SEU Direct Commercial Lending Activities – Policies and Procedures Manual

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Contents

1. GENERAL GOVERNANCE PROVISIONS

1.1. PURPOSE

This manual presents the criteria and processes which govern the commercial Direct Lending activities of Sustainable Energy Utility, Inc. (“SEU”). These policies do not cover lending to individual homeowners or other types of single-family residential lending. SEU reserves the right to waive, revoke, change, supplement, or modify the policies and procedures set forth herein at any time, as it deems necessary, in its sole discretion, to develop successful projects, and to accept or reject any application for project funding. These policies and procedures are solely for the internal use of SEU and any consultants or professionals retained by SEU and may not be relied upon by any applicant for a loan. Nothing contained herein shall be construed a) as creating any obligations on the part of SEU or any lending consultant to an applicant, or b) as a promise, representation, warranty, or inducement of any kind to any applicant. These policies and procedures are meant to be a working document and a set of guidelines to be used by staff and other participants in the lending activities and are designed to be flexible enough to enable the loan program to be responsive to market demands and are intended to be amended from time to time. The policies and procedures shall be reviewed at least every two years by the SEU Loan Staff and Loan Review Committee (“LRC”). Amendments of these loan policies require approval from the SEU Oversight Board (“Board”).

1.2. MISSION

SEU, a 501 (c) 3 non-profit organization, trading as Energize Delaware, serves Delawareans by promoting the use of affordable, reliable, and clean energy, energy efficiency and greenhouse gas reduction measures.

1.3. LOAN PROGRAM OBJECTIVES

(1) To encourage the adoption and installation of end-user energy efficiency measures and customer-sited renewable generation that result in savings that can lower customers' bills and reduce the environmental impacts of energy production, delivery, and use.

(2) To create new markets that will help build jobs in Delaware, improve our national security, keep value within the local economy, improve energy reliability, and protect Delawareans from the damaging effects of recurrent energy price spikes.

(3) To encourage the adoption and installation of end user greenhouse gas emission reduction measures.

1.4. SERVICE AREA AND TARGET MARKET

(1) SEU’s service area includes all of the State of Delaware.

(2) Though SEU serves all Delawareans, its staff periodically analyzes critical issues and sets broad cross-cutting priority initiatives, strategic goals, and program development and management guiding principles in its strategic plan approved by the SEU Oversight Board.

1.5. CONFLICT OF INTEREST

The purpose of the conflict of interest policy is to protect SEU when it is contemplating entering a transaction or arrangement that might benefit the private interest of an officer or director of SEU. This policy is intended to supplement but not replace any applicable Federal, state, or local laws governing conflicts of interest applicable to nonprofit and charitable organizations. All board members and committee members shall sign a Conflict-of-Interest Statement. Members of the Board, LRC, Executive Director, SEU employees, consultants, and professionals shall disclose any actual or perceived conflict of interest with any applicant. If there is any financial benefit associated with the conflict, the person with the conflict shall recuse themselves from any loan decision-making related to the applicant.

1.6. CONFIDENTIALITY

The loan review and approval process as well as the contents of loan applications are confidential. No member of the Board, LRC, or any staff, consultants, or professionals may use information learned or disclosed through a loan application for personal gain, either, directly or indirectly, or assist others to gain personally or avoid a loss. No member of the Board, LRC, or any staff, consultants, or professionals may disclose the votes of any members of any of the loan committees, nor any statements made by individual committee members for or against a particular loan or applicant. SEU is subject to Delaware's Freedom of Information Act, Title 29 of the Delaware Code, Chapter 100. All loan applications and loan review materials submitted to SEU will be handled in accordance with this policy and all applicable Federal, state, and local laws, including the provisions which relate to the handling of trade secrets and commercial or financial information which is of a privileged or confidential nature.

1.7. LOAN REVIEW COMMITTEE

(1) In accordance with the Bylaws, the Board shall appoint various standing and ad hoc committees to assist it in meeting its responsibilities. The Loan Review Committee ("LRC") shall be a standing committee appointed by the Board that meets regularly to provide oversight to the Loan Staff and to carry out responsibilities as outlined below. Actions of the LRC shall be reported at the Board's regular meetings.

(2) Composition

   a. The LRC shall be comprised of no fewer than five members and no more than seven members. The Executive Director and at least one member of the Finance and Audit Committee shall be members of the LRC. Additional members shall be nominated and approved by the Board. At least one member must be a member of the Board, not including the Executive Director or the member of the Finance and Audit Committee.
   b. Each member shall have relevant skills and experience that allow the member to actively contribute to loan approval, fund management and portfolio management decisions. LRC members shall, as a group, have a diversified skill set and knowledge base that includes the following qualifications:
      i. experience in small business, commercial, and/or community development lending in the service area,
      ii. representation of the target market as a small business owner or director of a nonprofit organization,
      iii. legal, accounting, industry, or other requisite expertise,
      iv. loan portfolio operation and/or management experience, preferably in a community development environment,
      v. experience in real estate development, construction, energy efficiency, renewable energy, energy modeling, or related fields.

(3) Regulations

   a. LRC meetings shall be held by conference call or in-person at least four times per calendar year. All members shall be given as much notice as possible, with at least 48-hour prior notice of each meeting. This notice requirement may be waived if approved in advance by all LRC members.
   b. LRC member terms are three years in duration. Members may serve multiple terms.
   c. The LRC elects an LRC Chair and a vice-chair to officiate over meetings when the Chair is not able to perform his/her duties.

d. The LRC Chair appoints a secretary to take minutes during each committee meeting.
e. The LRC Chair also appoints a vice-secretary, who is to be a member of SEU's staff, who confirms that minutes are taken and reported to the Board.
f. Accurate minutes of all LRC proceedings will be kept as records at SEU's office.
g. LRC members acknowledge that all information collected from or on behalf of the Borrower is private and confidential and should not be disclosed to anyone who is not a member of the Loan Staff, LRC, Board, a professional or consultant retained to assist with the loan, or as required by law. Information may be used only for the purpose of performing responsibilities outlined in this policy.
h. No member of the LRC may recommend or participate in the approval or collections of any loan to a related party or any other area of potential conflict.
i. The LRC may recommend removal of a LRC member to the Board. Recommendations to remove a member require 2/3 majority of the LRC. Reasons for removal include, but are not limited to, a) activity that is deemed to be against the interest of the organization, b) disclosure of confidential SEU information, c) absence without excuse for two consecutive meetings, or d) absence from 50% or more of the LRC meetings during any calendar year.

(4) <u>Voting</u>

a. A quorum of the LRC exists when a majority of members are present.
b. Official actions must have the support of the majority of quorum members.
c. Vacant positions on the LRC shall not be counted in determining the total number of committee members.
d. Voting on a loan that has previously been presented in person or through a conference call to the LRC can take place by email.

(5) <u>Responsibilities</u> The LRC shall perform the following functions:

a. For approval:
    i. Critically assess, analyze and approve or deny all loan requests recommended by the Loan Staff that conform to policy and have loan amounts greater than the Executive Director's approval limit and any other loan requests that Loan Staff bring to the attention of the LRC.
    ii. Set the final interest rate, terms, collateral, and other conditions on approved loans.
    iii. Assess, approve, or decline loan deferral, extension and modification requests that Loan Staff bring to the LRC.
    iv. Assist staff in the refinement of loan underwriting and portfolio management policies and make standards and policy recommendations to the Board for adoption.
    v. Approve loan risk rating assignments, loan loss reserve amounts, and loan monitoring recommendations.
b. For review and comment:
    i. Review portfolio compliance with exposure limits, actions taken on loans with significant delinquencies, loan maturities, and actions taken on watch list loans.
    ii. On a quarterly basis, review risk ratings on all loans in the portfolio and loan loss reserve amounts.
    iii. Review loan portfolio management and performance and portfolio risk based on reports listed in the "Documentation and Reporting" section.
    iv. Initiate discussions on new loan products needed, new government programs created, or other new opportunities. Review and respond to staff research on the same.
    v. Execute other related activities and special projects assigned by Board.

vi. Advise the SEU Board or Executive Director of any recommended changes in policy or procedures.
vii. Review delinquent loan status and approve workout, foreclosure and collection actions.

1.8. LOAN STAFF

(1) The Executive Director is authorized to administer direct lending as described in these Loan Policies.

(2) SEU's Loan Staff is responsible for implementing the lending components of the mission outlined in SEU's statement of purpose, articles of incorporation, by-laws and this policy, at the direction of the Board. Specific responsibilities include:

a. analyzing and recommending loans to the LRC and the Board,
b. executing loans,
c. monitoring portfolio risk,
d. collecting repayments,
e. annual review of loans and borrowers,
f. and managing delinquencies, defaults and foreclosures.

(3) The Loan Staff executes the responsibilities outlined above by separating duties into seven functional areas: Technical Assistance (TA), Business Development, Loan Servicing, Portfolio Management, Financial Risk Management, Construction Management, and Lending Underwriting.

(4) One or more of these roles may be assigned to an individual staff member depending on their skills and experience; alternatively, multiple staff members may be needed to manage a single area based on the number of loans in the pipeline or portfolio. The Executive Director shall assign responsibilities to staff.

(5) SEU may contract with independent contractors, lawyers, accountants, or other professionals to fulfil one or more of these duties for an individual loan, several loans, or for the portfolio.

2. ELIGIBILITY

2.1. ELIGIBLE APPLICANTS

(1) Applications may be submitted by cities, towns, counties, other units of government, K-12 schools (public or private), school districts, higher education institutions, hospitals, nursing homes, healthcare institutions (as defined in 24 Del. Laws c. 17 § 1702 (5), commercial and industrial businesses and landlords (for profit businesses), nonprofit organizations, and individuals. Individual borrowers must be 18 years or older.

(2) Hiring practices of and facilities, products and/or or services provided by applicants must be available to all persons without discrimination as to age, race, color, creed, religion, national origin, sex, marital status, sexual orientation or status with regard to public assistance or disability.

(3) All contractors and subcontractors engaged in the construction and maintenance of the Applicant's projects shall be required by contract to provide an equal opportunity for employment to all persons

2.2. ELIGIBLE ACTIVITIES/IMPROVEMENTS

Direct loans shall be available to eligible applicants for proposed improvements installed by a qualified contractor that are designed to reduce the net energy requirements and/or increase the on-site renewable energy capacity and/or greenhouse gas emissions reduction in or at properties or sites located in the State of Delaware. These improvements include:

(1) Installation of eligible measures in or on a building or site or vehicles owned or leased by the applicant.

(2) Conducting an energy efficiency audit.

(3) Code-related repair and health and safety measures that are required to secure the energy savings of the project.

(4) Installation of greenhouse gas emission reduction measures in or on a building, site, or vehicle.

(5) The purchase, lease or retrofit of alternatively fueled vehicles, electric vehicles and charging stations, as well as alternative fueling infrastructure.

(6) The purchase and installation of battery systems that are required for off-grid renewable energy.

(7) Other activities that further the mission and objectives of SEU.

2.3. INELIGIBLE APPLICANTS AND ACTIVITIES

(1) The purpose of any business financed by SEU must be legal.

(2) SEU does not provide financing for any of the following activities or purposes:
   a. check cashing, money lending, pyramid schemes or networking companies.
   b. purchase of real estate other than that required for operation renewable energy systems or systems related to energy conservation measures.
   c. investing in public securities, private ventures, or speculative enterprises.

2.4. NO DISCRIMINATION

SEU shall comply with all applicable Federal, state, tribal and local law, policy, orders, rules and regulations which prohibit unlawful discrimination because of actual or perceived race, creed, color, religion, national origin, ancestry, alienage, citizenship status, age, disability, handicap, sex, marital status, veteran status, sexual orientation, or any other characteristic protected by applicable Federal, state or local laws.

3. LOAN PRODUCTS - TERMS AND CONDITIONS

3.1. LOAN PRODUCTS AND FINANCING ACTIVITIES

(1) Credit facilities available to eligible applicants shall include term loans and tax-exempt leases for qualified applicants.

(2) Tax exempt leases shall be available only to applicants qualifying under Section 501 of the Internal Revenue Code and contain language limiting the repayment obligation to the appropriation of operating budget funds, when appropriate.

(3) Product development
   a. Loan products may, from time to time, be developed and added to these Loan Policies following approval of the Board.
   b. For each loan product, the Loan Staff shall draft and propose to the Board for review and approval (i) terms and conditions and (ii) underwriting criteria and standards that balance SEU's goals, the needs of the specific target market, and the relative risks and rewards of lending in the particular sector.
   c. All loan products shall comply with these Loan Policies.

3.2. MINIMUM STANDARDS

(1) Loan Amounts

Loan and tax-exempt lease amounts shall be no lower than $30,000 and generally no higher than $2,000,000 per project, expect no maximum loan amount constraints for governmental entities. However, state agencies and school districts are must seek SEU Bond Financing or Master Lease Financing before applying for direct lending.

(2) Loan Pricing

a. Interest rates shall be determined by the LRC and shall range between 50%-300% of the current 10 year, quarterly, U.S. Treasury Note interest rate.

b. In setting the rates the LRC shall consider:

i. needs and merits of the loan applicant and project relative to the DESEU Mission,

ii. strength of the borrower,

iii. risk of the project,

iv. strength of the collateral,

v. certainty of repayment,

vi. cost, terms, and requirements of SEU's capital,

vii. disbursement status of SEU's capital,

viii. the prevailing market rates,

ix. SEU's prior experience with the borrower,

x. term of the loan, and

xi. other relevant factors.

c. The Board shall have the authority to set interest rates outside range when it is consistent with SEU's mission and goals.

(3) Loan Maturities

The simple payback period for the project, which shall be defined as the projected number of months needed for the projected amount saved or earned as a result of the energy project financed by the loan to repay all costs of the project, including all principal and interest on the loan. Terms shall be set based on the needs and risks of the project but shall not exceed 20 years. The follow factors should be considered when setting the term:

a. The term needed to achieve the required debt service coverage ratio of the particular loan product based on the modeling of historical and projected cash flow of the project, business, or borrower, including appropriately discounted projected savings or revenues from energy efficiency or generation.

b. The term of any key contracts or agreements essential to the success of the project and the repayment of the loan such as a Power Purchase Agreement, Guaranteed Energy Savings Agreement, and leases. For tenant applicants, the term of the loan cannot exceed the life of the property lease.

c. The useful life of the assets and/or improvements financed, and the strength and terms of any performance guarantees, warranties, replacement reserves, operation and management contract, and other relevant factors.

d. The requirements and terms of the source of loan capital.

e. The terms of any government, corporate, or personal guarantees.

f. The collateral exposure and risk rating for the loan; and

g. Any other relevant factors.

(4) Amortization Periods

a. SEU shall require all loans to be fully amortizing.

b. SEU shall allow for interest-only repayment periods in order to serve the cash flow needs of the borrower during construction or the start-up phase, for certain times of the year for seasonal businesses, or otherwise so long as the interest only period would strengthen the borrower and further SEU's goals.

(5) Payments

a. Payments made automatically using electronic funds transfer are preferred. All borrowers will be asked provided document necessary to permit electronic transfers. SEU may attach fees for paper check processing.

b. There shall be no prepayment premiums.

(6) Requirement for tenant applicants

Application must include the written approval of the property owner. Landlord must waive any statutory liens in the project improvements.

(7) Construction and New Construction Financing

a. Financing during the construction period will be interest only and such interest will be deferred throughout the construction period and capitalized at the end of the construction period.

b. New building construction shall be eligible for loans. Borrowers approved before September 30, 2021 are eligible to finance up to 15% of construction costs (excluding the cost of land and equipment not affixed to the land) for improvements that meet the International Building Code 2018 or 20% of construction costs (excluding the cost of land components and equipment not affixed to the land) for improvements that exceed the International Energy Construction Code 2018 by at least 5%.

(8) Collateral and Security

a. General

SEU expects and will seek adequate collateral and security to ensure a secondary source of repayment for all investments. However, given the nature of its mission and business, SEU recognizes that it will not be able to be 100% secured on its total portfolio and will accept some collateral exposure and unsecured loans. SEU will consider other sources of security as appropriate. The strength of the repayment sources, the loan term, availability of third-party guarantees, and the capacity of the borrower itself may offset the risks of limited collateral.

b. Collateral

i. Types

1. SEU will seek a first or subordinate lien on the real property being financed or other property owned by the borrower.

2. SEU will seek a first or subordinate lien on equipment being financed that is owned by the borrower or the guarantor if the removal of such equipment for resale is feasible and its estimated resale value is significant. In such cases, SEU will obtain a security interest in the asset being financed.

3. SEU may accept pledges of reserves, sinking funds, or other types of cash collateral.

ii. Valuation

1. Because understanding the likely market value of available collateral is an important part of risk assessment and mitigation, Loan Staff shall determine the total value of all available collateral and then calculate its collateral exposure for each loan. Collateral market values will be verified through an appropriate independent sourced valuation whenever possible. For smaller loans less than $750,000, independent valuation is not available or cost effective, and in such cases the value of all available collateral shall be estimated internally by Loan Staff using generally accepted methods of valuation including costs or comparable and capitalization of revenue streams.
2. The value of available collateral, whether determined by Loan Staff analysis or by independent third-party professionals, shall be discounted to determine the appropriate value of the collateral as a secondary source of repayment for the loan. Documentation of this process shall be maintained in the applicant's loan file. From time to time, to provide consistent and standard valuation and discounting of collateral values, Loan Staff shall recommend to the LRC for approval a Collateral Value Guideline sheet that sets standard discount rates that shall be used for determining the value of each type of asset for collateral purposes.
3. The value of real estate shall be based on a third-party appraisal prepared for SEU by a licensed appraiser. SEU may accept an appraisal prepared for other parties.
4. Loan Staff shall seek evidence as to satisfactory environmental condition of any mortgaged real estate collateral.
5. At the time of purchase, equipment will be valued at cost.

iii. Portfolio Goal: No less than 50% of the total outstanding portfolio will be secured with collateral.

c. Guarantees

i. SEU may seek personal guarantees from all individuals who directly or indirectly own 20% or more of a borrowing entity or who own collateral.

ii. SEU may seek a guarantee from any entities that hold any equity or ownership interests in borrowers or that own collateral.

d. Assignments

i. SEU may seek assignment of all Guaranteed Energy Savings Agreements, Power Purchase Agreements, Solar Renewable Energy Credit contracts, and other relevant contracts crucial to the success of the project and repayment of the loan

ii. SEU may utilize lock boxes designed to capture revenue.

e. Insurance

i. For all loans over $150,000, the borrower shall be required to carry liability insurance with coverage no less than $2 million aggregate/$1 million per occurrence.

ii. Builder's risk insurance and/or commercial property insurance coverage shall be required for all construction loans of more than $150,000, based on the total development budget, or in the case of property insurance, based on the replacement cost.

iii. Borrower shall be required to have SEU as additional insured on all liability insurance policies and as mortgagee or lender's loss payable on builder's risk commercial property policies; and current copies and evidence of renewal of policies shall be submitted to SEU throughout the loan term.

3.3. <u>FEES AND EXPENSES</u>

(1) Commitment Fee. A non-refundable commitment fee equal to one half of the Closing Fee shall be due when the applicant countersigns the commitment letter. This fee shall be applied in full toward the closing fee.

(2) Closing Fees and expenses for loans greater than $150,000. The following shall be due and payable by borrowers at or before closing:

   a. The closing fee stated in the terms and conditions of the loan product which shall be 1%.
   b. Any third-party report, recording and filing fee charges.
   c. Legal fees and expenses incurred by SEU.

(3) Closing Fees for loans of $150,000 or less. The following shall be due at or before closing

   a. The closing fee shall be 1% or $500 whichever is greater.

(4) Late Fees. A Late Fee equal to 5% of the past due payment amount shall be assessed consistent with the problem loan policies below.

4. PORTFOLIO DIVERSITIFCATION

4.1. <u>GOAL</u> In order to reduce risks in its portfolio resulting from various concentrations of loan volume, SEU has established the following limits.

4.2. <u>SINGLE LOAN AND BORROWER LIMITS</u>

(1) SEU limits the total outstanding loan(s) to a single non-governmental borrower or project to the lesser of 10% of its Program loan receivable as stated in the latest *Consolidated Financial Statements and Independent Auditor's Report* or $2,000,000. For borrowers that are business entities, "borrower" means the borrower and any other corporation, limited liability company, partnership, trust, or other entity in which more than 50% of the ownership or equity interests are held directly or indirectly by borrower or those persons or entities holding more than 50% of the ownership or equity interests in borrower. However, this may be waived when there is a finding that there are significant distinctions between related business entities and there are sufficient independent sources of collateral.

(2) SEU limits the total outstanding loan(s) to a single governmental borrower or project to 20% of its Program loan receivables as stated in the latest Consolidated Financial Statements and Independent Auditor's Report.

(3) Cash collateralized or cash guaranteed loan amounts will not factor into the concentration limits.

4.3. LIMIT ON START-UP ENTITIES SEU limits the total dollar amount of loans to all start-up businesses to 25% of total loans outstanding. Startups are defined as businesses with less than two full years of operating history.

4.4. COMPLIANCE

(1) Before approving any new loan, the decision maker with the authority to approve the loan shall consider whether approval would violate these portfolio diversification guidelines.

(2) The amount of outstanding loans per relationship and in start-up entities shall be calculated by the Loan Staff.

5. SCREENING AND APPLICATION AND REVIEW PROCESS

5.1. GENERAL Applications may be submitted at any time during the calendar year.

5.2. INITIAL INQUIRY AND CLIENT INTAKE

(1) Upon inquiry from a potential applicant, the Loan Staff shall make an initial determination of project and applicant eligibility and shall confirm that the potential loan requested would be consistent with loan products offered.
(2) Loan Staff will provide applicants that pass the initial screening with a full application and information checklist tailored to the relevant loan product and connect the applicant to the Technical Assistance, if applicable.
(3) Potential applicants that do not pass the initial screening because of project or applicant ineligibility or lack of availability of the requested loan product, or any other reason, shall be informed of their ineligibility for financing and, if deemed appropriate by Loan Staff, the reasons for their rejection. If the applicant has inquired in writing, the applicant shall be informed in writing.

5.3. TRAINING AND TECHNICAL ASSISTANCE

(1) The Loan Staff shall meet with each applicant that passes the initial screen (at the business location, if appropriate) to determine what training or other technical assistance is necessary for the applicant to obtain prior to and following loan funding to achieve the energy objectives. Together, the Loan Staff and applicant shall assess the applicant's capacity and determine needed technical assistance for the applicant to successfully complete the following essential tasks:
   a. Identify energy opportunities and secure the necessary technical assessments (energy audits, emission studies, energy savings projections, etc.)
   b. Identify appropriate contractors.
   c. Complete grant and loan applications.
   d. Manage construction.
   e. Other training and technical assistance determined as necessary by the Loan Staff.
(2) The Loan Staff shall prioritize applicants according to the priorities and mission of the loan program and decide which of the applicants Loan Staff should submit for underwriting review, which applicants to refer to partner organizations, and which applicants should be denied based on insufficient capacity.

5.4. PROJECT DEVELOPMENT AND APPLICATION

(1) The applicant shall submit a completed loan application in the proscribed format, either electronically or via hard copy to the Loan Staff. The application shall, at a minimum, contain the following information:
   a. Applicant description including borrower and proposed guarantor business description and information, history, resumes of principals (when appropriate), bank and trade references (including prior lending

history and mortgage information) and three years of financial statements or annual audits; tax returns; and current year unaudited financial statement year-to-date (if available).

b. Organizational documents of proposed entity borrowers and guarantors, if applicable.
c. If available, current year budget and 5-year projected cash flow statement.
d. Description of assets available to secure the proposed loan, including an estimate of value and any outstanding debt on each asset.
e. Business plan if the applicant business is a startup entity or less than 2 years old.
f. List of individuals and entities willing to guarantee the loan (all individuals who directly or indirectly own 20% or more of a borrowing entity will be required to provide a personal guarantee).
g. A list of mortgages, security interests and additional liens on the collateral, including the loan amount, lenders' information, and the lenders' point of contact. List of business debt/notes payable schedule listing creditors, original loan amount, current outstanding balance, and loan terms and conditions. Copies of outstanding loan agreements, mortgages, security agreements or other loan documents that contain outstanding loan terms and conditions may be required in certain cases.
h. Description of the building and property where the project will be installed or constructed and evidence of ownership.
i. For energy efficiency projects, historical energy usage and projected energy use and cost savings that will result from the proposed project and a copy of the energy audit report conducted by or under the direction of a Certified Energy Manager (CEM) or a Delaware-licensed Professional Engineer (PE) if available. If a proposal is not submitted by either professional, SEU may have the proposal evaluated by a third party and the cost will be the responsibility of the applicant.
j. For emission reduction projects, historical emission data and projected emission reduction amounts that will result from the proposed project and a copy of the emission reduction report conducted by or under the direction of a Certified Energy Manager (CEM) or a Delaware-licensed Professional Engineer (PE) if available. If a proposal is not submitted by either professional, SEU may have the proposal evaluated by a third party and the cost will be applied to the applicant.
k. For renewable energy projects, projected energy generation data and technical feasibility or modeling reports. SEU may have the proposal evaluated by a third party and the cost will be applied to the applicant.
l. A project description, budget, sources and uses of project funding, and timeline.
m. Contractor commitment, including proposal or contract detailing scope of work, anticipated scheduling, and cost.

(2) The applicant may be asked for supplemental information for the purpose of underwriting review. The supplemental information may include, but not limited to:

a. Current year budget and 5-year projected cash flow statement that includes energy or emission reductions benefits and any anticipated growth or changes.
b. Business plan if the applicant business is a startup entity or less than 2 years old.
c. Full personal financial statements for the borrower; for all individuals who own 20% or more of the business entity, if applicable; and for each party willing to provide a guarantee of the loan, including an authorization of a review of their personal and business credit report.

d. Business debt/notes payable schedule listing creditors, original loan amount, current outstanding balance, and loan terms and conditions. Copies of outstanding loan agreements or other loan documents that contain outstanding loan terms and conditions may be required in certain cases.

(3) The Loan Staff will confirm receipt of a completed application with the applicant or advise the applicant of additional information that is required to complete the application.

(4) When the Loan Staff determines that the application (including financial projections and collateral details) is sufficiently complete, consistent with the loan policy, and presentable for review, the Loan Staff shall forward it for underwriting review.

6. LOAN UNDERWRITING

6.1. FINAL SCREENING

(1) Before conducting the due diligence, verification, financial modeling, and other necessary underwriting to fully evaluate the application, the Loan Staff shall screen the application to confirm that the loan requested is consistent with:

a. the loan product(s) offered,
b. Eligibility Requirements, and
c. Portfolio Diversification restrictions.

(2) The Loan Staff shall confirm that funding is available for the proposed loan.

(3) If the necessary funding is unavailable or the application is ineligible, the applicant shall be informed in a timely manner of the reasons for the rejection.

6.2. DUE DILIGENCE, EVALUATION AND STAFF RECOMMENDATION

(1) Due diligence: If the loan application survives the final screening, the Loan Staff shall conduct a complete and thorough investigation and analysis of the proposed loan according to the underwriting criteria and procedures for that loan type and product including:

a. verifying information provided by the applicant against independent sources,
b. obtaining relevant third-party information and analyses such as credit reports, appraisals of assets, certificates of good standing for legal entities, market studies, and technical feasibility analyses.
c. conducting a site visit if appropriate,
d. conducting due diligence relevant to the loan requested such as researching the industry and market sector, assessing the product/service, performing a market study, etc.,
e. For Construction Loans, reviewing construction specifications and plans (if any), project costs and budgets, warranties and/or performance guarantees, useful life of key project components, etc.,
f. valuing collateral and underwriting other security such as guarantees, assignment of contracts, etc.,
g. modeling and analyzing collateral exposure, project sources and uses, historic cash flow, and projected cash flow,
h. evaluating the applicant’s financial strength by conducting ratio analysis of applicant’s tax returns and/or financial statements according to industry best practices; and
i. analyzing and evaluating all other information gathered.

(2) Underwriting Criteria and Scoring:

a. Applications will be evaluated and awarded in the order in which they were received using the underwriting and evaluation criteria below.
b. The Loan Staff shall establish and maintain a standardized scoring system that will be used in assessing each loan.
c. All borrowers must meet the following minimum requirements:
    i. Energy efficiency and/or greenhouse gas emissions reductions measures must be justified either by an audit that has have been completed within the previous six (6) months or according to Board approved general standards.
    ii. Renewable energy projects must be justified either a professional technical feasibility analysis that has have been completed within the previous six (6) months or according to Board approved general standards.
    iii. Contractor must meet requirements for the SEU's Responsible Contractor Policy and the State of Delaware prevailing wage rates for mechanics and/or laborers for individual trade contracts greater than $50,000, excluding any non-labor costs in the contract. The prevailing wage rates shall be determined by the Delaware Department of Labor, Division of Industrial Affairs as prevailing in the county in which the work is to be performed.
    iv. Applicant must demonstrate the ability to repay the loan or lease through a discounted analysis of projected cash flow that includes the projected energy benefits and as evidenced by review of credit history, financial statements, IRS filings, and bank and trade references.
    v. For energy efficiency projects, projected savings over the weighted useful life of the measures must be greater than the cost of the measures including financing.
    vi. Applicants shall comply with all applicable local, state, and Federal laws and codes and secure any necessary permits.
    vii. Projects shall be started within 3 months from the date of acceptance of loan commitment unless a written exception is granted. Such exceptions may include, but are not limited to, equipment or permitting delays. Applicants shall provide a project implementation schedule not exceeding 6 months from the date of project commencement unless agreed otherwise in writing
    viii. The Executive Director will review projects that fail to start or finish implementation within the project implementation schedule. Financing may be withdrawn if a project cannot be started or completed within the project implementation schedule.
    ix. The applicant shall have no outstanding judgments and not be delinquent nor in default on any Federal, state, or local tax obligation.
d. Underwriting and Evaluation Criteria:
SEU will assess whether the applicant meets the minimum requirements above and then will evaluate the strength of the applicant based on impact, structure, and repayment of the loan; borrower capacity, and market conditions, as detailed here:
    i. Impact
    SEU will evaluate and prioritize applicants based on its impact criteria. SEU engages in measurement and assessment to understand its contributions to the communities in which it invests, to enhance the strategic implementation of its programs and activities. These measures are used in the underwriting document and presented in the Credit Memorandum document. SEU collects and

reports on community impact through its annual report. Consistent with its mission and objectives, SEU's impact measurements are broadly defined below:

1. Amount of projected energy saved, greenhouse gas emissions reductions, or generated and/or fossil fuels displaced in appropriate physical units (e.g. kWh's for electricity);
2. Project's visibility and the impact it will have on encouraging other eligible applicants to adopt broader energy conservation and sustainability and, greenhouse gas emissions reduction strategies.
3. Number of jobs created or retained.
4. Project's impact on market creation.
5. Project's impact on keeping value within the local economy.
6. Extent to which project improves energy reliability and protects Delawareans from the damaging effects of recurrent energy price spikes.
7. The demographics of those assisted by the project.
8. The impact of the project as a part of a broader revitalization or community development initiative within a community.
9. The increased capacity of borrowers to be measured by a growing financial condition with diversified sources of revenue and increasing net assets, increasing service delivery systems (amount and type), and making contributions to its targeted community environment.
10. The extent to which the Project will ensure that limited funding is dispersed to a diverse array of projects in locations around the state.
11. Extent to which Project conserves and leverages SEU's funds; and
12. Impact of the Project on the growth and sustainability of SEU.

ii. Structure and repayment of the project loan SEU underwrites the borrower's likely ability to repay the loan including:

1. Projected cash flow from energy savings and/or energy production, including a critical analysis of the projected amount of energy saved or generated and the projected value of the savings and/or production, assessment of the certainty and term of the projected cash flow whether based on anticipated market conditions or contracted revenues under a guaranteed energy savings agreement ("GESA") or power purchase agreement ("PPA"), the likely risk, and the length of the payback period. SEU assesses the strength and reliability of the energy audit, engineering model, contractor's estimate, or other analysis supporting the projected energy savings or revenue. Further, SEU evaluates the capacity and history of any counterparty on all contracts on which SEU relies, such as GESAs and PPAs.
2. Assessment of technical risks associated with the project including proven reliability of the technology; strength of warranties and performance guarantees; extent to which key parts or equipment will need to be replaced or serviced during the loan term; extent to which success is depended on capable operations and management.
3. The ability of the applicant to repay the loan from sources other than projected energy savings or revenues from energy generation including an assessment of individual, project and/or business projected cash flow from all sources and applicant's credit history.
4. Borrower's financial strength based on an assessment of the entity's balance sheet and borrower's personal financial statement and credit history.

5. Projected debt coverage ratio both with and excluding energy savings/revenues.
6. Borrower’s investment of its own resources.
7. Strength and availability of secondary sources of loan repayment including strength of collateral (loan to value on secured collateral and amount of exposure) and creditworthiness of any guarantors (if applicable).
8. Project readiness including the strength and potential of the applicant and its contractor(s) to implement the project.

iii. Borrower capacity

SEU seeks to understand the managerial, technical, and financial capacity of the borrower to complete the project and service the loan. A borrower must:

1. Have sufficient experience, expertise, and relevant skills individually, or as an organization or business through its Board or on staff, or through other consultants, contractors, or development team members to complete the project and manage its activities successfully during the loan term. Where organizational capacity is an issue, aspects to be considered may include the capacity of the board of directors to manage the organization and the project, the succession plan for board or staff, the historical financial and program performance of the borrower, the value of the security (if applicable) and the importance of the project to the community.
2. Demonstrate its ability to carry out the project being proposed.
3. Have identified the initial development costs for the project and the other sources required for the project, including its equity and have demonstrated its ability to raise the equity required.
4. Describe the elements of the project, including repayment sources and the timeline.
5. If a legal entity, be duly organized and in good standing with the state and the IRS.
6. Have a duly constituted and functioning Board of Directors if the borrower is a corporation.
7. Have three years of audits or comparable financial reports or tax returns and a current operating budget.
8. Have financial capacity to be initially rated “Adequate” or above using the SEU’s risk ratings as described in this document.
9. Can incur debt and demonstrate who has the authority to enter into the lending agreement.
10. Have a good reputation and credibility in its market or the community it serves.
11. Should there be personal guarantees, related financials will be required of the guarantors.
12. Additional underwriting criteria may be necessary when creative or nontraditional sources of revenue or repayments are considered.
13. Whether or not SEU has been engaged to provide technical assistance to an applicant shall not be considered in loan approval or underwriting.

iv. Market Conditions

SEU will investigate and analyze risks based on market conditions including competition, community support, environmental and other regulations, including:

1. Researching the industry and market sector, assessing the product/service, and performing a market study, as warranted by the size and complexity of the loan.
2. Regulatory requirements regarding the project and/or borrower's business and activities.
3. Community support for or opposition to the project or borrower's activities; and
4. Political risks, if any.

(3) Credit Memorandum
If the due diligence and underwriting results are acceptable, the Loan Staff shall prepare a Credit Memorandum to recommend approval of the loan to the entity with lending authority over the loan. The Loan Staff has the authority to engage qualified third-party underwriting professionals to assist with pipeline and credit memo development. The Loan Staff are responsible to confirm that all facts presented in the Credit Memorandum are true and complete and based on all the available data. The Credit Memorandum shall summarize the results of the due diligence and underwriting in a balanced, complete fashion, to enable the decision maker to critically assess the risks and rewards of the loan. The Credit Memorandum shall at minimum include:

a. project description, proposed sources and uses of financing, and development timeline,
b. summarized analysis of all relevant risks ascertained during the due diligence process and proposed risk mitigants,
c. proposed loan structure (interest rate, amount, term, fees, amortization, etc.),
d. analysis of the mission impact,
e. financial analysis of the loan repayment including assessment of the source of debt service during the loan term and secondary sources of repayment through collateral and other security,
f. assessment of management and leadership capacity,
g. description of proposed collateral,
h. a list of conditions that would need to be satisfied before closing, and
i. staff's recommendation for loan rating and loan loss reserve for the loan and monitoring requirements and other details specific to the loan.

(4) The due diligence process is finalized when the Loan Staff has 1) obtained, verified, and analyzed all the information required for the Credit Memorandum and 2) drafted a Credit Memorandum including recommended loan structuring, Loan Rating, and Loan Loss Reserve; and 3) obtained the Executive Director's approval to take the loan to the appropriate lending authority for consideration.

(5) If the due diligence results are not acceptable, the Loan Staff will notify the applicant as soon as possible.

(6) If the applicant fails to remit documents or materials requested by the Loan Staff within 60 days of the date of the application, the Loan Staff will send a denial letter to the applicant.

7. LOAN REVIEW

7.1. <u>GENERAL PROCESS</u>

(1) The Loan Staff may deny applications that are clearly ineligible or incomplete.

(2) Applicants that submit incomplete applications will be contacted by the Loan Staff and be advised what information is missing and how they can complete the application.

(3) The Loan Staff recommends loans by submitting a draft Credit Memorandum to the Executive Director for review and comment. The Loan Staff and the Executive Director may work together to make changes to the structure of the loan, the risk profile of the loan and/or the Credit Memorandum, or the Loan Rating of the loan.

a. Loans within the lending authority of the Executive Director: The Executive Director shall critically review and analyze the final Credit Memorandum and shall sign the signature page of the Credit Memorandum if the Executive Director decides to approve the recommended loan. The Executive Director shall inform the LRC of all such approved loans at the LRC's next meeting.
b. Loans that require approval by the LRC or Board will be scheduled by the loan staff for review at the next meeting of the LRC and will distribute the Credit Memorandum to committee members at least three days before the meeting.

(4) Reasonable efforts shall be made to render loan decisions and to inform an applicant of loan approval or denial within 45 days of receipt of a complete application.

7.2. LENDING AUTHORITY

(1) The Executive Director may approve loans that meet the following criteria:
   a. Loan amount does not exceed $150,000.
   b. A member of the Loan Staff other than the Executive Director has conducted due diligence and drafted a Credit Memorandum that recommends approval and documents that:
      i. Personal guarantees of the owner(s) of commercial and industrial applicants have been secured unless the business can demonstrate that: (1) it can operate without the owner's participation, or, (2) has a history of prior lending without personal guarantee(s) of the owner(s).
      ii. Energy savings, greenhouse gas emissions reductions and generation projections are clearly defined and reasonable.
      iii. The applicant answered no to all financial disclosures' questions on the application. The loan does not create any exceptions to this Loan Policy.

(2) The full LRC shall have the authority to review, select and approve loans that are not eligible for approval by the Executive Director that are in material compliance with the Loan Policies.

(3) The Board shall review and approve or deny:
   a. Any loan that would create an exception to policy.
   b. Any loan forwarded from the LRC at its sole discretion.

7.3. LOAN DENIALS

(1) Applications may be denied. Reasons for the denial may include but will not be limited to:
   a. The loan does not fit within SEU's mission.
   b. The risk of repayment is unacceptable because of insufficient collateral, excessive debt, restrictive covenants on existing debt, past or present credit delinquencies, outstanding liens or judgments, insufficient cash flow, or other reason.
   c. Failure to provide adequate financial or other information.
   d. Less than two (2) years in business.
   e. Ineligibility of the applicant, and/or ineligible use of the proceeds.
   f. The loan is materially out of compliance with these Loan Policies.
   g. Funding for the loan is not available.

(2) If the applicant submitted a written loan inquiry or full application, the loan denial shall be conveyed by written notice with a brief explanation of the reason for the denial. If the decision was influenced by a credit reporting agency, the applicant shall be informed of the source.

7.4. LOAN APPROVAL

Following loan approval by the approving authority a commitment letter will be offered to the borrower. The loan approval will be memorialized in the minutes of the LRC or Board or by correspondence from the Executive Director.

8. LOAN CLOSING

8.1. COMMITMENT LETTER

(1) SEU uses a Commitment Letter to summarize the terms and conditions of the Loan Approval for the borrower. The Commitment Letter obligates SEU to disburse the loan should the Applicant satisfy its obligations, including pre-closing conditions, outlined therein.

(2) Upon obtaining a Loan Approval, the Loan Staff will draft a Commitment Letter based on a template approved by local legal counsel and submit the Commitment Letter for review by the Executive Director. The Executive Director shall obtain legal review of commitment letters for loans over $150,000, and may obtain legal review in other instances at the Executive Director's sole discretion.

(3) The Commitment Letter is the basis for discussions and negotiations with the applicant. Changes that would cause the terms of the Commitment Letter to materially deviate from those of the Loan Approval need to be approved by the original approving parties. This approval can be noted by hand on the Credit Memorandum or explained in an addendum to the Credit Memorandum.

(4) The Executive Director has authority to sign the Commitment Letter on behalf of SEU and does so only after confirming that the terms and conditions of the Commitment Letter and Loan Approval are consistent, in all respects. In the interest of maintaining a check and balance system, the person who prepares the Commitment Letter should not be the person who signs the Commitment Letter on behalf of SEU.

(5) The Applicant and any guarantors must accept the commitment by countersigning the Commitment Letter.

(6) The commitment must be accepted within 60 days after the Commitment Letter is issued; otherwise the commitment shall be null and void.

(7) Loan closing shall occur no later than 180 days after acceptance.

8.2. LOAN COVENANTS

In addition to the terms and conditions of the specific loan, all borrowers shall agree to comply with the following:

(1) To use the loan proceeds only to pay the cost of services and materials necessary to complete the project or activity for which the loan funds are awarded, and if approved by Loan Staff, loan closing costs.

(2) To start the project within 3 months after loan closing, unless a written exception is granted by the Loan Staff. Such exceptions may include, but are not limited to, equipment or permitting delays. Applicants shall provide the Loan Staff with a project implementation schedule not exceeding 6 months from the date of loan closing unless agreed otherwise in writing by the Loan Staff

(3) Authorize the repayment of the financing via automatic fund transfers (AFTs) from their bank.

(4) To permit inspections during normal business hours by persons authorized by SEU of all projects and properties assisted with loan funds. Related project materials shall also be open to inspections during normal business hours, which include, but may not be limited to, contracts, materials and equipment.

(5) To maintain records on the project as may be requested by SEU. These files shall be maintained as long as the loan is active and for at least three (3) years after completion of the work for which the loan has been obtained, whichever is longer.

(6) To maintain special form commercial liability insurance and any other insurance called for by the nature of the project on the project property required during the term of the loan. SEU shall be listed as "additional insured" on the liability insurance policy, and as appropriate, lender's loss payable and/or mortgagee on other policies.

(7) To abide by all applicable Federal, state, and local laws.

8.3. <u>LOAN DOCUMENTATION AND CLOSING</u>

(1) Closing Process

   a. The Loan Staff works with the Applicant to schedule a Closing Date by which all conditions to closing will have been satisfied.
   b. The Loan Staff shall prepare draft Loan Documents based on templates for all loan agreements, promissory notes, and lien instruments prepared by SEU's attorney and maintained by SEU. The Loan Documents shall reflect the terms and conditions contained in the Commitment Letter, these Loan Policies and other terms that are customary for lending in the geographical area. SEU's attorney shall review all Loan Documents for loans of more than $150,000 and shall be consulted, as needed, in regard to documentation for any unusual borrower, loan or terms. For large or complex loans, SEU's attorney may prepare all Loan Documents.
   c. Prior to closing, the Loan Staff shall verify that all pre-closing conditions have been met.
   d. The Executive Director or LRC chair has authority to sign the loan documents on behalf of SEU but only after confirming that the terms and conditions of the commitment letter, loan documentation and Loan Approval are consistent, in all respects. In the interest of maintaining a check and balance system, the person who prepares the loan documentation should not be the person who signs the loan documentation on behalf of SEU.

(2) The following documents shall, at a minimum, be required prior to or for closing:

   a. Letter of Commitment countersigned by the Applicant and any guarantors.
   b. Signed Promissory Note, Loan Agreement, and Guaranty, if applicable.
   c. Proof of property ownership or a copy of the facility lease agreement where project is located.
   d. Project construction contract, if applicable.
   e. Security agreement and/or mortgage for collateral provided as security for all loans shall be prepared and executed at the time of the loan closing.
   f. The following non-inclusive list of closing due diligence items shall also be provided:
      i. Property title searches, borrower and guarantor judgment lien searches, and UCC searches as appropriate.
      ii. Insurance Certificates.
      iii. Other documentation as may be appropriate.
   g. For loans of $150,000 or less, repayment schedule dated and signed by the recipient and a signed approval for electronic funds repayment.
   h. Evidence of permits - documentation must be in place that the applicant has secured all necessary permits, licenses and any other registrations or requirements for the project.

i. Other Documents – other documents may be requested based on the type of applicant and nature of the project. The documents may include organizational documents for the borrower and guarantor entities, such as certificates of good standing, borrowing resolutions, attorney's opinion letter confirming authority to enter into agreement, current financial statements, and environmental assessments or other documents, which SEU or its third party administrator deem relevant in their sole discretion.

9. DISTRIBUTION OF FUNDS AND CONSTRUCTION MONITORING

9.1. DISBURSEMENT OF FUNDS AT CLOSING

(1) Loan proceeds may be disbursed at closing to reimburse funds advanced on eligible uses by the Borrower prior to closing based on paid invoices and other appropriate documentation.

(2) Loan proceeds may be disbursed at closing to pay for legal or other fees that are approved uses of loan proceeds.

9.2. DISBURSEMENT OF FUNDS POST CLOSING AND MONITORING

(1) Loan Staff who will make authorized payments in a timely manner to the contractors/vendors. Payments will be made either in the form of (a) progress payments (if necessary) or (b) full payment upon project completion and borrower acceptance.

(2) Progress payments must receive a written sign-off from the borrower on a form supplied by the Loan Staff and be secured by invoice from the contractor indicating the amount owed.

(3) A final payment of no less than 10% of the loan will be made to the Contractor after the following has occurred:

   a. Fully executed Delivery and Acceptance Agreement, including appropriate lien releases;
   b. Loan Staff has verified project completion and energy benefits or, greenhouse gas emissions reductions and quality assurance;
   c. Final, properly executed loan agreement has been received by the Loan Staff that includes (1) any accrued interest on any funds advanced during the construction or installation period and (2) interest on the paid funds up until the billing anniversary date, both of which may be capitalized in the loan; and
   d. The Loan Staff has determined that all documents have been properly executed and received and all conditions met.

(4) Loan Staff may inspect construction activity upon reasonable notice to the borrower.

10. LOAN RISK RATING AND LOAN LOSS RESERVES

10.1. LOAN RISK RATING SYSTEM AND LOAN LOSS RESERVE

(1) Loan Staff shall develop and recommend to the Board a Loan Risk Rating System and Loan Loss Reserve method based on industry best practices and SEU's lending experiences to establish a methodology for calculating and reflecting the relative risk of each loan in a rating and to determine the appropriate 10.1 amount of loan loss reserve for each loan based on its rating. Staff shall submit the proposed Rating System to the LRC for review and approval. The Risk Rating System shall include, but not limited to, relevant criteria for each project type such as: financial condition, borrower capacity and experience, project viability, collateral, previous SEU experience with the borrower, and local real estate market. The Risk Rating System shall define scores for all criteria that when combined will determine the overall risk rating for each loan. The Risk Rating System shall contain the loan loss reserve amounts allocated for each risk rating. Rating categories for each criterion shall include:

   a. Pass-1 (Good, A)

   b. Pass-2 (Standard, B)
   c. Pass-3 (Adequate, C)
   d. Questionable/D
   e. Substandard/E
   f. Doubtful/F

(2) The Board shall review and approve the Loan Risk Rating System initially.

(3) Thereafter, annually, the Loan Staff shall review the Loan Risk Rating System and propose changes based on industry best practices and SEU's lending experiences to the Board for approval, if warranted.

(4) SEU shall reflect the Loan Loss Reserve on its internal and audited financial statements according to best accounting practices. The Loan Loss Reserve shall be shown on its balance sheet as a contra account to the Loans Outstanding asset that is equal to or greater than the aggregate of the loan loss reserve ("LLR") assigned to each loan in the portfolio. Any increase to the contra-asset account shall be accompanied with a Loan Loss Expense (or Provision for Loan Losses) entry on the income statement. The DESEU Accountant will post changes in the loan loss reserve as directed by the Executive Director, accompanied by the appropriate loan loss expense.

10.2. NEW LOANS

(1) During underwriting, Loan Staff will identify and assess the current risks of the project, borrower and guarantor and recommend appropriate monitoring requirements. The Loan Staff shall calculate a risk rating for each potential loan as part of the due diligence and underwriting process and shall explain and justify the proposed risk rating in the Credit Memorandum. The individual or committee with the authority to approve the loan shall consider and approve a) the initial risk rating, b) a recommended reserve amount, and c) monitoring requirements and details specific to the loan. For all approved loans, this initial risk rating shall remain in effect until the sixth scheduled payment date under the loan amount, unless the borrower misses a payment in which case the risk rating may be adjusted according to the rating for existing loans.

(2) On the closing date, if the loan is fully dispersed, the DESEU's Accountant posts the loan loss reserve amount on SEU's financial statements; otherwise the loan loss reserve amount shall be posted when loan proceeds are disbursed.

10.3. EXISTING LOANS

(1) At least annually until the loan has been repaid in full, the Loan Staff shall recalculate the risk rating for each loan in the portfolio and shall explain and justify the proposed risk rating in writing to the LRC. The approving authority shall review and approve the risk ratings for each loan. The new risk rating and the LRC approval shall be documented in each loan's file.

(2) As needed, but no less than annually, the DESEU's Accountant shall adjust the loan loss reserve amount on SEU's financial statements.

11. DOCUMENTATION AND REPORTING

11.1. INFORMATION MANAGEMENT

(1) Written Records

   a. All direct lending activities, including LRC meetings, loan applications, and related documents, shall be maintained in electronic format or writing in appropriate files by the Loan Staff.
   b. All files should be maintained in a secure place with access only by authorized personnel.

c. All promissory notes, title insurance documents, and other important original documents shall be kept in the SEU offices or SEU attorney's office in a locked, fireproof safe or stored in a secure off-site location with copies (paper and electronic) filed in the loan files.

(2) Loan Files

a. For each closed loan, a loan file shall be maintained by the Loan Staff. The Loan file shall contain:

i. Loan File:

1. Loan Application: The application, energy audit or greenhouse gas emissions reductions report, financial statements, Loan reports, work scope documents, and other supporting loan information, including all applicable correspondence, and all research and analysis upon which the Credit Memorandum was based.
2. Loan Recommendation and Approval: original, signed copy of the Loan Approval including the Credit Memorandum, recommended actions for the application, and a copy of any LRC or Board minutes for the meeting summarizing the action taken on the loan request.
3. Executed Commitment Letter accepted by Borrower and proof of payment of the Commitment Fee.
4. Loan Closing: Fully executed copies of all loan-closing documents. Legal documents from the loan closing will include, but not be limited to, security instruments, the note, and verification that the equipment has been installed properly and to the borrower's satisfaction, and other applicable correspondence.

ii. Post-Closing/Repayment Monitoring

1. Milestone schedules and dates of compliance.
2. Loan amortization schedule, status of payments, and the outstanding balance of the loan.
3. Loan Servicing Record: Borrower will get a loan copy of all loan closing documents.

b. Executive Director shall conduct a review of the loan files to ensure completeness at least annually.

c. A tracking system should be established and maintained by the Loan Staff to ensure that loan repayments, financial information, the loan agreement, UCC updates, and other time sensitive documentation requirements are tracked and obtained as required.

d. Loan files shall be maintained for the greater of: (1) ten (10) years from the date that the final financial activity occurred for the transaction; or (2) so long as required by investors. In the event that SEU is threatened with or undergoing litigation proceedings in connection with a loan, no relevant documents shall be destroyed until settlement or dismissal. Once loans are paid off the transaction data shall be archived in the database and saved in perpetuity.

(3) ACCOUNTING RECORDS

a. The SEU Accountant shall maintain accounting records. The Loan Staff shall report monthly to the SEU Board regarding the loan activity.

b. A separate accounting record for each loan shall be kept to account for all funds loaned.

11.2. REPORTING SEU's Board and committees not only have approval authority over certain actions taken by SEU, but also have review responsibility of certain information about SEU's business. Accordingly, Executive Director shall present to the Board, LRC, and Finance and Audit Committee at their regularly scheduled meetings and at the annual meetings the following:

(1) Loan Pipeline Report: A list of the applications and commitments by product, loan amount committed/anticipated, and estimated approval date. The pipeline report may also include impact data.

(2) Outstanding Loan Report: A report maintained by the Loan Staff at all times that lists all of the loans

outstanding and includes the name of the borrower, name of the business or organization and type of business or organization, original amount of the loan, the disbursement date, the interest rate, the outstanding balance of the loan, any disbursements to be made in the future under the existing Loan Documents, the delinquency status, the Loan Risk Rating, and the Loan Loss Reserve (in % and dollar amount). The Loan Report will also show other amounts that are due from borrowers including late and/or return check fees. The Loan Report shall be organized by risk rating, by reserves, by maturity, and by collateral.

(3) Portfolio Report: A report showing current and historical total loans outstanding, current commitments, capital available, total loan loss reserve, YTD loans (number and dollar-amount), income and fees, diversification. The Portfolio report also includes a list of the loans that are 60 – 89 days late, 90+ days late and in workout or collection.

12. LOAN COLLECTION AND MONITORING

12.1. LOAN COLLECTION

Loan repayments are to be made electronically. Payments may be arranged by the applicant or automatically withdrawn by the Loan Staff or a third-party billing company.

(1) CONFIRMATION OF PAYMENT STATUS

a. The SEU Accountant is responsible for 1) confirming whether all payments have been received, 2) recording payments in the loan software and 3) maintaining the loan software.
b. All loan payments received from borrowers shall be applied first to repay SEU for any amounts paid or advanced on behalf of borrower pursuant to applicable loan documents, second to satisfy any outstanding late fees, third to accrued interest, and finally to reduce principal.

12.2. PERIODIC DISCLOSURES FROM BORROWERS

(1) The Loan Staff 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 documents. If disclosures are not received when due, Loan Staff will contact the borrower to discuss better performance of disclosure obligations. Failure to respond on the part of the borrower constitutes a technical default under the loan documents.

(2) At minimum, SEU may require borrowers to submit the following information and reports after loan closing:
   a. Signed tax returns and/or financial statements of borrowers and guarantors annually.
   b. Evidence of renewal and payment for any required insurance annually.
   c. Status Report as designed by SEU staff at closing, detailing any information pertinent to monitoring the probability and timing of repayment.
   d. Updated contact information as needed.

12.3. MONITORING RESPONSIBILITY

(1) The Loan Staff shall monitor each loan to ensure compliance with the loan terms and conditions and is responsible for tracking and reporting to the Executive Director, the LRC and the Board the performance of the portfolio in accordance with these policies.

(2) The Loan Staff will review the status of each Borrower in accordance with the following schedule but in any event, at least annually at the Borrower's fiscal year end following the receipt of annual financials and report any changes in the risk profile of the loan to the Board. After closing, a loan's monitoring frequency and procedures are based on the loan's performance category:

Loan Rating	Monitoring Frequency
Pass-1 (Good, A)	At least annually, at Borrower's fiscal year-end.
Pass-2 (Standard, B)	At least semi-annually
Pass-3 (Average, C)	At least quarterly
Questionable, D	Monthly or more frequently
Weak/E	Monthly or more frequently

c. Pass (overall rating of P-A, P-B, P-C) – These loans are performing and require only standard monitoring quarterly or semi-annually or annually as approved at initial underwriting.

d. Special Mention (Overall Questionable Rating) – These loans will be moved to the Watch List. They are at a critical point for monitoring because a loss is possible but not yet determined, and the loan is not performing as expected. For Substandard loans repayment is considered to be at risk. Special Mention loans will generally receive the most in-depth monitoring, reviewing status regularly and interacting with the borrower more frequently.

e. Special Asset (overall Doubtful Rating) – Special Asset loans are considered to be partially or fully uncollectable. The following actions shall be taken:

    i. Upon review and approval of LRC and confirmation by SEU's Board, the financial books and records of SEU shall be adjusted to reflect the updated loan loss provision equal to the sum of the outstanding principal plus any interest accrued thru the date on which the loan becomes doubtful.
    ii. Interest shall no longer accrue on the books and records of SEU as of a date identified in the LRC recommendation.
    iii. The books and records will be adjusted in accordance with generally accepted accounting principles. This will be considered a financial write-off of principal and interest.

(3) Watch List

Loans rated as Questionable or Doubtful will be placed on the Watch List with monthly status reports presented to the LRC describing (in brief) the problems with each loan and actions taken by staff.

12.4. ASSESSMENT OF SUFFICIENCY OF LOAN LOSS RESERVE

(1) As needed, but no less than annually, the SEU Accountant shall adjust the loan loss reserve amount on SEU's financial statements.

(2) The Loan Staff is responsible for ensuring that Loan Loss Reserves are updated to reflect the current risk profile of each loan in the portfolio based on 1) actual delinquency history, 2) changes in the market prospects of the business, 3) the financial health of the Borrower, 4) legal or environmental changes that could materially impact the Borrower's ability to meet payment obligations under the loan documents and 5) and any changes in a loan's risk rating based on the periodic review by Loan Staff and the LRC.

(3) The Loan Staff will recommend changes in the loan loss reserve to the Executive Director and will post such changes following approval by the LRC, accompanied by the appropriate loan loss expense.

12.5. DISCHARGE AND RELEASE

Upon receipt of all amounts owed, the loan shall be discharged, and all security released by the Loan Staff.

13. LOAN FUND CAPITAL

13.1. FUND ASSETS

Funds allocated to Direct Lending activities may be deposited in a separate account maintained by SEU.

13.2. LOAN FUND EQUITY

SEU shall maintain a net asset balance in the loan fund of at least 30% of the sum of all borrowed funds plus net assets dedicated or restricted to lending.

13.3. LOAN FUND INVESTMENT GUIDELINES

The SEU Accountant with the Executive Director's oversight, will deposit undisbursed loan funds in accordance with SEU's Cash Management and Investment Guidelines

13.4. LIQUIDITY RESERVE

SEU shall maintain cash reserves in amount equal to any debt maturing over the next 6 months plus the amount of any lines of credit that have not been drawn down.

14.PROBLEM LOAN MANAGEMENT

14.1. DELINQUENCY

The Loan Staff will maintain a log of all verbal and written communication about past due payments and shall manage the process.

(1) 15 Days Late

All payments are expected to be paid when due. If a payment is more than 15 days late, the Loan Staff may telephone or email the Borrower to ascertain why the payment is late and to obtain a commitment for a payment date.

(2) 30 Days Late

a. If a payment is more than 30 days late, the Loan Staff shall assess a late fee in the amount of 5% of the delinquent payment and will telephone the Borrower to obtain a commitment for a payment date and mail a written notice of the delinquency and total amount due to the Borrower. The loan staff may waive late fees when there are reasonable circumstances to do so.

b. The Loan Staff will update the loan software and the Loan Report to reflect the assessment of the late fee, late payment and downgrade the Loan Rating to B or below.

c. The Loan Staff will also review the file to confirm that collateral, security, and other documentation is in place and in order and that all insurances required by the borrower are in place so as to protect SEU's foreclosure and other rights.

d. If the loan documents provide for notice to borrower and a cure period prior to SEU declaring a monetary event of default, Loan Staff or an SEU attorney shall send a letter to borrower with notice of default in order to start the cure period running.

(3) 45 Days Late

If a payment is more than 45 days late, the Loan Staff will make a site visit or a remote teleconference. The goal of this meeting is to develop a payment plan with the borrower to bring the loan current and/or to identify an additional credit party for the loan.

(4) 60 Days Late

a. If a payment is more than 60 days late, the Loan Staff will declare an event of default to have occurred under the loan. The loan staff may waive late fees when there are reasonable circumstances to do so.

b. The Loan Staff will contact the borrower to obtain a commitment for a payment date.

c. A letter shall be sent by the SEU Attorney informing the borrower that an event of default has occurred under the loan documents and demanding immediate payment.

d. The Loan Staff will 1) update the loan software and the Loan Report to reflect the late payment, 2) downgrade in the loan rating to C or below, and 3) recommend a change in the loan loss reserve to the Executive Director.

(5) 90 Days Late

a. If a payment is more than ninety days late, the Loan Staff will mail (by regular and certified mail) a fourth written notice of the delinquent payment and informing the Borrower that legal action will be initiate if the account is not brought current or restructured. The loan staff may waive late fees when there are reasonable circumstances to do so.

b. The Loan Staff will update the loan software and assign a Loan Rating of D or Lower.

c. At the next LRC meeting or at a specially scheduled meeting, the Loan Staff shall make a full report detailing the nature of the problem and recommending one or more actions including:

   i. Increasing the loan loss reserve assigned to the loan.

   ii. Informing any additional sureties to the loan of the situation.

   iii. Inspecting the Borrower's collateral.

   iv. Sending notice of default and intention to accelerate the loan to pursue legal remedies.

   v. Sending the Loan Staff to work on the problems identified by the borrower and/or SEU.

   vi. In cases where Loan Staff can demonstrate it is reasonably likely that Borrower can repay the loan in the future, restructuring the loan.

   vii. Sending Borrower a collection letter from SEU's legal counsel and waiting for an additional period without action; and/or

   viii. Turning the obligation over to a collection agency, repossessing the equipment, initiating legal action, or writing-off the loan without further action.

(6) 120 Days Late

a. If a payment is more than 120 days late, the Loan Staff will accelerate the loan in accordance with the terms of the loan documents and declare the entire outstanding principal balance of the loan to be immediately due and payable, and mail (by regular and certified mail) a written notice of such acceleration and informing the Borrower that legal action will be initiated if the loan is not repaid in full or restructured.

b. The Loan Staff will 1) update the loan software, 2) impose default interest (if permitted under the loan documents) commencing on the date of acceleration, 3) downgrade the loan rating to F and 4) recommend a higher loan loss reserve to the Executive Director.

c. At the next LRC meeting, the Loan Staff will present a detailed account of the borrower's status and a review of the collateral. The Board will again examine the situation and develop a strategy for further action including:

    i. an increase in the loan loss reserve assigned to the loan.

    ii. a loan restructuring.

    iii. a strategy to liquidate the collateral.

    iv. the intention to pursue legal action against borrower and/or a guarantor; and/or

    v. a further forbearance of action under a written agreement based upon certainty of repayment.

(7) 180 Days Late – Write-off or the exercise of other remedies, if the payment has not been received by the 180th day. Legal counsel will begin foreclosure proceedings. The Loan Staff will write off the loan as follows: reduce the loan loss reserve by any amounts allocated to cover losses for that loan and then show an expense in the current period for any remainder. Write-offs or charge-offs by SEU do not release borrowers from their obligations under the terms of the project's loan documents. Borrowers are expected to pay the full amount of principal, interest, late fees, and collection costs to which SEU is entitled, adjusted in accordance with any loan modification, restructurings or forgiveness which are approved by the LRC.

(8) Hardship - The Loan Staff may depart from the collection policy if a hardship can be documented to SEU's satisfaction, and if the departure is approved by the LRC in writing. The determination of whether a hardship exists shall be at the sole discretion of the LRC. The Loan Staff should maintain the records which relate to any departure from the foregoing policy in the borrower's file.

14.2 NONMONETARY DEFAULTS

If borrower or a guarantor shall default in any obligations under the loan documents other than the payment of money, the Loan Staff and Executive Director shall determine appropriate action in accordance with the terms of the loan documents after consultation with SEU's attorney.

14.3 <u>RESTRUCTURING/WORKOUTS</u>

(1) SEU shall not provide any Technical Assistance to any borrower or guarantor of a loan that is delinquent or is otherwise in default.

(2) SEU does not use restructuring as a way of delaying foreclosures or the exercise of other remedies but considers restructuring of certain delinquent loans only if:

    a. the borrower's financial situation has changed significantly since the closing of the loan, and

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

(3) Loan Extensions - An extension is defined as a change ONLY to the maturity date of a loan, when: a) a repayment source is identified and likely but not yet committed or received, or b) when the project timeline is extended but the development plan, process, and budget remain the same. The Executive Director is authorized to approve extensions up to 12 months total in term. In such cases, the LRC shall be notified of the extension. The LRC is required to approve any additional extensions up to 12-month total term beyond the Executive Director approval limit.

(4) Loan Modification

    a. Complete underwriting of the loan and the underlying collateral and guarantor must be performed, including re-categorization of the loan and risk rating, if:

        i. a project requires additional extensions beyond 24 months,

        ii. the development plan has changed substantially,

iii. the development budget has changed substantially,
iv. the repayment source or risk has changed substantially,
v. the loan requires a reduction in rate, or
vi. there has been a substantial change in the organizational financial conditions, status, or leadership.

b. Modification of loans shall require the approval of the Loan Committee.

(5) Loan Forgiveness

Partial or full loan forgiveness shall require the approval of the Board based on a recommendation of the LRC.

a. <u>FORECLOSURE</u>

Foreclosure of a mortgage or a sale pursuant to a UCC security interest is the last option to collect a defaulted secured loan. However, it may be the only option to remedy a deteriorating situation and/or recover a portion, if not all, of a loan repayment. It will be pursued only after SEU staff members have exhausted all other reasonable remedies. Foreclosure or sale can only take place upon the decision of the Board based on a recommendation from the LRC. LRC recommendation will be made based on consideration of a written report that includes a full analysis of plans and consequences of foreclosure or sale. If the foreclosure or sale proceeds do not cover the outstanding loan amounts due and the cost of the collection, the proceeds will be disbursed in accordance with applicable laws and preferably as follows:

(1) Collection costs (including, but not limited to, appraisals, legal costs, expenses for stabilizing the property, resident relations, or relocation, if necessary)

(2) Loan amounts owed to senior lenders if any

(3) amounts paid or advanced on behalf of borrower by SEU under the loan documents

(4) late fees owed to SEU

(5) Interest owed to SEU

(6) Principal owed to SEU.