

BLACK CROWN CREDIT UNION

COMMERCIAL & BUSINESS

PORTFOLIO INDEPENDENT

LOAN REVIEW

AS OF DECEMBER 31, 2018

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SECTION 1: INDEPENDENT CONSULTANT'S REPORT

Chairman of the Board of Directors
Alexander Carew, CEO
Matthew Poulin, SVP / Chief Lending & Retail Officer
Black Crown Credit Union

This report, prepared by Development Finance Training and Consulting, Inc. (“DFTC”), summarizes the results of the scope of services performed and enumerated below, which were agreed to by Black Crown Credit Union (“BCCU”) Matthew Poulin, SVP. DFTC performed the scope of services at BCCU’s corporate offices in Dover, DE, in accordance with the executed engagement letter accompanying this report.

The objectives of this review and examination are to

- validate BCCU’s commercial lending compliance with its loan policies, lending procedures, and processes;
- review BCCU’s risk rating system assessment;
- ensure that credit risk rating assessments identify portfolio credit risk levels consistently and in line with BCCU’s overall credit culture; and
- evaluate BCCU’s commercial and business lending personnel, staffing levels, loan administration, and risk management effectiveness.

In accomplishing these objectives, DFTC reviewed staff resumes and experience, tested loan policy against DFTC’s commercial policy checklist derived from the NCUA Online Examiners’ Guide, compared BCCU commercial loan management reports to the industry standard, and recommended reporting per the NCUA Online Examiners’ Guide. Commercial/MBL loan files reviewed were analyzed for

- appropriate risk rating assignment per the matrices/ratings provided by BCCU,
- underwriting accuracy and adequacy,
- documentation, and
- servicing completion.

A summary of these activities is detailed in this report.

BCCU has an established and qualified staff of 21 that manages and operates the commercial lending department. Harold Batchelder, AVP of Business Services, provides 30 plus years in the financial services industry with 20 plus years of experience in commercial lending origination, portfolio management, and department operations for a large national bank and BCCU. Mr. Batchelder exhibits acceptable command of the loan portfolio, credit management, loan underwriting, and processes associated with BCCU commercial lending. Katherine Quattrucci, Commercial Lending Operations Manager, leads a team of four Commercial Loan Servicing Specialists with 60 years of cumulative experience related to loan servicing and documentation. Kevin Lang, Commercial Lending Sales Manager leads a team of six Business Relationship Officers with 90 plus years cumulative experience in Commercial Lending Sales and Origination. Mr. John Mayfield, Commercial Lending Credit Manager, leads a team of five Credit Analysts and Portfolio Managers with 35 years of cumulative experience directly related to credit analysis and portfolio management. The experience and qualifications of the BCCU loan committee members were not provided.

DFTC completed a thorough policy review using its internally generated checklist derived from NCUA Regulation §723.4 and the online NCUA Examiner’s Guide. BCCU Commercial Lending Policy reviewed was most recently revised and approved as of September 1, 2018 by Lending Management. Per NCUA §723.3(1)(a)(1), *“A federally insured credit union’s board of directors, at a minimum, must: Approve a commercial loan policy that complies with §723.4 of this part. The board must review its policy on an annual basis, prior to any material change in the federally insured credit union’s commercial lending program or related organizational structure, and in response to any material change in portfolio performance or economic conditions, and update it when warranted.”* All primary policy components as required by NCUA rules and regulation §723.4 including but not limited to types of commercial loans permitted, trade area, portfolio concentration limits, single borrower limits, loan approval processes, and risk management processes were noted and reasonably detailed in the policy reviewed. As currently approved, the policy requires some modification to address areas not covered such as qualifications and experience requirements for personnel and underwriting standards commensurate with the size, scope, and complexity of the commercial lending activities and borrower relationships contemplated. The following listing shows representative items adequately addressed, as well as those to be addressed in future revisions of the policy.

Please note that this list has been abbreviated to protect proprietary information.

GENERAL	Y/N/NA	COMMENTARY
Does policy include a definition of a commercial loan? - Purpose for commercial, corporate, business investment; or agriculture. (best practice, not a requirement)	Yes	Policy 001 pg. 18
Does the policy identify ineligible borrowers, individuals prohibited from receiving member business loans? Ineligible borrowers are listed below. Please indicate those noted in policy:	Yes	Policy 002 pg. 20
(1) Any senior management employee directly or indirectly involved in the credit union's commercial loan underwriting, servicing, and collection process, and any of their immediate family members.	Yes	Policy 002 pg. 20
(2) Any person meeting the definition of an associated borrower	Yes	
(3) Any compensated director, unless the federally insured credit union's board of directors approves granting the loan and the compensated director was recused from the board's decision-making process.	Yes	Policy 002 pg. 20
Does the policy prohibit commercial loans to Equity agreements/ joint ventures if any additional income received by the federally insured credit union or its senior management employees is tied to the profit or sale of any business or commercial endeavor that benefits from the proceeds of the loan?	Yes	Policy 001 pg. 20
TYPES OF COMMERCIAL LOANS PERMITTED		COMMENTARY
Are the types of loans offered properly specified?	Yes	Policy 001 pg. 4
TRADE AREA	Y/N/NA	COMMENTARY
Is the trade area specified reasonably accessible to the credit union to make periodic site visits to evaluate borrower's operations and inspect collateral?	Yes	Policy 005 Addresses the geographical limitations of BCCU Trade Area.
PORTFOLIO CONCENTRATION LIMITS	Y/N/NA	COMMENTARY
Does the policy detail the global perspective, philosophy and rationale of the Board?	Yes	Policy 002 pg. 3

1. The aggregate limit on a federally insured credit union's net member business loan balances is the lesser of 1.75 times the actual net worth of the credit union, or 1.75 times the minimum net worth required under section 1790d(c)(1)(A) of the Federal Credit Union Act.

Net Worth	1.75 X Net Worth	Net CL's and MBLs	Well Capitalized Equity	Total Assets
\$354,516,911	\$620,404,594	\$178,947,013	\$446,218,789	\$3,642,602,360
PASS				

2. The aggregate amount of commercial loan balances to any one borrower or group of associated borrowers may not exceed the greater of 15% of the credit union's net worth or \$100,000, whichever is lower. An additional 10 percent of a credit union's net worth is allowable if the amount that exceeds the credit union's 15 percent general limit is fully secured at all times with a perfected security interest by readily marketable collateral.

Net Worth	15% of Net Worth	Largest Aggregate CL to one member or associated borrowers	Member Name	% of CU's Net Worth
\$354,516,911	\$53,177,537	\$7,360,063	Gregory S. Kamenetz	2.1%
PASS				

3. Maximum amount of assets in relation to net worth allowed in secured, unsecured, and unguaranteed commercial loans and in the following type of commercial loans as specified in CU policy.

Loan Type	Net Worth	MBL Limit	Max % per Policy	Limit Based on Net Worth or Total MBL Limit	Max Outstanding \$ per Policy %	Actual Outstanding \$ as of Review Date	Actual % of Specified Limit	Loan Type Pass/Fail
1: Unsecured	\$354,516,911	\$446,342,132	10.00%	Net Worth	\$35,451,691	\$995,731	0.28%	PASS
2: Business Assets	\$354,516,911	\$446,342,132	50.00%	MBL Limit	\$223,171,066	\$2,089,075	0.59%	PASS
3: CRE	\$354,516,911	\$446,342,132	90.00%	MBL Limit	\$401,707,919	\$126,553,031	35.70%	PASS
4: F, F & E	\$354,516,911	\$446,342,132	25.00%	MBL Limit	\$111,585,533	\$520,718	0.15%	PASS
5: Transportation	\$354,516,911	\$446,342,132	50.00%	MBL Limit	\$223,171,066	\$366,412	0.10%	PASS
6: Church	\$354,516,911	\$446,342,132	50.00%	MBL Limit	\$223,171,066	\$2,852,343	0.80%	PASS
7: Other	\$354,516,911	\$446,342,132	50.00%	MBL Limit	\$223,171,066	\$173,744	0.05%	PASS
8: C&D	\$354,516,911	\$446,342,132	15.00%	Net Worth	\$53,177,537	\$0	0.00%	PASS
9: NOO Residential	\$354,516,911	\$446,342,132	90.00%	Net Worth	\$319,065,220	\$19,177,883	5.41%	PASS

Under the guidance of the *OCC Handbook for Sampling Methodologies*, a 47-loan portfolio sampling utilizing both judgmental and numerical sampling approaches was selected by the reviewer as of December 31, 2018. The 47-loan samples' outstanding balances total \$84,318,956 or 47% of BCCU's outstanding total net MBL balance as defined by NCUA 723.8. The following loan sample was reviewed and validated for key characteristics listed below. Individual review worksheets are provided in Section 2 of this document.

TOTAL LOANS OUTSTANDING	\$ 84,318,956
TOTAL LOANS W/ EXCEPTIONS	11
TOTAL LOAN REVIEWED	47

Borrower's Name	Loan #	Current Loan Balance	Partic	CU Rating	DFTC Rating	Borr DSCR	Global DSCR	Term	Current LTV	Excepts
First Baptist	99	\$430,908	No	Grade 6 Substandard	Grade 6 Substandard			120	25.7%	No
Robert Russo	100	\$2,546,825	Yes	Grade 4	Grade 4	1.21	1.08	120	69.2%	0
Robert Russo	101	\$1,547,211	No	Grade 3b	Grade 3b	1.28	1.08	120	68.6%	0
Robert Russo	102	\$1,367,078	No	Grade 4	Grade 4	1.22	1.08	120	65.1%	0
Robert Russo	103	\$888,563	No	Grade 3b	Grade 3b	1.23	1.08	120		0
8170 E 44th, LLC	104	\$0	Yes	Grade 3a	Grade 3a	2.74		180	0.0%	0
Leaping Stag Complex - 2	105	\$6,071,144	No	Grade 3b	Grade 3b	1.50	1.61	120	63.4%	0
Leaping Stag Complex LLC	106	\$46,335	No	Grade 3b	Grade 3b	1.50	1.61	36		0
CCS Sanford, LLC	107	\$17,246,068	Yes	Grade 3a	Grade 3a	1.25		180	62.5%	0
1742 Broad	108	\$35,273,257	Yes	Grade 3b	Grade 3b	1.35		81	69.8%	0
Robert Russo	109	\$4,689,913	No	Grade 3b	Grade 3b	1.57	1.70	120	67.0%	0
Skytop Properties	110	\$3,052,462	No	Grade 4	Grade 4	1.31	1.49	120	80.3%	0
CLH 7548	111	\$466,127	No	Grade 4	Grade 4	1.75	1.49	120	80.4%	0
Mighty Girl Transport LLC	112	\$270,604	No	Grade 4	Grade 4	1.44	1.49	60	86.5%	0
Mighty Girl Transport - 2	113	\$103,411	No	Grade 4	Grade 4	1.44	1.49	60	68.2%	0
Robert Russo	114	\$1,010,387	No	Grade 3b	Grade 3b	1.31	1.08	120	57.9%	0
Mighty Girl Transport - 3	115	\$74,708	No	Grade 4	0	1.44	1.49	24	47.4%	0
Waterville Civic Center	116	\$12,099,306	No	Grade 3a	Grade 3a	1.30	3.36	180	23.0%	0
Streaming Ridge	117	\$3,826,406	Yes	Grade 3b	Grade 3b	1.20	10.46	120	62.7%	0
DLS LLC and ACH LLC	118	\$6,349,278	Yes	Grade 3b	Grade 3b	2.20	0.00	120	46.1%	0
Country Road Realty, LP	119	\$9,549,126	Yes	Grade 3a	Grade 3a	1.68	1.98	120	59.7%	0
Bermuda Ave, LLC	120	\$10,653,818	Yes	Grade 3a	Grade 3a	1.53	0.00	120	43.0%	0
Country Club of DE	121	\$2,562,218	Yes	Grade 4	Grade 4	1.23		120	45.8%	0
Country Club of DE - 2	122	\$0	No	Grade 4	Grade 4	1.23		66	0.0%	0
East Dover, Inc	123	\$2,158,480	No	Grade 4	Grade 5 (OAEM)	0.92	0.99	112	51.4%	0
Sam Enterprises, Inc.	124	\$2,038,405	No	Grade 4	Grade 4	1.14	1.04	120	45.3%	0
184 Marsh Rd, LLC	125	\$513,067	No	Grade 4	Grade 4	0.50	1.04	105	39.5%	0
Barbara Tuchman	128	\$302,900	No	Grade 3b	0	2.19	2.82	120	67.3%	0
Doris Goodwin	129	\$302,900	No	Grade 3b	Grade 3b	1.78	2.82	120	67.3%	0
Kazuo Shaguro	130	\$372,469	No	Grade 3b	Grade 3b			120	58.7%	0
Vassalboro SS Mini Storage	131	\$750,303	No	Grade 3b	Grade 3b	0.27	5.49	120	37.3%	0
Community Wellness	132	\$565,760	No	Grade 3b	Grade 3b	1.30		120	69.8%	0
Henry & Colleen Church	133	\$763,507	No	Grade 4	Grade 4		0.80	120	43.1%	0
Arbor Rock, LLC	134	\$1,013,892	No	Grade 3b	Grade 3b	1.25	1.74	120	73.0%	0
Speed Athlete, LLC	135	\$1,197,039	No	Grade 4	Grade 4	0.99	1.04	120	60.8%	0
Adele's Inn LLC	136	\$1,686,355	No	Grade 3b	0	2.22	1.28	120	32.4%	0
Brandon Place, LLC	137	\$7,636,185	Yes	Grade 3b	Grade 3b	1.53		60	55.6%	0
Southwest Real Estate	138	\$2,621,480	Yes	Grade 4	Grade 4	1.61		120	63.2%	0
Northside Holdings	139	\$15,464,925	Yes	Grade 3a	Grade 3a	1.62		90	65.3%	0
1094 Arnold Trail. LLC	140	\$10,473,699	Yes	Grade 3b	Grade 3b	1.33	2.07	120	74.3%	0
Strider Investment LLC	141	\$1,535,657	Yes	Grade 3b	Grade 3b	1.41	1.37	120	51.2%	0
Mt Airy Church and Ministries	142	\$8,476,962	Yes	Grade 4	Grade 4	1.16		120	42.4%	0
Hill 3	143	\$412,363	No	Grade 3b	Grade 3b	2.10	2.82	120	63.4%	0
Hill 4	144	\$342,197	No	Grade 3b	Grade 3b	2.79	2.82	120	44.2%	0
Hill 5	145	\$554,078	No	Grade 3b	Grade 3b	1.50	2.82	120	67.2%	0

Underwriting quality – BCCU employs the general methodologies for processing and underwriting loan requests required by its policy and procedures. As reviewed, the sample supports consistent assessment of the borrower’s financial performance and credit risk. The credit analysis and credit approval documents that were reviewed show an adequate understanding of borrower operations and financial capacities and associated risks. The repayment capacity, financial, and general commercial credit analysis found in file supports standardized methodologies that are consistent with BCCU commercial lending procedures and with industry best practices. Underwriting spreadsheets reviewed reflected industry best practices in reference to accurate calculations for simple cash flow debt service capacity calculations. Ratio analysis appears accurate. The interpretive commentary associated with these calculations, while acceptable, would be bolstered by providing additional commentary supporting why a metric moved up or down in addition to noting the variance itself.

The repayment capacity analysis of operating entities reviewed in our sample supports a consistent utilization of earnings before interest, depreciation, and amortization (EBIDTA) without the vital information regarding cash flow sourced and used by the borrower that is reported on a company’s balance sheet. In addition to its income statement and EBITDA, industry standards employ the Uniform Credit Analysis (UCA) cash flow methodology to examine operating entities. UCA provides detail related to working capital accounts (A/R, Inventory, A/P, accruals) and how the borrower sources its cash via operations, financing, or investing activities. The stressing of cash flows is apparent in the sample reviewed.

Industry comparison analysis and associated interpretive commentary was typically not noted in the files reviewed. The detail noted in the underwriting provides a reasonable and consistent review of both transactional and global risk when assessing fully guaranteed loans. Limited or non-guaranteed loans typically detailed strong transactional due diligence with very limited due diligence of the principal(s) to determine whether any related interests of the principal(s) might have a negative impact or place an undue burden on the borrower in meeting the debt obligations with the credit union. NCUA 723.4 f(2).

Capital analysis noted in our loan sample exemplifies a stating of reported balance sheet or personal financial statement data with modest supporting third party verification or analytical commentary. The interpretive commentary and risk identification associated with all analysis reviewed in our sample supports an opportunity for BCCU underwriting offer a more thorough description supporting why a key metric moved, where a key assumption is derived, or how a key metric impacts credit risk. Industry comparison analysis and associated interpretive commentary was typically not noted in the files reviewed. The industry comparisons are critical to lender understanding of how the borrower performs in comparison to its industry peers.

Our review of collateral securing the loans found that BCCU employs a standard process that identifies collateral values driven by fair market value and/or book value. The methodology utilized appears sufficient and in accordance with policy and regulatory requirements. Appraisals, where applicable, were supportive of valuations. Updating collateral values for periodic reviews was not typically noted in file. BCCU’s analysis tended to be based on the valuation supported at origination rather than a current valuation assessment based on current net operating income for rental income-producing properties or depreciated values for other collateral types.

The credit approval documents reviewed support a stand-alone document presented in a logical and consistent format to provide all relevant information needed to enable individuals authorized to approve loans to make a fully informed credit risk decision. Overall, underwriting quality based on the identification of the five Cs of credit is noted as acceptable.

Compliance to policies and regulations – As reviewed, the loan sample reports the following policy violations but no regulatory violations.

Acct Number	Borrower	Current Balance	Exceptions
8022791736	Robert Russo	\$2,546,825	BCCU Policy 001 - A minimum Global Debt Service Coverage Ratio of 1.25x shall be required. Exceptions, to the extent permitted by regulation, and as deemed appropriate by BCCU, require the approval of the Member Business Loan Committee. 12/31/2018 Exception Report does not note the subject loan. Signed loan agreement not provided for review. Signed loan agreement not provided for review. Signed guarantee agreements not provided for review. Recorded Deed of Trust matches approval. Unable to verify guarantees and loan covenants as signed docs were not provided for review. Signed loan agreements not found for review. Unable to verify loan covenant compliance.
8027801144	Robert Russo	\$1,547,211	Proforma Cash Flow was used for CU Analysis which showed increased NOI of \$137,331, which would increase DSCR to 1.28x and therefore within policy. BCCU Policy 001 - A minimum Global Debt Service Coverage Ratio of 1.20x shall be required. Exceptions, to the extent permitted by regulation, and as deemed appropriate by BCCU, require the approval of the Member Business Loan Committee. 12/31/2018 Exception Report does not note the subject loan.
8022346694	Robert Russo	\$1,367,078	BCCU Policy 001 - A minimum Global Debt Service Coverage Ratio of 1.20x shall be required. Exceptions, to the extent permitted by regulation, and as deemed appropriate by BCCU, require the approval of the Member Business Loan Committee. 12/31/2018 Exception Report does not note the subject loan.
8022346279	Robert Russo	\$888,563	BCCU Policy 001 - A minimum Global Debt Service Coverage Ratio of 1.20x shall be required. Exceptions, to the extent permitted by regulation, and as deemed appropriate by BCCU, require the approval of the Member Business Loan Committee. 12/31/2018 Exception Report does not note the subject loan.
8022161201	8170 E 44th, LLC	\$0	Periodic Review dated 08/16/2018 approves the inability to calculate Global DSCR as a known exception.
8027781208	Robert Russo	\$1,010,387	BCCU Policy 001 - A minimum Global Debt Service Coverage Ratio of 1.20x shall be required. Exceptions, to the extent permitted by regulation, and as deemed appropriate by BCCU, require the approval of the Member Business Loan Committee. 12/31/2018 Exception Report does not note the subject loan.
8022314148	East Dover, Inc	\$2,158,480	BCCU Policy 001 - A minimum Global Debt Service Coverage Ratio of 1.20x shall be required. Exceptions, to the extent permitted by regulation, and as deemed appropriate by BCCU, require the approval of the Member Business Loan Committee. 1.4x DSCR loan covenant per the Deed of Trust and Assignment of Leases and Rents document in file. 1.4x DSCR loan covenant per the Deed of Trust and Assignment of Leases and Rents document in file; multiple occurrences of default have occurred over the life of the loan (i.e. judgements, tax liens, etc.)
8022317767	Sam Enterprises, Inc.	\$2,038,405	Section 5.30 of Loan Agreement Requires: The Borrower shall at all times maintain a Debt Service Coverage Requirement of at least 1.20 to 1.0 for the term of the Loan. BCCU Policy 001 - A minimum Global Debt Service Coverage Ratio of 1.20x shall be required. Exceptions, to the extent permitted by regulation, and as deemed appropriate by BCCU, require the approval of the Member Business Loan Committee.
8022306544	184 Marsh Rd, LLC	\$513,067	BCCU Policy 001 - A minimum Global Debt Service Coverage Ratio of 1.20x shall be required. Exceptions, to the extent permitted by regulation, and as deemed appropriate by BCCU, require the approval of the Member Business Loan Committee.
8022398163	Kazuo Shaguro	\$372,469	DSCR was in compliance at loan origination.
8024952206	Speed Athlete, LLC	\$1,197,039	BCCU Policy 001 - A minimum Global Debt Service Coverage Ratio of 1.20x shall be required. Exceptions, to the extent permitted by regulation, and as deemed appropriate by BCCU, require the approval of the Member Business Loan Committee. Borrower must maintain a 1.20x minimal DSCR
8022313664	Southwest Real Estate	\$2,621,480	BCCU Policy 001 - A minimum Global Debt Service Coverage Ratio of 1.20x shall be required. Exceptions, to the extent permitted by regulation, and as deemed appropriate by BCCU, require the approval of the Member Business Loan Committee. Guarantor financials are delinquent.
8022286519	Strider Investment LLC	\$1,535,657	Guarantor financials are delinquent.

Loans are approved, closed, and serviced as underwritten – The loan approval process is consistent and compliant with CU Commercial and Business Loan Policy. All loans are approved in compliance with the policy. All loans reviewed were closed as underwritten and adjudicated. Per the Business Lending Operation Report as of December 31, 2018, BCCU is properly monitoring and performing periodic review of commercial loans in accordance with policy.

Loan and collateral documentation execution – As reviewed, the loan sample shows most of the loan and collateral documentation was adequate, and security instruments were in file and updated appropriately. The loan files themselves were not logically and consistently assembled, which created delays and prevented access to a portion of the information. Noted below are the items not located in file during our review. It is assumed that BCCU utilizes a third-party entity to track insurance, which would explain why the review team was not able to locate all current insurance-related documents noted in the individual review worksheets in Section 2 of this report.

Acct Number	Borrower	Current Balance	Missing Documents
8022322981	First Baptist	\$430,908	Hazard Insurance, Environmental Review
8022791736	Robert Russo	\$2,546,825	Note, Loan Agreement, Guaranties, Borrowing Resolution, Entity Documentation, Hazard Insurance
8027801144	Robert Russo	\$1,547,211	Environmental Review
8022346694	Robert Russo	\$1,367,078	Entity Documentation, Certificate of Good Standing, Appraisal Review, Flood Certification, Hazard Insurance
8022346279	Robert Russo	\$888,563	Entity Documentation, Appraisal, Appraisal Review, Title Insurance, Environmental Review
8022161201	8170 E 44th, LLC	\$0	Borrowing Resolution, Entity Documentation, Certificate of Good Standing, Appraisal Review, Flood Certification, Hazard Insurance Environmental Review
8022540067	Leaping Stag Complex LLC	\$6,071,144	Borrowing Resolution, Flood Certification, Hazard Insurance
8027614786	Leaping Stag Complex - 2	\$46,335	Entity Documentation, Certificate of Good Standing
8025956655	CCS Sanford, LLC	\$17,246,068	Appraisal Review, Hazard Insurance
8025568744	1742 Broad	\$35,273,257	Entity Documentation, Certificate of Good Standing, Appraisal Review, Hazard Insurance
8025847651	Robert Russo	\$4,689,913	Hazard Insurance
8022500413	Streaming Ridge	\$3,826,406	Recorded Mortgage/DOT, Hazard Insurance
8022332502	Country Road Realty, LP	\$9,549,126	Borrowing Resolution, Hazard Insurance
8025282263	Bermuda Ave, LLC	\$10,653,818	Hazard Insurance
8022331344	Country Club of DE	\$2,562,218	Appraisal Review, Flood Certification, Hazard Insurance, Environmental Review
8022786678	Country Club of DE - 2	\$0	Appraisal Review, Flood Certification, Hazard Insurance, Environmental Review
8022314148	East Dover, Inc	\$2,158,480	Hazard Insurance, Environmental Review
8022317767	Sam Enterprises, Inc.	\$2,038,405	Hazard Insurance
8022306544	184 Marsh Rd, LLC	\$513,067	Appraisal Review, Title Insurance, Flood Certification, Hazard Insurance
8024155292	Cathie Craig	\$92,953	Credit Memorandum, Borrowing Resolution, Entity Documentation Certificate of Good Standing, Appraisal, Appraisal Review, Title Insurance, Hazard Insurance, Environmental Review
8025111825	Robert Frost	\$189,251	Appraisal Review, Hazard Insurance
8023375639	Barbara Tuchman	\$302,900	Appraisal Review, Flood Certification, Flood Insurance, Environmental Review
8023376104	Doris Goodwin	\$302,900	Recorded Mortgage/DOT, Loan Agreement Guaranties, Appraisal Review, Flood Certification, Hazard Insurance Environmental Review
8022398163	Kazuo Shaguro	\$372,469	Hazard Insurance, Environmental Review
8022314008	Vassalboro SS Mini Storage	\$750,303	Hazard Insurance
8022323201	Community Wellness	\$565,760	Title Insurance, Flood Certification, Flood Insurance, Hazard Insurance, Environmental Review
8022706232	Henry & Colleen Church	\$763,507	Flood Certification, Hazard Insurance, Environmental Review
8024952206	Speed Athlete, LLC	\$1,197,039	Appraisal Review, Hazard Insurance
8025529218	Adele's Inn LLC	\$1,686,355	Hazard Insurance
8022313664	Southwest Real Estate	\$2,621,480	Borrowing Resolution, Entity Documentation, Certificate of Good Standing, Appraisal Review, Hazard Insurance, Environmental Review

Appropriate loan structuring – As reviewed, the loan sampling supports appropriate loan structuring based on asset useful lives and adherence to policy.

Adequacy of risk rating assignment – BCCU maintains a credit risk rating system in which the administration actively manages risk of both the loan and overall portfolio level. The rating systems reviewed and tested with the loan

sample acceptably identify and assign a credit risk rating. The risk rating system adequately classifies risk based on eight categories detailed in BCCU Policy 002 General Business Lending. BCCU's risk rating is applied consistently to each credit at origination, renewal, and periodic review. The risk rating mix and concentration was reported in the December 2018 board report reviewed. The risk rating matrix reasonably assesses credit quality, problem loans, and the overall health of the commercial loan portfolio as set forth in NCUA regulation §723.4(g). In assessing the assignment of risk associated with each individual loan reviewed, the reviewer agreed with and replicated the risk assignments for 46 of 47 loans reviewed. The one variance recommended a single risk grade downgrade from a Grade 4 to a Grade 5 (OAEM) due to multiple occurrences of default on loan.

While the risk rating matrix accurately calculates a weighted average score of the KPIs chosen, it is recommended that BCCU review and amend the credit risk rating system to provide clarity related to Global DSCR requirement for limited or non-recourse loans. The risk ratings reviewed for these types of loans provided no consistency in this area. In addition, the risk rating KPIs are not reasonably representative of both commercial real estate and commercial and industrial loans. Finally, the CU may want to consider an update of the matrices to increase the weight of DSCR KPIs and weaken KPIs related to collateral. As currently written, the collateral-related KPIs could outweigh cash flow.

Adequacy of Reporting - We reviewed the Board Report and supplemental management reports including the Exceptions report, Loan Tickler report, Loan Concentration report, Largest Borrower report, and Program Profitability report. Overall, the portfolio management, risk monitoring, and loan administration appear acceptable and commensurate with the size, scope, and complexity of BCCU's commercial loan portfolio.

In conclusion, we consider the commercial and business loan origination and management of the commercial and business loan portfolio to be on par to like-sized institutions we have reviewed. The following section will list a few areas in which BCCU could strengthen its commercial lending processes and programs.

RECOMMENDATIONS

Based on our findings, DFTC recommends the following actions to improve BCCU's Commercial and business loan origination, portfolio management, and risk assessment:

- Review and determine applicable edits to current Board-approved Commercial Lending Policy in compliance with regulatory requirements and DFTC recommendations.
 - Consider revisions to BCCU risk rating policy and risk rating matrices. Consider the need for direct correlation between credit presentation KPI analysis, risk rating criteria, and risk rating category assignment.
 - Establish procedures related to limited or non-recourse loan requests and the assignment of Global DSCR KPIs in the risk rating matrix.
 - Including fully guaranteed, limited guarantee, or non-guaranteed commercial loans, append historical BCCU global diligence to comply with NCUA Regulation 723.4 f(2), *thorough due diligence of the principal(s) to determine whether any related interests of the principal(s) might have a negative impact or place an undue burden on the borrower and related interests with regard to meeting the debt obligations with the credit union. Any loans originated after January 1, 2017 must comply with this requirement.*
 - Standardize naming and stacking of all electronic loan files and documentation to ensure ease of access to the information.
 - Continue independent review of the commercial portfolio and commercial lending policies and procedures to ensure loans are executed in compliance with policy and supportive of loan portfolio assigned risk.
 - Continue commercial lending training and education for all BCCU commercial department staff, commercial lending committee, senior managers, and Board members.
-

SECTION 2: SAMPLE INDIVIDUAL LOAN REVIEWS AND COMMENTS



Black Crown Credit Union

LOAN INFORMATION			
BORROWER(S):	Robert Russo		
GUARANTOR(S):	Skytop Properties, LLC, Dawn Kliphan, Leon Schrader		
ACCOUNT #:	8022791736	CURRENT BALANCE:	\$2,546,825
LOAN TYPE:	9: NOO Residential	ORIGINAL LOAN AMOUNT:	\$2,760,000
LIEN TYPE:	DOT/Mortgage	LIEN POSITION:	1st
RATE:	4.700%	RATE TYPE:	Adjustable
TERM IN MONTHS:	120	AMORTIZATION IN MONTHS:	300
PARTICIPATION:	Yes	P&I ANNUAL PAYMENT:	
PERCENTAGE HELD:	72.800%	CU RISK RATING:	Grade 4
AMOUNT HELD:	\$1,854,089	DFTC RISK RATING:	Grade 4
CALCULATION METHOD:		CALCULATED PER LOAN DOC?	
Comments:			
COLLATERAL			
COLLATERAL DESCRIPTION:	5 small multi-family		
VALUATION TYPE:	Appraisal		
COLLATERAL TYPE:	CRE		
ORIGINAL COLLATERAL VALUE:	\$3,680,000	ORIGINAL LTV:	75.0%
DATE OF ORIG VALUATION:	5/1/2015	CURRENT LTV:	69.2%
CURRENT COLLATERAL VALUE:	\$3,680,000	PROP INSPECTION DATE:	5/1/2015
DATE OF MOST RECENT VALUATION:	12/31/2018	MONTHS SINCE LAST INSPECT:	49
CONDITION:	Good		
ENVIRONMENTAL ASSESSMENT:	ERAQ		
OCCUPANCY %	100%		
Comments: Current collateral value based on 12/31/2018 NOI.			
COLLATERAL COMPLIANCE			YES/NO
Is the collateral property valued in compliance with CU policy? Comment if no.			Yes
Is LTV from collateral property in compliance with CU policy? Comment if no.			Yes

TRANSACTIONAL			
NET CASH FLOW:	\$229,427		
DEBT SERVICE:	\$190,104		
BORROWER DSCR:	1.21		
LIQUID ASSETS:			
NET WORTH:			
DATE OF SUPPORTING FINS:	12/31/2018	MONTHS SINCE FINANCIAL UPDATE:	5
Comments: None			
TRANSACTIONAL COMPLIANCE			YES/NO
Is DSCR in compliance with CU policy and loan covenant requirements? Comment if no.			Yes
GLOBAL			
GLOBAL CASH FLOW:	\$1,078,547		
GLOBAL DEBT SERVICE:	\$1,000,231		
GLOBAL DSCR:	1.08		
LIQUID ASSETS:			
NET WORTH:			
AVERAGE CREDIT SCORE(S):	784	DATE OF SUPPORTING FINS:	12/31/2017
CREDIT REPORT DATE:	7/9/2018	MONTHS SINCE FINANCIAL UPDATE:	17
Comments: Global analysis utilizes 2017 personal FTRs for guarantors and 12/31/2018 company prepared for properties.			
GLOBAL COMPLIANCE			YES/NO
Is global DSCR in compliance with CU policy? Comment if no.			No
BCCU Policy 001 - A minimum Global Debt Service Coverage Ratio of 1.25x shall be required. Exceptions, to the extent permitted by regulation, and as deemed appropriate by BCCU, require the approval of the Member Business Loan Committee. 12/31/2018 Exception Report does not note the subject loan.			
COMPLIANCE QUESTIONNAIRE			YES/NO
Are covenants reported in the documentation reasonably detailed? Comment if no.			N/A
Signed loan agreement not provided for review.			
Are loan covenants as agreed and monitored? Comment if no.			N/A
Signed loan agreement not provided for review.			
Is the loan appropriately guaranteed? Comment if no.			N/A
Signed guarantee agreements not provided for review.			
Loan closed as approved in the executed credit memorandum? Comment if no.			Yes
Recorded Deed of Trust matches approval. Unable to verify guarantees and loan covenants as signed docs were not provided for review.			
Loan underwritten, closed, and serviced in compliance with MBL policy? Comment if no.			N/A
Signed loan agreements not found for review. Unable to verify loan covenant compliance.			
Does financial statement quality meet policy requirements? Comment if no.			Yes

COMMENTS			
Comments:			
CHECKLIST			
GENERAL		REAL ESTATE	
Application/Signed Commitment Letter	In file	Appraisal	In file
Credit Memorandum	In file	Appraisal Review	In file
Risk Rating	In file	Title Insurance	In file
Note	Not in file	Flood Certification	In file
Recorded Mortgage/DOT	In file	Flood Insurance Required - Y/N	No
Loan Agreement	Not in file	Flood Insurance	N/A
Guaranties	Not in file	Hazard Insurance	Not in file
Borrowing Resolution	Not in file	Environmental Review	In file
Entity Documentation	Not in file	EQUIPMENT	
Certificate of Good Standing	N/A	Title or UCC 1	N/A
		Valuation	N/A
		Hazard Insurance	N/A
CONCLUSIONS			
<p>While a large portion of executed loan documents were not found for review, the reviewer believes that the credit/loan files are inclusive of a comprehensive review and analysis of credit risks and mitigants required by CU policy and procedures and does provide acceptable substantiation of the lender's assigned risk rating.</p>			



Black Crown Credit Union

LOAN INFORMATION			
BORROWER(S):	Skytop Properties		
GUARANTOR(S):	Alexander Charles; Emerald Consortium, LLC		
ACCOUNT #:	8026399121	CURRENT BALANCE:	\$3,052,462
LOAN TYPE:	3: CRE	ORIGINAL LOAN AMOUNT:	\$3,230,000
LIEN TYPE:	DOT/Mortgage	LIEN POSITION:	1st
RATE:	4.670%	RATE TYPE:	Fixed
TERM IN MONTHS:	120	AMORTIZATION IN MONTHS:	240
PARTICIPATION:	No	P&I ANNUAL PAYMENT:	\$276,000
PERCENTAGE HELD:	100.000%	CU RISK RATING:	Grade 4
AMOUNT HELD:	\$3,052,462	DFTC RISK RATING:	Grade 4
Comments:			
COLLATERAL			
VALUATION TYPE:	Appraisal		
COLLATERAL TYPE:	CRE	Industrial	
ORIGINAL COLLATERAL VALUE:	\$3,800,000	ORIGINAL LTV:	85.0%
DATE OF ORIG VALUATION:	9/6/2017	CURRENT LTV:	80.3%
CURRENT COLLATERAL VALUE:	\$3,800,000	PROP INSPECTION DATE:	3/21/2019
DATE OF MOST RECENT VALUATION:	9/6/2017	MONTHS SINCE LAST INSPECT:	2
ENVIRONMENTAL ASSESSMENT:	Phase I		
COLLATERAL COMPLIANCE			YES/NO
Is the collateral property valued in compliance with CU policy? Comment if no.			Yes
Is LTV from collateral property in compliance with CU policy? Comment if no.			Yes
TRANSACTIONAL			
NET CASH FLOW:	\$362,540		
DEBT SERVICE:	\$276,000		
BORROWER DSCR:	1.31		
DATE OF SUPPORTING FINs:	12/31/2017	MONTHS SINCE FINANCIAL UPDATE:	17
Comments: None			
TRANSACTIONAL COMPLIANCE			YES/NO
Is DSCR in compliance with CU policy and loan covenant requirements? Comment if no.			Yes

GLOBAL			
GLOBAL CASH FLOW:	\$765,118		
GLOBAL DEBT SERVICE:	\$514,903		
GLOBAL DSCR:	1.49		
AVERAGE CREDIT SCORE(S):	699	DATE OF SUPPORTING FINIS:	12/31/2017
CREDIT REPORT DATE:	11/1/2018	MONTHS SINCE FINANCIAL UPDATE:	17
Comments: None			
GLOBAL COMPLIANCE			YES/NO
Is global DSCR in compliance with CU policy? Comment if no.			Yes
COMPLIANCE QUESTIONNAIRE			YES/NO
Are covenants reported in the documentation reasonably detailed? Comment if no.			Yes
Are loan covenants as agreed and monitored? Comment if no.			Yes
Is the loan appropriately guaranteed? Comment if no.			Yes
Loan closed as approved in the executed credit memorandum? Comment if no.			Yes
Loan underwritten, closed, and serviced in compliance with MBL policy? Comment if no.			Yes
Does financial statement quality meet policy requirements? Comment if no.			Yes
COMMENTS			
Comments:			
CHECKLIST			
GENERAL		REAL ESTATE	
Application	N/A	Appraisal	In file
Credit Memorandum	In file	Appraisal Review	In file
Risk Rating	In file	Title Insurance	In file
Note	In file	Flood Certification	In file
Recorded Mortgage/DOT	In file	Flood Insurance Required - Y/N	No
Loan Agreement	In file	Flood Insurance	N/A
Guaranties	In file	Hazard Insurance	In file
Borrowing Resolution	In file	Environmental Review	In file
Entity Documentation	In file	EQUIPMENT	
Certificate of Good Standing	In file	Title or UCC 1	N/A
CONCLUSIONS			
The credit/loan files are inclusive of a comprehensive review and analysis of credit risks and mitigants required by CU policy and procedures. The credit file provides acceptable substantiation of the lender's assigned risk rating.			



Black Crown Credit Union

LOAN INFORMATION			
BORROWER(S):	East Dover, Inc		
GUARANTOR(S):	Chris Buchanan		
ACCOUNT #:	8022314148	CURRENT BALANCE:	\$2,158,480
LOAN TYPE:	3: CRE	ORIGINAL LOAN AMOUNT:	\$2,555,000
LIEN TYPE:	DOT/Mortgage	LIEN POSITION:	1st
RATE:	7.500%	RATE TYPE:	Fixed
TERM IN MONTHS:	112	AMORTIZATION IN MONTHS:	300
PARTICIPATION:	No	P&I ANNUAL PAYMENT:	\$226,575
PERCENTAGE HELD:	100.000%	CU RISK RATING:	Grade 4
AMOUNT HELD:	\$2,158,480	DFTC RISK RATING:	Grade 5 (OAEM)

Comments: Loan documents state original loan balance as \$2,550,000, trial balance shows \$2,353,433.09. The loan has shown consistent declining DSCR, delinquency, tax delinquency, deteriorating guarantor credit score, etc. These weaknesses combine to support possible collateral dependency. A collateral value update and fiscal plan from the borrower to support repayment levels required by the 1.4x DSCR loan covenant per the Deed of Trust and Assignment of Leases and Rents document in file are suggested. Currently the loan has experienced multiple events of default based on the tax liens, judgements and loan covenant violations noted by the reviewer.

COLLATERAL			
VALUATION TYPE:	Appraisal		
COLLATERAL TYPE:	CRE		
ORIGINAL COLLATERAL VALUE:	\$4,200,000	ORIGINAL LTV:	60.8%
DATE OF ORIG VALUATION:	12/29/2015	CURRENT LTV:	51.4%
CURRENT COLLATERAL VALUE:	\$4,200,000	PROP INSPECTION DATE:	
DATE OF MOST RECENT VALUATION:	1/21/2016	MONTHS SINCE LAST INSPECT:	41
ENVIRONMENTAL ASSESSMENT:	12/8/2015		

Comments: No collateral value update on collateral dependent loan.

COLLATERAL COMPLIANCE	YES/NO
Is the collateral property valued in compliance with CU policy? Comment if no.	Yes
Is LTV from collateral property in compliance with CU policy? Comment if no.	Yes

TRANSACTIONAL			
NET CASH FLOW:	\$205,932		
DEBT SERVICE:	\$223,173		
BORROWER DSCR:	0.92		
DATE OF SUPPORTING FINS:	12/31/2017	MONTHS SINCE FINANCIAL UPDATE:	17
Comments: Loan analysis is not inclusive of a UCA analysis.			
TRANSACTIONAL COMPLIANCE			YES/NO
Is DSCR in compliance with CU policy and loan covenant requirements? Comment if no.			No
GLOBAL			
GLOBAL CASH FLOW:	\$292,297		
GLOBAL DEBT SERVICE:	\$295,245		
GLOBAL DSCR:	0.99		
AVERAGE CREDIT SCORE(S):	608	DATE OF SUPPORTING FINS:	12/31/2017
CREDIT REPORT DATE:	11/8/2018	MONTHS SINCE FINANCIAL UPDATE:	17
Comments:			
GLOBAL COMPLIANCE			YES/NO
Is global DSCR in compliance with CU policy? Comment if no.			No
BCCU Policy 001 - A minimum Global Debt Service Coverage Ratio of 1.20x shall be required. Exceptions, to the extent permitted by regulation and as deemed appropriate by BCCU, require the approval of the Member Business Loan Committee.			
COMPLIANCE QUESTIONNAIRE			YES/NO
Are covenants reported in the documentation reasonably detailed? Comment if no.			Yes
1.4x DSCR loan covenant per the Deed of Trust and Assignment of Leases and Rents document in file			
Are loan covenants as agreed and monitored? Comment if no.			No
1.4x DSCR loan covenant per the Deed of Trust and Assignment of Leases and Rents document in file; multiple occurrences of default have occurred over the life of the loan (i.e. judgements, tax liens, etc.)			
Is the loan appropriately guaranteed? Comment if no.			Yes
Loan closed as approved in the executed credit memorandum? Comment if no.			Yes
Loan underwritten, closed, and serviced in compliance with policy? Comment if no.			Yes
Does financial statement quality meet policy requirements? Comment if no.			Yes

COMMENTS

Comments:

CHECKLIST

GENERAL		REAL ESTATE	
Application	N/A	Appraisal	In file
Credit Memorandum	In file	Appraisal Review	In file
Risk Rating	In file	Title Insurance	In file
Note	In file	Flood Certification	In file
Recorded Mortgage/DOT	In file	Flood Insurance Required - Y/N	No
Loan Agreement	In file	Flood Insurance	N/A
Guaranties	In file	Hazard Insurance	Not in file
Borrowing Resolution	In file	Environmental Review	Not in file
Entity Documentation	In file	EQUIPMENT	
Certificate of Good Standing	In file	Title or UCC 1	In file
		Valuation	N/A
		Hazard Insurance	N/A

CONCLUSIONS

The credit/loan files are inclusive of a comprehensive review and analysis of credit risks and mitigants required by CU policy and procedures. However, the reviewer does not believe the credit file provides acceptable substantiation of the lender's assigned risk rating.