Loan Underwriting Guidelines for the AELP Business Loan Program

I. Statement of Purpose

The founding intent and essential purpose of the Kim Wallace Adaptive Equipment Loan Program ("AELP") is to provide financing for individuals within the State of Maine for the purchase of adaptive equipment or assistive technology that will help them live more independently. Per statute, there are funds available through a business loan program. These funds can be lent to a qualified business corporation or partnership which demonstrates that the loan will assist one or more persons with disabilities to improve their independence or become more productive members of the community. The AELP Board may make loan funds available to qualified borrowers or businesses for approved purposes in accordance with the program rule. The board, or any entity with which the board is contracted to provide financial support services, may award loans based on the following program guidelines.

II. Procedures and Standards

Loan applications shall be processed according to the procedures and standards set forth in the Kim Wallace Adaptive Equipment Loan Program Rule, 94-178 Chapter 501, ("the Program Rule"), a copy of which is attached to these underwriting guidelines and the terms of which are incorporated herein. Where applicable, the definitions of terms contained in Section 1 of the Program Rule apply to the terms as they are used in these underwriting guidelines.

III. Loan Interest Rate

The AELP business loan interest rate is based on **Wall Street Journal Prime**. The qualified borrower can expect to receive an interest rate reflective of the current interest market and the applicant's qualifications. The three available interest rates are:

- **Prime – 1**
- **Prime**
- **Prime +1**

For further information on how this rate is determined, refer to the "AELP Business loan Matrix" companion (Appendix 1) to these written guidelines.

IV. <u>Underwriting Guidelines</u>

To the extent consistent with the Act and the Program Rule, the following underwriting guidelines shall supplement the Program Rule

A. <u>Loan Periods</u>

The term of each loan shall be based on the applicant's circumstances and the useful life of the collateral.

- ❖ Building Modifications – up to 10 years
- ❖ New vehicles that need adaptations – up to 7 years
- ❖ Used vehicles that need adaptations – up to 6 years
- ❖ Lifts and elevators – up to 20 years

If the AELP business loan program has not established a loan period for a specific type of adaptive equipment or assistive technology knowledgeable individuals will be consulted to determine and assess the expected useful life.

B. <u>Collateral</u>

Collateral will be required for all loans. The AELP Business loan program will take a security interest in the adaptive equipment or assistive technology purchased. For real estate loans of $15,000 and greater, equipment loans of $10,000 and greater, and all vehicle loans, the security instrument will be filed or recorded as necessary to perfect the security interest.

For all real estate loans that will require a mortgage as security, the AELP business loan program will first use the Tax Assessed Value. In some instances, an appraisal will be required.

C. <u>Loan Restrictions</u>

The AELP business loan portion of the program provides loans for the purchase of adaptive equipment or assistive technology devices and services. The business portion of AELP ***<u>will not</u>*** accept applications for the refinance of a purchase.

D. Loan Limit

The amount of the loan sought shall not, when added to the principal balance of any other outstanding or approved loans to or for the benefit of the same applicant/business, result in any one individual or entity becoming liable to the board as borrower or as guarantor for amount in excess of $100,000 in the aggregate.

E. Personal Guarantee

The program requires that all owners of the business applicant with an ownership percent of greater than 20% of the business are required to provide a personal guarantee. In the event of a default, they also will be personally liable for paying any remaining loan balance.

F. Capacity to Repay the Requested Loan

The criteria below seek to produce a reasonable expectation that the applicant(s) or business will repay the loan in full. The six most important criteria for an AELP business loan are credit history, cash flow, debt ratio, lien position, loan to value and management experience. A pattern of adverse credit actions that cannot be adequately explained and has not been adequately dealt with will result in a decision to deny a loan.

The following chart outlines the criteria that will be examined in underwriting the loan application in conjunction with the "**Risk Rating Matrix**" (Appendix 1):

Standard	Acceptable Criteria
Proof of Income	An applicant/business is required to provide proof of his/her/their current income. Acceptable documentation includes, but is not limited to, copies of IRS income tax returns, business income statements, business profit and loss statements, business cash flow statements.
Credit History	Experian credit reports, Experian Business Credit Reports or Dun and Bradstreet Business credit reports will be used as the primary source of grading the applicant's credit history. If there are co- applicants, the AELP business loan program will use the average of the combined credit scores.

If the applicant(s)/business have experienced any of the credit problems described below within the 12-month period preceding the application, the applicant(s) must demonstrate resolution of the credit problem or the loan application will be denied:

<u>Credit Problems within the past Twelve Months</u>

--Delinquency with a creditor.
If the applicant(s)/business have been delinquent with a creditor within the past 12 months, the applicant(s) must adequately explain the reason for the delinquency and provide satisfactory evidence that the delinquency has been cured.

If any of the following items are on the credit report and designated as “not paid,” applicant is required to provide evidence of full payment or an established payment arrangement: tax liens, civil judgments, levies, or child support obligations (both payments and receipts). If any of these items are on the credit report and designated as paid applicant need not provide additional evidence of payment.

If the applicant(s) indicate the child support payments are being paid, and there is nothing on the credit report or other available data to suggest otherwise, then the applicant need not provide additional proof.

--Collection Accounts
Open collection accounts that are non-medical in nature will result in a decision to deny the loan unless the applicant(s) can provide evidence that the account has been successfully disputed or cleared.

--Medical Collections
Medical collections if related to the applicant’s disability are excluded from the credit evaluation, but in all events the applicant(s) must still demonstrate a positive discretionary income as described above including the outstanding medical collections.

--Education Loans
Applicant(s) must provide evidence of payment arrangements or deferment, including when re-payment will begin; education loans are generally not forgiven or discharged in bankruptcy.

	--Mortgages If mortgage loans are being modified, evidence from the lender must be provided. Mortgage foreclosures are subject to review for 7 years prior to the application date. **--Ability to Repay** After a careful examination of these credit issues, the applicant must demonstrate capacity and credit worthiness to repay the requested loan in full. Applicant(s)/business lacking acceptable credit may apply/reapply with a qualified co-applicant or may apply for a loan at a later time should his/her fiscal circumstances change.
Cash Flow	The calculation of cash flow will use the required proof of all income and debts for both the business and business owner(s) if applicable. Up to a year of the most recent bank statements may be required to show all recurring debts. Additionally, up to three years' worth of the business's Balance Sheets is required. The calculation used for this is EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization) divided by total debt service. This is typically determined by net income, depreciation (including section 179), amortization and interest divided by the total debt service (payment requirements) for the business, including existing and new financing requests. This calculation does not include taxes, but this information would flow through the personal tax returns and is usually minimal. The relationship between the operating cash flow of the applicant/business and its total liabilities will be assessed. This information is used to determine the ability to repay. After a careful examination of the cash flow, the applicant(s) must demonstrate the capacity and cash flow to repay the requested loan in full.
Debt Ratio	AELP business loans require documented proof of all income and debts for both the business and business owner(s) if applicable. Up to a year of the most recent bank statements may be required to show all recurring debts. The debt service coverage will be calculated for all applicants involved. This includes all owners that are required to give a personal guarantee. The combined debt ratio will be considered when grading on the companion worksheet.

Lien Position	The applicant’s offered lien position on the asset/s being offered as collateral will be considered and the score on the matrix will be based on the lien position.
Loan to Value (LTV)	The loan to value ratio is used to compare the requested loan amount in relation to the value of the property securing the loan.
Management Experience	Management experience is weighed by the amount of “relevant experience” the applicant(s)/business has running a business. Any history of business closure by the applicant(s) will be considered.
Credit reports	The AELP Business Loan Program will conduct its own credit checks on all applicants by using a recognized credit reporting agency, Microbilt.

V. <u>Additional Loan Procedures</u>

A. <u>Joint Check Issuance</u>

AELP business loans require that loans are payable to the borrower and the dealership/seller/contractor unless the vendor does not accept a two-party check, in which case the check will be made payable to the seller.

B. <u>Loan Closing</u>

Borrowers are required to pay closing costs to allow for timely and thorough legal review of all loan documents.

Once approved for a loan, the applicant must close the loan with the participating lender within ninety (90) calendar days of the date of approval. Applicants who have not closed their loans within the ninety-day period will need to submit updated information or may have to reapply.

Adopted by the AELP Board:__________________2020

Appendix 1

Risk Rating Worksheet

Borrower(s):
Date:
Prepared By:

	1 Superior	**2 Desirable**	**3 Acceptable**	**4 Marginal**	**5 Substandard**	**6 Doubtful**	**7 Loss**
Credit History - (suggested range)	Clear - (750+)	3 Derog max 0>30 days (700-749)	5 Derog max 1>60 days (650-699)	5 Derog max 1>60 days (575-649)	Some >90 days - (500-574)	Many >90 days - (450-499)	Bankruptcy /Charge offs (Below 450)
Cash Flow	2 years + 1.3:1	1 year + 1.15-1.25:1	1 year + 1.1-1.15:1	0.8-1.1:1	0.6-0.79:1	0.5-0.6:1	Insufficient or Pro Forma
Debt Ratio	38% max	40% max	45% max	48% max	Over 48%	Over 50%	Over 55% or Pro Forma
Lien Position	1st			2nd		Unsecured or >LTV	
LTV	<70%	<80%	<90%	<95%	96%-100%	100 -101%	101 - 105%
Management Exp	6 years +	5 years +	4 years +	3 years +	2 years +	1 years +	> 1 year experience

Risk Factor	A Rank (1-7)	B Weight	AxB Total
Credit History		25%	0
Cash Flow		40%	0
Debt Ratio		5%	0
Lien Position		5%	0
LTV		10%	0
Management Exp.		15%	0
Total Score	**0**	**100%**	**0**

Score of 1 - 3.99 = Approval

Score of ≥ 4.00 = Denial

Score of 1 -1.99 = Prime -1
Score of 2-2.99 = Prime
Score of 3-3.99 = Prime +1