: Role-based permissions; dual control for disbursements and adjustments.
- Business continuity: Backup, disaster recovery, and continuity procedures for lending operations.
- Status & tracking: Configure loan management system to flag Workout and Written-Off statuses; if native functionality is unavailable, maintain a shadow register (spreadsheet or database) with the same fields required by ED-209 (if EDA-funded and federalized).
- ED-209 data integrity (if EDA-funded and federalized): Implement periodic reconciliation between Portfol (or similar loan management system) and the shadow register to ensure completeness of defaults, write-offs, and RLF Income metrics required by EDA.

## 26. Effective Date

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This Master Credit 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

**Executive Director**

Blair Sundell

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

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

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

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

## **Appendix A** **(Applicable Laws, Regulations, and Accounting Guidance)**

### **GAAP & Accounting Standards**

- **FASB ASC 326** – Financial Instruments; Credit Losses: CECL model for allowance for credit losses on financial assets measured at amortized cost; collateral-dependent measurement; and allowances for AFS debt securities.
- **ASU 2022-02** – Financial Instruments; Credit Losses (Topic 326): Eliminates TDR accounting for creditors and enhances disclosures for borrower modifications involving financial difficulty; adds vintage disclosure requirements for public business entities.

### **EDA Regulations & Guidance**

- **13 CFR §307.12** – RLF Income: Recoveries and income must return to the RLF Capital Base or fund same-year eligible administrative costs.
- **13 CFR §307.15** – Prudent management of Revolving Loan Funds: RLFs shall operate under GAAP; loan loss reserves may be recorded as non-funded, non-cash entries and must not reduce the SEFA Capital Base.
- **EDA ED-209 Instructions** – Annual reporting requirements for portfolio status (Active, Written-Off, Fully Repaid) and performance metrics.

### **USDA Program Rules**

- **7 CFR Part 4274 Subpart D** – *Intermediary Relending Program (IRP)*: Servicing and compliance requirements.

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

### **Acronyms & Key Terms**

#### **ACL – Allowance for Credit Losses**

A valuation account recorded under ASC 326 representing lifetime expected credit losses on financial assets measured at amortized cost; updated each reporting period for historical experience, current conditions, and reasonable and supportable forecasts.

#### **ASC – Accounting Standards Codification**

The system of U.S. GAAP accounting standards issued by the Financial Accounting Standards Board (FASB).

#### **ASU – Accounting Standards Update**

A formal update to the FASB Accounting Standards Codification.

#### **Borrower Modifications Involving Financial Difficulty**

Modifications that require enhanced disclosures under ASU 2022-02; evaluated to determine whether they result in a new loan or continuation of an existing loan.

#### **Capital Base**

The principal amount of EDA RLF funds plus program income retained in the fund; used for compliance and SEFA reporting.

#### **CECL – Current Expected Credit Loss**

The accounting model under ASC 326 for estimating expected credit losses over the life of financial assets measured at amortized cost.

#### **Charge-off**

Removal of a loan (or portion) from the books when deemed uncollectible; recorded through the allowance account.

#### **Collateral-Dependent Financial Asset**

Under ASC 326-20, a financial asset for which repayment is expected to be provided substantially through the sale or operation of the collateral when the borrower is experiencing financial difficulty; allowance may be measured using the fair value of the collateral (less costs to sell, if applicable).

#### **Cost-to-sell**

Estimated expenses to liquidate collateral (e.g., brokerage, legal, closing costs).

**Cost-Recovery Method** – A GAAP method of income recognition under which cash receipts are applied to principal until cost is recovered; interest income is recognized only after principal recovery.

**EAD** – Exposure at Default

The amount of principal (and sometimes accrued interest or fees) expected to be outstanding if the borrower defaults; typically the current outstanding balance at the time of CECL calculation.

**EDA** – Economic Development Administration

A U.S. Department of Commerce agency that provides federal funding for economic development, including revolving loan funds.

**ED209** – EDA’s Annual Financial Report

The annual report required by EDA for RLFs, including portfolio loan list and performance metrics.

**ECL** – Expected Credit Loss

The estimated loss on a loan or pool, calculated as:

$$ECL = EAD \times PD \times LGD$$

Where PD = Probability of Default, LGD = Loss Given Default.

**GAAP** – Generally Accepted Accounting Principles

The standard framework of accounting rules and procedures used in the United States.

**GAAP Interest-Recognition (Workouts)** – When collectability of principal or interest is not probable, U.S. GAAP requires cessation of interest accrual and recognition of income on either cash-basis (as received) or cost-recovery (apply cash to principal until recovered).

**IRP** – Intermediary Relending Program

A USDA program providing capital for rural business lending.

**LGD** – Loss Given Default

The percentage of exposure expected to be lost if a borrower defaults, after considering collateral recovery, guarantees, and other credit enhancements.

**LTV** – Loan-to-Value

A ratio comparing the amount of a loan to the appraised value of the collateral.

**Off-Balance Sheet Credit Exposures**

Under ASC 326, expected credit losses on unfunded loan commitments and similar arrangements (not accounted for as derivatives or insurance) are recognized as a separate liability over the contractual period of exposure, unless the obligation is unconditionally cancellable.

**PD** – Probability of Default

The likelihood that a borrower will default on contractual obligations over the remaining life of the loan, expressed as a percentage and linked to SOREDI’s internal risk rating scale.

**PO** – Purchase Order

A commercial document issued by a buyer to a seller, indicating types, quantities, and agreed prices for products or services.

**RLF** – Revolving Loan Fund

A pool of capital used to make loans, where repayments are recycled to fund new loans.

**RLF Income** – Revolving Loan Fund Income

Interest, fees, and recoveries that must return to the RLF Capital Base or fund same-year eligible administrative costs under EDA rules.

**SEFA** – Schedule of Expenditures of Federal Awards

An audit schedule reporting federal award expenditures; RLF Capital Base value must not be reduced by non-funded reserves.

**SFHA** – Special Flood Hazard Area

A FEMA-designated area with a high risk of flooding, requiring flood insurance for loans secured by real property.

**SOC** – System and Organizational Controls

“SOC reports” are independent third-party audits performed under AICPA standards to assess a vendor’s internal controls related to security, availability, processing integrity, confidentiality and privacy.

**UCC** – Uniform Commercial Code

A set of laws governing commercial transactions in the United States, including security interests in personal property.

**USDA** – United States Department of Agriculture

Federal agency providing funding for rural development programs.