

FRANKLIN DEVELOPMENT CORPORATION

LOAN AND GRANT POLICY

Board Adoption Date: DECEMBER 10, 2015

INTRODUCTION

The Loan and Grant Policy for the Franklin Development Corporation (FDC) is a generalized guide to outline the criteria necessary to establish a sound decision making process for loan and grant application requests. The policies and guidelines will enable the FDC to establish a sound credit culture and an efficient means to administer all application requests. The policies and guidelines shall be based upon the fundamentals deemed necessary to award grants, maintain a quality loan portfolio and to protect the major assets of the FDC.

The Franklin Development Corporation Board of Directors recognizes that written procedures are the best mechanism to ensure that FDC personnel implement the policy properly and consistently. The following procedures detail steps to be taken or considerations to be made in analyzing and documenting loan and grant applications and follow up reporting.

Every effort will be made to provide professional, timely handling of the application, underwriting and servicing to the loan and grant customer.

It shall be the responsibility of every board and staff member engaged in the extension of loans and grants to fully understand the content of this policy and periodically review the same.

It should be noted that the Loan and Grant Policy provides general statements of operating standards. Flexibility is often required to meet the needs of our customers. The guidelines may be exceeded from time to time when a particular request does not conform to the established guidelines. When a request does not conform, the reason for deviation must be documented and approved by the Board of Directors.

This policy as defined herein has been adopted by the Board of Directors and is intended to provide for sound operating practices and asset quality. The policy is to be utilized and implemented in conjunction with the "*Loan and Grant Program Guidelines*" as defined by the FDC.

GEOGRAPHIC MARKET

Loans or grants will only be extended on properties located within the Integrated Economic Development Area (the "Green Zone") ~ Attachment A ~ as defined and outlined for each program offered by the FDC.

FAIR LENDING AND COMPLIANCE STATEMENT

The FDC believes in fairness in lending. Credit shall be made available to and on a fair and consistent basis to all people, businesses and organizations that meet our lending standards. This commitment to fairness is not only our obligation but is fundamental to good business practices.

LOAN AND GRANT COMMITTEE

The FDC Loan and Grant Committee shall include two board members as recommended annually by the President of the Board and approved by the FDC Board of Directors. In addition, one to three outside committee members will be appointed and approved annually by the FDC Board of Directors.

In all matters brought before the Loan and Grant Committee, a quorum shall be represented and majority vote will rule.

Loan Committee will meet monthly or as necessary to discuss pending loan and grant application requests. Copies of the request are to be provided to each committee member prior to the meeting.

In addition to the responsibility of reviewing and taking action on loan and grant requests, the duties of the Loan and Grant Committee shall be as follows:

1. Review the “*Loan and Grant Policy*” on an annual basis. Any modifications or amendments are to be recommended by the Committee or President and submitted to the Board of Directors for approval.
2. Review the “*Loan and Grant Program Guidelines*” (Applications) on an annual basis. Any modifications or amendments are to be recommended by the Committee or President and submitted to the Board of Directors for approval.
3. A summary of all new loan and grant requests are to be reported to the Board of Directors monthly.

POWER OF AUTHORITY

The Loan and Grant Committee will review all new loan and grant application requests to verify adherence to FDC program guidelines. If the application complies with all guidelines and board allocated program funds are available, the Loan and Grant Committee will have the authority to approve the loan or grant request.

If the loan or grant request **does not** meet all program guidelines, or board allocated program funds are **not** available, the Loan and Grant Committee can deny the request or make a **recommendation** to the FDC Board of Directors to allocate the funds if needed and approve the request. The FDC Board of Directors will have the final authority to issue the approval for any request that does not meet all program guidelines.

All new approvals and denials will be reported monthly to the FDC Board of Directors along with an allocated report of funds availability.

Due to regulatory requirements, no more than 25 loans will be granted per fiscal year.

The approval or denial is to be documented and reported to the full Board of Directors along with a summary of the project.

Applicants may request increases in their loan and grant amounts during construction, due to unforeseen circumstances. Each request must be approved by the Loan and Grant Committee, and any increases will be reported to the full board at the following regular monthly meeting. If the requested increase complies with all guidelines (including maximum loan and grant amounts determined by program) and **board allocated program funds are available**, the Loan and Grant Committee will have the authority to approve the loan or grant increase request. However, if the project received previous approval from the board for an exception to the program guidelines, any requested increase must be brought to the board for approval.

FDC STAFF RESPONSIBILITIES

The FDC staff will be responsible to accumulate and assemble the necessary documents for each loan and grant application prior to submission to the Loan and Grant Committee for review. The staff is responsible for the verification of completeness and accuracy of all documents associated with the loan or grant.

The staff will exercise sound judgment in the credit analysis process and will objectively and consistently apply the FDC credit standards on all loan applications. The staff will verify that the request complies with all loan or grant program guidelines and submit a recommendation to the Loan and Grant Committee.

A file will be maintained so that any board member can quickly assess the status of the request. The staff will process all loan and grant requests in a timely manner. The staff will consult with the Loan and Grant Committee when cases arise that are beyond their area of expertise. The staff will seek assistance from FDC legal counsel when loan documentation and/or agreements are complex or unfamiliar.

In addition to processing, reviewing, and compiling data for loan and grant requests, the staff will keep ongoing records of all files. They will monitor all construction projects to insure procedures are met prior to releasing funds on a project. They will monitor and provide status reports on a monthly basis to the Board of Directors on all active projects.

In addition, the staff will provide monthly loan payment reports with updated loan balances to the Board of Directors. FDC staff will contact borrower on any loan that becomes over 30 days delinquent. They will report any payment delinquencies over 30 days past due to the Loan and Grant Committee each month. If a borrower continues to remain delinquent, the matter will be turned over to legal counsel to rectify or pursue legal action. All actions taken will be reported to the Board of Directors by staff and / or the Loan and Grant Committee.

Upon occasion a borrower may need special consideration due to a financial hardship. If this occurs, the borrower will be directed to submit in writing an explanation for the hardship along with their plan of action to remedy any past due payments. The Loan and Grant Committee will submit a recommendation for an appropriate course of action to the FDC Board of Directors for consideration and approval.

CONFLICT OF INFORMATION

Loan and Grant Committee members are prohibited from and are required to abstain their voting privileges for any credit to any person to whom they are related, whether by birth or marriage or with whom they cohabitate or have a business relationship.

CONFIDENTIAL INFORMATION

In the ordinary course of our business, the Loan and Grant Committee is exposed to confidential financial and company related information. Such information must and shall be treated with complete confidentiality in order to adhere to the highest legal and ethical standards. Personal financial information of all applications will be discussed in executive sessions only.

CREDIT CRITERIA

The basic principles and requirements for extending credit in a sound manner are defined as follows:

1. The applicant must be honest and creditworthy as outlined in the program guidelines.
2. All necessary financial information must be obtained and shall be subject to a high standard of documented analysis.
3. The purpose of every loan, regardless of type, shall be determined, confirmed, and well documented.
4. Credit shall be extended only to those borrowers who can demonstrate sufficient repayment capacity. Therefore, all loans shall have a well documented repayment plan and/or source.
5. Because of the inherent risk associated with unsecured lending, these loans shall only be granted to creditworthy customers.
6. Loans to closely-held entities will generally require the personal guarantee of the principal owners. A "principal owner" is generally regarded as any person who holds an ownership interest of 20% or more.

LOAN PRICING

The Board of Directors will structure and establish the interest rate for all loan programs. Modification to the interest rate will be periodically reviewed as the lending environment changes.

PORTFOLIO RISK ASSESSMENT

The Loan and Grant Committee and FDC staff will review and monitor the loan portfolio as it relates to delinquency issues and report any such issues to the Board of Directors.

This review should result in an effective monitoring device for early detection and resolution of negative risk management trends. FDC staff will contact borrower on any loan that becomes over 30 days delinquent. They will report any payment delinquencies over 30 days past due to the Loan and Grant Committee each month. If a borrower continues to remain delinquent, the matter will be turned over to legal counsel to rectify or pursue legal action. All actions taken will be reported to the Board of Directors by staff and / or the Loan and Grant Committee.

LOAN DIVERSIFICATION

An acceptable balance between loan types offered by the FDC is desired. Local demand and market conditions will have the most significant impact on the distribution of the portfolio.

LOANS OR GRANTS TO RELATED PARTIES

Loans or grants to directors, executive officers, third party service providers and employees are to comply with all applicable laws and regulations and the FDC policy. Members of the Board of Directors or Loan Committee shall abstain from participating in any action on his or her loan or grant request. The Board of Directors will also review and monitor all new loans and grants made to a director, executive officer, third party service provider or employee, along with their interests, on a monthly basis. Loans or grants approved for a director, officer, third party service provider or employee or immediate member of their families must be prepared and processed by someone other than that officer or employee.

LOAN AND GRANT PROGRAMS AND POLICY APPROVAL

All loan and grant programs and policies are to be reviewed annually by the Loan and Grant Committee. Modification to the programs and policies will be recommended periodically as the environment changes or as regulatory requirements dictate. Any changes to these policies will be recommended and approved by the Board of Directors.

POLICY IMPLEMENTATION

The Board of Directors with the assistance of all staff shall be responsible for implementing this Loan and Grant Policy and may supplement the policy with detailed guidelines and/or procedures for various loan and grant types.

EXCEPTIONS TO POLICY

It is recognized that there will be occasions when legitimate exceptions to this Loan and Grant Policy arise. In no event, however, shall an exception be granted which would violate regulatory requirement. Each exception to policy shall be clearly defined in the analysis of the request and formal approval issued by the Board of Directors. In all cases, full justification for the decision is to be disclosed and documented.