Kansas City
Credit Enhancement Fund

Loan Loss Reserve Program Guide

KANSAS CITY
CREDIT ENHANCEMENT FUND

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I. Introduction

Kansas City Credit Enhancement Fund

In 2021, the Kansas City Chamber of Commerce convened a Task Force in order to work with a wide array of community partners and stakeholders to research, develop, and execute sustainable strategies to reduce race-based opportunity gaps in access to capital for development in the region's chronically under-resourced communities. As part of its three primary initiatives – Participation, Education, and Capitalization – the Task Force, in partnership with The Ewing Marion Kauffman Foundation, developed The Kansas City Credit Enhancement Fund ("Fund" or "KCCEF").

The Kansas City Credit Enhancement Fund creates greater access to capital for small businesses in the Kansas City metro area by providing incentives for banks, CDFIs, and other lending institutions to invest in businesses owned and operated by entrepreneurs in low- and moderate-income neighborhoods, especially those who are Black, Indigenous, and people of color ("BIPOC").

LOCUS Impact Investing ("LOCUS"), a national nonprofit consulting organization and mission-driven registered advisor firm, will manage the Fund.

Loan Loss Reserve Program Overview

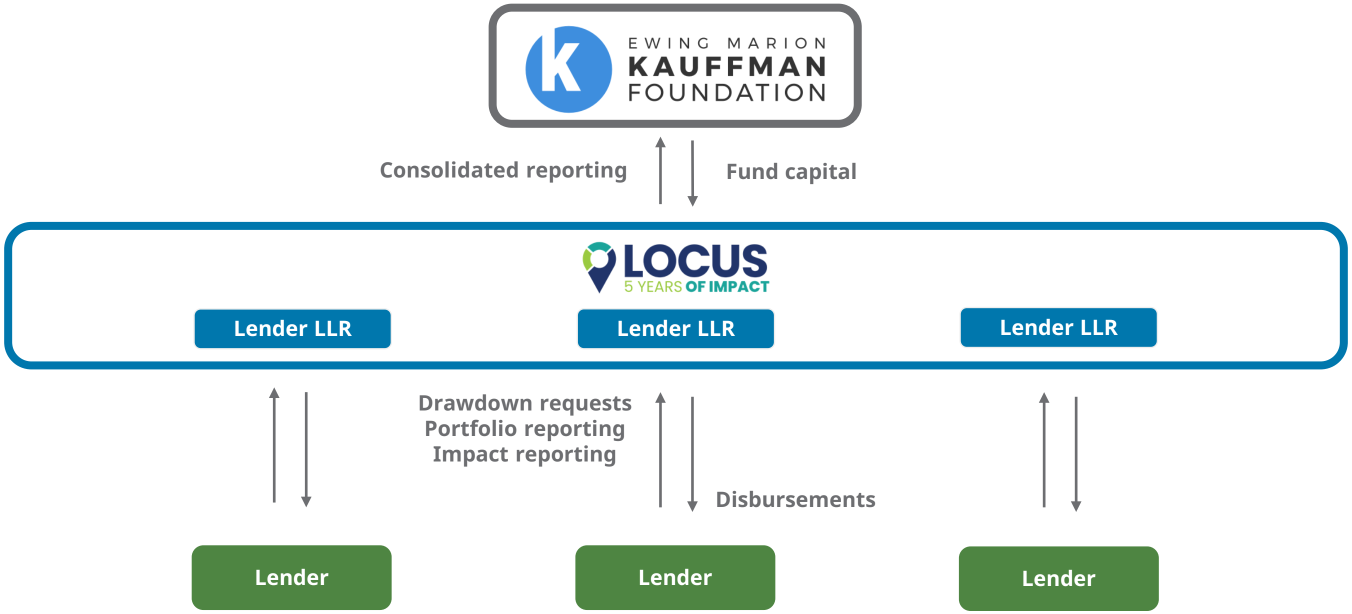
LOCUS will enter into individual agreements with approved lenders (“Lender”) to provide partial loss coverage against a portfolio of eligible loans. Losses will be covered up to a specified maximum aggregate amount, which will be proposed by lenders during an application process.

Key Program Terms	
Loan Loss Reserve	LOCUS will designate funds, held on LOCUS’ balance sheet, for the benefit of Lender (“Loan Loss Reserve” or “LLR”). The LLR will be used to compensate Lender for Eligible Losses. The balance of the LLR will be adjusted and administered according to the terms of an agreement mutually agreed upon by LOCUS and Lender (“LLR Agreement”).
Term	Seven (7) years from the LLR Program’s start date (“Effective Date”). The term of Lender’s LLR Agreement and the associated LLR shall not exceed the Term, though Eligible Program Loans may mature after the Term.
Fees	There is no fee associated with participating in the LLR Program.

The following pages include details related to – among other things – the application, eligibility, reserve mechanics, claims, and reporting.

LLR Program Structure

The diagram below illustrates how the LLR Program will operate:



II. Application

Application Process

To participate in the LLR Program, interested banks, CDFIs, and other lending institutions must submit an application via the programs online portal identifying, among other things, how they propose to use a LLR allocation to increase lending to Target Entrepreneurs (see Section III. Eligible Program Loans).

LOCUS will accept applications, review and assess lenders' proposals, and execute LLR agreements with lenders on a rolling basis through the following process:

Rolling Basis

- LOCUS administers the application via the program's online portal.
- LOCUS responds to lender questions.

Evaluation Period

- LOCUS reviews lender proposals and notifies lenders of intent to proceed.
- LOCUS and lenders engage, agree to terms, and execute LLR agreements.

Loan Loss Reserve Program "Term"

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Application Questions

Outside of basic contact and organizational information, the online application will seek to understand the lender's reporting capabilities (via multiple-choice questions) and proposed LLR use (below).

Lender LLR Use Questions & Prompts	
Proposed LLR Details (Three Short Answers)	• Proposed Eligible Loan volume over Term ($) • Proposed Loan Loss Reserve Maximum ($) • Proposed Lender Loss Share (%)
Discussion of Proposed Lender Use (One Narrative)	• How will Lender achieve the Eligible Loan volume indicated above and how does this compare to Lender's historical business lending volume, both overall and to the Target Entrepreneurs specifically? • How did Lender arrive at the Loan Loss Reserve Maximum? • How did Lender arrive at the Lender Loss Share, if any, and how does this relate/compare to relevant historical loss rates?
Discussion of Proposed Eligible Loans (One Narrative)	• What loan products are proposed as Eligible Program Loans? Will any of these have modified terms (e.g., interest rate, maturity, amortization, interest-only period) as a result of Lender's participation in KCCEF's LLR Program? • Will Lender adjust any underwriting criteria (e.g., minimum DCR, minimum credit score, minimum net worth, etc.) as a result of Lender's participation in KCCEF's LLR Program? If yes, what are these criteria and why does Lender believe these adjustments will drive more capital to the Target Entrepreneurs? • Will Lender adjust any other policies and practices (e.g., collections, modifications, recoveries) as a result of Lender's participation in KCCEF's LLR Program? If yes, what are these policies and practices and why does Lender believe these adjustments will drive more capital to the Target Entrepreneurs?

Illustrative Application #1

In the illustrative example below, Lender's application proposes that all of its business loan products are Eligible Program Loans. Lender's experience and analysis demonstrate that credit score is the most common reason Target Entrepreneurs' loan requests are declined. Lender estimates that it can triple its annual loan volume to Target Entrepreneurs by reducing its minimum credit score from 650 to 600, but losses will also double across its portfolio due to increased frequency.

Current All Business Loan Products	
Underwriting Criteria	
Min. DSCR	1.25x
Min. Credit Score	650
Max. LTV	75%
Min. Net Worth	$100k
Lending to Target Entrepreneurs	
Annual Volume	$2M
Loss Rate	2.50%

Outside of minimum credit score, all of Lender's policies and procedures remain constant

Proposed All Business Loan Products	
Underwriting Criteria	
Min. DSCR	1.25x
Min. Credit Score	600
Max. LTV	75%
Min. Net Worth	$100k
Lending to Target Entrepreneurs	
Annual Volume	$6M
Loss Rate	5.00%

Four years of volume; Lender plans for all loans to mature before end of Term

Lender assumes the status-quo risk

KCCEF LLR Agreement	
Target Volume	$24M
LLR Maximum	$1.2M
LLR %	5.00%
Lender Loss Share	2.50%

KCCEF assumes the incremental risk

Illustrative Application #2

In the illustrative example below, Lender's application proposes a more focused use of the LLR. Lender's Product A is well suited for equipment purchases but Target Entrepreneurs are frequently declined because of insufficient project equity and/or owner net worth. Lender proposes Product A as its sole Eligible Program Loan and plans to relax these specific underwriting criteria, which it believes will result in a 50% volume increase with steady defaults but steeper losses when those defaulted loans are charged-off.

Current Business Loan Product A	
Underwriting Criteria	
Min. DSCR	1.25x
Min. Credit Score	650
Max. LTV	75%
Min. Net Worth	$100k
Lending to Target Entrepreneurs	
Annual Volume	$600k
Loss Rate	2.50%

Lender increases Max LTV and reduces Min Net Worth but leaves cash flow and credit score criteria constant

Proposed Business Loan Product A	
Underwriting Criteria	
Min. DSCR	1.25x
Min. Credit Score	650
Max. LTV	90%
Min. Net Worth	$25k
Lending to Target Entrepreneurs	
Annual Volume	$900k
Loss Rate	15.00%

Five years of volume; Lender plans to let loans mature after end of Term

Lender assumes the status-quo risk

KCCEF **LLR Agreement**	
Target Volume	$4.5M
LLR Maximum	$675k
LLR %	15.00%
Lender Loss Share	2.50%

KCCEF assumes the incremental risk

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Evaluation Framework

Applications will be evaluated according to the following three criteria.

Criteria & Illustrative Considerations	
Capacity to Deliver	• How strong is Lender's track record of originating and managing the small business loans that it is proposing? If Lender is proposing a new loan(s) product for its organization, what is the rationale vis-à-vis KCCEF and its mission? • How does Lender plan to achieve the loan volume it is proposing for KCCEF's LLR Program? Is it achievable given the organization's size and scale? What steps will Lender take to ramp up internally (e.g., hiring), if any, and do these steps make sense given Lender's unique circumstances? • Is Lender capable of, and committed to, collecting and reporting on the data that KCCEF is requesting? If Lender's systems don't currently produce the relevant data, is Lender willing to find a solution?
Mission Alignment & Soundness of Proposal	• Do Lender's proposed LLR terms make sense relative to its proposed use? • Has Lender attempted to identify key drivers that will enable it to increase the flow of capital to the Target Entrepreneurs? What are they and do they make sense relative to the rest of Lender's proposal?
Dedication to Kansas City & Capital Access	• How engaged is Lender as a member of the KC community broadly and with the relevant neighborhoods specifically? What relevant activities, initiatives, or investments has Lender supported and how are they relevant to supporting Kansas City's BIPOC and LMI populations? If Lender doesn't have much experience, what is the reason (e.g., new to KC)? • What is Lender's experience serving the Target Entrepreneurs (e.g., past or current lending initiatives, support of ESOs, technical assistance)? If Lender doesn't have much experience, what is the reason (e.g., primarily real estate lender)? • How aligned is Lender with the KC Chamber Capital Access Taskforce's priorities? For example, is Lender actively engaged or willing to be engaged in forums and efforts around inclusive lending and impact evaluation?

III. Eligible Program Loans

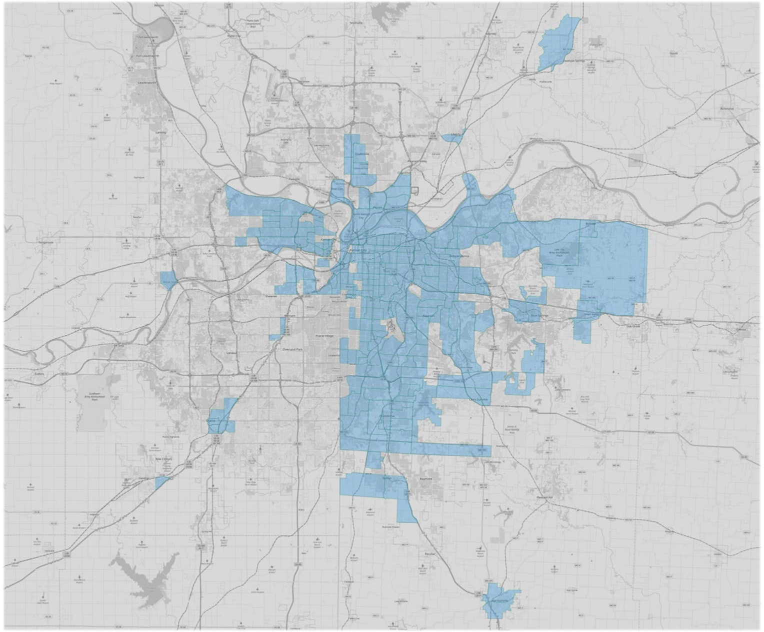
Eligible Program Loans

The LLR Program allows lenders to define their own Eligible Program Loans with the guardrails below.

Eligible Program Loan Criteria	
Target Entrepreneurs	Eligible Program Loans are restricted to 1) businesses owned 51% or more by entrepreneurs residing in Kansas City Metro LMI census tracts (see following pages) at time of application and 2) 501(c)3 non-profits with at least 51% of employee hours in Kansas City Metro LMI census tracts (collectively "Target Entrepreneurs").
Eligible Purpose	All Eligible Program Loan proceeds must be used for business use such as working capital, equipment purchases, leasehold improvements, or real estate. Proceeds may be used to refinance existing third-party business debt. If proceeds are used to refinance Lender's existing debt, any "net new" portion of the commitment will be eligible but the existing portion of the commitment will not. Any debt refinanced must be performing and in good standing with regard to its terms and covenants.
Maturity	Eligible Program Loans may mature after the Term; notwithstanding the foregoing, however, no losses that occur after the Term will be considered Eligible Losses.
Loan Maximum	Each Eligible Program Loan may not exceed $250,000.
Underwriting Criteria	The underwriting criteria for Eligible Program Loans will be determined by Lender's LLR Agreement and based on the proposed lending use described in Lender's Application. Eligible Program Loans must be approved, documented, managed, and monitored according to the standards, requirements, and practices defined by the LLR Agreement.

KC Metro LMI Census Tracts

The Fund considers 193 census tracts in six counties, pictured below, to be Kansas City Metro LMI Census Tracts. A detailed list of Kansas City LMI Census Tracts, by county, is provided in the Appendix.



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IV. Loan Loss Reserve

LLR Allocation Overview

Lenders will be allocated LLRs, up to a predetermined maximum, as they originate loans.

Loan Loss Reserve Allocation	
LLR Percentage	The Fund’s allocation to Lender’s LLR will be based on a defined percentage (“LLR Percentage”) of Lender's total committed amount of newly originated Eligible Program Loans. The LLR Percentage will be established on an individual basis in Lender’s LLR Agreement and reflect the nature of Lender’s proposed Eligible Program Loans and overall use.
LLR Maximum	The Fund’s allocation to Lender’s LLR will not exceed a predetermined maximum (“LLR Maximum”). The LLR Maximum will be established on an individual basis in Lender’s LLR Agreement and may be subject to change based on Lender’s deployment of Eligible Program Loans (see Adjustments to LLR Maximum below). Lender will propose an initial LLR Maximum in its Application, however the maximum initial allocation to any Lender will not exceed $1,500,000.
Adjustments to LLR Maximum	A set of predetermined deployment targets will be established and defined in the LLR Agreement based on Lender’s projected deployment of Eligible Program Loans. LOCUS will conduct a review of Lender’s deployment relative to its targets on an annual basis and may reduce its LLR Maximum in accordance with the terms of Lender’s LLR Agreement. On a case-by-case basis, LOCUS may offer to increase a lender’s LLR with excess reserves. Any adjustments made to the LLR Maximum will have no effect on Lender’s existing LLR Balance or its ability to claim Eligible Losses for existing Eligible Program Loans.

LLR Balance Overview

Lenders' LLR balance will be reconciled quarterly as allocations increase and claims decrease the balance.

Loan Loss Reserve Balance	
LLR Balance	Lender's available balance to claim Eligible Losses ("LLR Balance") will be updated on a quarterly basis in accordance with its LLR Agreement and determined using Lender's Quarterly Report (see Reporting section). The LLR Balance will be calculated as the LLR Percentage multiplied by newly originated Eligible Program Loan commitments, less any Claimed Losses. If the Fund has allocated the LLR Maximum to Lender's LLR, no additional funds will be allocated regardless of any newly originated commitments. At no point shall the LLR Balance exceed the LLR Maximum. Claimed Losses may never exceed the LLR Balance, regardless of Lender's actual losses. LOCUS will reconcile and report the LLR Balance to the Lender no later than 10 business days following the submission of a Quarterly Report, provided that the Quarterly Report is accurate and timely according to the terms of the LLR Agreement.

An illustrative LLR Balance calculation follows. In the example, an LLR Agreement specifies an LLR Maximum of $100,000, an LLR Percentage of 10%, a Lender Loss Share of 5%, and cumulative lending volume target – each associated with a potential reduction to the LLR Maximum – in Year 1, Year 2, and Year 3. Note that the example is not related to or connected with the prior illustrative application examples.

Illustrative LLR

($ in 000s)	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Total $	Total %
Actual Lending									
Eligible Loans	$350.0	$350.0	$200.0	$100.0	$50.0	$50.0	-	$1,100.0	
Eligible Losses	-	-	($10.0)	($25.0)	($25.0)	($25.0)	($10.0)	($95.0)	**8.6%**
LLR Maximum									
Illustrative Target (Cum.)	$350.0	$700.0	$900.0						
Illustrative % of Target	100.0%	100.0%	100.0%						
LLR Max (Start)	$100.0	$100.0	$100.0	$100.0	$100.0	$100.0	$100.0	$100.0	
- *Illustrative* Max Adj.	-	-	-	-	-	-	-	-	
LLR Max (End)	**$100.0**	**$100.0**	**$100.0**	**$100.0**	**$100.0**	**$100.0**	**$100.0**	**$100.0**	
LLR Balance									
LLR Balance (Start)	-	$35.0	$70.0	$80.5	$66.8	$43.0	$19.3		
+ LLR @ 10% of Eligible Loans	$35.0	$35.0	$20.0	$10.0	-	-	-	$100.0	
- Claimed Losses	-	-	($9.5)	($23.8)	($23.8)	($23.8)	($9.5)	($90.3)	
LLR Balance (End)	**$35.0**	**$70.0**	**$80.5**	**$66.8**	**$43.0**	**$19.3**	**$9.8**	**$9.8**	
Loss Reconciliation									
Lender Loss Share @ 5%	-	-	$0.5	$1.3	$1.3	$1.3	$0.5	$4.8	
Claimed Losses	-	-	$9.5	$23.8	$23.8	$23.8	$9.5	$90.3	
Disallowed	-	-	-	-	-	-	-	-	
Eligible Losses	**-**	**-**	**$10.0**	**$25.0**	**$25.0**	**$25.0**	**$10.0**	**$95.0**	

Illustrative LLR (Cont'd)

In Year 1, Lender originates $350,000 of Eligible Program Loans and achieves its Year 1 volume target. Lender's LLR Balance is increased to $35,000 (10% of $350,000) from $0.

In Year 2, Lender originates another $350,000 of Eligible Program Loans and achieves its cumulative Year 2 volume target. Lender's LLR Balance is increased to $70,000 ($35,000 from Year 1 plus 10% of $350,000).

In Year 3, Lender originates another $200,000 of Eligible Program Loans and achieves its cumulative Year 3 volume target. Lender also charges off and claims $10,000 of Eligible Losses. At the end of Year 3, Lender's LLR Balance is therefore increased by $20,000 (10% of $200,000) and reduced by $9,500 (95% of $10,000) when Lender is reimbursed, netting an increase of $10,500 from $70,000 to $80,500.

In Year 4, Lender originates another $100,000 of Eligible Program Loans and charges off and claims $25,000 of Eligible Losses (in this example, there are no cumulative lending volume targets after Year 3). At the end of Year 4, Lender's LLR Balance is therefore increased by $10,000 (10% of $100,000) and reduced by $23,750 (95% of $25,000) when Lender is reimbursed, netting a decrease of $13,750 from $80,500 to $66,750. Total allocations to Lender's LLR have reached the LLR Maximum of $100,000.

In Year 5, Lender originates another $50,000 of Eligible Program Loans and charges off and claims $25,000 of Eligible Losses. Since Lender's LLR Maximum was reached in Year 4, there is no increase to the LLR Balance but it is reduced by $23,750 (95% of $25,000) when Lender is reimbursed, from $66,750 to $43,000.

In Year 6, Lender originates another $50,000 of Eligible Program Loans and charges off and claims $25,000 of Eligible Losses. Since Lender's LLR Maximum was reached in Year 4, there is no increase to the LLR Balance but it is reduced by another $23,750 (95% of $25,000) when Lender is reimbursed, from $43,000 to $19,250.

In Year 7, Lender does not originate any Eligible Program Loans and charges off and claims $10,000 of Eligible Losses. Lender's LLR Balance is reduced by $9,500 (95% of $10,000) when Lender is reimbursed, from $19,250 to $9,750.

In total, Lender originates $1,100,000 of Eligible Program Loans over the Term and claims $95,000 of Eligible Losses, $90,250 (or 95%) of which was reimbursed by the Fund. Lender could have made $9,750 in additional claims and received reimbursement from the Fund for that amount, provided that Eligible Losses reached $105,263 ($100,000 divided by 95%).

V. Losses & Claims

Losses Overview

Losses are eligible when a loan is charged off in accordance with internal policies and the LLR Agreement.

Losses	
Eligible Losses	Lender may claim a loss for an Eligible Program Loan when, during the Term, 1) borrower has defaulted on its terms of repayment, 2) Lender has exhausted collection efforts in accordance with the internal policies and procedures reflected in the LLR Agreement, and 3) Lender has charged the loan off consistent with the internal policies and procedures reflected in the LLR Agreement. Lender may claim the principal amount outstanding and accrued interest up to 90 days ("Eligible Loss"). For the avoidance of doubt, an Eligible Loss does not include any accrued late, collection, or other fees.
Lender Loss Share	The financial interests of Lender should align with the interests of the Fund. Accordingly, the Fund will seek a shared loss position based on a pre-determined loss sharing agreement where appropriate. The Fund's portion of the loss ("Fund Loss Share") will be one minus Lender's portion ("Lender Loss Share"). The nature of Lender's relevant, existing lending business and historical losses relative to the proposed use should be used to determine an appropriate Lender Loss Share in the Application. See the Illustrative Application pages and Illustrative LLR pages for examples. Lender's actual Lender Loss Share will be defined in its LLR Agreement.

Claims Overview

To streamline operations, claims will be made on the same quarterly cadence as reporting.

Claims	
Claims Process	Claims will be made on a quarterly basis (see Reporting section). LOCUS will review each Claim to determine if it is consistent with the terms of the LLR Agreement. If Lender has satisfied the requirements of an Eligible Loss, LOCUS will make payment to Lender no later than 10 business days following the submission of the Quarterly Report in which the Claim was made. "Claimed Losses" are Eligible Losses that have been funded by the LLR in accordance with the above provisions. If at any time Lender recovers payments from a borrower subsequent to a Claimed Loss, Lender must report the recovery and Lender's LLR Balance will be reduced by the lower of 1) the amount of the recovery, or 2) the amount of the associated Claimed Loss.
Claim Verification	To claim an Eligible Loss and receive compensation from the LLR ("Claim"), Lender must provide: 1) a schedule itemizing each Eligible Loss, 2) a document originated from its loan management system identifying the loan's status as charged off, and 3) a standardized attestation that each loan was an Eligible Program Loan and that Lender's collection policies and procedures were conducted in accordance with the LLR Agreement.

VI. Reporting

Reporting Process

On a quarterly basis, Lenders will provide updated status and performance data on newly originated Eligible Program Loans, its existing Eligible Program Loan portfolio, and claims and repaid Eligible Program Loans (“Quarterly Report”).

To ease the burden on Lenders’ internal financial reporting functions, the Fund’s quarters will end on February 15^{th}, May 15^{th}, August 15^{th}, and November 15^{th}.

Lenders will submit Quarterly Reports within 10 business days following the end of each quarter. LOCUS will review the report and determine if it is consistent with the terms of the LLR agreement. If Lender has satisfied the requirements of an Eligible Loss, LOCUS shall make payment to Lender no later than 10 business days following receipt of the claim.

If a loan or claim is not submitted by the Quarterly Report deadline, they may still be eligible but the associated LLR balance calculation and/or claim payment may not occur until the following quarter.

Reporting Data

As part of the Application process, LOCUS will seek to understand what information interested lenders are able to collect and produce directly from their operating systems. The table below shows the type of static and continuous data the Fund plans to request in the Quarterly Reports. Loan Details, Performance, and certain Borrower / Business data is expected to be universal. Underwriting and other Borrower / Business data may be lender-specific.

Loan Details	Underwriting	Borrower / Business	Performance
Unique loan identifier Loan product identifier Term Maturity date Interest rate Total commitment	DSCR or similar metric Credit score or similar metric LTV or similar metric Project equity or similar metric Net worth or similar metric Secured status Risk rating	Minority/women/veteran-owned Owner demographics Owner census tract NAICS code FT/PT employees Owner stated annual income	Outstanding principal balance Accrued interest Accrued interest @ 90 Days Accrued fees Past due status Accrual status Charge-off status Risk rating

Quarterly Reports

The Fund does not want its reporting requirements to be overly cumbersome but also needs certain data to operate, achieve its goals, and meet its stakeholder obligations. The table below shows the categories of data that the Fund expects to collect from lenders for newly originated loans, portfolio loans, and loans that have been paid- or charged-off. As previously discussed, the Fund also expects lenders to attest to the eligibility of newly originated loans and claims according to the terms of their LLR Agreements.

	Loan Details	Underwriting	Borrower / Business	Performance
New Eligible Program Loans	✓	✓	✓	
Eligible Program Loan Portfolio	✓			✓
Claims & Repaid Loans	✓	As applicable		

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VII. Contact Information

Contact Information

The Fund is now accepting applications for the KCCEF’s LLR Program on a rolling basis. Interested lenders who have questions around the program or application process may address them to LOCUS Impact Investing. Please contact:

Margot Johnson, AVP, mjohnson@locusimpact.org

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VIII. Appendix

KC Metro LMI Census Tracts

Jackson								Wyandotte		
10	116.01	129.03	140.08	163	21	61	9	401	422	440.02
102.01	116.02	129.04	141.21	164	22	63	90	402	423	441.02
102.04	117.01	129.06	141.23	165	23	7	95	405	424	441.04
105	117.02	130.03	141.28	166	3	73.01	96	406	426	443.01
107.02	118	131	145.03	167	34	75	97	407	427	443.02
110.01	119	132.03	146.01	169	37	76		411	428	443.03
110.02	120	132.08	146.04	170	38	77		412	429	444
111	121	132.1	149.02	171	52	78.02		413	430	445
112	122	133.01	151	172	54	79		414	433.01	446.01
114.05	123	133.09	153	174	55	8		415	434	449
114.06	124	134.01	154.01	178	56.01	80		416	436	451
114.08	125.01	134.05	155	18	56.02	81		419	437	452
114.1	125.02	134.1	156	180	58.01	87		420.01	439.03	
115.01	128.03	134.17	160	19	6	88		420.02	439.04	
115.02	128.04	137.06	162	20	60	89		421	439.05	

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KC Metro LMI Census Tracts (Cont'd)

Clay		Johnson		Cass	Platte
202.01	212.04	518.08	535.02	601	300.02
203	212.08	519.11	535.55	602.02	302.13
205	212.11	520.04	535.56	609.04	305.02
206.02	214.03	520.05	535.57	613	306.01
206.03	217.01	520.06	537.05	614	
206.04	217.03	523.08			
208.02	221	524.18			
208.03		524.23			
210.01		529.05			
211.01		529.06			

Alternative Illustrative LLR

An alternative illustrative LLR Balance calculation follows. The terms of this LLR Agreement are identical to the prior illustrative LLR with a LLR Maximum of $100,000, a LLR Percentage of 10%, a Lender Loss Share of 5%, and cumulative lending volume target – each associated with a potential reduction to the LLR Maximum – in Year 1, Year 2, and Year 3. In this alternative example, however, the lender does **not** achieve its lending target and the LLR Maximum is adjusted accordingly.

Note that this example is not related to or connected with the prior illustrative application examples.

Alternative Illustrative LLR (Cont'd)

($ in 000s)	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Total $	Total %
Actual Lending									
Eligible Loans	$300.0	$350.0	$250.0	$100.0	$50.0	$50.0	-	$1,100.0	
Eligible Losses	-	-	($10.0)	($25.0)	($25.0)	($25.0)	($10.0)	($95.0)	**8.6%**
LLR Maximum									
Illustrative Target (Cum.)	$350.0	$700.0	$900.0						
Illustrative % of Target	85.7%	92.9%	100.0%						
LLR Max (Start)	$100.0	$93.0	$82.5	$82.5	$82.5	$82.5	$82.5	$100.0	
- *Illustrative* Max Adj.	($7.0)	($10.5)	-	-	-	-	-	($17.5)	
LLR Max (End)	**$93.0**	**$82.5**	**$82.5**	**$82.5**	**$82.5**	**$82.5**	**$82.5**	**$82.5**	
LLR Balance									
LLR Balance (Start)	-	$30.0	$65.0	$73.0	$49.3	$25.5	$1.8		
+ LLR @ 10% of Eligible Loans	$30.0	$35.0	$17.5	-	-	-	-	$82.5	
- Claimed Losses	-	-	($9.5)	($23.8)	($23.8)	($23.8)	($1.8)	($82.5)	
LLR Balance (End)	**$30.0**	**$65.0**	**$73.0**	**$49.3**	**$25.5**	**$1.8**	**-**	**-**	
Loss Reconciliation									
Lender Loss Share @ 5%	-	-	$0.5	$1.3	$1.3	$1.3	$0.1	$4.3	
Claimed Losses	-	-	$9.5	$23.8	$23.8	$23.8	$1.8	$82.5	
Disallowed	-	-	-	-	-	-	$8.2	$8.2	
Eligible Losses	**-**	**-**	**$10.0**	**$25.0**	**$25.0**	**$25.0**	**$10.0**	**$95.0**	

Alternative Illustrative LLR (Cont'd)

In Year 1, Lender originates $300,000 of Eligible Program Loans and misses its Year 1 volume target. Lender's LLR Balance is increased to $30,000 (10% of $300,000) from $0 while its LLR Maximum is reduced to $93,000 from $100,000 based on the (illustrative) terms of the LLR Agreement.

In Year 2, Lender originates another $350,000 of Eligible Program Loans and misses its cumulative Year 2 volume target. Lender's LLR Balance is increased to $65,000 ($30,000 from Year 1 plus 10% of $350,000) while its LLR Maximum is reduced from $93,000 to $82,500 based on the (illustrative) terms of the LLR Agreement.

In Year 3, Lender originates another $250,000 of Eligible Program Loans and achieves its cumulative Year 3 volume target. Lender also charges off and claims $10,000 of Eligible Losses. At the end of Year 3, total allocations to Lender's LLR have reached the LLR Maximum of $82,500 and Lender's LLR Balance is therefore increased by $17,500 (the portion of 10% of $250,000 up to the LLR Maximum of $82,500) and reduced by $9,500 (95% of $10,000) when Lender is reimbursed, netting an increase of $8,000 from $65,000 to $73,000.

In Year 4, Lender originates another $100,000 of Eligible Program Loans and charges off and claims $25,000 of Eligible Losses (in this example, there are no cumulative lending volume targets after Year 3). At the end of Year 4, there is no increase to Lender's LLR Balance because it reached its LLR Maximum in Year 3 but Lender's LLR Balance is reduced by $23,750 (95% of $25,000) when Lender is reimbursed, from $73,000 to $49,250.

In Year 5, Lender originates another $50,000 of Eligible Program Loans and charges off and claims $25,000 of Eligible Losses. Since Lender's LLR Maximum was reached in Year 3, there is no increase to the LLR Balance but it is reduced by $23,750 (95% of $25,000) when Lender is reimbursed, from $49,250 to $25,500.

In Year 6, Lender originates another $50,000 of Eligible Program Loans and charges off and claims $25,000 of Eligible Losses. Since Lender's LLR Maximum was reached in Year 3, there is no increase to the LLR Balance but it is reduced by another $23,750 (95% of $25,000) when Lender is reimbursed, from $25,500 to $1,750.

In Year 7, Lender does not originate any Eligible Program Loans and charges off $10,000 of Eligible Losses but is only able to claim the $1,750 that remains in its LLR Balance. Lender's LLR Balance is reduced when Lender is reimbursed, from $1,750 to $0.

In total, Lender originates $1,100,000 of Eligible Program Loans over the Term and claims $86,842 of Eligible Losses, $82,500 (or 95%) of which was reimbursed by the Fund. Lender exhausted its ability to make claims on the LLR Balance and $8,158 of losses that may have otherwise been Eligible Losses were disallowed as a result.