



SBA 504 CREDIT POLICY MANUAL

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Introduction

This SBA 504 Credit Policy Manual is designed to provide guidance to personnel on company lending philosophies as well as establish policies and procedures to fulfill the mission statement of B:Side Capital. These policies and procedures, at a minimum, reflect the requirements of the Code of Federal Regulations (CFR) and SBA’s Standard Operating Procedures (SOP) related to eligibility, loan approval and closing of the SBA 504 loan program.

This SBA 504 Credit Policy Manual is organized into three sections:

1. **General Policies:** includes policies regarding eligibility, legal, regulatory and general underwriting issues.
2. **Credit Approval:** includes the credit-approval structure and underwriting guidelines.
3. **Loan Review Committee:** includes size, structure, quorum, attendance and confidentiality requirements for members of the loan review committee.

Two separate policies, the SBA 504 Loan Portfolio Servicing Policy Manual and the SBA 504 Priority Assets Loan Policy Manual, cover the following:

1. Routine Loan Servicing and other Portfolio Management topics.
2. Priority Assets Administration, which includes Non-Routine Loan Servicing and other Portfolio Management topics.

This Credit Policy Manual is intended to provide a framework to ensure that lending decisions made comply with regulatory and legal requirements, and that sound credit decisions are made in keeping with the economic development mission of B:Side Capital.

It is imperative that each small business loan be evaluated on its individual merits so that each eligible small business demonstrating repayment ability is provided access to SBA 504 financing.

1.1 Mission

B:Side Capital is a private, not-for-profit, non-stock membership organization whose mission is: “To foster the economic growth of diverse small businesses within our communities.”

1.2 Fair Lending Policy

In keeping with its economic development mission, B:Side Capital is committed to the principles of fair and equal opportunity lending. A consistent and high level of assistance and service will be provided to all small businesses or business owner(s) regardless of race, color, religion, national origin, sex, marital status, age (provided the applicant has the capacity to enter into a binding contract), handicap, because all or part of the applicant’s income derives from any public assistance program, or, because the applicant has in good faith exercised any right under the Consumer Credit Protection Act. Underwriting standards will be applied fairly and consistently permitting access to credit for a broad range of customers. Applicants with equivalent credit qualifications will receive the same consideration.

Applicants will be informed of B:Side Capital’s fair lending policy through marketing materials and the Disclosure Statement executed by a small business applicant as part of the loan application process.

General Policies

2.1 Eligibility

Policy: Each Operating Company (referred to as the business) must meet the eligibility criteria as specified in the CFRs and SOPs. More specifically, the business must be “small”, must be organized for profit, must be engaged in an eligible, legitimate business, and its owner(s) must have sufficient management capacity and be of good character. Each project is subject to meeting and/or achieving certain economic development objectives including those related to job creation or retention, meets one of community development or public policy goals outlined by SBA, or meets the SBA energy public policy goal.

Exceptions and Additional Requirements:

- i. An SBA Form 1244, including the Application Eligibility Certification must be executed by an authorized signer of the Operating Company, the Eligible Passive Company if applicable, and each owner listed on the form. The Operating Company, Eligible Passive Company if applicable, and any individuals or businesses associated with the loan will not be eligible to receive government guaranteed financing if they are unable to execute this certification or do not pass the SBA Risk Mitigation Framework within SBA’s E-Tran system.
- ii. If a business (when combined with its affiliates) has a net worth greater than \$20.0 million or after-tax income greater than \$6.5 million on average for each of the last two years, the industry size standards by NAICS category may be used.
- iii. If the business operation itself is of uncertain eligibility, a predetermination of eligibility will be obtained from SBA prior to accepting an application.
- iv. As part of the application, each owner of the Operating Company, and Eligible Passive Company if applicable, must complete SBA Form 1244. If any associate is currently incarcerated or under indictment for a felony or any crime involving or relating to financial misconduct or a false statement, the borrower is not eligible for SBA financing.
- v. If the business is closely associated with a Franchise, License, Dealer, Jobber or similar entity by agreement, such agreement will be reviewed in accordance with SBA requirements.
- vi. The business will not be permitted to receive government guaranteed financing if any of the individuals or other businesses associated with the loan have outstanding delinquent federal debt.

- vii. B:Side Capital will certify and indicate that the applicant does not have the ability to obtain some or all of the requested loan funds on reasonable terms from non-Federal, non-State or non-local government sources without SBA assistance. This will typically be accomplished through the Third Party Lender letter.
- viii. B:Side Capital will not knowingly submit an application that we are aware is not eligible, regardless of any executed certification or pass on the SBA Risk Mitigation Framework.

2.2 Underwriting

Policy: Repayment Ability: The decision to make a loan is based on exercising due diligence in analyzing the Borrower’s ability to repay the proposed loan over its term. The primary source of repayment for 504 loans is cash flow generated by the Operating Company. For an existing business, historical cash flow must be sufficient to meet all obligations, including the proposed debt service for at least the most recent year-end. For a new business, projections must demonstrate the ability to service debt and projections must be analyzed for reasonableness and completeness. Additional collateral or guarantees may be required for startup businesses.

Due diligence means appropriate analysis of the Operating Company’s overall financial condition including profitability trends, cash flow and balance sheet (including contingent liabilities), its industry, its management, economic trends, and other factors which may affect the strength and stability of the Operating Company’s cash generating sources. The analysis of the overall financial condition will be independent of analysis performed by any third party.

Standby Creditor(s): Any standby creditor must subordinate any lien rights in the collateral securing the loan to B:Side Capital’s/SBA’s rights in the collateral, and take no action against Borrower or any collateral securing the Standby Debt without CDC’s consent.

Insurance Requirements:

- 1. Real Property Hazard Insurance** – Hazard Insurance is required on all real property pledged as collateral for the loan with the SBA named as “Mortgagee”. Coverage must be in the amount of full replacement cost. The insurance policy or endorsements must provide for at least 10 days prior written notice of policy cancellation.
- 2. Personal Property Hazard Insurance** – Hazard insurance is required on all personal property pledged as collateral for the loan with the SBA named as “Lender Loss Payee”. Coverage must be in the amount of full replacement costs. The insurance policy or endorsements must provide for at least 10 days prior written notice of policy cancellation.
- 3. Life Insurance** – B:Side Capital will determine if the viability of the business is tied to an individual or individuals. In these situations, B:Side Capital may require life insurance in an amount consistent with the size and term of the loan. Life

insurance is required for the principals of sole proprietorships, single member LLCs, or for businesses otherwise dependent on one owner's active participation, consistent with the size and term of the loan. The amount and type of collateral available to repay the loan may be factored into the determination of the appropriate amount of life insurance.

- a. It is the practice of B:Side Capital to not require an assignment of life insurance on loans with a gross debenture of \$250,000 or less, unless it is a sole proprietorship, single member LLCs, or for businesses otherwise dependent on one owner's active participation. Instances may arise where a loan of \$250,000 or less may warrant life insurance but the final determination will be decided by the Loan Review Committee.
4. **Flood Insurance** – All files will require a Federal Emergency Management Agency Standard Flood Hazard Determination to be conducted on property where collateral is located to determine if Flood Insurance is required. In the event such insurance is required, B:Side Capital will ensure evidence of such is obtained.
 5. **General Liability** – Proof of general liability insurance is required on all operating companies.
 6. **Other Insurance** – B:Side Capital, in conjunction with the Third Party Lender, may determine if any other insurance would be appropriate to the loan, including but not limited to: product liability, dram shop/host liquor liability, malpractice, disability, worker's compensation, etc.

Exceptions and Additional Requirements:

- i. An existing business that does not demonstrate repayment ability for the last year-end may be approved if its interim financial statements and projections with reasonable documentation of the increased cash flow capacity demonstrate repayment ability.
- ii. Passive entities are generally ineligible for SBA financing however if the applicant so chooses, an Eligible Passive Company ("EPC") may be established as the borrower to hold title to the property. In the event an EPC is established, the Operating Company ("OC") must at minimum provide a corporate guarantee and lease 100% of the property from the EPC. The EPC is subject to all other SBA requirements.
- iii. If an existing operation, although profitable, would not reasonably be expected to demonstrate sufficient repayment ability the loan may be approved if the expansion is logical, e.g. an additional location generating independent revenues to support the new debt service.
- iv. If full replacement cost is not available, hazard insurance coverage must be for the maximum insurable value.
- v. In the event that the borrower is only able to obtain a life insurance policy at a cost-prohibitive amount due to health or other related issues, B:Side Capital may make an exception to or accept a lesser amount with regard to the life insurance requirement. B:Side Capital will obtain written documentation from a licensed insurer of the same.

2.3 Borrowing Limits

Policy: The minimum amount of 504 loan dollars available to any one borrower is \$25,000. The maximum amount of 504 loan dollars available to any one borrower is limited to \$5,000,000, inclusive of transaction costs and administrative fees associated with the sale of the debenture used to fund the 504 loan.

Exceptions and Additional Requirements:

If the Borrower, Operating Company or business owner(s) meet one of two unique public policy “green” goals, or, the Borrower, Operating Company or business owner is an eligible manufacturing firm, the maximum amount of 504 loan dollars available to any one borrower PER PROJECT REQUEST is limited to \$5,500,000, inclusive of transaction costs and administrative fees associated with the sale of the debenture used to fund the 504 loan.

There can be more than one Project for manufacturers and Eligible Energy Public Policy Projects for the same Applicant or for its affiliates provided that SBA determines that each Project meets prudent lending standards.

2.4 Concentrations of Credit

Policy: Prudent portfolio risk management requires that concentrations of credit be actively diversified and managed. No more than 20% of the number of loans approved and outstanding will be made to an industry segment (as determined by the three-digit NAICS Codes). As market conditions dictate, specific industry concentrations will be periodically reviewed and policies established.

Exceptions and Additional Requirements:

None

2.5 Loan Authority

Policy: The Board of Directors establishes lending authority. Loan approval authority is delegated to Loan Review Committees but the Board of Directors must ratify all the actions of the Loan Review Committees.

Exceptions and Additional Requirements:

If the NET debenture is \$2,000,000 or more the loan must be approved by the Board of Directors. The Board of Directors is responsible for approving any increases to the loan amount.

2.6 Account Management

Policy: A B:Side Capital Loan Officer will be assigned to each client and will manage the relationship through the final SBA approval. These loan officers are responsible for

properly representing the company, promptly assisting the client, exercising due diligence in underwriting, and assuring that the application package is completely and accurately assembled. As needed, the B:Side Capital loan officers will assist in closing and servicing matters.

A B:Side Capital Closing Officer will manage the closing needs of the client. The Closing Officer will ensure that the closing process is timely, the closing file is properly and completely documented, and the terms of the closed loan are properly approved.

Exceptions and Additional Requirements:

- i. B:Side Capital may pay a referral fee, typically as a maximum of 1.0% of the total 1.5% SBA processing fee on the NET debenture, payable at loan closing. In the event a referral fee is paid or the borrower discloses the payment of an application and/or packaging fee, B:Side Capital will obtain required documentation. B:Side Capital does not charge a packaging fee outside of the standard CDC processing fee associated with the project.

2.7 Collateral

Policy: Generally, project collateral is deemed sufficient collateral to secure the debenture. Taking additional collateral could prevent the Operating Company or the Borrower from raising sufficient working capital to sustain operations.

Exceptions and Additional Requirements:

Additional collateral may be required if:

- i. The Operating Company is a startup business and its projections are weak, and/or
- ii. The Operating Company is an existing business and its cash flow coverage is weak, and/or
- iii. Project Collateral is deemed insufficient

2.8 Lien Position

Policy: The 504 loan will be in a subordinate lien position to the first deed of trust and/or priority security interest of the third party lender. Lien searches, as applicable, will be performed to ensure no other priority liens are in place on collateral. For real property, a title insurance policy will serve as the lien search. Any interim financing deed of trust must be released and a copy of the recorded release will be collected and maintained in the file.

Exceptions and Additional Requirements:

- i. The third party lender must provide a statement as to the reason they are unwilling or unable to provide the financing without the participation of the SBA prior to application.
- ii. In a mixed-use project, the 504 loan may take a first lien position on machinery and equipment purchased with the proceeds of the loan. In the case where the

machinery and equipment is integral to the project, however, the first deed of trust lender may require (and receive) a first lien.

- iii. If the seller provides the permanent financing, it must be in a subordinate position to the 504 loan.
- iv. In addition to its share of project costs, the third party lender loan may include consolidation of existing debt on the project property as long as it doesn't improve the third party lender lien position on the existing debt, unless the existing debt is a third party loan.
- v. For a second 504 project on a property, typically the lien structure will allow the third party lender to hold the first and second deed of trust positions, with the existing and new SBA 504 loans occupying the third and fourth deed of trust positions, respectively. Approval of the lien structure will be obtained from the SBA before the debenture closing.

2.9 Loan-to-Value Limits

Policy: There must be at least sufficient collateral to support 100% of the first deed of trust loan and the 504 gross debenture. Project real estate collateral will be valued at 100% of appraised value. Project machinery and equipment will typically be valued at cost or the purchase price. Liquidation margins will also be applied with a 75% value applied on all real estate and 50% value on all equipment.

Exceptions and Additional Requirements:

None

2.10 Borrower's Contribution

Policy: Generally a project is structured where the senior lender provides 50% of total project costs, the SBA provides 40% of total project costs and the borrower provides 10% of total project costs. The borrower's contribution may come from the business owner's personal resources, the Operating Company's liquid assets, or real estate or eligible machinery and equipment acquired in anticipation of the 504 funding. Verification of the borrower's contribution must be obtained prior to disbursing loan proceeds and evidence of such will be included in the loan file.

Exceptions and Additional Requirements:

- i. If the Operating Company is considered a "startup" business under the SOP definition, the equity injection must be 15% reducing the SBA contribution by 5%.
- ii. If the property type is listed on the SBA pre-determined list of what is considered to be a special or limited use property, or determined by the appraiser as limited use, the equity injection must be 15% reducing the SBA contribution by 5%.

- iii. If the Operating Company is a startup business and the project property is special or limited use or determined by the appraiser to be as limited use, the equity injection must be 20% reducing the SBA contribution by 10%.
- iv. If the equity injection is borrowed and a subordinate lien is taken on the project assets, the loan must be repaid over a period of time at least as long as the life of the SBA 504 loan, unless other arrangements are pre-approved by the SBA.

2.11 Appraisals

Policy: Appraisals of real estate collateral are required when the cost of the real estate equals or exceeds \$500,000. An acceptable valuation from a participating third party lender will be acceptable for projects where the value of the real estate is less than \$500,000.

The appraiser must be licensed and the appraisal must meet SOP requirements. Complete appraisals are generally required, although limited appraisals may be acceptable depending on the circumstances. Self-contained or summary appraisals are acceptable; however, restricted appraisals are not permitted. Typically, the first trust lender will order the appraisal.

The value of new or used machinery and equipment may be substantiated by the manufacturer's or equipment dealer's invoice. Used machinery and equipment must be appraised if not being purchased from an equipment dealer. The appraiser must meet all SOP requirements and hold the professional designation of a Certified Machinery and Equipment Appraiser (CMEA) or Accredited Senior Appraiser (ASA). A second equipment appraisal or formal appraisal review is also required if the following applies: the used equipment project cost is over \$500K and all or substantially all (90% or more) of the project cost is financing used equipment.

Appraisals of property contributed as part of a borrower's equity injection in the proposed project must be available at the time the loan application is submitted to SBA.

If the first deed of trust lender does not obtain an appraisal, or the appraisal is not satisfactory to B:Side Capital and SBA, B:Side Capital may engage an appraiser to conduct its own appraisal. The fee must be collected in advance.

Exceptions and Additional Requirements:

- i. Appraisals of property taken as additional collateral are not required. The tax-assessed value may serve as an estimate of value.
- ii. The equipment appraiser professional designation of CMEA or ASA is not required if the equipment is appraised as a part of the project commercial real estate by an appraiser who meets all SOP requirements.

2.12 Environmental Reports

Policy: Potential environmental hazards are to be considered as a part of loan underwriting and portfolio management activities. An environmental assessment conducted in

compliance with SOP requirements must be completed on all project real estate at the time of loan approval.

If the business is considered to be in an environmentally sensitive industry as defined by SBA regulations (e.g., a gas station), a phase one environmental report will be the minimum standard report accepted. It is imperative, for protection of the first deed of trust lender and the borrower, that environmental matters be resolved as early in the approval process as possible to avoid delays.

Disbursement of 504 funds is contingent upon a determination that the property needs no further investigation.

Borrowers must comply with the recommendations of the environmental professional who conducted the investigation. If there is ongoing remediation or ongoing environmental concerns, the legal and business risks must be analyzed and the appropriate steps taken pursuant to the SOPs.

Exceptions and Additional Requirements:

- i. Environmental site assessments are not required for residential property taken as additional collateral. (They are required for commercial property taken as additional collateral).

2.13 Guarantors

Policy: All individual and entity owners of 20% or more of either the Borrower or the Operating Company must provide an unlimited guarantee on the SBA guarantee form. When deemed necessary for credit or other reasons, other individuals may be required to provide a full or limited guarantee as B:Side Capital or the SBA deems appropriate. A 504 loan may NOT be processed without a personal guarantee. The SBA Form 1244 must be completed by an owner of the Operating Company, or the Eligible Passive Company if applicable, providing accurate information on behalf of all owners.

Wholly owned affiliates or closely related non-affiliates may also be required to guarantee the 504 loan. In the case of a business expansion, the current operating entity will be required as a co-borrower or guarantor as required per SOP.

Exceptions and Additional Requirements:

- i. Aside from projects involving Employee Stock Ownership Plans, cooperatives, or self-directed 401K's, no exceptions may be made to personal guarantees for owners of 20% or more of the Operating Company or Borrower. Limited guarantees may be used for "investor" owners who have no daily operating control, if appropriate, and ownership is less than 20%.
- ii. Partially owned affiliates and affiliates with restrictive loan covenants are commonly exempted from guaranteeing a 504 project providing that cash flows from those entities were not relied upon in the underwriting process.
- iii. The full personal guarantee of a spouse is required when the combined ownership interest of both spouses is 20% or more.

2.14 Financial Statements

Policy:

Pursuant to SOP requirements for verification of financial information through the comparison of tax returns and tax transcripts, tax returns are the preferred source of financial information.

For a change of ownership, B:Side Capital must verify the seller's business tax returns or a sole proprietor's Schedule C. Where there is an acquisition of a division or a segment of an existing business or for 504 projects of \$500,000 or less, other forms of verification may be used in lieu of tax transcripts (e.g. Sales tax payment records).

If a received tax transcript does not match the tax return (with the exception of obvious typographical errors or omissions), SBA will be notified of the discrepancies. Approval efforts will be immediately discontinued.

Personal financial statements (dated within 120 days) are to be obtained at the time of approval along with two years personal tax returns and a personal credit report for each individual who owns 20% or more of the Operating Company or Borrower.

At the time of closing, to verify that there has been no adverse change in financial condition, all intervening year end tax returns and an interim financial statement (dated within 120 days of the CSA Funding Cutoff Date) for the Applicant or Operating Company will be reviewed and signed off confirming no substantial adverse change.

Exceptions and Additional Requirements:

- i. If a Loan Officer prefers to underwrite using financial statements (preferably CPA compiled or reviewed), tax returns must also be collected.
- ii. An exception may be considered if transcripts can't be received from the IRS in the allotted time frame. If this occurs, B:Side will appropriately document the file and ensure ongoing monitoring to receive and verify the necessary transcripts.
- iii. For changes in ownership on a 504 project exceeding \$500,000, if tax transcripts are unavailable, alternative verification methods (e.g. sales tax payment records) may be used. The financial documents analyzed and the source of verification must be clearly detailed in the credit memo.

2.15 Bankruptcy

Policy:

Extensions of credit to Operating Companies or individuals who have previously filed for bankruptcy must be carefully evaluated on a case-by-case basis. No active

bankruptcies will be considered. If any federal debts were discharged, no further federally guaranteed funds are available.

Exceptions and Additional Requirements:

None

2.16 Pricing

Policy: The Disclosure Statement included within the B:Side Capital loan application booklet outlines the fees paid by the borrower for a 504 loan. In addition to a closing / attorney fee of \$2,500, these include a 1.5% processing fee, and .25% funding fee. An annual SBA servicing fee of 0.125%, and an annual B:Side Capital servicing fee of 0.500% for a total servicing fee of 0.625%, which is included in the borrower's monthly payment, is also noted.

For loans with a Gross Debenture of \$2,000,000 or more, 1% of the NET debenture will be collected at the time of SBA loan approval. This is a portion of the total 1.50% processing fee charged against the NET debenture. The payment of this 1% deposit will be due within 10 business days of the authorization and will be non-refundable.

Exceptions and Additional Requirements:

None

2.17 Litigation

Policy: If a borrower is involved in or anticipates being involved in any lawsuits, care must be taken to analyze the potential risk to the business and its ability to continue to generate sufficient cash flow to repay debt service.

If legal action is threatened against B:Side Capital or its employees or Directors, the Chief Executive Officer must notify the Board of Directors immediately.

If any employee is served a subpoena to testify in a matter involving B:Side Capital, a copy of the subpoena should be forwarded to the Chief Executive Officer and corporate counsel immediately.

Exceptions and Additional Requirements:

None

2.18 Conflicts of Interest

Policy: Conflicts of interest or appearances thereof are strictly prohibited. Loan Officers shall not be involved in any transaction that could be construed to involve anything less than a fully objective evaluation of the merits of a credit request. All employees, Directors and Loan Review Committee members are required to sign a Confidentiality/Conflict of Interest Statement.

Exceptions and Additional Requirements:

None

2.19 Exchange of Credit Information

Policy: Credit information may only be shared with proposed first deed of trust lenders and only if consented to by the Borrower in writing. Credit report information may not be copied, but may be summarized for a first deed of trust lender. All information is to be treated as highly confidential. All employees, Directors, and Loan Review Committee members are required to execute a Confidentiality/Conflict of Interest Statement.

Exceptions and Additional Requirements:

None

Credit Approval

3.1 Credit Approval

Policy: Credit approval must be obtained before applications are submitted to SBA for approval of the guarantee. Credit approval is evidenced by the Loan Committee minutes. Loans must be submitted to SBA within six (6) months of the Loan Review Committee Approval. If a loan is not submitted within six (6) months of approval it must be re-presented.

At the time of the 504 closing, the loan's Applicant or Operating Company will be reviewed and risk rated with current (within 120 days) financial statements for a determination that no substantial adverse change has occurred. Substantial adverse change is defined as:

- i. Inability to meet debt service payments;
- ii. Unremedied delinquency on the debt proposed for refinance (504 Refinance with and without expansion only)

Exceptions and Additional Requirements:

None

3.2 Exceptions to Credit Policy

Policy: It is expected in the normal course of business that exceptions to policy will occur. Exceptions will fall into one of the two types described below and should be handled as outlined.

- i. Events or occurrences described as "Exceptions" within each subsection of this policy. These policy exceptions are considered permissible and may require further documentation or reporting.

- ii. Policy statements where no exceptions are permitted. Certain policy statements do not permit exceptions whatsoever.

The intent of the credit policy is to define the boundaries of acceptable degrees of risk. Accordingly, deviations from policy are justified only if they result in risk consistent with policy intent. When policy exceptions are permissible, they must be clearly outlined in the loan package with mitigating factors clearly explained.

3.3 Loan Documentation

- i. Policy: A document checklist for a potential small business borrower is provided in the B:Side Capital loan application package booklet. The responsible B:Side Capital staff member must obtain all documentation necessary to:
Identify an eligible purpose and source of repayment of the loan.
- ii. Adequately assess the Operating Company's ability to repay in a timely manner.
- iii. Appropriately assess all risks and make an informed lending decision.
- iv. Appropriately assess eligibility of the Operating Company, the Borrower, the owner(s), and the project.
- v. Ensure that proper SBA and B:Side Capital loan packaging and closing documentation is obtained and is properly executed.
- vi. Monitor the loan on an ongoing basis.

Exceptions and Additional Requirements:

None

3.4 Terms and Conditions for Debenture Guarantee

Policy: The Terms and Conditions for Debenture Guarantee will not be provided to the potential small business borrower until the loan approval process has been completed. The Disclosure Statement summarizes the requirements of this loan program and must be reviewed and accepted by the potential small business borrower prior to submitting the loan package to SBA for approval of the guarantee

Exceptions and Additional Requirements:

None

3.5 Loan Files

Policy: A complete copy of the SBA Loan Application Package, the SBA Loan Closing File, and the Servicing File shall be maintained electronically for each potential small business borrower.

NO EXCEPTIONS ARE PERMITTED FOR REQUIRED SBA DOCUMENTATION.

Any partial application or application withdrawn, canceled or denied will be retained for a minimum of two years. The complete loan file on active in-process, approved and funded loans will be held indefinitely while the loan remains in any of these statuses. All paid off loan files will be held for a minimum of six years following the date the loan was paid in full. All files will be retained, electronically or in hard copy.

All files must contain all of the required information pursuant to the SOPs.

Exceptions and Additional Requirements:

None

3.6 Modifications to Previously Approved Loans

Policy: Prior to funding, modifications to an existing Authorization for Debenture Guarantee may be requested by a small business borrower and / or a partner bank lender.

When this requested modification identifies that anticipated project costs have decreased and the borrower requires a smaller 504 loan than was originally approved, such modifications will be processed through to the SBA under a regular loan modification action request. Such approvals will be subject to regular credit review procedures and guidelines elsewhere identified in this Credit Policy Manual.

When this requested modification identifies that anticipated project costs have increased and the borrower requires either a larger 504 loan or a larger first deed of trust position than was originally approved, the approval process for such modifications will depend on the magnitude of the increase:

- i. If the total project costs are \$750,000 or less, an increase of \$75,000 or more is required to be presented as a modification to the Loan Review Committee.
- ii. If the total project costs are greater than \$750,000, an increase of 10% or more is required to be presented as a modification to the Loan Review Committee.
- iii. If the NET debenture is \$2,000,000 or greater, any increase is required to be presented as a modification to the Loan Review Committee and the Board of Directors.

When a requested modification simply requires a change in the first deed of trust lender, due to a merger or other good reason, B:Side Capital will honor the wishes of the borrower and process all such reasonable requests through to the SBA under a regular loan modification action request, after first:

- i. Receiving written notification from the prospective borrower of the proposed modification.
- ii. Notifying or receiving proof notification has occurred to the original first deed of trust loan officer or other responsible official at that lending institution that a request has been received from the borrower to process a change of lenders.

The B:Side Capital Board of Directors shall ratify any and all changes to the original 504 debenture amount prior to those loan funding dates.

Exceptions and Additional Requirements:

If the total project cost increases by 10% or more, however the total financing remains unchanged, the Chief Operating Officer or Lending Director have the ability to recommend approval of the requested modification documented by a memo to the file addressing the applicant's ability to inject the additional funds and how that may or may not affect the viability of the business.

Loan Review Committee

4.1 Composition

Policy: The Loan Review Committee of B:Side Capital will consist of no less than five (5) individuals. Multiple Loan Review Committees may exist simultaneously to assist with managing the workload of the Loan Review Committee.

All members of the Loan Review Committee are required to attend at least one B:Side Capital 504 loan program training class while or prior to becoming a member of the Loan Review Committee to ensure that they are as fully informed as possible about the technical requirements of the SBA 504 Loan Program.

A representative and diversified Loan Review Committee is considered ideal.

With regard to the specific composition of the Committee, the following regulations are in effect:

- i. Each Loan Review Committee must contain at least two (2) members with commercial lending experience acceptable to SBA.
- ii. Members of a Loan Review Committee must live or work in the Area of Operations of the CDC. For projects located outside of Colorado being considered under Multi-State Authority, at least two members who live or work in the state where the project is located must be present to vote. No committee member located outside the state where the projects located may vote on projects located in other states except committee members located in the state of original incorporation may vote on projects located in states approved under Multi-State Authority.
- iii. No CDC staff member may serve on a Loan Review Committee.
- iv. No B:Side Capital Board Member may serve on a Loan Review Committee.
- v. B:Side Capital's Board must ratify the actions of any Loan Review Committee.
- vi. There must be no actual or apparent conflict of interest with respect to any actions of a Loan Review Committee.

4.2 Attendance

Policy: Members of the B:Side Capital Loan Review Committee should maintain a minimum, average six-month attendance record of 50%.

Attendance records may be reviewed for each member of the Loan Review Committee periodically and any individual member who has not maintained an attendance record of at least 50% over the previous six-month period will be subject to removal from the Loan Review Committee.

Exceptions and Additional Requirements:

Members of the Loan Review Committee added under Multi-State Authority are only required to attend meetings whereby their respective vote will be recorded; thus if no projects are being presented located in their state, their attendance is not required. The 50% attendance record will only be calculated based on the number of meetings requiring their attendance.

4.3 Quorum

Policy: A quorum of the Loan Review Committee shall consist of at least five of the members. At least two (2) members of the Loan Review Committee with commercial loan experience must be present and vote for a quorum to exist. An abstention vote due to a real or apparent conflict of interest does not count towards a quorum.

The Board of Directors shall ratify all recommendations of the Loan Review Committee at the next regularly scheduled Board Meeting.

Exceptions and Additional Requirements:

None

4.4 Confidentiality of Distributed Information

Policy: Loan Committee Members will receive and review a loan credit memo prior to each scheduled weekly Loan Review Committee voting deadline. This credit memo will contain highly confidential information about a small business submitting a loan application through B:Side Capital.

In accordance with B:Side Capital's published privacy statement and because of the sensitive nature of this information, Loan Review Committee members agree to destroy any hard or electronic copy of the credit memo following the close of voting.

Exceptions and Additional Requirements:

If a loan project is re-presented for consideration, a new copy of that loan credit memo will be disseminated in advance of the rescheduled Loan Review Committee meeting, along with copies of the modification memo being considered at that same meeting.

4.5 Confidentiality / Conflict of Interest Agreement

Policy: Loan Committee Members will read, agree to and sign a confidentiality/conflict of interest agreement. A copy of this agreement is provided within this policy manual (page 21).

Exceptions and Additional Requirements:

None

APPENDICES



**B:Side Capital and B:Side Fund
Confidentiality/Conflict of Interest Agreement**

Loan Review Committee Policy:

As a member of a Loan Review Committee, I will receive confidential information about B:Side Capital's and/or B:Side Fund's "Applicants" (borrowers, operating companies, guarantors or related persons) including, but not limited to, financial information.

I agree NOT to divulge any information received as a member of the Loan Review Committee, except among committee members or with the directors, officers or staff of B:Side Capital or B:Side Fund, NOR will I use the confidential information for my benefit.

A conflict of interest may arise when I have business dealings with, am personally acquainted with, or am affiliated with an Applicant. In these instances, I agree to notify B:Side Capital/B:Side Fund in writing of the potential conflict and agree to abstain from voting.

A conflict of interest may also arise when a loan is presented for consideration by the Lender for which I am employed on a full or part-time basis, or any affiliated organization of the Lender for which I am employed on a full or part-time basis. In these instances, I agree to abstain from voting.

I agree to abide by this confidentiality/conflict of interest agreement.

Signature: _____

Print Name: _____

Date: _____

An example of the Credit Scoring Matrix is below. This may be updated/amended as needed.

B:Side Capital Decision Scoring Matrix

Score	Management	Repayment Ability	Personal Credit	Capital/Equity
5	Three years experience/ownership running this business or a similar one profitably.	Debt service coverage ratio (DSCR) of at least 1.30:1 or better in each of the last Financial Year Ends (FYE) and interim statements, and positive or stable trends.	Clean personal credit for guarantors. No present derogatory items within the last five years.	More than the required equity being contributed and maximum proforma debt-to-net-worth of 3:1.
4	At least one years worth of experience/ownership running this business or a similar one profitably.	Two-to-three years with a DSCR of at least 1.10:1 or better and a DSCR of at least 1.30:1 or better in the last FYE or most recent interim period.	Minor delinquencies current or within the last five years no more than one item reported per guarantor.	More than the required equity being contributed and maximum proforma debt-to-net-worth of 4.5:1 or required equity being contributed and maximum proforma debt-to-net-worth of 3:1.
3	Minimum of two years experience in this industry and two years applicable management experience but has not owned this type of business before.	DSCR of at least 1.15:1 or better in the last FYE or most recent interim period.	Minor delinquencies current or within the last five years - no more than three items reported per guarantor.	Required equity being contributed and maximum proforma debt-to-net-worth of 6:1.
2	Minimum of one years worth of experience in this industry or minimum of one years applicable management experience.	DSCR of at least 1.10:1 or better in the last FYE or most recent interim period.	More serious delinquencies current or within the last five years- four or more items reported per guarantor.	Required equity being contributed and a maximum proforma debt-to-net-worth of between 6:1 and 12:1
1	No Experience in this industry and no applicable management experience.	Start-up or purely projection based project. No historical cash flow support.	Collections, charge-offs, tax liens or bankruptcy current or within the last five years with acceptable explanations.	Required equity being contributed and maximum proforma debt-to-net-worth of more than 12:1 or one hundred percent financing project.
Totals				

Rating Guide

- Excellent = score of 17 to 20
- Very Good = score of 14 to 16
- Good = score of 11 to 13
- Fair = score of 10 or less

Total score for this project: