



ACEDC POLICY

LOAN LOSS RESERVE POLICY AND PROCEDURE

Purpose: Because ACEDC capitalized its primary revolving loan fund using the Intermediary Relending Program offered by USDA/Rural Development, the organization has an annual liability to USDA. The purpose of this policy is to ensure that ACEDC maintains sufficient loan loss reserves that enable ACEDC to satisfy its annual USDA liability despite potential losses to the organization's loan portfolio.

Policy: The USDA requires IRP lenders to maintain a 6% loan loss reserve. It is the policy of ACEDC to maintain a minimum 7% loan loss reserve, calculated as 7% of outstanding loan principal balances. However, it is also the policy of ACEDC that, on an annual basis, the Loan Committee shall review the loan portfolio using the approved Loan Risk Rating System and make recommendations to the Board regarding increased level of loan loss reserves for individual loans. Staff shall utilize a Loan Risk Rating System that consists of criteria measuring business strength, loan performance, and financial condition. The analysis shall translate to a scoring system that the Loan Committee and Board can use to determine if an increased loan loss reserve is required.

Procedure:

- On an annual basis staff will analyze the loan portfolio using the approved Loan Risk Rating System and present the analysis and results to the ACEDC Loan Committee, highlighting changes to individual loan ratings, with recommendations regarding changes to the Loan Loss Reserve due to the changes.
- On an annual basis the ACEDC Loan Committee will review the staff analysis and ratings and make a recommendation to the ACEDC Board regarding a Loan Loss Reserve amount for each loan.
- The ACEDC Board will consider the recommendations made by the Loan Committee and direct staff to make appropriate adjustments to the Loan Loss Reserve.
- The timing of the analysis and review shall be:
 - March: Staff analysis and scoring based on business strength, loan performance and financial condition based on financials covering the previous fiscal year.
 - April: Review by Loan Committee
 - May: Review by Board
 - June: Adjustments to Loan Loss Reserve for upcoming fiscal year

Approved by ACEDC Board: April 16, 2020

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